

SURVEY ON DECENTRALIZATION 2007

September 2007

**Public Administration Reform Department
OSCE Spillover Monitor Mission to Skopje**

Acknowledgements

This survey is the result of field research conducted by the Public Administration Reform Department of the OSCE Spillover Monitor Mission to Skopje. Special thanks go to those municipal administrations in the country that provided a valuable contribution and invested their time in completing the survey as well as to the experts who helped draft the questionnaires. The Association of Finance Officers was a consistent source of help in gathering the necessary data and provided useful comments throughout the process. Brima Gallup – Skopje had an essential role in defining the methodology for processing and analyzing the data, and in conducting an opinion poll whose findings are a real added value to this survey. Finally, the Public Administration Reform Department expresses its gratitude to all of their colleagues in the Mission who contributed to the publishing of this survey.

Introduction

This survey on decentralization conducted by the OSCE Spillover Monitor Mission to Skopje's Public Administration Reform Department (PARD) is a follow up to the study presented in 2006. The objective of this survey is to compile a brief overview of the current state of affairs, as well as to indicate possible areas for future activities to be supported by the OSCE and other relevant stakeholders within the International Community.

The survey was conducted in the course of July 2007. It consists of a general questionnaire dedicated primarily to the general state of affairs regarding the assumption of the additional competencies and implementation of communal functions, and a sub-questionnaire related to fiscal decentralization and municipal financial management. Respectively, this report is also divided in two parts. The questionnaires were distributed to all municipalities, and more than 90 per cent submitted their responses.

Along with a general overview of the current situation the first questionnaire covers issues of urban planning, communal services, education, local economic development, citizen participation (with special attention to equal opportunities and municipal committees for inter-community relations), municipal supervision, and inter-municipal cooperation.

The sub-questionnaire on the fiscal decentralization and municipal financial management addresses several components of this municipal function, including a brief overview of the current state of fiscal regulations, the structure of municipal revenues and expenditures, the budgeting process, administration of local taxes, internal control and audit, and capacity building needs.

A chapter referring to citizens' views on the process of decentralization has been included in this year's survey. The methodology used included a telephone poll commissioned by the Mission from Brima Gallup - Skopje. The poll incorporates a representative sample of 1208 persons selected upon a standard polling procedure. The field work of the survey took place between the 3 and 7 July 2007.

As it was the case for the 2006 survey, the methodology employed in this survey 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 themselves understand the general overview of the facts and features of the current reforms. Most of the results in the report are not focused on accurate statistical data of individual cases, but concentrate instead on revealing general trends in the decentralization process. The figures presented in this report are not intended for comparison with official statistics from the government or other sources.

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Part I

Implementation of the Process of Decentralization

1. GENERAL STATE OF AFFAIRS IN THE PROCESS OF DECENTRALIZATION

1.1. Background

The local self-government system in the country is based on the principle of subsidiarity. The country is a member of the European Charter of Local Self-government of the Council of Europe since 1997 and decentralization and local self-government reforms commenced in 1999. However, the issue of decentralization received new impetus when it became a key element of the Ohrid Framework Agreement which added a new political dimension to the process and sped up the pace of reforms significantly.

The implementation of new legislation on local self-government commenced in July 2005, after a major part of the relevant legislation was adopted¹ and local elections were held. The implementation process was designed with a phased approach referring mainly to the elements of fiscal decentralization. Bearing in mind that the Law on Local Self Government only provides a general outline for the municipal competencies - and the limitations in accessing the fiscal resources provided by the Law on Financing of the Local Self-government Units, the phased approach has helped ease municipalities through this process.

In general terms, the Government, the National Association of the Local Self-government Units (ZELS) and the International Community assessed the implementation of the first phase of decentralization as successful, especially in terms of the number of municipalities which have been managing successfully with the new competencies. Field research and reports like this survey only confirm this positive assessment.² The main issues of the first phase needing further attention are related to the competencies of urban planning and education, and the fiscal situation in the municipalities. The latter now weighs most heavily as evaluation of the preparedness of the municipalities to enter in the second phase of fiscal decentralization is the current challenge the institutions are facing with commencement of the second phase starting in September 2007.

The 2007 Survey focuses on the following issues:

- Implementation of the current municipal competencies;
- Preparations for the second phase of fiscal decentralization;
- Possibility of extending the range of competencies in the next phase of decentralization.

¹ The Law on Local Self-government, Law on the City of Skopje, Law on Territorial organization of the Local Self-government, Law on Financing of the Local Self-government and around 50 other, material laws, all Listed in the Government's Program for Decentralization 2003-2004

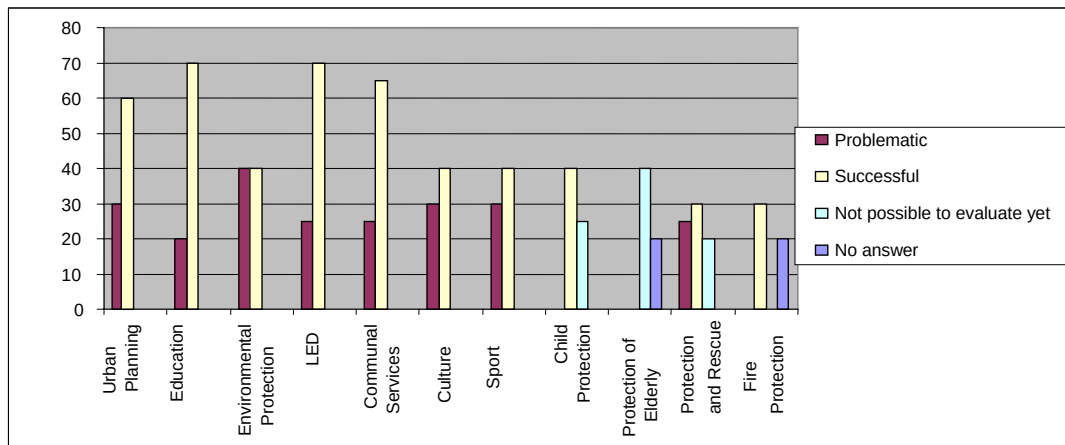
² Ex.: the OSCE Mission to Skopje findings of the Survey on the Process of Decentralization, July 2006; the Recommendation (217) 2007 of the Congress of Local and Regional Authorities of the Council of Europe on the local Democracy in the fYR of Macedonia

1.2. Findings on decentralization general state of affairs

The data collected in the 2007 survey confirms the same trend in the 2006 study, i.e. a relatively successful implementation of the new competencies. As expected, the lack of financial resources remains the biggest obstacle for further improving municipalities' ability to deliver services and their overall performance. Regardless of the type of municipal function, or the size and location of the municipality, approximately 50 per cent of the municipalities surveyed declare a lack of financial resources as the major obstacle.

One significant change in 2007 is that municipalities no longer cite financial issues as the sole problem hindering their work, but are referring to issues in other administrative areas as reflected in the following chart³:

Chart 1. Evaluation of municipal competences



The following table lists each of the competencies with which local self-government units identified problems and their causes:

Table 1. Obstacles for a proper implementation of the competences

Comp.	UP	EDU.	ENV.	LED	COMM.	CULT.
Most common reasons	1. Lack of finances 2. Ownership issues 3. Gaps in the legal framework	1. Lack of finances 2. Gaps in the legal framework 3. Ownership issues	1. Lack of Finances 2. Lack of experience in the area 3. Gaps in the Legal Framework 4. Lack of Capacities for supervision 5. Lack of technical capacities	1. Lack of Finances 2. Gaps in the Legal Framework 3. Ownership issues 4. Lack of human resources 5. Lack of experience in the area	1. Lack of Finances 2. Gaps in the Legal Framework 3. Lack of technical capacities	1. Lack of Finances 2. Gaps in the Legal Framework 3. Lack of technical capacities 4. Ownership issues 5. Lack of Facilities
Comp. competency	SPORT	CHILD.	ELD.	PRS	FP	
Most common reasons	1. Lack of Finances 2. Gaps in the Legal Framework 3. Lack of technical capacities 4. Ownership issues	1. Lack of Finances 2. Gaps in the Legal Framework 3. Lack of Human Resources	1. Lack of Finances 2. Lack of Human Resources 3. Lack of Facilities	1. Lack of Finances 2. Lack of Human Resources 3. Gaps in the Legal Framework 4. Lack of experience in the area	1. Lack of Finances 2. Lack of Human Resources 3. Lack of technical capacities	

³ Only ratings above 20% were reported.

In most of the cases the municipalities have assigned at least one person to cover a particular competency in the municipal administration, and have dedicated some funds from the municipal budgets, or have covered them by IMC arrangements. However, no major change can be noticed between the first and second year after the transfer of competencies in terms of the human and financial resources related to the fulfilment of these competencies.

Across all political lines most of the municipalities state that the process is generally successful. No major discrepancies were revealed in this regard when looking at the political affiliation of the municipal leadership. Although the municipalities eligible for the second phase have at the release of this report been officially approved by the relevant authorities, it is interesting to mention that when the survey was conducted 82 per cent of the municipalities considered themselves prepared for the second phase. The outstanding issues noted by municipalities for the preparation for the second phase include the payment of arrears, followed by employment of new staff, training, and the establishment of IMC. The majority of municipalities which stated they were prepared to move on to the second phase declared education as the one area in which they were best prepared.

The phase of preparations for the second phase brought attention back to the issue of communication and inter-institutional dialogue between the two tiers of the government. The Congress of Local and Regional Authorities of the Council of Europe has, in its Recommendation (217) 2007,⁴ recognized improvement in the cooperation between the municipalities and the central government. However, though most of the municipalities evaluate the developments in the process positively, the level of satisfaction with the timeliness and the quality of the information they get is not so high⁵. The municipalities have also reported problems in the communication with a number of line ministries⁶. Municipalities managed by the opposition parties – DUI above all – reported more than others on problems in the communication.

Almost 80 per cent of the municipalities answered that they consider that the range of the local competencies should be extended in the future phases of the process. We note that this issue was raised having in mind that after two years experience managing new municipal functions, the municipalities are now identifying the gaps in the competencies which are preventing them from fully implementing their programmes and discovering new ideas for upgrading municipal services. Municipalities call for additional competencies in areas like management of construction (and agricultural) land, cultural issues, public safety, registry, social welfare, health.

⁴ 14th Plenary Session, -Congress of Local and Regional Authorities of the Council of Europe, (Strasbourg, 30May-1st June 2007), Local democracy in “the former Yugoslav Republic of Macedonia”, Recommendation 217 (2007)

⁵ Thirty six municipalities, run by various political parties, answered negatively to the question if they feel regularly informed on the developments of the process of decentralization.

⁶ The Ministry of Local Self Government and the Ministry of Finance have the best ratings according to the answers of the municipalities

1.3. Conclusions and recommendations

The results of this survey confirm that the decentralization process continues to be satisfactorily managed in 2007. The number one concern remains the lack of financial resources, a general problem of all units of local self-government in the country.

In the initial phase of decentralization it is understandable that municipalities often prioritized their work focusing their efforts in one direction, but in the future local self-government units will have to focus attention on some of the more complex communal functions which to date have been in a way neglected. Municipalities, to a certain extent have already started to analyze issues more deeply and are increasingly identifying potential problems and new hurdles to overcome rather than writing it off as a financial issue. They are also treating different competencies with different levels of intensity. For instance, urban planning and education are still priorities in terms of improving “infrastructure” and are perceived as the main challenge for the coming period. Other competencies that are been currently dealt with include local economic development affairs, communal services, environmental issues, and then come culture and sport. Finally, the set of quite relevant and complex competencies which will need to be more and more addressed in the future: municipalities will, in the second phase, need to continue to work on the above priority areas while expanding their focus to encompass the broad list of the transferred competencies such as child care, elderly care, fire protection, and rescue services. Therefore, it would be recommendable that in the next period the central as well as the local authorities should continue dealing with the priority open issues related to the competencies, but at the same time expand their focus more and more to the wider list.

The overall experience from working closely with the authorities - and the data obtained to complete this survey - highlights the urgent need for both local and central authorities to establish permanent mechanisms to monitor and measure of performance. Further more, the fact that 85% of the municipalities judge the developments of the process positively implies a solid inter-institutional dialogue. ZELS has maintained its role as advocate of the municipalities and transmitter of their policy positions in front of the government. Nonetheless, higher transparency and timely information on the developments of the process and on the operation of the Governmental bodies, and on the bodies jointly established by the Government and ZELS, is still needed.

2. CITIZENS' PERCEPTIONS

2.1 Introduction

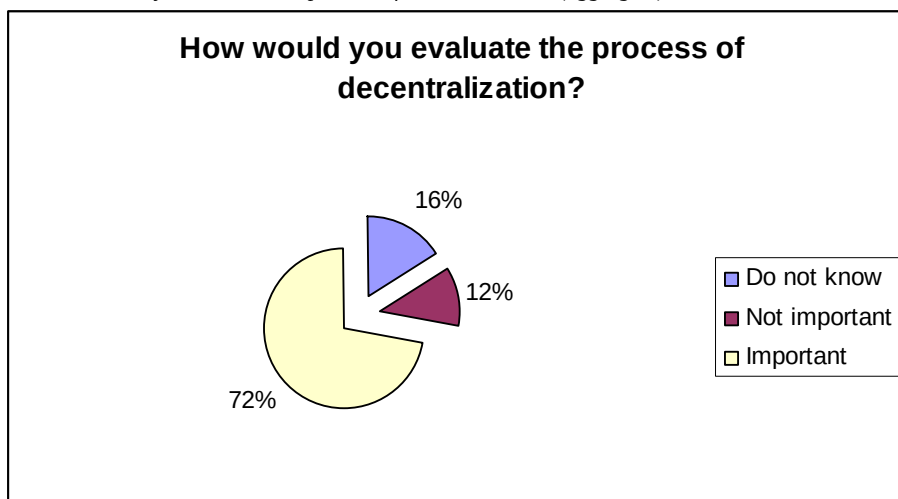
The idea of including citizens' opinions regarding the process of decentralization is a new aspect of the survey. The need for this type of data emerged when the survey was conducted in 2006 and citizens' participation was assessed. At that time, however, the survey was only conducted from the viewpoint of the municipalities and their evaluation of the cooperation and communication that had been established with the citizens. This year, the aim was to discover what the citizens actually thought about the process of decentralization and to evaluate the changes brought about by reforms. This survey compares the citizens' points of view on services they receive and the municipality's own performance evaluation.

This chapter provides insight into the level of citizens' satisfaction with the decentralization process. It looks at their satisfaction with services and their knowledge about this important process. The first phase of the decentralization process focused mostly on establishing a legal framework and transferring competencies from the central to local level. The on-going second phase focuses on improving competencies and increasing municipalities' financial capacities. Therefore, citizens' opinions on decentralization - particularly on communal services - can give a strong indicator of overall progress.

2.2. Findings on citizens' perception

With regards to the level of satisfaction, citizens in the country are generally aware of the matter at stake, as the process of decentralization is deemed important by 72 percent of the citizens. This opinion cuts across all age groups, education levels, social status and locations. Only 12 percent of the citizens consider it not important.

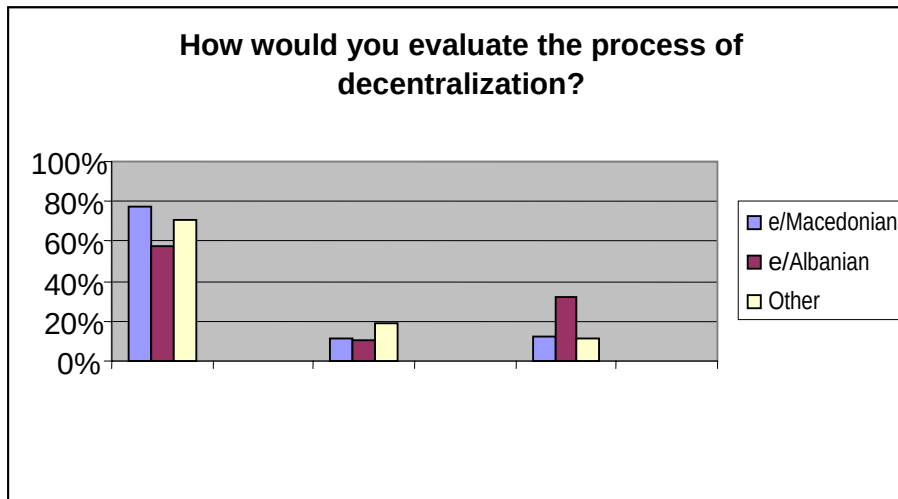
Chart 1. How do you evaluate the process of decentralization (aggregate)?



When comparing ethnic groups, the level of satisfaction is slightly higher among ethnic Macedonians than ethnic Albanians, amounting to 77 percent versus 58

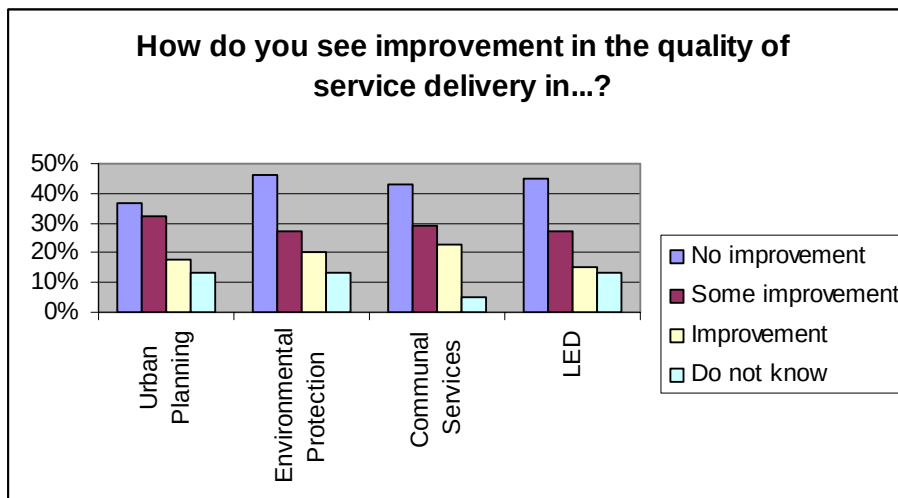
percent, respectively. While 71 percent of others think that the process of decentralization is important.

Chart 2. How do you evaluate the process of decentralization (eM/eA)?



Urban planning, environmental protection, local economic development, and communal services are all key service delivery areas in which competencies are being transferred. The results show many citizens feel no improvements have been made in these areas, while a smaller number feel some improvements have been made, and even less actually report seeing improvements.

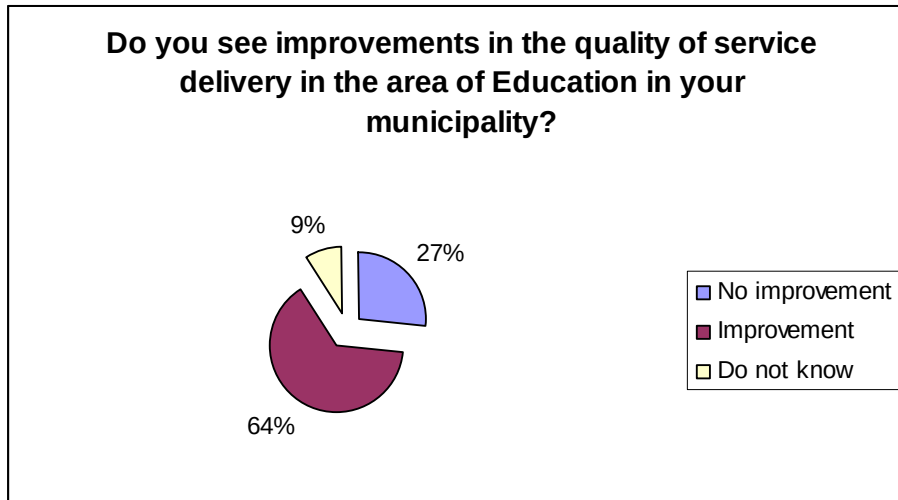
Chart 3. Evaluation of municipal services?



Upon a more specific examination, one area where citizens do see an improvement is in the area of education (64 percent). This supports findings previously laid out in the Early Warning Report⁷.

⁷ Early Warning Report, UNDP, Skopje, March 2007. The report shows 67.5% of the citizens satisfied with the services in education provided by the local governments.

Chart 4. Evaluation of municipal performance in education

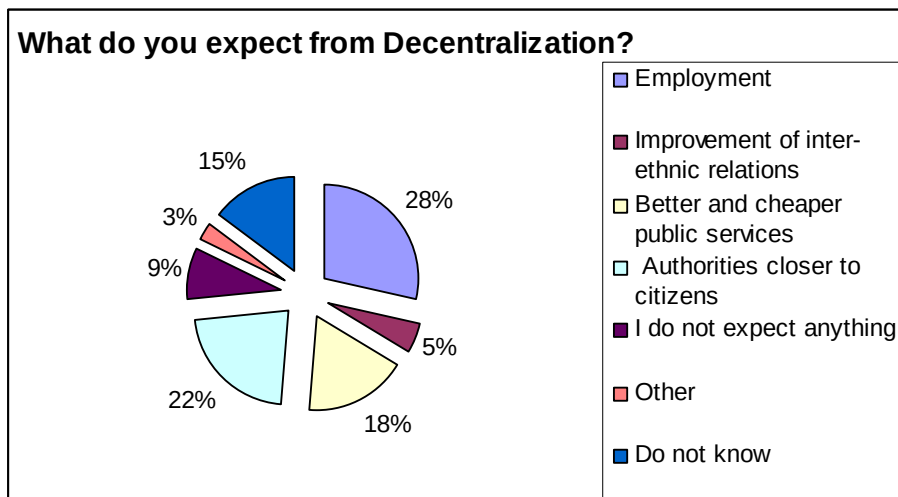


On the contrary, citizens report seeing no improvements in many specific areas of urban planning and communal services, with the exception being street lights and water supply where notable improvements were seen.

The work of the mayor is closely observed by the citizens and they assessed his performance the highest (51 percent), followed by the municipal council (44 percent), and the municipal administration (39 percent). Citizens of the Pelagonija region were most satisfied with their mayors (72 percent), while those living in the Povardarie region were least satisfied (41 percent).

It is interesting to see that citizens selected employment (29 percent) as the most important area that the local self-government should tackle in the decentralization process. The need for authorities to be closer to the citizens (22 percent), as well as to provide better and cheaper public services (18 percent) follow on this list of expectations.

Chart 5. Citizens' expectations from the decentralization process



In terms of the local government, the above results again highlight economic improvements and a decrease in unemployment as two main expectations of the population. These findings reiterate what has been stated previously in other polls and publications⁸ and what is expected from the national government. Smaller ethnic minorities have even greater expectations in these two areas (71 percent) when compared to ethnic Macedonians (26 percent), as well as women (34%) when compared to men (24%).

It is interesting to note that inter-ethnic relations, an issue that was considered a priority and received a lot of focus in the past, is not so high on the list of citizens' expectations at only 5 percent. It appears people have lost interest in issues related to inter-ethnic relations and, now, prefer the government (both national and local) to concentrate on economic measures.

Citizens also believe that local governments (45 percent) are more capable of economically developing and managing public land in their municipalities than the central government (12.7 percent) or both in joint coordination (19 percent). These findings are particularly relevant for assessing the municipal performance in specific competencies, such as local economic development and urban planning⁹.

The knowledge about decentralization is also at high level. Citizens are sure that local governments have competences in the areas of issuing building permits (64 percent), local economic development (61 percent), education (66 percent), culture (66 percent) and sports (68 percent). They express uncertainty regarding the municipal role in the field of policing, since 44% stated that local-governments have a responsibility in this area, 27 percent that they do not and 29 percent that they do not know. The reason for this might be due to the shared responsibilities in this area between the local self-governments and the Ministry of Interior.

2.3. Conclusions and Recommendations

Good local governance requires citizens' understanding of the process and their support for it. There is clear evidence that people in the country recognize the importance of the process of decentralization. As a result, they closely follow the work of their mayors and have high expectations of their local self-governments. The role of the municipalities, in regard to service delivery and local economic development, is critical. Currently, there is a need to bridge the gap between the needs and expectations, and the actual service delivered to citizens.

In order for this analysis to have a broader impact, the following recommendations are suggested:

- for citizens

In order to have better service delivery, it is necessary to continue to demand transparency and accountability in the work of the local government administration and the mayor. Placing complaints and pointing out inaccuracies and areas for

⁸ Ibidem. (pg. 19-20).

⁹ See chapter on urban planning

necessary interventions, as well as proposing solutions and providing advice is necessary in order to establish a productive relationship and receive the services at the required level.

- to municipalities

Municipalities should adopt and implement ways for following the needs of the citizens and ways on how to fulfil them. Focusing more on local economic development should be a priority for the local-self governments. Involving other actors in service delivery can improve this and assist the municipality in the process. There exists an array of tools and techniques for sharing information, ensuring informed decision making and improved planning. This situation is pertinent throughout the country.

- to central government

Improved institutional frameworks for local governments, including regulations, registries, and others are important for municipalities to be able to fulfil their tasks. Although this is an area in which the donor community can add a great deal of expertise, it is the responsibility of the local governments to take the lead. While there has been a lot of work done in the country, certain aspects of the devolution of competences remain unresolved, thus hindering the delivery of services to citizens.

The government should place significant funds as well as monitor the full implementation of the devolved competences. Support must also be given to municipalities lagging behind in the process. Civil society organizations should also be encouraged to partner with local governments, in order to improve service delivery.

The government should review reports and evaluations on the implementation of the process of decentralization in order to create future policies.

- to implementing agencies and donor community

The process of decentralization requires a long-term commitment, as the factors that will contribute toward improved lives of the citizens are many and intertwined. Too many organizations have come and gone and decreasing levels of funding place the progress made to date in jeopardy. Multi-year commitment to essential issues will contribute significantly to the ability of municipalities to undertake the bold steps essential for these necessary changes.

Imposing frameworks is dangerous, particularly when the populace is faced with unaddressed tension and rampant unemployment. Donors should improve their accountability and transparency by consulting with local people and NGOs regarding programme development and widely distributing 'lessons learned' reports.

Donors should also work with civil society to monitor people's perceptions about what is happening at the local level, as well as to analyse the factors contributing to regional tension.

While many of the following recommendations are currently being undertaken to some extent within the country, they are often applied in a fragmented and/or isolated manner. To have the necessary broad impact, these suggestions need to be implemented on a larger scale. For those organisations already engaged in some activities, an additional obligation is to assist others through training and sharing of lessons learned.

3. URBAN PLANNING

3.1 Background

Urban planning is among the most challenging of the competences transferred to municipalities through decentralization¹⁰. Municipalities are in charge of regulating the urban landscape of their territory, as well as the issuing of building permits to demanding constructors. This function involves all sectors of the municipal administrations¹¹ from municipal councils who approve urban plans and their variations, to mayors, who are responsible for the overall monitoring and enforcement of the law including decisions on demolition of illegal buildings, and to municipal staff, who process requests for building permits and make technical inspections at construction sights. The current legislation also allots for citizen participation in urban planning, requiring municipalities to hold open discussions on urban planning drafts.

The law foresees different types of urban plans, among which the most important are the general urban plans (GUP) and the detailed urban plans (DUP). GUP are to be approved by all the cities determined by the law. In addition to defining the boundaries of each urban area, general urban plans also contain data such as the aims and means to solve urban issues, special conditions for spatial development, and the parameters for evaluating the implementation of GUPs and DUPs. General urban plans are valid for at least 10 years, and DUP are adopted for specific areas for which a general urban plan has already been passed. DUPs offer a closer analysis of the town sectors in order to better review the spatial organization of the land. Structured similarly to the general urban plan (i.e. comprising a territorial map of the examined area and narrative information on general conditions for building, development and usage of the land and constructions, and data on transport and telecommunication networks), detailed urban plans provide specific guidelines for the construction of facilities in each area. Detailed urban plans are valid for at least 5 years.

Both categories of plans have to be adopted on the basis of a draft program conveying all instances of local residents and enterprises. After a first clearance by the Ministry for Environment and Physical Planning, the technical layout of the plan is outsourced to an external company, and must be subsequently approved by the municipal council. Prior to the final adoption of the urban plan or of any amendments to it by the municipal council, a public discussion over the draft is to be organized by the mayor.

Municipalities can issue building permits only in accordance to the urban plans and they are a legal requirement before the commencement of any construction activity. In the absence of a building permit or other compulsory documentation or in the case of a building not respecting the approved provisions, municipal authorities can undertake a set of measures against the offender. Fines vary and can be levied as high as 30 million MKD or can also lead to the demolition of the object. The latter decision is taken exclusively by the mayor.

¹⁰ 2002 Law on local Self Government, art.22¹

¹¹ Law on Spatial and Urban Planning (O.G. of R.M. no. 4/96); Law on Construction (O.G. of R.M. no. 15/90); Law on Building (O.G. of R.M. no. 53/01, 97/01)

3.2 Findings on urban planning

The construction sector in the country accounts for 5.6 per cent of the total GDP¹² making urban planning an important part of the decentralization process needing critical support from local administrations, as a basic requirement for local infrastructural development. Urban planning related activities are also a relevant source of revenues for municipalities, which cash in on the process of issuing building permits. Moreover, the proper organization of the municipal territory gives municipalities a detailed knowledge of all existing premises, thus allowing a more precise assessment of property values. The latter is particularly relevant, as property taxes (property tax, inheritance and gift tax, tax on transfer of real-estate and rights) are destined to become the backbone of municipal finances. The recent amendment to the Law on Property tax will allow municipalities to collect dues on all real estate belonging to legal entities residing within their boundaries (insofar legal entities were required to pay the tax on a minor portion of their belongings), thus increasing the importance of reliable data on urban planning and real-estate allocation.

Municipal performance in urban planning matters is evaluated from several different perspectives: this survey considers two main indicators: the development of urban plans, and the time it takes to grant building permits. Most of the findings are analyzed by the urban/rural criteria, as other parameters did not display significant differences.

Figures relating to the first indicator show an improvement in comparison to 2006. The number of municipalities with urban plans mapping out their territory last year was 68 per cent. In 2007 units of local self-government reporting that their territories are regulated by GUPS is nearly 86 per cent, while 73 per cent have developed DUPs as well. Differences are still evident when comparing urban and rural municipalities¹³: nearly all urban areas are marked by GUPs (94.7 per cent), while municipalities located in rural areas have adopted GUPs in only 78.4 per cent of the cases with only 48.6 per cent of them having passed DUPs.

This difference is partially explained by two factors. First, urban areas attract the greater part of investments in construction compared to rural communities, inducing their administrations to pay attention to urban development and forcing them to deal with issues in an effective and timely manner. This is much sooner than it impacts on rural municipalities. Secondly, the expertise needed to support the development of urban plans is readily found in medium/large cities and less common in rural settlements. Thus, urban municipal administrations have a natural advantage when it comes to urban planning which is affirmed by the survey data:

Table 1. General Urban Plan adoption

When was your latest General Urban plan adopted? <i>Data expressed in percentage</i>		
	before 2004	after 2004
urban municipalities	77.8	22.2

¹² 2006 Statistical Yearbook, State Statistical Office of R.M.

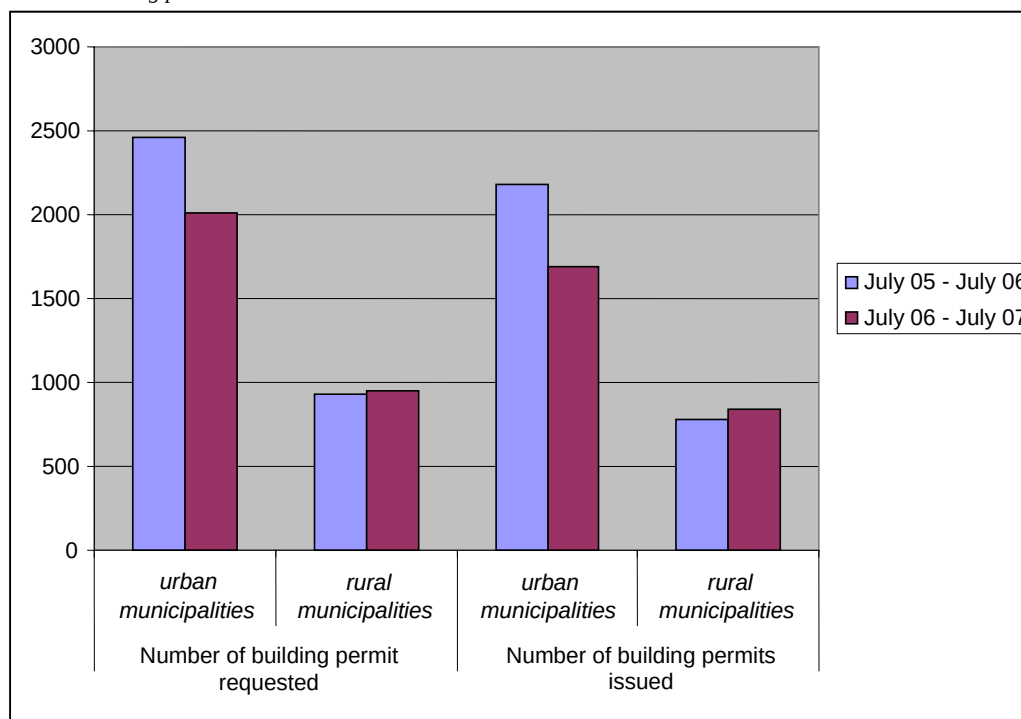
¹³ Municipalities were categorized as urban or rural according to the criteria outlined in the 2004 Law on Territorial Organization.

rural municipalities	88.9	11.1
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Urban municipalities which passed a general urban plan after 2004 double the number of rural administrations in the same category. More generally, most of the municipalities countrywide were equipped with general urban plans approved before 2004.

The results on the timely issuing of building permits are similar to the last year's performance ratings, and in some instances are slightly worse. Municipalities processed 87.2 per cent of the requests for building permits from July 2005 to July 2006, while the ratio decreased to 85,6 per cent from July 2006 to July 2007. Given the general decrease of requests for building permits in comparison to last year, these results show an interruption in the development of municipal capacities in the area of issuing building permits, and should encourage local administrations in strengthen their commitment for a delivering efficient services to their citizens. However, a detailed analysis shows an improvement of rural municipalities in releasing building permits, as well as a general decrease of the average period for processing the files, from 20 to 19 days in urban municipalities, and from 16 to 11 in rural areas (even though the standards are not yet meeting the legal provisions, which require construction permits to be issued within seven days from the date documents are submitted)¹⁴; the latter partially off sets the relatively poor performance of municipalities in the overall percentage of requests processed.

Chart 1. Building permit issuance*



* Data range: 47 municipalities out of 85

¹⁴ Law on Construction (O.G. of R.M. no. 51/05), art. 52⁸. As reported in the 2006 edition of this study, the date of submission of the documents is a disputable parameter: many demands are incomplete and have to be returned to the requester for further explanations. This results in a delay in the response by municipal officers.

An increased number of municipal employees (this includes municipal inspectors for urban planning present now in 65.8 per cent of the municipalities, while only 50% of the administrations contained this professional profile in 2006) may contribute to the improvement in processing times for requests for building permits, as well as a better flow of communication between citizens and municipal administrations, to which the printing of over 18,000 copies of the brochure on building permit procedures implemented in 2006 by a partnership between ZELS, USAID and OSCE also contributed.

The relative positive assessment of municipal performance in urban planning is overshadowed by the shortcomings in coping with the numerous illegal buildings present throughout the country. Several mayors have reacted to recent allegations of illegal buildings in the press by taking action to demolish illegal objects, causing great tension with citizens, which is evident by the 194 lawsuits filed at the Supreme Court against municipal decisions on demolition in 2006¹⁵. The majority of municipalities cite the lack of rules and procedures for legalizing these premises and difficulties in updating general and detailed urban plans as negative factors. Recent reports from the State Administrative Inspectorate¹⁶ assessed several shortcomings in the operation of the urban planning units in the municipalities mainly relating to breaching of the deadlines, completion of the necessary documentation and communication of their decisions and findings with all relevant parties. Another shortcoming is the frequency of administrative errors when recording building and urban records on the part of both municipal staff and local investors.

A recurrent refrain relating to urban planning – as well as to several other competences transferred to local administrations - concerns the management of public land. The Association of Local Self Governments (ZELS) expressed the will of municipalities to dispose of public lands located within their boundaries, arguing that this will enhance their capacities in programming local economic development. The Government has not met the demands of municipalities, preferring to keep ownership of public territorial assets. The opinion poll commissioned by the OSCE asked the public for their opinion on the matter in an attempt to measure the level of trust in the two tiers of governance (central and local) with respect to public land management. 45 per cent of those interviewed stated that they trust local authorities more as they believe are better able to dispose of public land for the benefit of their communities. Only 12.7 per cent say that the central government is better equipped for this task.

Table 2. Who can better manage public land in your municipality (%)?

Central Government	Local Government	Joint administration	do not know
12,7	45	19	23,3

¹⁵ Source: 2006 report, Supreme Court of R. M.

¹⁶ <http://pravda.gov.mk/tekstovi.asp?lang=mak&id=tekakt-2007Juni>

3.3 Conclusions and recommendations

Although the quantitative increment of municipal activities in urban planning adoption is a positive development, much remains to be done for updating urban plans to reflect the current situation of many communities. This requires a degree of fine-tuning between all stakeholders involved, namely, mayors and municipal councils, which are not always coordinating their efforts. Delays in the approval of urban plans or their variations impact negatively on the development of any municipality by preventing investments. The two main actors in urban planning should work to eliminate and address the different causes. Capacity building measures tackling this problem are currently being explored by the OSCE for action in 2008.

The survey confirms that the issuing of building permits is not up to standards, notably in relation to the excessively long waiting period and the overly complicated and expensive procedure for obtaining a building permit.¹⁷ Targeted support to the authorities in charge of monitoring this process (the State Administrative Inspectorate) would help improve the permit processing times.

¹⁷ Former Yugoslav Republic of Macedonia, Issues in Urban and Municipal Development: A Policy Note, pages 47 to 57. World Bank 2006

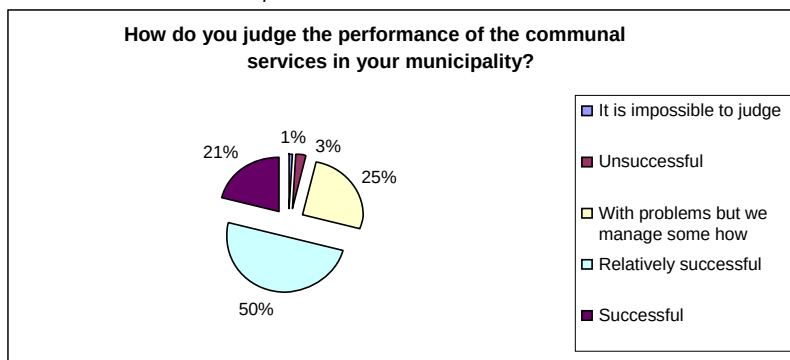
4. COMMUNAL SERVICES

4.1. Introduction

Communal services were at the core of the municipal competencies before the decentralization process started and remain so today. In order to provide these services the municipalities establish public enterprises. Usually one enterprise in the municipalities encompasses all the communal services except for the city of Skopje which have several specialized companies. The main services delivered are: water supply, waste water disposal, waste disposal, maintenance of green areas, maintenance of graveyards, maintenance of streets and street lighting, cleaning the snow, maintenance of green markets, car parking and other as appropriate.

Overall, 82 per cent of the municipalities surveyed have established public enterprises, 9 per cent do not have a public enterprise and 6 per cent did not answer this question at all.¹⁸ Results from the opinion poll show a relatively high rate of satisfaction among municipalities for the delivery of communal services as reflected in the following chart:

Chart 1. Evaluation of communal services



4.2. Legal framework

Several new laws and their recent amendments provide additional possibilities¹⁹ and establish mechanisms for the municipalities to lower the cost of the communal services. These are regulated by the Law on Local Self Government, the Law on Communal Activities, which defines the communal functions; the Law on Public Enterprises, which sets the legal parameters for the establishment and the management of communal enterprises; and the Law on Communal Fees, which defines the tariffs for communal services. Lastly, the Law on Employment regulates the status of the communal employees.

¹⁸ Skopje municipalities are in a unique situation utilizing the services of the public companies established by the city. However, a few of the Skopje municipalities have established new public companies to provide additional services.

¹⁹ Law for Amendment and Change of the Law for Public Enterprises Official Gazette No. 49; 14.04.2006.

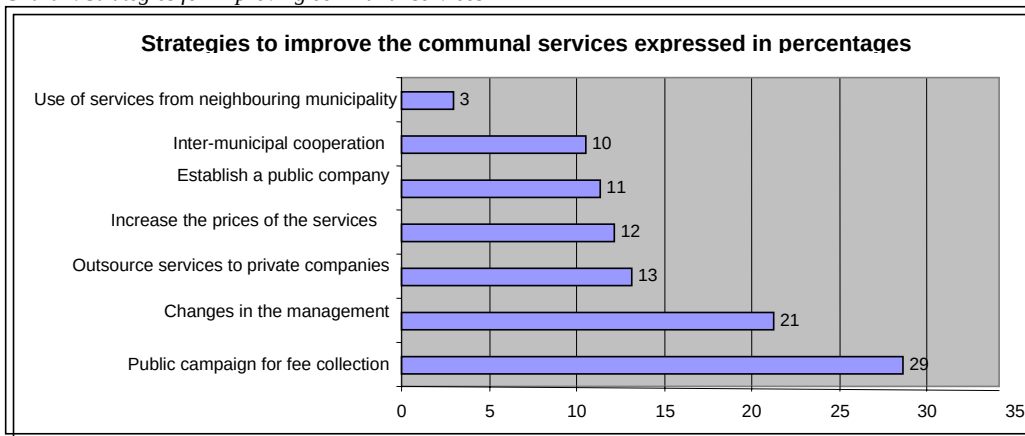
The amendments to the Law on Public Enterprises in 2006 allow competition among private companies. This law also enables the transition from public enterprises to shareholder companies, while it foresees cooperation by allowing for partnerships between both private and public enterprises.

The law also defines several key structures of public companies to ensure quality. When the municipality is the majority shareowner of the company, it appoints the director of the enterprise who is selected through an open, competitive process with set criteria. It is the municipal council that elects the members of the board that oversees the day-to-day operations of the public company.

4.3. Problems and strategies in providing communal services

Sixty eight per cent of the municipalities stated that they have a strategy for improving communal services (described in the chart below), while 19 per cent replied that they have not established a common strategy. Thirteen per cent did not reply.

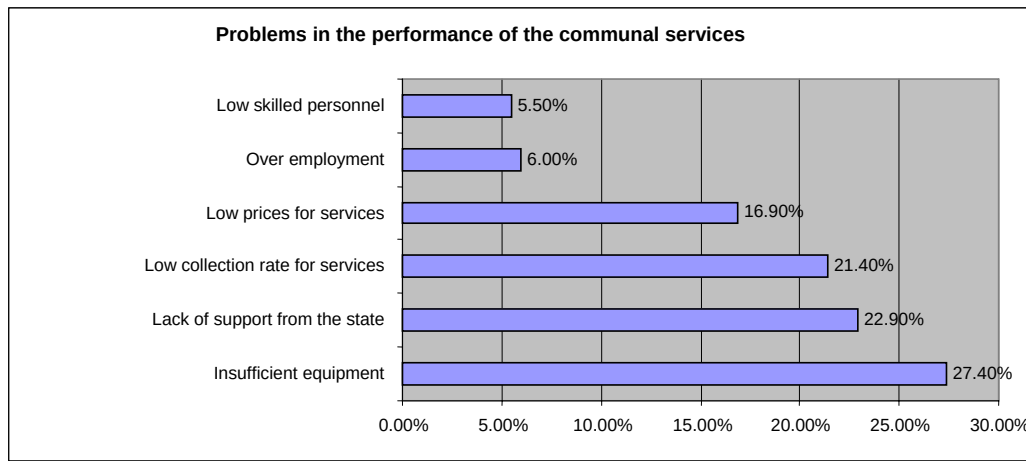
Chart 2. Strategies for improving communal services



The results of the survey show that the collection of fees is the biggest problem declared by the public enterprises. The inability to collect fees results in difficulties in providing quality services, conducting proper maintenance and purchase of new equipment, and paying salaries on time which translates into an unmotivated labour force. The calculation of VAT emerges as an additional problem generated by the low collection of fees because the calculation is based on the total invoices billed, and does not consider whether or not municipalities and their public enterprises are able to collect the fees for their services. This phenomenon especially burdens those companies with a low level of fee collection.

A significant number of municipalities confirmed their intention to improve the management of the public companies. The municipalities primarily see the role of private companies for providing services for street lights and road maintenance. The possibility of exploiting the services from neighbouring municipalities by joining forces through inter municipal cooperation has yet to be incorporated as an efficient means of providing communal services. Clearly, there is great untapped potential in utilizing existing mechanisms in order to avoid duplicating costs.

Chart 3. Problems in communal service delivery



Lack of equipment rates highest among the problems the municipalities face. This can be attributed to the previous year's low price policy, i.e. keeping prices so low that it does not allow for regular maintenance or renewal of equipment. Here, some municipalities expressed expectations for greater support from the state to make up the difference and provide funding for equipment and maintenance costs. This trend demonstrates that some of the local self government units still view intervention by the central government institutions as the solution of their financial problems. Further analysis is needed to determine if this is simply a problem of administrative culture, if indeed there is a need for more adequate legislation, or if municipalities have inherited these problems with the transfer of competencies for public works from centralized bodies to local authorities.

4.4. The price for services

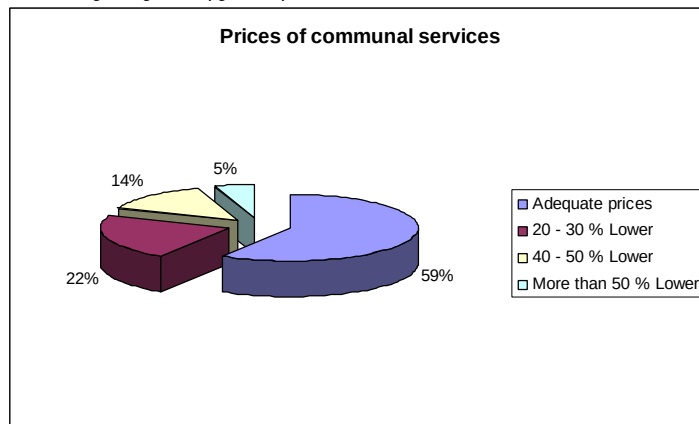
With prior consent of the municipal council, the managing board of each enterprise sets the price for services rendered. The fees should cover the actual expenses of the service and an additional amount that allows for reasonable profit of the company.²⁰

During the decentralization process, most countries in the region have experienced the common problem of municipalities with prices for communal services which are lower than the real cost of delivery. This was mainly due to social and political reasons as elected officials (mayors and other decision makers) did not want to confront the inevitable fallout from increasing fees and tariffs. This resulted in poor maintenance of public works' systems and equipment, a low quality of services and a lack of capital for new investments that lead, in some instances, to the near collapse of all communal services. The end result was a low collection rate of service fees that completes the vicious circle.

²⁰ Reference to the Methodology Used for Setting the Price of Potable Water and Removal of Waste Water from Urban Areas, prescribed by the Ministry of Transport and Communication. Official gazette 68/04.

In the survey, 41 per cent of the municipalities replied that the prices of the services provided by their communal services were lower than the real cost. The following chart illustrates the prices of the services:

Chart 4. perception of prices for communal services

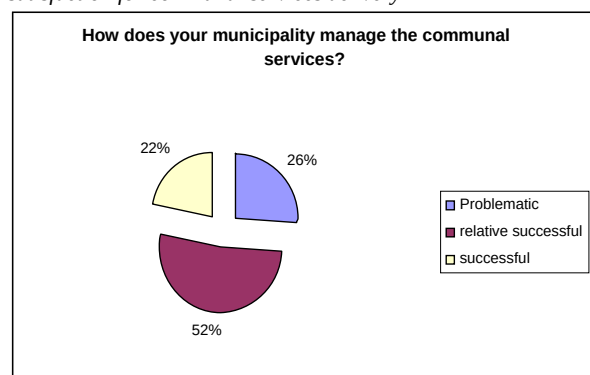
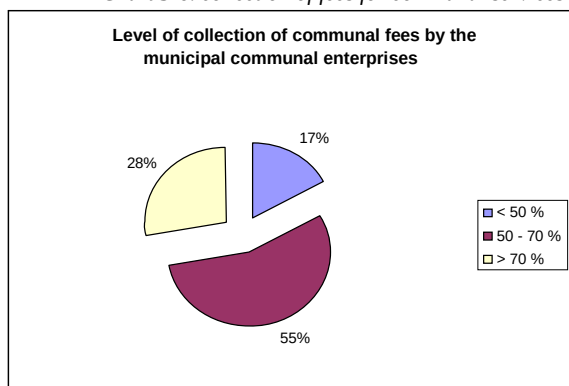


Fifty nine per cent of the municipalities expressed that prices adequate to their expenses and 41 per cent are aware that the prices of their services are lower than the actual expenses to deliver the service. It is worth mentioning that the municipalities that received bank loans adjusted their prices to reflect the real cost of services in order to repay instalments.

4.5. Collection of fees

The charts below show the efficiency of the municipalities to collect the fees for the services provided by the public companies. The majority of municipalities (55 per cent) manage to collect 50 to 70 per cent of the service invoices. The average collection rate in all the municipalities is 62 per cent:

Chart 5-6. collection of fees for communal services – citizens' satisfaction for communal services delivery



It is significant to note the municipalities that collect more than 70 per cent of the total invoices (26 per cent) corresponds with 22 per cent of the municipalities that stated that they manage the communal services successfully. Local government units that have a less than 50 per cent collection rate stated that they have problems in the performance of the communal services. Thus, it can be concluded that communities that are satisfied with the quality of services provided are more inclined to pay for them.

The financial gap created by the low collection rate for communal services vis-à-vis their cost is mostly compensated by transfers from the municipal budget, i.e. 73 per cent of municipalities said that they subsidize the work of their public companies. In a small number of cases, the public enterprises are showing a small profit, which is mostly reinvested to further improve public works.

Additionally, municipalities state that they:

- Support the new investments of the communal enterprises, building and maintenance of the infrastructure and purchasing of additional equipment
- Pay for additional services requested from the public enterprises. Additional services that were mentioned are maintenance of green areas or snow removal.
- Provide administrative support and communicate with donors.
- twenty per cent of municipalities subsidize the prices of the services to cover the losses of the public enterprises.

4.6. Conclusions and recommendations

With communal services at the core of the competencies of municipalities they are by definition the most visible and deserve significant attention. A large percentage of municipalities expressed their satisfaction with their performance with regard to public works, however in order to be able to further improve, or at the very least maintain the current level of services provided, additional considerations are needed.

Improved management of the companies fully depends on the municipality and the selection criteria. Besides the issue of over employment²¹ in some of the communal enterprises, there is a great need for better qualified staff. Additional, specialized technicians in several fields would lead to better utilization of resources. A much improved management body will need to provide commercially oriented services by setting economically viable prices and improving the quality of the services they provide. Improved financial management and planning is also important.

An effective pricing policy that establishes a viable pricing structure is essential to the successful work of the public companies that provide communal services. If successful in establishing a balance between the cost and the price, the quality and the level of services will increase as will the collection rate. Adequate prices also generate the necessary revenues to enable municipalities to repay their loans and to continue to improve the services they provide to their citizens. The government's

²¹ Source: Report No. 37278-MK Issues in Urban and Municipal Development, World Bank

existing methodology for setting the prices of water and wastewater disposal presents an excellent guideline for other municipalities to apply to other sectors of public works.

A significant number of municipalities state that they expect greater support from the government. In this sense, improved communication between the two tiers of government would be an asset, and further clarification of the role of the central government would prevent these expectations. The government's role is limited to providing an adequate legal framework²² and supervision; transparent procedures for the distribution of the state funds for communal infrastructure, and consistent policy for equal regional development.

Additional models of service provisions that merit further attention and have been proven to improve the communal service while lowering costs include:

- Inter-municipal cooperation²³;
- Public private partnership with part of the services given to a private service provider companies;
- Use of loans to improve the services;
- Establishment of the Municipal Consumers Council²⁴

²² The government could possibly observe the VAT calculation for the public enterprises. In some countries, the communal services are exempt from VAT dues or have lower VAT rates.

²³ Having in mind the importance more details on inter municipal cooperation are elaborated on the relevant chapter

²⁴ Law on Local Self Government, Article 56,

5. LOCAL ECONOMIC DEVELOPMENT

5.1. Introduction and legal background

Local Economic Development (LED) is a process wherein partners from the local government, business and non-governmental sector work together towards improving the local business environment and creating a favourable climate for economic growth and employment opportunities. The main goal is to improve the living standards of the local inhabitants within their respective municipal area.

In a market oriented economy, competition is the main promoter of economic development, whereas the mobility of the capital, mostly on a macro level, neglects local economies and at the same time exposes them to the risk of decreasing development opportunities. Hence, the role of the LED partnerships is to analyze the economic environment on a constant basis while enforcing a comprehensive LED programme in order to establish a dynamic culture of entrepreneurship.

Article 22 of the Law on Local Self Government²⁵ prescribes LED as a local self government competence and leaves room for the municipalities to construct their own method of planning and implementing of LED activities. Within the general legal framework, municipal officials are granted the right to administer the process of establishing partnerships with the private and civil society sectors (so called public private partnerships-PPPs) as a widely recognized tool of implementing LED activities. Another important law for LED is the Law on Equal Regional Development, which defines the legal framework for ensuring equal regional development of the country and creating conditions for local development.²⁶

This chapter seeks to provide data on the number of municipalities that have established LED offices and adopted Strategies and Action Plans. Most importantly, it should describe the method of financing the LED activities countrywide (local budget or donor supported) and provide insight on the number of municipalities that have integrated this pillar into their municipal structures. It will also highlight the most frequent obstacles and activities implemented in the sphere of LED (which economic branches are most attractive) as a whole.

5.2. Findings on Local Economic Development

As exhibited in table 1, the majority of the municipalities (47.2 per cent) have engaged only one individual to pursue Local Economic Development activities while in 30.6 per cent, there are two and 11.1 per cent have engaged three individuals. Only a few municipalities have more than three people dealing with LED. About 55.1 per cent of the municipalities have organized their LED activities into an LED office.

²⁵ Law on Local Self Government, Official Gazette of R.M. 05/2002

²⁶ Law on Equal Regional Development, Official Gazette of R.M. 63/2007

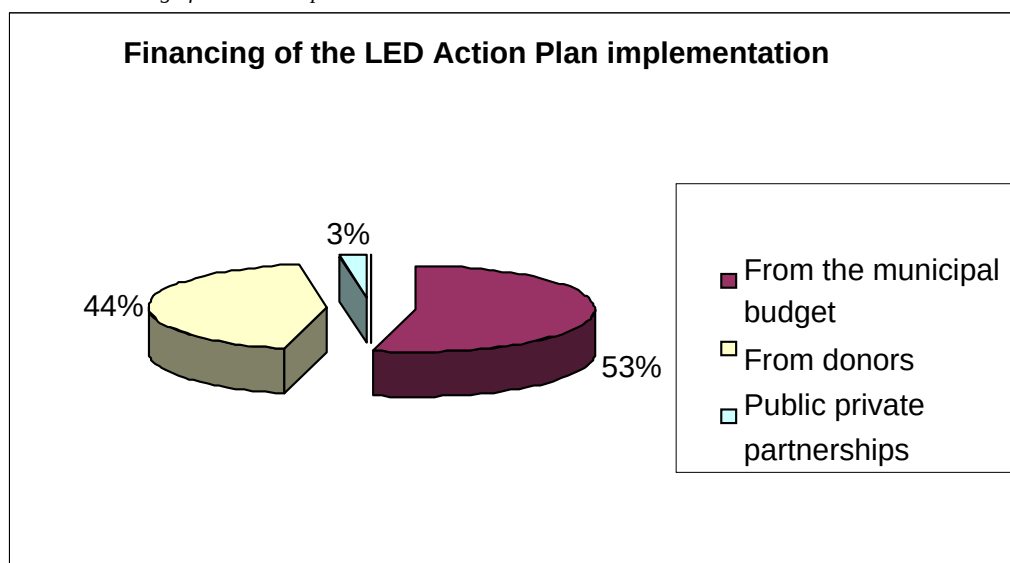
Table 1. Municipal staff in LED

How many people work on LED?	
Number of individuals	Percent %
0	1.39
1	47.2
2	30.6
3	11.1
4	4.2
5	4.2
6	1.4
Total	100.0

As per the survey results, 88.6 per cent of the LED staff have been regularly employed within their respective municipality.

With regard to the LED Strategies and Action Plans adopted by municipalities, 62.5 per cent confirmed that they have adopted an LED Strategy, while 37.5 per cent replied that they have not adopted one. Only 54.4 per cent of the municipalities have supported their LED Strategy with an Action Plan.

Chart 1. Financing of LED action plans

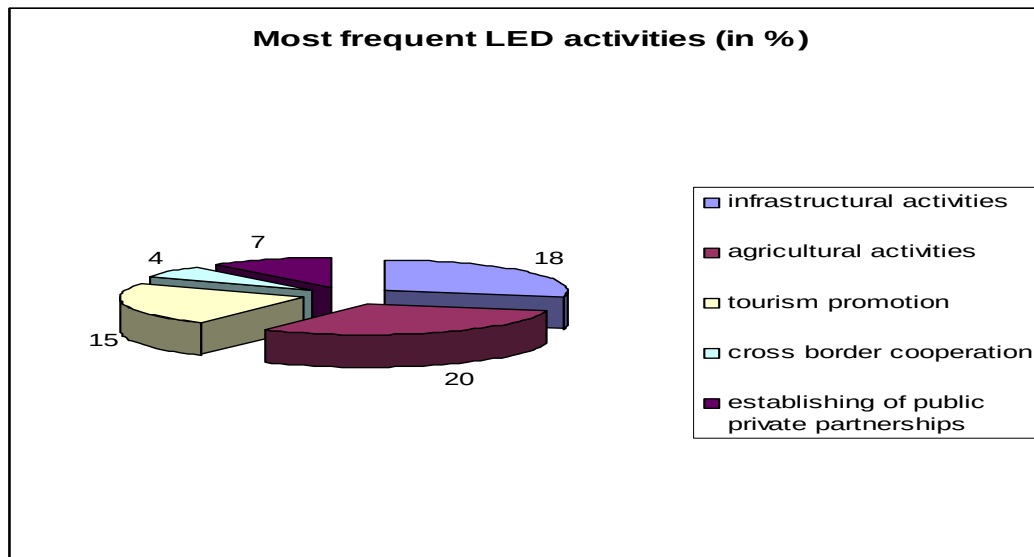


Fifty five point one per cent of the municipalities use their municipal budget to finance the operational costs of the established LED office. Approximately the same number of municipalities (53 per cent as shown in the chart 1) uses the municipal budget for financing the implementation of the LED Action Plan. One quarter of the surveyed municipalities is still reliant on donors when financing the operational costs, while up to 44 per cent have been financing their LED activities by using donor's funds. Only 3 per cent of municipalities use public-private partnerships to finance Local Economic Development.

The LED activities implemented in the period covered by the survey mainly focus on production and promotion of municipal profiles, strategies and action plans and

preparing project application documents. The most frequent activities are reflected in chart 2.

Chart 2. LED activities



The following were identified as the most common obstacles encountered by municipalities when implementing the LED Action Plans, ranked per priority:

- Scarce financial resources;
- Inadequate human resource potential;
- Poor cooperation with the business sector;
- Poor infrastructure;
- Unresolved legal aspects of construction land ownership;
- Lack of legal framework;
- Lack of preparedness to take advantage of EU and other donor's funds.

Most of the municipalities (about 39 per cent) believe that the information on the GDP on a municipal level is the most telling statistic for the purpose of LED Strategy and Action Plan production. One third has indicated the structure and the number of households. Eight per cent focus on population size, the number of active businesses, legal entities register and employees by sector.

5.2. Conclusion and Recommendations

Thorough implementation of the Local Economic Development concept requires serious engagement by the municipalities in terms of dedicating enough human and financial resources for fostering growth in the number of public-private partnerships. Building infrastructure, standardizing administrative procedures and strict law enforcement are the key preconditions for attracting domestic and foreign investors.

From the survey results it can be concluded that virtually all municipalities recognize the importance of LED, but many of them have appointed only one employee to coordinate the LED process. Municipalities are evenly divided in terms of having established an LED office, adopted an LED Strategy and Action Plan and using

municipal budget funds to cover for the LED operational costs. Yet, a significant portion is still dependant on donors to finance the adoption and implementation of the LED Strategies and Action Plans. Only a small portion of the municipalities utilize public-private partnerships for this purpose.

Most of the municipalities are in the initial stages of developing an LED culture, as producing municipal profiles, strategies and plans are the only LED activities that have been implemented to date. The survey highlights the need for more capacity building for LED officers in strategic planning and development of project application documents. Most of the municipalities focus on infrastructure development projects and only a small portion is oriented towards development of concrete economic branches. The lack of financial and human resources, proper infrastructure, legal framework and cooperation with the business sector are the greatest obstacles to LED.

A countrywide public awareness campaign for all relevant stakeholders (businessmen, civil sector and municipal officials) would help reinforce the mutual benefits of a culture of cooperation. The vital role of the public-private partnerships must be widely recognized as the only propelling tool towards reduced unemployment, poverty and improved living standard of the people. In the long run, the overall existence capacity of a municipality is dependent on its financial independence which is not feasible without fostered LED.

Municipalities need to incorporate LED activates into the budget planning process. In cooperation with domestic and IC donor institutions, they need to provide training and capacity building for their staff to identify donor funds, prepare proper application documents and establish partnerships with businesses and civil society. In addition, municipalities need to improve access to all relevant information to local entrepreneurs.

Municipal profiles, strategies and action plans must be produced in a manner which reflects the real economic potential of a municipality. Promotional strategies need to be developed and properly communicated to all potential investors. Municipalities need to improve and standardize their administrative procedures, preferably acquiring ISO certification.

The central government needs to recognize the inability of the municipalities to improve their infrastructure solely with their limited resources and needs to assist this process. It should also finalize the process of regulating the property-related legal affairs, particularly the ownership of land designated for construction.

Within the legal framework offered by the new Law on Equal Regional Development, municipalities need to recognize the need to join infrastructural, natural and financial capacities towards building mutual cooperation networks.²⁷ Donors' interest in the enforcement of the Law is extremely helpful for achievements in the sphere of Local Economic Development.

Businessmen and private entrepreneurs need to re-establish communication with municipalities and recognize them as partners, rather than as bureaucratic obstacles.

²⁷ The law seems ambitious in its aims; among other things, it schedules the opening of 8 Centers for regional development across the country, in charge of fostering common initiatives related to LED, and provides relevant funds (1% of GDP) for the implementation of the strategy

6. EDUCATION

6.1. Background

The Law on Local Self Government of 2002 (Article 22) lists the competencies of the municipalities in the field of education. Decentralization in education refers to establishing, financing, and administering primary and secondary schools, and organizing transportation of students and their accommodation in dormitories.

After the two years of the decentralization process, education still seems to be one of the most challenging areas along with urban planning (see the chapter on general state of affairs). That is not surprising having in mind the complexity of the competency in terms of administration and financing. Decentralized education means higher *local* autonomy in the operation of the schools from one side, and the inspection and capacity to manage the process by the municipalities, from other side.

For one thing, the role of the school board has been significantly increased through the power to propose the appointment and dismissal of the school director, to determine the school budget, and to adopt the statute of the school, while the role of the municipality has been increased with the power of inspection and adoption of the school budget and work programme of the school. The debate over the direct recipient, and thus the manager, of the central government transfers for education, is still ongoing.

This chapter aims to supplement the chapters on citizen participation and the general chapter on the state of affairs on the decentralization process, by giving an overview of the participation of student organizations (where applicable) in decision making in the municipalities, as a significant feature in the participatory management of the education competency. Also, this chapter will provide data on the human resource capacity of the municipality to manage education and possible existing obstacles in this respect.

The issues treated in this chapter are considered also to be relevant for the current challenges in the debate over decentralization in education and should be read along with the relevant education related overviews in the other chapters of the Survey.

6.2. Findings on education

Majority of the municipalities declared that there are student organizations in their municipalities. This could be assessed not only as high level of citizen self-organization, but also as a relatively high level of awareness of the existence of such organizations.

Further to this, out of the number of municipalities that responded that there are student organizations in their municipalities, a significant majority of them (around 80%) declared that the municipal statute determines the roles and the tasks of the student organizations. Around 20 municipalities claim that the students participate in the work of the teachers councils, while fewer report that students participate in the work of the school board and parents' council.

Around 60% of the municipalities declared that they have problems with school premises which are not sufficient for the students. This problem is more or less evenly present throughout the whole country and the regions even though the demographic trends and birth rate among the regions differ significantly.

It is interesting to note that the majority (above 60%) of the municipalities replied that they have a person in charge of education, other than the education inspector, which is only insignificantly more than the reported cases of last year (around 57%). Most of the municipalities who have a person in charge of education are urban, regardless of the size of the municipality. Most frequent obstacles for not having a person in that role are the lack of finances.

6.3. Conclusions and Recommendations

The existence of student organizations should be seen as a positive feature for the students and their possibility to participate in the decision making processes. The awareness of the municipalities over the existence of such organizations should also be seen as a positive sign for cooperation of students in the decision making process in education. Encouraging such cooperation, especially in the work of the school board is strongly recommended, as well as definition of their rights and responsibilities not only in the municipal statutes, but more importantly in the statutes of the schools.

It is obvious that majority of the municipalities suffer from problems with the school premises regardless of their size and region. It is recommended that further analyses in this area are conducted, in order to define the future steps to overcome this problem.

In comparative terms, the urban municipalities have more institutional framework to manage education than the rural ones. However, it should be highlighted that management of the transfers from the central government either directly by the municipality or by the school board, would be of importance as the municipalities are moving into the second phase. Proper training of the persons in charge would be recommended in this respect.

7. CITIZEN PARTICIPATION

7.1 Background and legal framework

Introducing citizen participation in decision making at local level is a new aspect of the 2007 survey. This chapter provides insight into the level of citizens' involvement in the process of decentralization as whole, and in some specific activities related to service delivery, as well as to see if some of the issues mentioned in the previous chapters had been addressed in the mean time and to what extend.

Local governance is about responding to people's needs and demands. Involving the people themselves in identifying these needs and demands, and in designing policies and programmes to meet them, is an excellent way of doing this. Citizens' participation can be considered as a means of achieving better local governance. Municipal management and development involves an increasingly broad and complex range of issues. This is especially true from the perspective of sustainability. Citizens' participation is often vital in order to accomplish these management and development tasks. Good ideas can do a lot to improve local governance, and citizens who are directly involved in, or affected by, a problem often have the best ideas. Their own experiences, thoughts and debates provide the creative and innovative approach needed to tackle delicate or difficult issues in ways that are satisfactory to all. Finally, citizens' participation in local governance is almost always cost-effective. There are several reasons for this. First, citizens can help to devise cheaper ways of doing things. Second, their voluntary involvement in implementing policies can significantly reduce financial costs. Lastly, involving citizens from the start can smooth the path of local development programmes and projects. Conversely, when local authorities push ahead with plans without involving citizens, for instance, road building projects, they often meet with resistance from the local people.

Questions in this chapter start with an evaluation of the level of civic involvement by the local authorities as a whole and continue with an assessment of the citizens' involvement into specific areas. Furthermore, the questionnaire is aiming at evaluating the frequency of the meetings between Mayors and citizens followed by findings on the means that were used for communication. Another aspect of the chapter was to investigate in which manner municipalities provided information to the citizens; the number of requests for access to information by 30th of June 2007 and level of feedback; and presence of the citizens during the council sessions.

The following two sub-chapters will dwell on two aspects of citizen participation in the local decision making process, which are particularly relevant for the OSCE mandate in the country: the state of the municipal Committees for Inter-Community Relations (CICR) and equal opportunities.

7.2 Findings on citizen participation

Based on the results of the survey regarding the level of involvement of the citizens in the life of the municipality, from the local government point of view, citizen participation is not at the desired level. Namely, of all 73 responses received, the percentage of 'active' involvement is lower compared to that of 'partially active' in all competences listed in the survey and it varies pending the specific competency. The largest margin between the 'partially active' and 'active' is recorded in the area of Urban Planning where 64.1% of respondents replied that citizens are 'partially active' and 25.6% of the citizens replied that they were 'active'. Whereas, the smallest margin is recorded in the area of Communal Services where the difference between the 'partially active' and 'active' citizen participation is only 8,9%, namely 47,4% replied that the citizens are partially active compared to 38,5% of active participants.

When it comes to meeting the citizens, Mayors overwhelmingly answered that they had established the so-called 'open day' for citizens during which they were able to hear the people voicing their concerns over issues important to them. Regarding the manners of communication, all the respondents claimed to have used different means, visiting neighbourhood units, through media, press releases, citizen information centres, billboards, and in writing.

Very encouraging results were recorded when it comes to meeting the Neighbourhood Self-government Units (NSG). Sixty seven out of 78 Mayors replied that they had established regular meetings with NSGs. Fifty six of them have established regular monthly meetings with heads of NSGs.

Fifty six municipalities replied that they had replied to all the written requests addressed to them. The majority of the municipalities claim that they sent out their replies within the reasonable timeframe of 10 days. When it comes to communication with the council, the results show a low level of participation; only half of the municipalities claim that citizens have visited the council sessions.

7.3 Conclusions and recommendations

The concept of citizen participation in political life has not been so widespread in the country. There is some limited experience regarding citizen participation and decentralized local self government as part of the former Yugoslavia, in which neighbourhood councils played an important role in the life of the citizens. Through them citizens were able to voice their concerns to local officials and launched various initiatives that affected their way of living.

Although the legal framework²⁸ provides for an improved relationship between the citizens and their local governments, there is still a culture of passivity in the country as far as citizen involvement at the local level is concerned. Citizens are often unwilling to act in response to insufficient, low quality or lack of public services or the abuse their rights. Citizens often do not take part in developing and defining public policies. This was most likely because citizens did not have a clear idea of what citizen participation is about, or of the ways in which they could take part in

²⁸ Articles 25-30 of the Law on Local Self Government. January, 2002.

strengthening government and benefits their involvement would bring. Further, it is not in the culture of public agencies to consult and involve citizens and citizens' groups in policy making. This is because still a lot of people view government officials as powerful and difficult to approach.

Some improvements have been recorded based on the answers regarding communication between the Mayor/ civil servants and citizens, and citizens with the council. However, communication alone cannot be a guarantee that the ideas and/or requests of the citizens/ tax payers will be incorporated in the decision making processes. Local authorities must work harder and encourage the inclusion of citizens' ideas by finding effective and efficient mechanisms to achieve that. Among the tools at the disposal of municipalities for achieving this aim, the Committees for Inter-Community Relations (CICR) and the municipal Equal Opportunities Commissions (EOC) shall play an important role. More on these bodies will be described in the following two sub-chapters.

7a. MUNICIPAL COMMITTEE FOR INTER COMMUNITY RELATIONS - CICR

7a.1. Background

One of the main objectives of developing decentralized governance is *bringing governance closer to the citizens*. Developed local self-government offers a good environment for the promotion of *open social dialogue, consensual democracy and active citizen participation*. In multi-ethnic societies, one way to promote dialog and equal participation of citizens in the decision-making process at local level, regardless of their ethnicity is through the establishment of institutional forms of dialogue among different ethnic groups.

In order to reinforce interethnic dialogue on the local level, the Law on Local Self-government prescribes the establishment of municipal Committees for Inter-community Relations²⁹ (CICR). These committees represent institutional forums for interethnic dialogue in which the different communities can present their interests and opinions to municipal decision makers. In total, 22 ethnically mixed municipalities are obliged to establish these committees in accordance with the rule that municipalities with non-majority populations that total more than 20% of the local population³⁰ establish them.

The Law identifies the following competencies of the CICR: to review issues that refer to the relations among the communities represented in the municipality, to provide opinions and to propose solutions to resolve issues. On the other hand, the Law stipulates the responsibility to the municipal council to review the opinions and proposals from the Committee to make decisions on the opinions and proposals.

The municipal council is obliged to obtain an opinion from the CICR prior to discussing topics related to “culture, use of the languages and alphabets spoken by less than 20 percent of the citizens in the municipality, determining and use of the coat of arms and flag of the municipality”³¹ and naming streets and other infrastructure objects in the municipality. The municipal councils can only decide on these matters with a double majority³². Therefore, it is of utmost importance that CICRs are composed of equal numbers of representatives from all communities in the municipality.

The aim of this chapter is to provide an overview of the work of the CICR in terms of the issues it commonly addresses, the composition of the CICR, committee members’ understanding regarding its role, and to provide a comparative overview for 2006 and 2007 regarding their work.

²⁹ Law on Local Self Government (2002) Article 55

³⁰ Several municipalities that do not apply to this requirement have also established CICRs by self-initiative

³¹ Article 41 of LSG Law

³² This so-called “Badinter majority”, means that the decisions “shall be adopted by the majority of votes of the present council members, within which there must be a majority of votes of the present council members belonging to the communities which are not the majority of population in the municipality”.

7a.2. Findings on CICR

At the beginning of 2006, most CICRs existed only “on paper”. Some municipalities claimed they had formed a committee, but these councils never actually convened or only met for their first constitutional session.

The following table shows the status of CICRs in relevant municipalities³³ at the beginning of 2006.

Table 1. CICR status countrywide – March 2006

	Active CICRs	CICRs on paper	Non- existent CICRs	Total
Existent CICR – March 2006	5	15	3	23

At the time, committees that had at least one meeting and discussed issues relevant to improving interethnic relations in the municipality were considered “active”. These CICRs mostly discussed issues related to existing conflicts in the municipality, such as a series of fights among students on public busses. In many cases, composition of the CICRs was not fully in accordance with the law in the sense that some non-majority communities were not properly represented. In many cases, there were no Roma on the CICRs, or the larger communities had a larger instead of equal number of representatives on the committees. According the Law on Local Self-government and the spirit of the CICR concept, each community must be equally represented on the committees, regardless of the percentage of population they represent. In effect, this means that each community should have an equal number of representatives.

At the time, the prevailing understanding of the role of the CICR among the municipal decision makers was that, although CICRs were needed and active during the conflict in 2001, they were no longer needed.

Table 2. CICR status countrywide - June 2007

	Active CICRs	Not required but established CICRs ³⁴	Required but not established CICRs ³⁵	Total
Existent CICRs – June 2007	20	3	1	24

The perception of CICRs in June 2007 is much different. While at the beginning of 2006, CICRs that held at least one meeting were considered “active”, in June 2007, most CICRs have regular meetings³⁶ as described in the chart below.

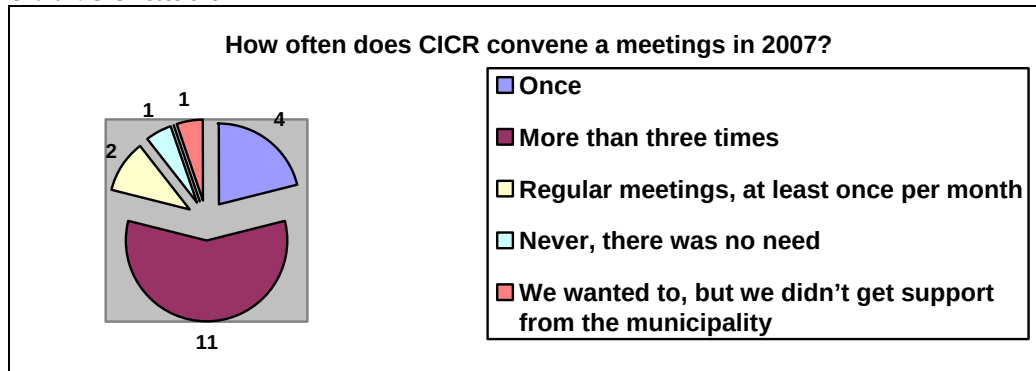
³³ The survey was conducted in the period February - March 2006 by the OSCE as a needs assessment for the design OSCE activities to support the CICR. It covered 23 municipalities that were obliged to establish a CICR,

³⁴ The municipalities of Drugovo, Vrapciste i Studenicani have established CICRs even though they are not required by the law to do so.

³⁵ The city of Skopje has not established a CICR even though it is required by law to do so, because more than 20 percent of population belongs to non-majority communities.

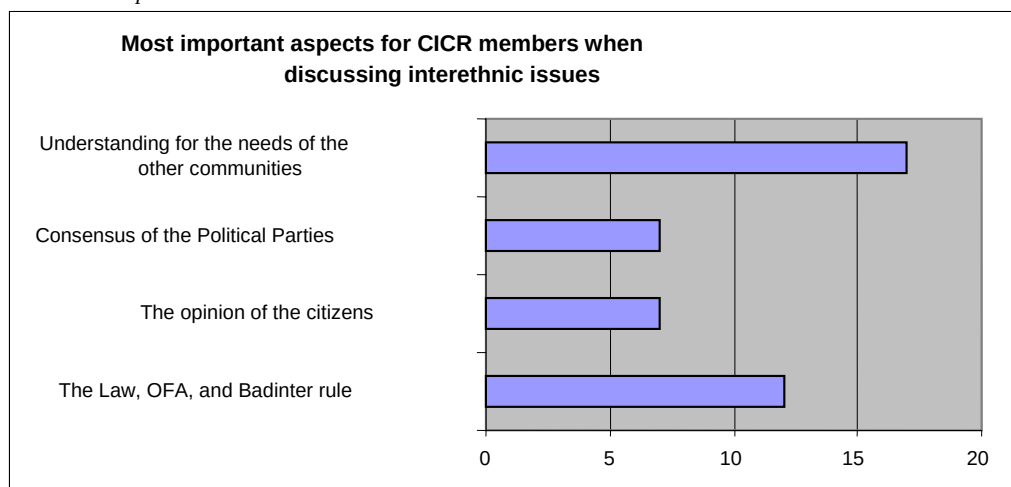
³⁶ In 2007, OSCE organized number of workshops for all CICRs, aiming at strengthening their capacity and understanding of their roles and responsibilities. After these workshops, several municipalities amended their municipal statutes and re-elected the CICR members in accordance with ZELS and OSCE recommendations. The number of CICR activities has increased and the scope of activities has broadened.

Chart 1. CICR sessions



In 2007, more than half of the CICRs hold regular meetings during which committee members discuss issues of significance to the municipality. More importantly, CICR members' understanding of the commission's role and issues they should discuss has increased. The chart below shows that CICR members consider an understanding of the needs and interests of the other communities when discussing interethnic issues to be the most important consideration.

Chart 2. CICR priorities



Monitoring reports³⁷ show that the CICR's potential to facilitate interethnic dialogue is eminent³⁸, but the committees need further encouragement and support, especially with respect to communication between CICRs and the citizens in the community.

7a.3. Conclusions and recommendations

Having in mind that healthy dialogue and mutual understanding is crucial for sustainable and peaceful development of ethnically mixed communities

³⁷ The Community Development Institute from Tetovo www.mic.org.mk, with support from OSCE, performs the monitoring of the work of CICR

³⁸ Being satisfied with the performance of the CICRs and recognizing them as a possible as conflict prevention tool, the OSCE produced a documentary film on the work of the CICRs that was presented to OSCE Participating States and international NGOs at the OSCE conference on combating discrimination and promoting mutual respect and understanding; held in June 2007 in Bucharest Romania.

(municipalities), CICRs, if engaged properly, offer capacities to improve the interethnic relations and to facilitate this interethnic dialogue. They also offer underrepresented ethnic groups the possibility to express their opinions in front of municipal decision makers and to contribute towards efficient consensus-building and harmonious development.

When talking about CICRs, we purposefully use the term “offers capacities”, since the results and advantages of CICRs do not come only by their establishment. It is important that the people elected as CICR members are respected and influential representatives of their communities. In addition to the establishment, CICRs require continuous support and consideration from the municipality, i.e. providing administrative and technical support to their work.

However, it should be noted that support provided by national and international stakeholders contributed to the evident progress in the work of CICRs. Further support is strongly recommended, especially during the coming period³⁹ so as to establish a solid ground for their work, institutional culture and wider citizen acceptance of their roles.

Administrative support by the municipality is essential for the efficient work of the CICR. The municipality should consider planning and reserving financial assets to support the committee’s work. This amount should cover committee members’ expenses and support their activities. The CICR should plan its activities in cooperation with the municipality and incorporate them into the municipality’s annual work plan.

CICRs, if engaged wisely and properly, could serve as an excellent mechanism to buffer interethnic tensions and to prevent misunderstandings. The work of the municipal council could become more efficient if interethnic issues are discussed by the CICR first.

Promotion of the role of CICRs in the public is the crucial challenge in the forthcoming period. In order to be efficient, the CICR must be recognized in the public. Regular communication between the CICR and the citizens is crucial to gaining a true understanding of community views and to gain citizens’ trust.

³⁹ before the new local elections in 2009 and possible change in the CICR composition

7b. EQUAL OPPORTUNITIES

7b.1. Introduction

The politics of gender equality represents one of the fundamental principles of democracy and social order. Enabling equal opportunities is an obligation for all actors in society and includes removing obstacles to reaching equality through combating unequal treatment of men and women and creating conditions for equal participation of women and men in all spheres of social life.

OSCE's 2006 Survey on decentralization⁴⁰ concluded that women remain dramatically underrepresented in decision-making institutions and processes. Even though the Law on equal opportunities⁴¹ of men and women was adopted in May, 2006, this situation has not been significantly changed in the period between last year's and this year's survey. Demographically women comprise 50 percent of the population; while for example, only 3 out of 84 Mayors in the country are female. Yet, this Law laid out the general and specific measures for establishing equal opportunities for men and women in the country.

Enabling equal opportunities of both women and men in every aspect of life is a strategic determination of the OSCE Spillover Monitor mission to Skopje. In this aspect the Mission has been supporting initiatives that brought about the preparation and adoption of the 2nd National Action Plan for Gender Equality⁴².

In order to establish the necessary institutional framework to mainstream gender at local level, the National Gender Action Plan calls for the establishment of Equal Opportunities Commissions and for appointing gender coordinators in the municipalities.

The aim of this chapter is to look at the number of municipalities which have established Equal Opportunities Commissions and coordinators as proscribed by the Law. Also data will be provided on how the Commissions operate, what kind of activities they have undertaken in the past year and how they communicate with the municipal council. In the end the areas of necessary assistance and support are identified.

⁴⁰ Summary Report on the findings of the Survey on the Implementation of the Process of Decentralization, July 2006, OSCE.

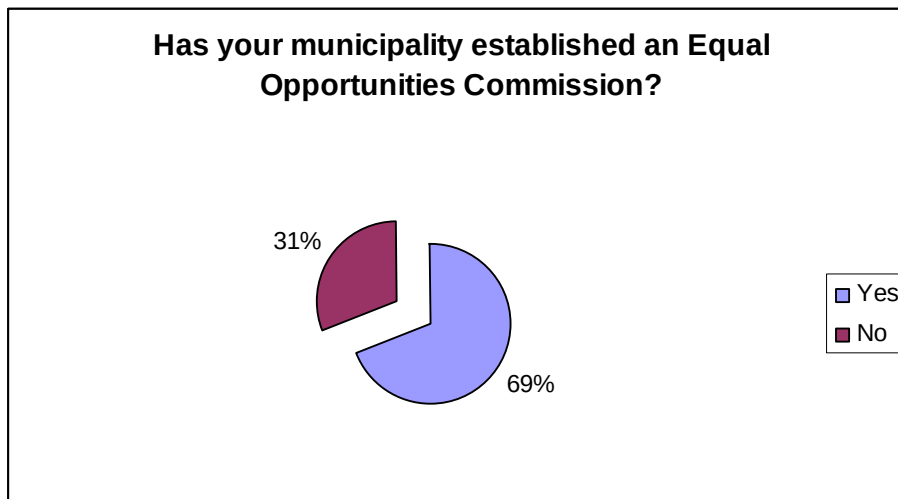
⁴¹ Zakon za ednakvi možnosti na zenite i mazite, Sluzben vesnik na RM br. 66/06, 29.05.2006.

⁴² Nacionalen plan za akcija za rodova ramnopravnost 2007-2012, Skopje, maj 2007.
www.mtsp.gov.mk

7b.2. Findings on equal opportunities

This year's survey determines that many of the municipalities have established an Equal Opportunities Commission (69%) while around half of them have appointed an Equal Opportunities Coordinator (51%).

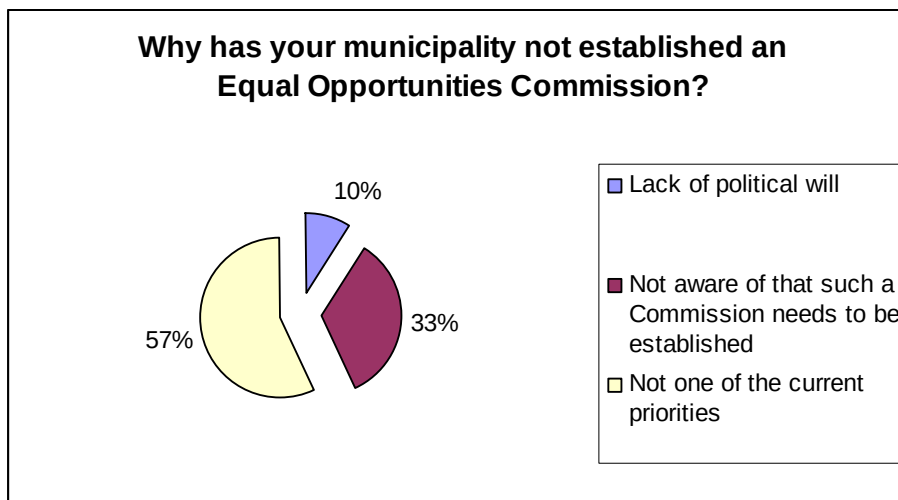
Chart 1. Establishment of Equal Opportunities Commissions



Municipalities which have established an Equal Opportunities Commission are mostly urban (72%) rather than rural (28%).

The justification provided by the majority of the municipalities which do not have established a Commission is that it is not their current priority or that they are not aware that such a Commission needs to be established.

Chart 2. Reasons for not established EOC



Many of the municipalities (62%) which have established a Commission have done so respecting the legal provisions which call for the municipal Statute to determine the roles and tasks of the Commissions.

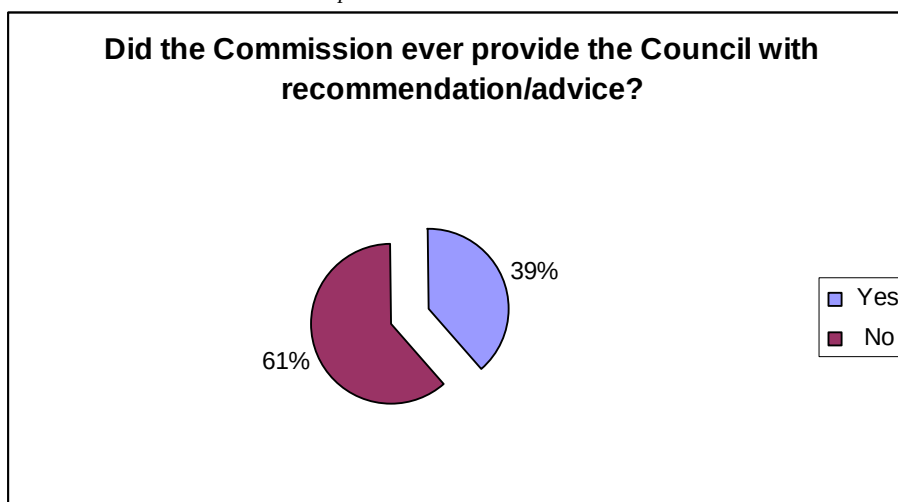
Regarding the activeness of the Commissions it is obvious that a large number of them have been established in the course of the past year and this constitutes their

major accomplishment. Still, some of them have been busy developing their work plan and/or action plan which includes reporting to the Ministry of Labour and Social Policy. In addition, the Commissions have undertaken a range of activities directed towards education and raising awareness on the issue of gender equality as well as specific projects dealing with a domestic violence, gender roles in society, participation of women in municipal commissions and council and protection of worker's rights. A certain number of Commissions have been involved in charity work undertaking activities for assisting children with special needs, campaigning against drug abuse and helping single parents.

Half of the Commissions (52%) are supported financially by the municipality i.e. their expenses are planned as items in the budget, and most of them (78%) receive remuneration for travel and other expenses. Almost all Commissions (96%) are provided with meeting space, necessary information and other necessary technical support from the local government administration.

Almost all municipal councils (88%) regularly inform the Commissions about the agenda of their sessions. However recommendations and/or opinions are not submitted to the municipal council by the many of Commissions.

Chart 3. Coordination EOC – Municipal councils



The recommendations of half of those who submitted them were adopted with a formal decision of the Council.

Eighty seven percent of the municipalities expressed a need for capacity building in this area. The topics pointed out range from increased knowledge about the role of the Commission, its responsibilities, tasks and legal provisions to how to develop planning documents and gender aspects of service delivery.

Table 1. Areas for EOC capacity building

More about role of Committee, responsibilities, legal provisions	18.9%
Developing planning documents	16.3%
Gender aspects of service delivery policies	11.2%

Compared to the situation last year it seems that there is a slight increase in the number of Commissions established and coordinators appointed, with the latter showing greater increase. The reasons for not fulfilling the legal requirement in this aspect continue to be justified as not being a current priority while some say that they are not even aware of this requirement.

7b.3. Conclusion and Recommendations

It can be concluded that most of the institutional set up and the legal framework aimed at ensuring the gender equality at the local level are in place. However, it is obvious that there remains a need to work with municipalities in raising their awareness about fulfilling the legal requirement of establishing the Equal Opportunity Commissions.

In order for this analysis to have a broader impact the following recommendations are suggested:

- to municipalities

Municipalities need not forget to continue the effort to ensure gender equality at all levels of governance, policy making, execution and administration. They could do this by justly apply the provisions of the Law on Equal Opportunities related to equal and just access to employment for both genders. In addition, municipalities should continue to establish Equal Opportunities Commissions and appoint coordinators. These can be persons already working in the administration. Also, trainings and pre-qualification programs for women working in the municipal administration should be initiated in order to enable them to apply for management positions

- to central government

Improved monitoring of the implementation of the Law on equal opportunities is necessary, as well as analysis of the reports received from the Equal Opportunities Commissions and the creation of adequate policies.

- to implementing agencies and donor community

Gender equality requires long-term commitment, since it is a factor that will contribute toward improved lives of the citizens. Implementing agencies as well as municipalities should raise awareness, especially in the rural areas, on the need for implementing the Law on Equal Opportunities. Training should be encouraged aimed at gender mainstreaming especially for the female councillors as this has a direct effect on decision making at local level.

8. INTER-MUNICIPAL COOPERATION

8.1. Background and Legal Framework

The concept of inter-municipal cooperation (IMC) is in principal regulated by the Law on Local Self-Government, but the Law neither defines the legal structure or the models of IMC nor does it indicate the areas or services in which IMC should be applied. The Law only authorizes cooperation among municipalities, leaving the optional and voluntary nature of the instrument.

After one year of decentralization, the 2006 OSCE survey on decentralization revealed that majority of the municipalities (around 64 per cent) are engaged in IMC initiatives, mostly in the area of joint administration⁴³, followed by buying and selling of services and public enterprises. At the same time, most of the municipalities in 2006, responded that the lack of legal regulation is an obstacle to IMC as well as insufficient technical expertise.

To date supplementary regulations to the Law on Local Self-government dealing with inter-municipal cooperation have not been developed in the country. However, on 30 March 2007, a Memorandum of Understanding on IMC was signed between the Ministry of Local Self-Government and the units of local self-government (ZELS), and a joint commission was formed with the task to co-ordinate the activities in the area of IMC. In addition to this, the Government is currently drafting a Law on Inter-Municipal Cooperation, which will give this instrument its legal shape by laying down the necessary structures and modalities.

Several aspects of the IMC are treated in this chapter including existing arrangements of IMC, the areas and forms of cooperation taking place, and future interest. Bearing in mind that the objective of this chapter is to provide a comparative analysis of IMC for 2006 – 2007 and identify important trends in terms of its frequency, it will also provide an overview of the municipalities' perception on cooperation and future areas of collaboration. Special attention will be paid to the size and type of the municipality (urban or rural) with the aim to provide the policy makers with insight into the areas of potential challenges related to service provision and human resources in these municipalities. This will provide all relevant stakeholders with important data for planning future support with technical assistance and expertise in IMC. The findings will also be relevant in the ongoing process of preparing the regulatory framework for IMC.

8.2. Findings on Inter-Municipal Cooperation

The majority of the municipalities (approximately 60 per cent) have stated that they are already involved in initiatives for inter-municipal cooperation. IMC is most present in the small to medium size and rural municipalities⁴⁴, while it is absent in the municipalities with more than 100,000 inhabitants. This fact is not surprising given

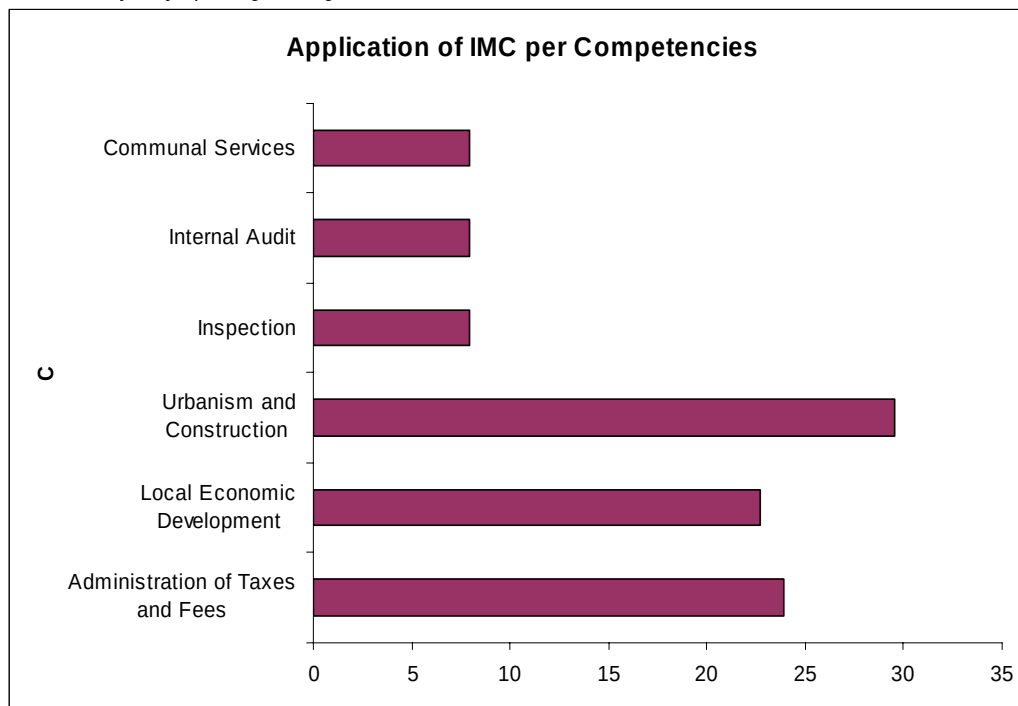
⁴³ It is worth to note that the shared administration is the most defined form of IMC in the Law, both in terms of the procedure for its establishment and its scope of operation.

⁴⁴ The following sizes of municipalities were determined based on the administrative categorization of the number of councilors in relation to the number of inhabitants as per the Law on Local Self-Government, namely up to 5000 , 10,000, 20,000, 30,000, 40,000, 60,000, 100,000 and above.

that IMC's primary goal is to supplement the lack of capacity to effectively provide certain service of those municipalities.

IMC is most present in the area of urbanism and construction, where 26 municipalities⁴⁵ state that they are engaged in IMC in this field, while 21 municipalities have stated that they are engaged in IMC in the field of administration of local taxes and fees, followed by cooperation in the field of Local Economic Development present in 20 municipalities. Communal services were less important with 12 positive answers, followed by shared inspection services and internal auditing with 7, fire rescue with 5, and education with 4. Other areas such as environmental protection, equal opportunities and joint public enterprises were mentioned but with less frequency. The above figures are projected in the following table:⁴⁶

Chart 1. Frequency of IMC per competence



There is a pattern in terms of the profile of the municipalities which declare that they are already involved in IMC arrangements vis-à-vis the competency and the type (urban or rural) and size of the municipality. In comparative terms, the presence of IMC per competency is significantly different regarding the type of municipality and the field of interest. Urban municipalities note the highest presence of cooperation in the field of LED with 15 reported cases, and communal services with 6, while the rural municipalities are mostly engaged in urbanism and construction (22) and administration of taxes and fees (17)⁴⁷, while LED was noted only in 5 municipalities.

⁴⁵ The number of municipalities is given in its aggregate terms regardless of the fact that IMC means cooperation of at least 2 municipalities in a certain field.

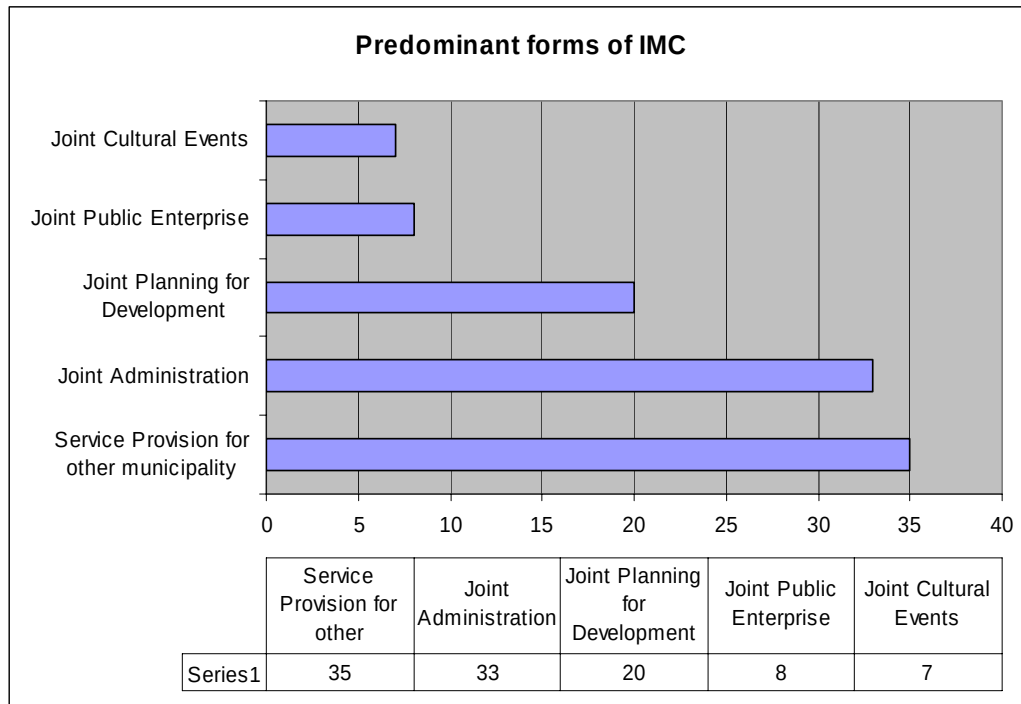
⁴⁶ The categories used in the chart represent best practices from EU countries.

⁴⁷ Sufficient number of staff employed for tax administration is a precondition for entering into the second phase of decentralization.

With respect to the size of the municipality, the municipalities with 5,000 to 20,000 inhabitants state that they are mostly engaged in IMC in the field administration of local taxes and fees (19) followed by LED, and urbanism and construction with 15 cases.

The predominant form of IMC is provision of services for other municipalities (35) followed by joint administration (33) and joint planning for development (20). Other forms of cooperation less prevalent include joint public enterprises with 8, joint cultural events with 7, and joint institutions with 2 as illustrated in the chart below:

Chart 2. Predominant forms of IMC



The predominant form of IMC is administering of taxes and fees and service provision in the area of urbanism and construction. Joint public enterprises exist for local economic development and communal services, but it is not a predominant form of IMC in these areas. The provision of services for other municipalities is mostly used for urbanism and construction and administration of taxes and fees. Joint planning for development is mostly applied for LED while there is only one case of joint public institution in the field of education.

Internal auditing⁴⁸ is solely done through the provision of services for other municipalities, while there is no pattern for inspection services as they are carried out almost equally through joint administration and provision of services for other municipalities.

⁴⁸ The amendments to the Law on Internal Audit (Official Gazette No 22, 2007) stipulates the forms of IMC in the internal audit, namely, contract for establishment of joint unit of IMC (joint administration) and service contract for execution of internal audit by other public entity (provision of services for other municipality). As per the Law, the IMC is both optional and mandatory, but is mandatory in case the municipality does not have a unit of internal audit. The IMC in internal audit has to obtain prior consent from the Ministry of Finance.

When asked about the future perspectives of IMC as an instrument to minimize the problems in delivering services inherent in their recently transferred competencies, most of the municipalities ranked LED the most important area for cooperation, while fire fighting services and healthcare were less important. Water supply, and garbage collection and environmental protection are also cited as important issues whereas the administration of taxes and fees does not seem to be of interest for future inter-municipal cooperation.

Urban municipalities have greater interest in cooperating on issues of LED than rural, while both show equal interest in garbage collection and environment protection. Rural municipalities and especially small municipalities (5,000 to 20,000 inhabitants) have high interest in joint inspection services (nearly 70 per cent of the total). Small municipalities also show interest in LED.

8.3. Conclusions

In comparison to last year, the frequency of IMC throughout the country is nearly the same in 2007 (around 60 per cent) despite the fact that the legal framework is still being developed. IMC is predominantly present in urbanism and construction in rural and small to medium size municipalities (22 out of 26 instances). This might be an indicator that urbanism and construction is of higher importance for those municipalities due to the lack of resources. Also, it may be an indicator for less developed infrastructural network in these areas.

Local Economic Development seems to be an area of interest for both bigger and smaller municipalities and of less importance for rural municipalities. The predominant presence of IMC in LED in urban areas might be an indicator of higher interest and readiness on the part of the urban municipalities for economic development and the more developed infrastructural network in these areas. The most common form of LED is joint planning for development.

Administration of taxes and fees is also common among small and rural municipalities. This is understandable having in mind the requirements for the number of finance human resources proscribed in the Law on Financing of the Units of Local Self-Government⁴⁹ and the fact that joint administration is the only regulated form of IMC.

In terms of future perspectives, LED is ranked to be the most important for urban municipalities, while rural and especially small municipalities show interest in inspection services. This is not surprising for small municipalities, having in mind the most commonly reported lack of human capacity. Also, most of the municipalities, regardless of their size or type, are equally interested in garbage collection, environment protection and water supply.

Overall, the survey illustrates how inter municipal cooperation is a useful instrument for the municipalities given the linear concept of decentralization, which grants the

⁴⁹ The Law requires that each municipality regardless of the size or type to have at least 2 employees in the filed of financial management and 3 in the filed of tax administration. The number of employees was also set as a pre-condition for entrance into the second phase.

same rights and responsibilities for all municipalities, regardless of their capacity to provide services to its citizens. More concretely, IMC has proven to be a useful form for sharing human capacity, especially for smaller and rural municipalities. Also, from the predominant forms of IMC present in the country, i.e. provision of administrative service, joint administration and joint planning, it can be concluded that IMC is mostly present in the areas related to the sharing of administrative duties (tax, inspection) rather than in the areas of providing public services (water supply , garbage).

As decentralization moves into the second phase, the process is less and less focused on institutional capacities of municipalities, and is turning increasingly towards more IMC in the area of service provision (i.e. communal services). This trend is very visible in the more rural, underdeveloped and smaller municipalities who are facing many new challenges as service providers, and maintaining their role in regional development. Policy makers and those supporting cooperation among municipalities should take this aspect into consideration, especially those involved in drafting the legal framework. In the absence of benchmarks for the minimum level of service provision it is important to look closely at the quality and efficiency of public services when planning support and incentives for IMC.

9. MUNICIPAL SUPERVISION

9.1. Background

Article 22 of the Law on Local Self-Government stipulates that municipalities are solely responsible for supervising communal functions and overseeing the implementation of their competencies. The same law, in article 57, stipulates that municipalities can organize a municipal inspectorate for this purpose. With the gradual increase in competencies being transferred from central to local authorities, the issue of oversight is becoming more and more relevant. Supervision of public works done mostly through the inspection services should ensure adherence to the rule of law, accountability, transparency, as well as efficiency in executing their work. While material laws regulate oversight mechanisms of each sphere of competence of municipalities, the Law on General Administrative Procedures links all public bodies together. Municipal inspections are usually structured in special inspectorates, departments for inspection services, or so called authorized inspectors.

The new supervision set up has almost not been treated as a separate issue by any of the stakeholders, when elaborating on decentralization. Therefore the aim of this chapter is to examine the common perceptions within the municipalities with regard to the inspectoral supervision, and the basic needs for capacity building in this area. It will also provide information on the current state of affairs with regard to training and capacity building in this field.

9.2. Findings on municipal supervision

The analysis on municipal inspection supervision is divided in three segments:

1. The status of inspection services per municipal competency;
2. The communication on the work and the findings of the inspectorates with the municipal and central government bodies;
3. The needs identified for capacity building.

The survey is designed in such way that it provides the widest possible extent for answers in terms of the different structures established for inspection services, as well as any reasons why this service may be yet to function properly in a particular sector. This approach intends not only to investigate the current situation on the institutional side of this issue, but also to examine the level of coherence and understanding of this issue among municipalities.

The results of the survey confirm that the institutional set up and the perception of internal oversight varies significantly from one municipality to another. Some of the more significant findings are as follows:

Urban Planning: Around 50 municipalities declare that they have some form of urban inspection. However, most of them have organized it together with construction and/or environment inspection. A case of IMC was reported to exist for this purpose, while those municipalities which have not addressed this issue yet cite the lack of finances as the obstacle, followed by the absence of qualified staff. Responses from 6 municipalities show that the reason for not having urban inspectors is that some municipalities still believe that the central government is responsible for this issue.

Construction: Around 75 per cent of the municipalities declare they have some form of construction inspection. Two cases of IMC are reported. As mentioned above, in a number of cases this is organized together with other competencies, such as urban inspection and environmental services, or communal inspection. Most often the reason stated for not establishing construction inspection of any form is the lack of funding.

Environment: Approximately 50 per cent of the municipalities have established some form of environment inspection, as a separate organizational form, or together with the communal inspection services. Individual cases of IMC and utilization of services from the State Environmental Inspectorate have been reported. The most frequently stated reason for not addressing this issue so far is the lack of funds, followed by lack of office space and qualified staff. Several municipalities state that the central government is responsible for supervision in this area, or that internal oversight to check compliance is not needed.

Education: Nineteen municipalities have declared that they have education inspection (usually as authorized inspectors). A case of IMC is reported to exist as well. Around 30 municipalities have stated that they do not have an education inspection due to the fact that the central government is responsible for this function. Five have declared that the relevant legislation is not sufficiently clear for them.

Other Services: In very few cases municipalities declared that they have somehow addressed the inspection supervision issue in other areas, such as culture, child and elderly care, and sports. The central government is widely deemed to be responsible for overseeing these services. A large variety of other reasons are cited including funding, office space and staff.

Reporting and Communication: Regarding the operation and findings of the inspection services, most municipalities declare that their inspection services produce annual reports. In most of the cases these reports are delivered to the mayor, and in 60 per cent of the cases it is sent to the municipal council for review. Only 25 per cent of the municipalities declare that the reports are also directly sent to the head of the respective unit. Some municipalities declare that they also communicate the relevant ministries.

Capacity Building: Nearly 60 per cent of the municipalities state that they need training on the Law on General Administrative Procedure and on inspection supervision in general. They also identified the need for further training in legislation in area of urban planning and construction, environmental issues, communal affairs, education, and financial administration.

9.3. Conclusions and Recommendations

The survey clearly reaffirms the need for training and assistance in establishing effective oversight mechanisms and inspectorate services within municipalities and that this issue deserves more attention in the next phase of decentralization.

The objective of the survey is not to provide exact statistical data on the municipal inspection services, or to promote a specific form of supervision, but is to solicit

feedback on this notion at the local level. With this aim, the survey reveals the following common perceptions:

- Municipalities' views on their obligations to provide supervision in different sectors vary greatly from one to another.
- The variety of reasons given for not establishing any form of inspection services shows that they have quite different understandings of the legal framework on particular competencies;
- Municipalities express a clear desire for education on oversight functions and on a number of material laws whose implementation would be a subject of supervision.

Taking this under consideration, the next steps should be a more thorough analysis of the factors effecting municipalities and hindering the establishment of proper oversight mechanisms, especially looking at the legal framework with a view towards designing relevant training activities. It is also important to identify alternative policy solutions to address this issue such as inter-municipal cooperation arrange

Part II

Fiscal Decentralization

1. TWO YEARS OF FISCAL DECENTRALIZATION - CURRENT STATE OF AFFAIRES

The fiscal decentralization process officially started on 1 July 2005 when the right to transfer the new competences from central to local government level entered into force. As it was set forth in the Law on Financing the Units of Local Self-Government⁵⁰, the process, which introduced a transparent mechanism for financing the municipalities, was to be implemented in phases. The phased approach to fiscal decentralization according to this law was based on the following principles:

- Gradual devolution of responsibilities in line with the capacity of the municipalities to undertake those responsibilities;
- An equitable and adequate provision of funds for an efficient and incessant execution of activities under the transferred competencies;
- Reduction of the funds in the state budget and the funds for the competencies, which will be transferred to the municipalities.⁵¹

With the start of the first phase of decentralization, local self-government units obtained the right to administer revenues from their own sources, in parallel to the transfer of grants from the central government budget (earmarked grants for education, social welfare, culture, fire fighting; capital grants for road construction and maintenance; and revenues from Value Added Tax and Personal Income Tax). In order for the 2nd phase of fiscal decentralization and the transfer of block grants to start, the municipalities were obliged to meet the following criteria:

- Meet all conditions from the first phase;
- Possess an adequate staff capacity for financial management;
- Show positive financial results for at least 24 months;
- Inform the Ministry of Finance on a timely basis and be confirmed by the Ministry of Finance;
- Have no arrears to suppliers or any other creditors exceeding ordinary terms of payments.

In January 2007 the Government established a commission for monitoring and assessing municipalities in reference to fulfilment of the conditions for entering the second phase of fiscal decentralization. It was the task of the commission to assess the financial results of the first 24 months since the start of fiscal decentralization, and the commission approved a total of 42 municipalities⁵² (scoring 85 points and above on the criteria examined by the commission) to enter into the second phase

⁵⁰ Law on Financing the Units of local self-government, Official Gazette of R.M. No 61/2004.

⁵¹ The funds for the competences that are performed by the local self-government units will be part of the budget that is being transferred to the local government

⁵² 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

2. MAIN AMENDMENTS TO THE FISCAL REGULATIONS

In order to provide adequate sources of revenue for the local self-government units, in July 2007 the Government adopted amendments to the Law on Property Taxes, the Law on Communal Fees, the Law on Administrative Fees, and the Law on Internal Audit in the Public Sector. In addition to the new legislation, changes were made in the methodology of the distribution of revenues from the VAT for 2008.

The latest amendments to the Law on Property Taxes will affect commercial and residential buildings located in mountainous areas, which will no longer be exempt from property taxes. This move will generate additional revenue for municipalities from all property within their territories and will take effect as of 1 January 2008.

Amendments to the Law on Communal Fees are intended to generate adequate revenue for maintaining certain public utilities (street lightening), which until now were lacking sufficient funding. Specifically, the amendments set the parameters for the payment of communal fees which varies depending on the type of consumer (household, trading company or artisan). In addition, each municipality in the City of Skopje will receive a different percentage of the communal fees collected for street lighting. For example, 40 per cent of the communal fee for street lightning in the municipalities of Aerodrom and Karpos will be transferred to the city and 60 per cent will be kept by each municipality; 30 per cent of the communal fee for street lightning in the municipalities of Butel, Kisela Voda and Cair will go to the city account and 60 per cent will be kept by each municipality.

Changes in the structure of administrative fees introduce new tariffs for certain documents and activities which qualify for payment. The amendments are the initiative of the Ministry of Transport and Communication, the Ministry of Agriculture, the State Office for Geodetic Works, the State Statistical Office, the Ministry of Finance, and the Ministry of Interior and Customs Office.

In June 2007 the Government adopted changes to the methodology of the distribution of revenue from the VAT in 2008, which introduces minor changes in comparison to the process in 2007. The new scheme calls for the division of the total funds from VAT (that local self-government units are entitled to) in the following way: 3 per cent of the total amount (compared to 2 per cent in 2007) of revenue from VAT collected in the previous fiscal year to be used to compensate those municipalities whose revenues in the 2006 general budget were lower than 25 per cent of the planned national average. In addition, 97 per cent of the VAT will be divided by 12 per cent for the City of Skopje and its municipalities; 88 per cent for the remaining municipalities in the country (compared to 10 per cent for the City of Skopje and 90 per cent for the municipalities in the country in 2007), and these funds will be divided according to the same formula for distribution of VAT revenue as in 2007 (number of inhabitants, territory and inhabited settlements).

According to the provisions of the Law on Internal Audit in the Public Sector, internal auditors should have been appointed by the municipal council upon a proposal from the mayor. According to the latest changes⁵³ the mayor is obliged to establish a separate organizational unit for internal auditing, or to enter into an inter-municipal cooperation initiative with a unit from another public sector institution, with prior

⁵³Law on Internal Audit in the Public Sector, Official Gazette of R.M. No 22/2007.

approval of the Ministry of Finance. With these changes, the internal auditors enjoy the status of permanently employed staff.

In August 2007⁵⁴ the Government, for the first time adopted the bylaw for distribution of block grants for public institutions in the area of culture, kindergartens, homes for the elderly, and primary and secondary education. The period coincides with the deadline set by the government to the line Ministries in charge.

⁵⁴Official Gazette No. 97/2007 and 104/2007.

3. THE STRUCTURE OF MUNICIPAL REVENUES AND EXPENDITURES

3.1. Structure of Municipal Revenues

The start of the fiscal decentralization introduced significant changes into the municipal finance system. With the transfer of competences from central to local level, local budgets expanded the number of programmes, whose financial management is the responsibility of the municipal administration.⁵⁵ Due to the changes in the fiscal system, a comparison of the financial data among years needs to be interpreted with a degree of caution. At the same time, a comparative analysis is essential in order to better evaluate the situation and assess the reform process.

The structure of local government revenues in the years preceding (2003 and 2004) and following the process of decentralization (2005 and 2006) is presented in the following table.

Table 1. Structure of Municipal Government Revenues (in MKD)

	2003	%	2004	%	2005	%	2006	%
Capital Revenues	49,662,728	1.12%	83,079,082	1.68%	4,262,980	0.08%	84,963,936	1.06%
Domestic Debt	51,312,804	1.16%	44,791,500	0.90%	13,550,000	0.25%	0	0.00%
Non-Tax Revenues	156,150,984	3.52%	310,333,226	6.27%	188,250,926	3.48%	1,116,456,777	13.89%
Tax Revenues	2,888,337,267	65.06%	3,196,800,525	64.55%	3,169,564,320	58.55%	3,462,685,606	43.09%
Transfers and Grants	1,294,113,813	29.15%	1,292,032,832	26.09%	2,038,173,242	37.65%	3,380,718,104	42.07%
Grand Total	4,439,616,175	100.00%	4,952,319,874	100.00%	5,413,801,467	100.00%	8,035,194,599	100.00%

Source: Annual accounts of the local self-government units for the years 2003, 2004, 2005 and 2006

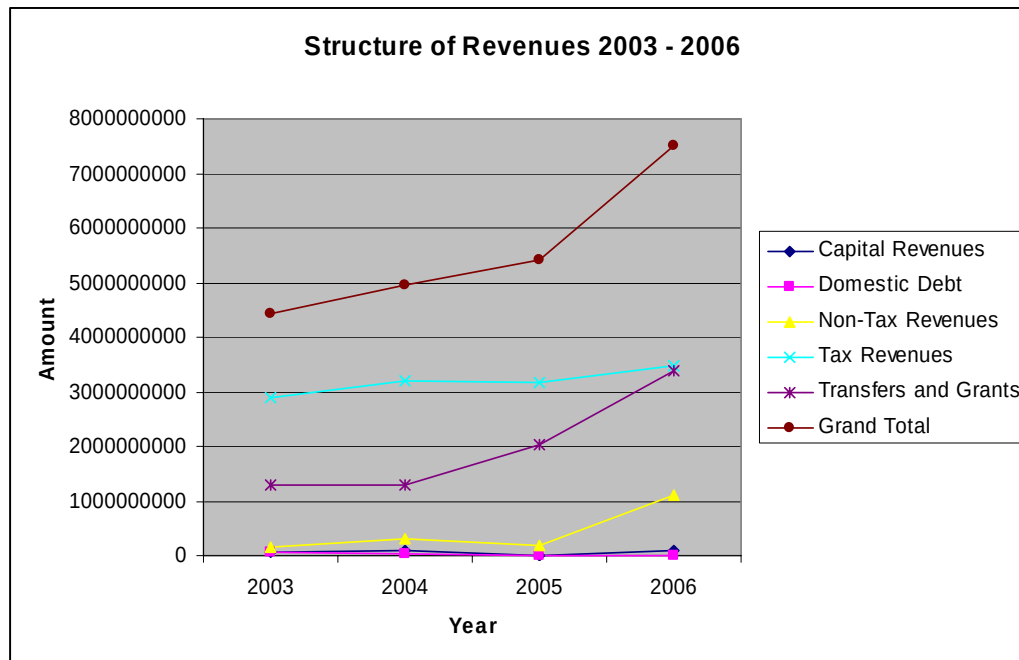
In 2006, the local self-government units disposed of 48 per cent more revenue than the total amount in 2005. The table illustrates that in 2006, 42 per cent of the total revenue came from the transfers and grants from the central Government budget. This represents an increase of 5 percentage points in comparison to 2005.⁵⁶ With the start of the second phase of the fiscal decentralization and the transfer of block grants, a further increase in the amount of transfers and grants from the central budget is to be expected. In total, tax revenues in 2006 were 9 per cent higher than in 2005 while tax revenues in the total revenues decreased from 59 per cent in 2005 to 43 per cent in 2006. There was also a dramatic increase of the capital revenue in 2006 in comparison to 2005. The increase of the non-tax revenues (communal and administrative fees, charges, and fines) is a result of the improved financial management in the local self-government units such as efforts to update the database of taxpayers and an improved

⁵⁵ The number of programmes corresponds to the number of municipal competences.

⁵⁶ This percentage has to be interpreted carefully in terms that 2005 was the first year of the decentralized competences; however, the change of the system of financing applied to the last 6 months of the year.

collection system. The trend of total revenues and separate revenue items in the years 2003-2006 is presented in the following chart.

Chart 1. Structure of Municipal Government revenues in the period 2003 - 2006



At the macroeconomic level, the total revenue generated by municipalities in 2006 amounted to 2.65 per cent of the GDP, which is far below the revenue levels in the transition countries of the region.⁵⁷ Local self-government (through the Association of Local Self-Government Units – ZELS) have on many occasions submitted requests to the Government for an increase from current 3 per cent of the collected revenues from VAT to as much as 5.5 per cent. It should also be noted that until now local self-government units have not increased their annual property tax rates to the maximum limit provided by the Law (0.2 per cent). This is a good example of one option to generate more local revenue without relying on the central Government which municipalities should explore.

In 2006, local revenues per inhabitant amounted to 3,973 denars (65 Euros), which represents an increase of 44 per cent compared to 2004 and 62 per cent compared to 2005.

3.2. Structure of Municipal Expenditures

The Law on Local Self-Government⁵⁸ defines the competencies that are given to the local self-government. In order to achieve success, municipalities need to have adequate and sufficient sources of income. Education, social welfare, culture and

⁵⁷ Based on 2002 data local revenues as a share of GDP were 5.3 percent in Slovenia, 8.61 percent in the Czech Republic, 10.1 percent in Hungary, 10.8 percent in Latvia and 12 percent in Poland. Comparisons with Macedonia are not exact because its municipal budgets do not yet contain all operating costs for schools and social services. Former Yugoslav Republic of Macedonia, Issues in Urban and Municipal Development: A Policy Note; World Bank 2006.

⁵⁸ Law on Local Self Government, Official Gazette No 05/2002

healthcare were the only areas where local self-government units were eligible for earmarked grants in the first phase of the fiscal decentralization, and with the start of the second phase, these competencies will be financed by block grants from the central Government. The difference between the earmarked and block grants is that block grants contain funds for staff salaries in the institutions of these fields that the municipalities should transfer further on to the accounts of these budget users. The trend of municipal expenditures in the period 2003 – 2006 is shown in the table 2. The total of local expenditures in 2003-2006 mirrors the increase of the total local revenues in the same period.

Table 2. Structure of Municipal Government Expenditures (in MKD)

	2003	%	2004	%	2005	%	2006	%
Capital Expenditures	1,817,316,310	43.91%	2,666,205,099	55.95%	2,446,583,668	48.89%	2,581,579,297	34.43%
Goods and Services	1,451,729,584	35.08%	1,309,666,436	27.48%	1,554,352,919	31.06%	3,443,251,569	45.92%
Interest Payments	8,028,658	0.19%	3,483,246	0.07%	2,896,549	0.06%	1,603,038	0.02%
Reserves	8,260,964	0.20%	13,260,429	0.28%	23,381,532	0.47%	22,614,139	0.30%
Social Benefits	177,710,466	4.29%	48,451,740	1.02%	6,874,378	0.14%	13,657,897	0.18%
Wages And Salaries	545,234,633	13.18%	563,904,555	11.83%	69,8625,288	13.96%	1,193,316,820	15.92%
Subsidies and Transfers	33,755,690	0.82%	101,858,894	2.14%	220,673,737	4.41%	224,763,394	3.00%
Current Transfers to local self government units	67,839,822	1.64%	43,355,383	0.91%	19,778,263	0.40%	168,847	0.00%
Grand Total	4,138,298,215	100.00%	4,765,596,581	100.00%	5,003,950,306	100.00%	7,497,806,696	100.00%

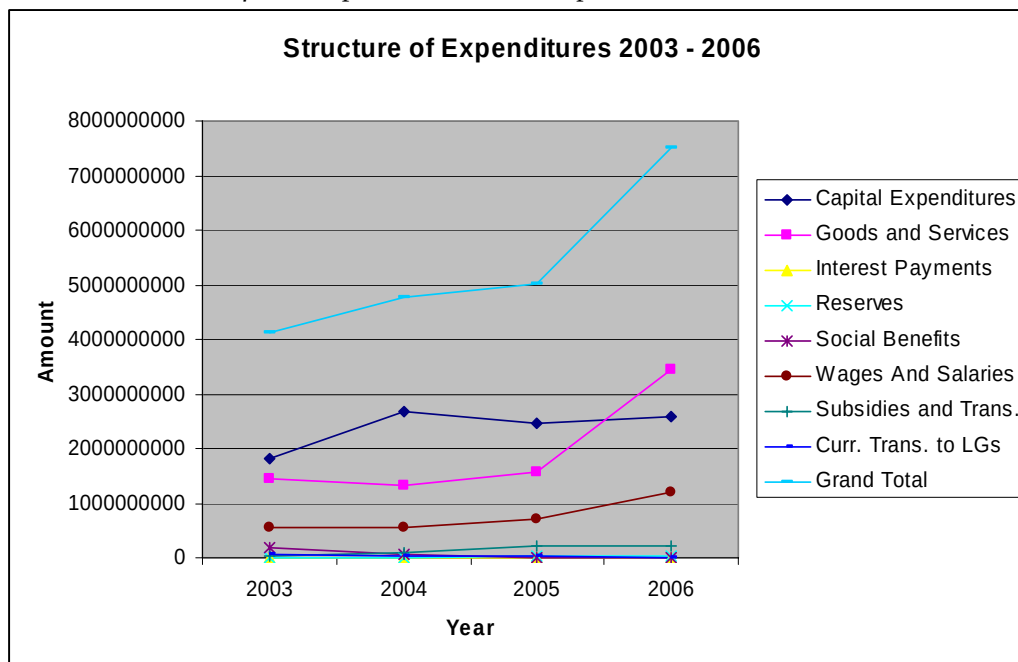
The figures in the table 2 show that total expenditures in 2006 increased by almost 50 per cent in comparison to 2005. This increase occurred mainly in the following categories:

- Goods and services (221.52 per cent in comparison to 2005);
- Expenditures for social benefits (98.67 per cent increase);
- Expenditures for wages and salaries (70.81 per cent increase compared to 2005).

The structure of local expenditures has remained relatively unchanged throughout the period observed with the main difference in 2006, where capital expenditures were no longer the biggest expenditure category, but were surpassed by goods and services. This is attributed partially to the fact that municipalities were obliged to resolve

arrears from previous years while at the same time municipalities faced increases in other cost categories as illustrated by the figures in the following chart.⁵⁹

Chart 2. Structure of Municipal Government Expenditures in 2003 to 2006



From the microeconomic perspectives, in 2006 expenditures represented 2.47 per cent of the country's GDP and at the same time, municipal expenditures made up 7.21 per cent of the public consumption.⁶⁰

⁵⁹ Until now an accurate assessment has not been made on the expenditure needs of the municipalities to provide minimum level of basic services within their new competencies.

⁶⁰ Source: Information on the amount of public consumption from the Ministry of Finance

4. FULFILLING RESPONSIBILITIES UNDER THE DECENTRALIZED COMPETENCIES

The phased approach to fiscal decentralization imposed upon the municipalities the need to build adequate administrative and financial structures before proceeding to the second phase of the reform process.

Municipalities in the survey were asked to assess their preparedness to move to the second phase of the fiscal decentralization the results of which are presented below.

Table 1.

Do you think that your municipality is ready to enter into the second phase of the fiscal decentralization?	
Yes	84.6%
No	11.5%
No answer	3.8%
Total	100%

It is clear that the majority of the municipalities feel ready for the second phase of fiscal decentralization, while only 12 per cent would prefer to stay in the first phase of the process. Municipalities also consider that the criteria for the second phase is relatively clear, with only 23 per cent of the respondents complaining about the inadequacy and/or insufficiency of the criteria as set forth in the Law on Financing the Units of Local Self-Government.

The Ministry of Finance is considered the most important source of information for the municipalities during the second phase according to 75.4 per cent of the respondents. A second source of information is the Association of Financial Officers (a local nongovernmental organization comprised of the financial officers from municipalities and public enterprises).

In terms of the level of self interest in the process, the survey reveals that 50 per cent of the local self-government units proactively established contact with the commission responsible for assessing their fulfilment of the conditions for entering the second phase of fiscal decentralization. However, 97 per cent of the municipalities state that they undertake different activities for meeting the criteria for entering into the second phase. These initiatives are directed towards increasing the administrative capacity of the municipalities (new staff and equipment), as well as repayment of arrears and timely submission of the financial reports to the Ministry of Finance for the assessment of the financial performance.

In the second phase of fiscal decentralization, the expectations of the municipalities can be grouped into two main categories. The first one relies on increased funds from block grants and the value added tax to bolster their financial position. The second group believes that they will assume full responsibility in the second phase of all competencies while gaining increased control over the public institutions in order to secure substantial resources to fund communal services. In addition to these two prevailing answers, municipalities expect positive changes in the area of education as well as improvement of public service delivery in the second phase.

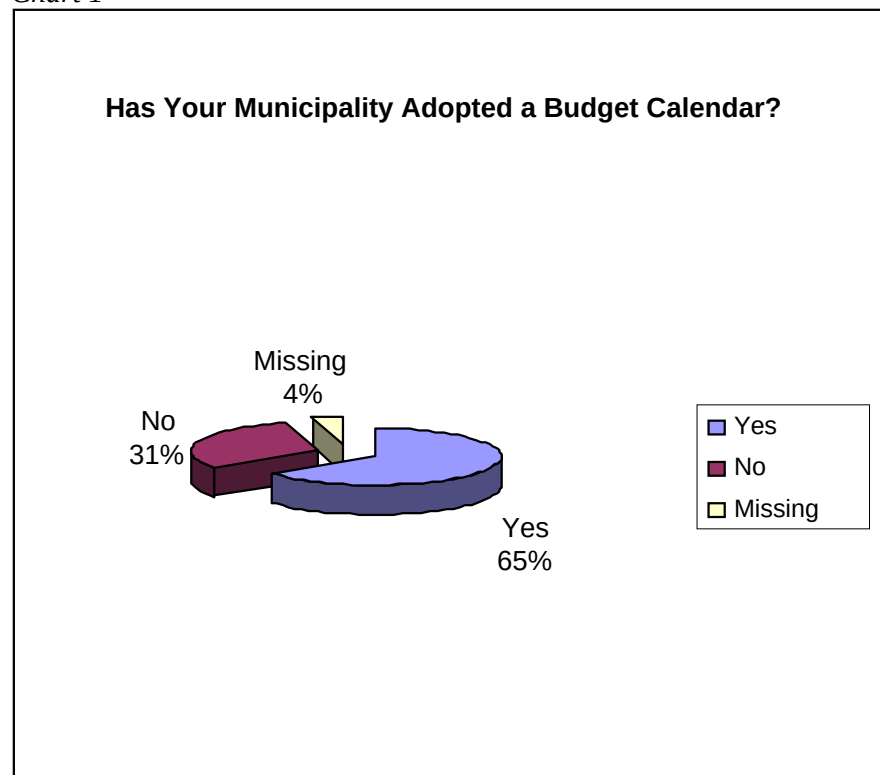
5. BUDGETING PROCESS

5.1. Budgeting Process and Budget Calendar

The budgeting process refers to all the activities that local self-government units should undertake throughout the fiscal year, related to the budget adoption and execution. The budget calendar as an instrument was introduced as a new concept with the Law on financing the units of local self-government, which obliges the municipalities to establish a solid financial management system. This instrument serves as a tool for improved planning during the budget preparation activities, setting the deadlines for each activity of the budget process, as well as for defining the role and participation, i.e. input, needed from the relevant stakeholders.

In the 2006 survey municipalities were asked to respond to the set of questions related to the budget calendar, in order to assess their awareness of the importance of this instrument. One year after, the number of municipalities that have not adopted a budget calendar has decreased from 41% in 2006 to 31% of the respondents in 2007. The municipalities operating without a budget calendar stated that they are currently in the process of adopting one.

Chart 1



Once adopted, municipalities should use the calendar to guide the process throughout the fiscal year. Those municipalities that state that they have adopted a budget calendar and adhere to its deadlines is reflected in table 1.

Table 1

Do you follow the budget calendar (if your municipality has one)?	
Yes	66.7%
No	7.7%
Missing	25.6%
Total	100%

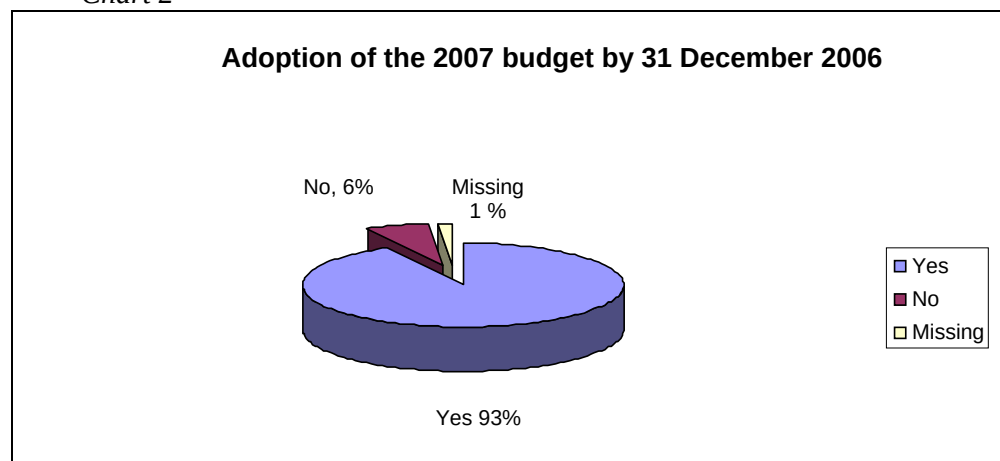
In comparison to 2006 when 25 per cent of the municipalities stated that they do not always respect the deadlines within their budget calendar, the situation has clearly improved in 2007 with only 8 per cents not fully complying. In practice, those municipalities yet to formally adopt a calendar normally adhere to the deadlines, which are defined in the annual work plan. This trend is a positive signal for the budgeting process as proper planning is a precondition for the timely execution of each step of the budget.

5.2. Timely Budget Adoption and Budget Execution

The adoption of the municipal budget by 31 December for the following fiscal year is an important prerequisite for the fiscal stability of the municipality. According to the Law on financing, if a municipality fails to adopt the budget by 31 December, the council is obliged to reach a decision on temporary financing and a financial plan for its execution for the period January 1 to March 31 of the current year. If this deadline passes, the municipality falls in the situation of financial distress, which requires a more serious plan to cover municipal expenses.

Only 7 out of 85 units of local self-government failed to adopt the 2006 municipal budget by 31 December 2005. This year 5 municipalities replied that they did not adopt the 2007 budget on time.

Chart 2

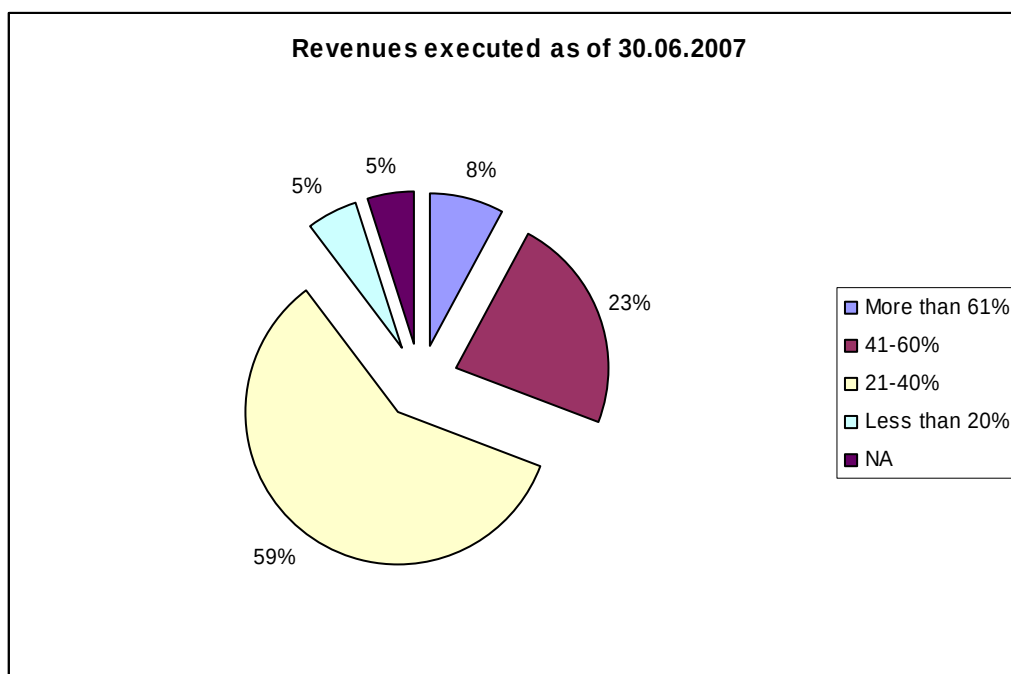


The budget execution phase is when revenue is actually collected and expenditures made. The budget execution process is monitored by the Ministry of Finance and the Treasury Unit through quarterly plans of revenues and expenditures that

municipalities are obliged to submit at the beginning of each fiscal quarter, as well as through quarterly reports on the revenue and expenditure execution. By law, the mayors of local self-government units are responsible for the budget execution process and reporting.

The process of budget execution is not a simple mechanism only to ensure compliance with the initial budget programming.⁶¹ Monitoring the realization of revenue and expenditures is important from the perspective that revenues collected can often fall short of what was foreseen and be insufficient to execute the programmes. Likewise, expenditures can sometimes exceed the revenues. Ideally the budget execution should be performed throughout the annual quarters in equal portions i.e. 25 per cent per quarter, but in the practice, this is never the case. The following chart presents the number of municipalities and the percentages of revenue execution.

Chart 3



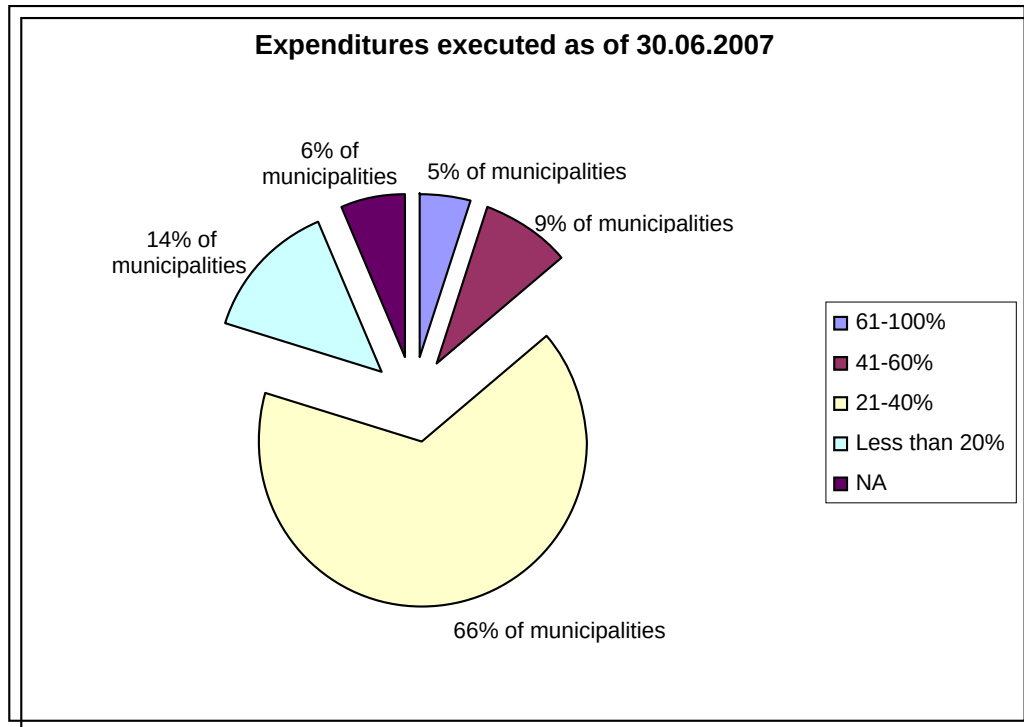
No pattern could be identified distinguishing between urban and rural municipalities who equally perform in each category of revenue execution.⁶² But regionally, the survey shows that region of Skopje has the highest average rate of 46.41 per cent revenue execution as of 30 June 2007, followed by eastern region with 40.30 per cent and south-western region with 40 per cent. The lowest level of average revenue execution is realized in north-western region with only 29.07 per cent.

⁶¹ Efficient Financial Management , USAID/WB/OSCE, 2005

⁶² In the largest group of municipalities with revenue execution of 20-40 per cent, half of the municipalities (23) are urban and the other half (24) is rural; the same is the structure with the rest of the revenue execution categories; municipalities of Probistip (95 per cent - urban), Cair (90 per cent - urban), Aracinovo (70 per cent - rural), Butel (69,54 per cent - urban), Kicevo (66 per cent urban) and Ilinden (65,5 per cent rural) are the municipalities with highest level of revenue execution.

The situation with the rate of expenditure execution per municipalities is presented in the following chart.

Chart 4



The average percent of budget execution (revenues and expenditures) up to the end of the first half of 2007 amounted to 20 – 40 per cent, which is the same as in 2006. The practice shows that 50 per cent of the budget is executed in the last quarter of the budget year. The reason for this situation is that largest amount of municipal revenues (local taxes, fees, charges, and grants from the line ministries and funds) are transferred to the municipal accounts at the end of each fiscal year.

Municipalities cite numerous reasons for the execution of revenues and expenditures failing to follow the quarterly plan such as:

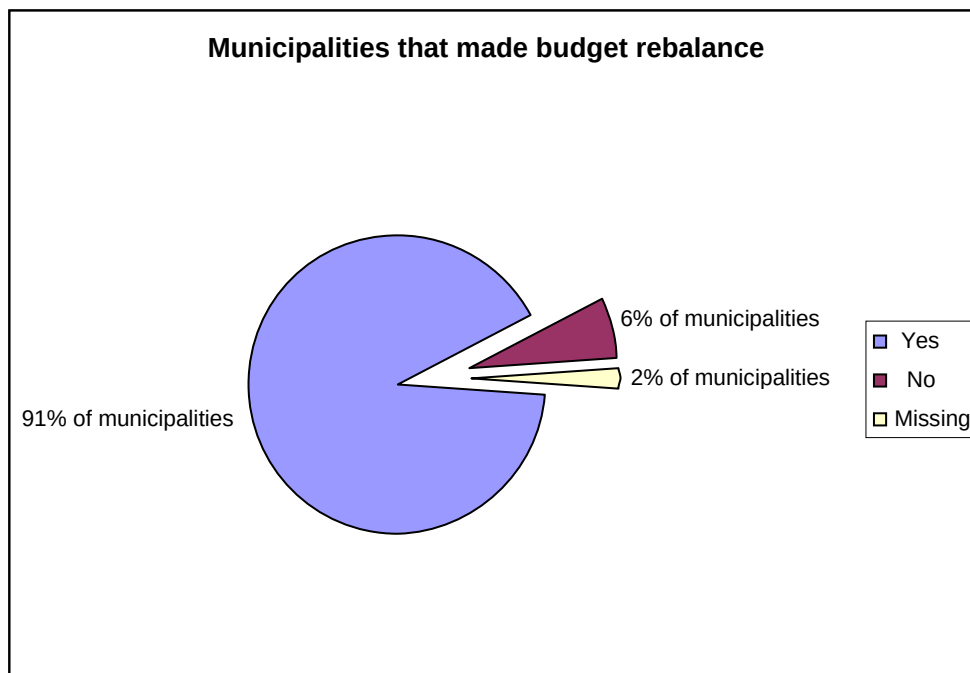
- Inefficient collection of local taxes (delay in preparation and sending of the tax bills);
- Low collection rates for local fees and irregular payment of the communal fees;
- Portion of the funds planned for capital investment purposes have not been transferred to the municipal accounts (funds from capital grants and donations);
- Protracted public procurement procedures.

Closely connected to the budget execution phase is the issue of budget rebalances.⁶³ Even though it is normal to make a budget rebalance throughout the year, a large

⁶³ In the case when deviation from the planed revenues and other inflows is higher than 5 per cent, the mayor submits to the Council a budget rebalance, which is to be adopted with the same procedure as the budget.

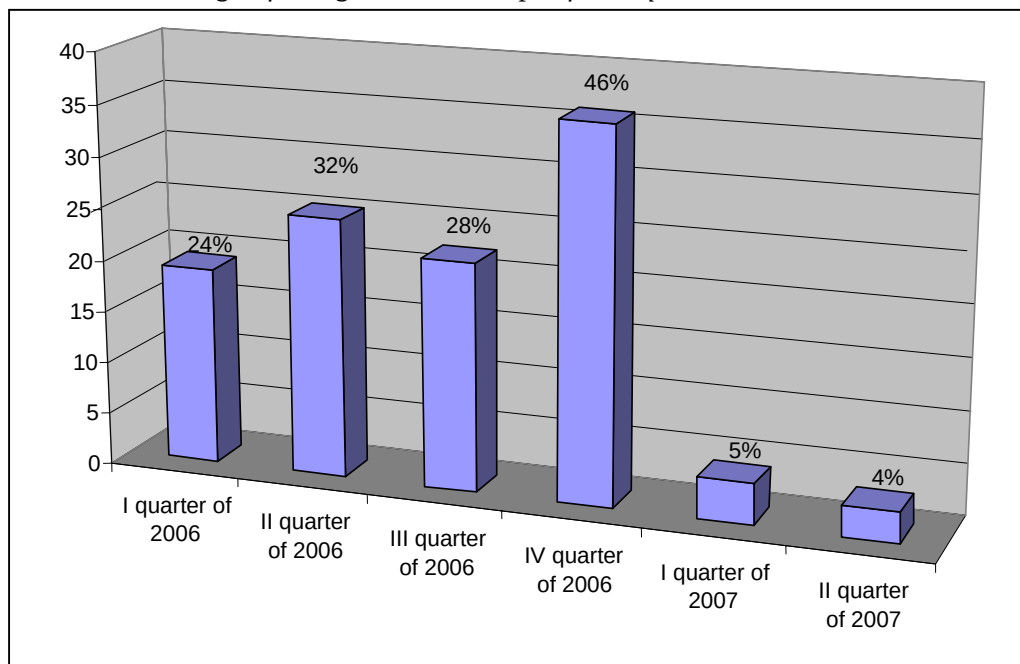
number of rebalances is often a signal of a poor financial planning in the municipality. In the survey, approximately 90 per cent of the municipalities state that they have made budget rebalances during the 2006 budget year.

Chart 5



The data on budget rebalances is further broken down by fiscal quarter throughout January 2006 – June 2007 in the following chart:

Chart 6. *Percentage of budget rebalances per fiscal quarter*



As illustrated above, the end of the year is the period when most of the municipalities make budget rebalances. As defined by previous legislation, municipalities traditionally dealt with discrepancies in revenues or expenditures with last minute adjustments at the year end. With the new Law on Financing, rebalances are to be made throughout the year, immediately after significant discrepancies (more than 5 per cent) in the realization of the revenues and/or expenditures are identified.

The number of budget rebalances is one of the criteria considered for the municipalities to enter into the second phase of the fiscal decentralization. Municipalities were given fewer points if they made one or more rebalances in 2006. However, two of the municipalities with highest number of rebalances to the budget, Sveti Nikole and Novo Selo, are on the list of municipalities for the second phase for fulfilling other criteria.

Another important aspect that the Government has taken into consideration when assessing the capacity of the municipalities to enter into the second phase of the fiscal decentralization is the timely preparation by mayors of the financial reports, the adoption of the budget by the councils and timely submission of financial reports of the municipalities to the Ministry of Finance. The survey confirms that, most of the municipalities fulfil these criteria on a regular basis.

5.3. Problems with arrears from previous years

Municipal debt was one of the biggest problems at the start of the fiscal decentralization process. The total debt of the municipalities as of 31 August 2004 amounted to 3.1 billion denars. Upon the proposal prepared by the Ministry of Finance, the Government drafted a plan to resolve these debts, foreseeing negotiations between the creditors and the municipalities in order to reach an agreement. The structure of the debt in 2004 is presented in the table below:⁶⁴

Table 1

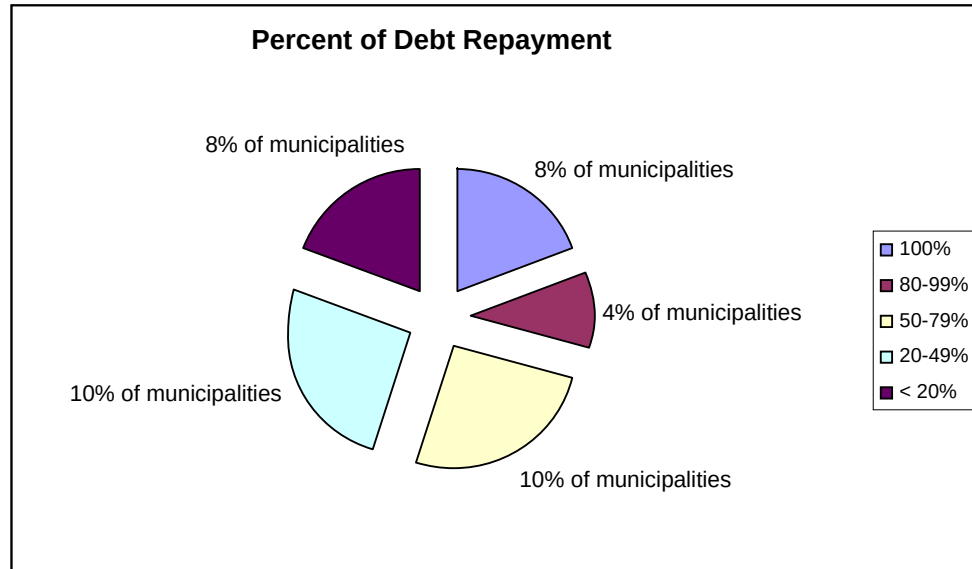
Class of the debt	Amount in MKD	In %
Administrative	11,754,875	0.37%
Construction works	1,963,899,200	62.36%
Electric power	267,639,362	8.50%
Expropriation	110,394,106	3.51%
Other	795,842,160	25.27%
Total	3,149,529,703	100.00%

Even though a significant part of this debt has been resolved in the last two years, 58 local self-government units still face significant problems with debt. The data from the survey shows that the debt of the interviewed local self-government units amounts to a total of 1,38 billion denars. At the top of the most indebted local self-government units are the Municipality of Ohrid (300 million denars) City of Skopje (200 million denars) and Kicevo (100 million denars).

⁶⁴ Information on the debts of the municipalities, Ministry of Finance, February 2005.

It is significant to note that 72 per cent of the local self-government units that have outstanding debts, plan a total or partial repayment by the end of 2007. Forty per cent of the municipalities surveyed provided specific details on the percentage of debt they intend to repay:

Chart 7



The problem with debts inherited by municipals through decentralization has blocked the accounts of some local self-government units. Only a small number of municipalities had blocked accounts due to the problems with short-term liquidity (for the current, operating purposes):

Table 2

Has your municipal account ever been blocked or is currently blocked?	
Yes	28.2%
No	70.5%
Missing	1.3%
Total	100%

A number of municipalities will continue in the coming months to experience problems with blocked accounts stemming from decisions issued by the Court. This will be an obstacle for some municipalities who will need to try and renegotiate their outstanding debt with suppliers and creditors to find a workable solution. Additional efforts should be made to increase their fiscal capacity in order to generate more revenues

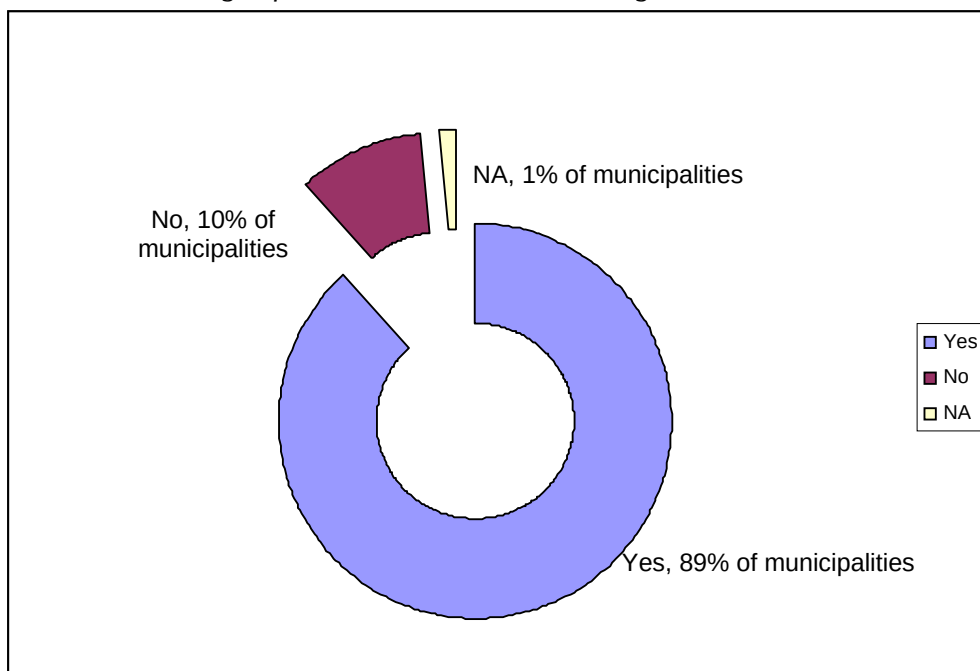
5.4. Participatory Budgeting

Two of the principles of good governance are the transparency and accountability of local authorities towards their citizens. Considering that budgeting is a two-way process (for and from the citizens), transparency and accountability are indispensable in encouraging citizens to pay taxes, which serve as the main source of revenue for providing public services. To achieve this, municipalities should inform citizens of their activities throughout the year and involve them in each step of the budgeting process including setting of priorities, preparing the budget proposal, and making available information on the budget and annual accounts.

In addition, sessions of the municipal council are open to the public, and citizens can only be prevented access to the Council in special circumstances as determined by statute. As the Law proscribes, the council shall work in sessions and the council sessions shall be public. A decision to exclude the public shall be made by a two-third-majority vote of the total number of council members, if there are justifiable reasons determined by the statute. The presence of the public shall not be excluded at the debate on the municipal budget, annual balance sheet to the budget and the urban plans.⁶⁵

Eighty eight point five per cent of municipalities state that they include the public throughout the budgeting process.

Chart 8. Percentage of Citizen Involvement in Setting the Local Priorities



⁶⁵ Law on Local Self Government, Official Gazette No 05/2002, Article 42.

There has been significant improvement in comparison to 2006 when only 67 per cent of the municipalities responded that they involve the citizens in the process of budgeting through public hearings. In 2007 nearly 82 per cent of all local self-government units practice participatory budgeting when setting the priorities of their community. Most of the municipalities presented the budget proposal in front of the citizens.

Table 3

Was the budget proposal presented in front of the citizens?	
Yes	89.7%
No	7.7%
Missing	2.6%
Total	100%

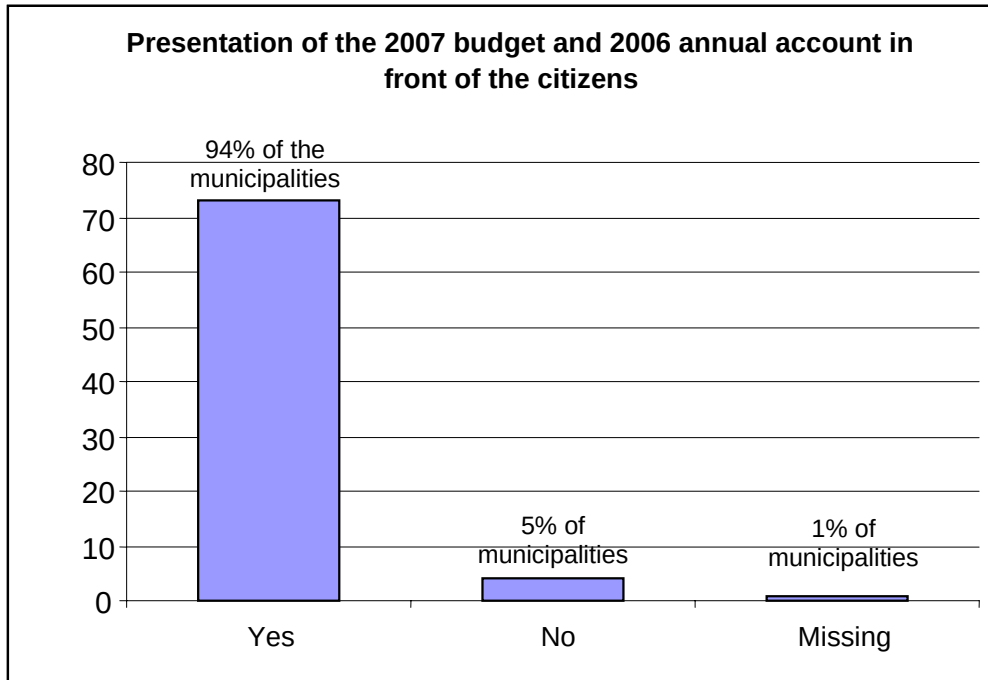
Here, there is also significant improvement in comparison to 2006 when only 60 per cent confirmed that they organized a public presentation of the draft budget. In 2007 83 per cent stated that they presented their budget to the public.

Table 4

Was the council session on budget adoption announced for citizens, NGOs, business sector and budget users on time (seven days in advance)?	
Yes	94.9%
No	2.6%
Missing	2.6%
Total	100%

The above table shows that most of the municipalities (94 per cent of the respondents) state that the council session on budget adoption was announced in advance to the public, giving citizens every opportunity to attend the session. In comparison to 2006, municipalities expressed greater interest in 2007 in presenting the adopted budget and the annual account to the public, which is positive trend indicating that municipalities are increasingly more conscious when it comes to accountability. In the survey 95 per cent of the respondents replied positively to this question, compared to 82 per cent of municipalities in 2006.

Chart 9



Municipalities use a variety of methods to disseminate financial information to the public. Unlike 2006, when municipalities replied that the most common approach was to use local media, results this year indicate that public gatherings are most frequently used for this purpose. A portion of municipalities use electronic media or their websites to present financial statements. Least popular is the use of Citizen Information Centres as a means to disseminate this information.

Table 5

Types of presentation for the budget and annual account	%
Regular office hours for citizens	46.6%
Through citizens information center	21.9%
Presentation at citizens gatherings	93.2%
Local media (TV, newspapers and other media)	58.9%
NA	5.5%
Total	226.0%

Overall, both large and small, urban and rural municipalities largely practice participatory budgeting, which serves to strengthen local self-government units while bolstering good governance and best practices.

6. ADMINISTRATION OF LOCAL TAXES

An important concept introduced by decentralization is that municipalities obtain the right to independently dispose of their own sources of revenue. Further to this, to increase collection rates, municipalities are entitled to establish their own, independent fiscal policies, and set local tax rates and fees within the ranges determined by law. Despite the right to set the rates within the legally prescribed limits, it is expected that local self-government units should be more motivated to improve the revenues collection once they are in charge of it.

In order to administer local taxes and fees, municipalities are to establish administrative structures as defined by the Law:

- to establish tax administration unit with at least three employees;
- to sign an agreement with the regional branch of the Ministry of Finance to continue administering the taxes and fees (as it was before the decentralization);
- to enter into a form of inter-municipal cooperation with other municipalities.

The current situation with regard to administration of taxes is as follows:

Table 1

Who administers the taxes in your municipality?	Per cent
Tax administration unit in the municipality	71.8
The branch office of the Ministry of Finance	1.3
Other municipality	3.8
Other	9.0
City of Skopje	10.3
Missing	3.8
Total	100.0

Category 4 or “other” refers to municipalities that state that there was no unit within their municipality but had a single person or staff from a different department assigned to also take care of the tax administration.

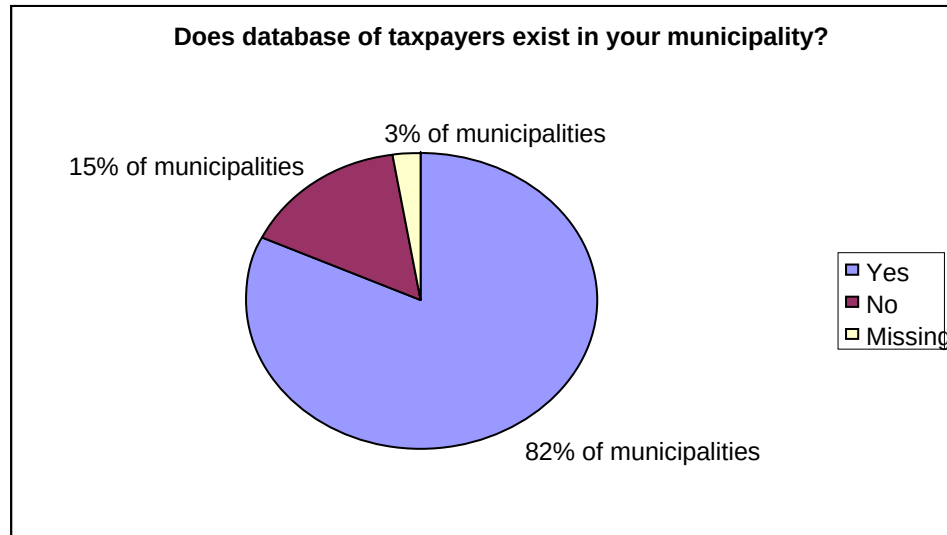
The 10 municipalities in the City of Skopje are in a slightly different position compared to the rest of the municipalities in the country. According to the Law on the City of Skopje, the tax administration of the City is authorized to administer the taxes of these 10 municipalities. Despite this, some of the Skopje municipalities requested that they take over the administration of taxes. Nevertheless, no changes have been made to the procedure as it is defined in the Law.

6.1. Database of Taxpayers

At the beginning of the decentralization process, one of the biggest problems in the area of administration of local taxes was the delayed transfer of the database of taxpayers from the Ministry of Finance Public Revenues Office to the municipalities. When the database was formally transferred to the local authorities, the software for reading the data was missing so municipalities were forced to operate and plan their budget without any data on the current taxpayers in their territory. This compelled several local self-government units to create new databases. The survey shows that 82

per cent of municipalities already have a database that is in use and is upgraded on a regular basis.

Chart 1



Creating a new database is a long and expensive process, but a portion of the municipalities took steps to establish records with the new entries of tax payers and registration of their real estate. Currently, 54 municipalities have already completed an up to date database which is a prerequisite for better revenue inflow in the future.

Table 2

Has updating of the taxpayers database been completed in your municipality?	
Yes	69.2%
No	24.4%
Missing	6.4%
Total	100%

Municipalities state that databases are updated through the following⁶⁶:

Table 3. Forms of Updating the Value of the Real Estate

Public Appeal to Citizens	Information from the Record of Payers of Transfer of Property Tax	Through Committees	Other
64%	49%	60%	13%

Some of the municipalities used a different approach in this regard and conducted surveys while distributing information booklets to citizens in order to gauge public opinion and to raise awareness. Others used the data from the urban planning departments and the central registry, as well as sharing information through municipal newspapers and the internet to update their databases.

⁶⁶ Municipalities were allowed to select more than one answer.

On 24 July 2007 the Association of Local Self-Government Units (ZELS) and the Central Register signed a contract through which municipalities have access to use the database of all legal entities in the trade register, which are obliged to pay communal fees.⁶⁷ This will make it easier for municipalities to manage information on tax payers and will help them generate more revenue in the future.

6.2. New Assessment of Real Estate Values

New method of assessing property value is also designed to assist municipalities with fiscal decentralization. So far, municipalities have used several ways to register real-estate:⁶⁸

- Through requesting data from the state institutions that have updated data – Cadastre, Central Register, Register of the annual accounts in the central register, and the Ministry of Interior;
- Through public announcement or information from the tax on the transfer of real-estate - where taxpayers report new market values of their property;
- A combination of these two methods.

Bigger municipalities have Committees that assess the value of the real-estate with on sight visits. In the City of Skopje, where the territory has been divided into several zones, each zone has a standard value for a square meter of real-estate. Most of the municipalities are currently in the process of establishing these committees, which will soon commence the work. Municipalities will only benefit from focusing more effort on the work of these committees in striving towards a more accurate assessment of current market values.⁶⁹

Nearly 47 per cent of all local self-government units in the country have already made a new assessment of the real-estate in their respective territories. Municipalities' comments on this process were limited to the "correct" interpretation of the methodology for assessment of the market value of the real-estate⁷⁰. During the past year, no significant problems were identified, which is a marked improvement compared to 2006, when 33 per cent of the municipalities encountered problems with the methodology for assessing the market value of the real-estate.

6.3. Collection Rate of Property Taxes

The survey focuses on the percentage of the collection of the revenues from the property taxes including both taxes on inheritance and the transfer of real-estate in the period 1 January to 30 June 2007. The average rate of collection is 26 per cent, whereas the maximum is registered in Ilinden (82 per cent) and the minimum percentage in Karbinci (1.5 per cent). The collection of property taxes per municipality is reflected in the chart below:

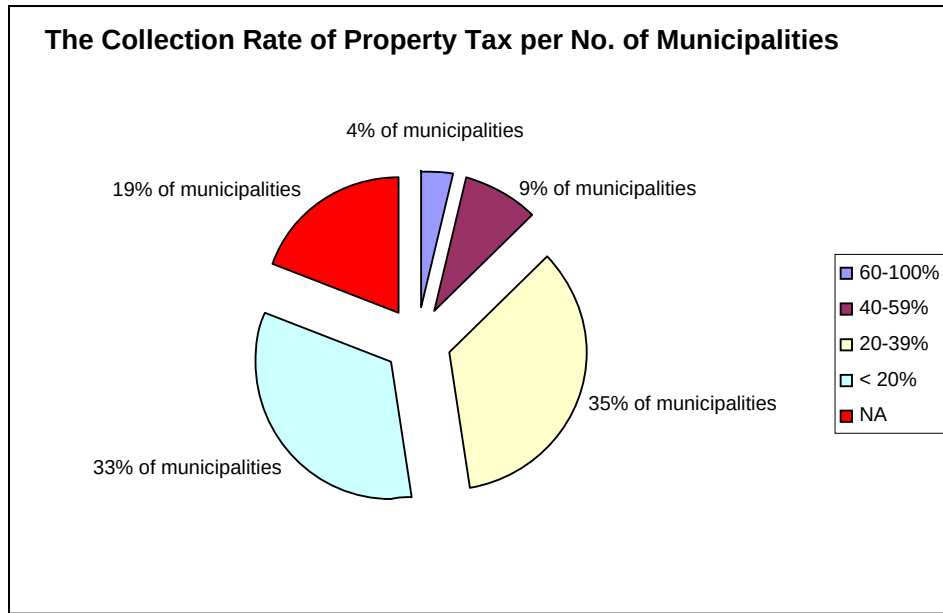
⁶⁷ ZELS Newsletter, July 2007

⁶⁸ Administering Local Taxes and Fees 2, Association of Financial Officers, 2007

⁶⁹ Report Analysis on the Implementation of the Fiscal Decentralization, OSCE, April 2007

⁷⁰ Methodology for assessment of the market value of the real estate, Official Gazette of R.M No 50/2005.

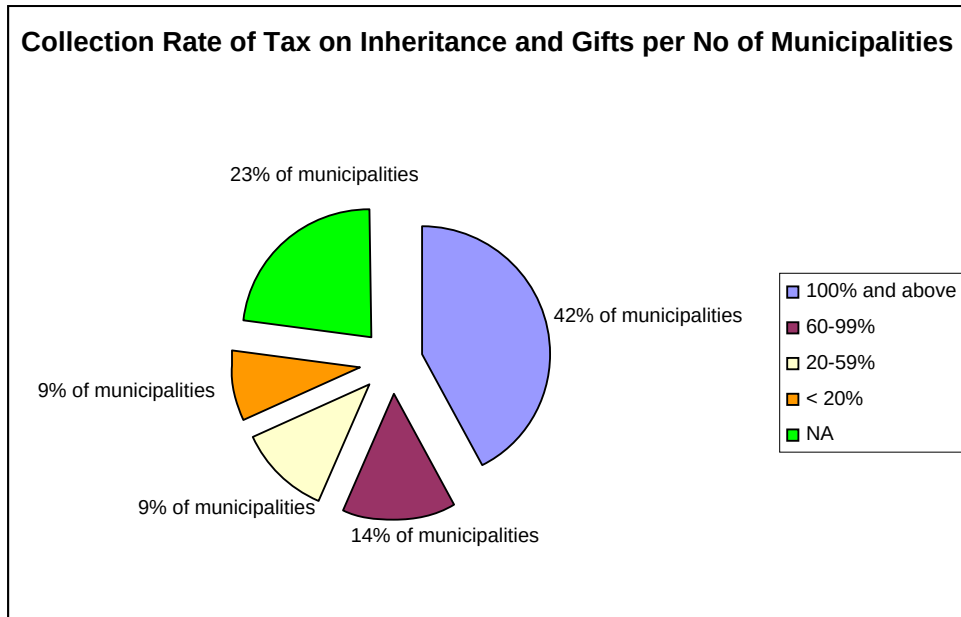
Chart 3



In most of the municipalities there is an absence of analytical records to link the tax liability with its collection separately for each fiscal year. In other words, the data refers to the inflow of revenues on the municipal account without differentiating the year to which the tax paid refers.

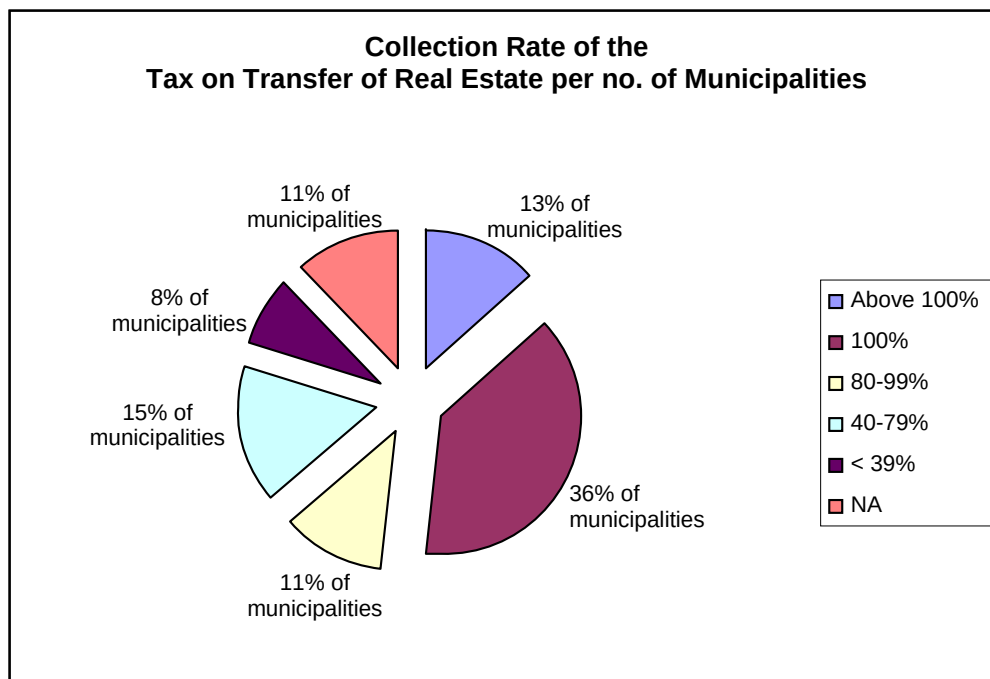
The collection of revenues from taxes on inheritance and gifts is significantly higher in comparison to property taxes. The main reason for this fact is that people who inherit real-estate can not take legal ownership of the object unless the tax liability is paid. A total of 60 municipalities provided information regarding the collection of this type of revenues. The maximum collection of 264.32 per cent was achieved in the Municipality of Butel (the collection was 164.32 per cent higher than the planned amount). The average collection rate in the country amounted to 80 per cent, while 33 municipalities collected 100 per cent or above of the planned amount on this basis.

Chart 4



The collection of revenues from taxes on the transfer of real estate is similar to the inheritance tax. The high rate of collection is due to the legal procedure that the transfer of ownership of the real-estate can not be completed without a record proving that the tax has been paid. A total of 69 municipalities answered this question and provided information on the collection of this tax as of 30 June 2007. The average collection rate in the country was 86.63 per cent, with the maximum of 224.17 instances realized in the municipality of Gjorce Petrov and the minimum realized in the municipality of Mogila:

Chart 5



The last set of survey questions in the area of administration of local taxes and fees refers to the different instruments that municipalities use to increase the collection rate through compulsory payment methods:

Table 4

Have you ever undertaken measures for compulsory payment of the tax liability?	
Yes	33.3%
No	59.0%
Missing	7.7%
Total	100%

According to the data compulsory payment is not very popular as an instrument with only 1/3 of the respondents having used it thus far. These types of payments are usually the easiest to enforce by blocking the tax payers account until receipt of payment. This practice is generally not applied among the physical entities as it is highly unpopular. Instead municipalities prefer to issue warnings and use other alternative methods. Blocking accounts is commonly applied to legal entities for the payment of communal fees and taxes for displaying the company name. At given times the enforcement should be used in order to demonstrate that local authorities have legal alternatives to handle this type of situations.⁷¹

⁷¹ Report Analysis on the Implementation of the Fiscal Decentralization, OSCE, April 2007

7. SYSTEM OF INTERNAL CONTROL AND AUDITING

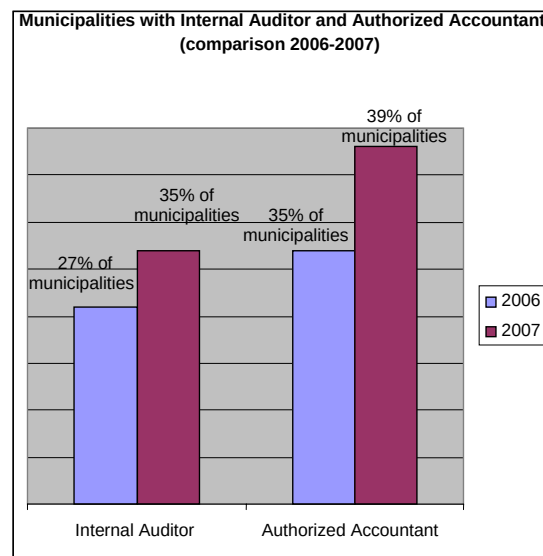
To reinforce the legal work in the local self-government units, the Law on Financing calls for municipalities to authorize accountants, internal auditors or the internal audit unit depending of the size of the municipality.

The main responsibility of the authorized accountant is to ensure that all payments from the budget are made in accordance with the Law on Accounting for the Budget and Budget Users, Law on Budgets and the Decision on Execution of the Municipal Budget. The internal control should promote economic, efficient and effective work for the provision of quality services to citizens.⁷² Authorized accountants in most of the municipalities are the respective Heads of Financial Units.

The objective of the internal audit is to provide the mayor with independent and objective assessments regarding the legality of their work in order to improve the operating process. The internal auditor should confirm that the work in the municipality complies with the relevant laws, by-laws and internal acts. A municipality can have its own internal audit unit or use the services of this unit from another public sector institution. The presence of an internal auditor or authorized accountant is part of the criteria for entering into the second phase of the fiscal decentralization.

In the 2006 survey, 21 municipalities indicated that they had appointed internal auditors and 27 had authorized accountants. The number has increased in the last 12 months with 27 municipalities presently having an internal auditor and 38 units having authorized accountants:

Chart 1



More than half of the municipalities have yet to comply with regulations regarding internal auditing. This should be a top priority in the coming months to meet the criteria for the second phase of decentralization.

⁷² Manual on Internal Control, Internal Audit and Fraud Prevention in the local self-government units, Association of Finance Officers, November 2006

Municipalities are also obliged to change the status of the auditors, i.e. dismissal of the auditors appointed by the council and reinstating them as full-time civil servants, and a permanent fixture of the municipal administration. The results are as follows:

Table 1

Does your municipality undertake activities for dismissal of the internal auditors appointed by the council and their registration as full time civil servants?	
Yes	37.2%
No	21.8%
Missing	41%
Total	100%

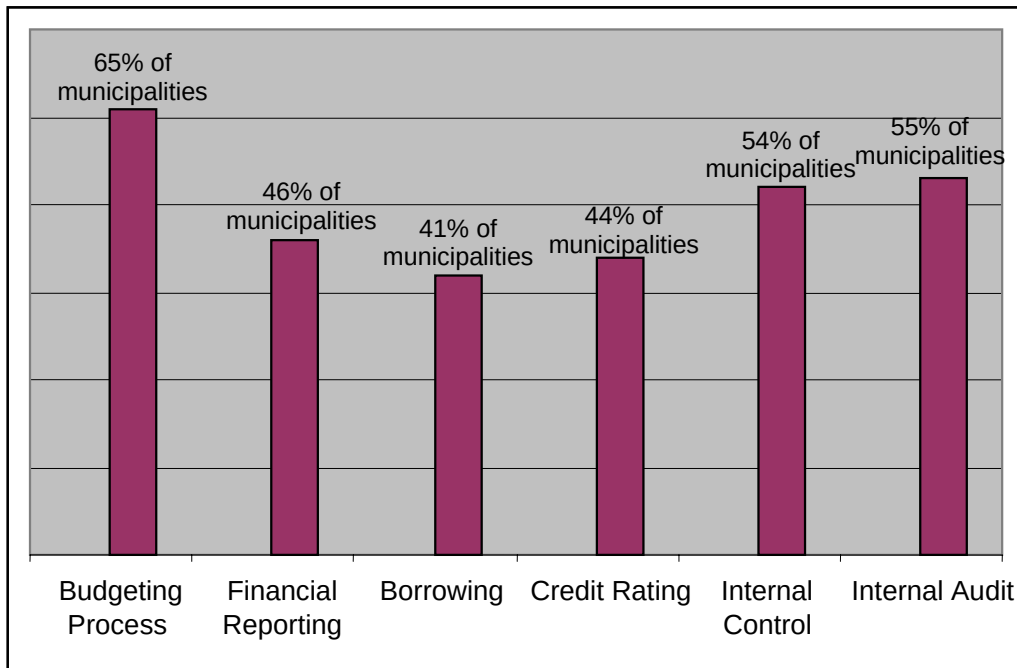
The number of municipalities (29) that answered positively to this question is higher than the number of municipalities that stated they have an internal auditor (21). The reason for this is explained in the comments provided by the municipalities in the questionnaire. Many of local self-government units are currently in the process of hiring internal auditors as permanently employed. In 11 municipalities, internal auditors work in accordance with the annual work plan. So far no problems or major obstacles have been reported. Several municipalities will enter into inter-municipal cooperation agreements for performing the internal audit function, since it is not viable economically for smaller municipalities to have separate organizational units.

Unfortunately, some of the municipalities still do not acknowledge the importance and the legal obligation for the local self-government units to establish this critical function at local level. Having a functional internal audit unit and responsible accountant would lead towards improved financial management in the local self-government units.

8. NEEDS FOR CAPACITY BUILDING IN THE FISCAL AREA

For the OSCE and other stakeholders active in supporting the process of decentralization, it is important to assess the areas for which municipalities still need assistance in capacity building. According to the survey, the area in greatest need of assistance is the budgeting process followed by the internal control and internal audit. The answers regarding the necessary assistance in particular areas are presented below.

Chart 1



When looking back on the results of the 2006 survey, the training needs of the municipalities have changed. In 2006, requests for assistance in capacity building were in areas of production of tax bills, compulsory payment and methods for securing tax liability. In 2007 municipalities identified different areas, suggesting that a large portion of the capacity building efforts of different local and international stakeholders were successful. In addition to the areas specified above, municipalities welcome training on the procedures for issuing municipal bonds, administration of taxes and fiscal administrative procedures.

9. CONCLUSIONS AND RECOMMENDATIONS IN THE IMPLEMENTATION OF THE FISCAL DECENTRALIZATION

The 2007 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 second year of the process of decentralization compared to the preceding year. A number of key areas were analyzed in relation to municipalities' preparedness for the 2nd phase, budgeting process, administration of local taxes and fees, system of internal control and internal audit and areas of further capacity building.

As in 2006, the problems identified in this survey are generally common to all municipalities, with no significant differences emerging when considering ethnic lines, political affiliation or geographical factors. This trend indicates that the different types of problems faced by each municipality are the result of the specifics of each local self-government unit.

The majority of municipalities expect increased independence in the execution of competencies they have and more funds in the second phase of the fiscal decentralization. De facto changes in some of the regulations are expected to increase the amount of revenues with the condition that municipalities invest more effort in collection methods and procedures. In addition to the amounts received thus far through the earmarked grants for building maintenance, block grants will also comprise a portion of the salaries municipalities will have to transfer for the staff in the public institutions under their responsibility. These funds until now were administered directly by the line Ministries. With the block grants for education, culture and social welfare, the administrative work of the municipal administration is expected to multiply accordingly.

The Ministry of Finance is the official channel of communication between central and local level for all information related to the process of decentralization. As published by the Government, a total of 42 municipalities will enter into the 2nd phase, while the remaining units will enter in the forthcoming period. The responsible line Ministries will support these municipalities until they meet the criteria for entering into the second phase. The assessment for this group of municipalities will be done at the end of the third quarter of 2007 so that these municipalities may have the access to the funds of the second phase as of 1 January 2008. Special assistance should be provided to the municipalities not meeting the criteria of the first phase (lack of administrative capacity for financial management and tax administration) as well as for those with financial problems.

The area of budgeting has improved with the number of municipalities adopting a budget calendar increasing. Its adoption and consistent following is a positive sign of improved management of the local self-government units. The timely adoption of annual budgets only reinforces this point. Another positive trend is the continued emphasis on the principle of participatory budgeting and increasingly more instances of citizens' inclusion in the different phases of the budget process. In this regard efforts in improving the transparency and accountability as staples of good governance are extremely encouraging.

Around 90 per cent of municipalities adopted a rebalance to the 2006 budget during the last quartile of the fiscal year (October – December 2006). However, good planning should lead to a lower number of budget rebalances in the future. As for the revenues and expenditures execution, most of the municipalities have 20-40% execution. In order to improve this figure, municipalities should respect the legal deadlines for preparation and distribution of the bills to the taxpayers, invest more in improving the collection rate, and start procurement procedures in a timely manner. Central authorities, on the other hand, should transfer funds to the municipal accounts without unwanted delays.

During the last two years, a large number of municipalities succeeded in reducing the amount of inherited debt. But more importantly, the municipalities that still have problems with debt plan a total or partial payment by the end of 2007, which would also have a positive impact on financial management at the local level and would address one of the preconditions for the second phase and open the doors to those municipalities that for the time being do not have access to block grants.

Administration of local taxes is identified as the most problematic area throughout the first year of fiscal decentralization. In its second year, the situation has slightly improved with more than two thirds of the municipalities in the country having well functioning tax administration units and the others (primarily small ones) regulating taxes either through inter-municipal cooperation with a neighbouring municipality or through the branch office of the Ministry of Finance. After the delicate situation in July 2005 when no database of taxpayers was transferred from the Public Revenues Office to the local self-government units, municipalities responded to the challenge by creating new databases on property evaluation for the collection of property taxes. Both activities are time and money-consuming processes, but initial signals from municipalities show that they believe that efforts to date will pay off in the end. Encouragingly, one third of the municipalities realized 20-40 per cent collection of property taxes in 2007. Nevertheless municipalities should continue to strive to improve property tax records which are important for the planning purposes.

Improvement in establishing a system of internal control and internal auditing remains insufficient. Regarding the appointment of both authorized accountants and internal auditors, almost half of the municipalities have yet to meet this legal obligation. In order to achieve better results, joint efforts are required from the government, through enhanced control and supervision, and by the capacity building providers in the country in order to assist the municipalities in making the internal control and audit functional. During the 2nd phase of decentralization relevant stakeholders should target technical assistance programs on the key areas such as the budgeting process, borrowing and credit ratings, and internal control and auditing.

Since the start of the decentralization process, the OSCE and representatives of the International Community took active part in supporting the country in its efforts for making this process a success. A timelier adherence to the selection procedures of municipalities qualifying for the second phase and the deciding criteria would have been helpful to all relevant stakeholders in the process. Likewise, a more detailed analysis of the financial performance of the municipalities would have been included in this survey if the data on municipal revenues and expenditures for 2006 had been provided by the relevant institutions. Several challenges lie ahead for decentralization,

and it will call for even greater cooperation among the Government, International Community, NGOs and other stakeholders in order to ensure the optimum results.

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