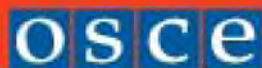




# Decentralization Survey 2009



Organization for Security and  
Co-operation in Europe  
Spillover Monitor Mission to Skopje

# Decentralization Survey 2009

# Acknowledgements

As in previous years, the Good Governance Unit of the OSCE Spillover Monitor Mission to Skopje conducted a survey on the progress of the decentralization process in the country. This is the latest edition in a series of four published in the period 2005-2009.

The OSCE would like to extend its gratitude to all the municipal administrations and municipal councils that completed the survey questionnaires and provided their valuable inputs to this report. Special thanks go to Brima Gallup-Skopje, who had an essential role in defining the methodology for the technical processing of the data, and in conducting an opinion poll. The OSCE would like to express its appreciation to the colleagues from the Office of the EU Special Representative who offered their consultative role in designing the survey questionnaires.

Finally, the Good Governance Unit expresses its gratitude to all of their colleagues in the Mission who contributed to the publishing of this survey. The members of the Good Governance Unit and authors of this survey are:

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December 2009

# Introduction

The Decentralization Survey 2009 was conducted between July and December 2009. It grounds its findings on a field research conducted by the Good Governance Unit of the OSCE Spillover Monitor Mission. The aim of the Survey is to assess the progress made in decentralization in the period 2008-2009. Special attention was paid to key reform areas mentioned the Ohrid Framework Agreement such as inter-ethnic relations, equitable representation, use of languages, and education. The underlying structure of the survey is the following:

- General Status of the Decentralization Process
- Progress in Municipal Administration Reform
- Decision-making of Municipal Councils
- Progress in Local Economic Development
- Status of Fiscal Decentralization
- Inter-ethnic Relations at Local Level
- Education Reform at Local Level
- Conclusion and Recommendations

The Good Governance Unit requested the municipal leadership and administration to provide information about their perception of the state of affairs. As citizens are the final users of the municipal services, they were asked for their views on municipal performance. The findings of all target groups provided a good basis for a comparative analysis.

Most of the results in the report are not focused on accurate statistical data of individual cases, but concentrate on revealing the general trends in the decentralization process. The figures presented in this report are not intended for comparison with official statistics from the host country's government or other sources.

The OSCE Good Governance Unit developed a content outline for each chapter included in the survey. It describes the purpose of the chapter, target respondents, target audience, and bibliography. As a result, the OSCE designed and sent out two questionnaires to all 85 municipalities throughout the country: one questionnaire for the municipalities (mayor/administration/council) and another questionnaire for the citizens (opinion poll). The OSCE distributed the questionnaires to and collected them from the municipalities. Brima Gallup International conducted the technical part of the opinion poll. The processing of answers of the two sets of questionnaires was done in SPSS 15 software. The OSCE collected the answers of 69 municipalities, which represents 81.17 % of the total number of municipalities in the country.

The data received from the municipalities are complemented by an opinion poll implemented by Brima Gallup-Skopje. This opinion poll was conducted by sampling 1,547 persons during October 2009. The sample was structured in a stratified way, i.e. selecting targets with a direct interest in the municipal service at stake (e.g. teachers, pupils and their parents for the part on education, local businessmen, etc.).



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# General Status of the Decentralization Process

## Introduction

After gaining independence in 1991, the country inherited a system of 34 municipalities with seats in the large urban centres. The adoption of the Law on Local Self-Government in 1996 and subsequent territorial organization created 124 local self-government units. However, the municipalities gained only limited competencies, such as the urban planning and the communal activities. In 1997, Parliament ratified the European Charter of Local Self-Government, formally accepting the European standards for devolution of the competencies from central to local government. The signing of the Ohrid Framework Agreement (OFA) in 2001 laid the foundations for the country's further decentralization reform, since one of its key provisions emphasized the development of a decentralized government.

Following the signing of the OFA, a new Law on Local Self-Government was adopted in 2002, which strengthened the powers of elected local officials and substantially increased municipal competencies in conformity with the Constitution and the European Charter on Local Self-Government. The Law on the Territorial Organization, the Law on Financing the Units of Local Self-Government and the Law on the City of Skopje were adopted in August 2004. Currently there are 84 municipalities in the country and the city of Skopje as a separate unit of local self-government.

Throughout 2008 and 2009 the Parliament adopted several laws that closer regulate the competencies. The Law on Inter-Municipal Cooperation regulates the manner, conditions and procedures for establishing inter-municipal cooperation. In addition, it specified the forms and instruments for stimulating inter-municipal cooperation as a way to build municipal capacities for implementing the decentralized competencies.

The new Law on Social Care adopted in 2009 regulates the system and organization of social care, the social care rights, financing and execution of social care rights. According to this law, the Government determines the network of public institutions for social care. Municipalities may establish public institutions for extra institutional care after the approval by the Government and the consent of the Ministry of Labour and Social Policy. Under the Law on Changes and Amendments of the Law on Child Care, municipalities were given also the authority for the social care of children.

Changes in the Law on Construction Land provide that 80% of the fee paid by the investors is municipal income and 20% the income of the central Budget. This is important because municipalities would receive more revenues from this source.

In May 1999 the Government adopted a Strategy for the Reform of the Local Self-Government System. This Strategy, together with the Program for Implementation of the Process of Decentralization 2008-2010 and the Action Plan for the work of the Decentralization Working Group are the core documents leading the implementation of the decentralization reform in the country.

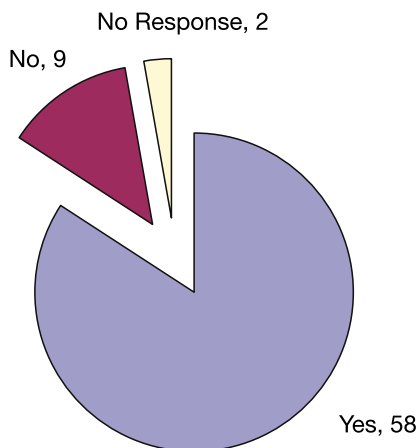
The local elections of March 2009 significantly reshaped the political map in the country. In the period prior to the elections, the coalition under the leadership of the Social Democratic Union (SDSM) had its mayors in 37 municipalities and the VMRO DPMNE political party in 21 municipalities. After the 2009 elections 56 mayors were elected from VMRO DPMNE and 6 from SDSM. In the Albanian block there were no significant changes. Both the ruling Democratic Union for Integration (DUI) and the opposition Democratic Party of Albanians (DPA) maintained the same number of mayors as before (14 DUI mayors and one DPA).

# Municipal Survey

## Implementation of Competencies

With the Law on Local Self-Government municipalities assumed a list of eleven new competencies (urban planning, environmental protection, local economic development, communal services, culture, sport and recreation, child protection, protection of the elderly, education, rescuing of citizens and fire fighting). That is why the municipalities were asked whether they had the capacity to implement the decentralized competencies. Most of the respondents stated that the municipality has the capacity to implement all of the assigned competencies.

**Do you think that your municipality has the capacity to fully implement the assigned competencies?**



There is no significant difference in the urban or rural respondents. Approximately the same percentage of urban and rural municipalities considers itself capable of implementing the decentralized competencies.

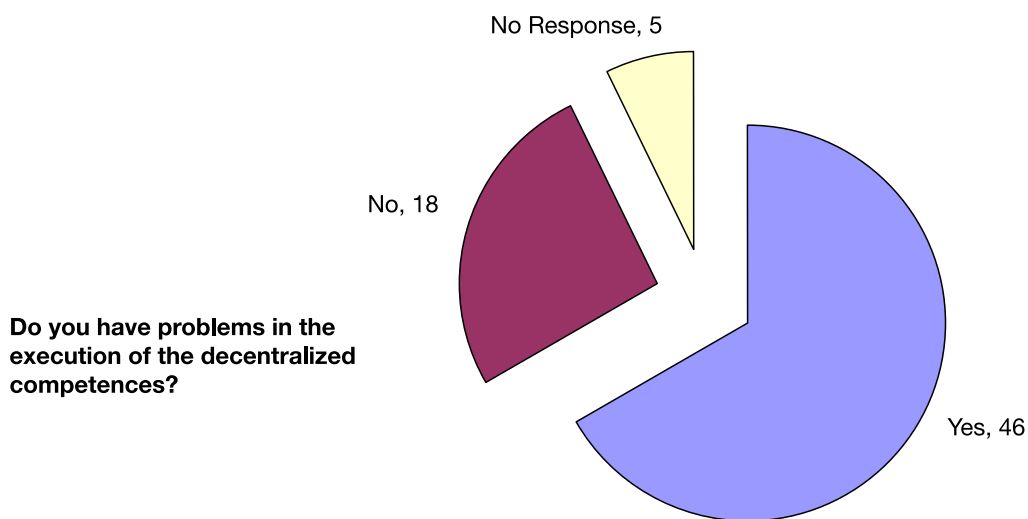
Do you think that your municipality has the capacity to fully implement the assigned competencies?				
		Urban	Rural	Total
Yes	Count	34	24	58
	%	89.5%	82.8%	86.6%
No	Count	4	5	9
	%	10.5%	17.2%	13.4%
Total	Count	38	29	67
	%	100.0%	100.0%	100.0%

According to the municipalities, they implement the education competence most successfully. Following on the list is the urban planning and communal services. Municipalities feel that social welfare (child care and care for the elderly) and protection and rescuing of citizens were least successfully implemented.



<b>Which of the local competencies does your municipality perform most successfully?</b>	
	Total*
Education	61
Urban planning	54
Communal services	48
Local economic development	45
Environment protection	34
Culture	32
Fire fighting	29
Sports and recreation	19
Child care	17
Protection and rescuing of citizens	17
Care for the elderly	4

*\*Municipalities were allowed to select more than one competence*



Even though - according to the answers in the survey - municipalities consider the decentralization and execution of competencies to be a success, they face problems along the process. A total of 46 municipalities (out of 84 local self-government units in the country) responded that they had problems in the execution of the decentralized competencies.

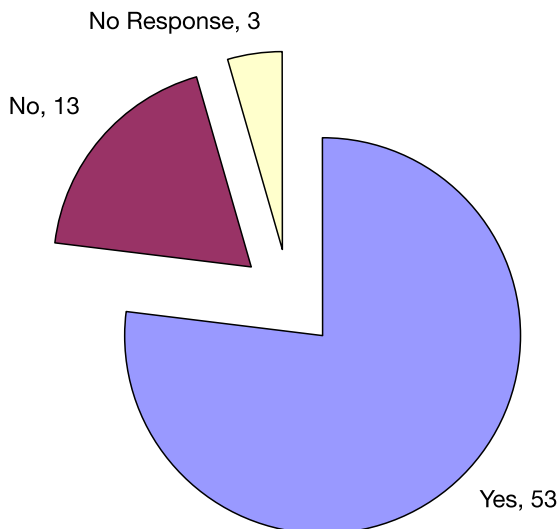
The answers provided by the urban and rural municipalities did not differ much; a similar number of urban and rural municipalities encountered problems operating under the new decentralized system. The same can be said by municipalities governed by the ruling coalition (led by VMRO DPMNE) and the opposition party (SDSM). The same percentage of mayors responded that they faced problems in the execution of the decentralized competencies.

Most problematic competencies for the municipalities	
	Total*
Urban planning	25
Fire fighting	20
Environment protection	19
Local economic development	19
Communal services	18
Culture	15
Elderly protection	15
Sports and recreation	12
Protection and rescuing of citizens	12
Child protection	11
Education	11
Total	49

*\*Municipalities were allowed to select more than one competence*

Even though earlier in this report urban planning was emphasized as one of the most successfully implemented competencies, municipalities still face problems in this area. The main reason for that is the severe lack of financial resources on behalf of the municipalities to produce urban plans. Following on the list of most problematic competencies were fire fighting, environmental protection and local economic development.

With regard to the future, a significant number of municipalities expect problems in the implementation of the decentralized competencies. These answers are illustrated at the following chart.



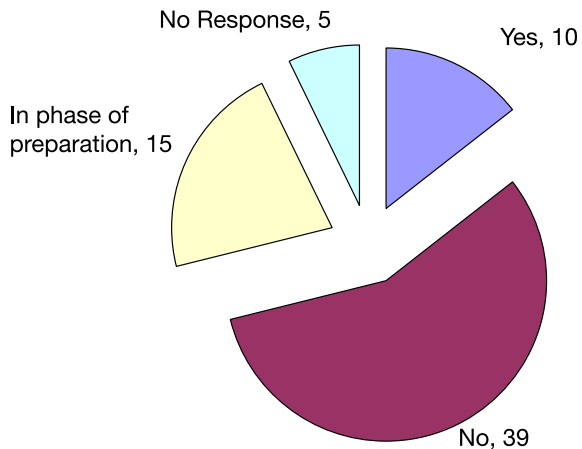
The majority of municipalities stated that the lack of financial resources would be the main obstacle in the future. Low administrative capacity (human resources), unclear legislative provisions, and insufficient assistance from the central government were also cited as the main factors that would create problems in the decentralization process. The answers of the respondents, divided per type of municipality (urban/rural) are presented in the table below.

<b>What would be your biggest problem in the execution of the decentralized competencies in the period to come?</b>						
	Rural	Urban	Total			
	Count	%	Count	%	Count	%
Low administrative capacity of the municipalities	8	27.6	3	11.1	11	19.6
Lack of financial resources	28	96.6	25	92.6	53	94.6
Lack of clear legislative provisions	4	13.8	7	25.9	11	19.6
Lack of assistance from the central government	14	48.3	11	40.7	25	44.6
<b>Total</b>	<b>29</b>	<b>100.0</b>	<b>27</b>	<b>100</b>	<b>56</b>	<b>100.0</b>

### *Corruption in the municipality*

The 2009 Transparency International report ranks the country 71st, scoring it at 3.8 index points according to the 2009 Corruption Perception Index. This year the country moved up by 0.2 index points in comparison to the previous year. In 2008 the country was ranked on the 72nd place with 3.6 index points.

Regarding corruption, municipalities were asked whether they had adopted a strategy for prevention of corruption at local level. According to the responses, only a small percentage of the municipalities had adopted a strategy for prevention of corruption. However, this number may change in the following year, as 15 municipalities stated that they were in the process of preparing and adopting these strategic documents.



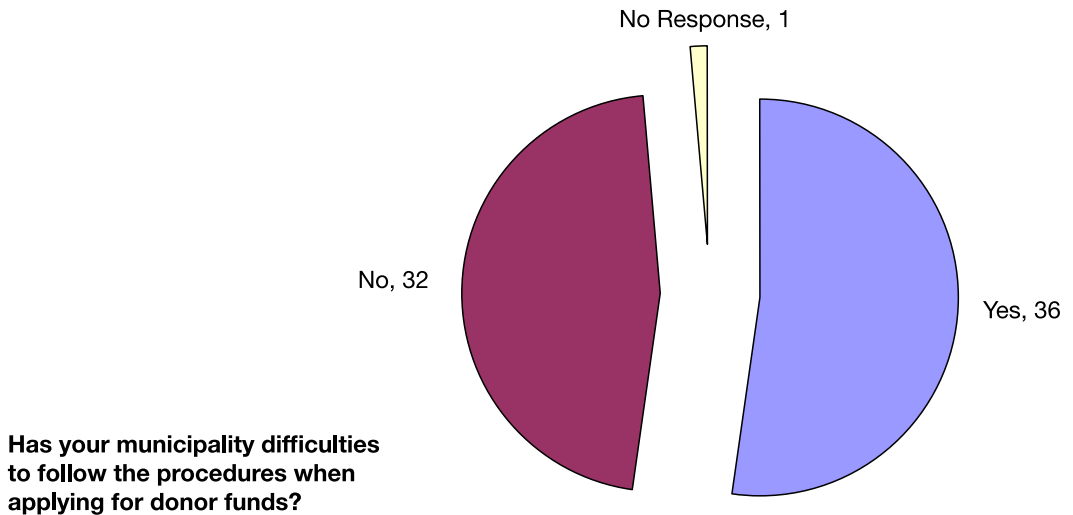
**Has your municipality adopted a strategy to prevent corruption at the local level?**

## Donor Assistance

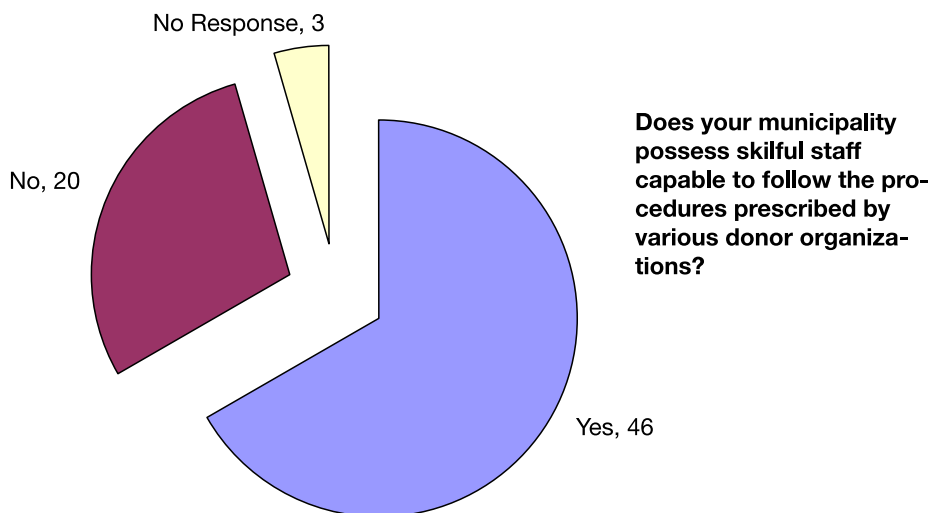
Much of the assistance provided by the international community in the country is focused on the decentralization process. Therefore, it was important to screen the perception of the municipalities regarding the work of the donor organizations. Around 70% of the municipalities assessed the work of the donors as average to very good.

<b>Please evaluate the work of the international organizations present in the country in the area of local self-government?</b>			
		Total	%
Valid	1 (poor)	1	1.45
	2	5	7.25
	3	29	42.03
	4	24	34.78
	5 (excellent)	9	13.04
	Missing	1	1.45
<b>Total</b>		<b>69</b>	<b>100.00</b>

Municipalities invest enormous efforts in attracting donor funds. In order to be able to apply for donor funds, a municipal administration should be capable of following the procedures specific to each donor organization. Most of the municipalities responded that they have problems in following donor procedures when applying for funds.



With respect to the capability of the municipal staff to follow donor procedures, 60% of the municipalities stated that their staff was able to follow the procedures when applying for donor funds.



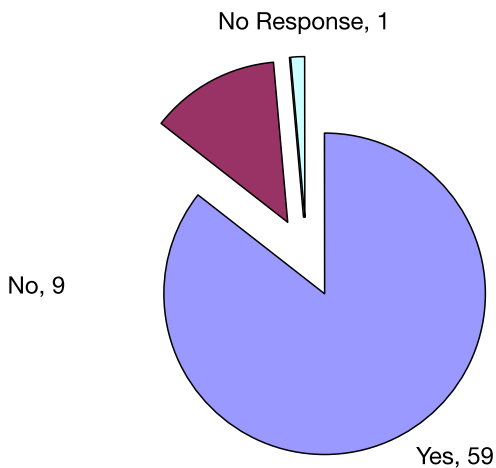
Urban and rural municipalities differed in their answers. Around 80% of the urban municipalities think that they possessed qualified staff, compared to 55% of the rural municipalities that stated their staff was capable to write quality project proposals and manage projects effectively.

<b>Does your municipality possess skilful staff capable to follow the procedures prescribed by various donor organizations (writing project proposals and managing the projects)?</b>				
		Urban	Rural	Total
Yes	Count	30	16	46
	%	81.08	55.17	69.70
No	Count	7	13	20
	%	18.92	44.83	30.30
Total	Count	37	29	66
	%	100	100	100

In the future, most of the municipalities expect financial aid from the donors to implement their priority projects. They expect assistance in form of knowledge transfer, training and expertise, as well as study visits.

### *Inter-municipal cooperation*

The Law on Local Self-Government proscribes inter-municipal cooperation as a possible way of improving the performance of local competencies by the municipalities. In order to closer regulate the legal structures and forms of inter-municipal cooperation, the Parliament adopted a Law on Inter-Municipal Cooperation. Currently 59 municipalities are involved in some form of inter-municipal cooperation in 2009. This can be regarded as a high percentage, considering that the inter-municipal cooperation initiatives have been established even before the adoption of the law. The status of established inter-municipal cooperation forms is presented in the chart below.



**Is your municipality already involved in an inter-municipal cooperation initiative?**

One could expect that more rural and small municipalities would be interested in establishing inter-municipal cooperation forms in order to rationalize the operating costs. However, there was no difference in the answers between urban and rural municipalities.

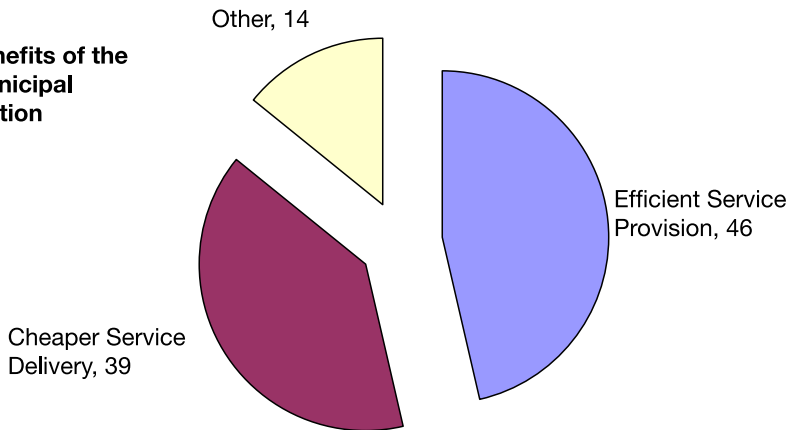
<b>Is your municipality already involved in an inter-municipal cooperation initiative?</b>				
		Urban	Rural	Total
Yes	Count	32	27	59
	%	84.21	90.00	86.76
No	Count	6	3	9
	%	15.79	10.00	13.24
Total	Count	38	30	68
	%	100	100	100

Regarding the forms of inter-municipal cooperation, the municipalities most often enter in a joint planning for the local economic development, into agreements for service provision by one municipality for the other, and joint administration.

This trend complies with the screening of the decentralization process - the aspect of inter-municipal cooperation in 2007. Two years ago, service provision for another municipality was the most popular form of inter-municipal cooperation, followed by joint administration and joint planning.

Municipalities stated that the main advantage of the inter-municipal cooperation was the less expensive and more efficient delivery of services to citizens.

### Main benefits of the Inter-Municipal Cooperation



In this year’s survey, the least popular form of inter-municipal cooperation was the establishment of joint public enterprises, since only five municipalities had reported about such an experience.

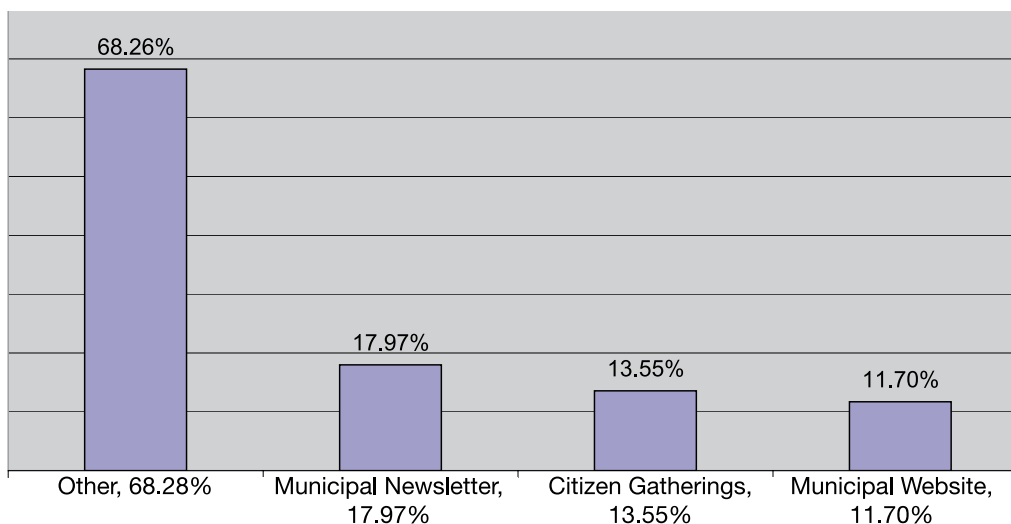
Inter-municipal cooperation can help municipalities to increase effectiveness and efficiency in the delivery of services. As municipal responsibilities have become increasingly complex, municipalities should continually look for the best way to provide the services needed by the citizens.

### Citizen Opinion Poll

In order to compare the situation described by the municipalities and the perception of the citizens, an opinion poll was conducted. Citizens answered questions with regard to the service delivery under the process of decentralization and the existence of corruption in their municipalities.

Transparency and accountability are important principles of good governance. Under the new decentralized system, municipalities should invest in creating an environment of open dialogue and inclusion of citizens into the process of local decision-making. Citizens were asked about the way they receive information about the work of their municipality.

#### How do you get information about the work of your municipality?



*\*The respondents were allowed to select more than one option*

Only 30% of the respondents read the municipal newsletter, check the information on the municipal website, or attend citizens' gatherings. Most of the citizens receive information about the activities of the local authorities through television, newspapers and other local media. However, a large number of citizens replied that they were not informed about the work of the municipality at all or they had no interest in this kind of information.

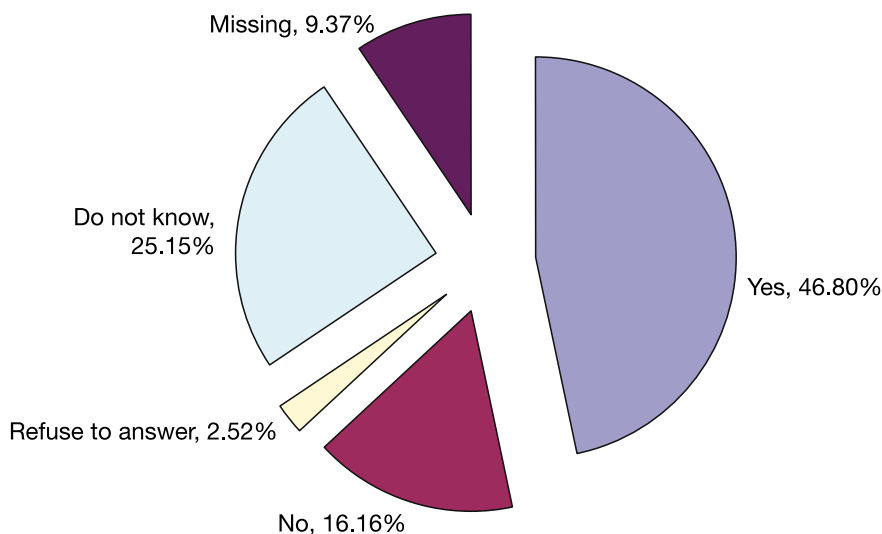
Citizens perceive communal services as the competence where biggest improvement has been achieved since the start of the decentralization process. This was followed by urban planning and education. Citizens saw least the progress in the area of local economic development.

<b>Do you think that with the decentralization, service delivery to the citizens in the following competences has improved?</b>	
Urban Planning	46.22 %
Environment protection	43.57 %
Communal services	55.33 %
Local Economic Development	31.48 %
Education	45.83 %

*\*Municipalities were allowed to select more than one competence*

Municipalities stated that only a small number of them had adopted or were in the process of adopting a strategy for preventing corruption. The perception of citizens regarding the existence of corruption at local level reflects a similar situation.

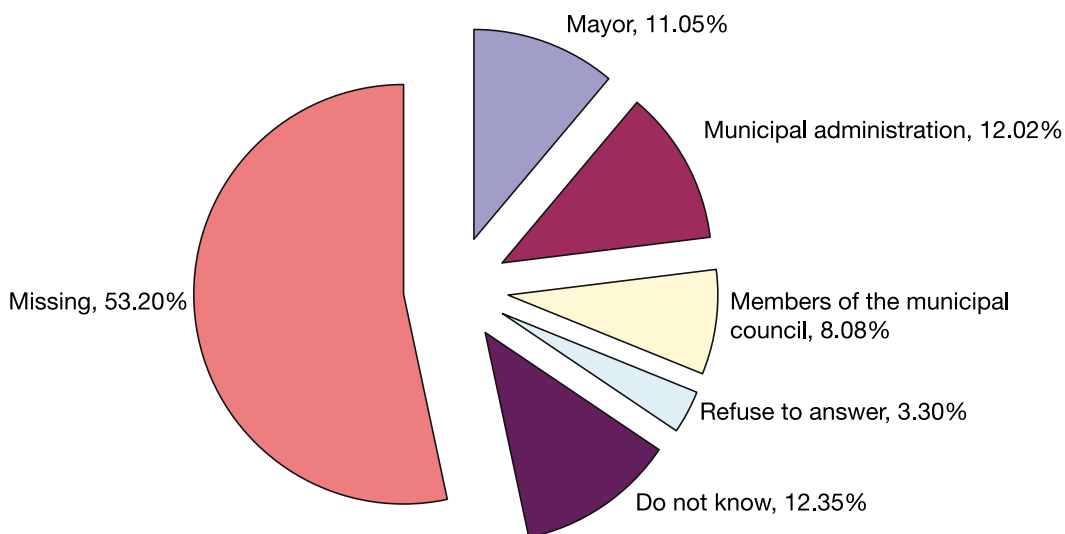
### **Do you think corruption exists in your municipality?**



Almost half of the citizens believed that corruption existed in their municipalities. However, 70% refused to locate the corruption to a particular municipal body, i.e. mayor, municipal administration, or members of municipal councils. Those who answered this question considered the municipal administration and the mayor as more corrupt than the members of municipal council.



## Whom do you consider most corrupted?



## Conclusions and Recommendations

The decentralization process is one of the key elements of the Ohrid Framework Agreement and key priority of the Government in the period to come. Decentralization is a unique reform. It aims at strengthening the democracy at the level it matters the most for the citizens – the local level. It is regarded as contributing to improving the relations between different ethnic communities in the country. In order to achieve this, however, local government should possess adequate capacity.

In this year's survey, the decentralization process has been screened from several aspects. The municipalities provided answers regarding their capacity to implement the decentralized competencies, prevent corruption at local level, attract donor funds and cooperate with other municipalities. The situation illustrated by the municipalities has been complemented with the answers received by the citizens in the area of information-sharing, municipal service delivery and corruption at local level.

Survey results show that most of the municipalities stated to have the capacity for implementing the assigned competencies. However, many municipalities face problems along the process. Out of eleven competencies, the majority of municipalities consider education as the most successfully implemented competence. Following on the list are the urban planning and communal services. Fire fighting, environment protection and local economic development are considered as the most problematic competencies.

In the future, a significant number of municipalities anticipate problems implementing the decentralized competencies due to the severe lack of financial resources, low administrative capacity of the municipal staff, and lack of assistance from the central government. In order to overcome the identified deficiencies, both central and local self-government should invest more efforts in creating a quality revenue basis for an efficient service provision to citizens.

Also, a more intensive capacity building program for the municipal administration should be implemented in the forthcoming period.

The fight against corruption ranks low on the agenda of the municipalities. Only a small percentage of the municipalities have adopted a strategy for prevention of corruption at local level, and almost half of the interviewed citizens believe that the corruption exists in the municipalities, especially with the municipal administrations and the mayors. Measures for preventing and fighting the corruption should be undertaken by the municipal bodies, including raising awareness of the local authorities and citizenry. Possible solutions that might be considered are the development and implementation of corruption prevention strategies, the adoption of mechanisms for a permanent monitoring of the areas vulnerable to corruption, and the increase of the transparency and accountability in all aspects of the municipal operating.

Municipalities consider donor assistance as a significant instrument to support the decentralization process. Almost 2/3 of the municipalities assess the work of the donors as average to very good and most of them state that their municipal staffs have the capacities to apply and implement donor projects. As the survey showed, rural municipalities need more support in building the capacity of the municipal administration in project management. Most of the municipalities expect donor assistance in a form of financial aid. In order to achieve maximum effect of the available funds it will be very important to coordinate the assistance of different donor organizations in the country.

Inter-municipal cooperation as a form of more efficient public service delivery is well spread throughout the country. Municipalities mostly enter into agreements for a joint planning in the area of local economic development, as well as agreements for service provision by one municipality for the other and/or joint administration. In light of the recently adopted Law on Inter-Municipal Cooperation, municipalities should be encouraged to launch inter-municipal cooperation initiatives; the main advantage being the delivery of better quality services to citizens at a lower cost.

Decentralization was never meant to be flawless or finite, and it is not a one-off policy change. Decentralization is inherently a process that needs continuous refining and revision. Accountable, transparent and functional local self-government is a broad goal with many obstacles and challenges. Successful performance of the competencies should always go hand in hand with the quality service delivery, citizens' satisfaction of local government efforts, and relaxation of the inter-ethnic relations. This core value of the decentralization should remain in the focus of the reform agenda in the future.

# Progress in Municipal Administration Reform

## Introduction

This chapter was included for the first time in the OSCE Survey. It covers key aspects of the public administration reform at local level. The chapter covers several issues related to the public administration reforms such as human resources management, civil service reform, professional development of civil servants, the issue of the job description revision, and the possibility of the municipalities to cooperate with the OSCE or other international organizations on these issues.

The reform of public administration is a continuing process in countries with a developed democracy and market economy as well as in transition countries. Continuous adjustment and development of the administrative system due to fast changes in modern society and the processes of globalization call for ongoing reforms. The process of changing and redefining the role of the state in society is especially intense in transition countries where the overly large, mostly command and control functions of the state must be replaced with regulatory functions more consistent with democracy.

Public administration reforms are interlinked with the decentralization process. As one of the core values of the constitutional order of the country, local self-government, its development, and the decentralization process impose the need of strengthening the institutional capacities of the local municipalities. Therefore, the development of professional, competent, efficient, responsible, citizen- and service-oriented public administration at the local self-government is a priority in the process of decentralization.

## *Legal Framework*

The 1991 Constitution established the two basic principles that directly reflect on the organizational and functional aspects of the public administration system, and those are the principle of separation of power and the principle of local self-government. Later on, few changes in the legal framework regarding public administration reform took place. In 1999 the institutional structure for management and implementation of public administration reform was introduced with the adoption of the Strategy on Public Administration Reform. The Strategy defined the reform objectives, the principles of the public administration in future, the general reform approach, and the key areas of the reform. Besides its priorities for the initial reform period from 1999 onwards, as well as the key elements of reform of the legal framework.

The country's public administration is a two tier system. The central administration, which includes the administration in different branches of government (legislative, executive and judicial, including local self-government administration); and all other areas of public interest (schools, military, state hospitals). At the central level, government and administrative activities are mainly regulated by three laws: the Law on the Role and Activities of the Government; the 1996 Law on Public Administration which substituted the previous law; and finally the 1996 Law on General Administrative Procedures.

The reforms in the field of the public administration are linked directly to the system of the civil service and the Law on Civil Servants, which regulates the relationship between the civil servants and the state (municipalities) as their employer. The Law on Civil Servants, among others, also provides the general legislative framework for the professional development of the civil servant.

## *State of Affairs*

The concept of public administration reform was formulated in the Strategy for Public Administration Reform, adopted by the Government in May 1999. This document defined the following reform principles: rule of law, transparency, competency, stability, accountability, predictability, equal treatment, efficiency and ethical behavior. The Strategy identified the following areas of public administration reform:

- the civil service system;
- state administration system (the executive);
- public administration system (in the broader sense);
- local self-government system;
- redefining the role of the state;
- exercise and protection of the citizen's rights;
- public finance; and,
- IT system development.

However, this Strategy was never fully implemented. Currently, the Government in cooperation with the EC is implementing a project which revises and updates the Strategy paper as well as drafts an action plan for the implementation of the Strategy paper.

According to the Government decision, each minister is responsible for the implementation of the reform in the area that fall within his/her remit, while the issues requiring political decisions concerning public administration reform can be resolved only by the Government as a collective body.

So far, according to the relevant reports from the EU, significant progress has been noted in the last years, particularly related to the civil service development - the system of state administration bodies, the central government, the local self-government, and the financial management system. The amendments to the Law on the Civil Service adopted in September 2009 have improved the legal framework by strengthening the role of the Civil Servants Agency and strengthening merit-based recruitment in the civil service. The Civil Servants Agency has been empowered to draft by-laws, oversee the internal organization of the administrative bodies, approve the recruitment of civil servants, and oversee the implementation of the equitable representation. The scope of the Law on the Civil Service has been extended to include the public revenue office, the state audit office, and the customs office. However, according to the European Commission Progress Report, further efforts to ensure transparency, professionalism and independence of public administration are required. The new provisions and the spirit of the amended laws need to be ensured in practice.

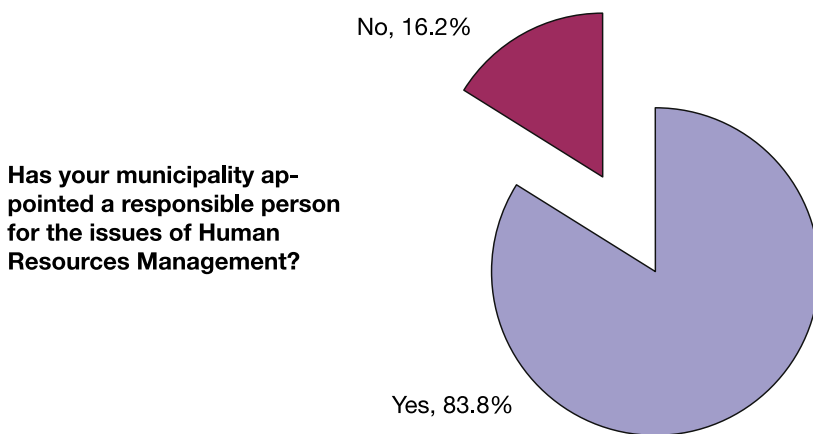
The 2009 Survey includes several issues in relation to the public administration reforms. The topics such as, human resources management, professionalisation and depolitisation of the municipal administration, job description of the municipal staff are analyzed..

## **Municipal Survey**

### *Human Resource Management*

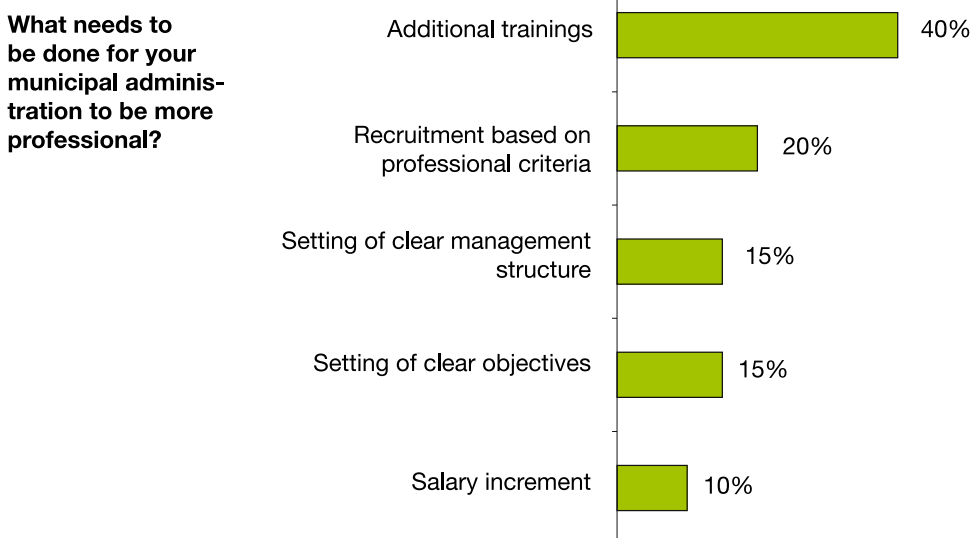
Human resource management is relevant part of the wider public administration reform processes at local level. Though until recently only a prerogative of the Civil Servant Agency, management and development of the human resources of the civil service has also become the daily task of each state institution. In August 2007, the government issued a decree on the establishment of the human resource management units in all state institutions including in municipalities. Those units, along with the civil servants agency, are responsible for the daily management or human resources in their institutions.

Responding as whether the municipality has appointed a responsible person for Human Resources Management, 57 of the municipalities (83.8%) positively responded to the question. This is a positive step for all municipalities taking into consideration the importance of establishing a human resources unit as well as appointing a responsible person to chair this unit.



Public administration is professional and efficient local when municipalities have the qualified personnel to provide quality services for their citizens. Municipalities need personnel that are able to realize the programmes of their own institution and of the elected councils that support them. Civil Service is an instrument through which the municipalities ensure accomplishment of the public policy by providing services to the citizens. Bearing in mind this, the Survey asked the municipalities what do they think about their local public administration.

Some municipalities stated that their administration is professional and efficient, while other replied that their administration is less professional. To the question, “What needs to be done for their municipal administration to be more professional”? The municipalities had few options to choose from, though more than one answer was possible. The findings show that 40% of the municipalities think that additional trainings should be organised in order to increase the professionalism of the municipal administration. 20% believe that the professionalism of the municipal administration lays on the recruitment procedures. The remaining the municipalities responded as shown below.

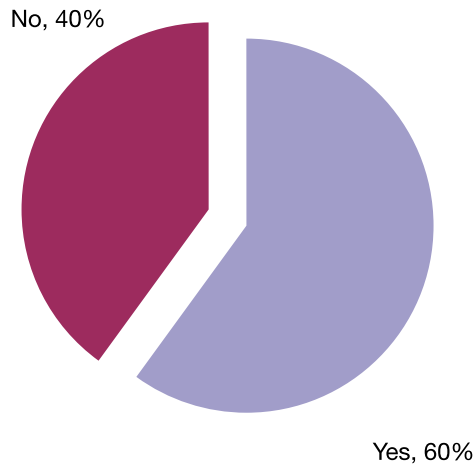


Job descriptions, as a management tool, are essential for the organization of the municipal administration. A job description clarifies work functions and reporting relationships, helping employees to better understand their jobs. Job descriptions are essential as it defines each staff member's role and accountability. Without a job description it is not possible for an employee to properly commit to, or be held accountable for, their work.

This highlights the importance of the existing proper job description for employees in the municipal administration. The Survey asked the municipalities whether the job descriptions of their staff should be revised and adjusted accordingly. Almost, 60% (41 municipalities out of 69) responded with "yes"; while the remaining 40% (28 municipalities) replied "no".

On the following question, "Would you be willing to cooperate with the OSCE or another International Organization on the revision of the job descriptions"? 60% of the municipalities have responded positively while the rest (40%) of the municipalities have answered negatively.

**Would you be willing to cooperate with the OSCE or another International Organization on the revision of the job descriptions?**

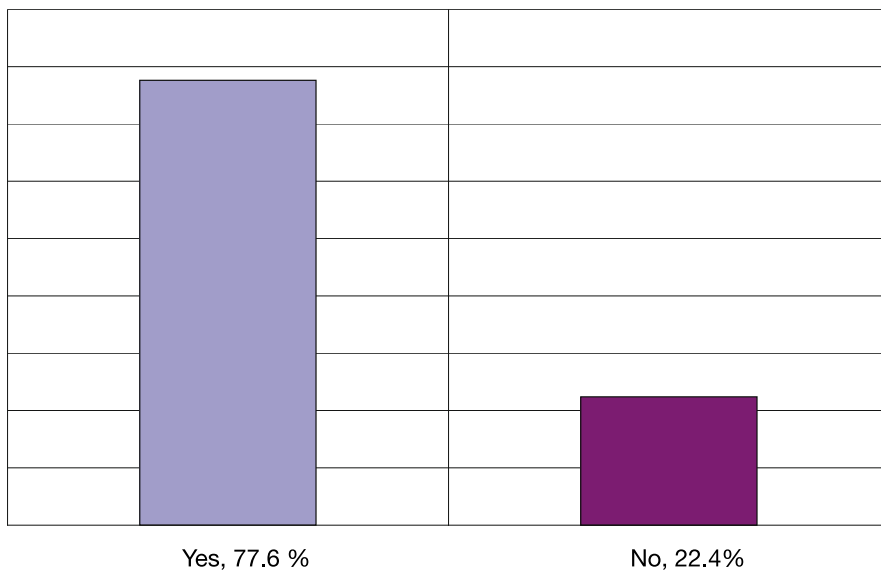


### *Training Programmes*

One of the important issues of having a professional municipal administration is submission of the Annual Programmes for professional development of the civil servants. Planning the professional development of the staff starts with the conducting a training needs assessment, based on which the municipalities prepare a draft annual training programme. The results of the assessment are submitted to the Civil Servants Agency (CSA) for an opinion. After the obtaining an opinion from the CSA, the municipalities adopt the Annual Programme for training their civil servants. Then the municipalities have to find funding for implementing the Annual Programme. They should allocate part from their budget for the professional development of municipal staff. These are also the issues around which questions were designed to assess the percentage of submitted Annual Programmes as well as allocation of the municipal funds for professional development of the civil servants.

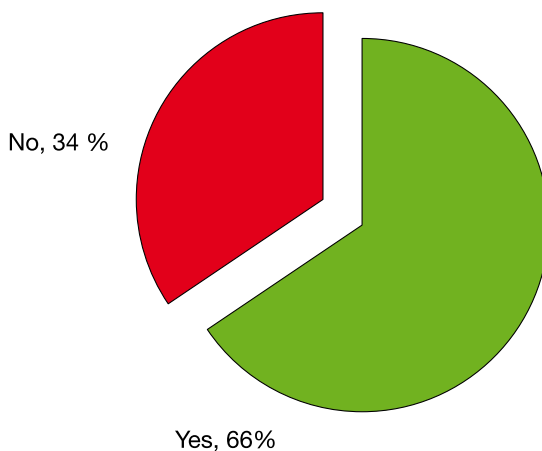
To the question, "Has your municipality submitted the Annual Programme for trainings and professional development of the Civil Servants"?, the majority (77.6%) of the municipalities answered "yes". This is positive result and it seems that the municipalities have understood the relevance of the Annual Programme.

**Has your municipality submitted the Annual Program for trainings and professional development of the Civil Servants?**



As to whether the municipalities allocate funds from its annual budget for the professional development of the Civil Servants, 65.7% responded positively whereas 34.3% stated that they do not allocate any funds from its budget.

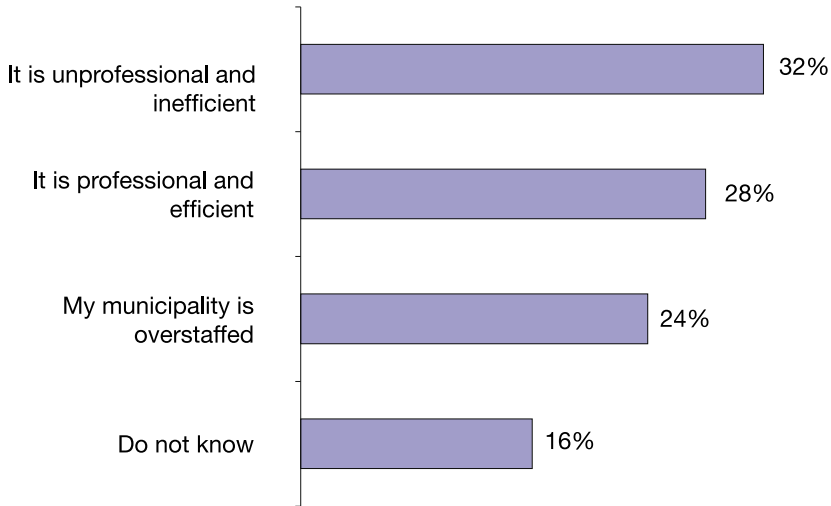
**Does your municipality allocate funds from its annual budget for the professional development of the Civil Servants?**



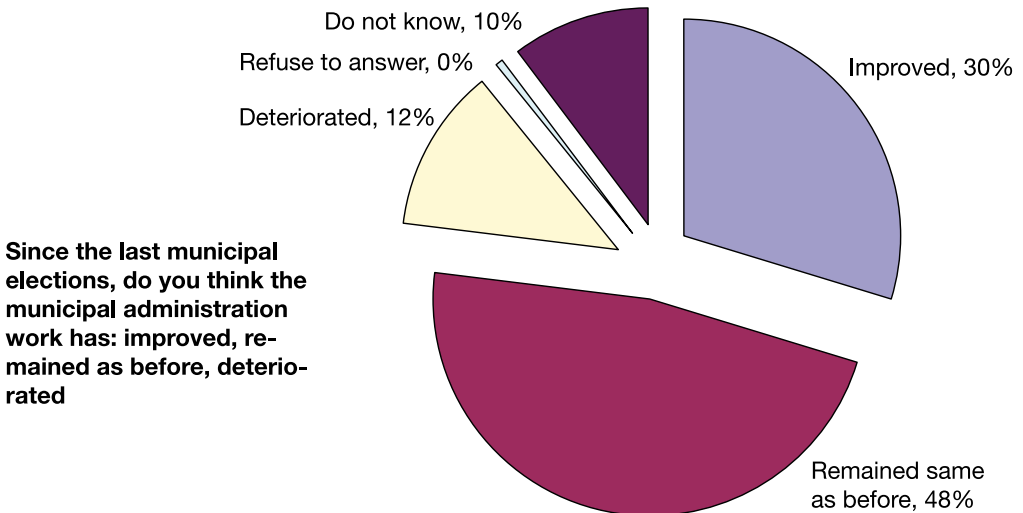
## Citizens Opinion Poll

The first question, regarding their general opinion about their municipal administration, 32% of the citizens stated that their administration is unprofessional and inefficient; 28% of them said that their administration is professional and efficient; and 24% think that their municipality is overstaffed with the employees.

### What is your opinion about your municipal administration?



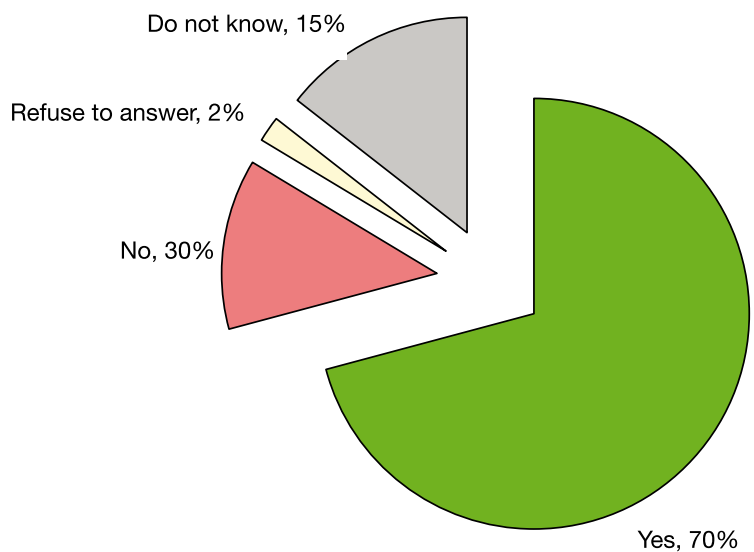
Additionally, citizens were asked about the municipal administration's work since the last municipal elections. Almost half (48%) of the surveyed citizens think that their municipal administration has remained the same as before, while 30% said the work of the administration has improved, and 12% think the work has deteriorated. In general, the findings on this question show that citizens still are on the opinion that the work of their administration has not improved significantly since the new administration has taken control over the municipalities.





Citizens were asked about the employment practices in their municipality and the influence of politics. On the question “Do you think that employment in your municipality is motivated politically or not?” the majority of the citizens (70%) replied “yes”. There are citizens who think differently but the percentage is much lower.

### **Do you think that employment in your municipality is motivated politically or not?**



This Survey also included questions regarding the number of the employees in their municipalities before and after the local elections 2009. The results show that the total number of the employees before elections 2009 was 2,807 while after the local elections 2009, this number has slightly increased to 2,833. This finding clearly shows that municipalities tried to avoid employment of more staff.

## **Conclusions and Recommendations**

One of the crucial topics of monitoring the professional development of the civil servants at local level is establishing a Human Resources Management Unit and appointing a responsible person to oversee it. This Unit is supposed to liaise with the Civil Servants Agency and municipal leadership in order that the human resource policies are well prepared and fully implemented. On this issue, the survey showed that the municipalities have understood the importance of appointing a person in charge of the HRM Unit, with 83.8% of the saying that they have appointed. Perhaps, this positive trend will continue in future, with the rest of the municipalities establishing a HRM Unit with a responsible appointee. Once the Unit is operational, the capacities of the HRM Units should be strengthened. This should be done with additional capacity building activities organized by self funding or with the help of the external possibilities.

Having a professional administration is well understood by the municipalities themselves according to the survey results. They think that in order that their administration becomes more professional, additional trainings should be organized. Almost 40% of the municipalities agree

with this position. It is worth mentioning that the municipalities should understand the importance of training for their staff. Any training should follow a needs assessment, with the findings forming an integral part of the Annual Programme drafted for the professional development of the civil servants. Finalizing the Annual Programme should be done jointly with the Civil Servants Agency. In this respect, the survey also shows positive results. In total, 77.6% of the municipalities answered that they have finalized and submitted the Annual Programmes for the professional development of their civil servants. According to the survey results, a majority of the municipalities allocated funds from their own annual budgets for professional development of the civil servants (65.7%).

In relation to the job description of the municipal staff, most of the municipalities have stated that they would like to see job descriptions be revised (60% of the municipalities). 60% of the municipalities are willing to cooperate with OSCE or other international organizations in this regard.

Citizens still do not believe that their municipal administration has the necessary administrative capacity to work professionally and efficiently. 32% of the interviewed citizens regard their municipal administration as unprofessional and inefficient - a response and percentage that should be taken into account by the municipalities. The citizens also think that since the last municipal elections the work of the municipal administration has not improved. A full majority of the citizens (70%) think that employment in their municipality is political. This should be worrying for the municipal administrations that have taken charge after the local elections. Increased efforts from the Mayors and the municipal administration should be directed towards de-politicizing the recruitment process.

# Decision Making of Municipal Councils

## Introduction

As a consequence of decentralizing several competencies to the local level, municipal councils play a major role in managing local governance. Municipal councillors are supervising policies enacted by mayors, adopting yearly budgets, and making all other decisions that regulate local government.

This chapter provides an insight into the level of involvement of the municipal councils as a separate institution at the local level. It focuses on political party representation, ethnic diversity, the use of different languages during the council sessions, and cooperation with the mayor and the municipal administration. It also includes an overview on the level of citizen participation in the decision making process in the councils. It looks at mechanisms that are used to achieve citizens' inclusion as well as the involvement of the Neighbourhood Self-Government Units (NSGs).

The work of the municipal councils is regulated by the Law on Local Self-government adopted by the Parliament in 2002. This Law develops the local self-government framework based on the principle of subsidiary. In accordance with this principle, municipalities have the right to follow local interests which is not in the competency of the state authorities. Furthermore, Article 22 of the same Law lists the competencies of the municipalities. The relevant local competencies listed in the Law are in the following areas:

1. Urban Planning
2. Environmental Protection
3. Local Economic Development
4. Communal Activities
5. Culture
6. Sport and Recreation
7. Child Protection
8. Protection of Elderly
9. Education
10. Health Care
11. Protection and Rescue of Citizens
12. Firefighting

The actual transfer of the competencies began in July 2005, following the adoption of the new Law on Territorial Organization of the Local Self-Government and the Law on Financing the Units of Local Self-Government.

## Municipal Survey

Municipal councillors are elected officials. Their mandate lasts for four years. Elections for council members concur with the mayoral elections. The number of councillors per municipal council is determined based on the number of inhabitants in the municipality. This is regulated under Article 34 of the Law on Local Self-Government. Councils range in size from nine to 33 councillors. An exception is the city of Skopje, which has a special status with 45 councillors. Altogether, there are 1,391 council members in 85 municipalities. All major ethnic groups and political parties, including the independent candidates, are represented in the councils.

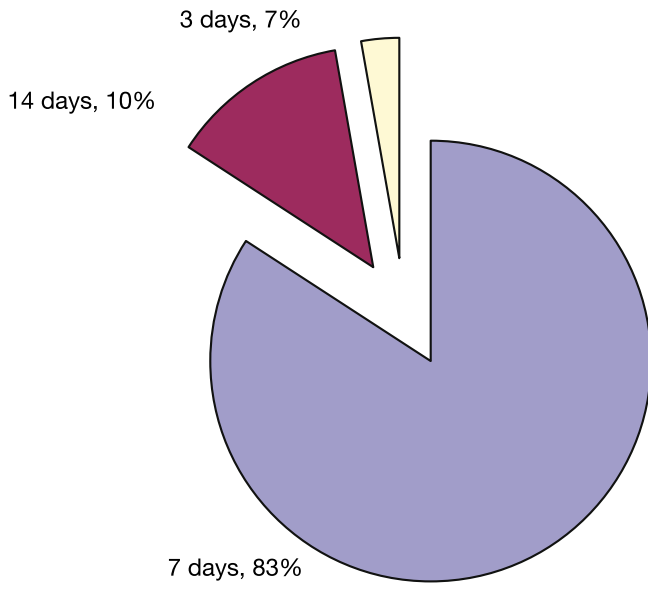
### Number of councillors against number of inhabitants

Inhabitants	Council members
up to 5,000	9
from 5,001 to 10,000	11
from 10,001 to 20,000	15
from 20,001 to 40,000	19
from 40,001 to 60,000	23
from 60,001 to 80,000	27
from 80,001 to 100,000	31
over 100,000	33

According to the survey results, municipal councils were functioning well since their establishment in May 2009. 100% of the respondents stated that on average they had four sessions each since their establishment (April/May 2009). All but one stated to have elected a president of the council.

The cooperation of the municipal administration with the councillors is reported to be very good. The administration is responsible for preparing all the working materials for councillors. 83% of the councillors declared that they receive the materials within the legal deadline (seven days before the council session); 10% declared that they receive them 14 days in advance; and the remaining 7% that they received the materials only three days before the council session.

### How many days before the Council session do you receive the documents?

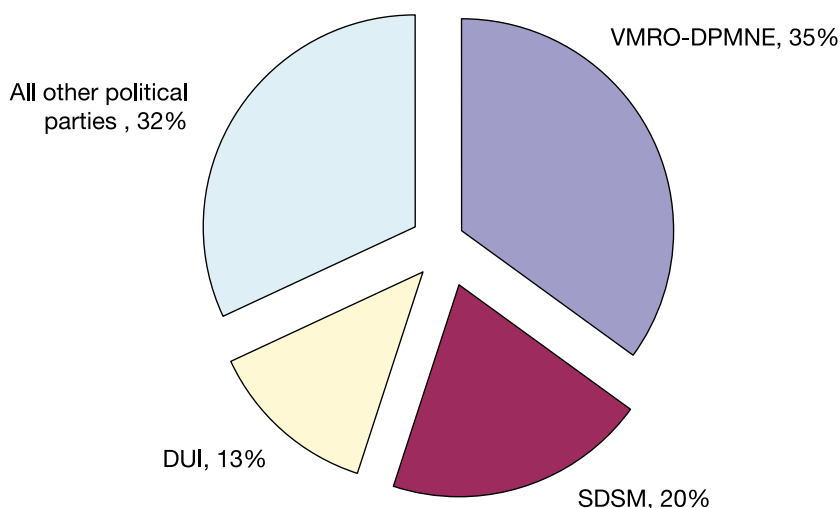


Survey results show that in addition to ethnic Macedonians, the following ethnic groups are represented in the councils throughout the country: ethnic Albanians; ethnic Turks; ethnic Roma; ethnic Vlach; ethnic Bosnians; and ethnic Serbs.

The Law on Local Self-government, Article 90, stipulates that besides the Macedonian language and its Cyrillic alphabet, a language and alphabet used by at least 20% of the inhabitants of the municipality shall be the official language in the municipality. Only Councillors of Albanian and Turkish ethnicity declared that they receive their documents in two languages: Macedonian (which is official in the entire territory of the country) plus either Albanian or Turkish. Only the councillors of the Centar Zupa municipality receive the working materials in the Turkish language.

In the March 2009 mayoral elections, the ruling party achieved a landslide victory over its rival in the ethnic Macedonian political block. The councils became the only arena for the opposition parties to exercise influence over development policies and/or achieve some political balance at the local level.

**Percentage of the main political parties represented in the councils throughout the country (data is collected from the State Election Commission)**

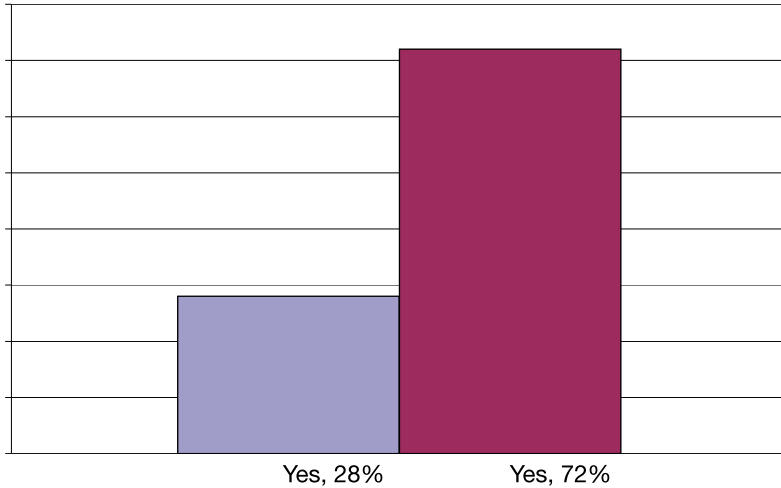


Councillors belonging to the same political party of the Mayor replied that their cooperation with the Mayor was excellent, unlike the opposition who widely stated that their cooperation was fair (60%), and the remaining (40%) even said that the cooperation was not good. Following the local elections the co-habitation the mayor and the council became a real issue in the Tetovo Municipality. The newly elected Mayor (DPA) denied the President of the Municipal Council (DUI) access to an office - the same office that was used by the previous President of the Municipal Council - by stating that the Council President was not entitled to have an office and that there were no legal provisions that allowed a municipal council president to have an office of their own.

The survey indicated that the concept of citizen participation in political life was not widespread in the country. There is some limited experience regarding citizen participation and decentralized local self-government where neighbourhood self-government units/village councils (NSG councils) played an important role in the life of the citizens, especially in rural municipalities. Through these NSG councils, citizens are able to voice their concerns to local officials and launch various initiatives that affected their way of living.

However, at the time of the survey, most of the municipalities had not organized elections for the new NSG councils. Only 28% stated that there have been elections for new councils of neighbourhood self-government units, indicating that the establishment of these units is not high on the agenda of the local government officials.

### Have you organized elections for Neighbourhood Self-Government Councils?



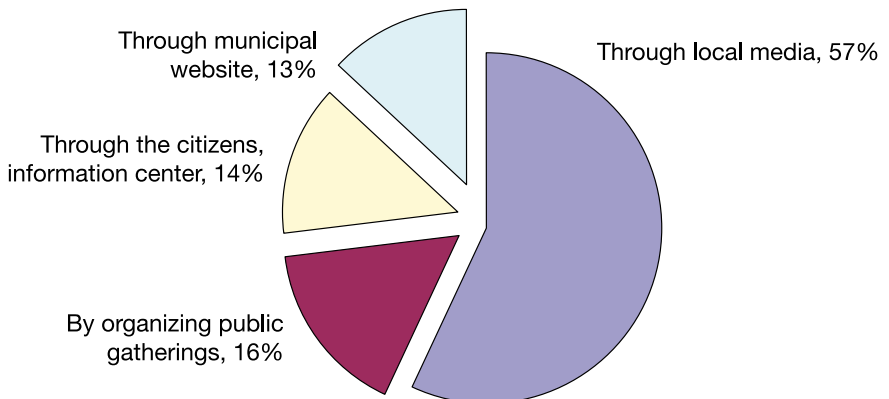
### Citizen Opinion Poll

The survey also sought to provide insight into the level of citizens' involvement in the decision making process at local level.

When asked to what extent they are informed by the municipality on council decisions adopted, 74% of the citizens responded that they are not informed. Only 21% claim to be informed on the decisions taken.

Citizens' main sources of information on the work of the municipal councils are the media (57%), followed by public gatherings (16%), and the Citizen Information Centres (14%).

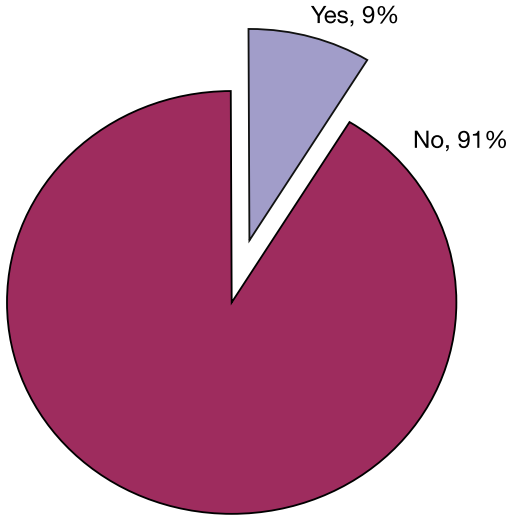
### How do you get the information from your municipality?



Neighbourhood Self-government Units (NSGs) are institutional tools for citizen participation inherited from the former Yugoslavia, which are still active particularly in rural areas (where there are usually referred to as Village Councils). The councils gather the representatives from the local residents (village or urban) with the aim of managing communal activities.

52% of the citizens did not know if their NSGs have been established, compared to 25% who claimed to know about the existence of NSGs in their communities. However, almost all of the citizens polled (91%) have not participated in the work of the NSGs.

### Have you participated in the work of Neighbourhood Self-Government Units?



## Conclusions

The municipal councils were established smoothly after the local elections in March/April 2009. All have elected a president of the council except for the Karposh Municipality. Cooperation with the municipal administration is reported to be very good, as the majority of the councils claim to receive the working materials on time, seven days before the council session. The main ethnic groups are included in the political life at local level, but the working materials are produced only in Albanian and Turkish languages. Almost all major political actors are represented in the councils throughout the country.

The issue of cohabitation at local level is evident in the Tetovo Municipality. The argument between the Tetovo Mayor and the President of the Municipal Council shows that improvements are more than necessary.

Councillors also claim that they involve the citizens in the decision making process through public debates and citizens gatherings, however the poll reflects the opposite; the vast majority of them claiming that they never receive any information on the day of the council session in order to enable citizens' input.

Councillors generally do not consider Neighbourhood Self-Government Units (NSGs) as a valuable "opinion carrier", able to provide prompt feedback from the population regarding municipal policy. Only a few municipalities have so far considered the option of direct NSG

involvement in the decision making process. A number of reasons may explain the general unwillingness in devolving competences to NSGs, among them the lack of proper managerial skills of NSGs.

## **Recommendations**

Councillors should receive the working materials well in advance of sessions; especially if within that period of time councillors organize different events in order to ensure citizen input and to gather expertise.

As the cohabitation proved to be problematic, councillors should regulate the cooperation between these two institutions within their Municipal Statutes, including the office space for the President of the Municipal Council.

NSG capacity could be strengthened in tackling and managing matters of interest for local communities. This could encourage municipalities to increasingly involve NSGs in the decision making process, with a mutual benefit for municipal authorities and for local residents.

To assist citizens in understanding their roles and responsibilities, citizens must be made aware that they can play a role in local government. Education plays a vital role in promoting and improving citizen participation. Schools, media, and government agencies can play a crucial part in educating citizens. In a number of cases, media has played an active role in voicing the concerns and problems of people.



# Progress in Local Economic Development

## Introduction

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 favorable 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, where 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. Creating local knowledge-based economies and regional innovation systems are seen as key drivers of local economic development, which in turn depends significantly on the quality of life factors at the local level. On the other hand, “institutions which support local economic development, such as regional innovation networks, are unlikely to emerge at the local level if the quality of life is undermined by an absence of trust, weak social networks, and high levels of ethnic tension and social exclusion”.

The Local Economic Development was one of the first responsibilities transferred from central to municipal level with the Law on Local Self-Government, enacted in 2002. The Article 22 of the Law prescribes the LED as a local self-government competence, and leaves room for the municipalities to construct their own method of planning and implementing the LED activities. 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 at local level.

Another important part of the general legal framework on LED is the 2007 Law on Balanced Regional Development. The aim of the Law is to “determine the goals, regulations and bearers of the policy for regional development planning, financing and allocation of funds for balanced regional development, evaluation and monitoring of the implementation of the development plans and other related issues”.

This chapter provides information on the status of the LED as a cross-cutting competence of the municipalities both from municipal and business community perspective. It provides information on the active approach municipalities have been taking towards LED (systematic or ad hoc based), the existence of formal LED plans, and the obstacles for their implementation.

This chapter also gives information on the level of unemployment in municipalities based on the municipal statistics and an overview of the most important and dominating economic branches per municipality. Furthermore, it checks on the existence of databases on the active businesses at local level, as a basis for future planning of the LED. The chapter gives information on how many municipalities have planned development of commercial zones within their municipal urban plans, and lists the implemented activities in the period 2008-2009 for improvement of the business and investment climate. Most importantly, it gives information on the current trends in allocating municipal budgets to finance LED and balanced regional development and the received financial support from the central government. In addition, it gives information on the functionality of the existing planning regions.

Finally, the chapter describes the knowledge and awareness of the LED concept among the business community and the assistance they have received from municipal authorities in terms of improvement of the local economy.

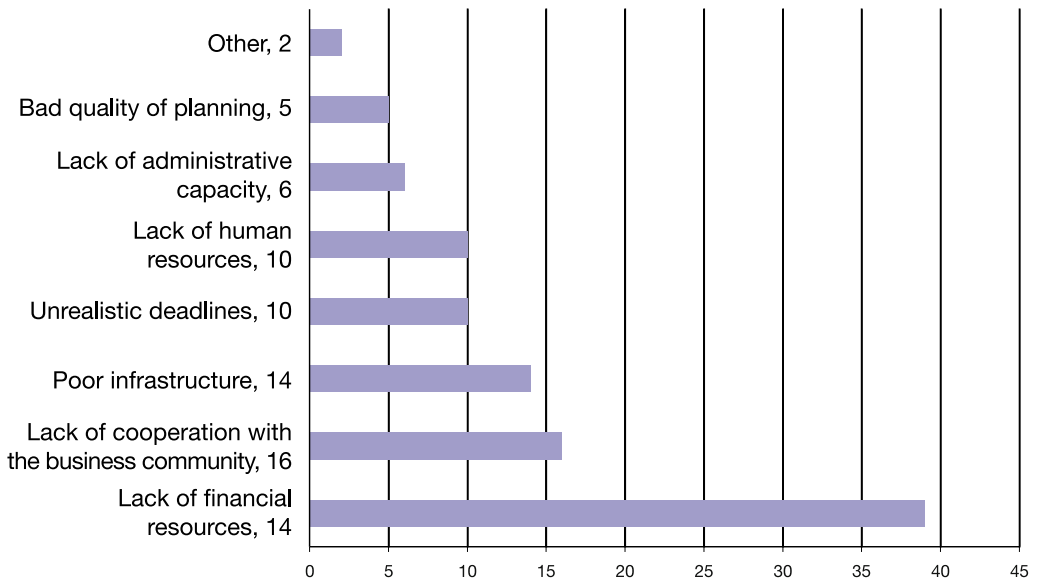
## Municipal Survey

### *Planning of Local Economic Development Activities*

43 of the surveyed municipalities have formally planned their LED activities for the period 2008-2009. This figure represents an increase of approximately 1% compared to the period 2007-2008, and an increase of 7.7% compared to the survey results of 2006-2007. 36 of the municipalities which have an LED action plan for the period 2008-2009 face obstacles in their implementation and only seven of them (Bosilovo, Brvenica, Butel, Mogila, Ohrid, Valandovo and Zelenikovo) implement their local economic development action plan without problems and obstacles.

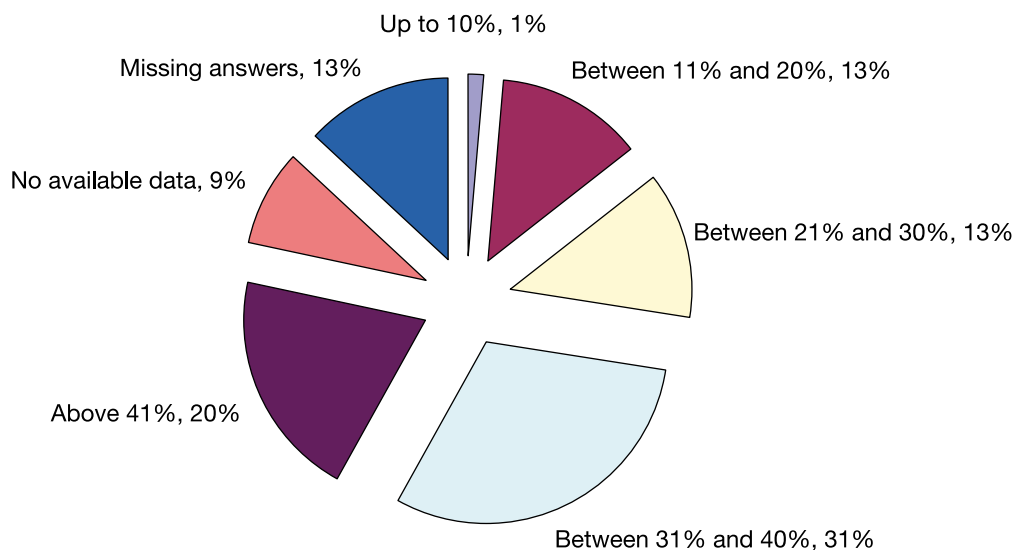
All 36 municipal administrations that face obstacles in implementing their LED plans, and an additional three of the ones interviewed, identified a lack of funds as the main hurdle. 16 municipalities cited the lack of cooperation with the business community, and 14 of them identified the poor local infrastructure as obstacles. Ten municipalities chose the unrealistic deadlines and the lack of human resources, and only an insignificant number of them pointed out the bad quality of planning. Please see the following chart.

#### **List of the most common obstacles that prevent municipalities from implementing LED Action Plans**



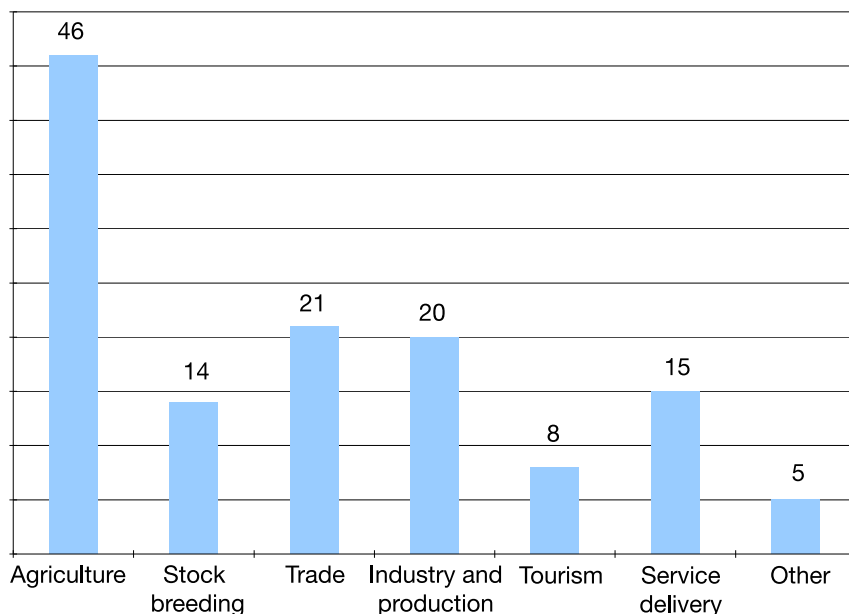
Unemployment rates according to the available municipal data are reflected in the chart below. 21 municipalities record an unemployment rate between 31% and 40%, out of which 14 are urban and seven rural. 14 municipalities reported an unemployment rate above 41%, where almost all of them (12 municipalities) are rural, with the southwest Pelagonija and Polog regions prevailing in this group. Nine municipalities reported an unemployment rate between 21% and 30%, and the same number declared between 11% and 20%. Only the Aerodrom municipality reported to have unemployment rate below 10%. Six municipalities did not present any data on this issue and nine municipalities did not respond to this question.

**According to your records, what is the unemployment rate in your municipality?**



Approximately half of the municipalities have agriculture as the dominant economic activity; stock breeding is a source of income for 14 of them, whereas 21 and 20 municipalities rely on trade & industry, and production, respectively. Service delivery is an economic activity implemented in at least 15 of the surveyed municipalities and five identified transport and real estate business as dominate economic activities. As expected, urban municipalities mostly deal with trade, industry and production and service delivery, while agriculture and stock breeding are prevalent in the rural municipalities. Only two rural municipalities (Caska and Mavrovo/Rostusa) stated to have developed tourism as the primary economic activity.

**Which is the dominating economic activity in your municipality? (number of municipalities)**



*\*Municipalities were allowed to select more than one competence*

With regard to the basis for proper planning of the local economic development, only 35 of the municipalities have established and updated a database on existing businesses. 29 have not established a database, and five did not answer.

The table below lists the activities was implemented in the period 2008-2009 to improve the local economic development and the investment climate.

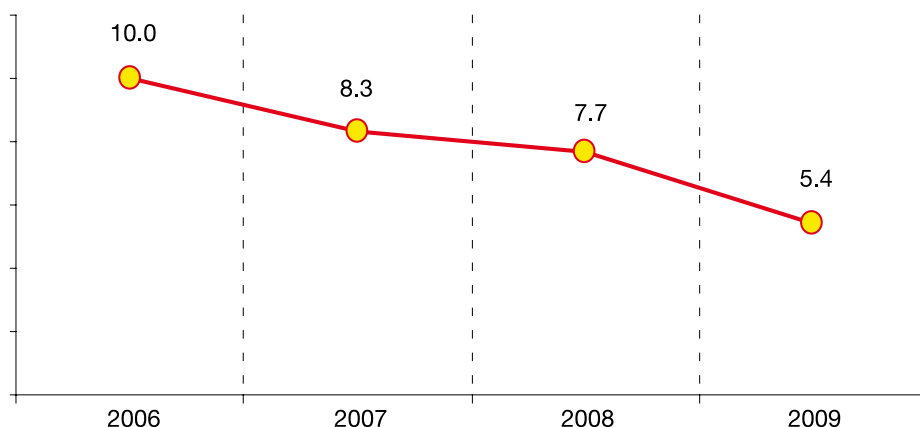
Activity	Number of municipalities
Improved the local infrastructure	53
Promotional activities	38
Participate in the work of a regional economic associations	27
Improved and standardized administrative procedures	24
Lowering of communal fees for business legal entities	17
Established a private-public partnership	8
Other	4

The urban plans of 61 municipalities included space for a commercial zone. Only six of the surveyed municipalities responded as not having formally planned the development of a municipal industrial zone. They were Cair, Centar, Lozovo, Novaci, Plasnica and Suto Orizari.

### *Budget Allocation for Local Economic Development*

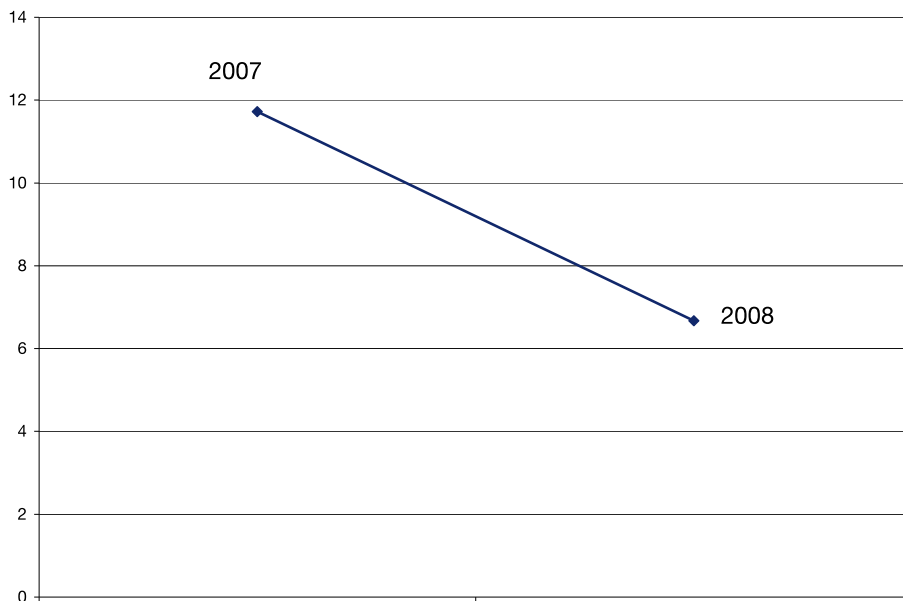
The next chart depicts the negative trend in the average percentage from the municipal budgets allocated for local economic development activities in the period 2006-2009. On average, most municipalities allocated between 1-10% annually of their budget for the LED. The average 10% in 2006 has decreased to 5.4% in 2009.

#### **Trends in the municipal budget allocated for the LED in the period 2006-2009**



This negative trend is mirrored by a negative trend in the average percentage of the municipal budgets allocated for balanced regional development in the period 2008-2009 compared to 2007-2008.

### Average financial resources from municipal budgets allocated for balanced regional development in the period 2007-2008 (in per cent)



According to the survey results, 34 of the surveyed municipalities had established a Center for Balanced Regional Development and adopted development plans. 24 municipalities began implementing plans, and nine municipalities confirmed no activities for their respective balanced regional development centers. Ten of the municipalities did not answer this question. Vardar and East Centers for Balanced Regional Development are the most active and are implementing projects. Most of the regions have not started projects due to a lack of qualified human resources. The center of Skopje region was recently established, and Pelagonija region is operational, but facing a problem with recruiting management.

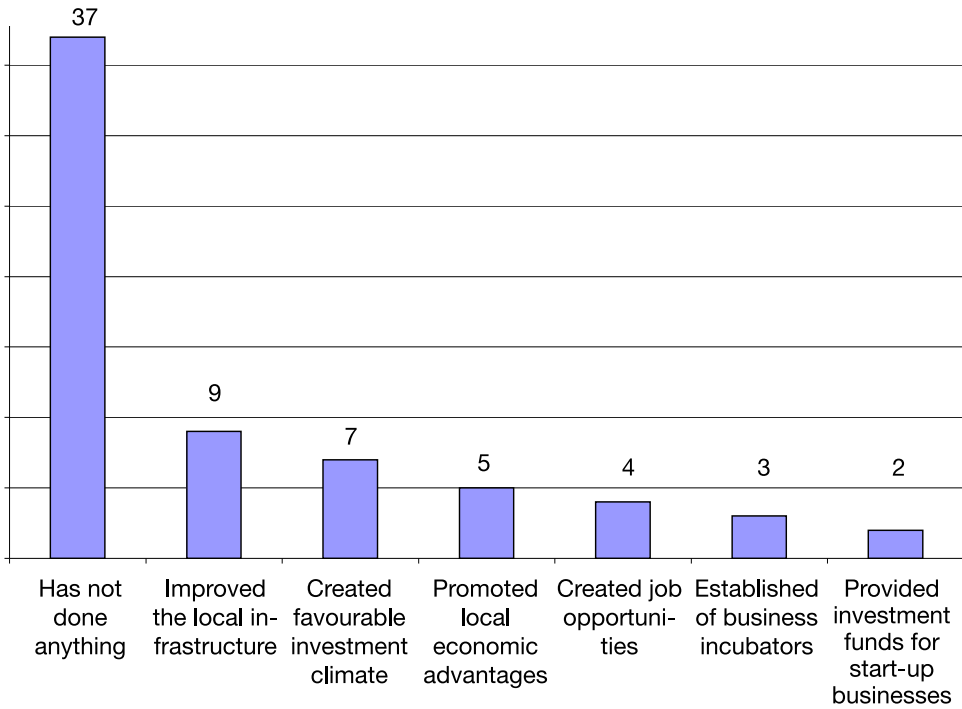
Based on the survey results, the average funds per region received from the central government for the purpose of balanced regional development since the beginning of the decentralization process is 13,358,934 Denars.

## Opinion poll

Nearly 63% of the business community stated that their municipality has not done anything to improve the local economic development. Only nine (out of the 59) business community representatives feel that their municipal officials have improved the local infrastructure, seven responded that their municipality has managed to create a favorable investment climate, and only five of them believe that the municipal officials have promoted their local economic advantages to attract investments. Four representatives stated that their municipalities have created job opportunities. Approximately 8% of the respondents stated that their municipalities have improved local economic development by establishing business incubators and providing investment funds for start-up businesses.

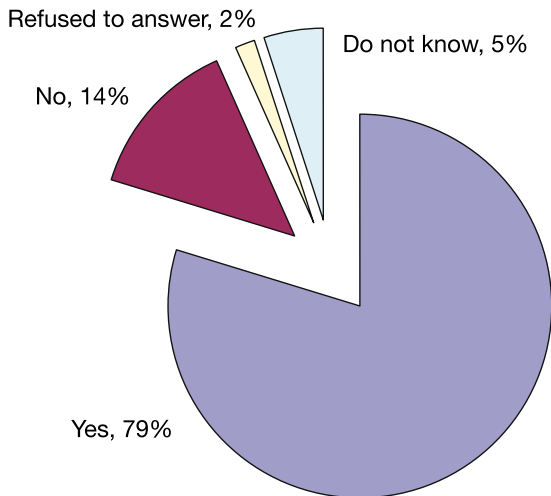
The majority of the business community representatives believe that public-private partnerships are an important tool for boosting economic development (see the chart below).

**What has your municipality done to improve the local economic development in your municipality?**



This, compared to the finding that only eight municipalities have established-public-private partnerships in order to improve the local economic development and the investment climate poses the question: “Where is the obstacle for improving the partnership and cooperation among municipal officials, the non-governmental organizations and the business community?”

**Do you see public-private partnerships as an important tool for boosting local economic development?**



## Conclusions

The survey results show that a substantial number of municipalities pursue a systematic approach in planning their local economic development. There is a positive trend with regard to the number of municipalities that have based their local economy on formally adopted LED plans. Nevertheless, all of them face serious obstacles in the implementation of their plans, where access to funds appears to be the most common factor. Hurdles to the successful implementation of the local economic development plans are: the poor cooperation between the business community and the local public sector, the unrealistic deadlines, the poor municipal infrastructures, and the lack of qualified human resources. The opinion poll results show that businessmen recognize the public-private partnership as a tool for boosting economic development, but still the level of cooperation is extremely low.

The majority of the municipalities cope with high unemployment rates, most of them between 31% and 40% or higher. Agriculture is the most widespread economic activity in the country. Trade, industry and production, and service delivery dominate in urban municipalities.

Accurate information on the existing businesses at local level is a necessary basis for proper planning of the economic development at local level. Though more than half of the municipalities have established updated databases of existing business, the number of those which do not possess this valuable information is considerable.

Recognizing their role to create favorable conditions for local economic development, most of the municipalities have worked on improving the local infrastructure and the promoting local economic potential. Very few of them managed to establish functional public-private partnerships and to enhance the local cooperation in order to foster economic growth. Contrary to this, the majority of businessmen in the country think that municipalities have not done anything to create an attractive business climate at the local level. Municipal officials recognize the necessity of standardizing their local administrative procedures and offering quality services in order to attract investors.

There is a negative trend in allocating municipal budget funds for local economic development. Only insignificant portions of the municipal budgets are dedicated for economic development purposes. Municipalities either rely on outside support to the implementation of their plans or they fail to implement their planned activities.

This negative trend is followed by a negative trend in the average percentage of the municipal budgets allocated for balanced regional development. Most of the regions have not started implementing projects due to a lack of qualified human resources.

Since 2005, on average, the central government allocated MKD 13,358,934 (approximately 219,000 Euro) per planning region. For comparison, the Law on Balanced Regional Development stipulates that annually at least 1% of the GDP (approximately 45 million Euros) through the Budget of the country is to be allocated for this purpose.

## Recommendations

As the survey shows, businessmen and private entrepreneurs have to reestablish their communication with the municipalities and recognize them as partners, rather than as a bureaucratic burden. A countrywide public awareness campaign for all relevant stakeholders (businessmen, the civil sector, and municipal officials) would help to reinforce the mutual benefits of a culture of co-operation. The vital role of the public-private partnerships must be widely recognized by

both municipal officials and the business community as an avenue for reducing unemployment, poverty and improving the standard of living.

Municipal LED plans should reflect the real economic potential of the municipalities. The municipalities need to update their register of local business entities and this requires a more serious approach and higher municipal investments in LED. Building infrastructure, standardizing administrative procedures (preferably with ISO certification), strict law enforcement and a predictable business environment are the key preconditions for attracting domestic and foreign investors to the community. This in turn requires a dedicated, motivated, professional depoliticized public administration at local level. Training and capacity building for LED Officers in strategic planning and development of project application documents are essential and highly recommended, particularly for the rural municipalities.

Municipalities need to focus on the development of new, alternative economic activities as sources of income. Generating revenue is the only solution for developing sustainable and viable local municipalities. In the long run, municipalities can not rely on the central government for financing their competencies. To fill the financial gaps, central authorities need to revise the methods and formulas for re-distributing VAT tax to the local level, while providing the local level of government with greater financial independence.

Going forward, the central government needs to fulfill its obligations to finance the Balanced Regional Development and the municipalities need to join their infrastructural, natural and financial resources towards building mutual co-operation networks. The interest of donors in the supporting the centers for Balanced Regional Development, specifically with human resource training on applying for EU funds is invaluable. The property-related legislation should be revised, particularly the ownership of land designated for construction.

The municipalities need to focus on involving their citizenry in shaping the future directions of the local economic development. They should use the advantages of cultural diversity building vibrant and cohesive local communities. Stable inter-ethnic relations are a crucial precondition for attracting investment, as local governance can be adversely affected by ethnic tensions. Local authorities, politicians, as well as the civil servants need to build strong and professional institutions. Though often difficult, it is necessary to build local partnerships that underpin and support the process of local economic development.



# Status of Fiscal Decentralization

## Introduction

The fiscal decentralization process officially started on 1 July 2005 when the transfer of new competencies from central to local government entered into force. The Law on Financing the Units of Local Self-Government stipulates that the decentralization process was to be implemented gradually in two phases.

### *First Phase of the Fiscal Decentralization*

In the first phase of decentralization, municipalities obtained the right to administer revenues coming from:

- Own sources (local taxes, local fees, local charges, donations, self-contributions);
- 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).

The transfer of revenues from the central budget in the first phase was performed in the following manner:

- The Government should approve a Methodology for the distribution of the revenues from Value Added Tax and capital, earmarked and block grants;
- With a budget circular, the Ministry of Finance should notify each municipality on the amount of revenues from taxes planned in the budget for the municipalities;
- Before 31 December 2004 the municipalities were to begin implementing a plan for resolving the arrears from debts to contracting partners and other creditors that occurred prior to 31 December 2001.

A precondition was that at least 90% of the total number of the municipalities which covers at least 90% of the population in the country have:

- at least 2 employees within the municipal administration who are qualified in the financial management area, budget preparation, its performance, accounting and financial reports;
- at least 3 employees within the municipal administration who are qualified in tax identification and collection.

### *Second Phase of the Fiscal Decentralization*

In order to start the second phase of the fiscal decentralization, the municipalities were obliged to meet the following criteria:

- Fulfil all conditions from the first phase of the fiscal decentralization;
- Possess adequate financial management staff;
- Show positive financial results for at least 24 months;
- Inform the Ministry of Finance on a timely basis about the financial results and obtain an approval from the Ministry of Finance;
- Have no arrears to suppliers or any other creditors exceeding ordinary terms of payment.

In January 2007 the Government established a Commission for the Monitoring and Assessment of the Municipalities. The Commission was tasked to monitor and assess whether a municipality had fulfilled the conditions for entering the second phase of fiscal decentralization. As of August 2009 68 municipalities had entered the second phase of the fiscal decentralization.

## *Latest Developments*

In the second half of 2009, the Association of Local Self-Government Units (ZELS) submitted several requests to the Government on behalf of all municipalities. The goal was to initiate undertaking measures to improve the financial conditions in the municipalities. ZELS requested the Government to increase the percentage of revenues collected from Value Added Tax (VAT) from the current 3% to 6%. The Government agreed to review the possibility to gradually increase the municipalities' share to 3.4% in 2010; 3.7% in 2011; and 4% in 2012.

In addition, the Government agreed to amend the Methodology for redistributing the VAT revenues to municipalities, in order to increase the portion transferred to the rural municipalities. Also, in November 2009, the Ministry of Finance approved financial aid to three municipalities (Studenicani, Kicevo and Demir Kapija) to unblock their frozen accounts.

According to 2009 Progress Report of the European Commission on the progress made by the country in preparing for EU membership, the country achieved progress in some of the areas linked to decentralization and public administration reform. However, a number of challenges still lie ahead, primarily in the financial framework for the municipalities.

## **Municipal Survey**

As part of the 2009 Survey on Decentralization, the OSCE requested the municipalities to provide feedback on the availability of human resources in their Finance, Tax Administration and Internal Audit Units. Municipalities also provided answers on the budget planning process, participatory budgeting, execution of revenues and expenditures and arrears from previous years.

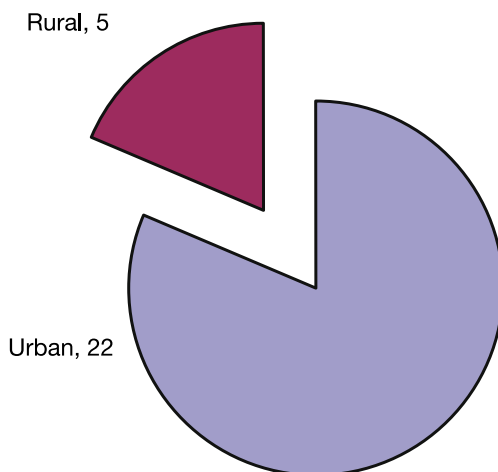
### *Human Resources in Finance, Tax and Internal Audit Units*

According to the Law on Financing the Units of Local Self-Government, each municipality should have at least two people working in the area of finance and budget. The survey showed that the majority of urban municipalities (31 out of 39 urban municipalities that responded to the questionnaire) had two to six employees in their budget and finance departments. The majority of rural municipalities had two to three employees. However, there are municipalities that still have only one person responsible for financial and budgeting issues. This clearly shows that those municipalities are understaffed.

One of the conditions to enter the second phase of the fiscal decentralization was that the municipalities have at least three employees in their tax administration departments. According to the findings of this year's survey, 33 municipalities had three or more employees in their tax administration unit. Only six rural municipalities, versus 27 urban municipalities, responded as having three or more tax administration officers, which is an adequate number of staff to performance this function.

The internal audit units should ensure better internal controls and proper management of the public funds. As of 2008, municipalities were obliged to establish independent internal audit units. The Law on Financing the Units of Local Self-Government allowed municipalities to regulate internal audit matters through inter-municipal cooperation. Following the legislative changes in 2009, municipalities with an average budget in the last three years higher than 50 million Denars are obliged to have their own internal audit units. According to the 2009 EU Progress report a total of 38 municipalities had internal audit units. This is a positive trend in comparison to 2008 when only 31 municipalities responded as having one internal auditor.

### Municipalities with one internal auditor

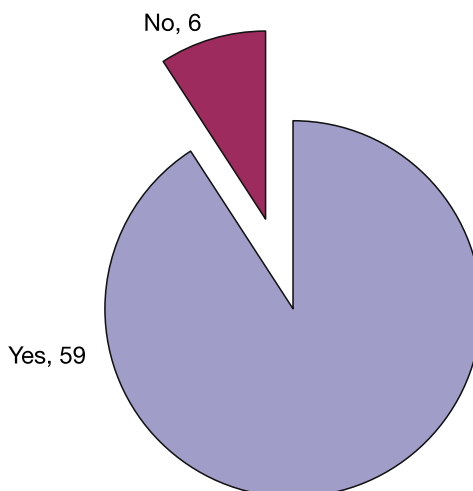


### Budgeting process

When the decentralization started, municipalities were tasked to establish adequate capacity for financial management. This has been a prerequisite for a smooth functioning of the local self-government for improved service delivery to the citizens.

The budgeting process in the municipalities lasts from January to December (the Macedonian fiscal year). The budget calendar as an instrument serves to timely plan each of the budget-related activities throughout the year. This instrument describes activities in each period of the year including the execution of revenues and expenditures and the timely adoption of the budget for the following year. In this way municipalities ensure that the budget is adopted by 31 December and they have enough time to consult their citizens for the local priorities that need to be addressed in the budget of the following year.

### Has your municipality adopted a budget calendar?



A total of 59 municipalities have adopted a budget calendar. This is a lower number compared to 2008, when 61 municipalities replied as having adopted a budget calendar. The main reasons why municipalities do not adopt a budget calendar was that they did not consider this tool useful for managing their budget activities. Adopting and following of a budget calendar should improve the transparency and accountability of the municipal financial management to the citizens, and further results in increased awareness of the citizens to pay local duties that finance municipal services.

When revenues and expenditures were not realized according to the planned dynamic, a budget rebalance has to be done. A high number of budget rebalances can be an indicator of poor financial planning at municipal level. Municipalities were also asked about the number of budget rebalances made in 2008, with 53 municipalities responded as having made rebalances to their 2008 budgets. Only three municipalities had more than three budget rebalances. The following table illustrates the number of budget rebalances in the municipality according to the number of municipalities that had budget calendars.

Has your municipality adopted a budget calendar?	How many budget rebalances have you made to the 2008 budget?			
	No budget rebalance in 2008	Up to 3 budget rebalances in 2008	More than 4 budget rebalances in 2008	Total
<b>Yes</b>	9	47	3	59
<b>No</b>	1	5		6
<b>Total</b>	10	52	3	65

The main reasons for budget rebalances were the weak collection, the need for approximation of the revenue and expenditure realization, as well as increases in the grants from the central budget (block grant and earmarked grants). Some of the municipalities stated that they needed to rebalance because of the unrealistic planning of their budgets. Very often the municipal budgets are inflated, projecting the revenues and expenditures at levels that could not be realized.

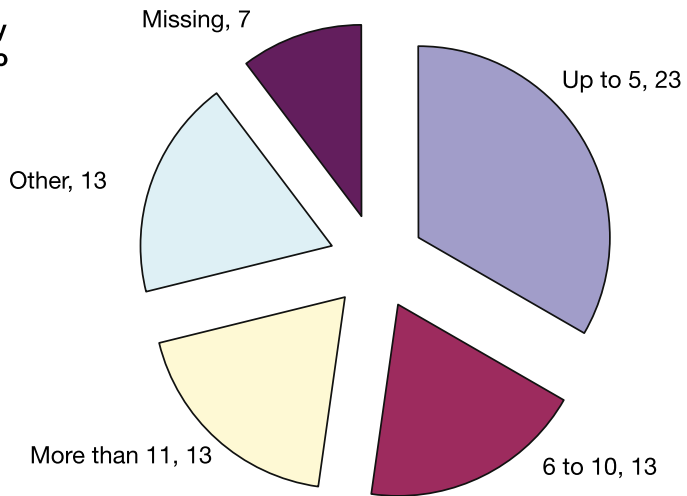
### *Participatory budgeting*

An important segment of the municipalities' work is how much they involve citizens in the budgeting process - the so-called participatory budgeting. Municipalities were asked about the types of participatory budgeting activities they were mostly engaged in and the number of meetings they organized throughout the year to consult their citizens on the local needs and priorities.

The majority of the municipalities (36 out of 69 respondents) organized up to 10 meetings with their citizens in order to involve them in setting local priorities. In some municipalities (13 respondents) more than 11 meetings with citizens took place. This is a positive trend in comparison to the 2008 survey data, when only seven municipalities held more than 11 meetings.

This kind of communication with citizens and their involvement in the budgeting process is important for increasing the transparency and accountability at the local level.

**How many times annually do you consult citizens to analyze local needs and priorities?**

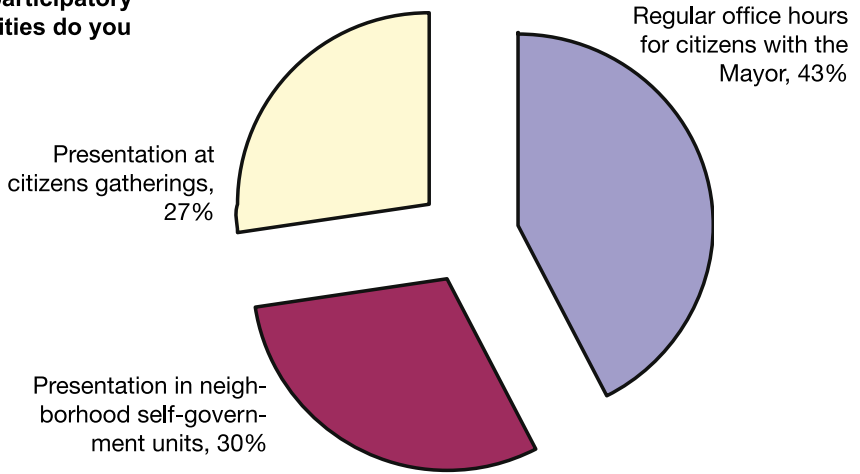


The following table illustrates how many meetings with citizens were organized, and in urban versus rural municipalities. Most of the urban and the rural municipalities organize up to five meetings with citizens per year in order to analyze local needs and priorities. Half of the urban and rural municipalities organize more than six meetings for the same purpose.

<b>How many times annually do you consult citizens to analyze local needs and priorities?</b>			
	Urban	Rural	Total
Up to 5 meetings with citizens	14	9	23
	41%	32%	37%
6-10 meetings with citizens	7	6	13
	21%	21%	21%
More than 11 meetings with citizens	8	5	13
	24%	18%	21%
Other	5	8	13
	15%	29%	21%
<b>Total</b>	<b>34</b>	<b>28</b>	<b>62</b>
	100	100	100

There are several ways that the municipalities carry out their participatory budgeting. Around 30% of the respondents organize presentations in the neighborhood self-government units (municipalities consist of urban or neighborhood communities, that are the lowest form or self-government), 20% hold citizens' gatherings, and 15% conduct meetings of citizens with the mayor during open hours. This is an improvement; previously municipalities consulted citizens mostly through meetings in the municipality.

**What type of participatory planning activities do you organize?**

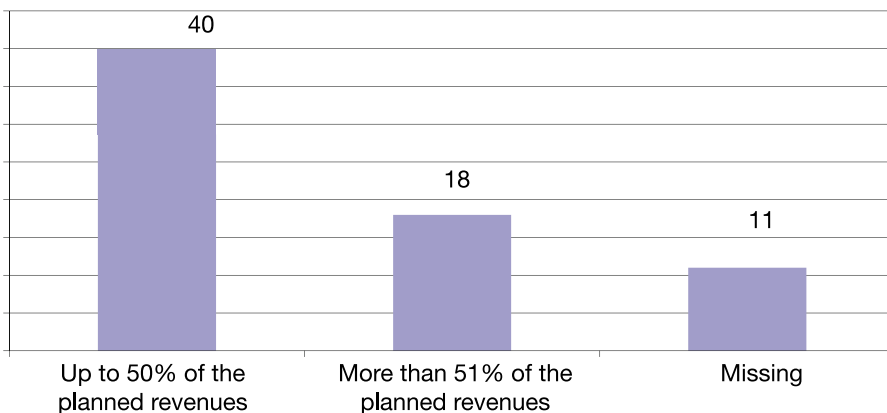


Based on the percentages presented above, one can conclude that although the way of consulting citizens has changed slightly, the intensity of these efforts has remained the same. Thus, there is still room for more participatory planning activities.

*Budget execution – realization of revenues and expenditures*

The execution of municipal budgets, i.e. realization of the municipal revenues and expenditures, was another area analyzed in this year’s survey. Most of the respondents stated that in the first half of 2009 the municipality succeeded to realize up to 50% of the planned revenues. A total 18 municipalities, representing around 20% of the total number in the country, realized more than 51% of the planned revenues. The situation remained almost unchanged from 2008.

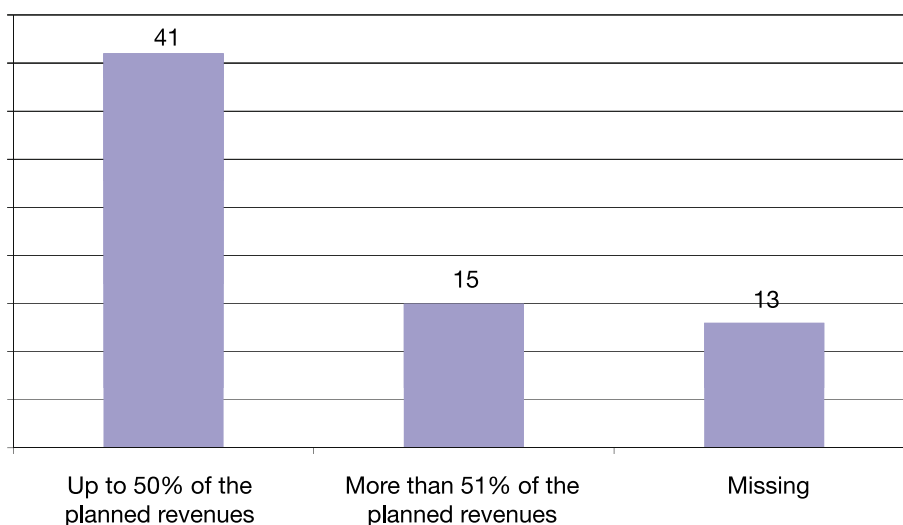
**Realized revenues of the 2009 budget of your municipality as of 30 June 2009**



<b>Realized revenues of the 2009 budget of your municipality as of 30 June 2009</b>			
	Urban	Rural	Total
Up to 50% of the planned revenues	24	16	40
	69%	70%	69%
More than 51% of the planned revenues	11	7	18
	31%	30%	31%
<b>Total</b>	<b>35</b>	<b>23</b>	<b>58</b>

With respect to expenditures, 14 municipalities realized more than 51% of the planned expenditures as of 30 June 2009 (in 2008 only 9 municipalities). The number of municipalities that executed up to 50% of the expenditures in the first half of 2009 was the same as in 2008.

**What is the percentage of realization expenditures in the 2009 budget of your municipality as of 30 June 2009? (number of municipalities)**



Rural as well as urban municipalities satisfactorily executed their expenditures in the observed period. The level of expenditures for the first half of 2009 broken down by urban and rural municipalities is presented below.

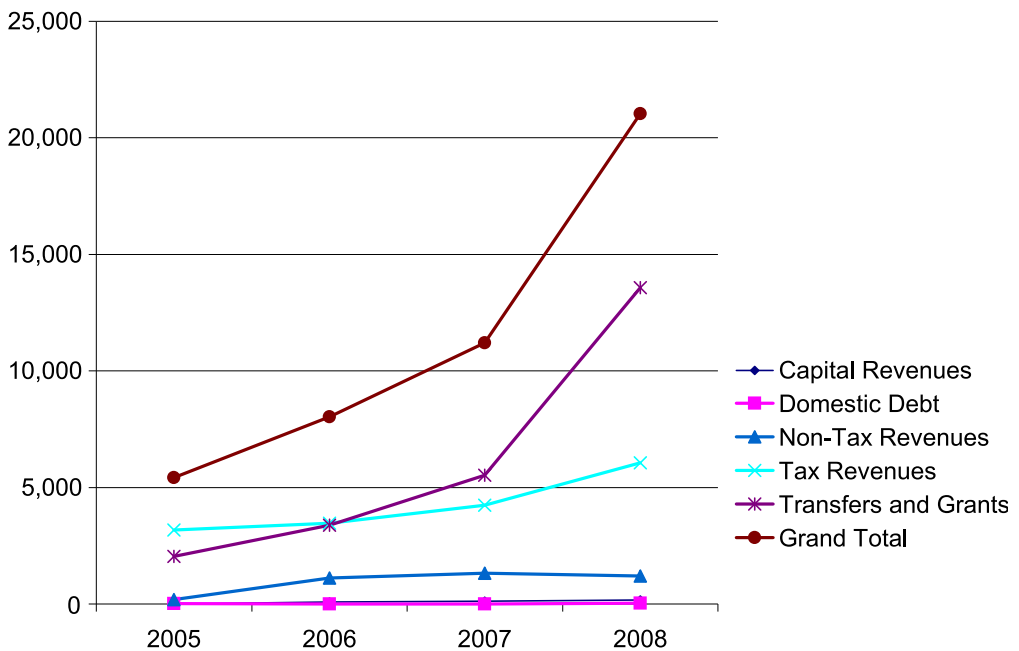
<b>Realized expenditures of the 2009 budget of your municipality as of 30 June 2009</b>			
	Urban	Rural	total
Up to 50% of the planned revenues	25	16	41
	74%	73%	73%
More than 51% of the planned revenues	9	6	15
	26%	27%	27%
<b>Total</b>	<b>34</b>	<b>22</b>	<b>56</b>
	100%	100%	100%

## Structure of local government revenues and expenditures

Since starting the decentralization process and establishing a new finance system, there has been a positive trend of increasing the local government revenues. The goal is to create an adequate revenue base to finance the decentralized competencies and to provide quality public services to citizens. The table in Annex 1 presents local government revenues, as compiled by the Ministry of Finance.

Compared to 2007, the total local government revenue in 2008 was 88% higher. This increase is due to the increase in all revenue categories except for the non-tax revenues, which declined by 9% compared to 2007. Transfers and donations increased 146% in 2008 in comparison to 2007. These are the revenues that local municipalities received from the central government budget and budgets of the funds.

### Local Government Revenues 2005-2008 (in million Denars)

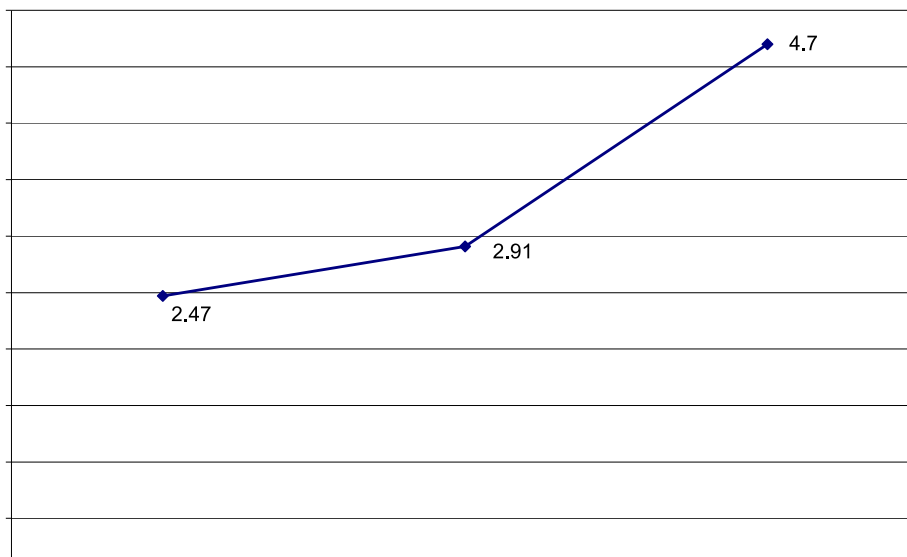


The Skopje-municipality of Centar had the highest revenues per capita amounting to 10,217 Denars (2007: 9,582 Denars). Following (for 2008) were Berovo (10,135 Denars), Sopiste (8,320 Denars) and Ceninovo Oblesivo (5,556 Denars). The municipalities with lowest revenues per capita in 2008 were Plasnica (416 Denars), Zelino (225 Denars) and Lipkovo (173 Denars). The fiscal disparities among the municipalities in the country are apparent. This is also an indicator that municipalities are not able to provide the same package of services to their citizens.

The level of decentralization can be measured by the share of local government expenditures on the country's GDP. From this perspective, the country ranks at the bottom of the list of EU countries. In 2008 the country significantly increased the local government expenditures' share on GDP (4.7%). This percentage was almost double the share of local government expenditures on GDP in the previous years (2.9% in 2007 and 2.5% in 2006). Nevertheless, the country still ranks amongst the EU countries with lowest share of the local government revenues on GDP. The trend of the local government expenditures on GDP is presented in the following chart.



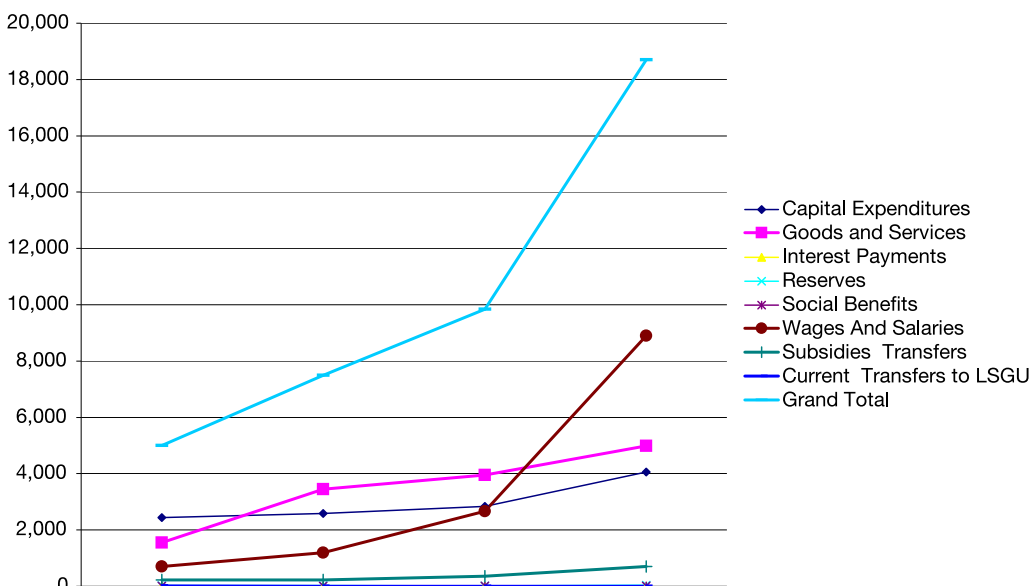
## Share of Local Government Expenditures on GDP 2006-2008



In 2008 the structure of local government expenditures changed in comparison to 2007 (see also Annex 2). If in 2007 the category of goods and services had the largest share in the total expenditures (40.14%), in 2008 municipalities spent most of their funds on wages and salaries (47.61%). The reason is the following.

During 2008 municipalities began implementing the second phase of the fiscal decentralization. Education, culture, social welfare and child protection are financed through block grants transferred to the local municipalities from the central government's budget. The block grants contain the amounts of wages and salaries for the staff of the institutions (schools, kindergartens, cultural institutions, etc); thus the 234% increase in the wages and salaries in 2008 over 2007.

## Local Government Expenditures 2005-2008 (in million denars)



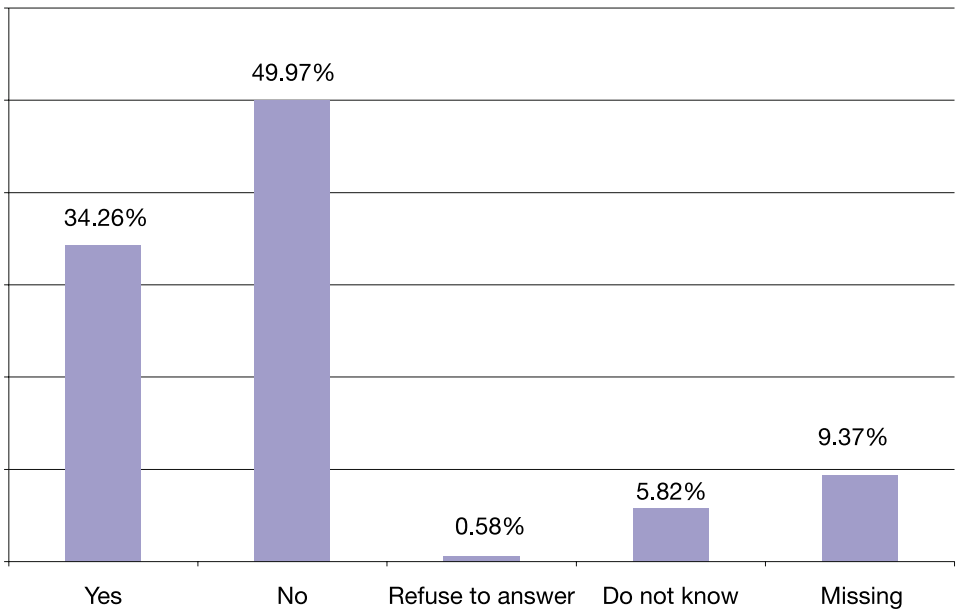
Since the start of fiscal decentralization some municipalities continue to face the problem of unresolved arrears to creditors. According to the Ministry of Finance, a total of 22 municipalities have blocked accounts due to court decisions. In November 2009 three municipalities (Studenicani, Krusevo and Demir Kapija) succeeded in receiving loans from the Ministry of Finance to unblock their accounts. The loans were awarded as the municipalities negotiated more favourable terms for debt repayment with the creditors.

## Citizen Opinion Poll

Citizens were interviewed on their view of the fiscal decentralization process. If decentralization reform should aim at involving citizens in local decision making and improving the transparency and accountability at a local level, their perception on the conditions in the municipality should be taken into consideration.

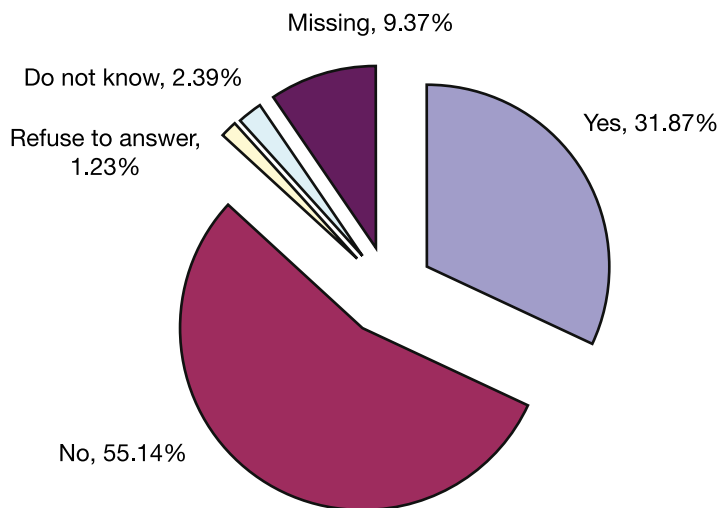
In general, citizens had limited information about the fiscal decentralization process. Almost half of the respondents did not know from which sources their municipality was being financed.

### Do you know how your municipality is financed?



The authorities should be interested in communicating to citizens on how local self-government in the country is financed, including them in setting the local priorities to respond to the needs of the majority of citizens, and encouraging them to provide feedback on the implemented activities throughout the year. Well informed citizens, who obtain regular information on the issues of concern in their community, can be expected to pay local duties regularly.

**Would you be willing to pay higher duties to your municipality in order to get better quality services**



The majority of interviewed citizens would not be willing to pay higher duties in order to receive better public services from their municipality. More than 60% of the citizens that were informed of the sources of financing for their municipality were not willing to pay more. As in 2007, the main reason was their own economic situation.

State why you are not willing to pay higher duties?			
		Frequency	Percent
Valid	Not believe that municipal will spend money for purpose	254	16.42
	Economic situation does not allow to pay higher duties	584	37.75
	Other	15	0.97
	Total	853	55.14
Missing		694	44.86
Total		1547	100.00

**Conclusion and Recommendations**

In 2008 local self-government units achieved certain progress in the area of financing the decentralized competencies. Most of the municipalities have an adequate number of staff in the units of financing and budgets, as well as in their tax departments. More municipalities established internal audit units, which is a positive signal and shows that more municipalities comply with the current legislation.

Municipalities still do not use the budget calendar sufficiently. In comparison to 2008, a lower number had adopted and used a budget calendar in their budget related activities. To better coordinate and plan, more municipalities should use a budget calendar. Once adopted officially through the municipal council, the mayor and the municipal administration working on financing and the budget should respect the deadlines defined by the budget calendar.

In terms of participatory budgeting, municipalities should make more efforts to include their citizens in the financial management and the usage of public funds. Local authorities should organize events for their citizens. This year, the majority of the municipalities organized up to ten meetings with their citizens in order to involve them in setting local priorities. This is a positive trend in comparison to the previous year. Regardless, communication with the citizens should be enhanced at each stage of the budgeting process and throughout the fiscal year; from setting the local priorities, defining the budget, executing the budget and the presenting the results of the annual accounts on how the funds have been spent.

The collection of municipal revenues and the execution of expenditures can be assessed as positive. More municipalities succeeded in collecting higher revenues in the first half of the year, which enabled them to better carryout the planned expenditures. The trend of increased local revenues continued in 2008.

Efforts should be made to increase the share of own revenues (especially tax and non-tax revenues) in the total of local government revenues. At the same time, the central government should address the problem of the fiscal disparities among municipalities, especially the difference in revenues between rural and urban municipalities.

The problem of indebtedness and blocked accounts is still a major obstacle for 20% of the municipalities to enter the second phase of the fiscal decentralization. In order to assist those municipalities, the Government should revise the financing system and fund distribution among municipalities, allowing for a more equitable service delivery to all citizens in the country.

Finally, municipalities should follow the practice of working according to the good governance principles of transparency and accountability. They should increase awareness among their citizens on how local authorities finance public services so that citizens are willing to regularly pay their duties to the municipalities. And only with well informed citizens who are given the opportunity to participate in the decision making process in their municipalities, the local government can further develop the culture of democracy and fully implement good governance principles.

## Annex 1

Trend and Structure of Local Government Revenues 2005-2008 (actual) in million Denars

	2005		2006		2007		2008	
		%		%		%		%
Capital Revenues	4.26	0.08%	84.96	1.06%	120.79	1.08%	174.99	0.83%
Domestic Debt	13.55	0.25%	0	0.00%	0	0.00%	30.40	0.14%
Non-Tax Revenues	188.25	3.48%	1,116.46	13.89%	1,322.18	11.81%	1,200.55	5.71%
Tax Revenues	3,169.56	58.55%	3,462.69	43.09%	4,230.00	37.78%	6,055.68	28.79%
Transfers and Grants	2,038.17	37.65%	3,380.72	42.07%	5,523.01	49.33%	13,575.36	64.53%
Grand Total	5,413.80	100.00%	8,035.19	100.00%	11,195.98	100.00%	21,036.98	100.00%

Source: Ministry of Finance 2008, OSCE database of annual accounts of the local self-government units for the years 2005, 2006 and 2007

## Annex 2

Trend and Structure of the Local Government Expenditures 2005–2008  
(current, as presented in the annual accounts) in million Denar

	2005	%	2006	%	2007	%	2008	%
Capital Expenditures	2,446.58	48.89%	2,581.58	34.43%	2,837.97	28.84%	4,053.29	21.68%
Goods and Services	1,554.35	31.06%	3,443.25	45.92%	3,949.98	40.14%	4,985.95	26.67%
Interest Payments	2.90	0.06%	1.60	0.02%	.43	0.004%	1.33	0.01%
Reserves	23.38	0.47%	22.61	0.30%	15.43	0.16%	33.18	0.18%
Social Benefits	6.87	0.14%	13.66	0.18%	12.44	0.13%	14.06	0.08%
Wages And Salaries	698.63	13.96%	1,193.32	15.92%	2,662.39	27.05%	8,901.80	47.61%
Subsidies Transfers	220.67	4.41%	224.76	3.00%	362.96	3.69%	705.87	3.78%
Current Transfers to LSGU	19.78	0.40%	.17	0.00%	0	0.00%	.15	0.00%
Grand Total	5,003.95	100.00%	7,497.81	100.00%	9,841.59	100.00%	18,697.05	100.00%

Source: Ministry of Finance 2008, OSCE database of annual accounts of the local self-government units for the years 2005, 2006 and 2007

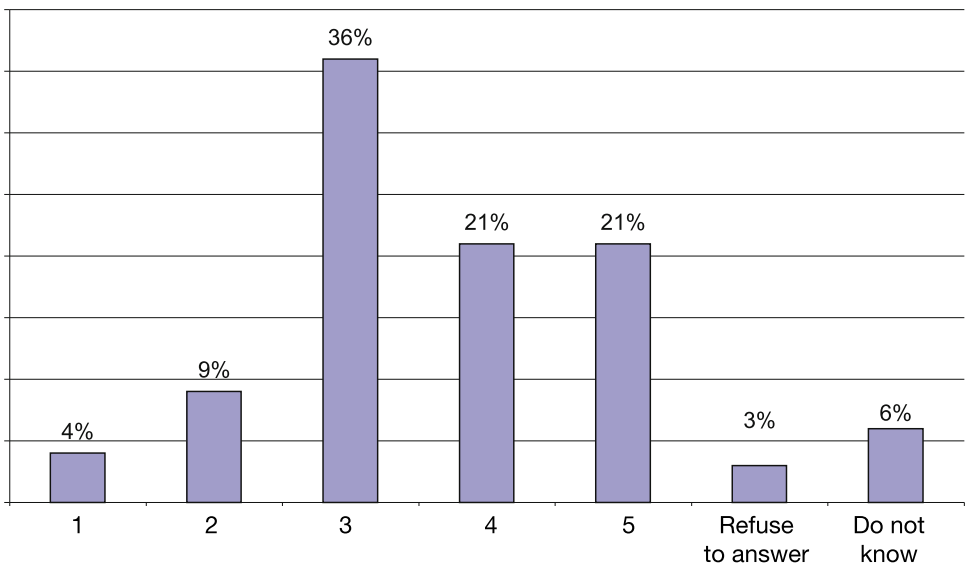
# Inter-ethnic Relations at Local Level

## Introduction

The 2009 EU Progress Report concludes that mutual understanding and intercultural dialogue need to be fostered in the host country. It states that "...inter-ethnic tensions were generally at a low level but have intensified in some areas and at certain moments. The Ohrid Framework Agreement remains a crucial guarantee of the rights of the ethnic communities in the country and progress was made as regards the use of languages and equitable representation."

The survey confirms this statement. The majority of the citizens (78%) evaluated the inter-ethnic relations in their municipality as positive and only small number (13%) gave negative marks. The citizens could evaluate the inter-ethnic relations on a scale from one to five, whereas one being bad and five very good.

### How would you assess the inter-ethnic relations in your municipality on the scale 1-5?



This positive perception on the inter-ethnic relations is a reflection on the measures that have been taken since the signing of the Ohrid Framework Agreement (OFA). To ensure minority rights, a decentralised governance system was introduced, the principle of equitable representation established, the decision making formula in the parliament and the municipal councils modified, new rules for the use of languages set and municipalities encouraged to establish Committees for Inter Community Relations.

According to the Council of Europe's European Charter of Local Self Government, the local authorities are one of the main foundations of any democratic regime. Local Self Government contributes to improved inter-ethnic relations and fosters inter-ethnic cooperation. Developing

decentralized governance is a process of transferring the decision-making power concerning local issues to the local authorities. The process gives minorities on a national level, in cases when they constitute a significant majority at the local level, the right to decide on their priorities at local level. That way community identity is protected.

According to Article 8, Amendment VI of the Constitution one of the fundamental principles of the country's constitutional order is the appropriate and fair representation of the citizens from all communities in the bodies of the state government and other public institutions at all levels. Article 3, paragraph 4 of the Law on Civil Servants further clarifies the principle of equitable representation as a basic principle for the employment of civil servants while at the same time taking into account the expertise and competencies of the recruited persons. This principle seeks to correct present imbalances in the composition of the public administration, in particular through the recruitment of members of under-represented communities.

To protect minority rights, Article 69, Amendment X of the Constitution introduced the Badinter rule which reads: "For laws that directly affect culture, use of language, education, personal documentation, and use of symbols, the Assembly makes decisions by a majority vote of the representatives attending, within which there must be a majority of the votes of representatives attending who belong to communities not in the majority." The double majority voting applies not only to the parliament but also to municipal councils. This system encourages consensus building among community representatives.

The 2001 Ohrid Framework Agreement called for a change to the constitution to regulate the use of language in the State Organs. As a result, Amendment V was included in the constitution which reads as follows: "Any person living in a unit of local self-government in which at least 20% of the population speaks an official language other than Macedonian may use any official language to communicate with the regional office of the central government; such an office will reply in that language in addition to Macedonian. Any person may use any official language to communicate with a main office of the central government, which will reply in that language in addition to Macedonian." This provision serves to ensure that minorities can use their language at local level.

The 2002 Law on Local Self-Government introduced the Committees for Inter Community Relations, or CICRs. These Committees are composed by equal number of representatives from all communities. Each community in the CICR has an equal voice despite its number in the population. CICRs make conclusions not by majority vote but by consensus whenever possible. Their role is to discuss issues related to inter-ethnic relations and provide opinions and proposals, which must be reviewed by the municipal council. Thus, the Committees are envisaged to be a stabilizing factor in multi-ethnic environment, tasked to streamline municipal policies hereby ensuring the communities rights. Their preventive role is an important component in the decentralization process.

## **Use of languages**

According to Article 41 of the 2008 Law on Use of Languages, the official language in the municipalities is the Macedonian language and its Cyrillic alphabet. As well, municipalities can use other languages that are spoken by at least 20% of the citizens in the respective municipality. In addition, the Municipal Council can decide to use a language and alphabet of a group less than 20% of the citizens in the municipality.

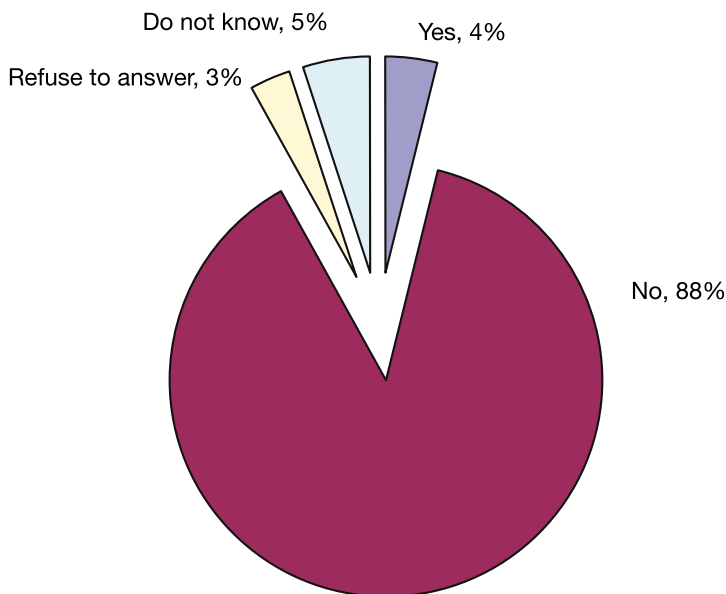
In 2009, the following languages – besides Macedonian – were in official use: Albanian in 29 municipalities plus in additional 17 other municipalities comprising an ethnic Albanian popula-



tion less than 20%; Turkish in four municipalities plus in four others where the Turkish population is below 20%; the Serbian in only one municipality and Romani in only one municipality.

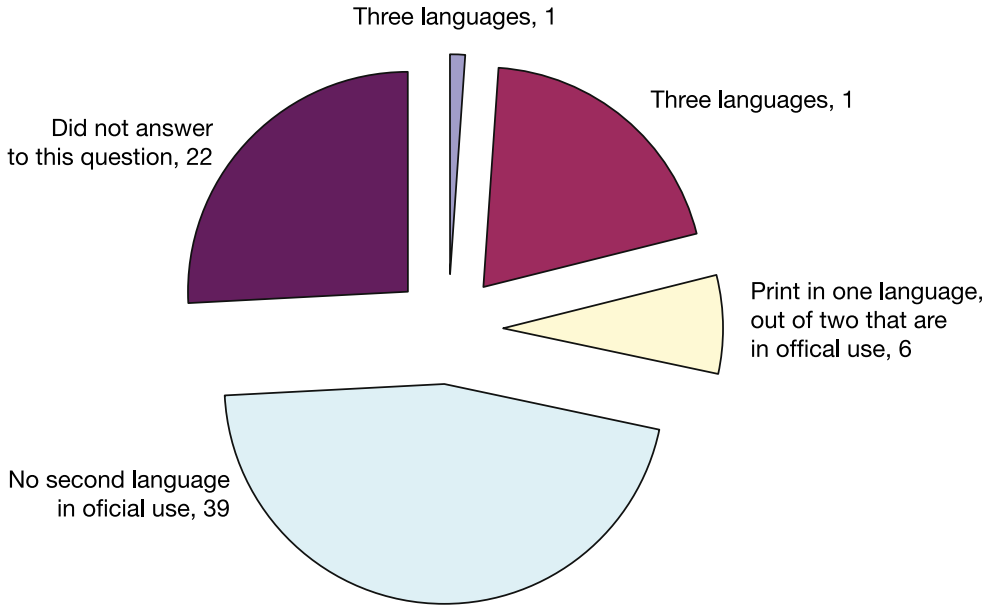
In order to evaluate the implementation of this provision the OSCE surveyed the citizens as to whether they have faced problems in addressing their municipality when using the languages that are in official use in the municipality. The majority of the citizens (88%) faced no problems when communicating with the municipalities by using the official language. Only 4% of the citizens responded that they could not use their constitutional right to communicate with the municipal staff using one of official languages. 5% of the interviewed citizens stated that they “do not know”, and 3% refused to answer. Seemingly these two last categories of citizens were not aware of the language provisions the municipality and/or did not have any experience in communicating with the municipality. The low number of citizens that faced difficulties communicating with the municipality in one of the official languages further described that it was in verbal communication. Perhaps these were individual cases of civil servants refusing to use the language other than their mother tongue or simply did not speak the other language.

**Have you ever faced any problems in addressing your municipality when using the languages that are in official use in the municipality**



In addition, the survey addressed the use of languages in communication with the taxpayers. The tax bills in the municipalities are supposed to be printed in the languages that are in official use. Out of 63 municipalities 39 printed the tax bills in one official language, 17 in two official languages, and one municipality in three official languages. According to these answers most of the municipalities print the tax bills in the languages that are in official use. Only seven municipalities declared that they print the tax bills only in one of the official languages. Those were small and financially weak municipalities.

## In which language the municipality prints the tax bills?



Further, the municipalities were asked whether they provided the working material to the municipal council in the languages that are in official use. This question was answered by the representatives of the municipal councils, predominantly by the president of the municipal council. A majority of the councillors said that they received the material in the languages that are in official use in the municipality: 38 in one and only official language; 14 in two languages; and one in three languages. 26 did not answer to the questionnaire; and the councillors in seven municipalities receive the material in only one of the official languages.

The municipal councilors are the ones that decide on the use of languages as official languages in the municipality. After the Law on Local Self Government was enacted in 2002 the right to use the official languages in the municipalities was among the first decisions made by the municipal councils. As the survey shows, the municipalities did their best to implement these decisions and to balance the legal obligation with the real needs of the population and the financial possibilities of the municipality.

## Equitable representation

Article 8, paragraph 1, subparagraph 2 of the Constitution guarantees the rights for equitable representation of all community members with respect to employment in state administrative bodies and other public institutions at all levels. Specific measures to ensure the implementation of this principle are included in the Laws on Civil Servants, on Labour Relations and on Public Enterprises. Additionally, the Laws on Primary Education, on Secondary Education, on the Public Attorney, and on Courts were amended.

In the last year, equitable representation has been made a priority issue by the government. Those efforts were noted by the 2009 EU Country Progress Report that reads: “There has been some progress towards implementing the strategy for equitable representation of ethnic communities in the public sector, in particular as regards the Albanian community. The number of ethnic Albanian civil servants increased by 3.75% between January 2007 and January 2008. However the lack of a single data collection system for the entire public sector blurs the picture of equitable representation. The lack of enforcement mechanisms, such as sanctions, to ensure that institutions meet recruitment targets for non-majority communities remains a problem, as does the politicization of some recruitment.”

According to the OFA and the Constitution, equitable representation in the public service is to ensure minority representation in the municipalities as well other public institutions and state companies, on both a local and national level. It applies to all levels, including in middle and high decision-making positions.

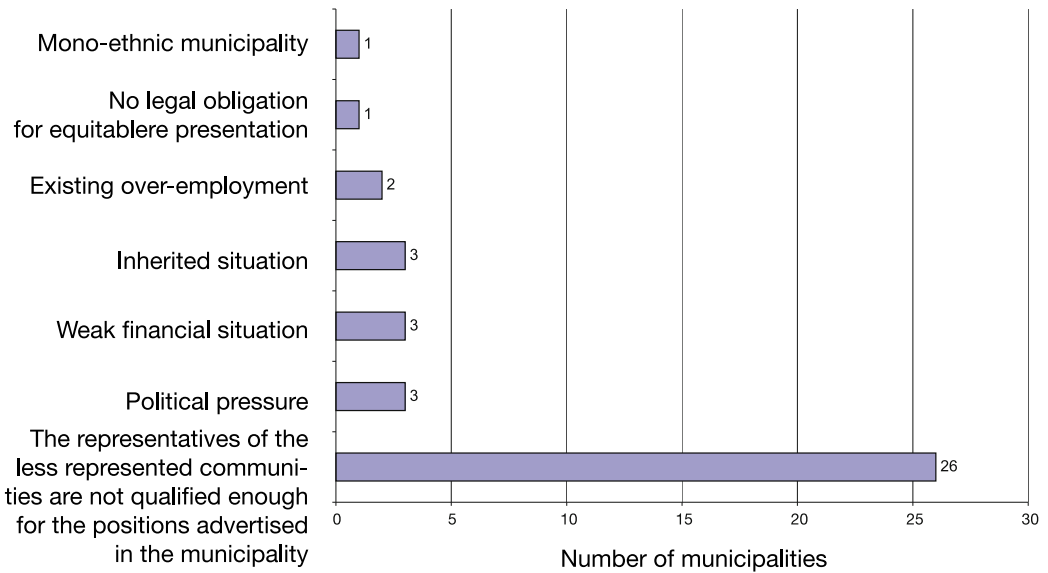
The municipal administration consists partially of regional branch offices transferred from the Ministries, and partially of newly recruited staff. Often, the municipal leadership is willing to implement the principle of equitable representation but possesses only limited resources to do so. An indicator whether municipalities paid attention to the principle of equitable representation was to have a register of employees according to the ethnic composition. When asked, 44% of the municipalities stated that they had such a register. All municipalities with mixed ethnic population adhere to this requirement. However, the municipalities with smaller number of minorities do not feel obliged to meet this requirement.

As shown in the table below, 47 out of 63 stated that the structure of their employees corresponded to the structure of the population presented in the 2002 Census.

Does the ethnic structure of employees in the municipal administration reflect the percentage of the population at the last census?					
		number	%	Valid %	Cumulative %
Valid	Yes	47	68.1	74.6	74.6
	No	16	23.2	25.4	100
	Total	63	91.3	100	
Missing	System	6	8.7		
Total		69	100		

16 municipalities, however, stated that they were not able to implement the principle of equitable representation. The most frequent mentioned reason was that the representatives of the less represented communities were not qualified enough for the positions advertised in the municipality. In addition the municipalities mentioned the following reasons: the inherited situation; the political pressure to employ staff; the weak financial situation; and the existing over-employment. One municipality stated that it was not legally obliged to implement the principle of equitable representation, and another said it was a mono-ethnic municipality.

**What are the obstacles to equitable representation?**

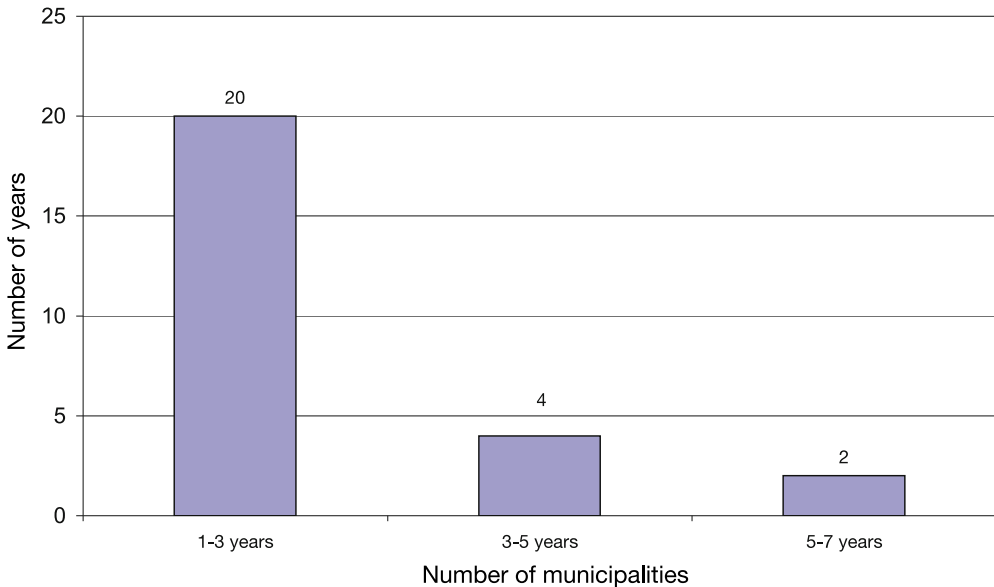


The most common problem for the municipalities was to find qualified representatives of the underrepresented communities. The answers to this question demonstrated that this was the biggest problem even for the municipalities that stated to have implemented equitable representation.

Having in mind the complexity of the process of reaching equitable representation, the survey explored the municipal strategies of how to implement equitable representation and the planned time lines for their implementation. According to the answers received, 31 out of 66 municipalities possessed a plan or strategy in order to implement the principle of equitable representation. 20 municipalities planned to reach equitable representation over a period of one to three years; four in a three to five year period; and two in over five to seven years.

Does your municipality implement a strategy to achieve equitable representation among the employees?					
		Number	%	Valid %	Cumulative %
Valid	Yes	31	44.9	47.0	47.0
	No	35	50.7	53.0	100
	Total	66	95.7	100	
Missing	System	3	4.3		
Total		69	100		

## What is the time frame to reach equitable representation?



To conclude, municipalities should not only look at numbers and percentages when implementing the principle of equitable representation. The municipalities should additionally develop sensitivity towards the smaller ethnic groups. Diversity should be regarded as an advantage and used as part of each municipality's development strategy.

Suitable strategies, accompanied by development of short and middle range plans, are essential to fulfilling the legal obligation for equitable representation. Equitable representation is not only to be applied in municipalities with ethnic communities above 20%; all municipalities would benefit if they adhered to this important principle hereby not forgetting about that only trained and qualified staff can provide quality services. That is why it is important to maintain a merit-based system in the recruitment.

## Committee for Inter Community Relations (CICR)

The 2002 Law on Local Self Government introduces the Committees for Inter-Community Relations. Article 55 stipulates that "...in the municipality in which more than 20% of the total number of inhabitants of the municipality determined at the last census are members of a certain community, a Committee for Inter-Community Relations shall be established." The CICR is an advisory body to the municipal council and the mayor. According to the Law, the Committee reviews issues that impact the relations among the communities represented in the municipality, presents opinions, and proposes solutions. They are covering issues referring to culture, the use of the languages and alphabets spoken by more than 20% of the citizens. Their opinions are adopted by a majority vote of the present council members, within which there must be a majority of votes belonging to the communities who are not the majority in the municipality.

The CICR is a forum that facilitates the inter-community dialogue on a local level. This forum gives smaller communities that are underrepresented in the municipal administration and the municipal council a chance to voice their interests and opinions. It serves the municipality as a tool to consult the opinion of the communities on the issues that interfere with preserving culture and identity.

As the survey shows, an increased number of municipalities were aware of the necessity to establish a CICR. Gevgelija, Valandovo, Bogovinje, Butel, Studenicani, Vrapciste and Lozovo each established a Committee even though they were not required by the Law to have one. At the same time, CICRs were not established in five municipalities that were legally obliged to do so. Those are the following municipalities: Vranestica, Zelenikovo, Jegunovce, Krusevo and Kumanovo, who either did not establish the committee or simply did not answer this question. Studenicani, whose population was composed of communities less than 20%, decided to introduce a CICR (19.05% ethnic Turks); while Gostivar did not establish a CICR despite having a population of 19.13% ethnic Macedonian and 9.86% ethnic Turk.

This is also noted in the 2009 EU Country Progress Report which mentions that “...Committees for relations between communities have been set up at local level in nearly all municipalities (19 out of 20) where they are required by law, as well as in some other municipalities with sizeable minority populations but below the legal threshold of 20%.”

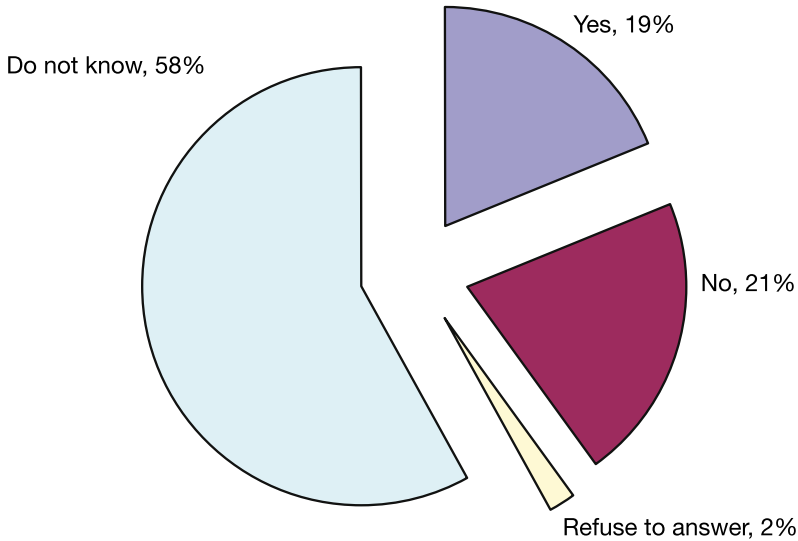
The municipalities reported that their CICRs had from 2 to 9 members; however one half of the committees was composed of five members.

According to Article 55 of the Law on Local Self Government and 2006 ZELS instructions, the Committees are to be composed by an equal number of representatives from each community represented in the municipality. As the survey shows, only four out of 20 municipalities that are required to establish CICRs followed this rule. In most CICRs each community is not equally represented. Usually the larger communities had a bigger number of representatives in the committee.

Problematic interpretation of the rule								
	Macedonian	Albanian	Turk	Roma	Serbian	Bosniak	Vlach	Total number of members
Bogovinje		4	1					5
Caska	4	1						5
Sopiste	2	1						3
Kicevo	3	1	1	1			1	7
Appropriate interpretation of the rule								
	Macedonian	Albanian	Turk	Roma	Serbian	Bosniak	Vlach	Total number of members
Cair	1	1	1			1		4
Brvenica	3	3						6
Petrovec	1	1	1	1	1	1		7

The survey explores the citizens' awareness on the existence of CICRs. This question was surveyed in the 20 municipalities that were legally obliged to establish a CICR. The results are depicted in the following chart:

**Is there a committee for inter-ethnic relations in your municipality?**



Only 19% of the population were aware of the existence of the CICR; another 21% claimed that it did not exist in the municipality; and the majority were not aware of the possibility to establish such a Committee. This finding shows that the citizens are not properly informed about the CICR.

The OSCE monitors the establishment and the work of the Committees for Inter Community Relations since 2006. In this period most of the municipalities adhere to the legal obligation for formally establishing the committees. However additional encouragement and training is needed to ensure that the CICR finds its real role as an advisory body to the municipal decision makers. CICRs should be proactive by offering preventive solutions, not only to resolve conflicts once they occur. They should propose activities that foster inter-ethnic trust and prevent misunderstanding.

The limited finances of the municipalities should not present an obstacle to establishing the CICRs. The membership in the CICR is more of an honourable duty and is performed on a voluntary basis. Though municipalities should anticipate in their annual plans and budget appropriate funds to cover the expenses of the Committee's work.

The CICRs have demonstrated real potential and represent a clear model that possesses capacities to encourage and facilitate healthy intercommunity dialogue. However, more efforts are needed for its full recognition and establishment as an integral part of municipal decision making. It is obvious that further encouragement and support from the international community is needed, especially in post-election periods and the changes in the municipal decision makers.

# Education Reform at Local Level

## Introduction

Both primary and secondary education became municipal competencies as of 1 July 2005. The transfer implies municipal ownership of school buildings and other property related to primary and secondary education, as well as the responsibility for the maintenance of objects, recruitment of education staff, selection and dismissal of the directors of the schools, the payment of salaries for auxiliary staff together with transport logistics and accommodation for students in dormitories. At the local level, decentralized education entails the participation and coordination of stakeholders such as the municipalities, school directors, parents and students. At the national level it entails the participation of the Ministry of Education and Science (MoES) and its branches.

Primary and secondary education competencies (including their financing) were transferred in July 2007 to all municipalities that entered the second phase of decentralization. In accordance with the Law on Financing the Local Self-Governments Units, those municipalities receive block grants covering teachers' salaries and funds for school maintenance. These block grants cannot be lower than the equivalent funds allocated in the State Budget during the first phase of decentralization. Municipalities that have not yet entered the second phase of decentralization continue to use the previous formula for funding: teachers' salaries in primary and secondary education, expenses for the maintenance of school buildings and for the transport of pupils are paid by central authorities as previously.

This chapter covers several issues related to decentralization in education: roles, rights and responsibilities of the education stakeholders at local level; the trainings needed for education stakeholders; the level of communication and cooperation between schools, municipalities and state bodies; the degree of involvement of teachers and parents in school management; the relations between school directors and school boards; the influence of politics in education; and the possible staff changes in the municipalities in the period after municipal elections. All topics are addressed from two perspectives: from the views of the municipalities and the citizens' view.

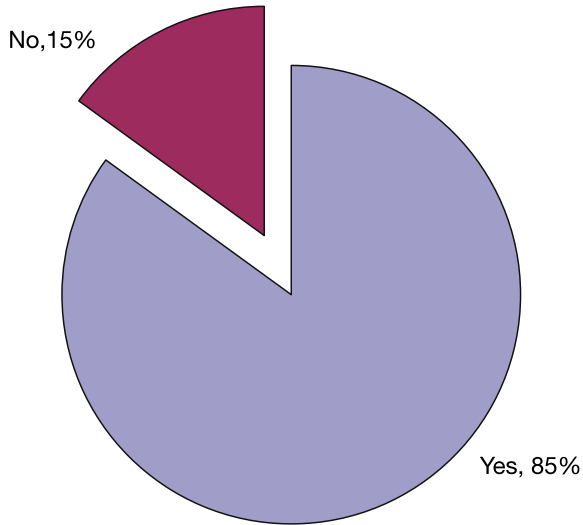
As last year, this year's Survey included several questions for municipalities on educational issues at the local level. The 2008 Survey showed that there was a lack of communication between the ministry and municipalities as well as between schools and municipalities. The schools found it difficult to communicate with officials from the ministry and found it easier to access the municipalities.

## Municipal Survey

Compared to last year's Survey, the municipalities think that the education stakeholders at the local level have a better knowledge of their rights, roles and responsibilities. Regarding the question, "Do you think that school level stakeholders (principals, members of the school boards, teachers and parents) know their rights, roles and responsibilities?", 85% of the 69 municipalities responded positively while 15% stated that the school level stakeholders do not know their rights, roles and responsibilities.

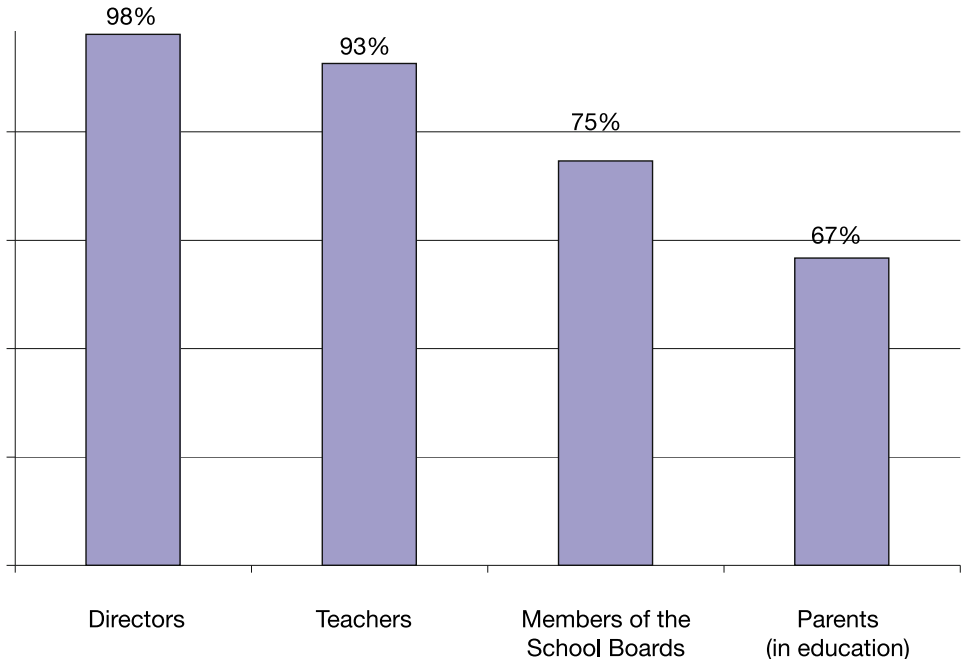


**Do you think that school level stakeholders (principals, members of the school boards, teachers and parents) know their rights, roles and responsibilities?**



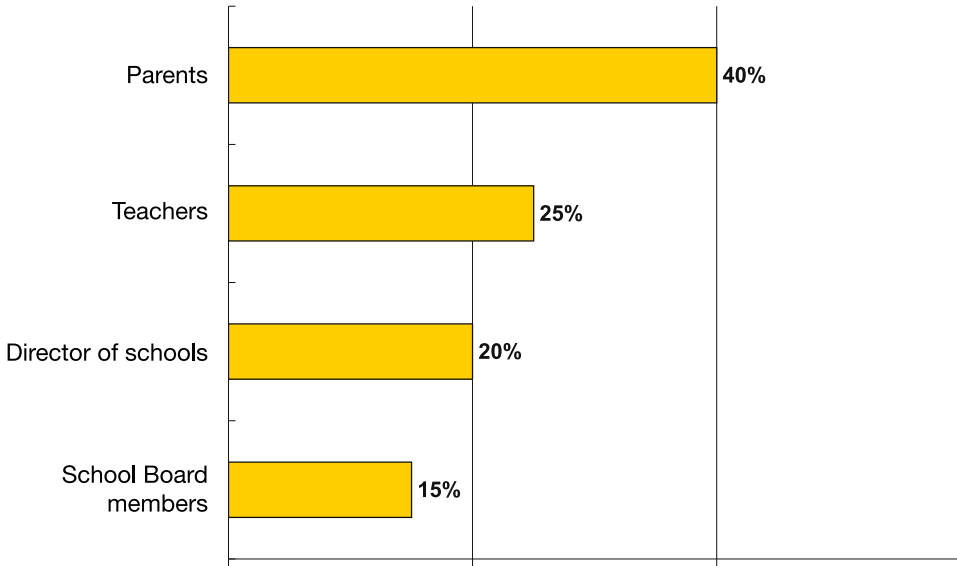
Municipalities were asked who of the education stakeholders know their rights, roles and responsibilities. The survey results indicated that municipalities think that almost all school directors know their rights, roles and responsibilities, while 93% of the municipalities think that teachers do so.

**Do you think that stakeholders in education know their rights, roles and responsibilities?**



Municipalities were asked about which of the stakeholders require training on the issues of education and decentralization. 40% of 69 municipalities believe that parents require additional training, followed by 25% responding that teachers require trainings, and 20% identified school directors. School board members were considered the least in a need for additional trainings.

**Which of the stakeholders require training on the issues of education and decentralization?**



When asked whether politics in education has decreased or increased since the decentralization process started, the newly elected mayors (March/April 2009) responded in a similar manner as the mayors participating in the previous Survey. Out of 67 municipalities responding, 27 municipalities felt that the influence of politics in education had decreased since the process of decentralization started, though 12 municipalities thought that the influence has increased. However, most municipalities (28) stated that the level of influence remained the same as before.

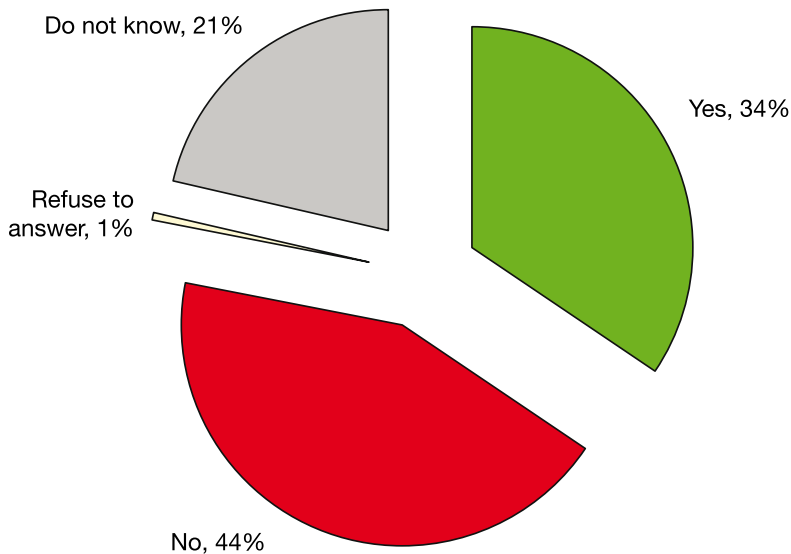


Municipalities were asked whether any school staffing changes took place following municipal elections. Responses were almost divided in half with 30 municipalities have answered 'yes' and 34 of them with 'no'. The Survey went even further on this issue asking the municipalities for the reasons. According to the municipalities, the changes occurred due to various reasons: expiry of the contracts for employees on the temporarily contracts, lack of qualification, retirements, resignations, and/or new systematization of the posts in their municipalities.

## Citizen Opinion Poll

The Survey results show that almost half of the surveyed citizens think that there are no existing problems in the area of education in their municipality, while one third of the surveyed citizens stated that there are still problems.

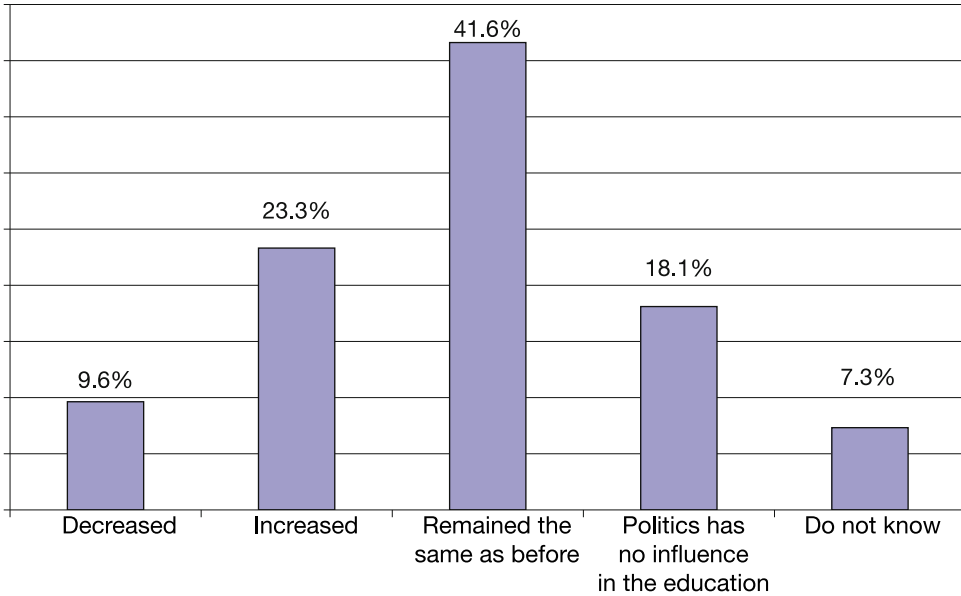
### Do you think that problems exist in the area of education in your municipality?



On the question, "Indicate where the biggest problems exist in the area of education in your municipality?", most of the citizens responded that those areas are: the conditions in the school buildings (18%); the quality of teachers (14.7%); and the school management (11.4%).

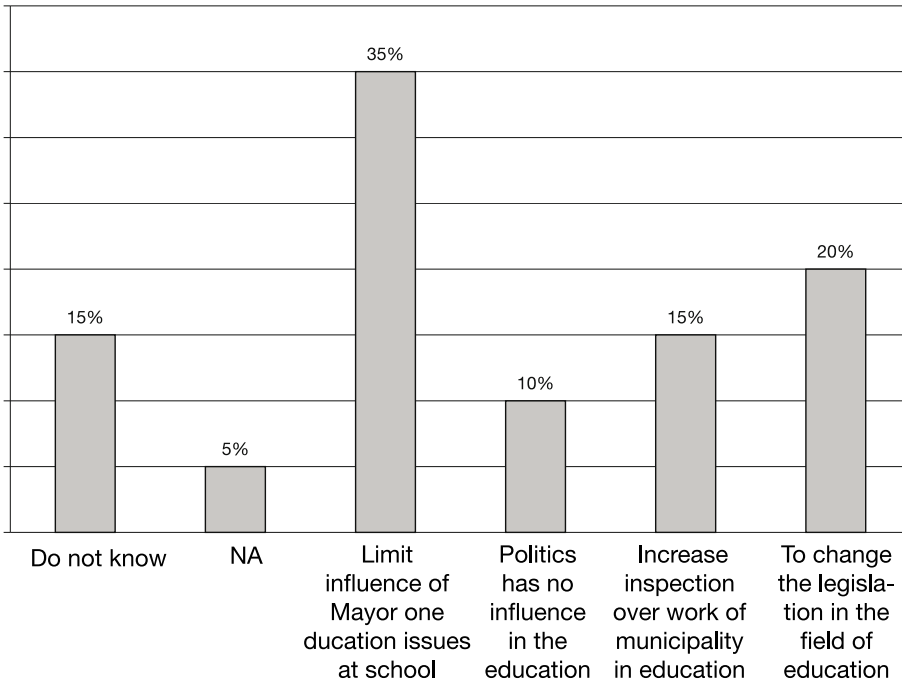
Citizens were asked, "What do they think about the influence of politics in education, since the process of decentralization has started?" the feedback was: 41.6% think that the influence has remained as before; 9.6% say it decreased; and 23.3% believe political influence has increased.

**Since the decentralization process started, the influence of politics in education has:**



On the question “What do you think could be done to decrease the level of politics in education?” the citizens answered: the influence of Mayor on education issues at school level should be limited (37%); change the national legislation (20%); increase the inspection over the work of the municipalities (15%).

**What do you think could be done to decrease the level of politics in education?**



## CONCLUSIONS AND RECOMMENDATIONS

In general, the survey findings from municipality poll show positive trends. Municipalities consider local education stakeholders to have a better understanding of their rights, roles and responsibilities, and the school directors have increased their capacity, while parents still lack an understanding of their rights and responsibilities in the field of education. The municipalities have more faith in their education stakeholders (directors, school boards, teachers, parents) in terms of rights, roles and responsibilities. This is illustrated in the positive response (85%) to the question regarding their increased capacity for managing their tasks and responsibilities.

Political influence in the field of education is still present according to the survey findings: the municipalities admit that there is an 18% increase of the influence of politics; 40% think that the influence has decreased since the last year; and 42% of the municipalities say that the influence has remained the same as before. The municipalities should adhere to the basic principles of the process of decentralization, and the education stakeholders should not be influenced by politics.

The results from the survey also confirm that there have been staff changes at the schools and municipalities. In total, 30 municipalities admit changes in staff and 34 of them say there have not been any changes. The main reasons for these changes are: expiry of temporary contracts for employees; lack of qualification; retirement; resignations; and a new systematization of the posts at their municipalities.

The staff changes should not be motivated politically. The selections and the recruitment of the teachers and other staff should follow the rules and procedures as prescribed in the Law for Primary and Secondary education. The mayors and the municipal administration should have limited influence in education matters. The school boards and the directors of the schools should be encouraged to work professionally.

The citizens still think that at the local level political influence continues to be a reality in education. Since the process of decentralization started, 23.3% of the surveyed citizens think that the influence has increased compared to 9.6% of them who think that this influence has been decreased. Most of the citizens are of the opinion that since the decentralization process started the influence of the politics in education has remained as before (41.6%).

The political influence in education issues at a local level should be minimized and be neutralized in every way possible. This can be achieved by strengthening the capacities of all stakeholders at the local level and by making them aware of their rights, roles and responsibilities. The citizens mainly feel that limiting the influence of mayors in education issues would reduce politics in education at the local level (35%).

The municipalities are more and more satisfied with the work of their education stakeholders (directors of the schools, teachers, school board members, parents). They acknowledge their importance as key players in this field.

The municipalities should be aware that since the decentralization process started, they are in charge of all education affairs at the local level. Although, positive trends are evident, more needs to be done in order education competence is better managed locally. It is necessary that they also improve their relations with the central level in particular with the state education inspectorate and the bureau for development of education. This will enable municipalities to manage education better as well as to ensure the quality of the education in their schools.

# Conclusion and Recommendations

## CONCLUSIONS

Between July and December 2009 the Good Governance Unit of the OSCE Spillover Monitor Mission conducted the Decentralization Survey 2009. The aim of the Survey was to assess the progress made in decentralization in the period 2008-2009. Special attention was paid to key reform areas mentioned in the Ohrid Framework Agreement, such as inter-ethnic relations, equitable representation, use of languages, and education. The survey grounds its findings in field research that was conducted in October and November 2009. The Good Governance Unit developed two sets of questionnaires: one targeting mayors, municipal administration, and municipal councils; and another one addressing the citizens in the municipalities. The most important findings are the following:

1. Most municipalities claimed to have the capacity to implement all of the assigned competencies, especially in the field of education, urban planning and communal services. This was also acknowledged by the citizens who saw improvements in the administration of the competencies, especially in the delivery of communal services, urban planning and education. Citizens saw the least progress in the area of local economic development.

Most municipalities stated that they faced problems implementing the competencies due to the lack of financial resources, lack of qualified staff, unclear legal provisions, and insufficient assistance from the central government. As a result, most of the municipalities decided to take advantage of cooperation with other municipalities. Most frequently, they cooperated on issues such as local economic development, service provision, and joint administration.

2. The citizens' perception of the performance of the municipal administration was quite critical. The majority of the citizens believed that employment in the municipality – especially after the 2009 municipal elections – was politically motivated. 32% of the citizens stated that their administration was unprofessional and inefficient, and 24% thought that their municipality was overstaffed with employees. Only 28% said that their administration was professional and efficient.

Professionalisation of the municipal administration is not a top priority for the municipalities. Only 20% of the municipalities believed that the reason for the lack of professionalism of the municipal administration lays in the recruitment procedures, and 40% thought that additional trainings should be organised in order to increase the professionalism of the municipal administration.

Almost half of the interviewed citizens believed that the corruption existed in the municipalities, especially in the municipal administrations and with the mayors. This perception was a reflection of the lack of initiative taken by the municipalities to fight against corruption. Only a small percentage of the municipalities had adopted a strategy for preventing corruption at the local level.

3. According to the survey results, municipal councils were functioning well since their establishment in April/May 2009. Since then, all municipal councils had on average four sessions. All but one stated to have elected a president of the council.

The interplay between the ruling parties and the opposition parties proved to be problematic. Councillors belonging to the same political party of the mayor replied that their cooperation with the mayor was excellent, unlike the opposition who widely stated that their cooperation was fair (60%), and the remaining (40%) even said that the cooperation was not good.

At the same time, municipal councils reported that their cooperation with the municipal administration was very good, as the majority of the councils claimed to receive the working materials on time, seven days before the council session.

4. A substantial number of municipalities pursued a systematic approach in planning their local economic development. Nevertheless, all of them faced serious obstacles in the implementation of their plans mainly due to the lack of funds. Only insignificant portions of the municipal budgets were dedicated for economic development purposes. Municipalities either relied on outside support to implement their plans or failed to implement their planned activities.
5. Fiscal decentralisation has progressed. In 2008, the total of local government revenues increased by 88%, which enabled them to better carryout the planned expenditures. However, the problem of indebtedness and blocked accounts was still a major obstacle for 20% of the municipalities to enter the second phase of the fiscal decentralization.

Many municipalities had improved their staffing to manage the municipal budgets. Most of them had an adequate number of staff in their finance and budget departments as well as tax departments. More municipalities had established internal audit units. At the same time, only few municipalities had adopted and used a budget calendar in their budget related activities.

The majority of the municipalities reached out to citizens to include them in municipal budget planning. Most of them organized up to ten meetings with their citizens in order to involve them in setting local priorities. This is a positive trend in comparison to the previous year.

6. Municipalities consider local education stakeholders to have gained a better understanding of their rights, roles and responsibilities, and the school directors have increased their capacity, while parents still lacked an understanding of their rights and responsibilities in the field of education.

Political influence in the field of education is still present: 60% of the municipalities say that the influence has remained the same or increased; and 40% think that the influence has decreased since the last year. The same is said by the citizens: nearly 65% think that political influence has remained or increased, while only around 10% believed that it had decreased.

30 out of 64 municipalities said that they had staff changes in 2009. According to the municipalities, the main reasons for these staff changes were the expiry of temporary contracts for employees; the lack of qualification; the retirement of staff; resignations; and a new systematization of the posts in their municipalities.

7. Municipalities are more aware of their duties to ensure proper representation of communities that are not the majority in the country. Many municipalities took advantage of the language legislation and introduced additional official languages.

Most of them, however, realised that they had to balance the legal obligation with the real needs of the population and the financial possibilities of their municipality.

A majority of the municipalities stated that they adhered to the principle of equitable representation. Only 16 out of 63 municipalities, however, said that they were not able to do so. The main reasons given were: lacking qualified candidates; the inherited situation; the political pressure to employ staff; the weak financial situation; and the existing over-employment.

An increased number of municipalities were aware of the necessity to establish a Committee for Inter Community Relations. Gevgelija, Valandovo, Bogovinje, Butel, Studenicani, Vrapciste and Lozovo each established a Committee, even though they were not required by the Law to have one. The overwhelming majority of the citizens were not aware of the existence of these Committees. Only 19% of the population were aware of the existence of the CICR; another 21% claimed that it did not exist in the municipality; and the majority were not aware of the possibility to establish such a Committee at all.

## **Recommendations**

### **Adequate financing of municipal competencies**

In the future, a significant number of municipalities anticipate problems implementing the decentralized competencies mainly due to the severe lack of financial resources. To fill the financial gaps, central authorities need to revise the methods and formulas for re-distributing revenues to the local level, while providing the local level of government with greater financial independence.

In addition, municipalities should invest more efforts in collecting own revenues. In addition, municipalities could engage more in inter-municipal cooperation initiatives; that way they can create synergies in important areas such as local economic development, service provision and/or joint administration. These initiatives would be beneficial for all involved municipalities and could help to improve services delivery to citizens at a lower cost.

Recognizing their role to create favourable conditions for local economic development, most of the municipalities should strive at improving the local infrastructure and promoting local economic potential. More functional public-private partnerships should be established and local cooperation be fostered in order to promote economic growth and herewith gain additional tax revenues.

### **Professionalisation of the Municipal Administration**

Municipalities should increase their efforts to professionalise their staff with an aim to depoliticise their administration. Recruitment processes have to become more transparent, employment procedures be more standardised, and promotion merit-based. At the same time, more municipalities should develop strategies for fulfilling the legal obligation of equitable representation; and this should be done not only by municipalities with ethnic communities above 20%, but by all municipalities with minorities.

More municipalities should seek to adhere to human resources management policies, hereby not neglecting the importance of staff training and staff qualification. Only properly trained and qualified staff can provide quality services. In these trainings, municipal employees could be



made aware of their rights, roles and responsibilities as public and civil servants, one of which is predominance of the general interests over the party interests.

To gain the trust of the citizens, the municipalities should take more measures for preventing and fighting corruption. They should engage more in the development and implementation of corruption prevention strategies, the adoption of mechanisms for a permanent monitoring of the areas vulnerable to corruption, and increase the transparency and accountability in all aspects of the municipal operations.

### **Improved Citizen Participation**

Municipalities should be encouraged to invest in citizens' participation activities. Citizens should be included in the entire budgetary planning and implementation process of the municipalities. Local authorities should organize events for their citizens at each stage of the budgeting process and throughout the fiscal year: from setting the local priorities, defining the budget, executing the budget and presenting the results of the annual accounts on how the funds have been spent.

In addition, municipalities need to focus on involving their citizenry in shaping the future directions of the local economic development. Businessmen and private entrepreneurs have to re-establish their communication with the municipalities and recognize them as partners, rather than as a bureaucratic burden. A countrywide public awareness campaign for all relevant stakeholders (businessmen, the civil sector, and municipal officials) would help to reinforce the mutual benefits of a culture of co-operation.

The Committees for Inter-Community Relations should take advantage of their role as forums for inter-community dialogue on a local level. These forums give smaller communities that are underrepresented in the municipal administration and the municipal council a chance to voice their interests and opinions. They serve the municipality as a tool to consult the opinion of the communities on the issues that interfere with preserving culture and identity. CICRs should be proactive by offering preventive solutions, not only to resolve conflicts once they occur. They should propose activities that foster inter-ethnic trust and prevent misunderstanding. However, more efforts are needed for its full recognition and establishment as an integral part of municipal decision-making.