SUMMARY REPORT ON THE FINDINGS OF THE SURVEY ON THE IMPLEMENTATION OF THE PROCESS OF DECENTRALIZATION
JULY 2006
This report on the findings of the Survey on the Implementation of the Process of Decentralization, July 2006 has been prepared by the Public Administration Reform Department (PARD) in the Organization for Security and Cooperation in Europe – Spillover Monitor Mission to Skopje:

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Introduction

The survey on the implementation of the process of decentralization was performed by OSCE Spillover Monitor Mission to Skopje – Public Administration Reform Department (PARD) in light of the passing of one year since the transfer of competencies and resources to the local level. The objective of this survey was not only to compile an overview of the current state of affairs, but also to provide some suggestions for the activities of the OSCE and other relevant members of the International Community (IC), in order to act as relevant and constructive partners to the government and the municipalities.

The survey was performed in the course of July 2006, and consisted of a general questionnaire related primarily to the competencies and functions, and a sub-questionnaire related to finances and municipal financial management (respectively, this report is also divided in two parts). The questionnaires were distributed to all municipalities, and were collected by PARD staff after a round of interviews with each. A total of 80 municipalities gave replies to the general questionnaire and 83 to the sub-questionnaire on financial management. Support was provided by the Confidence Building Officers of the OSCE Field Stations in Tetovo and Kumanovo, who helped out in filling in the questionnaires for the municipalities located in their area of responsibility.

The general questionnaire mostly reflects relevant current issues in terms of the competencies, but at the same time issues that are close to the mandate and the interest of the OSCE Spillover Monitor Mission to Skopje. PARD - in partnership with local stakeholders - has been carrying out projects in most of the chosen fields. In addition to a general view on the implementation of the competencies, the following issues were addressed: - urban planning, - education, - inter-municipal cooperation, - neighborhood self-government, - committees for inter-community relations, - gender committees, - information, cooperation, communication.

The sub-questionnaire on financial management also addressed several important components of this function in the municipalities: - the adoption and following of the budget calendar, - the level of budget execution, - the execution of the accounting and internal audit function, - citizen participation in the budget process, - the problems in administration of local taxes and fees. The local Association of Finance Officers was subcontracted for the collection of data related to the financial assessment.

The methodological approach taken in this survey was designed to provide above all the perception of the situation by the municipal leadership and administration and also to test to which extent they themselves have an overview of the facts and features of the current situation. Accordingly, some of the results in the report are not primarily concentrated on accurate statistical data on individual cases, but more on presenting general trends in the respective issues. The questions were formulated in an attempt to tackle issues through three different perspectives: law enforcement, efficiency and citizen participation.
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1. General State of Affairs in Terms of the Transferred Competencies

1.1. Background and Legal Framework

The Law on Local Self Government of 2002 develops the local self-government framework in the country based on the principle of subsidiarity. In accordance with this principle, municipalities have the right to perform public interest issues of local significance which are not exempted of their competency and are not in a competency of the state authorities. Furthermore, in Article 22 the law lists the competencies of the municipalities. In a number of cases, this law only gives the framework by defining the area where the local level should have competencies, leaving the details to be regulated by sector legislation. The Law on the City of Skopje and Law on Financing of the Local Self-Government are also relevant supplements in this area. The relevant local competencies listed in the Law are in the following areas: Urban Planning, Environment Protection, Local Economic Development, Communal Activities, Culture, Sport and Recreation, Child Protection, Protection of Elderly, Education, Health Care, Protection and Rescue of Citizens, and Firefighting.

The actual transfer of the competencies began in July of 2005, after the adoption of the new Law on Territorial Organization of the Local Self-Government and the last local elections. It should be noted that there is a phased approach in the transfer of some of the competencies, related above all to the pace of the fiscal decentralization.

1.2. Findings of the OSCE PARD 2006 Survey

Although it is difficult, after only one year of experience in a new institutional and functional set up, to conduct exact and statistical measurement of the implementation of transferred competencies, the occasion provides an opportunity to evaluate the experiences of municipalities in terms of the strongest achievements and most challenging drawbacks encountered in the course of dealing with the new state of affairs.

The purpose of the survey, when asking about the general state of affairs in terms of implementation of the transferred competencies, was above all to examine the perception of the municipal management, including their views on the major challenges in the implementation of a particular competency. Another goal was to assess whether the general impressions of local leaders would be supported by findings on the technical details of implementation related to specific competencies. The questionnaire addressed the view on each competency listed in Article 22 separately, asking for opinions on the level of success in the implementation of the competency, as well as for the eventual obstacles and drawbacks (unclear legal framework, lack of finances, ownership problems, lack of human resources, bad communication from the government/ZELS, no need for the competency to be implemented, other).

1 The relevant legislation is listed in the government’s Operational Programme for Decentralization 2003-2004. Most of the relevant primary legislation listed there has been passed in the Parliament.
2 Not every area is decentralized to the same extent (for example, Health and Protection and Rescue are not yet substantially decentralized).
3 Reference document: the government’s detailed Plan for transfer of competencies and resources.
The overall impression from the answers is that municipalities in general manage to deal at least somewhat successfully with the transferred competencies. It is interesting to note that in the most discussed fields, urban planning and education, the vast majority of municipalities (up to 75%) have declared successful or somewhat successful implementation. Communal activities also received high ratings, but it is important to notice that this is a traditional local competency. From the answers received, the protection of the elderly is the least implemented competency.

Lack of finances was indicated by 90% of the municipalities as the main, and often sole problem/obstacle for implementation of the municipal competencies, regardless which competency is at stake, no matter the size, character, or any other categorization of the municipalities.

1.3. Conclusions and Recommendations

While the above analysis concerns the perception of the local leaders and management, as the main beneficiaries of the decentralization process, the views expressed are in line with the general opinion of the national and international stakeholders that decentralization can be considered a generally successful process. However, it should be kept in mind that this success cannot be measured in absolute terms, since the comparative experiences show that it is normal and expected that decentralization, as an extremely complex and challenging process, inevitably develops gradually and faces many challenges (even in other, more favourable socio-economic contexts).

However, another conclusion that can be extracted from this survey is that comprehensive and continuous monitoring of the process in the coming years shall be of crucial importance in detecting the serious anomalies in the process. This is important not solely for reporting purposes, but also for enabling the government, the municipalities, and all other relevant stakeholders, national and international, to create relevant policies and properly direct assistance measures. For example, the perception of the municipal leadership that finances is absolutely the key negative factor for successful implementation of the competencies calls for a comprehensive approach in the follow up of the process, in order to detect the roots of the implementation problems in each respective competency and subsequently focus efforts on usage of affordable management strategies, since it cannot be expected that the municipal funds shall dramatically increase in near future.

It is known that several projects employ particular monitoring mechanisms\(^4\), but it is of crucial importance that the government take the lead, along with municipalities, in utilizing project outputs and developing a culture of self-monitoring and measurement of performance.

\(^4\) EAR Project for support of the decentralization, USAID/ Decentralization Project.
2. Urban Planning

2.1. Background and Legal Framework

Under the new decentralized frame, urban and rural planning fall mainly under the competencies of municipalities, which are now also in charge of issuing building permits – as stated in Article 22 of the 2002 Law on Local Self Government. However, central authorities (the Ministry of Environment and particularly the Ministry of Transport and Communication, in charge of urban planning before the kick-off of decentralization) retain a number of competencies in this area.

Recently reviewed legal provisions\(^5\) regulate the procedures for drafting and adopting the four different kinds – general, detailed, for residential areas and for non residential areas – of urban plans. This involves a set of complex procedures consisting of several steps not easily understood. The primary objectives are increased transparency and participation in the process through the involvement of citizens as well as external companies in discussing and auditing the proposals at stake.

The capacity of municipalities in urban planning increased greatly with the ability to issue building permits: municipal authorities can now decide the future order of urban settlements and take direct action, including the demolition of objects, overriding any disrespect toward their instructions. The decision to demolish structures not fulfilling legal requirements must be made by the mayor; appeals against such measures or any other municipal decision concerning urban planning can be lodged with the Ministry of Transport and Communication Committee for Settling Administrative Issues.

The law foresees the appointment of municipal inspectors in charge of monitoring the correct implementation of urban planning.

2.2. Findings of the OSCE PARD 2006 Survey

Since the 1\(^{st}\) of July 2005, municipalities have positively responded to over 50% of the received requests for building permits. Although figures cannot yet support considering municipal performance to be entirely efficient (construction permits should be issued within seven days from the date documents are submitted, which is not yet the case)\(^6\), the results hitherto achieved can be positively evaluated, especially when considering the newness of the matter for municipal administrations. Half of the municipalities have appointed municipal inspectors, urban municipalities again showing better ratings than rural ones: the former appointed inspectors in 60% of the cases, and the latter only in 35%. Some of the feedback collected in the field leads to the conclusion that the slow pace in recruiting municipal staff for urban planning – particularly in rural areas - cannot be entirely explained by a lack of resources, and human resource policies in the municipalities must be taken into account, connected

\(^5\) The most relevant are contained in the Law on Spatial and Urban Planning (O.G. of R.M. no. 51/05) – which regulates the planning of space, the type and content of plans, plan preparation and adoption procedure, awarding building land, identification of building requirements.

\(^6\) Law on Construction (O.G. of R.M. no. 51/05), Art. 52\(^a\). A general remark on the issue is that the law should distinguish between the different kinds of building permits (some requiring more complex revision than others). The date of submission of the documents is also a disputable parameter: many demands are incomplete and have to be returned to the requester for further explanation,. The legal deadline of 7 days starts to run since the delivery of complete documentation and payment of the fees.
sometimes to political choices and giving priority to other professional employments. Our data shows a consistent trend in legalizing rather than demolishing illegal objects; other than a few significant cases\textsuperscript{7}, the trend is even more remarkable in municipalities where e/Albanian mayors are in charge than in those managed by e/Macedonian mayors.

As per the level of citizen participation in urban planning, municipalities tend generally to adhere to legal provisions foreseeing public gatherings on urban plan proposals. Public discussions of urban plan drafts are advertised via municipal gazettes and local public media in half of the municipalities; many deliver this information through neighbourhood self government as well.

\textit{2.3. Conclusions and Recommendations}

As urban planning is one of the pillars of local autonomy, proper implementation of this competency is essential for the efficient and transparent functioning of the municipalities. It is important that local authorities treat this issue with particular attention. Additionally, urban planning is among the most complex competences transferred to municipalities with the introduction of decentralization. Moreover, its management is deeply interconnected to the performance of other tasks assigned to municipal administration - local economic development above all.

Municipalities, although facing some obvious initial difficulties, prove to be on the right track in the delivery of efficient services to citizens. Much was done in terms of capacity building for the staff in charge of urban planning, aiming to strengthen municipal outputs in this field\textsuperscript{8}. There are, however indications that the number of municipal workers engaged in urban planning, particularly municipal inspectors and executors, should increase in the future. More must be done in terms of information spreading among citizens concerning particular aspects of the issue (for example, procedures and needed documents for obtaining building permits).

\textbf{3. Education}

\textit{3.1. Background and Legal Framework}

The Law on Local Self Government of 2002 (Article 22) lists the competencies of the municipalities in the field of education. Decentralization in education refers to establishing, financing, and administering primary and secondary schools and organizing transportation of students and their accommodation in dormitories. As a framework law, it does not specify the legal vehicles for the implementation of the listed competencies. Relevant laws that closely define the implementation of the devolved competencies are the Law on Primary Education, the Law on Secondary

\textsuperscript{7}Roughly 900 objects have been demolished upon the decision of the Municipality of Gostivar by March 2006. However, it is important to keep in mind that in many cases the structures demolished are temporary objects, balconies, garages, etc.

\textsuperscript{8}For example, the European Agency for Reconstruction completed in summer 2006 the Train project, a two-year initiative devoted to training and capacity building of Local Self Government Institutions which delivered skills on urban planning to over 1.300 participants.
Education, the Law on Inspection of Education and the Law on Financing of the Units of the Local Self-Government.

One of the most important changes of decentralization in education is that the transfer of the competencies in the field of education enables higher autonomy in the operation of the schools. For one thing, the role of the school board has been significantly increased through the power to propose the appointment and dismissal of the school director, to determine the school budget, and to adopt the statute of the school. The municipality is represented in the school board by 2 representatives in the elementary schools and 3 representatives in the high schools. Parents are represented by 1/3 of the members in the school board. On the other hand, the municipalities retain the power to allocate the funds for the schools, to initiate the establishment and closure of the schools and the right to make inspection. The mayor appoints the school director upon proposal from the school board. In this respect, even though the level of autonomy of the school boards is significantly increased under the new legal framework, it should be highlighted that the real managers of the schools are the municipalities. After one year of decentralization, it is still early to say how this balance of powers functions in reality.

The second important change is the legal opportunity for the municipalities to appoint municipal education inspectors\(^9\). This will become a very important factor as decentralization enters into its second stage, since the inspection involves supervision not only on the work of the school boards but also supervision on the overall education process in the municipality including the implementation of the education programmes by the schools and quality assurance.

3.2. Findings of the OSCE PARD 2006 Survey

Within the above-mentioned legal context, the objective of the PARD survey was to assess the degree and the efficiency of the use of the institutional framework by the municipality.

Fiscal decentralization was not explicitly addressed, although on many occasions it was raised as one of the biggest problems for the overall quality of the education process countrywide. In addition, during meetings with some of the municipalities from the eastern part of the country, it was stated that the major problem that they will face in the future will be the possible closure of schools, especially the schools in rural and remote areas, as a result of de-population of those areas. From the statements of the municipal officials, it seems that most of them do not have a plan to deal with the closure of the schools, and remarkably, there were no indications of possible inter-municipal cooperation in this area.

The findings show that significantly few municipalities have appointed municipal inspectors (13), of which only 3 are rural. Most of those which do not have appointed

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\(^9\) Before decentralization, inspection was carried out solely by the central government. At present, according to the Law on Inspection, the inspection is conducted by the State Inspectorate and authorized inspectors of the municipalities, which are civil servants of the municipal administration authorized by the mayor to conduct inspection. The law also states that the State Inspectorate conducts inspection on behalf of authorized inspectors if the mayor did not authorize anybody to carry out inspection work, or the inspector has not been executing the duties.
municipal inspectors have stated that the government is more competent to conduct the inspection (27). This opinion prevails in the rural municipalities (16). Other reasons given are that the post of municipal inspector is not part of the job classification (24) and in certain instances, the lack of funds or “no legal background” was mentioned. Cases of inter-municipal cooperation in the field of education inspection are noted in Rosoman, Kavadarci and Staro Nagoricane.

However, many municipalities do have a person in charge of education (57). One interesting fact is that 21 municipalities (out of which 17 are rural) have neither a municipal inspector nor an administrative person in charge of education.

A significantly high number of municipalities responded that the school boards meet on a regular basis, at least once in three months (74). The school boards have not yet met in 5 municipalities, 4 of which are rural. In 79 municipalities parents’ councils have been formed and they participate in the work of the school board. Only in Brvenica do the parents’ councils not participate in the work of the school board.

There is an obvious need for inter-municipal cooperation, with 74 municipalities expressing interest in inter-municipal cooperation in education. When asked to state in which fields this would be most necessary, most municipalities replied, in order of priority: transport of students (25), exchange of teaching staff, joint projects and inspection 10. In many cases there are additional answers which include activities such as organizing joint cultural events, meetings, seminars, which go beyond what could be initiated as part of the inter-municipal cooperation.

The issue of dismissed school directors is present in 11 municipalities (approximately 1/8 of the total number of municipalities). In most of the cases (10) the principals were dismissed upon a proposal from the school board, in other cases (7) because the principal did not pass the professional exam, and in 5 cases upon a proposal by the education inspector. The following reasons for the dismissal are listed in order of frequency: lack of appropriate education, end of mandate and retirement, which are all in accordance with the current legal framework.

3.3. Conclusions and Recommendations 11

Inspection in education does not seem to be the priority of the municipalities for the first phase of decentralization. Only around 15% and for most of the part urban municipalities conduct the power of inspection themselves. This competency, which is not mandatory for the municipalities, is considered to be better conducted by the central government, especially in the rural municipalities. There is a lack of awareness that this competency could be shared with neighbouring municipalities through inter-municipal cooperation.

10 Concrete forms of inter-municipal cooperation is reported in three cases, namely 1) Veles provides inspection services for Caska and Lozovo 2) transport of students from Krusevo to Dolneni is jointly organized and 3) the procedure for regulating the public traffic between the municipalities of Karbinci and Stip is still in its initial phase.

11 The conclusions and the recommendation in this part of the survey are for the most part based on the answers provided by the municipalities and are directly linked to the findings of the survey. However, some of the recommendations provided are also result of the ongoing, one-year monitoring of the education in decentralization process by the OSCE and PARD team.
In comparative terms, the urban municipalities have more institutional framework (inspectors and/or person in charge) to manage education than the rural ones. Again, there is a lack of understanding regarding the concept of inter-municipal cooperation in the rural municipalities.

Occurring in only 11 municipalities, the dismissal of school directors does not seem to be a general trend in the country, but rather a municipality specific phenomenon. Reasons for the dismissals seem to be in accordance with the law as reported by the municipal officials.

Although it is beyond this part of the survey, most of the complaints from the municipalities were related to the lack of funds for education. Many municipalities blamed the Ministry of Education for not transferring the earmarked funds in accordance with the historical costs of the schools. It was mentioned that even the historical costs would not be sufficient to meet the financial needs of the municipalities. The level of awareness of the opportunities of inter-municipal cooperation as well as knowledge of the concept is needed. In this respect needs assessment on the concrete needs and fields for inter-municipal cooperation should be conducted in order to identify the bottlenecks which could be overcome by inter-municipal cooperation (transport of students, closure of schools, inspection, etc.)

The formal functioning of the school boards is in place. Most municipalities, both urban and rural, stated that the school boards meet regularly. However, during the meetings, it was mentioned that the school boards lack management skills and initiative for solving the problems. The results of the assessment indicate that the parents take part in the work of the school boards. Research on the actual functioning of the school boards and parents’ councils would be recommended with this respect.

The school boards should be enabled to become key players in the second phase of decentralization. Strengthening the capacity of the school boards is crucial for their capacity to plan and manage the education process and ultimately for the success of decentralization in education. The school board should become the de-politicization factor as it links the parents (citizens), schools, local self government, and central government. The school boards should be more open to including parents and citizens in decision making. In addition, since the municipality will have the power to allocate the funds among the schools and to conduct the power of inspection on the work of the school board, capacity building in this area for the municipalities would also be recommended. However, the role of the parents’ councils as a citizen participation instrument should not be neglected. They should be strengthened in order to be more pro-active in the participation in the work of the school board.

The Ministry of Education should improve communication with the public and municipalities. In this respect, events aimed at facilitation of dialogue among the central government, municipalities, schools, parents, citizens should be supported and encouraged.

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12 This corresponds to the findings in the European Agency for Reconstruction report “Calculation of Costs and Earmarked Grants” EuropeAid/119724/D/SV/MK, page 4. It is worth mentioning that the Work Programme of the (new) government for the period 2006-2007 of 14 August 2006, states increase of the budgetary funds for education to 5 percent of the GDP.
4. Inter-municipal Cooperation

4.1. Background and Legal Framework

Inter-municipal cooperation (IMC) as seen in the context of the process of decentralization represents a supplementary instrument for the implementation of the transferred competencies on the local level. This institute is clearly addressed by the Law on Local Self-government from 2002, though it is not regulated in detail. The law basically gives only the authorization for cooperation to the municipalities and leaves great flexibility for the concrete arrangements of cooperation.

According to the stipulations in the Law on Local Self-government as well as experiences in international practice, there are five main forms of IMC that can be undertaken in the country: shared services, joint administration, selling and buying of services, joint planning and development and joint funding.

At present, no supplementary regulations beyond the Law on Local Self-government have been developed in the country in terms of IMC. However, there are already practical examples of inter-municipal cooperation in the country which could set an example, as well as initiatives for providing model forms of agreements for inter-municipal cooperation, training modules on IMC as part of trainings for municipal officials, studies on IMC (such as the 2004 OSCE study), roundtables and other activities.

4.2. Findings of the OSCE PARD 2006 Survey

The questions in the IMC section of the Survey address several aspects of the implementation of this instrument: the existing initiatives and arrangements for IMC, the areas of cooperation, and the probable future initiatives and preferred areas of cooperation. However, the main background query targets information about the general view of the usefulness of IMC as a tool for facilitating the implementation of the transferred competencies, especially in the course of the 1 year since the last transfer.

The majority of the municipalities (62) have stated that they are already involved in initiatives for inter-municipal cooperation. However, the variety of answers on the issues/competencies for which cooperation was established/initiated shows that the municipalities have very different views of IMC. In some cases it is evident that they refer to quite informal forms of “cooperation”, which are not any institutional form of IMC as referred to by the Law. At the same time, urban planning, communal services and infrastructure, finances and development seem to be areas which currently attract the highest interest. There is no pattern in terms of municipal profiles indicating that

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13 The Law on Local Self-Government refers to Inter-Municipal Cooperation in Article 14, Article 15, and Article 61, stipulating the possibilities for establishment of shared public agencies and shared administrative bodies, formation of associations and establishment of cooperation with municipalities from other countries.

they are already involved in arrangements/initiatives in IMC (urban/rural, ethnicity, political affiliation, etc).

Concerning the form in which the IMC was initiated/established, 22 municipalities indicated joint administration, 11 – public enterprises, 26- buying and selling of services, and 13 declared other, quite varying forms of cooperation. Some of the answers under “other” can be classified under the previous categories and there is also an indication that in some cases the form of cooperation is still under examination or in a preparatory stage.

Regarding the future potential of IMC as an instrument for minimizing the problems/weaknesses in the implementation of the transferred competencies, a clear majority of the municipalities (64) have a positive opinion of the value of the IMC in the mentioned context. Again, there is no pattern in the profiles of the municipalities which stated such an opinion. The same is true concerning the areas/issues in which the municipalities believe that IMC could assist in more efficient implementation of the competencies. Some municipalities which declare an interest in future IMC have still not identified the areas/issues in which they would be interested in applying this model of service delivery.

In the context of the challenges and difficulties for realization of IMC arrangements the municipalities also offer a large variety of reasons. Thirty municipalities indicate the lack of legal regulations as an obstacle, 26 - the lack of political will of the local leadership and 48 - that it is the lack of expertise-technical assistance. Three municipalities stated that the lack of finances is a problem and three have stated that there are no obstacles.

4.3. Conclusions and Recommendations

According to the answers received, there is a very clear general conclusion that IMC seems to be regarded by municipalities as a relevant instrument for facilitating the implementation of the competencies and functions on the local level. This is a very interesting indicator, considering the traditional skepticism toward IMC expressed by the local and international stakeholders in the course of the debates during the transfer of competencies. Another important factor is that there has been only one year since the transfer of competencies and it is quite natural that each municipality should make an attempt to perform its functions individually. The variety of areas for which interest for cooperation was shown also indicates that IMC is an instrument with a wide range of possibilities.

However, the indications of a large variety of difficulties and obstacles in bringing IMC to life also shows that serious policies and support should be still further developed for supporting the usage of IMC on the local level. Perhaps even more importantly, the variety in the understanding of what IMC is about, indicates that there is still a need for education of the municipalities about the elements, forms, opportunities and preconditions for IMC. The lack of political will should be treated as an especially relevant negative factor, particularly as many municipalities stated this reason “off the record” during the interviews, in addition to the stated technical

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15 As an example, see also the chapter on education.
reasons. From the perspective of the IC, awareness raising and technical support activities will be the most relevant actions to undertake in the future in regard to the promotion of IMC. Cost-benefit analyses are an important tool for determining the areas in which inter-municipal cooperation would be most beneficial to municipalities, and would encourage the use of IMC for implementation of devolved competencies.

5. Neighbourhood Self Government Units

5.1. Background and Legal Framework

A traditional form of self-government, Neighbourhood Self-Government Units (NSGUs) at the moment have far weaker authority than they possessed during socialist times. While before the country’s independence NSGUs were a recognized authority equipped with sufficient means to perform different tasks i.e. they had offices and employed staff, the 1995 Law on Local Self Government required them to turn their facilities and properties over to the respective municipalities, thus consistently limiting their range of action. Some of the employees were transferred to the municipalities or to other working posts. Only a small number of municipalities continued to support the work of the NSG Units by paying a salary to one employee and minimum expenses for office maintenance.

Within the current legal framework, the existence of the NSGUs is acknowledged by the law16, though their role remains mostly dependent upon municipal statutes, which should regulate NSGU elections, competencies and relations with municipal authorities. Thus, the neighbourhood self-government units are mentioned in the Constitution, Article 114 which states “Within municipalities forms of neighbourhood self-government may be established”. Although a constitutional category, the formation of the NSGU is not mandatory. Currently the 2002 Law on Local Self Government defines the NSGU as village councils in rural areas and urban councils in the towns. This law prescribes that NSGU are established by the statute of the municipality, which determines the relations of the NSGU with the municipality, the activities of the mayor whose performance may be delegated to the president of the NSGU, the manner of providing funds for the delegated activities and other issues of importance to the NSGU.

In addition, the law acknowledges explicitly their role as a forum for citizen participation and as a representative of citizen interests (through the right of the NSGUs to conduct civil initiative and citizen gatherings). NSGUs also represent a potential service provider where the mayor may delegate the performance of a certain activity to the NSGUs. The latter depends on the actual status of the NSGUs as prescribed by the municipal statutes.

The NSGUs are still spread all over the country and familiar to a large part of the population. The OSCE survey showed that a great number of citizens trust the NSGUs and see them as institutions that protect their interests and solve their problems. A

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previous study on NSGUs\(^\text{17}\) confirmed the willingness of a consistent number of citizens to participate in local decision making, and NSGUs can indeed provide concrete assistance in this activity. The findings of the study not only confirm the traditional role of the NSGUs as a forum for citizen participation but also reveal that the NSGUs could be potential service providers in the areas of park maintenance and environmental protection. Also, the study showed a remarkable disparity between the attitudes of citizens from urban and rural municipalities towards the importance of the NSGUs. The NSGU serves a particularly crucial function in rural areas, serving 70% of the population and resolving a large number of issues at the local level.

This background leads to a heterogeneous picture of NSGUs throughout the country, though with some common features: NSGUs still play a role in communicating citizens' concerns to municipal authorities - particularly in rural areas - and carry out a variety of initiatives linked to infrastructure improvement and maintenance, mostly on a voluntary basis or through local citizens' volunteer contributions. As a result, NSGUs are still to be considered a resource for municipal authorities in the decentralized framework, as they constitute an effective tool for reaching and involving citizens and, possibly, for delivering minimal services in coordination with municipalities.

5.2. Findings of the OSCE PARD 2006 Survey

The 80 municipalities that replied to the questionnaire reported the existence of a total of 1571 NSG units on their territory out of which 1000 are located in urban and 571 in rural area.

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<th>Number of NSGU</th>
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<tr>
<td>rural areas</td>
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<td>571</td>
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Almost half of the municipalities called elections for the NSGU board members after the municipal elections held in March 2005. The provision of the 2002 Law on Local Self Government (Art. 84), stipulates that the elections of NSGUs should be conducted at the same time as the election of the municipal council. A remarkable number of municipalities, roughly 90%, have incorporated in their statutes the necessary rules to regulate the functioning of NSGUs, showing a stricter enforcement of the Law on Local Self-Government.

On the whole, municipalities seem still rather reluctant to devolve competencies to NSGUs: the overwhelming majority reported that no authority was hitherto delegated to NSGU councils or presidents. This figure confirms once more the general perception of NSGUs as a useful link of communication between municipalities and citizens rather than complementary authorities to which competencies – and consequentially power – can be transferred. As a matter of fact, NSGUs are still

highly considered by mayors and municipal councils for detecting residents’ opinions and establishing closer contact with the population: 63 mayors stated that they summon NSGU representatives every three months and 37 indicated they do so on a monthly basis. Municipal councils are also shown to be relatively available to NSGU, as 48 of them meet NSGU members at least quarterly. 65 municipalities have appointed an officer in charge of keeping contact with NSGUs.

5.3. Conclusions and Recommendations

Figures collected in the survey lead to the conclusion that municipalities generally consider NSGUs to be a valuable intermediary, an “opinion carrier”, able to provide prompt feedback from the population on particular aspects of municipal policy. The frequency shown by most municipalities in meeting with their NSGU indicates a readiness to listen to citizen input, although few municipalities have thus far considered the possibility for direct involvement of NSGUs in the decision making process. Municipalities should be encouraged to increasingly involve NSGUs in the decision making process, with a mutual benefit for municipal authorities (consisting of a higher level of transparency and trust by the population) and for local residents (who will have a closer oversight of municipal work).18

The current legal framework related to the NSGUs has left the legal status of the NSGUs unclear. As the status of NSGUs is left open to interpretation, a need for clarification has been communicated by stakeholders. Therefore, the role of the NSGUs as a real citizen participation forum and a potential service provider could be strengthened by further development of clarified regulation related to the NSGUs.

In addition, mayors and municipal councils may consider the NSGUs as partners in the decentralization process and should mobilize and substantially involve the NSGUs in the activities related to citizen participation and publicity of the work of the municipality.

6. Committees for Inter-Community Cooperation

6.1. Background and Legal Framework

That inter-community relations are an important feature in terms of local governance was demonstrated by the significant attention given to the decentralization in the Ohrid Framework Agreement (OFA). The Law on Local Self-government, adopted in 2002, treats the issue of inter-community relations in the municipalities in Article 55. The law prescribes that in municipalities where at least 20% of the total number of inhabitants are members of a certain community, a Committee for Inter-Community Relations (CICR) shall be established. According to the law, the CICR shall be composed of an equal number of representatives of each community represented in the municipality, while the procedure for establishing such committees shall be regulated by the municipal statutes. The municipal councils are obliged to review the

18 To this end, a Gostivar based NGO - the Permaculture and Peacebuilding Center - is currently carrying out an OSCE funded project aiming to assess NSGU training needs and complete a database containing information on all active NSGUs.

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opinions and proposals of the CICR for issues in their mandate and render a decision. The municipalities that do not have minority communities reaching at least 20% of the total number of inhabitants are free to decide if they should establish a CICR. As already stated, the law stipulates that the members of the CICR are representatives of the communities. With this arrangement, the law does not explicitly require the committee to be composed of municipal councilors, but focuses on the citizens belonging to a certain community. This legal solution enables the CICR to play a role as both a citizen forum for discussing inter-community relations and a standing committee of the municipality with the power to propose initiatives to the municipal council.

Also, as an instrument whose primary aim is to work toward improvement of inter-ethnic relations in a certain municipality, it enables (equal) inclusion of the under-represented communities (below 20%) in the inter-community issues in the municipality as well.

Besides this rather permissive and easily understood legal obligation, it was evident that there are still open queries related to the work and the mandate of the CICR (especially as each municipality independently regulates the details in the statute which leaves a room for diverse legal solutions in the individual statutes). Accordingly, OSCE Spillover Monitor Mission to Skopje organized a round table in the beginning of the year with the relevant stakeholders and together with ZELS provided recommendations and guidelines as well as model articles for incorporation in the municipal statutes.

6.2. Findings of the OSCE PARD 2006 Survey

The survey focused on several key issues related to the establishment and functioning of the CICR: the existence of the CICR in a particular municipality; their regulation by the respective municipal statutes; the treatment of the CICR by the municipal councils; the real financial and operational continuity and sustainability of the CICR; and the transparency of their operations.

According to the replies received, 32 municipalities have established a CICR. All those which are legally obliged to do so, have formally fulfilled their obligation. In 40 municipalities the CICRs are regulated in the municipal statute, including all 19 which are obliged to establish a CICR. Eighteen municipalities gave no answer to this question. There is no indication of the uniformity of the approach toward the CICR in these 40 municipalities.

Concerning the treatment of the CICRs by the municipal councils, the situation varies greatly: 24 municipalities declared that inter-ethnic issues from the council’s agenda are regularly discussed by the CICR, 21 replied negatively, and 35 gave no answer, which is not surprising, since most of them have not established CICRs. Out of the

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19 According to the data from the last census, in total 20 local self-government units are legally obliged to establish a CICR.

20 This also indicates that there are 8 municipalities which have legally regulated the CICRs in their statutes, but have still not put them into practice.

21 This means there is no pattern in terms of municipal profile (urban/rural, ethnicity, political affiliation, etc.)
municipalities obliged to have a CICR, the answer was negative in 3 cases and 2 municipalities did not provide an answer. In the rest of the municipalities which have formally established a CICR, the answer was positive in 11 cases.

In only 17 cases has the municipality planned for CICR support in the budget, out of which only 9 cases are out of the obliged municipalities.

There is great variety in the number of sessions the CICRs held in the last year, even in the municipalities obliged to have a CICR by law - two of them reported that there was no meeting, and 6 gave no response.

6.3. Conclusions and Recommendations

It is evident that the formal obligation determined by the Law on Local Self-government has been fulfilled by the municipalities, and what is even more encouraging is that there are a number of municipalities which have voluntarily decided to establish such committees.

The common opinion so far of all stakeholders was that the CICR exists only on paper as a list of names of people that should be members of the committee but that they either met only once (the first session to establish the committee) or it is just a list of members that have never met in a formal session of the committee. In only a very few cases the CICR were relevant topics actually discussed.

However, it is evident that the situation is not so advanced in the practical operation of the CICRs. Namely, it is a clear fact that there is still no evident coherence in the way the CICRs are regulated by the municipal statutes or how regularly they meet, and it is also evident that there are very few cases of real initiatives produced by these committees. The fact that in very few cases are they financially supported by the municipality could partially explain such low level of engagement of the CICRs.

The municipalities could pay more attention to the proper establishment and use of these committees, which could become a very important tool in the municipal decision making process and mediator to rise the mutual trust and to improve the inter community relations. The role of the committees could be two fold: 1) to transfer the interest and needs of the communities they represent to the municipal decision making bodies; and 2) to explain to the communities the background and the relevance of certain municipal decisions and policies (example : that they are not ethnically motivated, but pragmatic).

According to the picture gained from this survey, technical and financial support to the CICRs, as well as awareness raising among the local leadership (especially in the cases where legal obligation exists) will be the most relevant focus of initiatives by the stakeholders supporting this process in the future.
7. Gender Committees

7.1. Background and Legal Framework

Research conducted in the country has shown that women remain dramatically underrepresented in decision-making institutions and processes. While demographically women comprise 50 percent of the population, for example, only 3 out of 84 mayors in the country are female. In order to increase the political participation of women at the local level, amendments to the Law on Local Election stipulated the inclusion of a minimum 30% gender quota of both genders to be placed in the electoral lists for councilors and mayor. This increased the percentage of female councilors after the local elections in 2005 from 8.4% to 22.4% out of the total number of 1391 councilors. At present, there are three female mayors in the country.

The new Law on Equal Opportunities calls for mandatory appointment of Equal Opportunity Coordinators and mandatory establishment of an Equal Opportunity Commissions (EOC) as a standing commission in each municipality. In addition, the law calls for equal treatment in the hiring process at both the central and local levels. In addition, the National Gender Action Plan calls for the establishment of Gender Equality Commissions (GECs) in the municipalities.

As it stands, most of the institutional set up and the legal framework aimed at ensuring gender equality at the local level is in place. However, it is obvious that in the majority of the municipalities 30% quota for the municipal council has not been reached. The relatively low number of female councilors in the municipalities is a hindrance to gender sensitive policy making. In addition, in the vast majority of municipalities, the Equal Opportunity Coordinator has not yet been appointed. In a still predominantly male environment it is too early to expect gender equality at the level at which it exists in the more developed western societies.

7.2. Findings of the OSCE PARD 2006 Survey

The objective of the survey is to assess the number of female employees in the municipality, the percentage of females holding managerial positions, and the relevant mandatory institutional framework, consisting of the Equal Opportunity Coordinators and the Equal Opportunity Commissions.

Overall, around 38% of the employees in the municipalities are women. The percentage is distinctly higher than the percentage of female councilors (22.4%). In the urban municipalities the percentage of female employees is around 40%, while in the rural municipalities it is 34.32%.

The number of females holding a managerial position is significantly lower than in administrative or support positions. The overall percentage is 25.74. The difference between the urban and rural municipalities in this respect is 29.99% in the urban and

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22 The Gender Equality Commissions have been renamed into Equal Opportunity Commissions after the adoption of the Law on Equal Opportunities.

23 The Law on Local Elections stipulates the requirement for 30% quota of both genders in the upper and lower parts of the electoral lists. However, the Law does not explicitly stipulate mandatory quota for the both genders in the actual number of elected councilors and mayors.
21.17% in the rural municipalities. The highest discrepancy in terms of geographical distribution is noted in Pelagonia\textsuperscript{24} region with roughly 40% of female employees out of which around 50% hold managerial positions, as opposed to Poloski\textsuperscript{25} region with approximately 24% of female employees out of which around 13% hold managerial positions.

Equal Opportunity Commissions have been established in 44 municipalities, while 36 replied that they have not established the EOC. The urban/rural distribution is 28 Commissions in urban municipalities and 16 in rural. When asked why they have not established an EOC, the most frequent answer is that is not one of the current priorities.

Overall, only 25 municipalities have appointed Equality Opportunity Coordinators (EOCs), out of which 17 are urban. The most frequent reason given is that the post of the Coordinator is not in the job classification (29 answers). This is predominately true in rural municipalities, 17 of which stated that the post is not in the job classification.

7.3. Conclusions and Recommendations

Women have a significant presence in administrative positions, particularly in urban municipalities. However, when this is compared with the overall percentage of female councilors (22.4%), it is clear that women are more present in executive and administrative positions in municipalities than at the decision making level.

Approximately half of the municipalities have established an Equal Opportunity Commission. There is a low number of EOCs established in rural municipalities, where the opinion prevails that it is not one of the current priorities.

There is a lack of knowledge on the Law of Equal Opportunities\textsuperscript{26} and as a consequence only 25 municipalities have appointed Equal Opportunity Coordinators. The perception of the majority of municipalities is that the post should be in the job classification and not necessarily an appointed position. The lack of knowledge is especially evident in the rural municipalities. This should be addressed by awareness raising on the Law on Equal Opportunities, especially in the rural areas.

Gender mainstreaming trainings should be encouraged, especially for the female councilors, represented with only 22.4%, as it has a direct effect on the decision making at the local level.

The actual functioning of the EOCs should be explored so as to assess the effectiveness of their work in terms of gender mainstreaming and to use some of the best practices throughout the country.

Trainings and pre-qualification programs for women working in the municipal administration should be initiated in order to enable them to apply for management

\textsuperscript{24} Bitola, Demir Hisar, Dolneni, Krivogastani, Krusevo, Mogila, Novaci, Prilep, Resen

\textsuperscript{25} Bogovinje, Brvenica, Gostivar, Jegunovce, Mavrovo Rustuse, Terace, Tetovo, Vrapciste, Zelino

\textsuperscript{26} The law does not require hiring a new person for the post of Equal Opportunities Coordinator.
positions in order to achieve gender equality at all levels of governance, policy making, execution and administration.

8. Information, Cooperation, Communication

8.1. Background and Legal Framework

In the process of decentralization, municipalities are ultimately the key stakeholders, and it is their vision and capacity which will determine future developments in local governance. However, at this stage, the central government continues to play a significant role as chief policy maker and coordinator of the process, by involving and supporting the local level. Coordination between the central and local levels is intrinsic to the decentralization process. Also of importance is the Association of the Units of Local Self-government (ZELS), as the advocate of the municipalities and catalyst in the communication between central and local government, as well as service provider to the municipalities.

The Law on Local Self-government of 2002 reflects the relevance of the issues of cooperation and communication between the different tiers of government27.

In practice, besides the informal communication, the government and ZELS have signed a Memorandum of Cooperation. Additionally, the municipalities through ZELS are represented in the Decentralization Working Group of the Government.

8.2. Findings of the OSCE PARD 2006 Survey

The emphasis in this section of the survey was on determining how the municipalities see the quality of communication with the central government and ZELS and how they see the role of ZELS in perspective.

In terms of the satisfaction of the municipalities with advice given per request by the relevant ministries, 50 municipalities declared that they are satisfied, 24 that they are not satisfied and 5 did not reply. The majority of those expressing a negative opinion were led by mayors of the coalition in opposition at the time.

Regarding the satisfaction with the representation of their interest by ZELS, 36 stated that they are satisfied, 35 that they are partially satisfied, while 4 stated that they are not satisfied. The political background of the political leadership in the municipalities within the different categories varies. In general, the satisfaction of the DUI mayors with the work of ZELS is slightly higher than in the national average.

When municipalities were asked how they see the role of ZELS in service provision to municipalities, they offered a wide range of ideas and requests. The extensive list referred to individual, technical service and advice, as well as lobbying and advocating as a major policy and political challenge. Municipalities indicated that

27 Articles 77, 78, 79, and 80. The Law clearly indicates the issues relevant for consultation and cooperation, describes possible formal arrangements of cooperation between the two tiers, and outlines the status and role of associations of municipalities.
ZELS should play a role in communicating the needs and protecting the interests of the local level.

8.3. Conclusions and Recommendations

It is evident that in terms of the view on the relationships and communication between the central and the local government, the political background of the local leadership still plays a relevant role in expression of a position on the quality of communication and service provision from the central to the local government. In this context it is important to work on establishment of stable institutional communication between the two tiers, where the technical and expert categories would enable communication and service provision without big influence of the political factor.

As far as ZELS is concerned, one encouraging indication is that most municipalities view such an association as a forum for articulating the joint interests of all municipalities and are interested in promoting joint local interests regardless of political and other differences. However, the fact that almost half are not fully satisfied with what ZELS offers, combined with the wide range of suggestions for services that ZELS could provide, clearly indicates that this organization still requires a great deal of capacity building, especially in the establishment of solid pillars for political advocacy and lobbying on the one hand, and service provision and ad hoc assistance on the other. Furthermore, taking into consideration the answers related to communication with the ministries, it can be asserted that ZELS could and should take a proactive role as a buffer and facilitator to reduce objective and subjective anomalies. However, improved communication tools between central and local level, for instance a central hotline, would be welcomed.  

9. Conclusions

With the passing of one year from the start of decentralization there comes an opportunity to look back on the experiences so far in the decentralization process. Through the assessment of drawbacks and successes it is possible to determine the best path for moving forward as municipalities take on new responsibilities and work toward efficiency and transparency.

The general view held by local leaders is that the decentralization process has been proceeding smoothly and with significant successes. The challenges encountered are to be expected considering the complexities of the process. At this point, it is imperative that the central government and municipalities take the initiative to develop systems for self-monitoring and performance measurement. This can provide valuable insight on the difficulties and enable stakeholders to direct activities and develop policies in the manner most appropriate and beneficial.

As one of the core elements of local autonomy, urban planning has received a great deal of attention during the transfer of competencies. Despite difficulties encountered

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28 As the Ministry of Local Self-Government is in the process of establishing with the support of OSCE.
in the first year of decentralization, results indicate that municipalities are moving in the right direction for efficient provision of services to citizens, in part due to substantial capacity building activities for municipal staff. However, municipalities have been slow in the recruitment of staff, particularly municipal inspectors, a pattern which must change in the coming period. Positive trends in provision of services can be supported and enhanced through efforts for information-spreading among citizens, who often do not fully understand urban planning procedures.

With many new responsibilities in the field of education, municipalities have encountered a variety of difficulties in implementing this important competency. A significant opportunity is provided in the form of inter-municipal cooperation (IMC); however, municipalities have so far shown little awareness of the potential therein, particularly concerning education inspection, which municipalities have not given priority to. Needs assessment on IMC could clarify the specific areas in which inter-municipal cooperation would be most beneficial and encourage municipalities to consider IMC. While school boards are functioning and meet regularly, management skills and initiative should be increased through capacity building. Additionally, it remains unclear the extent to which parents participate in school board work. Research on school boards and parents’ councils is needed to determine actual functioning, and parents’ councils should become more pro-active. Finally, improved dialogue among all stakeholders is essential to education decentralization.

As municipalities take over new competencies, they face challenges related to lack of resources and capacity which could be more easily overcome through establishment of inter-municipal cooperation (IMC). While municipalities indicated support for the idea of IMC, they have very unclear perceptions of its forms and possibilities. At this point in time, much of the IMC initiated in municipalities is of an informal nature. Another challenge is the often referred to lack of political will. Municipalities require education on the elements and forms of IMC, as well as increased awareness of its potential. One tool for accomplishing this is cost-benefit analyses which would reveal the overall benefits for municipalities in using concrete forms of cooperation. Those municipalities which have already engaged in successful inter-municipal cooperation provide valuable models.

Neighbourhood self-government units (NSGUs) have been shown to exist and function in municipalities as a means of communicating with citizens. As the most localized form of self-government, NSGUs form direct contact with citizens and gain a great deal of trust within the local community, also maintaining regular contact with mayors and municipal councils to share citizen input. However, it is important that NSGUs also play an active role in the decision-making process, which has not been the case to date. Capacity building activities for developing management skills could serve to transform NSGUs into active bodies participating in local decision-making.

While all municipalities required by law to establish Committees for Inter-Community Relations (CICR) have fulfilled this obligation, the actual functioning of the Committees is unclear, as is the means of regulation of CICRs in municipal statutes. Assessment of the level of functioning is necessary to determine future directions. On a positive note, CICRs have been established in several municipalities not obliged by law. In the future, awareness raising among local leadership could play an important role in increasing the visibility and capacity of the Committees.
Concerning gender equality in municipalities, due to the lack of knowledge on the Law of Equal Opportunities, the majority of municipalities have not fulfilled their legal obligation to appoint Equal Opportunity Coordinators, and only half have established Equal Opportunity Commissions (EOCs). While women have a significant presence in municipal administration, they are less represented at the decision-making level. There is great need for increased awareness on the Law on Equal Opportunities, particularly in rural areas, as well as training for female councillors and women in municipal administration. Additionally, the actual functioning of the EOCs should be explored to determine best practices and assess effectiveness.

In rating satisfaction with guidance from the central government, responses from municipalities seemed often influenced by the political background of the local leadership. This shows that communication between the two tiers must be further developed into stable institutional communication and service provision free from political influence. Municipalities generally indicated satisfaction with their representation by ZELS, and view ZELS as an association which can promote local interests and consider the joint interests of all municipalities. However, many services were listed that municipalities would like to see ZELS provide, which indicates that ZELS requires improvement in both service provision and advocacy capacity.
II. MUNICIPAL FINANCIAL MANAGEMENT
Introduction

On 1 July 2005, when the process of decentralization officially began, a new municipal financial management system was introduced. The municipalities were expected to implement most of the new practices prescribed by the decentralization laws in the fiscal sphere. These laws were drafted with the purpose of introducing new financial management standards at the local level, thus adhering to the European and world practice in the local government area.

The fiscal decentralization as set forth in the Law on Financing of the Units of Local Self-Government shall be implemented in phases and implies the introduction of a transparent mechanism for financing the municipalities, based on objective criteria and measures.

The phased approach to fiscal decentralization according to the law is based on the following principles:

• Gradual devolution of responsibilities in line with the capacity of the municipalities to undertake their new responsibilities;
• Equitable and adequate provision of funds for the efficient and continual execution of the transferred competencies; and
• Reduction of the funds in the central budget and the funds for the competencies which will be transferred to the municipalities.

One of the first things that the financial departments in the municipalities undertook was the adoption of the new budget rebalances for 2005, which corresponded to the new requirements (increased number of competencies, different classification of the revenues, new presentation of the expenditures, etc.). The latter has allowed for easier and more detailed monitoring of the fiscal performance of the units of local self-government, as well improved control at the local level.

The initiation of this study coincided with the one year anniversary of the beginning of fiscal decentralization. It was launched with the purpose of analyzing the status of the implementation of fiscal decentralization, thus outlining the key achievements and problems in the fiscal area. With that in mind, the analysis focuses on the following issues related to law enforcement, efficiency and participatory planning in all the units of local self-government, including the City of Skopje. The situation has been analyzed through the following issues:

- Adoption and following of the budget calendar;
- Timely adoption of the budget;
- The level of budget execution in the units of local self-government;
- Appointment of the responsible accountant and internal auditor;
- Participation of citizens in the budgeting process;
- Main problems in administration of local tax and fees;
- Main areas of assistance for the next steps of the fiscal decentralization.
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1. Budget Process

1.1. Budgeting Process and Budget Calendar

One important condition for a proper budgeting process in the municipalities is the timely completion of all activities throughout the fiscal year, January to December. The sequence of activities is regulated by the budget calendar, which determines the time-frames within which:

- The mayor shall submit the main directions for preparation of financial plans to the municipal budget users;
- The municipal budget users shall submit their financial plans to the mayor; and
- The mayor shall submit the proposed budget to the municipal council.

The budget calendar functions as a new tool for improved planning of the budget preparation activities as well as for setting the obligatory details and dates for the entire budget process. This straightforward instrument requires that the financial departments in the municipality develop a plan of all budget activities throughout the year. The calendar also defines the role and participation, i.e. input, needed from the interested parties/stakeholders such as the budget users, central government ministries and funds, citizens, local government authorities, and so on. In this way the calendar provides for more transparent work by the municipality.

The budget calendar should be adopted by the municipal council as an official document. The adoption and consistent following of the calendar would contribute to the timely preparation and adoption of the municipal budgets. In this way, the chance for encountering a situation of financial distress in the municipalities would be limited.

How many municipalities have adopted the budget calendar?

Municipalities were asked whether they have adopted a budget calendar and whether the calendar serves its purpose of facilitating the work of the financial staff. A total of 58% of the municipalities replied that they have adopted the budget calendar and 41% gave a negative response. Graphically, the answers can be seen in the following chart:
Why have some municipalities not adopted the Budget Calendar?

The municipalities that have not adopted a budget calendar offered several reasons for this situation. The majority indicated that the adoption of a budget calendar was not necessary, while 8 out of 34 stated that they were not familiar with the adoption procedure. 12 out of 34 gave other reasons that can be summarized in such a way that several things could be concluded.

A significant number of municipalities have prepared a budget calendar which has not been formally adopted by their council. These municipalities indicated they were nevertheless following the deadlines in the budget calendar. The dominant reason municipalities are reluctant to officially present the calendar to the council is that councillors would demand strict execution of the planned dates and deadlines, which most often could not be fulfilled. This is due to the fact that most deadlines depend on the Ministry of Finance, whose delays influence the flow of activities in each unit of local self-government. Finance officers would be in an uncomfortable position before the council, justifying delays which are not their fault.

1.2. Conclusion

The survey shows that many of the municipalities that did not officially present the budget calendar before the municipal council have adopted an unofficial calendar and follow it. Primarily smaller municipalities with a population below 60,000 failed to adopt the calendar. However, municipalities should not refrain from adopting the budget calendar as it is recognized as a useful tool to help them plan their activities. Those that have adopted it have experienced only positive effects.

Closely connected to the question of the existence of the budget calendar was the question of whether municipalities that have the calendar officially adopted actually use it and follow it properly. A total of 59% replied that they follow the activities as prescribed in the calendar, whereas 25% said that the budget calendar was not used in the execution of their daily duties. Lack of capacity (lack of time, heavy work load, etc.) to pay attention to the deadlines set in the calendar was stated as the main reason for this situation. The answers of the municipalities can be presented as following.
It is interesting to note that analysis of the political affiliation of the mayor, ethnic background, size of the municipality, urban and rural character shows that the number or percentage of municipalities that HAVE and DO NOT HAVE an adopted budget calendar as well as those that FOLLOW or DO NOT FOLLOW the budget calendar is almost equally distributed. Therefore, it can be concluded that there is no recognizable pattern among the answers of different types of municipalities (rural vs. urban, small vs. large, ethnic balance, etc.)

At the same time, answers show that there is still a lack of knowledge on the usefulness of the budget calendar. Having in mind that the budget calendar is a tool for the easier planning of activities in the budget process, the calendar does not exist for its own sake, but rather to make the work of the municipal officials easier.

2. Transparency – Citizen Participation

The process of budgeting should be transparent and participatory. In order to achieve this, units of local self-government should involve the citizens in each step of the process, starting from the identification of local priorities and problems all the way through the adoption of the budget and its execution. The municipal council works in sessions, and the sessions should be public. The council has a right to exclude the public from a session, which could be decided by a two-thirds-majority vote of the total number of council members, only if there are justifiable reasons determined by the statute. However, public presence shall not be excluded from debates on the municipal budget, annual accounts to the budget, and urban plans.

The Law on Financing of Units of Local Self Government prescribes several obligations of the municipality in order to secure transparent work of the municipality and include citizens. This is necessary for building positive relations, increasing the trust of the citizens in the local government and creating an atmosphere for citizens to decide on local priorities. When citizens are included in the process of planning life at
the local level, they achieve ownership over reached decisions, and will be therefore more willing to fulfil their financial obligations by paying taxes and fees.

2.1. Citizen Gatherings for Setting Local Priorities and Presentation of the Budget Proposal

The needs of citizens can be assessed through various forms of citizen gatherings. In the survey, the municipalities were asked if they organized public hearings for the purpose of analyzing the needs and priorities of the citizens during the process of preparing the budget proposal. The results confirmed that around 2/3 of the units of local self-government consulted with citizens in the process of setting local priorities. A total of 36% of the municipalities replied that citizens have not been in any way involved in the preparation of the budget proposal.

The municipalities that have held public hearings on the preparation of the budget have organized it either in the municipal building or in the seat of the neighbourhood self-government units. It is worth mentioning that some municipalities succeeded in organizing as many as 10 – 32 citizen gatherings for the purpose of setting local priorities jointly. This positive practice should be promoted in all units of local self-government. On average, the municipalities organized 2 – 3 meetings with their citizens. Additional forms of citizen participation included presentations before NGOs and interested groups, web sites, and others. It is not excluded that municipalities have used more than one method at the same time.

Why do some municipalities not consult with their citizens?

According to the answers in the survey, the main reasons for not involving citizens while setting priorities for the following fiscal year can be summarized as following:

1. Short deadline for budget adoption. The budget was rebalanced in the mid year (01 July 2005, and then 31 December 2005 for the next years budget), and in the meantime, municipalities were dealing with the transfer of competencies and employees;

2. Lack of money;
3. Lack of staff to organize the public hearings.

If these answers are viewed together with the question of whether the units of the local self-government follow the budget calendar, it can be observed that if the calendar for planning activities had been properly used, there could have been enough time to organize citizen gatherings and set local priorities in a participatory manner.

2.2 Presentation of the Draft Budget in Front of the Public

Once the mayor in cooperation with the financial staff of the municipality has prepared a draft budget, it should be presented before the public in the municipality in order to inform the citizens and fine-tune the budget before it is submitted to the council for approval. This establishes an element of transparency in the work.

The answers to this question are similar to those to the previous one. Around 60% of the municipalities confirmed that they have organized the presentation of the draft budget before their citizens, and 39% replied negatively. The municipalities that replied affirmatively are the same municipalities that organized public hearings on setting the local priorities before publicly presenting the budget proposal. The main reasons stated for not organizing the presentation was the assumed lack of interest by citizens, lack of experience on the side of the municipality for organizing these kinds of events or other reasons (lack of knowledge regarding the necessity and benefits).

2.3 Presentation of the Adopted Budget in Front of the Public

Municipalities expressed greater interest in presenting the adopted budget or the annual account to the public. This is important from the perspective of increasing accountability at the local level. Around 82% of respondents said that they had organized this kind of presentation. The methods used are presented below:

<table>
<thead>
<tr>
<th>Method</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determined office hours for citizens</td>
<td>19</td>
</tr>
<tr>
<td>Through citizen information centre</td>
<td>15</td>
</tr>
<tr>
<td>Presentation at citizens gatherings</td>
<td>10</td>
</tr>
<tr>
<td>Local media (TV, newspapers and other media)</td>
<td>45</td>
</tr>
<tr>
<td>Published in the official gazette of the municipality</td>
<td>14</td>
</tr>
<tr>
<td>Published on the web site</td>
<td>6</td>
</tr>
</tbody>
</table>

Results show that the most common approach is to use local media for presentation of the budget. This requires good relations with the local media. It is notable that this approach depends mostly on the enthusiasm of the local media and does not require increased efforts or expenses on the side of the municipality. Most of the local media cover the council session either in live transmission or by presenting coverage of the discussion afterwards, detailing the main points. Citizen Information Centers are

30 Law on Local Self-Government, Article 8: “The organs of the municipality, the council committees, and public agencies established by the municipality shall be obliged to inform the citizens about their work, as well as about the plans and programs which are of importance for the development of the municipality without any compensation, in a way determined by the statute”
viewed as an additional tool. A smaller number of municipalities presented their budgets at citizen gatherings.

2.4. Conclusion

In order to increase the transparency and accountability in the work of municipal authorities, municipalities should try to inform their citizens of the plans and programs of local importance. The survey showed that very few municipalities use web sites to present their working plans and especially budgets, or show initiatives to present any kind of report to the citizens in written form. Efforts by local officials to present to the citizens how the money has been spent can contribute to transparency and improved relations between citizens and units of local self-government.

3. Timely Budget Adoption

Timely adoption of the budget is an important prerequisite for the fiscal stability of the municipality. The budget for the following year must be adopted by the municipal council by December 31 of the current year at the latest. If the municipality fails to adopt the budget by December 31, the council is obliged to reach a decision on temporary financing and a financial plan for its execution for the period January 1 to March 31 of the current year.

Only 7 out of 85 units of local self-government failed to adopt the municipal budget by 31 December 2005 and the main reasons were the following:

- The budget proposal was not produced on time (three municipalities);
- Members of the municipal council did not agree on the budget adoption (three municipalities);
- The council meeting was not held on the appropriate date (one municipality).

3.1. Usage of the Software for Preparation of Local Budgets

In response to the urgent need for adoption of budget rebalances at the local level by 30 June 2005, OSCE co-operated with the Ministry of Finance and the Association of Finance Officers to develop software (budget template) encompassing all aspects of municipal budgeting. After endorsing the software, the Ministry of Finance distributed it as part of the Budget Rebalance Circular letter to all municipalities. By the end of 2005, the budget template was extended with additional budget positions to meet the needs for preparation of the 2006 budget.

The OSCE sponsored budget template provided municipalities with a tool for easier and faster preparation of the budget. At the same time, this project enabled the Ministry of Finance to harmonize the municipal budgeting process in time for the

31 There are cases where certain attempts were made but the information presented was restrictive and limited to self-marketing by the mayor, presenting only the completed projects, but never the total income of the municipality and how it was spent. This kind of presentation is possible with the format of the new budget, where the expenditures are automatically presented by functional classification, programmatic classification and classification by budget items.
2005 budget rebalance, increasing effectiveness and improving budget management and planning and the flow of information between the central and local levels.

Only a small number of municipalities failed to adopt the budget on time.32 These delays have not caused any disturbances in the decentralization process and can be viewed as possible and normal occurrences.

Almost all municipalities used the software for preparation of the 2006 budget. Only one municipality (Novaci) did not use it because of technical problems, i.e. the old computer software could not run the budget program. The average rating of the quality and usefulness of the software was 4.50 (on a scale of 1 – 5, with 5 as “most useful”), showing the satisfaction of the users (finance officers) with the software. Additionally, approximately 90% of the answers belong to the two highest marks (4 and 5), which shows that the software was very useful for the municipalities.

3.2. Usage of the Software for Budget Execution and Financial Reporting

In the period April-June 2006 OSCE sponsored a project that addressed budget execution and financial reporting as the most critical issues of fiscal decentralization. The software created was based on the budget template produced in 2005, which was upgraded to create an integrated and comprehensive program incorporating all aspects of municipal budgeting and reporting. In this regard, local financial officers were asked their opinion on the usefulness of the budget execution and reporting software. A total of 63 municipalities (77% of the respondents) replied that they had already used the new software. The reason for a lower usage rate is the late period of software distribution (May 2006). Regarding the usefulness, 76% of the answers belong to the two highest categories (4 and 5). The distribution of answers is presented below.

32 Municipalities that did not adopt the budget by 31 December 2005 were the following: Zelino, Vevcani, Prilep, Plasnic, Makedonska Kamenica, Makedonski Brod, Kicevo and Aerodrom.
3.3. Budget Execution

Budget execution is the phase when the funds foreseen by the budget are used for realization of the annual program of the municipality. It is possible for a well formulated budget to be badly implemented. It is very important to pay special attention to good budget formulation during the phase of budget preparation. The budget execution process includes planning and reporting about expenses, transfer of funds among budget items, and control, as well as monitoring the expenditures and realization of services and program goals. Control over expenses, management of cash flows, and auditing are tools which will help the responsible people in the municipality with the management of current activities in terms of budget implementation.

The municipality must control its own expenditures for the following reasons: collected revenues can be lower than foreseen and the expenditures can exceed the revenues. Quarterly allocation of municipal expenses can enable the spending of funds as foreseen, more precise planning, and the use of quarterly projections in the phases of local budget planning. Because of the importance of consistent budget execution for the financial well-being of the units of local self-government, an analysis of the level of budget execution was conducted. Budget execution varies from the lowest, 2% in Makedonski Brod and 8% in Aerodrom, up to the highest, 60% in Butel and Ilinden. If these answers are compared with the answers on the timely adoption of the budget, it can be concluded that the municipalities with the lowest budget execution level are those that failed to adopt the budgets on time (by 31 December 2006).

The average percent of budget execution up to the end of the first half of 2006 amounted to 20% – 40%. However, in practice, almost 50% of the budget is executed.
in the last quarter of the budget year. This is due to a certain extent to the fact that only the revenues from value added tax (VAT) and personal income tax (PIT) are transferred to the municipalities on a monthly basis. Other revenues, such as local taxes, fees, charges, and grants from the line ministries and funds are transferred by the end of the year.

4. Appointment of Internal Auditor and Responsible Accountant

Toward the purpose of strengthening internal control, the mayor is obliged to appoint one responsible accountant. In addition, the municipality shall establish internal auditing policies and procedures in accordance with international standards for professional performance of internal auditing accepted by the Ministry of Finance. Internal auditors shall be appointed by the municipal council upon a proposal by the mayor.

4.1. What is the Function of the Internal Auditor and the Responsible Accountant?

Both functions have been introduced for the purpose of strengthening law enforcement in the fiscal area.

The responsible accountant should keep the business books and accounting documents, process data and prepare annual reports on the budget. He/ she takes care that all payments from the budget are in accordance with the Law on Accounting for the Budget and Budget Users, Law on Budgets and the Decision on Execution of the Municipal Budget. There could be more employees in the financial department of the municipalities, but only one can be the responsible accountant. It is not necessary that the responsible accountant be the Head of the Department on Financing and Budget.

The internal auditor is appointed by the council, upon a proposal by the mayor. The municipality should establish a system and procedures for internal audit in compliance with the international standards. The internal auditor should be independent in his/her work and report directly to the mayor and the council. Internal auditing is an independent, objective and ongoing appraisal and consulting activity designed to improve the operations in the municipal administration. It helps municipalities accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Because of the significance of having a responsible accountant and internal auditor in the municipal administration, the issue has been analyzed in the survey. The answers of the municipalities can be presented as following:
The majority of municipalities (73%) replied that an internal auditor had not been appointed. Only 26% of the municipalities have internal auditors. The situation is even less satisfactory when these answers are viewed with those to the question of how many of those with internal auditors have produced a rulebook on internal audit. Only ten municipalities indicated that they possess a rulebook. This leads to the conclusion that there is a lack of awareness of the need for and function of an internal auditor. The lack of knowledge and skills on internal auditing could be overcome with additional technical assistance and training to the local civil servants. Similarly, only 33% of the municipalities have appointed a responsible accountant. The majority still do not know the function. Answers are presented in the chart below.
4.2. Conclusion

Most of the mayors are not aware that the appointment of an internal auditor and an authorized accountant is a legal obligation prescribed in the Law on Financing Units of Local Self-Government and does not depend on their personal good will. In many cases mayors believe that they need to employ a new person for the position of authorized accountant and justify not having one by referring to financial problems. This perception stems from the lack of knowledge on the legal provisions.

In general, mayors believe that the Head of the Department on Financing and Budget should automatically be considered responsible accountant – which is not legally correct. In order for the responsible accountant to be considered appointed, there should be an official decision by the mayor. The reason that many municipalities still do not have these positions is that the appointing procedure is not clear to the mayors.

The appointment of an internal auditor and responsible accountant would lead towards improved financial management in the municipality.

5. Finance Department - Organizational Setup

The existence of financial and tax administration departments in the units of local self-government is a prerequisite prescribed by the government for entering into the second phase of the decentralization process. 33

More specifically, the second phase will start if at least 90% of the total number of municipalities, covering at least 90% of the population, have within the municipal administration at least 2 employees who are qualified in financial management, budget preparation, budget execution, accounting and financial reports, and at least 3 employees who are qualified in tax identification and collection.

The usual organizational set up in the municipalities is to have a financial sector. Despite the 72% of municipalities that have a financial sector, around 23% of municipalities have an independent department for finance consisting of sectors (sometimes together with the sector for local economic development). Results are depicted in the chart below:

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33 The laws also give the possibility of organizing the financial and tax administration departments jointly with a neighbouring municipality/-ies. This could be done through different forms of inter-municipal cooperation.
It can be seen from the chart that only 5% of municipalities have established a form of inter-municipal cooperation for financial management services. Taking into account the advantages of inter-municipal cooperation, it can be stressed that there is much more space for cooperation and sharing of costs in this field. In order to achieve this, and in the absence of a detailed regulation on establishing different forms of inter-municipal cooperation, assistance and training should be delivered to municipalities to introduce this concept and explain how they could benefit from it.

6. Local Tax Administration

With the fiscal decentralization legislative package coming into force, municipalities obtained the right to independently dispose of their own sources of revenues. In accordance with the economic policy of the state, municipalities are financed from own (local taxes, charges and fees determined by law) and other sources of financing. In order to increase the level of revenue collection, the municipalities have the right to manage their own fiscal policies, i.e. to define the tax rate and the rates for local charges and fees.

By the beginning of the decentralization process, municipalities had incorporated a number of the employees from the regional offices of the Ministry of Finance and the Public Revenues Office. However, the archive and documentation (for example, the database of the taxpayers for the property tax) were not transferred to the municipalities on time or in a usable form (the information in the database has been transferred after a tremendous delay and without the software to read the data). Consequently, this information could not be used by the units of local self-government to prepare the tax bills for 2006 by the legal deadline, March 31.

In June 2005 the government adopted the methodology for assessing the market value of the real estate. This methodology is of utmost significance for the units of local
self-government on the way to greater fiscal independence, as it gives a basis for tax income generation based on a new, realistic taxable base.

In the first year within the decentralized competencies, the administration of local taxes and fees has been designated as one of the most problematic areas in the functioning of the units of local self-government. In order to ensure correct understanding of the procedures for administering local taxes, it is crucial to provide further assistance to the municipal finance officers in tax administration departments.

The above-mentioned can also be supported by the answers of the tax administration officers in the units of local self-government. A total of 92% of municipalities indicated that they have experienced difficulties in the tax administration area. The core of these problems lies in solid reasons related to the central government, which did not manage to transfer the database of tax payers by the deadline provided in the Law on Financing (start of the decentralization process – 1 July 2005). Another 60% of the municipalities complained that the biggest problem was the lack of suitable computer equipment, and 33% encountered problems with the proper implementation of the methodology for assessing the market value of the real estate. Answers are depicted in the charts below:
The answers of the finance officers give a clear indication of where the assistance in the fiscal field should be focused in the coming period. The most urgent areas of assistance are graphically presented in the chart below.

The survey showed that the most serious problem for the municipalities in the fiscal area was the inexistence of the database of taxpayers. With the help of donors in the
country, particularly the United States Agency for International Development / Make Decentralization Work project, a new tax administration and accounting software is currently being installed in 39 municipalities. Part of the software was developed to establish a basis for the creation of a new, updated database of taxpayers. With installation, conditions will be created for overcoming some of the biggest problems identified by municipalities (production of tax bills). Also valuable was the assistance provided by the European Agency for Reconstruction Office in Skopje encompassing several aspects of fiscal decentralization delivered through the project “Technical Assistance to the Ministry of Finance”. Another important element for achieving an increased level of collection of fees and taxes is the functioning of the institutions for compulsory payments. Municipalities in the period to come could either strengthen their own inspection sectors or engage in inter-municipal cooperation initiatives and use services together with other units of local self-government.

6.1. Conclusion

A large number of municipalities faced problems in the administration of local fees and taxes as principal sources of own revenues. Most of these problems, especially the timely distribution of tax bills as a basis for collection of own revenues, could have been avoided with the appropriate and timely support from the Ministry of Finance and Public Revenues Office. Problems appeared slightly less severe in municipalities in which the regional branches of the Ministry of Finance and Public Revenues Office were located, as the undertaken employees did not have to change offices physically and could continue using the existing database of taxpayers (such as the municipalities of Strumica, Kriva Palanka, Kumanovo, etc.) However, the existing database needs thorough updating in order to reflect the real situation.

7. Conclusions and Recommendations in the Implementation of the Fiscal Decentralization

The survey on the municipal financial management provides indicators on how the process of fiscal decentralization has been implemented one year after its launch in July 2006. Crucial elements for the success of the process have been analyzed such as the existence of a participatory budgeting approach, timely adoption and proper execution of the municipal budgets, the practice for following the budget calendar, the system of internal control and auditing and the administration of local taxes and fees.

One general observation and conclusion is that the situation in the financial area does not show differences in answers depending on the size of the municipalities, political affiliation of the mayors, ethnic structure of the population, or urban/rural character. The answers are either uniform, such as problems faced in the administration of local taxes and fees, or the diversity does not apply to one type of municipality or another (urban/rural, ethnicity, political affiliation, etc.) This suggests that the situation described is general and valid for all the units of local self-government countrywide.

34 In cases when the municipality cannot collect the receivables on the basis of citizens’ tax/fee liabilities, compulsory payment is a way to collect these revenues.
An important part of the process of decentralization is the transparency and accountability of the local self-government. In order to achieve this, local authorities should encourage increased citizen participation in the work of the municipality. Although the concept of participatory budgeting is still young in the country, there are some good examples that show the positive developments in this regard. This is supported by the fact that some municipalities succeeded in organizing as many as 30 citizen gatherings for the purpose of joint setting of the local priorities in the municipal budget. On the other hand, the vast majority did not include their citizens in the preparation of the local financial plans, which leads to the conclusion that the concept is still not adequately understood and implemented. Initiatives to inform the citizens on how the municipality spends its financial means would be an important step towards transparency. So far, presentations have focused only on presenting the completed projects, instead of providing the public with full information on the amount of revenues collected and programs on which these revenues have been spent. The presentation of the structure of local revenues and expenditures by programs can easily be done with the format of the new budget, which gives this possibility automatically. Considering the above-mentioned conclusions, the focus in the forthcoming period should be on strengthening participatory budgeting, transparency and accountability as key postulates of the local democracy through promotion of the concept among local authorities, business and NGO sector in the units of local self-government.

The survey also focused on the efficiency of the local administration in the financial departments, analyzed through questions on the adoption and following of the budget calendar. Municipalities should be encouraged to adopt and use the budget calendar in the execution of their activities throughout the budget year, as it is a tool to foster better planning and performance of the financial and budget related activities. Those units of local self-government that have adopted a budget calendar experienced only positive effects and this could have positive influence on all other municipalities.

Another important advantage that decentralization should bring about is improved law enforcement. For the purpose of strengthening the internal control and prevention of fraud, the Law on Financing Units of the Local Self-Government prescribes the obligation that the functions of internal auditor and accountant should be present in every local self-government unit. The survey showed that a great number of mayors were not aware of this provision as obligatory. In many cases the municipalities state that the primary reason for not having internal auditor and responsible accountant is the lack of money. There is a faulty perception that a new person should be employed for each of the positions, which is not the case. What is important is to apply the legally prescribed provisions for appointment of a responsible accountant and internal auditors. Once in place, there should be a proper job description for each position, which is necessary for achieving the desired benefits.

If one area must be selected as the most problematic throughout the first year of functioning of the fiscal decentralization, it is the administration of local taxes and fees. Taking into account that the collection of own revenues is regarded as the cornerstone for the normal functioning of the units of local self-government, it can be concluded that the provision of necessary assistance in this area appears crucial for the success of decentralization in its next steps. In addition, the units of local self-government should consider cooperation and sharing of costs in this field as a
significant opportunity. In order to do that, cost benefit analyses should be done to justify the existence of a separate sector or department in a municipality and based on the results, to turn towards the most cost-effective way of organizing it. As stated by respondents in the survey, assistance and training on establishment of different forms of inter-municipal cooperation would be highly welcomed for further promotion of the concept and benefits the municipalities could have from it.

In the period to come, OSCE and other representatives of the International Community in the country should permanently follow the developments in the fiscal area and shape programs of assistance in a form to best meet the needs of the local government. Only with consistent implementation of the legal provisions in the fiscal area accompanied by respect for the basic good governance principles of transparency, efficiency and accountability, responsiveness, forward vision and rule of law will decentralization meet the established goals.