

SURVEY ON DECENTRALIZATION

2008



Public Administration Reform Department

Spillover Monitor
Mission to Skopje

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Acknowledgements

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This report on the findings of the Survey on the Implementation of the Process of Decentralization, November 2008 was prepared by the Public Administration Reform Department (PARD) in the Organization of the Security and Cooperation in Europe – Spillover Monitor Mission to Skopje:

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Introduction

The 2008 survey on decentralization builds on the findings outlined in the 2006 and 2007 editions. The Public Administration Reform Department (PARD) of the OSCE Spill-over Monitor Mission to Skopje acquired significant experience in analyzing developments related to decentralization, and this survey represents a valid contribution for stakeholders interested in particular aspects of the process.

The survey was conducted between July and November 2008, and it grounds its findings on field research conducted by the OSCE SMMS PARD officers in all units of local self-government across the country. A set of 99 questions drafted by the OSCE was delivered to relevant municipal departments; answers were collected and processed in a database containing input from over 84 per cent of municipalities. The data received from the local self-government units are complemented by the outcome of a telephone poll commissioned from Brima Gallup – Skopje and implemented with sample of 1,408 persons during October 2008. The 2008 opinion poll component differs from last year's research, as the number of questions increased significantly (nearly matching the size of the questionnaire posed to municipal administrations). Moreover, the sample was structured in a stratified way, i.e. selecting targets with a direct interest in the municipal service at stake (e.g. teachers, pupils and their parents for the part on education, local businessmen for the text about local economic development, etc.). The composition of the sample is outlined in each chapter.

Local governance entails a variety of different issues. This study focuses on seven areas of interest which the OSCE considers among the most relevant to the ongoing decentralization process. Five of them (urban planning, communal services, education, municipal finance and local economic development) have also been a matter of assessment in previous editions of the survey, while the chapter on culture is one of the novelties of this year's survey.

As was the case for the 2006 and 2007 surveys, the methodology employed in this study is designed to provide information on the internal assessment of the situation by the municipal leadership and administration and also to test to what extent they understand the general overview of the facts and features of the current reforms. Such findings are compared with citizens' views on municipal performances, in an attempt to test the perception of decentralization - and local governance in general - of the final users of municipal services. Most of the results in the report are not focused on accurate statistical data of individual cases, but concentrate instead on revealing the general trends in the decentralization process. The figures presented in this report are not intended for comparison with official statistics from the host country's government or other sources.

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1. Culture

1.1 Background and legal framework

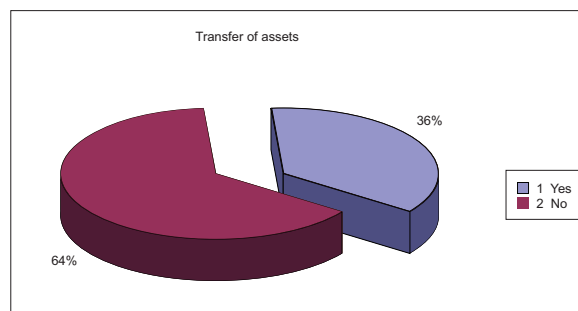
Culture is a segment not included in the two previous OSCE SMMS surveys, and therefore this chapter will focus on a few issues regarding decentralization in the field of culture such as the transfer of assets, personnel, equipment, staff, and funds as well as the relations between municipalities and the Ministry of Culture. This chapter will also include an overview on culture at the local level, from developments in the legal framework¹ to the main achievements at the field level, and the involvement of the members of ethnicities throughout the country in the cultural institutions and activities through the Commissions for Inter-Community Relations (CICR)².

Preserving cultural heritage, celebration of different events and remembrance of persons of importance for the culture and history of the municipality are aspects that this chapter will explore, as well as equal opportunities for expression, cultivation and affirmation of cultural identities of the communities.

1.2 Findings on Culture

The results of the findings show that the organization of cultural events is mainly conducted in the municipalities already equipped with cultural centres, mainly located in the urban municipalities. The central government, that is to say the Ministry of Culture, continues to control the cultural assets, cultural centres and the staff in 64.3 per cent of the municipalities³. Only 35.7 per cent of those municipalities that have cultural centres replied that the Ministry had transferred this competency, assets and staff to the municipalities. When those municipalities were asked why the Ministry of Culture had not given these assets to be managed by them, the majority of them, 66.7 per cent, replied that this was a decision to be taken by the central government without stating the reason why.

Chart 1. Transfer of assets and staff from the central to the local level



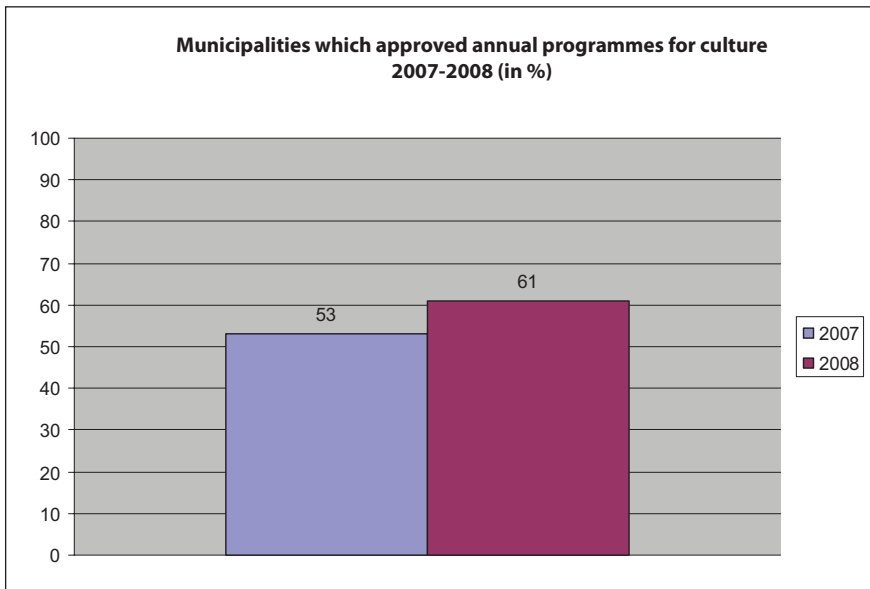
¹ Law on Culture, Official Gazette no. 66/2003, Law on Local Self-Government, January 2002

² Law on Local Self-Government, Article 55. "Municipalities comprising of at least 20 per cent of non majority ethnic groups should establish Commissions for Inter Community Relations (CICR) within their respective Councils.

³ Law on Culture, Article 95

Cultural policies at the local level in 2008 were compared with the activities in 2007. The chart below shows that almost half of the municipal councils in the country did not adopt an annual plan for culture in 2007. Out of those that adopted an annual plan for culture, each municipality on average implemented only around 15 per cent of the plan.

Chart 2. Adoption of annual programs by the municipalities in 2007 and 2008

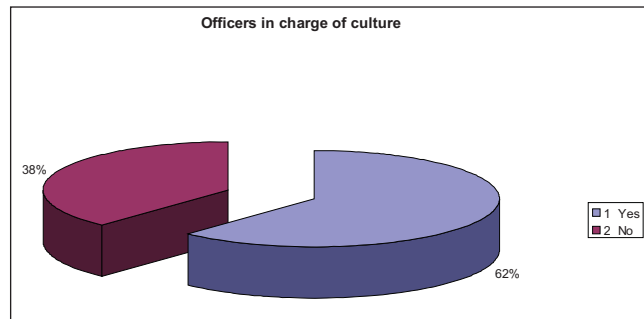


The chart highlights a slight increase in interest for culture in 2008. Moreover, 44 per cent of the interviewed municipalities replied that they have allocated funds in their budgets for cultural activities, ranging from folk festivals and art exhibitions to printing promotional materials and marking historical events and personalities. When asked about the manner in which the funds were disbursed, 18 per cent replied through tendering procedures, 29 per cent through direct contract with cultural associations and NGOs, 50 per cent of the municipalities implemented their activities themselves and only 3 per cent entered into Public Private Partnership to implement cultural activities and events.

Local culture provides a sense of identity for rural communities and residents. This identity facilitates common understandings, traditions and values, all central to the identification of plans of action to improve well-being.

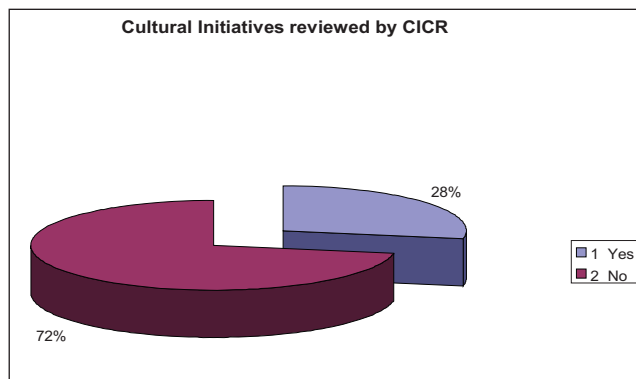
Despite the fact that 62 per cent of the municipalities replied that they had appointed a person in charge of culture, local culture is rarely seen as playing a significant role in the development outcomes. Instead, culture is often viewed as an outgrowth of a particular region and dependent upon financial assistance by the central government.

Chart 3. Appointed officers in charge of culture



This chapter also aims to give an insight into the ethnic diversity in the country in reference to the cultural activities and to see to what extent this competency has been implemented by the local authorities. The municipalities with at least 20 per cent of the population not belonging to the main ethnic group present in their territory were assessed on their ability to implement cultural activities reflecting their multi-ethnic background, and to see if cultural initiatives in multi-ethnic municipalities are reviewed by the Commission for Inter-Community Relations to ensure participation of all communities in the cultural life.

Chart 4. Municipal Cultural initiatives reviewed by the Commission for Inter-Community Relations



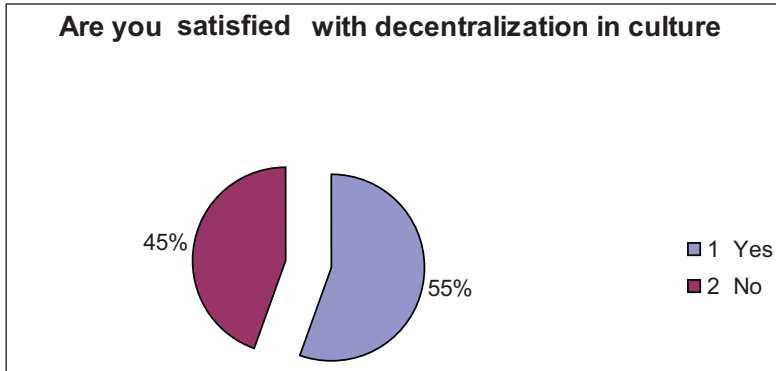
In the 22 municipalities, which established these commissions, the cultural initiatives initiated by the respective municipal councils were reviewed by CICR only in 28 per cent of the cases.

1.3 Opinion poll on culture

This survey is supplemented by an opinion poll conducted throughout the country in order to see what the citizens thought about the issue of culture and what they would like their municipalities to do more about the same matter. It is noteworthy to verify whether the public opinion reckons that decentralization had made a difference in this

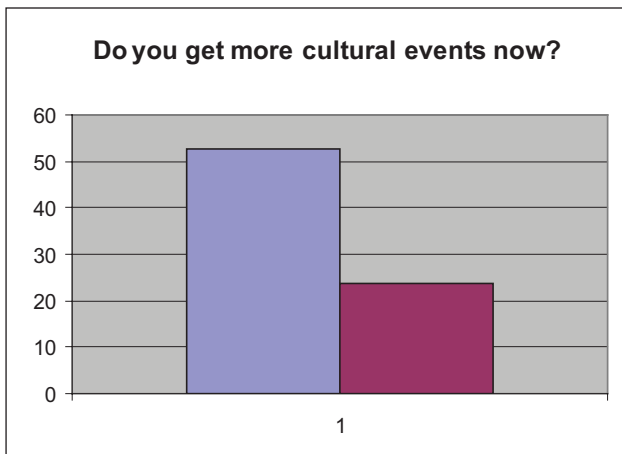
field and, to this respect, 55 per cent of the interviewees expressed satisfaction with the cultural activities in their respective municipalities since the start of the decentralization, as opposed to the 45 per cent who had a negative opinion.

Chart 5. Satisfaction of the citizens in the field of culture after the start of the decentralization process



The margin was much higher when the citizens were asked if there were more cultural events than than before, 52.8 per cent thought that the decentralization had brought more cultural events than they used to have as opposed to 23.7 per cent who thought that before decentralization culture had been more present in their municipalities.

Chart 6. Opinion of citizens in terms of the number of cultural events they have got so far



Answers to the question of what more they would like from their municipalities in terms of culture were heterogeneous. Engagement of young people in culture and increased number of cultural events prevailed with over 40 per cent each. This was followed by construction of cultural and sports facilities with 18 per cent of the interviewed citizens.

1.4 Conclusions and recommendations

- Culture is a competency which is still considered centralized despite the legal provisions deriving from the Law on Culture⁴ providing grounds for the municipalities to found cultural institutions and to organize different cultural activities. Based on the results of the survey, culture is not ranking high in the priorities of the local government units.
- There are still cultural assets to be decentralized throughout the country. Their allocation to municipalities could sensibly foster cultural development.
- Culture should be regarded as an integral part of local development. Just like at the national level, culture is linked to job creation and revenues at the local level too. Whether in cities or rural areas, culture has become an essential component in the quality of life, and should therefore not be disregarded by stakeholders involved in decentralization.
- Local culture presents unique options for locally based economic and other development. It is crucial for community development practitioners to consider the importance of culture in the efforts to improve local livelihood. By paying attention to cultural values, traditions and related factors, more efficient and effective development efforts can be achieved.
- Local culture can serve as a basis for development. Such efforts can serve to promote the local identity, languages and minority cultures. Efforts can focus on the preservation or promotion of a culture, but can also use culture to mobilize the local population. Examples of cultural preservation or efforts focusing on culture are often seen in relation to tourism. These include renovation of villages (architectural rehabilitation, etc.), highlighting the architectural heritage of an area (restoring historic sites to serve as a focal point for tourists), cultural venues (local heritage centres, traditional cultural events), traditional craft and artistic skills (development of industry and employment based on the production of items that are symbolic of the local culture), and culture based entertainment and cultural dissemination (organization of cultural activities, festivals, permanent exhibitions).
- Providing a local linkage and cultural basis for development is important. Development efforts that focus on culture provide a mechanism for linking local residents to the development process. Through such efforts, local residents can encourage development that preserves or promotes their culture. This is particularly important in the development efforts that seek to elicit local participation, volunteerism, and community action.
- These efforts serve as a basis for development, but also serve to maintain cultural traditions and ways of life. Furthermore, such forms of development highlight the importance of rural cultures and identify their role in shaping the wider society. Finally, through such development, community and cultural identities are reinforced and collective identities are strengthened. Such interaction can lead to an improved state of community and social well-being.

4 Articles 20, 21 of the Law on Culture

2. Education

2.1. Introduction

The process of decentralization in education brought a clearer distinction of roles, rights and responsibilities of the authorities at the central and local level. It enabled higher participation of local communities in decision-making processes, more active and transparent management of schools through greater involvement of stakeholders, and more efficient control over the work and activities in schools and the quality of teaching. Finally, it enables the municipalities to manage the financial assets allocated for education.

This chapter covers several issues related to local governance and education such as decision-making mechanisms at the school level, the relations and cooperation between schools, municipalities and state bodies, the level of access to information and communication by all stakeholders, the degree of involvement of teachers and parents in school management, the relations between school directors and school boards. All topics will be tackled from two perspectives as views from municipalities will be compared with citizens' expectations.

2.2. Legal Framework

Article 22 of the Law on Local Self-Government clearly lists municipal competences in the field of education⁵. Primary and secondary education are also regulated by the Law on Primary Education and its amendments⁶, the Law on Secondary Education and its amendments⁷, the Law on the State Education Inspectorate⁸, and the Law on Financing of the Local Self-Government Units⁹ and the Law on the Bureau for Development of Education¹⁰.

Both primary and secondary education became municipal competences as of 1 July 2005. The transfer implies municipal ownership of school buildings and other property related to elementary and secondary education, as well as the responsibility for the maintenance of such objects, recruitment of education staff, selection and dismissal of the directors of the schools, the payment of salaries for auxiliary staff together with transport logistics and accommodation for students in dormitories¹¹. Decentralized education entails the participation and the coordination of many stakeholders such as the Local Self-Government Units (LSGU), school directors, parents and students at the

⁵ Law on Local Self-Government, 2002

⁶ Law on Primary Education, published in the Official Gazette of the Republic of Macedonia No. 44/95, 24/96, 34/96, 35/97, 82/99, 29/2002, 40/2003, 42/2003, 63/2004, 82/2004 and 55/2005, 35/2006, 70/2006

⁷ Law on Secondary Education, published in the Official Gazette of the Republic of Macedonia No. 44/95, 24/96, 34/96, 35/97, 82/99, 29/2002, 40/2003, 42/2003, 67/2004 and 55/2005, 113/2005, 35/2006, 49/2007, 30/2007

⁸ Law on the State Education Inspectorate, 2005

⁹ Law on Financing the Units of Local Self-Government, 2002

¹⁰ Law on the Bureau for Development of Education, published in the Official Gazette of the Republic of Macedonia No. 37/2006

¹¹ Law on Student Dormitories, Annex 1

local level, and the Ministry of Education (MoE) and its branches at the national level as prescribed by the above mentioned legislation¹².

Primary and secondary education competences (including its financing) were transferred¹³ in July 2007 to the local level in all municipalities that entered the second phase of decentralization, in accordance with the Law on Financing the Local Self-Governments Units. This means allocation of block grants covering teachers' salaries and funds for school maintenance. Block grants cannot be lower than the equivalent funds allocated in the State Budget during the first phase of decentralization. Municipalities that have not yet entered the second phase of decentralization continue to use the temporary formula for funding, i.e. teachers' salaries in primary and secondary education, expenses for the maintenance of school buildings and for the transport of pupils are afforded by central authorities as previously¹⁴.

2.3. State of Affairs

Education still stands as a crucial matter three years after the beginning of the decentralization process. Municipalities in general pay attention to this competency and try to consolidate it in a way to make it better managed at the local level and to provide better services in the field of education, though results differ significantly among LSGUs. Citizens perceive decentralized education as a process able to ensure accountability, transparency, quality, equity and efficiency.

Many stakeholders (education officials, mayors, school board members, directors, parents, teachers, students and others) still show little understanding of their rights, roles and responsibilities in the process. There is a shared feeling that members of school boards, parents' councils, parents, teachers and citizens in general have been marginalized by municipal management, whereas the same applies for what the LSGUs feel about their treatment by the central government (MoE). Lack of access to information and communication among stakeholders has also been observed throughout the implementation of the decentralization process (Ananiev, 2008).

Other changes occurred in primary and secondary education¹⁵; compulsory attendance in primary schools was increased by one year (from eight to nine years) for all students between six and fifteen years of age. Secondary education is now compulsory for all students finishing the nine years of primary education. These changes represent additional efforts for municipalities to perform and efficiently manage the primary and secondary education.

¹² Three levels can be identified within the system of primary and secondary education, including: the central government level, the local government level and the school level. Each level has its own rights and responsibilities.

¹³ Before this date, the mentioned competences were under complete jurisdiction of the state (MoE).

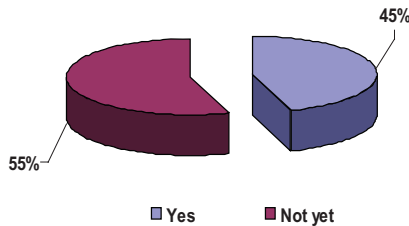
¹⁴ Regulation on the Methodology for allocating the earmarked grants in the elementary and secondary education for the Local Self-Government Units

¹⁵ Amendments to the Law on Primary Education and amendments to the Law on Secondary Education

2.4. Findings from Municipalities Poll

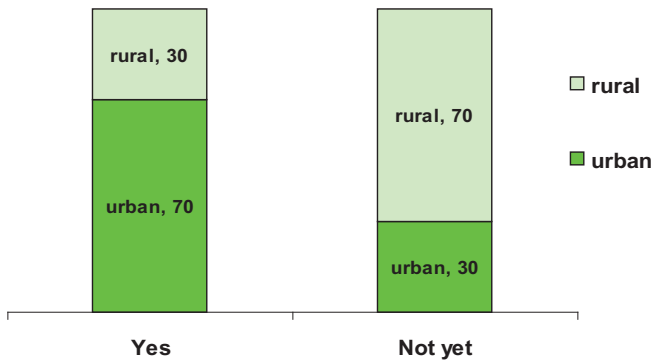
Entering the second phase of decentralization leads municipalities to assume a higher stake in managing education related issues. Financial obligations deriving from the disbursement of salaries now under the municipal payroll are combined with the management of properties and staff. To achieve this, municipalities establish an administrative unit, staffed with qualified people, which deals only with education as a competence.

To the question of the survey 'Has your municipality already established an administrative unit for education?', 45 per cent of the municipalities answered 'yes', while 55 per cent 'not yet'. This shows that the process of establishing administrative units has not been completed (see Fig. 1.)



(Fig. 1). Has your municipality already established an administrative unit for education?

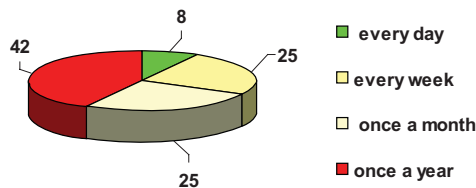
The findings of the Survey also show that of all municipalities that have established administrative units, 70 per cent of them are urban units whereas 30 per cent are rural ones. It can be understood that even though some rural municipalities have probably entered the second phase of the decentralization process, they are not still in a situation to create such an education unit within their administration (see Fig. 2).



(Fig. 2). Has your municipality already established an administrative unit for education?

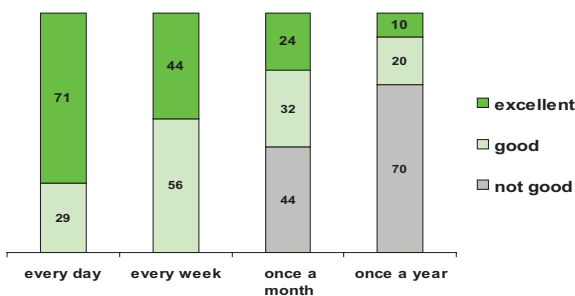
In line with the newly adopted legislation in the field of education school level¹⁶, stakeholders (the School Board) now play a more important role than before. Amendments to the laws on primary and secondary education, and deriving from the Law on Local Self-Government (2002), redefined the role of the school board by empowering it with the authority to select and dismiss the school principal¹⁷, to set the school budget and to adopt the school statute.

Hence, regular contacts with principals and with the school board members are necessary in order to ensure quality management of the education. To the question 'How often does your municipality meet the principals and the school board members?', 8 per cent of the municipalities stated every day, and 42 per cent said once a year, while 25 per cent each answered that they meet every week and once a month respectively (see Fig. 3).



(Fig. 3). How often does your municipality meet the principals and the school board members?

Feedback on the evaluation of school principals and school boards are largely positive. Seventy one percent of the municipalities with daily contacts with the school stakeholders evaluate their performance as 'excellent'. On the other hand, the municipalities with scarce contacts with the school management assessed their work as 'not good' in 70 per cent of the cases, whereas only in 10 per cent of the cases they evaluate their work as 'excellent', (more details in the Fig. 4).

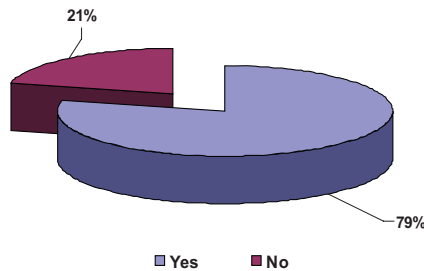


(Fig. 4). How would you evaluate the work done by the school principals and school boards?

¹⁶ The Principal of the school, School Board, Teachers and Parents' Council

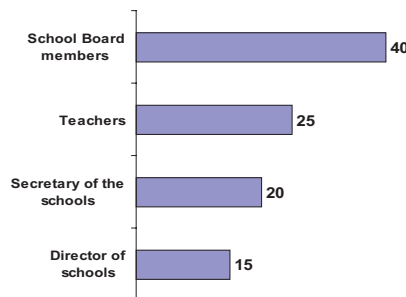
¹⁷ In co-operation with the municipalities (Mayor's offices)

Regarding the question, 'Do you think that school level stakeholders (principals, members of the school boards, teachers and parents) know their rights, roles and responsibilities?', 79 per cent of the municipalities have responded positively while 21 per cent have stated that the school level stakeholders do not know their rights, roles and responsibilities (Fig. 5). This does not mean that the LSGUs should not continue promoting the rights, roles and responsibilities of the school level stakeholders.



(Fig. 5). Do you think that school level stakeholders (principals, members of the school boards, teachers and parents) know their rights, roles and responsibilities?

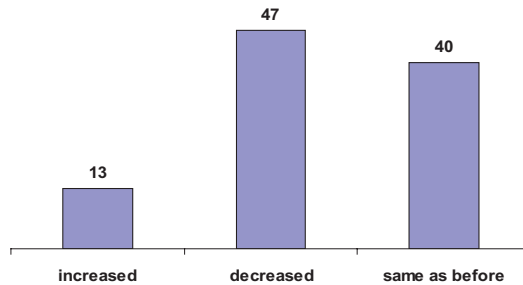
Municipalities have also been asked about 'Which of the stakeholders require training on the issues of education and decentralization?' Results show that 40 per cent of the municipalities think that School Board members require additional trainings for strengthening their capacities, 25 per cent reckon that teachers require trainings, 20 per cent identify school secretaries, while school principals are considered less in need of trainings (see Fig. 6).



(Fig. 6). Which of the stakeholders require training on the issues of education and decentralization?

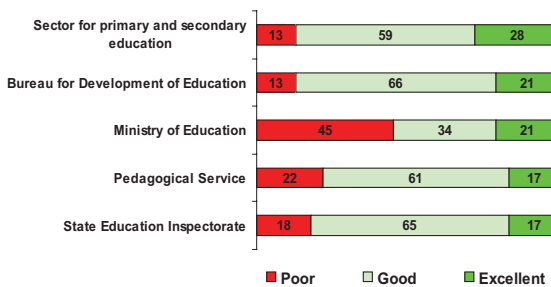
One of the arguments in favor of decentralized education (Levitas, 2002) relates to managerial efficiency and effectiveness and to de-politicization of the education system. The assumption is that, since the national ministries were farther from schools than the local authorities, many decisions at the local level were done according to political affiliation and its influence. The decisions brought from a central level concerning the education matter at the local level and the experience with other related issues before the decentralization process, also showed that the education system was very centralized and politicized.

Answers to the question 'Since the decentralization process started, the influence of politics in education has increased, decreased or is it same as before?' showed that 47 per cent of the municipalities think that the influence of politics in education has 'decreased', since the process of decentralization started, 13 per cent of them think that the influence has 'increased' while 40 per cent say that the level of influence 'remained unvaried'; (see Fig. 7).



(Fig. 7). Since the decentralization process started, the influence of politics in education has increased, decreased or is it same as before?

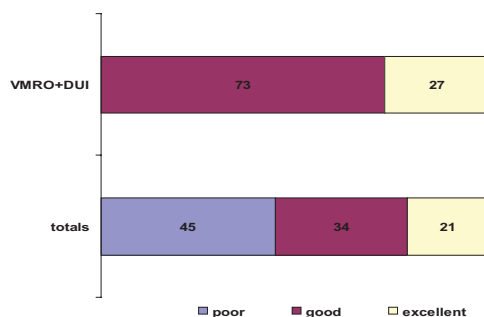
Asked about their relations with the Ministry of Education and its branches, 45 per cent of the municipalities answered that they have 'poor' relations with the relevant central authorities, 34 per cent reported to have 'good' relations with the MoE, whereas 21 per cent have 'excellent' relations with the Ministry (see more details at Fig. 8). Feedback on relations with the various branches of the MoE¹⁸ is generally more positive than the figures relating directly to the MoE. All these branches are not decentralized, being managed from the central government (Ministry of Education).



(Fig. 8). How are your relations with the Ministry of Education and its branches?

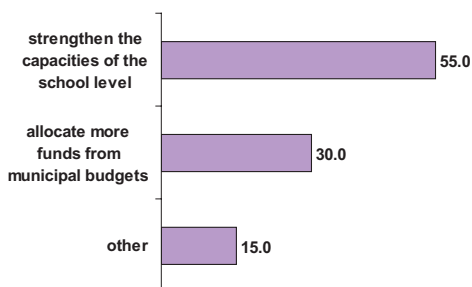
Communication with the line Ministry does not appear to be exempted from political influences: the municipalities where mayors share the same political background of the current government seem to have better relations with the Ministry of Education (73 per cent have 'good relations with the MoE and 27 per cent have 'excellent' relations) compared to the overall data (Fig. 9).

¹⁸The Sector for Primary and Secondary Education, the Bureau for Development of Education, the Pedagogical Service, the State Education Inspectorate



(Fig. 9). How are your relations with the Ministry of Education (in per cent)?

The municipalities were finally asked about the desired requirements for delivering better services in the primary and secondary education. Fifty five percent of the municipalities think that they further need to strengthen the capacities of the school level bodies (i.e. the principal, school board and teachers council), while 30 per cent say they should allocate more funds from their municipal budget (see Fig. 10).



(Fig. 10). What do you think should be undertaken so that your municipality provides better services in the primary and secondary education?

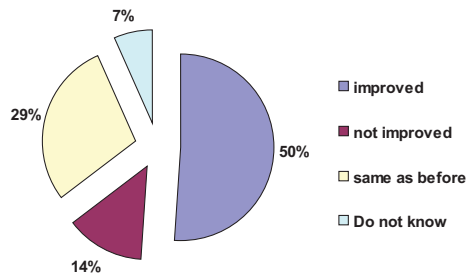
2.5. Findings from Citizens Poll

Besides the input received from the municipalities, the survey also includes opinions of citizens on issues related to education and decentralization. Five hundred twenty five citizens¹⁹ were surveyed on a questionnaire similar to the one delivered to the municipalities, in order to match instance from municipalities with expectations by the final users of the education services.

Citizens were asked to comment on their perception on the process of decentralization since its beginning, and particularly whether the management of education competency at the local level has improved, has not improved or remained as before. The findings are as follows: 50 per cent stated that the management of education at the local level has 'improved', 14 per cent that it has 'not improved' and 29 per cent that it

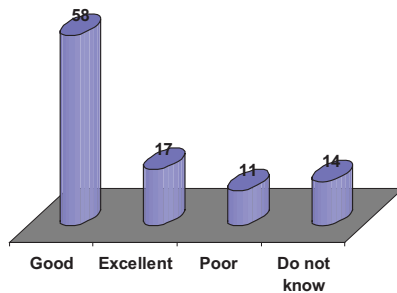
¹⁹Principals of schools (62), teachers (62), members of the school boards (62), parents of pupils (339)

remained 'same as before' (see Fig. 11).



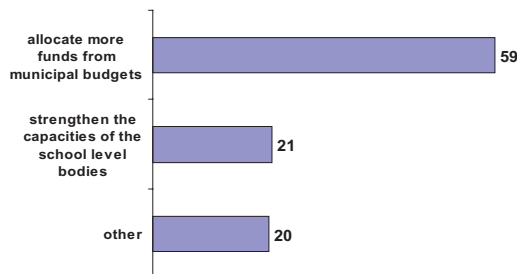
(Fig. 11). Since decentralization started, the management of the education competency at local level is: improved, remained unvaried or worsened

Citizens think that cooperation between the municipalities and the schools has improved since the process of decentralization, as 58 per cent of surveyed citizens consider that the co-operation is 'good', 17 per cent 'excellent', whereas only 11 per cent think that the co-operation is 'poor', (see Fig. 12).



(Fig. 12). Co-operation among the municipality and the schools according to citizens

The same question posed to the municipalities about the requirements for improving services in education offered the following results: 59 per cent of citizens answered that the municipalities should allocate more funds from their budget in order that their municipalities provide better services in the field of primary and secondary education, while 21 per cent say that the capacities of the school level bodies should be strengthened.



(Fig. 13). What do you think that should be undertaken so that your municipality provides better services in the primary and secondary education?

2.6. CONCLUSIONS AND RECOMMENDATIONS

Decentralization in education, as a continuous and creative series of changes and actions, should be analyzed under different points of view: transfer and implementation of certain education competences from the central to the local government, existence of higher level of autonomy at the school level, citizens' evaluation of education services and last but not least, the relations among three main stakeholder levels in the process of education i.e. the central level, the local level and the school level.

When considering decentralized education, municipal and school management must be given a relevant dimension. Principals should manage their schools in close co-operation with the school boards. They should be given the key responsibilities of the school boards as foreseen with the legislation on primary and secondary education and, above all, they should be under the supervision of local authorities (municipalities). Namely, the main bodies in the whole cycle are the school boards, their structure comprising representatives of teachers, pedagogues and professional associates; parents; local self-government as well as a representative of the Ministry of Education and Science.

For strengthening the responsibility of all stakeholders at the school level and in the context of co-operation with the local self-government and the wider community, the School Boards should have the key role in school management; their structure and functions are specified by Law²⁰. The legal framework is oriented to minimize political influence in school management, provided that the school boards operate effectively.

The main conclusions and recommendations are the following:

- Three years after the decentralization process started, the stakeholders do know their rights, roles and responsibilities, which was not the case before. Local authorities show seriousness in terms of managing the education in the best possible way²¹. Proof of this is the establishment of administrative units by most municipalities (55 per cent), dealing specifically with education issues. This percentage is expected to rise in near future following the examples of the ones that have established the units.
- Local authorities should intensify their communication and contacts with the school principals, the school board members and teachers, in order that the information flow between all involved is circulated consistently.

²⁰ The School Board is the main management body in the primary and secondary schools. Its most important tasks are: to adopt the Statute of the school, to adopt the annual budget of the school, to propose the Annual Work Programme, to propose the Annual Financial Plan to the municipality, to propose a candidate for the position of School Principal to the Mayor of the municipality.

²¹ Although several shortcomings were observed by other reports (the OSCE CBU report on Education 2008)

- Municipalities should further try to strengthen the capacities of the school level stakeholders, by providing training and other capacity building activities for raising their knowledge and understanding on their rights, roles and responsibilities in accordance with education and decentralization. Although citizens responded that they know their rights, roles and responsibilities (79 per cent), strengthening the capacities of the school level stakeholders is still necessary (40 per cent of the LSGUs think that the school board needs additional capacity building training).
- Political influence in education management should be minimized and be neutralized by all means. One of the arguments in favor of decentralized education refers to managerial efficiency and effectiveness and to de-politicization of the educational system. The assumption before the decentralization was that the education system was politicized and that with the decentralization the de-politicization would be ensured.
- Although the primary and secondary education is managed from the local level, there is a need for better co-operation among municipalities and the Ministry of Education (MoE) and its branches. The Survey findings show that some municipalities still have poor relations with the MoE and this leads to miscommunication when the process of decentralization in education should be completed.
- Municipalities are aware that they should strengthen the capacities of the managers of the schools, school boards, teachers' councils and other school level stakeholders but this needs to be put into practice, by allocating more funds from the municipal budget for education purposes. This idea was supported by the citizens when asked similar questions.

3. Communal Services

3.1. General introduction

Proper management of communal enterprises by municipalities generates a number of benefits for local governments. German municipalities have experience in establishing profit public companies as wellness and spa centers, public transport companies, management of tourist attractions. In many cases these companies are the generator for local economic development.

Setting the prices and collection of fees has always been a challenge especially in transition countries. Public service prices have traditionally been lower than the service real costs due to political strategies influenced by weak economic standards and such policy has resulted in poor companies and bad services. In order to provide adequate services the prices have to be based on real expenses²² and must cover amortization costs as well as funds for investment. The collection of fees has always been a significant problem for communal enterprises. Regular collection of fees determines the enterprise output, and enables the delivery of better services at lower prices.

Management is a key issue for communal enterprises. Municipalities appoint the managing structure of communal enterprises, and mayors appoint managers while municipal councils select the members of managing boards and decide on initial investment in equipment and facilities. The Law on Public Enterprises²³ envisages managing boards composed of 5 to 11 members, selected among available experts in communal service delivery. Boards should also include representatives of the company's employees. The municipality (the mayor and the council) supervises the company outputs, adopts annual working plans, the annual finance bill, and reviews reports. The prices of services are set by the municipal council upon proposal of the communal enterprise management.

3.2. Findings of the Survey 2008

Most of the assessed communal enterprises were established between 1996 and 2007, probably as a result of the Law on Local Self-Government in 1996, a benchmark in the process of the decentralization and development of local self-government. Although a relevant number of enterprises date back to the 50s and 60s, these records show a relatively short tradition in the management of communal enterprises.

²² Methodology Used for Setting the Price of Potable Water and Removal of Waste Water from Urban Areas, as prescribed by the Ministry of Transport and Communication. Official Gazette 68/04.

²³ Law on the Amendments and Modifications to the Law on Public Enterprises, Official Gazette No. 49 ; 14.04.2006

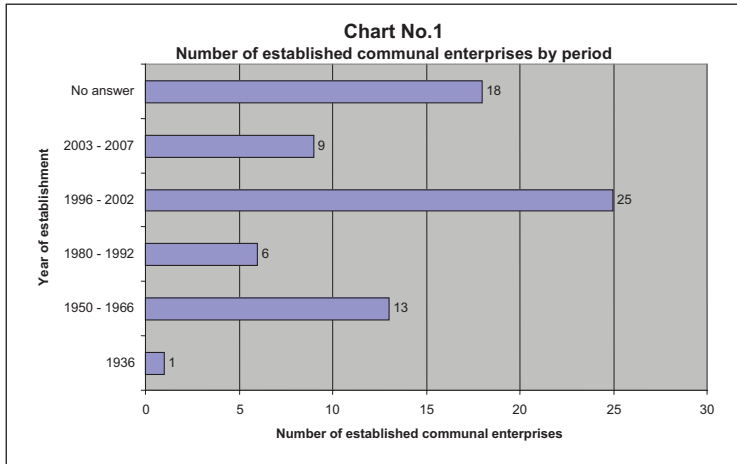
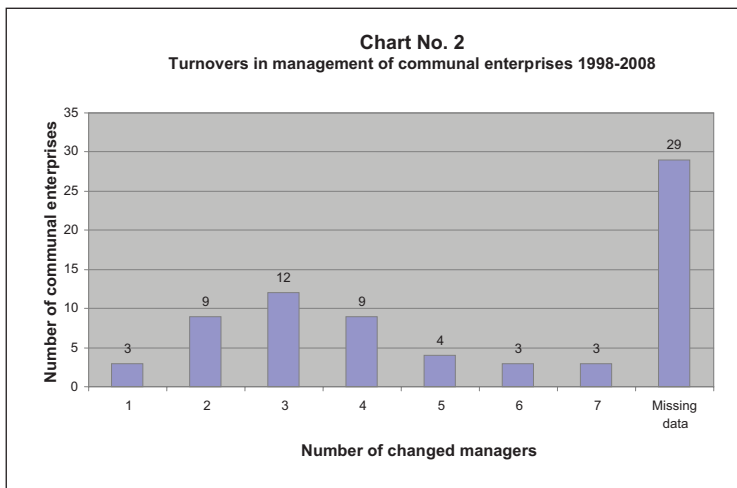


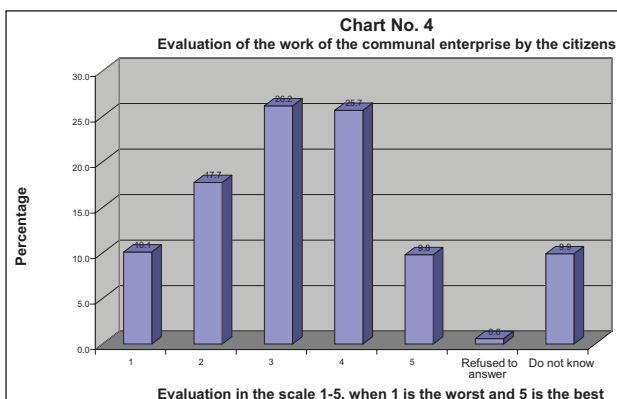
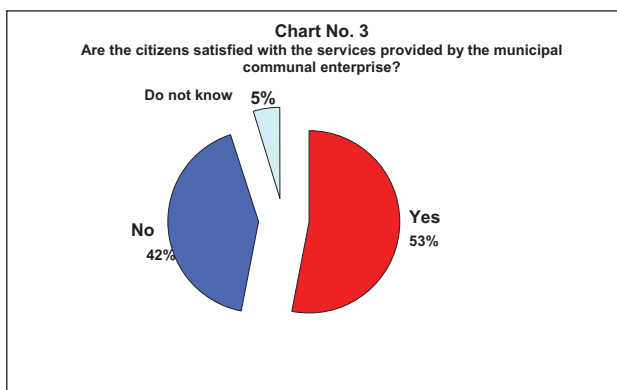
Chart No. 2 outlines the high frequency of changes in the management of communal enterprises. Only 3 managers served with continuity for the last 10 years, while in other municipalities turnovers occurred up to 7 times. Managers have been replaced on average once every 2.8 years. It is questionable whether sound strategies can be implemented in such a timeframe. Frequent changes in management may be the result of inadequate planning by municipalities or unsatisfactory performances by appointed managers.



Five municipalities reported their communal enterprise to have an e-mail address, and only one mentioned a communal enterprise web site. This confirms scarce use by communal enterprises of the internet and modern technology for communicating not only with citizens/customers but also within the company. Better sharing of information through modern technology will strengthen public trust in the communal enterprises and might prompt higher rates in fee collection.

Thirty seven out of the 67 assessed municipalities reported their communal enterprises to have debts, for a total amount of 1,175,710,040 MKD²⁴. Heavy debts seriously affect municipal budgets and limit the effectiveness of policies.

Eighty-two percent of the interviewed municipalities positively evaluated the performance of their communal enterprise, while only 53 per cent of the polled citizens²⁵ shared the same appraisal, in most of the cases ranking their communal enterprise services between 3 and 4 on a scale when 1 is the worst and 5 is the best.

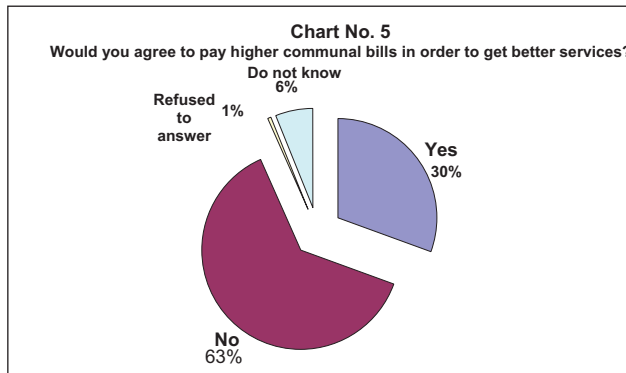


Fifty two percent of our opinion poll sample stated that the communal services prices²⁶ are inappropriate. The majority of these citizens (92 per cent) consider prices to be too high and only 5 per cent reckon them to be lower than they should be. Sixty three percent of the citizens would not agree to pay higher prices even if the services were better, and 91 per cent claimed to pay regularly communal enterprises fees. Low incomes are the most frequent reason for unpaid bills.

²⁴ 19,117,236 EUR (exchange rate 1 EUR = 61.5 MKD).

²⁵ For the purpose of this research a representative sample of 1,009 citizens throughout the country participated in the telephone survey.

²⁶ Reference to the Methodology Used for Setting the Price of Potable Water and Removal of Waste Water from Urban Areas, as prescribed by the Ministry of Transport and Communication. Official Gazette 68/04.



As previously mentioned, proper price setting is one of the most important requirements for a sustainable and effective service delivery. Only 46 per cent of the municipalities consider charged fees to be in line with the services real cost, which means that prices are lower than real costs in 54 per cent of the cases. When fees do not cover expenditures, there are two options: prices must be increased, or expenses must be reduced. A third option is subsidizing the work of the communal enterprise from the municipal budget.

Further analysis and assessment regarding the setting of the prices is needed; collected results showed large ranges in price setting among municipalities. Regarding the price for collection of 1 ton of garbage, prices reported by the municipalities range from couple of hundred MKD to few thousands MKD. This may indicate that the municipalities do not have enough data or systems to follow the work of their public enterprises or do not have the capacity to make a proper assessment of the expenses and cost related to their services in order to set the prices accordingly.

3.3. How to improve the work of the communal enterprises?

This survey investigated the problems faced by municipalities in communal service delivery and on their strategies to tackle such issues. A recurring hurdle for many municipalities and communal enterprises is the lack of financial resources, which are needed in order to procure necessary equipment. Both the citizens and the municipalities identified the lack of equipment as a major problem that prevents improved service provision.

The biggest number (78 per cent) of municipalities considers the lack of equipment as the biggest problem for the communal enterprises.

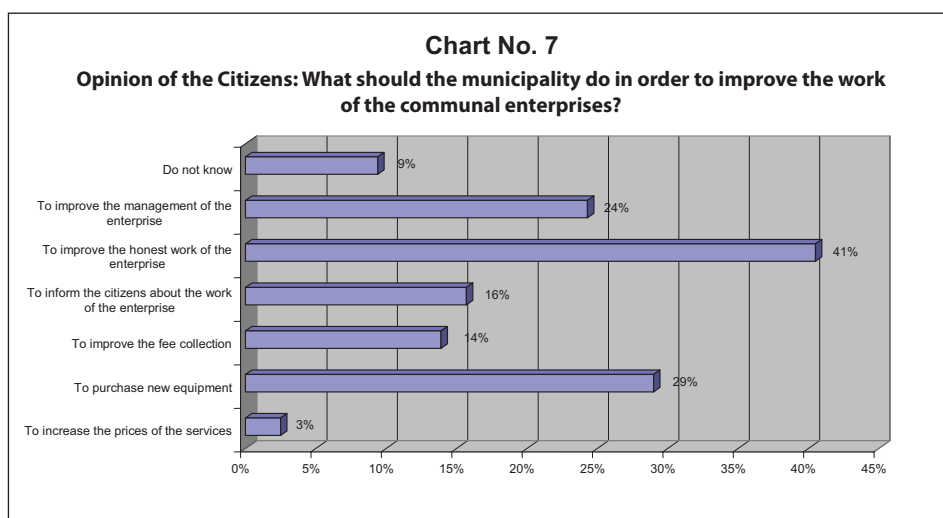
If we compare the results of the Chart No. 6 on the opinion of the municipalities with the opinion of the citizens in the citizens poll ordered by the OSCE we will get opposite and different perceptions:

Municipalities' opinion	Citizens' opinion
55 per cent of the municipalities state that the prices of the services are low	52 per cent of the citizens think that the prices of the services are higher than they should be
49 per cent of the municipalities consider low payment of citizens as one of their major problems	91 per cent of the citizens stated that they regularly pay their fees

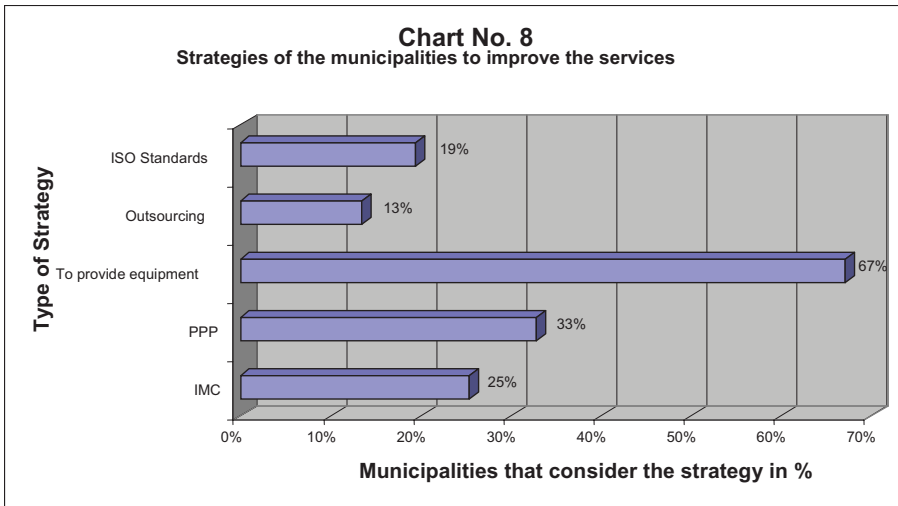
Lack of assistance by the state was mentioned by 54 per cent of municipalities, which is a significant number. This survey did not explore the reasons and what kind of state assistance is requested. In line with this opinion we have to mention that 85.5 per cent of municipalities stated that they agree that the Law on Public Enterprises is good. Additionally the state had positive response to the request to lower the VAT rate for communal services to 5 per cent which was one of the major problems for the communal enterprises and municipalities during the OSCE survey in 2007.

According to the citizens' opinion, lack of equipment is stated as the biggest problem for the communal enterprises. Great number of citizens supports the purchase of equipment as a necessity but they believe that this should be done within the current pricing of the services.

The opinion of the citizens regarding the more "honest" work can be interpreted as a view of the citizens that the companies can improve the way they lower unnecessary expenditures. While the citizens are not willing to pay more for the services (Chart No. 5) the communal enterprises and the municipalities are challenged to find ways how to utilize better the current assets with better management and to provide better financial conditions by cutting down expenses.

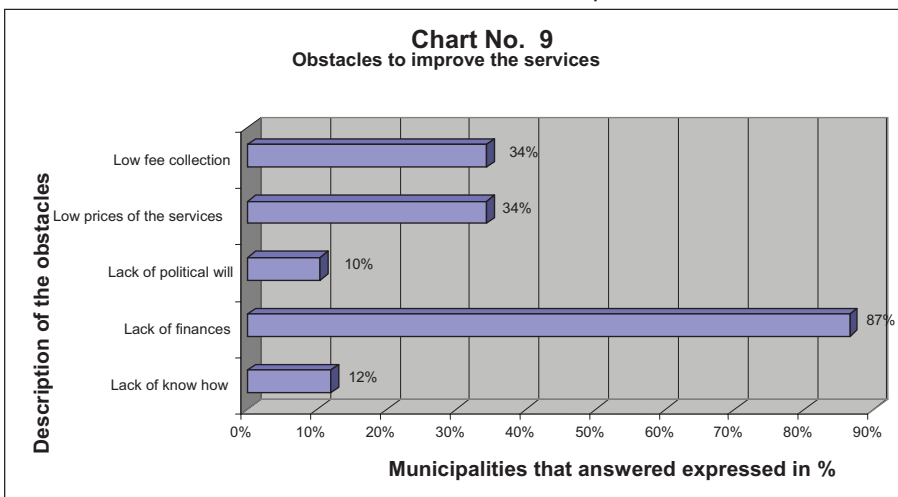


The following Chart No. 8 shows that the majority (67 per cent) of the municipal strategies to improve the services refer to providing equipment for their communal enterprise.



Only 33 per cent of the municipalities consider the Public Private Partnerships - PPP as a tool for service improvement; and 25 per cent intends to enter in Inter-Municipal Cooperation - IMC agreements. Even fewer consider outsourcing (i.e. purchase services from the neighboring municipalities). Nineteen per cent of the municipalities deem that ISO standards will improve communal service delivery.

When analyzing (Chart No. 9) the obstacles to improving the services, lack of finances is considered the predominant obstacle for 87 per cent of the municipalities. The reason for the lack of finances an equal number (34 per cent in both cases) of municipalities consider to be the low fee collection and the low prices of the services.

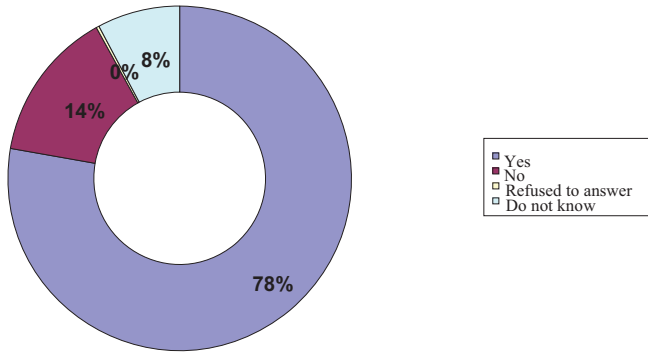


3.4. Garbage separation

The survey assessed citizens' readiness to participate in the garbage recycling, an activity which could be a source of income for the municipalities and the communal enterprises. An overwhelming majority of the polled population would commit itself in garbage separation activities.

Chart No.10

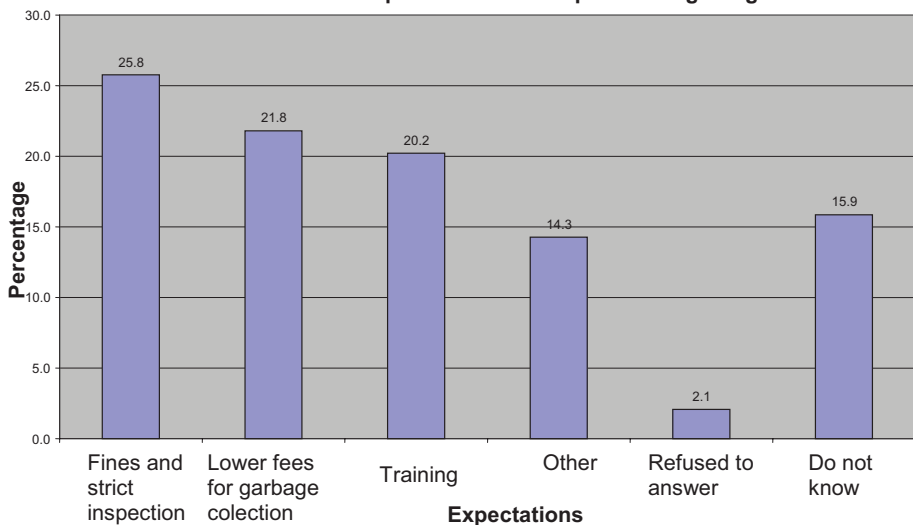
Answers of the citizens to question if they would you participate in a garbage separation?



Citizens in favor of garbage recycling expect their municipality and communal enterprise to take actions such as providing equipment (special containers), running awareness campaigns and reducing fees on other communal services.

Chart No. 11

What do the citizens expect in order to separate the garbage?



3.5. Recommendations

Most of the transition countries in South-East Europe inherited weak systems of communal service provision due to unrealistic prices, inefficient communal enterprises, lack of equipment and obsolete infrastructures (i.e. water and sewage networks). Many programs have since then been implemented for improving service provision, and nearly all implied additional investments and a consequent matching of charged fees with service costs. In other words, experience shows that better results are possible at the cost of reviewing prices. This does not seem to be a viable solution when considering the current economic constraints and a general reluctance to accept higher fees.

It is therefore necessary to consider further possibilities for more efficient and effective service provision, thus enabling a cost reduction for communal enterprises activities. This requires development of sound strategies and plans by a carefully selected management and more capacity building initiatives for the current staff in the municipal companies.

Several strategies can be pursued for increasing the efficiency of communal companies, for instance, assessing municipal capacities in terms of covered territory and/or consumers served. This will help in choosing the best and cheapest way for service provision (Inter-Municipal Co-operation by the establishment of a joint enterprise, Public Private Partnership or outsourcing by buying services from a private company or a neighboring municipality's communal enterprise).

Debt management currently stands out as a serious threat to municipal communal enterprises, both for the amounts at stake and the alleged inability of companies and municipalities to deal efficiently with it. The matter must soon be addressed, without the risk of leaving large sectors of the population destitute of basic supplies such as water. For instance, the central authorities can play an intermediary role and possibly enable municipalities to raise loans from the commercial banks under preferential conditions. This is necessary because the old debts of the communal enterprises block the enterprise account. This blocks the work of the enterprise because it prevents regular payments²⁷. Additionally the enterprises debts are increasing because the compound interest rate is much higher than the interest rates of the bank loans. Enabling bank loans for the purpose of reprogramming existing debts would provide several benefits. By using bank loans the enterprises and the municipalities will be able to reschedule their debts and to plan their repayment by installments. The payment of the installments will be planned in the budget of the enterprise and it will not block its bank account. This will ensure continuous provision of services and lower expenses for the enterprises and the municipality, alike.

²⁷ Enterprises whose bank account is blocked can not pay any other duties until the debt is settled. It means that the communal enterprise will not be able to pay salaries, to order supplies, electricity, petrol etc. which jeopardize the regular provision of services.

The establishment of a Municipal Consumers Council²⁸ would help municipalities to improve communication with the citizens. The Council would serve as a forum for discussing fee collection and negotiating appropriate prices in regard to the desired quality of the services.

²⁸ Law on Local Self-Government, Article 56

4. Local Economic Development

4.1. Introduction and legal background

The Law on Local Self-Government enacted in 2002 substantially enlarges the competences of local officials, and LED (Local Economic Development) was one of the first responsibilities transferred to the municipal level. Article 22 of the Law on Local Self-Government²⁹ prescribes the LED as a local self-government competence and leaves room for the municipalities to construct their own method of planning and implementing LED activities. Another important part of the general legal framework on LED is the 2007 Law on Balanced Regional Development, the aim of which is to determine the goals, regulations and bearers of the policy for regional development planning, financing and allocation of funds for balanced regional development, evaluation and monitoring of the implementation of the development plans and projects and other related issues.³⁰

A thorough implementation of the Local Economic Development concept requires serious engagement by the municipalities in terms of human and financial resources in order to foster growth and improve living standards within their respective municipal area.

This chapter depicts the status of LED as a cross-cutting competence of the local self-government units both from a municipal and a business community perspective. It provides information on the active approach the municipalities have been taking towards LED (systematic or ad hoc based) and the state of affairs of the LED plans, as well as the most frequent activities and obstacles for their implementation.

Furthermore, it checks on the existence of accurate information on the local operational businesses as a basis for future planning of LED, the role and importance of the PPPs as an LED tool, the frequency of engagement of municipalities in cross border co-operations and the role and activities implemented within the existing planning regions for equal regional development.³¹

A review of financing methods for activities conducted by the LED offices or the LED Coordinators will be followed by trends in allocation of municipal budget funds for LED and by the main expectations from the central government. An outline of the mu-

²⁹ Law on Local Self-Government, Official Gazette of R.M. 05/2002

³⁰ Law on Balanced Regional Development, Official Gazette of R.M. 63/2007

³¹ For planning needs and implementation of measures and instruments for balanced regional development, the Law prescribes establishment of planning regions. According to the current classification in the Republic of Macedonia, all municipalities are divided in 8 planning regions that correspond to the statistical regions, them being the following: Pelagonija (9), Vardar (7), North-east (6), South-west (13), Skopje (17), Southeast (10), Polog (9) and East (13). They are not administrative, political, but rather functional units for the purpose of planning and implementation of the balanced regional development.

municipal budgets allocated for balanced regional development will also be given.

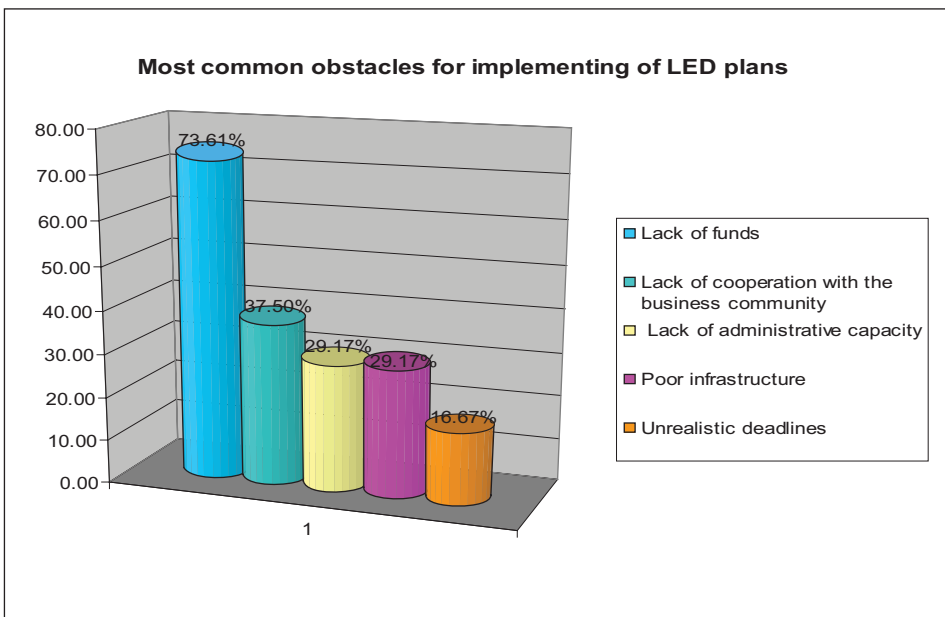
Finally, the chapter points out the efforts of the municipalities to improve the business climate and the perception of the business community on their relevance and success.

4.2. Municipalities

The results show that 61 per cent of the surveyed municipalities have formally planned their LED activities for the period 2007-2008. An increase of 6.7 per cent can be noted when compared to the last year survey results. Municipal strategies for LED are most usually planned on a 4 to 5 year time frame. Twelve and a half per cent of the municipalities covered the period 2003-2008 and 40.3 per cent covered 2007-2013. A negligible number of municipalities have already developed the LED long term plans (for instance, Tearce LED plan covers the period 2006-2016 and Veles has planned LED until 2020).

The most common obstacles preventing the municipalities from smoothly implementing their LED plans are outlined in Chart 1. Seventy three point six per cent of the interviewed administrations identified lack of funds as the main hurdle, while 37.5 per cent reported a lack of co-operation with the local business community and 29.17 per cent indicated a lack of administrative capacity and poor infrastructure. Sixteen per cent of the municipalities admitted to bad planning (unrealistic deadlines in the LED plans), while a few municipalities refer to the lack of co-operation with the central government as the most common obstacle for the LED implementation.

Chart 1



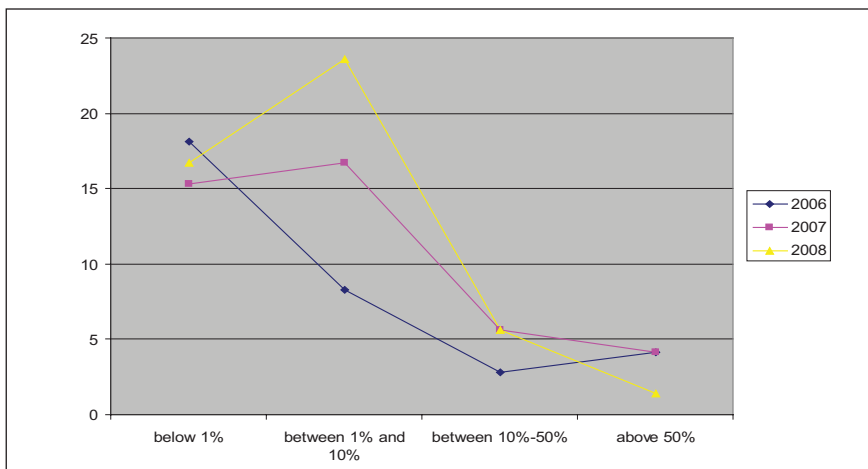
As to the activities implemented in the period 2007-2008 to improve local economic development and the investment climate, the municipalities have considered the following:

- Sixty one municipalities have improved the local infrastructure;
- Fifty two have done promotional activities (campaigns, fairs, personal contacts with business communities);
- Thirty six have improved and standardized their administrative procedures;
- Sixteen have minimized the level of taxes for local companies;
- Ten have established a private-public partnership; and
- Nine have organized into a regional economic or business network.

Fifty four point two per cent confirmed they have a unified and updated data base on existing businesses and 41.2 per cent have not produced one. Twenty six of the municipalities that have created a data base on the existing businesses updated it in the course of 2006 and 2007, whereas three municipalities have done most recent updates in the course of 2008.

On average, most municipalities allocated between 1 and 10 per cent of their budget for LED in the period 2006-2008. Chart 2 gives evidence of the increasing trends in the municipal budget allocation for the LED in 2007 and 2008 compared to 2006. (In 2006, only 8.3 per cent of the municipalities allocated between 1 and 10 per cent of their budget for LED activities, whereas in 2007 and 2008 this figure amounts to 16.7 per cent and 23.6 per cent respectively.) On the other hand, the percentage of municipalities that allocate below 1 per cent for LED activities decreases in the period 2006-2008. Approximately 4 to 5 per cent of municipalities stated that they have allocated above 10 per cent (in some cases even above 50 per cent) of their budgets for LED activities, but in such cases figures include donors' grants earmarked for LED.

Chart 2 Trends in the municipal budget allocated for LED in the period 2006-2008



Approximately, only one quarter of the municipalities have established PPPs, where the most common activities implemented are listed below, ranked according to priority:

- Financed the construction of infrastructure (roads, water supply, etc.)
- Supported the construction of schools
- Supported the construction of business centers
- Supported the construction of municipal marketplaces
- Support in drafting project documentation

Thirty six of the municipalities claimed to have been part of cross-border co-operation in the period 2007-2008. Most frequently, they engage in cross-border co-operation with neighboring countries in the fields of tourism, culture and environment protection.

Sixty three per cent reported that they have appointed their representative to the center for balanced regional development of the planning region to which they belong; whereas 25 per cent have not appointed one. Distributed per region, municipalities that have a representative in the respective center for balanced regional development are presented in Table 1.

Table 1 Number of municipalities that have appointed a representative in the Center for balanced regional development (per cent)

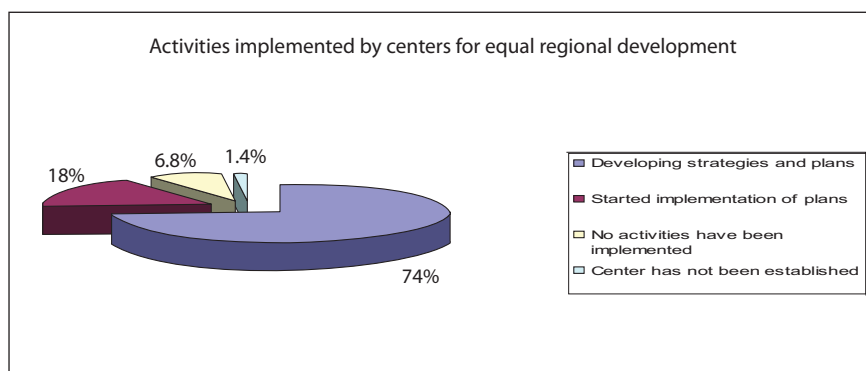
Pelagonija	Vardar	North-east	South-west	Skopje	Southeast	Polog	East
78	57	50	54	35	30	78	54

Seventy four per cent of the municipalities stated that their center for balanced regional development is in the process of producing development strategies and plans. Only 18 per cent of the municipalities stated that the implementation of development plans has started in their respective planning regions³³. About 6.8 per cent of municipalities believe their centers have not implemented any balanced regional development activity whatsoever. (See chart 3).

³² The Centers for Development of the Planning Regions are established by all municipalities within a planning region; they are located in the municipality with the largest number of inhabitants and funded from the municipal and the Government budget on a 50 per cent-50 per cent basis for the first five years. A manager of the Center is selected on the basis of a public vacancy notice. As for the Law, the Centers are granted the status of legal entities and their primary role is to perform technical activities of importance to the development of the respective planning region.

³³ According to the survey, the municipalities that started the implementation of balanced regional development plans are part of the following regions: Pelagonija, Polog and East.

Chart 3



Twenty four per cent of the municipalities reported that they have allocated less than one per cent of their municipal budget for balanced regional development in the period 2007-2008. Table 2 gives an overview of the number of these municipalities per planning region and the average value of municipal budget allocated for balanced regional development.

Table 2 Number of municipalities that have allocated municipal budget funds for balanced regional development (per cent) and the average value (MKD)

Region statistical region	Number of municipalities	Average value in MKD
Pelagonija	5	247,309
North-east	2	743,390
Southeast	6	192,882
East	4	174,606

Funds from the central budget for balanced regional development³⁴ in the period 2007-2008 were only received by 3 municipalities, for a total of 2,453,200 MKD. As a comparison, before the enactment of the Law on Balanced Regional Development, far more central budget funds were allocated for the purpose of regional development (see table 3).

³⁴ The allocation of funds to be distributed from the Budget will be based upon the level of development of the municipalities and the planning regions (determined by the economic development index and the demographic index).

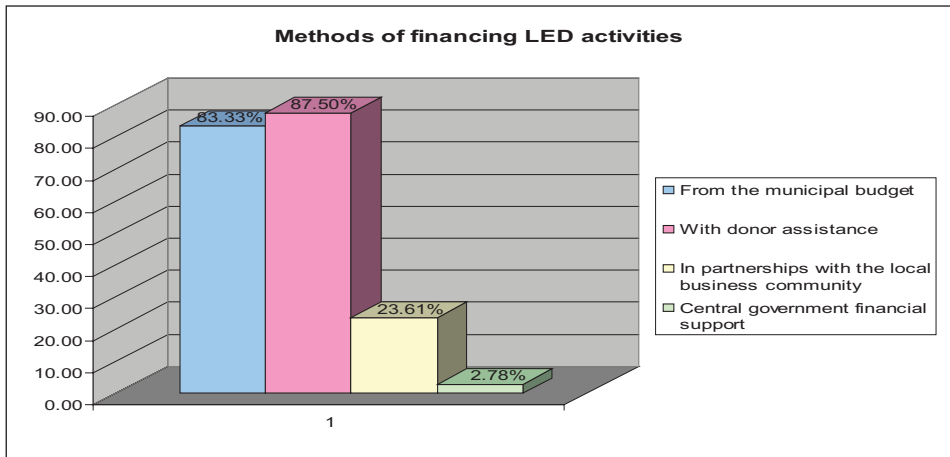
Table 3 Approved and Planned Central Budget Funds for Underdeveloped Economic Regions (1994-2007)

Year	Approved in the Budget	Prescribed in the Law (1 per cent of GDP)	per cent of Approved Funds
1994	418,000,000	1,464,090,000	28.55
1995	700,000,000	1,695,210,000	41.29
1996	750,000,000	1,764,440,000	42.51
1997	500,000,000	1,860,180,000	26.88
1998	520,000,000	1,949,790,000	26.68
1999	470,000,000	2,090,100,000	22.49
2000	758,000,000	2,363,890,000	32.08
2001	560,000,000	2,338,410,000	23.95
2002	850,000,000	2,388,900,000	35.58
2003	238,000,000	2,388,900,000	9.96
2004	221,132,000	2,652,570,000	8.33
2005	205,132,000	2,866,260,000	7.15
2006	166,000,000	3,076,290,000	5.4
2007	184,000,000	3,326,090,000	5.53
Total:	6,541,364,000	20,303,910,000	22.6

Source: "Monitoring the Implementation of the Principles of Good Governance with Public Funds", draft report, FOSIM, 2008

With regard to the methods of financing LED activities (relevant data exhibited in Chart 4), about 87.5 per cent of the municipalities use donor assistance, nearly the same number of them were able to provide municipal budget funds in the period 2007-2008 for LED. Twenty six point three per cent use partnerships with the local business community as a method to finance LED activities and an insignificant portion claim to have used central government funds.

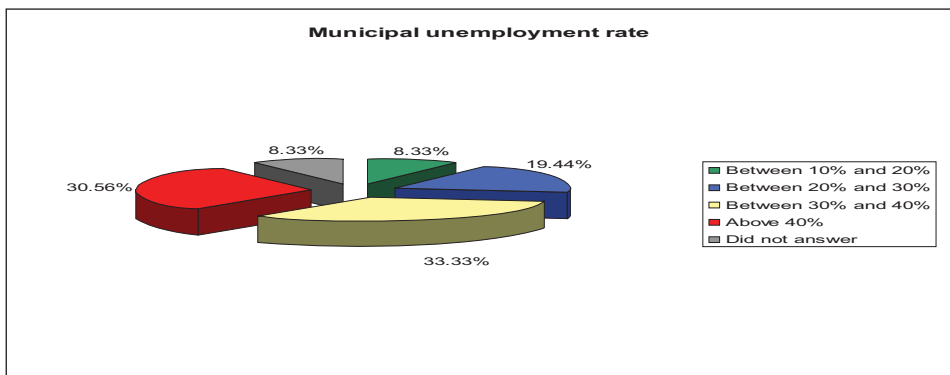
Chart 4



Compared to the period 2006-2007, during which only 53 per cent of the municipalities stated to have allocated municipal budget funds for the LED, an increase of nearly 30 per cent has been reported for 2007-2008.

Chart 5 depicts the municipal perceptions on the unemployment rates. Most of the municipalities (about 33.33 per cent), record an unemployment rate between 30 and 40 per cent, evenly divided in urban and rural. Nearly 31 per cent of municipalities reported an unemployment rate of above 40 per cent, with rural municipalities prevailing in this group. Fourteen municipalities reported an unemployment rate between 20 and 30 per cent and only 6 municipalities between 10 and 20 per cent.

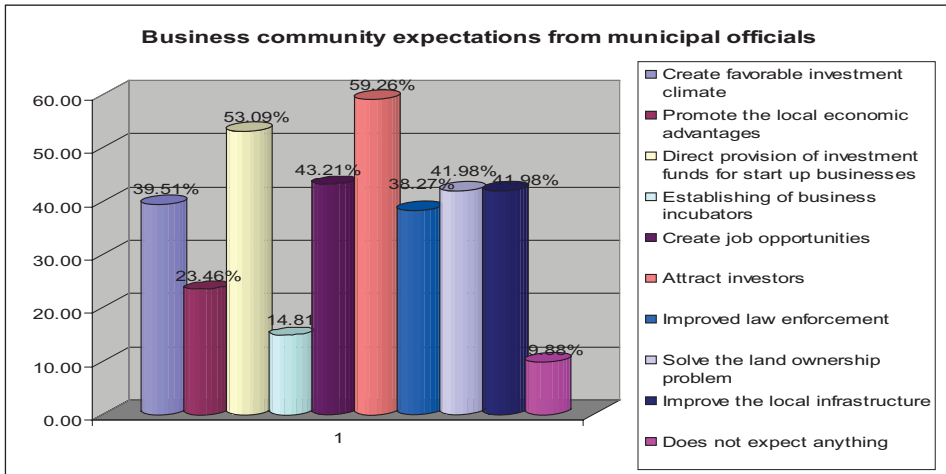
Chart 5



4.3. Perception of citizens (opinion poll)

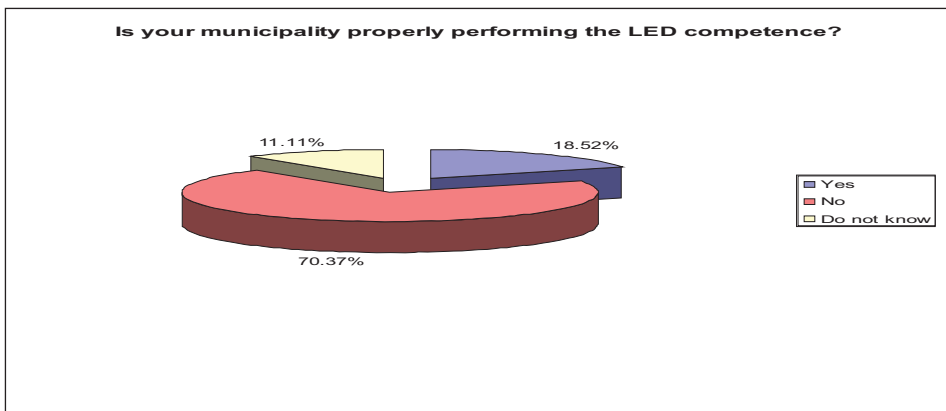
Opinion poll results point out that 59.26 per cent of the business community³⁵ expects the municipalities to attract investors; whereas a relevant percentage (53.09) expects the municipalities to provide business with investment funds (chart 6).

Chart 6



As outlined in Chart 7, 70.37 per cent of the surveyed businessmen do not consider their municipality to be properly performing the LED competences. Only 18.52 per cent feel business improvement on the local level since the transfer of competences.

Chart 7



³⁵ The statistical sample is composed of 81 members of the business community throughout the country (37 per cent of owners and co-owners of companies, 27 per cent of directors and senior managers and 36 per cent of middle management representatives)

With respect to PPPs, forty eight per cent answered that no PPP exists in their respective municipality; the same percentage do not know about the existence of any PPP. Only nearly 4 per cent confirmed the existence of a PPP, out of which only 1.2 per cent declared to have an active participation in the municipal PPP.

4.4. Conclusion and Recommendations

From the survey results it can be concluded that a substantial number of municipalities pursue a systematic approach in planning their LED. An increase compared to 2006-2007 is noted with regard to the number of municipalities that produced LED plans, mostly covering a period of 4 to 5 years. Access to funds appears to be the most difficult obstacle in the implementation of the LED plans, and co-operation with the business community and solid administrative capacity are identified as of poor quality.

When building a favorable business and investment environment, municipalities mostly focus on improving the local infrastructure, promotional activities (campaigns, fairs) and standardizing the administrative procedures. Only a small number recognize PPPs, regional economic networks and decreasing taxation for local business legal entities as effective methods for fostering LED.

Although positive trends in municipal budget allocation for LED have been registered, funds are still relatively low. This proves that LED has not been treated as a key competence by many municipalities. When implementing LED, municipalities rely on donor assistance to the same extent that they use municipal budget funds. Positive trends in comparison to 2006-2007 are noted in using all three financing methods (municipal budget, donor assistance and PPPs).

Municipalities engage in cross-border co-operation with the neighboring countries, mostly pursuing projects in tourism, culture and environment protection.

More than half of the municipalities have appointed their representative to the balanced regional development center, but most of the centers established are still in the process of developing their regional development strategies and plans. According to the Survey results, only Polog, Pelagonija and the East planning region started implementation of balanced regional development plans. One center for balanced regional development has not been established yet (the South-west region). The municipalities from the North-east region allocated on average the highest portion of their budget for balanced regional development, followed by the ones from Pelagonija, the South-east and East. Other regions, according to the Survey results, do not rely on the municipal budgets when planning their development.

Even though the Law on Balanced Regional Development stipulates annually at least 1 per cent of the GDP (approximately 45 million Euros) through the Budget of the coun-

try to be allocated for this purpose, very few municipalities claim to have received central budget funds for balanced regional development in the period 2007-2008. This, supported with the cited FOSIM report, leads to the general conclusion that the financial support for balanced regional development offered by the state budget is far from the legally fixed level, hence the Central Government failed to fulfill its obligations.

Municipalities show awareness of the need for tackling local economic development effectively, and consequently the high unemployment rate. Rural municipalities are particularly threatened by large unemployment, which is already causing massive immigration to urban areas or abroad.

Local businessmen generally expect local officials to create a favorable investment and business environment, and many of them still expect municipalities to provide business investment funds and create concrete job opportunities. A relevant number of businessmen do not consider their municipality to be properly performing its LED role and only one quarter felt some kind of improvement since the transfer of competences. The fact that few businessmen have been actively involved in a public private partnership with their respective municipality speaks of the non-existent co-operation between the two.

Building infrastructure, standardizing administrative procedures (preferably the ISO certification), strict law enforcement and a predictable business environment (local taxes and fees applicable to legal entities) are the key preconditions for attracting domestic and foreign investors. The municipalities do not have a solid base for future LED planning. They need to update their evidence of local business legal entities if they are to support them, and this requires a more serious approach and higher municipal investments in LED.

It can be concluded that there is a need for more capacity building for the LED officers in strategic planning, access to donor funds, development of proper application documents and establishing partnerships with businesses and the civil society. In addition, municipalities need to improve access to all relevant information to local entrepreneurs.

Compared to 2006-2007, no progress has been made in terms of fostering local co-operation between the municipalities and the business community for LED purposes. Businessmen and private entrepreneurs need to reestablish communication with the municipalities and recognize them as a partner, rather than as a bureaucratic burden. A countrywide public awareness campaign for all relevant stakeholders (businessmen, the civil sector and municipal officials) would help reinforce the mutual benefits of a culture of co-operation. The vital role of the public-private partnerships must be widely recognized as propelling tool for reducing unemployment, poverty and improving the standard of living.

The central government needs to fulfill its obligations undertaken with the Law on

Balanced Regional Development and the municipalities need to join infrastructural, natural and financial capacities towards building mutual co-operation networks. The interest of donors in the enforcement of the Law is extremely helpful for achievements in the sphere of Local Economic Development.

5. Municipal Finance

5.1.1. THE STATUS OF FISCAL DECENTRALIZATION

July 2008 marked the end of the third year since the start of the fiscal decentralization in the country and, for a large number of local self-government units, the first year in the second phase of fiscal decentralization.

In accordance with the Law on Financing of Local Self-Government Units, the Government established in January 2007 a Committee in charge of monitoring the level of fulfillment of requirements for entering the second phase of fiscal decentralization by municipalities. The financial results of all local self-government units had to be assessed within the first 24 months of the fiscal decentralization, and the municipalities presenting performances in line with the conditions specified in the Law³⁶ should be granted access to the second phase. The Committee considered 42 municipalities³⁷ ready to enter the second phase as of September 2007, followed by additional 9 municipalities³⁸ on January 1st 2008, 6 municipalities³⁹ on April 1st 2008 and 5 municipalities⁴⁰ on July 1st 2008. A recent report by the Ministry of Finance foreseeing the inclusion of 4 more municipalities as of January 1st 2009 has not yet been adopted by the Government. Should the Government endorse the report, 66 local self-government units will soon be included in the second phase of fiscal decentralization. These municipalities receive block grants for financing several competences (primary and secondary education, culture, social welfare, child protection and health care). In addition to the earmarked grants already in place for financing these competences, the block grants foreseen by the second phase cover the salaries of staff (e.g. teachers) employed in the institutions now to be financed by the local self-government units. Administering the increased funds assumed possessing adequate administrative capacity on the part of the municipalities to manage these funds.

Methodologies for allocating the 2009 block grants were published in June 2008. The Ministry of Finance specified the exact amount to be received by the municipalities in 2009 out of block grants, value added tax and personal income tax with a short delay from the deadline set in the Law on Financing the Local Self-Government Units (30th September).

To date, 19 municipalities have not yet been included in the second phase of fiscal decentralization. Nine of them do not even fulfill the conditions related to the first phase

³⁶ Official Gazette, No.61/2004

³⁷ Aerodrom, Berovo, Bitola, Bogdanci, Bogovinje, Bosilovo, Brvenica, Butel, Cair, Centar, Cucer Sandevo, Debar, Dojran, Dolneni, Gevgelija, Gjorce Petrov, Ilinden, Jegunovce, Karbinci, Karpos, Kisela Voda, Kocani, Konce, Kratovo, Krusevo, Kumanovo, Makedonski Brod, Mavrovo Rostuse, Mogila, Negotino, Novo Selo, Prilep, Radovis, Stip, Strumica, Sveti Nikole, Tearce, Tetovo, Valandovo, Veles, Zrnovci

³⁸ Resen, Struga, Gazi Baba, Gostivar, Suto Orizari, Staro Nagoricane, Debarca, Lipkovo and Novaci

³⁹ Vasilevo, Demir Hisar, Kavadarci, Ceginovo, Saraj and the City of Skopje

⁴⁰ Zelenikovo, Pehcevo, Rankovce, Rosoman and Caska

(i.e. the hiring of 3 employees working in the area of financing and 2 in tax administration). Fifteen municipalities are burdened by consistent debts and their bank accounts are currently blocked. The Association of the Units of Local Self-Government (ZELS) estimates the municipal aggregate debt to have dropped from 51 to approximately 10 million euros since the start of the decentralization process.

5.1.2. MAIN AMENDMENTS TO THE LEGISLATION IN THE AREA OF LOCAL FINANCING

Since July 2007 several legislative changes have been introduced for improving the financial conditions of the local self-government units. The most significant changes concerned the following acts:

The Law on Amending and Supplementing the Law on Budgets (Official Gazette No. 4/08, 103/08)

- The Law on Property Taxes (Official Gazette No. 92/07)
- The Law on Construction Land (Official Gazette No. 82/08)
- The Law on Amending and Supplementing the Law on Construction (Official Gazette No. 82/08)

The main novelty introduced by the Law on Amending and Supplementing the Law on Budgets refers to the obligation of the local self-government units to adopt three-year plans for development programs besides general and special programming. Plans should be in compliance with the Budget Circular sent by the Ministry of Finance, and will have to be submitted by the mayors to the municipal councils for approval by 20th October each calendar year for the following three-year period. Once adopted by the council, this plan becomes a constituent part of the municipal budget. The introduction of multi-annual plans imposes necessary planning skills and financial management knowledge on the municipal administration in charge of financial issues.

With the new changes, mayors can decide to increase debt repayments should revenues be higher than those planned. Moreover, the deadline for adopting budget rebalances has been extended from 1st September to 15th November.

Amendments to the Law on Property Taxes which entered into force on 1st January 2008 allow the mayors to write off – upon approval by the municipal councils – the tax liabilities if the costs for collection are proved to exceed the amounts of defaults.

Several novelties were introduced by the amendments to the Law on Construction Land and the Law on Supplementing and Amending the Law on Construction. Article 56 of the Law on Amending and Supplementing the Law on Construction stipulates that the administrative body responsible for performing financial activities (the finance unit in the municipality), shall transfer the revenues for the charge for urbanization of the construction land and the charge for production of urban plans⁴¹ to the account of the state administrative body (Agency for Spatial Planning) responsible for urban-

⁴¹ The charge for urbanization of construction land and the charge for production of urban plans are paid by the investors/ citizens when requesting building permits

ization of the land, once the legal acts are timely issued by the municipality. The total of these revenues is divided into 30 per cent for the state/ the central budget (for the production of spatial planning of the state) and 70 per cent for the municipality which implemented them.

According to Article 14 of the Law on Construction Land, the income from selling and renting of public construction land shall be divided between the central authorities and the municipalities in a ratio of 60:40. For urbanization⁴² of construction land, investors must pay a charge and the height of it depends on the stage of urbanization i.e. the communal infrastructure that already exists on the land. Related income shall enter the municipal budgets and must be allocated for financing the urbanization of the construction land.

Another change worth mentioning is the amendment to the Law on the Central Registry. As of July 2008, the local self-government units, along with the Government and other administrative bodies, can use the data from the Central Registry free of charge. As a result, the local self-government units can use the data of all legal entities subject to utilities payment on their territory entered in the trade registry. In addition, the Central Registry will regularly inform the local self-government units about any update; this will enable efficient maintenance of municipal taxpayer registers.

5.1.3. THE STRUCTURE OF MUNICIPAL REVENUES AND EXPENDITURES

1.3.1. Structure of Municipal Revenues

Local government revenues have increased manifold since the start of the fiscal decentralization in 2005. The first rapid increase was registered in 2006 and the second in 2008, in correspondence with the start of each of the two fiscal decentralization phases. Unlike in 2005 - when the local budgets expanded the number of programs (to complement the transfer of competences from the central to the local level) - in the last 12 months, the amount of revenues to finance the same number of programs/decentralized competences has increased. A particular increase due to the block grants covering the salaries of staff in education, culture and social welfare has been registered in transfers and grants. The trend of local government revenues in the period 2004-2007, as well as their structure per revenue categories is presented in the following table.

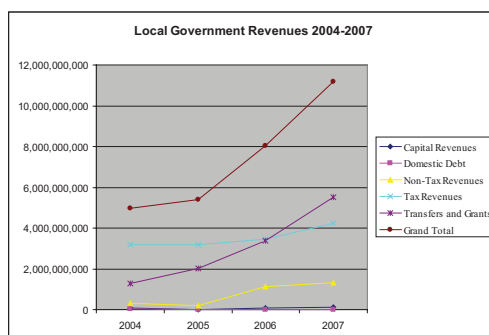
⁴² Urbanization means providing water supply, water sewage, electricity and other infrastructure

Table 1. Trend and Structure of Local Government Revenues 2004 – 2007 (current)

	2004	per cent	2005	per cent	2006	per cent	2007	per cent
Capital Revenues	83,079,082	1.68 %	4,262,980	0.08 %	84,963,936	1.06 %	120,786,498	1.08 %
Domestic Debt	44,791,500	0.90 %	13,550,000	0.25 %	0	0.00 %	0	0.00 %
Non-Tax Revenues	310,333,226	6.27 %	188,250,926	3.48 %	1,116,456,777	13.89 %	1,322,179,437	11.81 %
Tax Revenues	3,196,800,525	64.55 %	3,169,564,320	58.55 %	3,462,685,606	43.09 %	4,230,002,649	37.78 %
Transfers and Grants	1,292,032,832	26.09 %	2,038,173,242	37.65 %	3,380,718,104	42.07 %	5,523,015,581	49.33 %
Grand Total	4,952,319,874	100.00 %	5,413,801,467	100.00 %	8,035,194,599	100.00 %	11,195,984,165	100.00 %

Source: OSCE database of annual accounts of the local self-government units for the years 2004, 2005, 2006 and 2007

Municipal revenues in 2007 were 40 per cent higher than in 2006. The structure of the revenue categories in 2007 remained approximately the same as in the previous year, since the transfers and grants (49.33 per cent) still represent the main entry in the aggregate revenues, followed by tax revenues (37.78 per cent) and non-tax revenues (11.81 per cent). The trend of local revenue per category over the period 2004 – 2007 is outlined in the following chart.

Chart 1. Structure of Municipal Government revenues in the period 2004 - 2007

If fiscal decentralization is to finally make local self-government units less dependent on central government transfers, a positive trend can be detected in the country. Tax revenues in 2007 were 22.16 per cent higher than in 2006, a more consistent increment than the one observed between 2006 and 2005 (+9.25 per cent).

Similar paces of growth in transfers and grants were registered in 2007-2006 (+63.37 per cent) and in 2006-2005 (+65.87 per cent). Data related to 2006 can be explained

by the first full year of the decentralized competences and new financing schemes (financing from own revenues and transfers and grants). In 2007, increases are due to the block grants assigned to the municipalities admitted to the second phase of the fiscal decentralization.

However, the 2007 share of the local government revenues on GDP (3.38 per cent)⁴³ ranks the country still in the last position if compared with the countries recently admitted to the EU, even though this parameter increased from previous years (2.65 per cent in 2006, 2.01 per cent in 2005, 1.87 per cent in 2004).⁴⁴

In 2007 the local revenues per inhabitant amounted to 5,536 denars⁴⁵ i.e. +40 per cent on 2006 (3,973 denars). Out of 51 municipalities which provided data on their total revenues in 2007, no significant difference was reported between the rural (2,173.63 denars per capita on average) and urban municipalities (2,479.62 denars per capita). Nonetheless, significant imbalance could be detected when comparing single municipalities across the country. For instance, the municipality with the highest revenues per capita (Centar) indicated an amount of 9,582 denars, followed by the Municipality of Demir Hisar and the Municipality of Resen. As for the transfers from the central budget and the budgets of the funds⁴⁶, the Municipality of Bitola guides the list of the assessed municipalities, followed by the Municipality of Karpos and the Municipality of Gjorce Petrov. The total revenues in 2007 per statistical regions, are presented in the following table.

Table 2 Total revenues for 2007 as current per statistical regions (in MKD)

Region	Average revenues in the Region	Total Revenues in the Region
5 Skopje	137,998,825	827,992,947
7 Polog	76,701,260	460,207,561
3 North-eastern	61,743,779	185,231,337
1 Pelagonija	55,172,278	386,205,945
6 South-eastern	38,216,608	267,516,253
8 Eastern	32,323,028	290,907,254
2 Vardar	14,843,674	74,218,370
4 South-western	11,069,902	55,349,510
Total	53,075,608	2,547,629,177

Note: Figures are calculated on the basis of the responses of the local self-government units in the survey

⁴³ G. Brosio, D.Jones, M. Nikolov: "Technical Assistance to the Ministry of Finance for the Estimation of the Costs of the Transferred Competences to the Local Self-Government Units", July 2008

⁴⁴ Urban Rural Consulting: "Report on the Process of Fiscal Decentralisation in Macedonia", 2007

⁴⁵ Calculation upon data received from the Ministry of Finance

⁴⁶ Except from the Central Budget, the municipalities get funds from the budgets of some funds for a specific purpose, such as the Road Fund, the Fund for Underdeveloped Areas, etc.

Unsurprisingly, the region of Skopje ranks first both in terms of total revenues and average revenues per region.

1.3.2 Structure of Municipal Expenditures

The local self-government units are in charge of financing all the competences listed in the Law on Local Self-Government⁴⁷. Adequate revenue sources are a crucial requirement for performing these competences successfully. The local expenditures 2004-2007 structured per categories are outlined in the table below.

Table 2. Trend and Structure of the Local Government Expenditures 2004 – 2007 (current, as presented in the annual accounts)

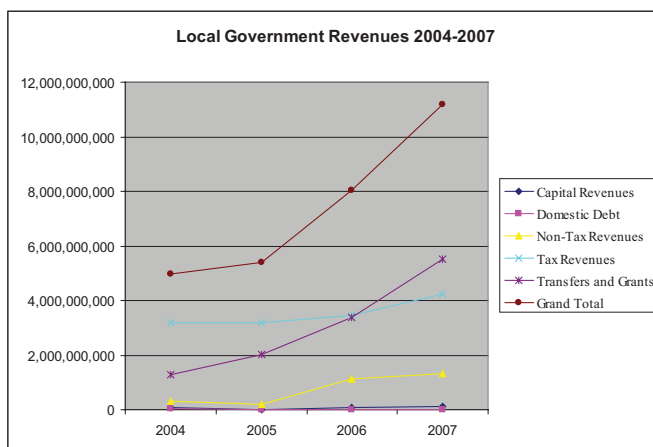
In 2007 the structure of expenditures remained similar to the one registered in 2006. The largest increase refers to the wages and salaries in education, culture and social welfare, now in municipal payrolls and, financed through block grants.⁴⁸ In absolute terms, subsidies and transfers observed a 61.49 per cent increase as compared to 2006, while goods and services went up by 14.72 per cent. Trends in local government expenditures 2004-2007 are presented in the chart below.

Table3

	2004	%	2005	%	2006	%	2007	%
Capital Expenditures	2,666,205,099	55.95 %	2,446,583,668	48.89 %	2,581,579,297	34.43 %	2,837,970,954	28.84 %
Goods and Services	1,309,666,436	27.48 %	1,554,352,919	31.06 %	3,443,251,569	45.92 %	3,949,980,187	40.14 %
Interest Payments	3,483,246	0.07 %	2,896,549	0.06 %	1,603,038	0.02 %	429,423	0.004 %
Reserves	13,260,429	0.28 %	23,381,532	0.47 %	22,614,139	0.30 %	15,425,367	0.16 %
Social Benefits	48,451,740	1.02 %	6,874,378	0.14 %	13,657,897	0.18 %	12,438,040	0.13 %
Wages And Salaries	563,904,555	11.83 %	69,8625,288	13.96 %	1,193,316,820	15.92 %	2,662,387,374	27.05 %
Subsidies Transfers	101,858,894	2.14 %	220,673,737	4.41 %	224,763,394	3.00 %	362,959,802	3.69 %
Current Transfers to LSGU	43,355,383	0.91 %	19,778,263	0.40 %	168,847	0.00%	0	0.00%
Grand Total	4,765,596,581	100.00 %	5,003,950,306	100.00 %	7,497,806,696	100.00 %	9,841,591,147	100.00 %

⁴⁷ Official Gazette 05/02

⁴⁸ Block grants differ from earmarked grants as the former include funds for operating and maintenance (earmarked grant) and also salaries to be transferred to the institutions financed by the municipal budgets.

Chart 2. Structure of the Local Government Expenditures in 2004 - 2007

In 2007 the share of local government expenditures on GDP⁴⁹ amounted to 2.91 per cent. This represents a slight increase from 2006 (2.47 per cent), though still insufficient for moving the country from the last position when compared with the countries recently admitted to the EU. These figures can be observed in the following table.

Table 4. Share of expenditure on GDP by levels of government: selected EU countries, 2006 (Source: EUROSTAT50)

	General government	Central government	State/Regional government	Local Government	Social Security
EU (27 countries)	46.8	25.6	4.3	11.3	14.6
Bulgaria	36.6	25.2	-0.0	6.2	12.9
The Czech Republic	42.5	30.7	-0.0	11.7	5.4
Estonia	33.2	25.4	-0.0	8.2	4.0
Ireland	34.1	27.6	-0.0	7.1	3.6
Greece	46.1	33.3	-0.0	3.3	18.2
Latvia	37.0	22.7	-0.0	10.0	7.2
Lithuania	33.6	20.7	-0.0	8.6	11.2
Hungary	52.5	36.7	-0.0	12.8	15.9
Poland	43.3	24.5	-0.0	13.4	16.8
Romania	32.0	17.5	-0.0	8.1	8.8
Slovenia	46.3	29.3	-0.0	9.0	18.3
Slovakia	37.3	21.5	-0.0	6.6	13.2

⁴⁹ Calculation based on the data published by the Ministry of Finance: http://www.finance.gov.mk/mk/mp/godisen_07_mak_web.pdf

⁵⁰ G. Brosio, D.Jones, M. Nikolov: "Technical Assistance to the Ministry of Finance for the Estimation of the Costs of the Transferred Competences to the Local Self-Government Units", July 2008

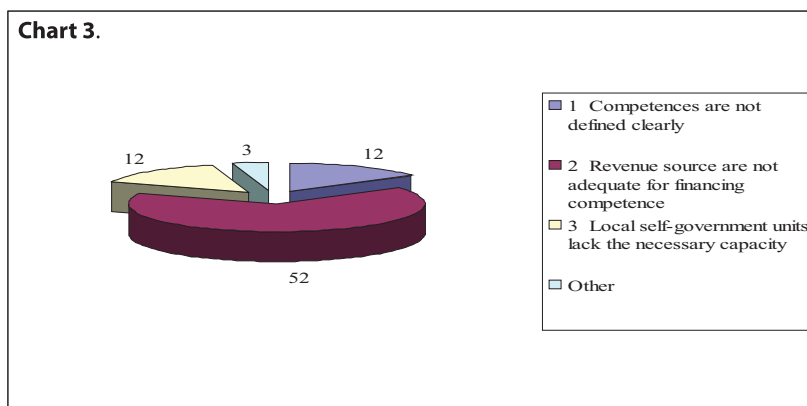
5.2. MAIN FINDINGS

5.2.1. State of affairs in the local self-government units

General financial conditions in the local self-government units

Three years after the start of the fiscal decentralization most of the municipalities already accessed the second phase. The municipalities polled were asked about the main difficulties in implementing decentralization.

Which are the main problems in the implementation of the fiscal decentralization so far?



Sixteen out of the 72 assessed municipalities claimed to be currently out of phase 2. The main reported reason is an unresolved debt (11 municipalities), the lack of staff for financial management (2 municipalities) and the lack of staff for administration of taxes and fees (3 municipalities). Most of these municipalities undertake different activities for overcoming the situation. The following table outlines their efforts for entering the second phase.

Table 5.

Activities that municipalities undertake for meeting the criteria for entering into the second phase of the fiscal decentralization	Number of respondents (LSGU)
Plan for resolving the debt	22
Employing additional staff for financial management	22
Capacity building of employees for timely informing of the MF	13
Entering into IMC arrangements	12
Other	1

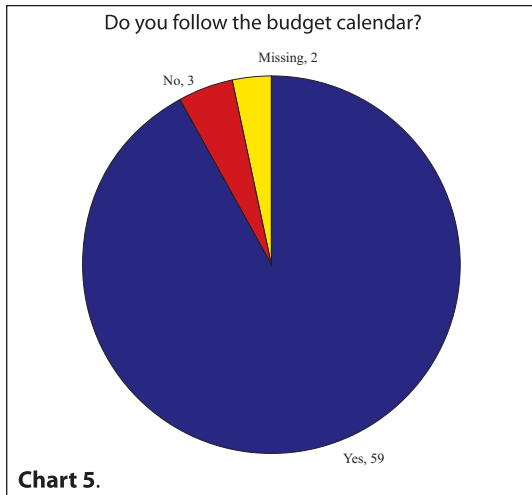
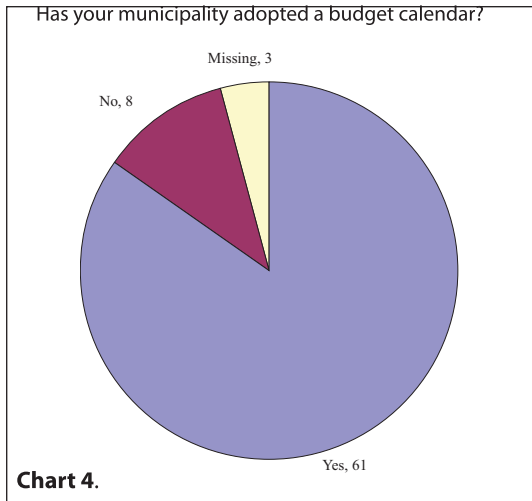
In order to continue with reforms on local governance, all municipalities are expected to enter the second phase of the fiscal decentralization during the course of 2009.

5.2.2. Budgeting Process

Budgeting Process and Participatory Budgeting

Fiscal decentralization - especially in the second phase - requires increased municipal capacity in financial management and the budgeting process. In the last three years local capacities for planning and execution of the budget have significantly increased.

In comparison to 2005 (41 per cent) and 2006 (31 per cent), in 2007 only 11 per cent of the respondents failed to adopt a budget calendar for their 2008 budget activities. It is worth stressing that this instrument serves as a tool for improved planning, setting deadlines for each activity in the budget process, as well as for defining the role and participation, i.e. the input needed from the relevant stakeholders. Most of the local self- government units acquired the practice of following the adopted budget calendar. Nearly 82 per cent of the considered municipalities reported that they follow it, which is a significant improvement compared to 66.7 per cent of the last year's survey. The main reason for not using the budget calendar is the scarce confidence in tools of this kind. By adopting and following the budget calendar, the local self-government units would be able to timely plan citizens' involvement in the several phases of the budget adoption and the budget execution. This would ensure a higher level of transparency and accountability in municipal management, and consequently, an increase in the revenues from local taxes.

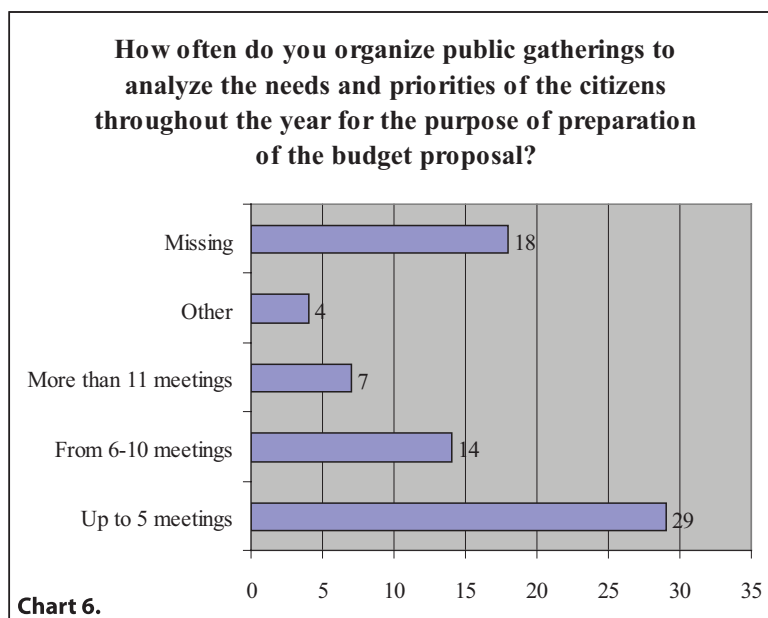


There is a clear correlation between the adoption of the budget calendars and the level of participatory budgeting, as highlighted by the table below.

Table 6.

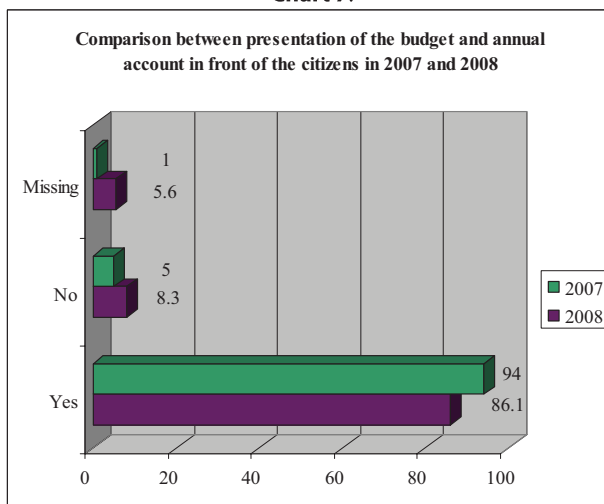
Has your municipality adopted a budget calendar?	Do you practice the participatory approach of budgeting (including the public)?		
	Yes	No	Total
Yes	49	10	59
No	7	1	8
Total	56	11	67

This survey noticed that 80.6 per cent of the respondents include citizens in the process of budgeting, less than the 88.5 percent registered in 2007 but more than in 2006, when only 67 per cent stated that they involve citizens in the budgeting process through public hearings. Most of the local self-government units (40.3 per cent) organize up to 5 meetings annually for setting the priorities to be financed in the following year. Figures related to the frequency of public gatherings on budgeting topics are presented in the following chart.



The local self-government units organize public events to present the annual account (i.e. the implementation of the budget of the previous year and the budget for the following budget year). Such gatherings have a positive influence on transparency and accountability, as they enable citizens to get acquainted with the local funds management. The findings on annual account presentations in 2007 and 2008 are illustrated below.

Chart 7.



Public events are no longer the main way of informing citizens on municipal budgets. If in 2007 most of the respondents (93.2 per cent) used citizens' gatherings to present the 2007 budget and 2006 annual account, this year 39 local self-government units (or 54.2 per cent of the respondents) informed their citizens through the local media.

Table 7.

In which way were municipal budgets presented to citizens?	
	Number of local self-government units
1 Regular office hours for citizens	32
2 Through the citizens' information centre	18
3 Presentation at citizens' gatherings	24
4 The local media	39
Other	16

The local self-government units use different methods for sharing information with their citizens on financial issues. Neighborhood self-government units, bulletin boards, municipal web pages or the municipal official gazette are among the most frequently reported ways of communication. Effective outreach and dissemination of information depends on several variables such as the municipal features (urban or rural), citizens' educational background, access to electronic media, etc.

Timely Budget Adoption and Budget Execution

Adopting municipal budgets by 31 December is considered an important indicator in terms of municipal planning capacities. A timely adoption of budgets was one of the criteria for entering the second phase of the fiscal decentralization. A large part (97.2 per cent) of the polled municipalities succeeded in adopting the 2008 budgets by

31 December 2007, which is a better result than in 2007 when 93 per cent adopted their budgets on time.

An even more important parameter for a municipal administration is the proper and timely execution of the budget. In order to provide this, the Central Treasury at the Ministry of Finance imposes on local self-government units the submission of quarterly reports on their revenue and expenditure execution at the onset of each fiscal trimester. In ideal terms, the adopted budgets should be executed at a steady pace, i.e. 25 per cent per trimester, but in practice it is rarely the case.

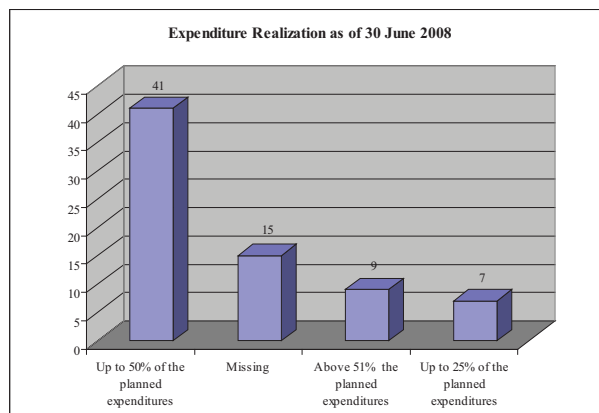
Table 8. Execution of municipal revenues in the 2008 budget as of 30th June 2008

	Frequency	Per cent
Up to 25 per cent of the planned revenues	7	9.7
Up to 50 per cent of the planned revenues	35	48.6
Above 51 per cent of the planned revenues	16	22.2
Missing	14	19.4
Total	72	100.0

This table shows that the majority of the local self-government units have earned up to 50 per cent of the expected revenues in the first six months of 2008 and 22.2 per cent of the respondents collected more than 51 per cent of the planned budget revenues. In the first six months of 2007, thresholds were up to 40 per cent in 59 per cent of the cases, and between 41 and 60 per cent for 23 per cent of the respondents.

The ability to duly execute expenditures throughout the year distinguishes effective municipal managements; executing most of the planned expenditures in the last quarter of the year or close to the budget closing should be limited. A sound financial management entails a balanced execution in all four quarters of the fiscal year.

Chart 8. Execution of municipal expenditures in the 2008 budget as of 30 July 2008



Similarly to the figures related to the revenue execution, the majority of respondents or 56.9 per cent succeeded in carrying out up to 50 per cent of the planned expenditures in the first half of 2008. Only 9.7 per cent of the respondents could not achieve more than 25 per cent of the expenditure execution in the first six months of the current fiscal year.

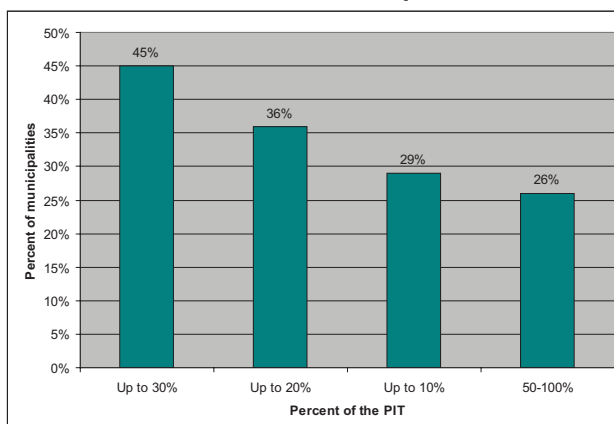
As mentioned earlier, sufficient revenues are to be at the disposal of the local self-government units for the latter to successfully perform their tasks. The following set of questions was intended to assess local government perception over the adequacy of transfers from the central government, as well as their suggestions for improving the revenue base.

Table 9. Do you think that the structure and quality of transfers is adequate to the structure of the transferred competences?

	Frequency	%
Could and should be improved	45	62.5
Is fully incompatible to transferred competences	10	13.9
Is not adequate either in quality or in structure	9	12.5
Other	1	1.4
Missing	7	9.7
Total	72	100.0

Collected answers show that 70 per cent of the respondents consider up to 30 per cent of the revenues from value added tax (VAT) should be transferred to the local self-government units. The feedback on the possible allocation of the personal income tax is presented in the following chart.

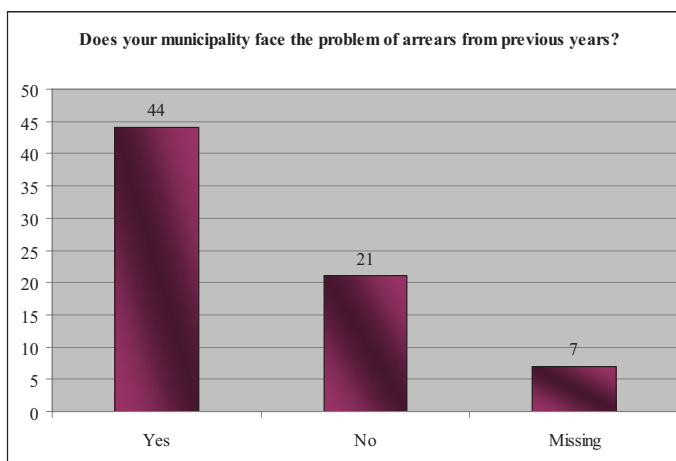
Chart 9. Which share of the personal income tax (PIT) should be distributed to municipalities?



Problems with arrears from previous years

Municipal debt is still a very serious threat faced by municipalities, although the situation has significantly improved since 2005. In July 2008 the Ministry of Finance requested each municipality to report on their arrears so to assess precisely the aggregate municipal debt. Forty four out of the 72 municipalities interviewed in this survey have problems with arrears from previous years, as shown by the following chart.

Chart 10.



The local self-government units were also asked if their bank accounts had ever been blocked or were blocked at that time.

Table 10.

Has your municipal account ever been blocked or is it currently blocked?		
	Frequency	Per cent
Yes	25	34.7
No	44	61.1
Missing	3	4.2
Total	72	100

Most of the detected financial constraints originate from arrears towards construction companies and lands expropriated before 1990 and not yet refunded. The local self-government units with blocked accounts cannot use earmarked grants transferred by central government institutions such as the road fund or the water fund.

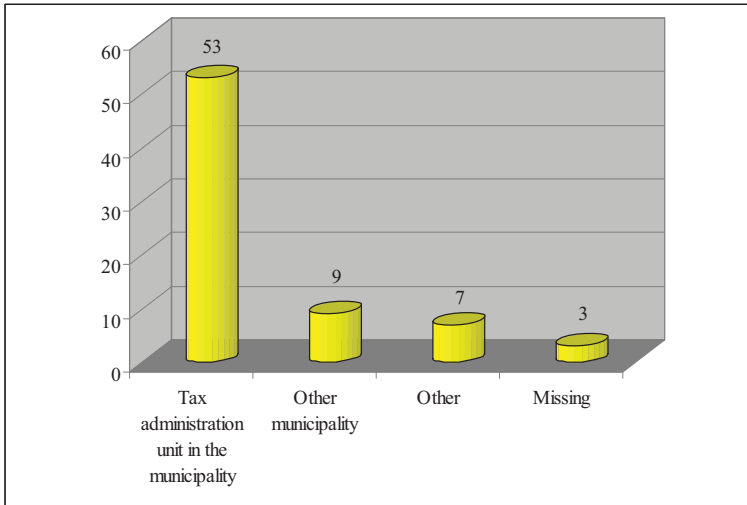
5.1.3. Administration of Local Taxes

Since the start of the fiscal decentralization, the municipalities can independently dispose of their own sources of revenue and decide - within certain extents- on their fiscal policies. Some of the issues tackled in the survey relate to the accuracy of municipal taxpayers, databases and estimates of real estate values.

Database of Taxpayers

One of the primary tasks for the local self-government units in the last three years has been the set up of updated databases of taxpayers. In 2008, 53 local self-government units out of the 72 respondents stated to have established their own tax administration unit.

Chart 11. Who administers the taxes in your municipality?



Answers under the category “other” include cases in which one municipal employee is in charge of administering taxes and fees, without an established unit. The ten municipalities in the City of Skopje do not have the authority to administer their taxes and fees, which are managed at the city level. Almost 78 per cent of the respondents have already updated their database of taxpayers. (They were 69 per cent in 2007.)

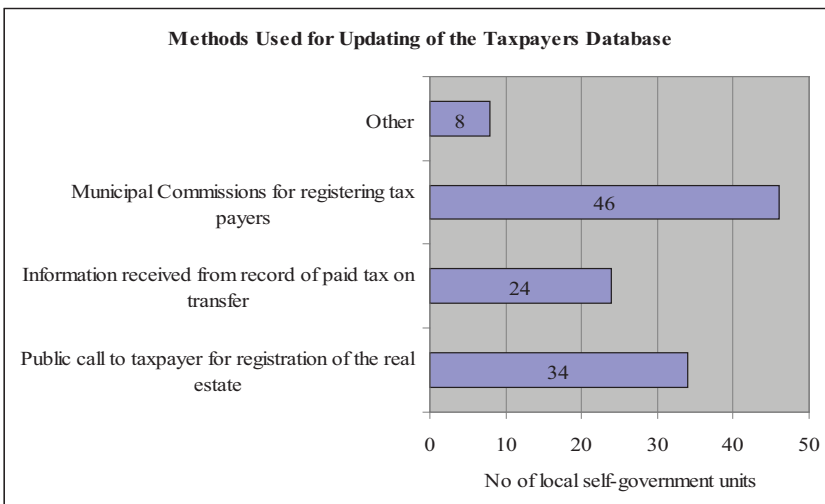


Chart 12.

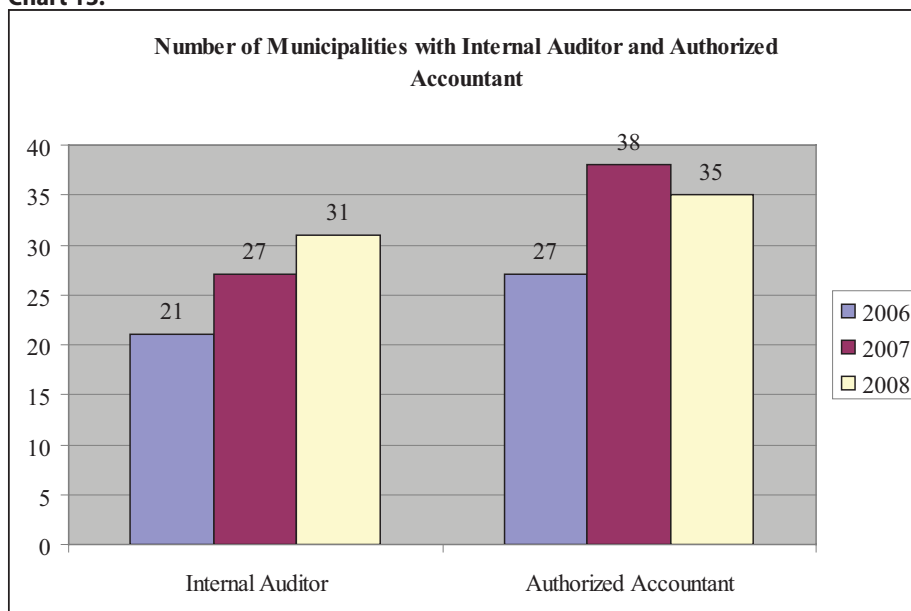
In 2008, 58.3 per cent of the polled municipalities managed to carry out an update of the real estate values, in comparison with the 47 per cent registered in 2007. Updates of the taxpayers' database and of the real estate estimate should have positive long-term effects on the revenue generation in the local self-government units.

5.1.4. System of Internal Control and Auditing

The local self-government units in the country are obliged to have authorized accountants so as to ensure better internal controls and proper management of funds. As of 2008 municipalities should establish independent units of internal audit, which shall be in charge of providing the Mayor and the municipal administration with objective assessments. Internal auditing will improve administrative operations and limit violation of legislative regulations.

In 2008, 31 local self-government units reported that they have one internal auditor.⁵¹ The current legislative provisions foresee the set up of a unit on internal audit in each municipality – but only larger municipalities⁵² can afford to comply (and still need to strengthen their units). However, an increasing number of municipalities have hired an internal auditor. Trends for 2006 to 2008 are illustrated here below.

Chart 13.



⁵¹ Strumica, Butel, Tetovo, Delcevo, Gjorce Petrov, Gazi Baba, Grad Skopje, Kocani, Gevgelija, Veles, Kisela Voda, Cair, Demir Hisar, Sveti Nikole, Kicevo, Bitola, Berovo, Kriva Palanka, Probistip, Bogovinje, Ohrid, Gostivar, Kumanovo, Karpos, Struga, Kavadarci, Centar, Mak. Brod

⁵² Gjorce Petrov, Cair, Ilinden, Kicevo, Makedonski Brod, Tetovo, Bogovinje, Gevgelija, Karbinci

5.1.5. Municipal Borrowing

The legislation allows municipalities to borrow once they fulfill a list of set criteria (series of positive financial results, no records of blocked account, and no arrears to creditors) and gets approval from the Ministry of Finance. The assessed local self-government units were asked whether they consider borrowing an interesting financial source in the period to come; almost half of the respondents answered positively.

Table 11. Does your municipality consider borrowing (loan, bonds) an attractive source of financing for the forthcoming period?

	Frequency	%
Yes	39	54.2
No	26	36.1
Missing	7	9.7
Total	72	100.0

The municipalities not considering borrowing a feasible option argued about the unfavorable borrowing conditions at the banks (19.4 per cent) or considered their financial condition too risky for borrowing (19 per cent).

Among the municipalities interested in taking a loan or in issuing municipal bonds, only a minor part have already requested the Ministry of Finance for an approval on long-term borrowing, while 73.6 per cent of the respondents have not submitted such a request yet, for one of the following reasons:

- Negative assessment of financial statements in last 2 years
- Unpaid arrears to creditors 90 days after the due date
- Other

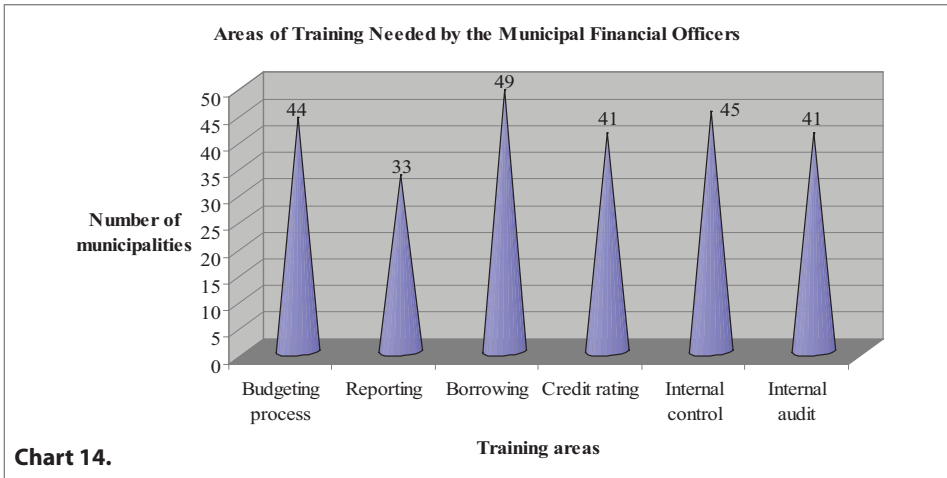
In July 2008 Karpos was the first municipality to receive approval for borrowing from the Ministry of Finance, and was granted a loan for purchasing equipment for energy saving in one primary school. Municipal borrowing could disclose new scenarios in local governance financing, but it also entails a number of risks to be carefully considered.

5.1.6. Needs for capacity building in the fiscal area

The decentralization process depends heavily on the municipal administration capacities. Although the international community invested significant funds in capacity building at the local level, most of the municipalities reported that they need additional training in the area of municipal financing.

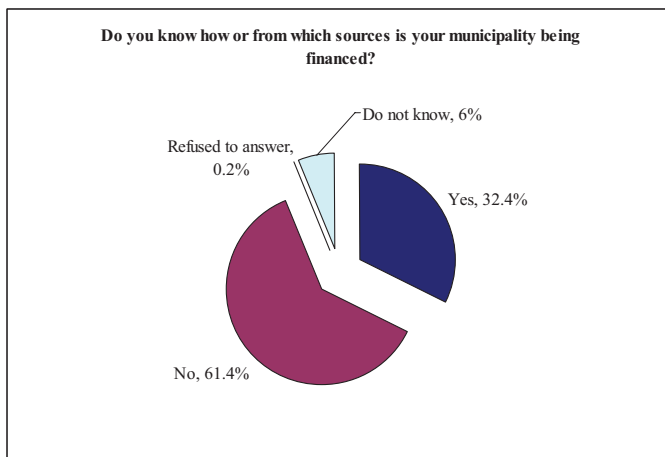
While in 2007 the demands for training mainly related to the budgeting process, internal audit and internal control, in 2008 financial officers consider borrowing to be

the topic area in which skills have to be enhanced, followed by internal control, the budgeting process and credit rating.



5.2.2. CITIZEN PERCEPTION

A representative sample of citizens were interviewed on the decentralization process, in order to measure its effectiveness in bringing power closer to the citizens and fostering citizens’ participation in the local decision-making. The sample consisted of 1,059 citizens of the age above 18 years. The aim was to assess the perception of that part of population that is or could be taxpayers and has the voting power to influence local decision making. According to the survey results, the public opinion does not seem to be aware of the technical issues related to the fiscal decentralization. Most citizens are not familiar with the sources from which the municipality is being financed. This is presented in the following chart.

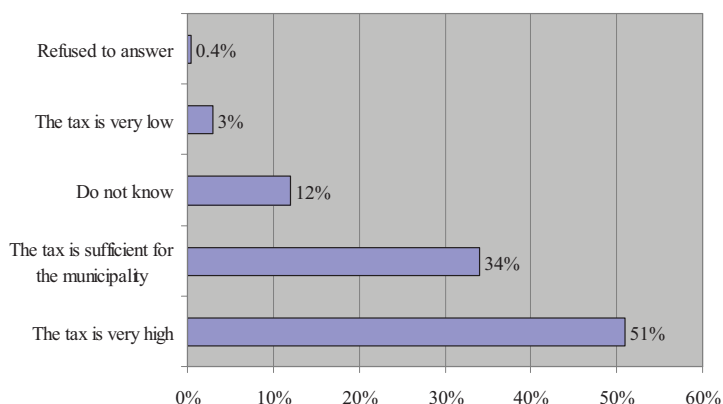


The majority of polled citizens know about the property tax as a source of financing for their municipality, as well as the communal fees, administrative fees and donations. The structure of these answers is presented in the table below.

Table 12.

Please state the municipal source of financing		
	Frequency	%
Property taxes	244	23.0
Communal fees	174	16.4
Administrative fees	112	10.6
Charges	71	6.7
Donations	85	8.0
Self contributions	39	3.7

Significant revenues for the local self-government units come from taxes, fees and other duties to be paid by citizens. Therefore, it is interesting to see citizen perception on the municipal tax level (particularly on property taxes).

Chart 16. What is your opinion about the height of the property taxes that every citizen in the municipality is obliged to pay?

The answers on the property tax do not differ significantly from the perceptions on the local duties: 55.7 per cent of the respondents are of the opinion that municipal duties are very high; and 31.4 per cent said that they are sufficient for the provision of municipal service.

Most of the citizens are not willing to pay higher duties even if the purpose of that would be the provision of better quality services. Sixty-one per cent of the citizens would not agree to pay more to the municipality and 35 per cent would be willing to pay for better quality in municipal services.

Citizens in rural municipalities (38.7 per cent) are willing to pay higher duties more than the dwellers in urban municipalities (32.4 per cent). The citizens offered different reasons for not agreeing to pay more for the provision of better services, financial constraints being the most common.

Reasons why citizens are not in favor of paying higher duties to the municipality in order to get better quality services

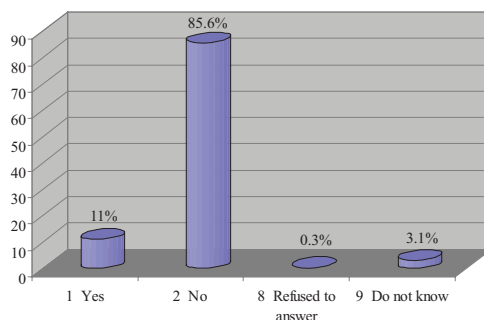
Table 13.

	Frequency	Per cent
Do not believe that the municipality will spend money purpose-wise	180	17.0
My economic situation does not allow me to pay higher duties	430	40.6
Other	14	1.3
Refused to answer	2	.2
Do not know	19	1.8
Missing	414	39.1
Total	1059	100.0

The citizens were asked if throughout the year they had meetings with the Mayor or the municipal administration. Nearly 86 per cent of the respondents said they did not have any meetings with the local authorities, for which they gave different reasons (didn't know about the open hours of the mayor, the mayor didn't have time to meet with them, there was no need to meet the mayor, etc.).

As outlined before, an increasing number of municipalities claimed to put in practice participatory approaches in each step of the budgeting process. The citizens do not seem to confirm these data:

Chart 17. During the year, do you have meetings with the Mayor or municipal administration for setting the priority activities to be financed next year?

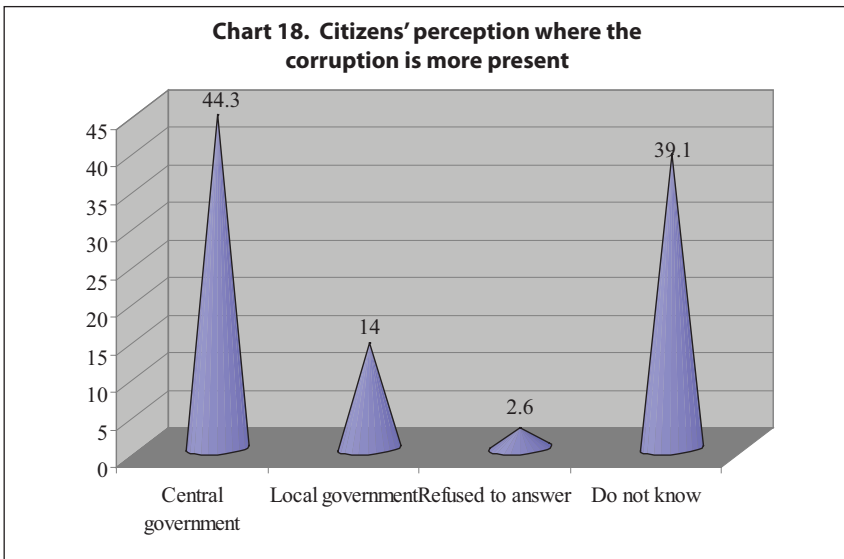


Around 87 per cent of the citizens from the rural and 84.5 per cent from the urban municipalities said they were not consulted on the local priorities. Asked about the most effective forms of communication between the municipality and the citizens, the respondents gave the following answers:

Table 13. Which form do you think is most efficient for communication between the municipal authorities and the citizens?

	Frequency	%
1 Regular office hours for citizens	555	52.4
2 Citizens' information center	255	24.1
3 Presentations at citizens' gatherings	341	32.2
4 The local media	377	35.6

The last set of questions referred to citizens' perception on corruption:



Almost 90 per cent of the respondents stated that they have never received requests for bribe as a condition for providing municipal service. The citizens also reckon that corruption concerns the central government institutions more than the local authorities.

5.3. MUNICIPAL FINANCE - CONCLUSIONS AND RECOMMENDATIONS

The 2008 survey on municipal financial management provides indicators and facts on the status of fiscal decentralization. It shows how the process has been implemented during the three years since its launching, with a particular attention on the last 12 months (July 2007 – July 2008). The execution of the municipal revenues and expenditures, the process of budgeting, administration of local taxes, internal control and audit and municipal borrowing have been areas in the focus of this year's survey.

Positive steps were registered in terms of increasing local revenues. However, the share of local revenues on the GDP and public consumption is still among the worst in the region. Even though significant progress has been achieved in the last three years, additional challenges are yet to be faced. Fiscal disparities in local revenues per capita imply the need for a revision of balances in the municipal financing with particular reference to transfers and grants, and eventually on municipal taxes and fees. These efforts should be complemented with the introduction of other sources of revenues such as increased shares from the VAT and PIT or new shared incomes (e.g.: tax on revenues from games of chance).

An increasing number of local self-government units fulfill their legal obligations on the budget calendar adoption and related implementation as compared to 2007. Still, the local self-government units have to improve in transparency and accountability through the participatory budgeting processes. Even if the budget calendars are adopted and deadlines for the budget related activities respected, authorities need to include citizens more frequently in setting local priorities, and inform them on municipal financial management. Citizens do not yet feel sufficiently involved in local decision making, this being the main aim of decentralization. The use of the local media, regular office hours for meeting the mayor, citizen information centers, have to be put in place in accordance with the profile of the municipality and its communities. Most of the local self-government units adopted the 2008 budgets by 31st December 2007 and executed up to 50 per cent of the revenues and expenditures by 30th June 2008. Such good results need to be effectively communicated to citizens.

Debts are still a main concern for municipalities, particularly those not yet qualifying for phase two of the fiscal decentralization. Even though municipal debts were significantly reduced, relevant amounts are currently outstanding. The Government – the Ministry of Finance – announced assistance in this area; joint efforts should produce positive results in the course of 2009.

Several local self-government units established units for administration of local taxes and fees. Efforts were detected both in updates of the municipal databases of taxpayers, and of estimates of the real estate values. Local taxes and non-tax revenues should be the core sources for financing the local programs, and they should therefore show further increase in the structure of municipal revenues. In this respect, municipalities ought to respect deadlines for the delivery of tax bills, and regularly update the regis-

ter of legal entities on their territories.

With the move into the second phase of the fiscal decentralization, municipalities can start considering borrowing as a source of local revenue. The initial screening showed that the municipalities with strong administrative capacities are the most interested in this form of financing. In the period to come, relations between banks and the local self-government units have to be strengthened as well as the municipal capacities in dealing with borrowing. Additional incentive in this area will come from the Guarantee Fund, established by the United States Agency for International Development project in the country, which guarantees a certain per cent of the loan amount.

The improvement in establishing a system of internal control and internal auditing remains insufficient. Only 35 per cent of the local self-government units have regulated the set-up of their own internal auditors and only few succeeded to establish units of internal audit, which still need to be strengthened with new staff. We can conclude that in spite of the increasing number of municipalities with an internal auditor i.e. a unit of internal audit, bigger attention should be given to establishing the functions of internal control and audit in all units of the local self-government, either directly (own units) or through making arrangements for inter-municipal co-operation. In the last three years OSCE and other donors in the country funded a number of programs to build the capacity of the local self-government units in the area of internal control and audit. Since in this whole period the local self-government units failed to demonstrate better results in this area, monitoring and supervision of the Ministry of Finance has to be improved in order to ensure implementation of the legislative provisions.

On the basis of the answers in the citizens' poll, it can be concluded that the local self-government units need to increase transparency in their operating. Citizens need to feel that they have the power to decide about local priorities, since only in this way trust can be increased as well as the willingness to pay taxes and fees to the local government. As for the answers, citizens would not agree to pay higher duties in order to get better public services, and this is mainly because of the bad economic situation in the country. On the other hand, the majority thinks that the current level of taxes and fees is adequate for a quality service provision, if funds are used efficiently and purpose-wise by the local authorities.

As a closing remark, the decentralization process should be one of the priorities of the Government's agenda – since it is also a part of the conditions this country needs to meet for the accession into the European Union. The local self-government units need to be supported and praised in their efforts to achieve the expected results, both by the central government ministries and by the representatives of the international community in the country. The process of fiscal decentralization has to be led by assigning a powerful leader at the highest level of government and by setting clear benchmarks and a reform strategy as a direction for the period to come.

6. Urban Planning - Integration of Informal Settlements

6.1. Introduction

Informal settlements are human settlements, which, for a variety of reasons do not meet requirements for legal recognition and have been constructed without respecting formal procedures of legal ownership, transfer of ownership, as well as construction and urban planning regulations. For the most part, they are characterized by informal and insecure land tenure, inadequate access to basic services (social and physical infrastructure and housing financing). Sustainable urban management requires that informal settlements are integrated in the social, economic, spatial/physical and legal framework, particularly at the local level. Successful regularization efforts contribute to long-term economic growth as well as to social equity, cohesion and stability in the municipalities. Moreover, the social, economic and physical integration of informal settlements is a stipulation for meeting requirements for EU accession.

On the legislation side, the Vienna Declaration on National and Regional Policy and Programs regarding Informal Settlements in South Eastern Europe is the cornerstone document whose objective is to commonly agree on actions that will regularize (legalize) and improve informal settlements in a sustainable way and will prevent future settlements⁵³. Hitherto, the Macedonian legislation covering this matter is inadequate and vague.⁵⁴

This chapter aims to enlighten the reader and give an insight as to the specifics of municipal service delivery on the subject of regularization (legalization) of informal settlements and more importantly to verify the level of citizen satisfaction with the activities of the local government on this subject. There are a considerable number of informal settlements scattered in many municipalities, home to a large portion of the national population (the exact number or percentage cannot be traced but this phenomenon is especially present in the Roma communities⁵⁵). Sound policies tackling this issue would imply the legalization and integration of informal settlements into surrounding urban and rural structures as a priority, in order to avoid social hardship and negative economic impact.

Also, this survey aims to authenticate the treatment of this problem by municipalities. In view of the draft Law on Legalization of Informal Settlements⁵⁶, it remains to be

⁵³ The Vienna Declaration on Informal Settlements in South Eastern Europe was signed in Vienna on 28 September 2004 by several ministers, including the Agron Buxhaku, the country's Minister of Transport and Communication at the time.

⁵⁴ In the absence of a comprehensive law such as the long awaited Law on the Legalization of Informal Settlements, a number of other laws were applied: the Law on Construction (O.G. of the RM no. 15/90); the Law on Spatial and Urban Planning (O.G. of the RM no. 4/96); the Law on Building (O.G. of the RM no. 53/01, 97/01); the Law on General Administrative Procedure (O.G. of the RM no. 62/06).

⁵⁵ In the absence of relevant data from the Bureau of Statistics, this survey targeted the City of Skopje and its respective municipalities as reference points.

⁵⁶ The Law on Legalization of Informal Settlements is pending adoption. It has been the subject of ongoing discussions

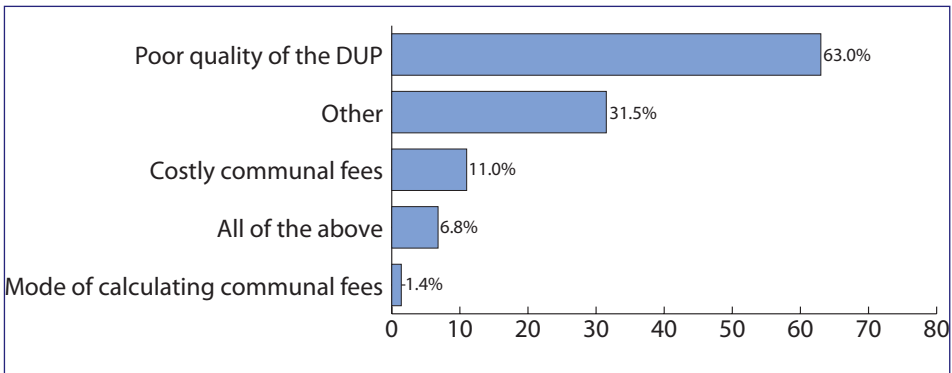
seen whether the municipalities have the vital capacity to include the informal settlements in their urban plans and contribute to their improvement. Amongst others, two important factors need to be considered especially when addressing the problem of these illegal buildings: land ownership issues and the integration into functional land use which are to be determined in the urban plans.

Conclusively, this chapter provides data on the number of municipalities ready to deal with the problem of informal settlements, together with the feedback of citizens dwelling in such compounds and trying to regularize their objects.

6.2. Findings - Municipalities

Findings show that interviewed municipalities presented similar situations with reference to informal settlements. Data suggest that reasons for the existence of informal settlements are various, but poor quality in the Detailed Urban Plans (DUP) seems to top this list - 63.0 per cent (see Chart 1). Costly communal fees (11.0 per cent) and (inappropriate) modes of calculating communal fees (1.4 per cent), respectively, are presented as less likely reasons for the existence of these structures. Other reasons stated are: lack of appropriate legislation, poor inspections, low standard of living, non-urbanization of inhabited place etc.

Chart No. 1. Reasons for existence of informal settlements in your municipalities

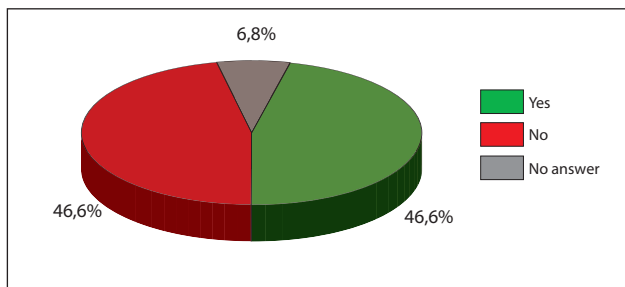


An overwhelming majority of the municipalities are in favor of legalizing informal settlements, regardless of their construction date – 94.2 per cent, as opposed to 5.8 per cent that are not in favor. This proportion is an encouraging one given the state of affairs affecting the DUP in the Yugoslav system, particularly before 1967 when informal settlements were tolerated to a certain extent.

and its adoption will follow upon provided expertise and input from stakeholders, both domestic and international.

Municipalities offer contrasting opinions on the draft Law on Legalization of Informal Settlements (Chart 2). Out of 31 municipalities which positively commented the future approval of the law, 15 are rural and 16 are urban. The same balance can be traced amongst those who gave negative responses: 16 urban and 16 rural municipalities. This goes to say that existing skepticism (on the effect of the new Law) for half of the municipalities that answered this question is evenly dispersed among urban and rural municipalities, while municipalities that did not have a precise opinion on the matter can be probably considered as having doubts about the draft law⁵⁷.

Chart No. 2. Do you believe that the new Law on Legalization of Informal Settlements will put an end to illegal buildings?



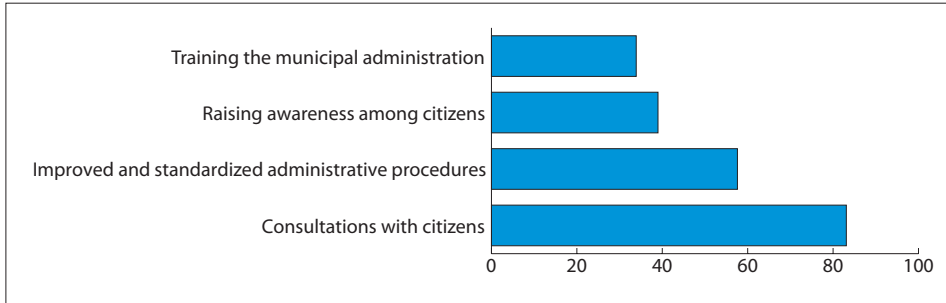
Out of 72 received questionnaires, 64 were determined to answer the question on whether they have established a database on informal settlements. Out of 64 municipalities only 17 or 23.6 percent have established a database and 47 municipalities or 65.3 percent do not have a database.

Only 38 municipalities replied to the question about the number of received requests for legalization of illegal buildings. Out of those that answered, 24 units of local self-government acknowledged receiving such requests, while 14 did not get any requests. Those municipalities that provided an answer received a total of 625 requests for legalization of illegal buildings.

Chart 3 shows that municipalities have implemented a number of activities to prevent informal settlements from appearing. Consequently, a vast majority of municipalities (83.1 per cent) think that consultations with citizens are vital for preventing the spreading of informal settlements. A good number of the municipalities also answered that improved and standardized administrative procedures should be implemented to prevent a further outbreak of these illegal structures (57.6 per cent). Thirty nine per cent think that raising awareness among citizens and 33.9 per cent that training municipal administration is necessary to prevent informal settlements.

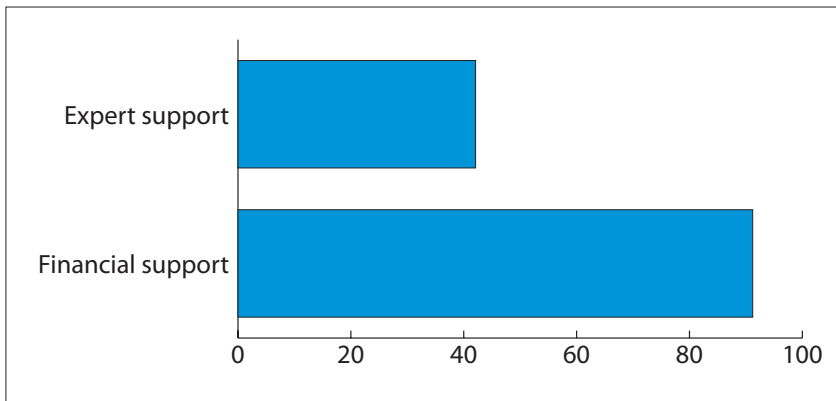
⁵⁷ A total of 8 municipalities had no answer to this question.

Chart No. 3. What kind of activities have you implemented to prevent informal settlements in your municipalities?



Regarding the kind of support expected by municipalities from the central government/donor community to improve the situation with informal settlements, financial support has been identified as the most helpful (91.2 per cent). Less than half of the municipalities or 42.1 per cent argued that technical expertise is a requirement in addition to financial means. To a lesser extent, other forms of support were mentioned: consultations with neighborhood self-government units, new DUPs, social housing, etc.

Chart No. 4. What kind of support would you need to improve the situation with IS?

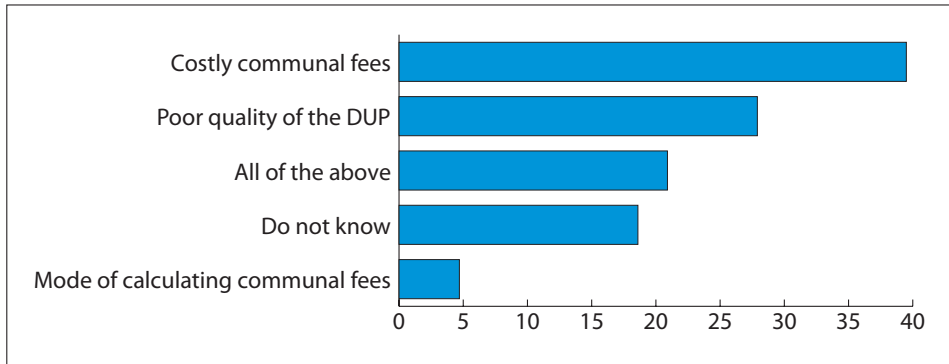


6.3. Findings – Opinion Poll

The opinion poll section on urban planning included a number of questions addressed to a total of 60 citizens. The representative sample was taken from the City of Skopje. Respondents were from the following 5 municipalities: Suto Orizari; Kisela Voda; Aerodrom; Gjorce Petrov and Butel.

Responses from citizens suggest that costly communal fees are seen as a possible reason for the existence of informal settlements by 39.5 per cent of the interviewed, while poor quality of the DUP is the second most mentioned reason (27.9 per cent). The mode of calculating communal fees accounts for only 4.7 per cent. Expectedly, one fifth of the respondents answered that all of the given responses, as a total, lead to the existence of informal settlements. (See chart No. 5)

Chart No. 5. What do you think are the reasons for the existence of informal settlements?



Numerous answers were provided to the question about the reasons for building an illegal object, among others: the inheritance of the building; failing to receive a building permit from the municipality; financial constraints; the lack of a DUP for the entire neighborhood; expectations of imminent legalization; or, surrounding buildings being also illegal.

Thirty one point seven per cent of the citizens claimed to have submitted a formal request to municipalities for legalizing their buildings; their demands had different outcomes. The reasons for rejected requests can be categorized in the following manner: outstanding communal fees; higher fees than expected; incomplete documentation; and, request still under municipal review. Only a small portion of the respondents (1.3 per cent) believe they have been discriminated against because of their ethnic background, and none of these gave any further explanation or reported the matter to the competent authorities.

Citizens' opinions on strategies adopted by their municipalities to cope with the issue of informal settlements are relatively different from those provided by municipal administrations, as shown by Chart 6., but contain an acknowledgement of municipal efforts in this sphere.

Chart No. 6. Has your municipality undertaken any activities to resolve the issue of informal settlements on its territory?

	%
Training the municipal administration	18.3
Improved administrative procedures	11.7
Consultation with citizens	10.0
Other measures	35.0
Do not know	25.0
Total	100.0

6.4. Conclusions and Recommendations

Municipal policies on informal settlements – in the current legislative vacuum – are inclined to regularization. In spite of a somewhat bureaucratic approach, most of the municipalities have demonstrated readiness to tackle this problem.

The problem of informal settlements and adequate housing is likely to be on the development agenda for some time in the country. Hence, further dedicated studies of informal settlements are required. Future investigations/surveys should address issues that residents of informal settlements have identified as important: fair and swift administrative procedures for legalizing objects; an increased and proactive involvement of municipalities in processing individual cases; training for municipal administration – inspectors, urban planners. (Training of the municipal administration was recognized as an important condition by both municipalities and citizens, alike.)

Relevant national and international stakeholders should consider providing financial support and technical expertise. This is vital for training municipal administration and raising public awareness among ordinary citizens on the risks of building and dwelling in an informal settlement. On the legislation side, it seems that the new Law on Legalization of Informal Settlements will help clarifying issues such as the role of each public institution in dealing with the matter⁵⁸. (A good half of the municipalities are backing this claim.) Conversely, several municipalities believe that even if the new Law is adopted it will not be fully implemented due to the poor financial situation of the citizens. Further analysis needs to be carried out to verify this account e.g. assessment of deficits in the law and practice.

⁵⁸ In addition to the local self-government units, the draft version of this Law suggests that the body dealing with informal settlements will be the Agency for Legalization and Urbanization of Informal Settlements.

Coordination among all relevant subjects will be of the utmost importance for putting an end to future informal settlements and it seems that municipalities will have a remarkable stake in this. A key issue for the urban planning process is the involvement of affected citizens as well as the governmental and non-governmental organizations. Hence, consultations with citizens and awareness raising campaigns seem critical in handling this problem.

An interesting point of consideration is the status of the Roma population in the informal settlements. Namely, the investigation (survey) was also carried out in the predominantly Roma municipality of Suto Orizari. The Roma population in this municipality lives in a variety of community forms, but mostly in substandard conditions of extreme poverty. The informal settlements that can be found there are a result of numerous individual relocations, evictions and repartitions of some social cases. It seems that regularization of the Roma informal settlements will pose a huge challenge for all stakeholders. Meaningful measures for addressing this problem in the Roma communities may be a rational and fair partnership with local authorities and the involvement of the NGO sector in raising public awareness among the Roma population⁵⁹, particularly on the adoption of the new Law on Legalization of Informal Settlements. The new Law stipulates the possibility of regularization through payment of communal fees. A certain positive outcome of the legalization of informal settlements in the Roma community (and all others for that matter) is improvement of the standard of living, and perhaps an increased income growth. Affirmative action on the part of the municipalities in facilitating this process can be achieved by allocating budgets for implementing recommended activities as given in the National Action Plan for Housing of the Decade for Roma Inclusion and the Strategy for Roma in the Republic of Macedonia.

With reference to citizens, their inclusion in urban planning and the related decision-making processes will ensure higher transparency and equity. Standard solutions for informal settlements do not appear to be a viable strategy. This study confirms the heterogeneous conditions of illegal compounds across the country and the consequent need for evaluating specific request from citizens on a case by case basis. Municipal authorities therefore seem to be the most appropriate factor for addressing the issue thanks to their precise knowledge of each particular situation.

⁵⁹ At present there are 8 Roma Information Centers and 4 more will be open by the end of 2008.

7. Final conclusions and recommendations

The 2008 report on the process of decentralization gives an overview of the progress of the process in several key areas, such as communal services, culture, education, urban planning and local economic development. On the basis of the information received from the survey conducted in the local self-government units and the citizen poll several key conclusions can be drawn and recommendations given.

The system of communal service provision in the country is still pretty weak, which implies a need for considering possibilities for increasing its efficiency and effectiveness, and enabling further cost reductions in the performance of communal activities of the public enterprises. In this regard municipalities should consider resolving the debts of communal enterprises, which remains the most serious problem in this area. Informal settlements are the biggest problem that municipalities face in the area of urban planning. For its resolution, relevant national and international stakeholders should provide financial support and technical expertise. Culture is still considered centralized and there are still cultural assets that need to be centralized. Their allocation to municipalities could foster cultural development. On the other hand, correct enforcement of the Law on Language might turn out to be overwhelmingly demanding for local authorities if these are left alone in guaranteeing all citizens' rights. In the area of education local authorities demonstrated improved management skills and awareness of the rights, roles and responsibilities. What remains crucial for the period to come is to strengthen the capacities of the school level stakeholders, as well as to minimize the political influence in education management and better cooperation between local and central government.

Negligible shares of the funds foreseen by the Law on Regional Development were effectively allocated to municipalities, a trend which must be promptly inverted if the country is to guarantee equal chances to all citizens and tackle the issue of migration from rural areas. Municipalities mainly pursue a systematic approach in planning their local economic development activities and focus on improving local infrastructure, promotion, and standardization of administrative procedures. Updating their data on local business entities is a challenge the local authorities will be facing for the period to come.

Fiscal decentralization registered progress in terms of resources available to municipalities, not only in terms of self generated revenues but also for new sources now at the disposal of local governments. In 2008 several achievements were recorded with reference to the financial conditions at local level: the number of municipalities entering in the second phase of fiscal decentralization has increased; authorities reported a sensible cut of municipal debts; local governments were granted additional sources of income (e.g. a share from sales of public land); and tools for more efficient planning of resources such as the three-year plans for development programs have been introduced. As reported in this survey, the public seems to appreciate the results of imple-

mented reforms. A general perception of low corruption in local governance speaks in favour of further allocation of tasks from central to municipal level.

This report, however, outlines an unsatisfactory level of involvement of citizens in local decision making processes. Municipalities evidenced efforts to ensure proper dissemination of information to all citizens, but feedback from the latter is still negative regarding the effects. Municipal elections scheduled for spring 2009 offer a unique possibility to enhance awareness of current reforms, and to create conditions for an open debate - including all interested citizens - on the future of decentralization. It is desirable that such issues are inserted into political programs presented to voters before elections.

Local governance proved to be a remarkable tool for the implementation of the Ohrid Framework Agreements. The existing network of municipal Committees for Inter Community Relations in all municipalities legally required to establish them is a promising sign for the cohabitation of different communities at the local level. Municipalities need to be supported – by national and international stakeholders -in implementing all legal requirements deriving from the Ohrid Framework Agreement. Finally, this report shares the views on decentralization contained in the 2008 European Commission progress report. Reform should be directed towards further strengthening municipal administrative capacities, particularly in the fields of education and social inclusion, solving the ownership/management of state-owned properties, continuous guidance of the decentralization process by the central government and especially by the Ministry of Local Self Government. These are among the priorities to be tackled in the coming months.

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