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The Efficacy of Decentralization in the Republic of Macedonia

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Abstract

Decentralization has been an integral part of the political reform process in former socialist countries throughout Central and Eastern Europe. The rationale behind decentralizing government services and responsibilities to the local units of government is that they are closer to the clientele they serve and, therefore, can better understand their needs to respond more efficiently and effectively. Since gaining independence from Yugoslavia in 1991, the Republic of Macedonia has instituted a number of legislative changes that transferred a significant number of competencies from the central government to the municipalities. This study examines the decentralization process in the Republic of Macedonia and assesses whether the decentralization process has created local units of government that are more efficient, effective, and accountable. The study looks at the interaction between the central government and the municipalities to investigate the degree to which the proper competencies have or have not been transferred to the lower level of government.

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Introduction to the Research

The end of communist regimes in Eastern Europe around 1990 was a monumental event in world history that brought instantaneous changes to the world order and ended one of the largest social and political experiments in human history. Because of the orientation of the political, societal, and economic institutions with Marxist-Leninist communism, these states had missed out on the development that the West had experienced. Since the end of this era, East European countries have had to change in order to fit into the world and its economy in a very short time. The pressure was brought to bear on the citizens and political institutions of these countries, which had to adapt to a notion of democracy, market economy structures, and a societal organization that is diametrically opposed to the old order of their governments and societies (Vujacic 2002, 36). Democratization and privatization have been two major themes in the transition and development of these countries from socialist states to modern states. Decentralization and the development and reform of local governments are fundamental elements in the transition of East European countries to such a democratic and capitalistic society. In policy terms, decentralization means citizens are directly able through local elections and other forms of public participation to influence decisions that directly affect their lives and their environment. In management terms, this means that for sectors formerly managed at the central level, decision taking is transferred to the local level together with adequate resources - financial, human, and technical (Channel Research 2004, 2). Further cementing the development of meaningful local democratic institutions is the demand that governments be open and transparent, and that they also be accountable to the citizens. Decentralizing power from the central government to the local governments is a key piece of the puzzle in encouraging free and democratic societies in the formerly socialist countries of Central and Eastern Europe.

Decentralization in Macedonia has meant a dramatic transfer of competencies from the central government to the municipalities in the last seventeen years. More often than not, however, this has been manifested in the laws and directives that have mandated various responsibilities and competencies be transferred, but have left the municipalities without the necessary financial authority to effectively execute them. While assigning new responsibilities to the municipalities is a significant, if not symbolic, step towards decentralization, for the system to be effective and efficient the municipalities must also be granted the resources and capacity to handle the new responsibilities.

This study examines the decentralization process in the Republic of Macedonia in the context of the transition of former socialist countries in Central and Eastern Europe. It narrowly investigates how the decentralization process in Macedonia has affected the local units of government, municipalities. The study also looks at the interaction between the central government and the municipalities, and the degree to which the proper competencies have or have not been transferred to the lower level of government.

Chapter 1

Introduction

Introduction

The Republic of Macedonia is a country of approximately two million people situated in the Western Balkans in southeastern Europe. It is a small, landlocked country that shares its borders with Serbia, Bulgaria, Greece, and Albania. Macedonia was one of six Yugoslav republics from 1945 to 1991, when it gained independence from Yugoslavia, which was in the midst of violent secessionist wars in Croatia and Bosnia at that time. Unlike those two republics, Macedonia's independence came peacefully. However, the country faced severe hardship due to the weak economy it inherited and numerous trade embargoes with its neighbors. Macedonia spent the decade after independence struggling to revive its economy and foster sound democratic principles in a relatively short amount of time. The political and economic gains the country achieved were nearly derailed with the Kosovo crisis in 1999, which led to a spillover conflict in Macedonia in 2001 between ethnic Albanian separatists and the Macedonian military. With the assistance of the international community, a broader conflict was averted with the drafting of the Ohrid Framework Agreement in August of 2001. This agreement ended fighting and provided political and institutional solutions to ease the tension between the two groups. Among the changes that resulted from the Ohrid Framework Agreement were numerous political reforms that furthered Macedonia's process of Euro-Atlantic integration. In 2006, Macedonia was awarded for its reform efforts and became an official European Union candidate country.

Macedonia is currently seeking to gain membership into NATO, which is seen as a step to further stabilize this volatile region.

Figure 1.1 Map of the Balkans



Source: Environmental Health perspectives Online, retrieved from www.ehponline.org

Rationale and Need for the Study

As stated above, decentralization has been an integral part of the reform process in former socialist countries throughout Central, Eastern and Southeastern Europe. The position of

decentralization as a key part of political reforms is not merely limited to former socialist countries, but is also a principal approach in revamping governments throughout the developing world and making them more responsible and accountable. Developing countries are far more centralized than more developed ones, and because of the level of underdevelopment of the economy and country, the delivery of public goods and services is extraordinarily low and fails to meet the needs of the citizens. As such, there has been a strong push to decentralize many government services and responsibilities to lower levels of government in order to more adequately address the needs of the people. The basic idea behind decentralization is that local units of government are closer to the clientele they serve, and therefore better understand their needs and are in a position to respond more efficiently and effectively. Nearly all developing countries have experimented or are experimenting with decentralization in one form or another. Decentralization is likely to remain on the agenda of developing and transition countries as they continue to search for the optimal balance of centralized and decentralized powers and responsibilities of government that best fits the political, social, and economic situation of each country, resulting in a process that is ongoing and continually evolving.

Macedonia has been in the transformation process for more than sixteen years. Since the beginning of the decentralization process that started with achieving independence from Yugoslavia in 1991, many steps have been taken that have brought the country closer to its goal of building a more mature and developed democracy. However, that goal has yet to be fully realized. This is particularly important in light of the country's aspiration of becoming a member state of the European Union, with admittance hinging on the development of more effective, responsive, and accountable local government. Therefore, it is imperative that Macedonia take

the necessary steps to complete the decentralization process, but to temper that drive with consideration to ensure that each municipality has the capacity to handle the newly transferred competencies. Rushing the decentralization process and devolving powers to local units of governments that lack the resources and capacity that would enable them to properly manage each new competency can result in a system that is just as ineffective, if not more so, than the previously centralized system of government.

Statement of the Problem

The study explored the following: Have the relevant local government responsibilities been transferred from the central government to the local municipalities and, if so, how effective has this process been in terms of achieving the stated goals to create local governments that are more effective, efficient, and accountable?

Research Questions to be Investigated

To satisfactorily investigate the above research problem, the following questions are necessary to answer:

- What is the legal framework that regulates the transfer of planning responsibilities from the central government to the local municipalities?
- How does the current arrangement differ from the previous one?
- Do the municipalities have the capacity, which is the essential quality and quantity of local officials, knowledge, technology, and revenue, to handle the new responsibilities?
- What is being done to ensure that the municipalities have the capacity to adequately handle the new responsibilities?

- Does resistance exist on the part of central government and ministry officials that will hinder the progress of decentralization?

Chapter 2

History and Background

Macedonia is an interesting case in regard to decentralization. Long before the Republic of Macedonia gained independence from Yugoslavia in 1991, Macedonia, as well as the other five republics, had a considerable amount of autonomy, especially compared to most of the other socialist federations. Decentralization was a part of the style of government long before each gained independence, and was ahead of the international community's efforts to democratize the East European countries in the 1990's (Kolodko 2000, 56). Macedonia has a long tradition of self-administration, and its local communities possess a strong culture of self-help (Channel Research 2004, 3). Relatively speaking, Macedonia had a considerable amount of power devolved to the local governments. Despite a brief period of centralization shortly after independence, Macedonia has been able to make considerable progress in this area as part of its transition to a more democratic and open society.

History of Decentralization in Yugoslavia

In understanding decentralization in Macedonia, it is important to trace the evolution of the governmental organization of the Socialist Federal Republic of Yugoslavia, hereon out referred to as Yugoslavia.

By the early 1990's, Yugoslavia, like the other Eastern European federations, had broken up into numerous republics. There are numerous reasons why this happened, but the following are

considered to be the most important. The ethnic and religious differences that had been quelled for so long evolved into a sense of separate identities and ultimately into multiple nationalisms within Yugoslavia. The difficult economic situation and high unemployment fueled resentment among the ethnic groups, as well as resentment toward the central government. These economic difficulties also led to resentment among the regions, namely between the North (Croatia and Slovenia) and the South (Macedonia, Kosovo, and Montenegro). This was rooted in the fact that resources were being redistributed from the richer republics, Croatia and Slovenia, to the poorer ones, Macedonia and Montenegro. Present at this time was a political stalemate at the federal level that prevented the central government from functioning effectively and eventually led to the dissolution of the federal system (Troger 2001, 331).

Ironically, underlying all these issues was one of the very ideas that was used to bring them together, and that was the right to self-determination. In essence Yugoslavia was a fairly awkward union of several different ethnic groups who were not necessarily united in a common cause other than that of the communist totalitarian project and federalist state that Josip Broz Tito envisioned based on the Soviet model (Vujacic 2002, 37). As a means of pacifying the various groups and ensuring that they were supportive of the state, he allowed the groups to retain their cultural identities and languages. The most significant way in which he maintained their allegiance was by giving them a considerable amount of autonomy and self-governance. Of course the policy-making was ultimately left to Belgrade, but the implementation and administration of policies was left to the individual republics, which then could make limited decisions. In this way, Macedonia had experience with self-governance, which has helped to make the decentralization process a more natural progression.

Yugoslavia's development after the Second World War was marked by successive periods in which central party and government controls were reasserted so as to fulfill perceived social responsibilities, including citizen participation and decentralization of decisions in local communities. This process of change has involved substantial conflict between federal authority, republic and local bodies. Relationships between centralization and decentralization have been complex, adaptive, and conflicting (Dunn 1975, 131).

The Stalinist Phase (1945-1950)

Immediately following the end of WWII, the political and economic policy represented an effort by the League of Communists of Yugoslavia (LCY) to develop the economy based on the methods employed by the Soviet Union after 1929. This model had two fundamental priorities, one that was political and one economic. The political priority was concerned with the integration of political and economic decision-making powers at the highest level of the Communist Party. This was done to enable the federal government to prescribe the overall goals of Yugoslavia's economic planning in general and to develop production targets for each sector of the economy. The economic priority was based on the model Stalin used, which assigned the highest priority to the development of capital goods industries, e.g., iron and steel, building materials, and energy sources (Lang, 1975, 312). This is exactly the model that Yugoslavia implemented in the immediate postwar years.

The first Five-Year Plan (1947-1951) set out to increase the development of capital goods industries and transportation networks. Special emphasis was placed on the expansion of

agricultural production to feed the growing urban population, which entailed collectivization of farms. In order to control planning decisions, the Party also created a new federal structure of government (Lang 1975, 313). It created territorial entities based upon nationality, established constitutional guarantees for the representation of each major nationality at the federal level, and guaranteed the cultural autonomy of each national group (Lang 1975, 313). This effectively established a precedent for devolution of power to sub-state entities identified specifically by nationality. From the very beginning, this system was faced with the challenge of an economy that was characterized by acute disparities in regional economic development. Although there were underdeveloped areas relative to others within each republic, the most glaring inequalities were between the republican boundaries. Slovenia and Croatia had far higher per capita incomes than the Serbian, Montenegrin, Macedonian, and Kosovo populations. The Party immediately set out to reduce these disparities. Equality was to be achieved through “utilization of accumulation by the State in general and its redistribution” (Lang 1975, 314).

There were three major issues with this approach to economic planning. The first was that the centrally planned economy was conducive to highly uneconomic allocations of resources. Secondly, this model tended to foster autarkic beliefs among the authorities of the individual republics, resulting in each republic tending to regard itself as a separate “nation.” Lastly, the Stalinist practice forged an exceptionally strong fusion between political and economic decision making. This resulted in nearly all of the Party’s efforts after 1950 to move from a command economy to one based on indicative planning within a market system continually being constrained by the interference of political leaders in investment decisions (Lang 1975, 316).

The Beginnings of Decentralization (1950-1957)

The second phase of postwar planning was a direct result of the Soviet-Yugoslav split in 1948 and the subsequent economic boycott of Yugoslavia by the Soviet Union. This greatly affected the economic and political development process of Yugoslavia and had important consequences for economic planning. Due to the rift between Tito and Stalin over a number of issues, Yugoslavia was forced to reorient its foreign trade to the West and to abandon the trade agreements it had signed with the Soviet Union and its satellites. This newfound Westward orientation forced Yugoslavia to develop defense industries in the face of an anticipated Soviet invasion. This combined with the grain shortages in the wake of poor harvests in 1945-46 and 1950 prompted the government to purchase foodstuffs and war material from the West (Lang 1975, 316).

In light of this newly acquired independence from the Soviet Union, Tito developed the “legitimizing triad.” The triad constituted the notions of “Brotherhood and Unity,” “Workers’ Self-Management,” and nonalignment. The first two are of particular importance in the discussion of decentralization in Yugoslavia. The concept of “Brotherhood and Unity” became a central pillar in the Yugoslav system and was based on the idea of bringing about inter-ethnic cooperation under a communist banner. This was to be achieved by:

declaring all peoples of socialist Yugoslavia “brothers” and urging them to desist from internecine fighting, operationalized in social governance through the use of the “ethnic key,” the principle of routine rotation of cadres, and the prohibition on party members to criticize the members or branch party organizations of other nationalities or their policies (Ramet 2005, xxi).

Workers' Self-Management was a system whereby workers were represented in elected workers' councils that made decisions regarding the operations of the plants in which they function (Ramet 2005, xxii). The concept of Workers' Self-Management was invented to distinguish the Yugoslav political and economic formula from that of the Soviets (Ramet 2005, 185). The formula was simultaneously economic and political. It was economic in the sense that it created a category of rather nebulously defined "social property" and assigned workers certain administrative prerogatives within their place of work. It was political in the sense that self-management was seen as a tool to bring about a movement that would ultimately result in the withering away of the state and create a "self-managing socialist system" (Ramet2005, 186). The Workers' Councils had been organized in factories as the representatives of factory workers within communal political organizations. However, they did not exercise any control over investment decisions or the conduct and selection of management (Lang 1975, 317). In 1950, they were proclaimed to be the central agents of transition from state to social ownership of the means of production. The first public pronouncement of the new doctrine of workers' self-management came on June 26, 1950, with the introduction of a law establishing expanded capacities for workers' councils. Although the communist party-state apparatus remained in command of the economy and continued to draw up plan targets, the law reinforced some tendencies toward administrative devolution (Ramet 2005, 190).

After 1950, there was a transition in the administration of economic planning from federal to republican and local government levels. In the same year, the republics were given authority of a large share of administrative responsibilities hitherto reserved by the central government, e.g., the supervision of electric power, mines, agriculture, forestry, light industry, and public works

(Ramet 2005, 190). In Belgrade, the federal departments were now said to have been replaced by “coordination councils.” Under the new system, enterprises were permitted to plan the range and volume of production in accordance with market criteria.

On February 1, 1951, the Yugoslav government announced the abolition of the Federal State Control Commission, an economic regulatory body, and instructed the republics to abolish the counterparts to this body at their level. The functions which had been entrusted to these commissions were now transferred to “higher economic associations” to be governed by workers’ councils. From this, the idea of dismantling the state as such, in favor of free associations of workers, was discussed. Further reorganization of the economic branches of both the federal and the republican governments was undertaken in mid-1952 towards greater decentralization. It is important to note that there was considerable disagreement within the party in regard to this transformation. There were those in the party who favored a faster rate of decentralization, control of industry by labor, less bureaucracy, and an expanded role for workers’ councils. Others, however, favored a slower pace of development. It is believed that at that time, Tito favored the latter group (Ramet 2005, 191). Laws were passed in 1951 and 1952 that established a number of basic proportions which remained under the control of federal planning authorities, including minimum and maximum wages, minimum production targets for each industry and region, and tax rates determining the contributions of enterprises to social funds, such as social security and wage funds (Lang 1975, 317).

Yugoslavia’s evolving position in the world and the subsequent political and economic changes brought with it the need to retool the economic planning agenda. In order to facilitate a more

rapid development of the economic base in Yugoslavia, funds were redirected to productive enterprises which could earn high returns from the sale of their products in Western markets. Most of these enterprises, of course, were located in the economically more advanced regions in Yugoslavia. National economic survival replaced the equalization of incomes among the republics as the planners' major goal (Lang 1975, 316). This increase in importance of considerations of profitability was given an ideological underpinning in the doctrine of workers' self-management.

The continued integration of political and economic components within the planning structure had two consequences with respect to regional economic development. The federal government, in retaining control over large proportions of enterprise earnings, continued to channel capital accumulation from enterprises in the North (Slovenia and Croatia) to less developed republics and regions (Lang 1975, 318). Even more importantly, the use of much of this transferred accumulation was no longer determined by federal authorities. One big problem with this is that the aid took the form of direct grants rather than loans and was loosely supervised. The inefficient use of investment resources in the less developed regions was aggravated by the prevalence of "particularism," which was the pursuit of narrow local, or republic, policies at the expense of the welfare of the country as a whole (Lang 1975, 319). Economic planning practices during this period fell far short of the power transference envisaged in the proclamation of workers' self-management as the guiding principle of Yugoslav socialist planning. There were two problems that were especially pronounced. The synthesis needed between plan and market, whereby the central planners confine their attention to broad macroeconomic decisions, could have occurred only if those decisions were few in number and related to a key set of aggregate

conditions. Instead, central planners employed “manipulative planning,” which retained strict central controls over prices and taxes. This resulted in the limiting of the freedom of enterprises to make investment decisions. Such transfers in decision-making power that did occur took the form of “legislative decentralization,” which is the shifting of power to republican and local parties and governments (Lang 1975, 319). It can be said that neither of these arose accidentally. The continuation of central planning controls occurred not only because of various “legacies of central planning,” but also due to federal planners’ perception that republican investment priorities deviated from their own vision of national development. The more developed republics resisted the high priority assigned to the redistribution of income between regions, while poorer republics were opposed to the increasing tendency for planners to impose distributory criteria in evaluating regional investment proposals (Lang 1975, 320).

Need for Further Reform (1957-1971)

Beginning in 1957, the doctrine of workers’ self-management was extended to advance the criterion of profitability as the essential determinant of wage levels and investment decisions. This implied that labor productivity and profit maximization would determine standards of remuneration. The new system placed the support for underdeveloped regions behind the goal of maximum growth for the economy as a whole (Lang 1975, 322). The new doctrine threatened the economic structure of the less developed regions of Yugoslavia by indicating that the amount of investments from federal sources might be drastically reduced if levels of productivity were not raised. Practical application of the new doctrine, however, developed more slowly than the rhetoric. This led to considerable discord within the Party, which led to efforts to overcome the resistance to economic decentralization, especially on the part of local officials.

There were other troubles as well, particularly at the grassroots level. In 1958 a letter was written at the highest level of the party and sent to all party organizations. The letter stated that there were problems with corruption, unwarranted privileges, and “strong localist tendencies, coupled with tendencies to neglect and overlook the interests of the community as a whole” that threatened the country (Ramet 2005, 203). The Party took this seriously, and the Executive Committee recognized that failing to correct the situation could hold up further success in the political development process of Yugoslavia (Ramet 2005, 204). All this led to changes within the party and a debate about the direction of change. Yugoslavia’s leaders appeared to be alternating between decentralization and recentralization. When they spoke of decentralization, they had in mind devolution of administrative responsibility and the surrendering of some tasks to local leaders or party organizations, rather than the total withdrawal of the party from real authority (Ramet 2005, 205). By 1959 pressure was building for a more coherent codification of constitutional principles than what had been provided by the 1953 Basic Law. By 1961, pressure was also building for a reform of the economic system. These pressures for political-constitutional reform and for economic reform merged into a single reform movement (Ramet 2005, 205).

By 1962, the problems and shortcomings in the direction that political reforms had taken had become clear. The central committee of the League of Communists of Yugoslavia identified localism, chauvinism, and national particularism as the major problems to address (Ramet 2005, 208). Tito himself addressed the dangers associated with localism and said that it posed a real danger that each republic was just out for itself, ignoring the interests of the Yugoslav community as a whole. In an effort to curb growing polycentrism in Slovenia, Macedonia, and

Croatia, Tito adopted disciplinary measures against republican politicians. But this did not solve the problem; on the contrary, the conflicts only intensified. The importance of this early evidence of inter-nationality and inter-republican frictions cannot be overemphasized since it was the central argument by later advocates of recentralization that these problems were created by decentralization. However, in reality, decentralization was undertaken in order to address this issue and, in this regard, decentralization was partially successful (Ramet 2005, 208).

The adoption of the third constitution in 1963 was an important step in the direction of political decentralization. The fundamental design of the new constitution was to free economic units from political constraints and to establish productivity as the central criterion for new investment. The principle feature of this constitution was an increase in the powers of the Workers' Councils as opposed to republican and local political organizations. With this legislation the status and prerogatives of the six republics were enhanced. The 1963 Constitution also gave the executive councils in the republics a new freedom vis-à-vis the Federal Executive Council. The new constitution also:

- enshrined the right of the republics (though not of the provinces) to leave the Yugoslav federation;
- prescribed that all federal laws and acts were to be published in the country's four official languages (Serbo-Croatian, Croato-Serbian, Slovenian, and Macedonian); and
- restructured the federal Skupstina (Assembly) into a five-chamber body, with its deputies elected through indirect elections, which replaced the direct electoral system (Ramet 2005, 208).

In 1965, further reforms were sought to counter the problem of slow economic growth. The first was to abandon state investment planning and price reform by placing the distribution of profits at the discretion of the enterprises, which was to create a further incentive to operate more profitably. There was also an effort to create more optimal use of scarce resources by increasing

both capital mobility and accountability (Lang 1975, 324). These reforms represented the type of decentralization that had begun in the 1950's that threatened unproductive enterprises and officials that supported them. With these reforms, the Party attempted to remove politics from economic decision making while maintaining control over the economy through broad incentive plans (Lang 1975, 325). In practice, the reforms reduced the power of only the republican politicians who tried to maintain rigid controls over enterprise decisions. The republican role in development planning was more or less increased and a number of constitutional amendments in 1969 and 1971 solidified the position of the republics as the principal guarantors of the rights of Yugoslav nationalities. The reforms transferred considerable responsibility for administration of the economy from the federal government to the republics. The reforms had an unmistakable devolutionary character: their main features were the strengthening of the role of the republics (and enterprises) at the expense of the center (the federal government and the Belgrade banking monopoly) (Ramet 2005, 213). Later amendments reduced the economic powers of the Federation to control only defense spending and production, foreign trade, and the monetary system (Dunn 1975, 128).

Later Years (1974-1991)

By 1974, decentralization was an important aspect of Yugoslavia's style of governing. All six republics had a considerable amount of autonomy, especially in comparison to the other Eastern European federations. The Macedonian system was perhaps the most pronounced and had the following characteristics: a broad range of local government competencies; considerable fiscal autonomy of local government entities; extensive administrative bodies at the republic and federal (Yugoslavia) level; elections of local officials without interference from central

government; a single-tiered government system; and large municipalities (Todorovski 2001, 245). This system had many positive aspects, namely local governments that were heavily involved in nearly all social and political spheres, and a local population that was accustomed to being involved in government. However, there were many negative effects of this system. The transfer of power to local governments was too extreme, and the majority of them did not have the capacity to manage the responsibilities effectively. It was also common for municipalities to create and implement policies that ran counter to those of the federal government and other municipalities, which stifled development in many areas (Todorovski 2001, 245). This led to uneven development between municipalities and within them.

Chapter 3

Literature Review

Overview of Decentralization

Decentralization is a process that seeks to disperse decision-making authority from a central authority, in this case a central government, to lower levels of government. A decentralized system has a hierarchy that is more diffused horizontally in the governing structure than one that is based on a more unequal power relationship where the power and command resides at the top. In a more centralized system, the decisions are made by the top executive authorities and are based on pre-set policies that are enforced through the multiple tiers of the system (Sharma 2006, 49). In a more decentralized system, the central authorities delegate much of the decision-making authority to lower tiers of government. Such a system, if an adequate level of balance is achieved, results in a flow of information from bottom to top, which allows government officials to be well informed about the lower tiers. In countries that wish to have stronger democratic political systems that are more effective, efficient and accountable, the goal is ultimately to give a better-informed citizenry improved access to the decision-making process through their elected representatives at the local level.

There is not a single model that serves as a cure-all that can be uniformly transferred from one country to another. In order to achieve a model of decentralization that is effective and efficient, each design must be tailored to the specific situation of the country, taking into consideration the

history, social and political culture, and economic situation. It is for this reason that one must distinguish between the different forms and definitions of decentralization.

Types of Decentralization

1. Political decentralization

Political decentralization refers to the procedures used to constitute governments below the national level (Eaton 2004, 4). The aim in political decentralization is to ultimately give citizens and their elected officials more power in public decision-making. Political decentralization is often a part of democratization by giving citizens more influence in the formation and implementation of policies. The theory behind this is that locally elected representatives are known by their citizens and that these elected officials know the needs and desires of their constituents. In this form, political power and authority is not entirely centralized in the national government, but rather is shared by other lower units of government (Rosenbloom 1998, 102). Political decentralization vests authority in elected and chartered subnational units of government, such as village councils, municipalities, and state or regional-level political entities. The most common form of political decentralization is devolution. Devolution refers to a full transfer or shift of responsibility, decision and policy-making, resources, and revenue generation to a local form of government that is autonomous and fully independent from the devolving authority (ILO 2001, 4). The units of government that are devolved are most often recognized as independent legal entities and are typically elected by the population they serve. In such an arrangement, it is the subnational government that has full control of the policy-making and implementation process, and not the central government or any office or ministry from that level. A common arrangement under devolution is one in which the central government does not have

a ministry to plan and coordinate policies, and instead the departments in the lower units, such as the regional or local offices, make their own policies and coordinate their local offices (Shin 1998, 106). Devolution is a form of decentralization in which the central government has little or no control over the decisions made by the lower governmental units.

2. Administrative decentralization

Administrative decentralization occurs when administrative responsibility, authority, and discretion are delegated to administrative units having jurisdiction over at least one program or function in a subnational geographic territory (Rosenbloom 1998, 104). Broadly speaking, administrative decentralization refers to the rules that specify what subnational officials can do and with what resources (Eaton 2004, 4). The aim is to transfer decision-making authority, resources, and responsibilities for the delivery of a select number of public services from the central government to other lower levels of government. The existence of a field office, or regional office of an administrative agency, is evidence of administrative decentralization. There are two main types of administrative decentralization, deconcentration and delegation.

Decentralization that takes the form of deconcentration transfers authority and responsibility from one level of the central government to another, while maintaining the same hierarchical level of accountability from the local units to the central government ministry or agency which has been decentralized. This can be seen most commonly as the first step in newly decentralizing governments as a way to improve service delivery (ILO 2001, 4). With this arrangement, the central ministry directly controls the policy-making and operation of local offices through its regional and local offices. The personnel belong to the central bureaucracy, and the central government is fully responsible for the financing of the services.

Deconcentration, however, may promote more communication and cooperation between the local representatives of the ministry and subnational government officials (Shin 1998, 106).

Administrative decentralization that constitutes delegation redistributes authority and responsibility to local units of government or agencies that are not always necessarily branches or local offices of the delegating authority, as is the case in a deconcentrated form. While some transfer of accountability to the subnational units to which power is being delegated takes place, the bulk of accountability is still vertical, and ultimately to the delegating central unit (ILO 2001, 4). The production of certain services are delegated to subnational governments, or to corporations regulated by subnational governments, while allowing the central government to maintain control over decisions regarding the provision of the services provided by that office or department. The central ministry defines the policy scope, objective, and the content of the function (Shin 1998, 106). The administration of the service is delegated to subnational governments or corporations regulated by the subnational governments, all of which need to follow the central policy guidelines, but at the same time have some discretion in the operation and management of local planning offices (Shin 1998, 106).

3. Fiscal decentralization

Dispersing financial responsibility to lower levels of government is a major component of decentralization. In all forms of decentralization, whether political or administrative, some level of resource reallocation is made to allow the lower level governmental units to execute the decentralized functions effectively. Arrangements for resource allocation are usually negotiated between local and central authorities, and they are dependent on several factors including

concerns for interregional equity, availability of central and local resources, and local fiscal management capacity (ILO 2001, 4). Some common arrangements to allow for fiscal decentralization are: portions of national taxes, or all of certain nationally imposed and collected taxes, are for the exclusive use of local governments; a central ministry directly subsidizes the recurrent or capital budgets of the subnational units; central ministries provide grants for local development; banks or quasi-bank authorities provide loans and grants for capital projects; and funds derived from international assistance agencies are channeled to the subnational units (Rondinelli 1984, 44). Fiscal decentralization can take the form of self-financing or cost recovery through user charges, increasing local or own-source revenues through property or sales taxes, intergovernmental transfers from the central government to local governments, and municipal borrowing (Sharma 2006, 51).

4. Market decentralization

This form of decentralization shifts responsibilities from the public to the private sector. Market decentralization is done in favor of non-public entities where planning and administrative responsibilities, or other public functions, are transferred from government to voluntary, private, or non-governmental institutions. This often involves contracting out partial service provision or administration functions, deregulation, or privatization (ILO 2001, 4). The functions that were the responsibility of the government are carried out by businesses, community groups, cooperatives, private voluntary associations, and other non-governmental organizations.

5. Federalism

Federalism is a form of decentralization that divides political authority and sovereignty between a central government and state or provincial governments. The states or provinces have a substantial measure of legal or constitutional sovereignty, which is supreme political power and authority (Rosenbloom 1998, 100). This means that political authority is not centralized in the national government but shared by other governmental units. These units of government are also subordinate in many major legal and constitutional respects to a central government. Federalism stands in contrast to decentralization, which has the form of “unitary” political systems that do not have quasi-sovereign governmental units that coexist with the national government. All sovereignty is exercised by the national government in decentralized political systems. Unitary governments may delegate administrative and political authority to municipalities or other governmental bodies, but these bodies have no inherent sovereignty or any authority other than that which is given to them by the national government (Rosenbloom 1998, 100). Political systems that have these attributes constitute political and administrative decentralization, but not federalism.

Rationale for Decentralization

Democracy is fundamentally based on the notion of representation of the various groups within a country in the political process. Achieving a suitable measure of representation for ethnic and other territorially based cultural groups can be one of the biggest challenges a nation faces. Decentralization can be a way to ensure a suitable amount of representation in heterogeneous nations. Along with representation, responsiveness and accountability are equally important in any political reform process that seeks to build a sound constitutional democracy that more

adequately meets the needs of the citizenry. Efficiency is another common goal of political reforms.

A major concern of all governments, and especially those in transition and in developing countries, is how to make the public sector more accountable to the citizens, while at the same time making it more efficient and effective in policy making and service delivery. Settling on the form of decentralization that devolves the appropriate degree of authority to subnational governments and that satisfies the need to have a more representative, accountable, and efficient government is crucial. While decentralization in and of itself does not automatically mean democratization, it is very commonly associated with the political reforms and efforts to democratize and foster grassroots participation in developing countries. Decentralization can provide a feasible solution to many problems of inefficiency faced by developing countries. As such, there are economic and political rationales for decentralization.

Decentralization, like federalism, is based on the idea that in order to be responsive and effective, elected and appointed officials must know the people they are serving. By vesting a good deal of political authority in small governmental units, the likelihood that governmental officials will represent the will of the people is increased. In short, the solution to such representational problems is thought to be to allow local people to control the governance of local matters. This is rooted in “public choice” theory, which is the idea that smaller political jurisdictions are better able than larger ones to respond to the preferences of their citizens (Rosenbloom 1998, 102). Public choice theories explore the possibility that mobility in a decentralized, multi-jurisdiction context can facilitate better matching of citizen preferences and government policy through

"sorting" and can lead to smaller, more efficient, and less corrupt government (Rodden 2004, 482). It is not uncommon for the lower administrative units, i.e. regional, field, and installation levels, to adapt the national guidelines to local conditions. They can also coordinate the activities of local administrators in the same geographic area.

There are three primary functions of the government in the majority of developing countries (Shin 1998, 98). The first is to provide the social and public goods that the private market fails to provide efficiently. This typically includes services such as health, sewerage, sanitation, community development, infrastructure, and law enforcement. It is important to understand that there are considerable differences in the extent to which governments are involved with such services in developing countries, as is true in the more developed ones. In general, governments in developing countries are much more involved in the provision of these services than in more developed countries. This is due to the fact that the private market is so much more underdeveloped in those countries and has not extended its reach into these areas for lack of resources and small likelihood of attaining a reasonable profit (Shin 1998, 98). The second function of governments deals with the redistribution of incomes. Developing countries tend to rely on the taxation of capital investment and trade activities to pay for public services, while more developed countries rely on income taxes and other direct taxation (Shin 1998, 98). This is done by the governments to more equally distribute wealth and resources in order to reduce the income gap with these countries. Economic stabilization is the third primary function of governments. Fiscal policies play a large role in the efforts of governments to stimulate economic activity by means of government spending and regulating the supply of money. In many countries, state-run companies play an important role in stabilizing the economy.

While these functions of government are essential to the development of a country, the governments' performance has often been poor and the quality of service low. Many programs aimed at addressing issues with these functions fail to cater to the needs of ordinary citizens. These problems thwart social and economic development, but can also lead to political discontent. The grievances accumulate over time and often lead to political instability, creating the vicious cycle of poverty and underdevelopment (Shin 1998, 99). One way to redress these problems is to decentralize the policymaking and administrative responsibilities to subnational governments. Generally speaking, decentralization is often justified on the grounds that it aids in promoting principles of grassroots democracy, economic efficiency, administrative responsiveness, and structural diversity (Shin 1998, 99).

Policy and administrative responsiveness is the most commonly used rationale for decentralization. In traditional public administrative theory, there is recognition that organization by "place" is often an appropriate basis for establishing administrative arrangements (Rosenbloom 1998, 104). This is especially true in larger countries when a country varies widely in terms of geography, where it can widely vary from one place to another and have certain cultural, political, and economic conditions that are specific to one region. When this occurs, there is a high likelihood that a centralized administration will fail to adapt to local or regional conditions, much less understand and meet the needs of the populations. The idea behind decentralizing authority and policymaking to the lower levels of government is that local governments are close to the users of public services, and thereby have access to more information about the quantity and quality of demand for public services than does the national

government (Shin 1998, 99). Because local governments have this advantage, they can provide public services which meet the specific needs of local constituents and avoid wasteful provision of resources. Decentralization is a very promising form of distribution of power and resources in that it can enable a more effective use of available funds. Local government leaders know the needs of their communities, and they can also better determine the local capacity for development and the best measures to achieve it (Grochowski 2001, 147).

The responsiveness argument is further reinforced by a consideration of the transaction cost problems in developing countries. Decentralization is often used as a means of reducing overload and congestion in the channels of administration and communication (Rondinelli 1984, 5). Transaction cost problems result from centralized provision of services that require extensive information exchange and a complex organizational structure that is needed to implement national policies (Shin 1998, 99). This process and structure is expensive and, through decentralization of service provision to regions and municipalities, the central government can reduce red tape, simplify organizational hierarchies, and reduce costly communication networking (Shin 1998, 100). If the decision-making and policy implementation can be delegated to subnational governments, the central government can reduce many administrative responsibilities, while still authorizing and regulating some areas of regional or local policies, depending on the form of decentralization chosen. Some studies have shown that decentralization can successfully improve the likelihood of policy acceptance and efficiency in developing countries (Shin 1998, 99). Centralized administration can also present the challenge of becoming overextended and far-flung to ensure responsibility and compliance with national directives by local administrators (Rosenbloom 1998, 104). The concept of “span of control,”

which is the number of underlings reporting to a supervising administrator, is important in this regard. There is a limit to the number of subordinates an administrative official can effectively supervise. Administrative decentralization can be a way of keeping the span of control manageable by organizing on the basis of local administrative units. By interposing field and regional offices between local administrators and national headquarters, the number of administrators reporting directly to the headquarters can be sharply reduced (Rosenbloom 1998, 105).

While far from perfect, decentralization efforts around the world have seen many positive results. There are countless examples of decentralization increasing access of people in previously neglected rural regions and communities to central government resources and institutions; increases in participation and local governments' ability to influence central government policies and programs; improvements in the administrative and technical capability of regional and local units of government; and creation of organizations at the regional and local level to plan and manage development (Rondinelli 1984, 45).

Limitations and Considerations

Decentralization is not a panacea and should not be indiscriminately administered as a remedy in all situations. Like all political systems, a decentralized system has its limits, which should be considered in any situation.

Since government policymakers and donor institutions began promoting decentralization in the 1970's, the results have often been mixed. This is particularly true when decentralization is

justified on the grounds that it increases administrative efficiency and effectiveness. Despite the dubious success rate of these reforms and evidence that decentralization does not always live up to expectations, decentralization continues to be promoted by policymakers and the international community. Part of the reason for this is that decentralization often serves as an instrument for achieving purely political objectives. Despite the fact that the justification for decentralization programs is the goal of increasing administrative efficiency and effectiveness, they are frequently assessed, not by their economic or administrative results, but rather by their political effects (Rondinelli 1984, 27). The result is that programs are continued and deemed successful without assessing whether or not policymaking and service delivery is any more efficient or effective, so long as the broader political aims are met. If decentralization is to truly be a means of improving administrative effectiveness and efficiency, then the effects on these areas must not be overlooked. This is not to say that decentralization should never be justified on political grounds, but that programs that aim to achieve more efficient and effective administration should be designed carefully and realistically. Another reason that decentralization has received continued support is that highly centralized political systems are inherently inefficient and ineffective in many areas of policymaking and service delivery, especially in implementing programs at the local level. Often, policymakers operate under the assumption that the solution to such problems is simply to create a system that is the opposite of a centralized system without sufficiently weighing the costs and benefits of doing so. Recent empirical studies have taken issue with such assumption. Several studies have found that decentralization and federalism are associated with higher levels of perceived corruption, larger government, macroeconomic instability, and under some conditions lower growth (Rodden 2004, 482). The result has been that the benefits of decentralization and federalism have been called into question.

One argument against decentralization is that local governments may be incompetent and lack the resources and information that would otherwise allow them to make appropriate policies and handle the newly acquired competencies. Decentralization is often viewed by politicians simply as a way to increase local participation and reduce political discontent against the central government, with little or no regard to the political and financial ramifications of such policies. Unfortunately, these arrangements are frequently poorly planned, not well implemented, and inefficient. In such circumstances, the quality of public services is rarely improved. If politicians and governments better understand the rationales of decentralization, it can be differentiated from either an ideologically motivated policy or a politically motivated one that is conceived primarily to appease certain political interests (Shin 1998, 99). Above all, rather than enhancing the independent authority of state and municipal governments, decentralization often creates a more complex form of governance that bears little resemblance to the forms of decentralization envisioned in textbooks on fiscal federalism or in public choice theories (Rodden 2004, 482).

1. Collective Action Problems

One problem that can arise in decentralization efforts is that the natural inclination of people to act in their own self-interest and attempt to maximize individual net benefits over the greater social or political good. This is hardly surprising given peoples' and, in this case, political entities', rational behavior and the fear that exists when a legislative or fiscal decision may result in a loss to that entity, regardless if that threat is real or perceived. Such behavior is termed the "collective action problem" that can exist in attempts to decentralize and is particularly serious in

allocative policy areas, such as the provision of public goods and the management of common resources (Shin 198, 100). Such behavior can result in a rapid depletion of resources, increase the cost of coordination and monitoring, and jeopardize political agreements that benefit local jurisdictions (Shin 1998, 100). In cases where a collective action problem exists, it is often necessary to have some degree of centralization at the policy making and implementation level to limit the harm caused by such behavior, often in the role of facilitator, coordinator, contract enforcer, and arbitrator to resolve intergovernmental conflicts (Shin 1998, 101). Redistributive and stabilization policies are also susceptible to collective action problems, which can both be rife with difficulties in administration and policy planning. It is for this reason that the design and implementation of such policies should be done by the central government (Shin 1998, 101).

2. Externality Arguments

Externality effects are the benefits or costs incurred by other parties that are not “internalized” in policy calculations by the policymakers (Shin 1998, 101). If local governments are responsible for making policies and providing public services that entail significant spillover effects or externalities, the public services will be either under- or over-provided. It is in such cases when the national government should be responsible for such policy because it has a wide scope of jurisdiction and can therefore internalize all the benefits and costs of the policy in its policymaking process (Shin 1998, 101). When externalities exist, individual jurisdictions may not consider the social benefits that are beyond their own jurisdictional boundary. When this occurs, they are less willing to invest in those public services, which results in their under-provision. It is when such behavior occurs that a certain degree of centralization is desirable (Shin 1998, 102). There are certain areas in which centralization is generally better than a more

decentralized form of policymaking and service, particularly in redistributive and stabilization policies.

3. Scale Economies

Some public services should be centralized, or be co-administered by local governments, at the regional level because they yield economies of scale (Shin 1998, 102). Such services require fixed or quasi-fixed capital inputs, give increasing returns from technological inputs, and have limited congestion costs for provision. In terms of managerial efficiency, decentralizing these services and having the supply of these services duplicated by different local governments is wasting social resources (Shin 1998, 102). These scale economies are more apparent in some allocative policies than in redistributive or stabilization policies. It is not uncommon for poorly planned decentralization policies to inadvertently result in the sacrifice of the benefits of scale economies and expertise (Shin 1998, 102). That being said, it is important to consider that scale economies do not increase infinitely. After a certain point, diseconomies of scale will arise due to coordination problems, congestion costs, or technological constraints. It is for this reason that the degree of centralization should be determined based on the nature of the public service provided (Shin 1998, 102).

4. Capacity Concerns

The capacity of local governments to handle newly acquired responsibilities is one factor that can greatly affect the success of the decentralization process. Many studies of decentralization have shown that the performance and impact of decentralized administrative units have not met the goals of the programs. This is often due to the local units lacking financial control, qualified

personnel, and the capacity to carry out the responsibilities transferred to them (Rondinelli 1984, 34). The capacity of local government depends on many factors, such as the quantity and quality of local officials, the knowledge and data base required for effective policymaking, technology available to policy planners and implementers, and the revenue available (Shin 1998, 102).

Autonomous financial responsibility is at the core of the concept of decentralization (Rondinelli 1984, 43). Many decentralization programs have granted local governments limited revenue-raising powers and the sums raised are insufficient. This is due to central governments either not distributing the necessary allocated funds or, when the local governments possess the authority to impose taxes, the units have such a weak tax base that they are not able to generate sufficient local revenues (Rondinelli 1984, 43). Instead of transferring real revenue-raising authority to local governments, central authorities merely transfer resources. Some common arrangements are: portions of national taxes, or all of certain nationally imposed and collected taxes, are for the exclusive use of local governments; a central ministry directly subsidizes the recurrent or capital budgets of the subnational units; central ministries provide grants for local development; banks or quasi-bank authorities provide loans and grants for capital projects; and funds derived from international assistance agencies are channeled to the subnational units (Rondinelli 1984, 44). Such arrangements do little more than increase the dependency of local authorities on the central government and the subsidies. Central governments might attempt to restrict the fiscal autonomy of subnational governments not only through conditional grants and regulations governing local taxation, but also through formal limitations on subnational borrowing. The ability to access credit markets or other sources of deficit finance independently is an important component of subnational fiscal autonomy (Rodden 2004, 486). If decentralization is to be successful, it makes

little sense to have local governments providing public services while the central government still controls the tax base and revenue decisions. It is difficult for local policy makers to make effective decisions if they lack the necessary financial resources, expertise, and information. Without sufficient capacity, the central government will still control the agenda of local policymaking and the administration of the policies, and local governments will remain powerless and dependent (Shin 1998, 102). The capacity constraints can also impose costs and cause inefficiency in developing countries because many local governments do not have the personnel or the financial, institutional, and information capacity to handle the tasks (Shin 1998, 102).

5. Political Constraints

Officials within the central government can be resistant to allowing any political power and authority to be devolved to lower levels of government, particularly in formerly socialist countries with a tradition of centralized governments. Such political realities can result in a power struggle between those pushing for decentralization and those that strive to derail such efforts, which significantly slows the progress of decentralization. Officials and politicians in the central government may see decentralization as a threat to their career stability, political security, and economic interests (Shin 1998, 103). Therefore, they have little incentive to support local officials and help implement decentralization policies. Lack of political commitment for decentralization is often manifested in delays of the release of allocated funds and incomplete distribution of these. Central government officials can also withhold information and expertise from local officials. Delaying or withholding funds and other resources can slow down the implementation of programs, which can leave local governments unable to execute

their new responsibilities, thereby affecting the entire decentralization process. Rondinelli points to several examples in Latin America and Asia where decentralization programs have resulted in greater dependence of local administrative units on the central government. There are many instances where innovative decentralization programs were centrally created but not linked to established local organizations and sources of political and financial support (Rondinelli 1984, 31). What often happens is that authority is delegated to local organizations, but they are not given the resources to perform their new functions. The end result is that local governments function as bureaucratic instruments of the center and act merely to extend centrally established priorities and controls, thereby not as channels through which the conditions and needs of the local communities are articulated and addressed (Rondinelli 1984, 31). An effective way to address the policy and political autonomy of local government is to ask whether the central government has the legal right to override the decisions and policies of lower levels of government with an ease that calls that very authority into question (Rodden 2004, 486).

There are other ways in which political constraints can negatively affect decentralization efforts. Decentralization reforms are often part of government efforts to democratize the politics of a country. The political pressure of citizen participation and democratization trends may sometimes push for decentralization efforts that result in inefficiency and weaken policy effectiveness (Shin 1998, 103). It is in such instances when it is especially important to consider other rationales, such as externalities, collective action problems, and scale economies. Political pressure may distort these considerations and make decentralization a panacea to stabilize the political order (Shin 1998, 103).

Promoting accountability can sometimes be at odds with the push for greater efficiency. Opening up public administration and policymaking to public scrutiny can slow these processes. Public officials might be dissuaded from taking courses of actions that are more efficient because of the time and resources that will be diverted by providing information to the public. While efficiency and accountability are not mutually exclusive, achieving the right balance between the two that results in a system that provides for both is one of the great challenges of political reforms that seek to establish a more democratic form of government.

6. Regional Differences

In countries where political schisms based on regional conflicts have brought about regional disparities, it is difficult to achieve balanced regional development in the decentralization process. Theoretically, differences between regions, whether in culture, ideology, economy, religion, or geography, should encourage more decentralization in policymaking and administration (Shin 1998, 103). When regional differences become a potential source of conflict and instability, the scope of decentralization is usually curbed by the central government because of the fear that when these regions attain more autonomous power, they may eventually demand independence (Shin 1998, 103). Even though apparent regional differences are present, the political reality may limit the possible scope of decentralization. Usually, only some degree of administrative decentralization is given to subnational governments as a “technical solution” to the problem of over-centralization (Shin 1998, 103).

European Charter of Local Self-Government

The European Charter of Local Self-Government was adopted by the Council of Europe in October of 1985. The ratifying member states are bound to guaranteeing the political, administrative and financial independence of local authorities. It stipulates that the law of local self-government will be recognized in each country's legislation and, where practicable, in the constitution. The Charter has had a significant impact on the political reform process throughout Europe, and even more so in Central and Eastern Europe as the countries make the transition from socialism to Western-oriented, free-market capitalism. This document brought the need for more decentralized political systems to the forefront of political reform discourse, and has held governments accountable in meeting the requirements laid out in the Charter. Therefore, it is necessary to examine the theoretical basis of the Charter of Local Self-Government and its influence on models of decentralization chosen throughout Europe.

In recognizing that local authorities are one of the main foundations of any democratic regime, the Charter secures the right of citizens to participate in the conduct of public affairs. The language of the Charter reflects the democratic principles shared by the member states, which stress that it is at the local level that the right of citizens to participate can be most directly exercised. The Charter states that the existence of local authorities with real responsibilities can provide an administration which is both effective and close to the citizen. The Charter acknowledges that the safeguarding and reinforcement of local self-government is an important contribution to the construction of a society based on principles of democracy and the decentralization of power. This requires the existence of local authorities endowed with democratically constituted decision-making bodies that possess a wide degree of autonomy with

regard to their responsibilities and the resources required for their fulfillment (European Charter of Local Self-Government 1985, Preamble). Local self-government denotes the right and the ability of local authorities, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population (Article 3). That right is to be exercised by freely elected councils or assemblies.

Assessing the Results of Decentralization

Most studies of decentralization have focused primarily on the fiscal authority of the subnational units of government and to a far lesser extent on policy and political authority. Empirical studies of decentralization focus exclusively on the balance of expenditures and revenues between governments, relying on the combined regional and local share of total government spending. Without additional data on the regulatory framework on fiscal authority, these studies do not inspire much confidence in their usefulness as a composite measure of decentralized authority (Rodden 2004, 48). In order to adequately assess the effectiveness of decentralization, it is crucial to explore the complex arrangement for policy, political, and fiscal autonomy of the subnational government of each country. Many studies of decentralization suggest that four broad factors that affect the success or failure of decentralization must be understood. The first is the degree to which central political leaders and bureaucracies support decentralization and the organizations to which responsibilities are transferred. Successful decentralization depends on the national political leaders' commitment to decentralize planning and administrative functions, the ability and willingness of the national bureaucracy to facilitate and support decentralized development activities, and the capacity of field officials of national agencies and departments to coordinate their activities at the local level (Rondinelli 1984, 47). The second is the degree to

which the dominant behavior, attitudes, and culture are conducive to decentralized decision making and administration. The most important factors are the willingness of local officials to support and perform decentralized management functions, the quality of local leadership, the attitudes of people toward government, and the degree to which traditional customs and behavior are compatible with decentralized procedures for planning, decision making, and management. Also crucial are the attitudes and behaviors of central and local government officials toward the citizenry in determining whether or not decentralization will be effective (Rondinelli 1984, 52). The third is the degree to which policies and programs are appropriately designed and organized to promote decentralized decision making and management. This includes the organization variables that influence the outcomes of decentralization efforts. They include the clarity and simplicity of the structures and procedures used to decentralize, the ability of the implementing agency staff to interact with higher level authorities, and the degree to which components of decentralized programs are integrated (Rondinelli 1984, 57). The fourth is the degree to which adequate financial, human, and physical resources are made available to the organizations to which responsibilities are transferred. Central governments often negate the authority of local governments by refusing to transfer financial, administrative, and technical resources to them. The lack of independent sources of revenue severely weakens local governments' ability to carry out their responsibilities (Rondinelli 1984, 66).

Rondinelli suggests using the following criteria when assessing decentralization:

1. The degree to which decentralization contributes to achieving broad political objectives, such as promoting political stability; mobilizing support and cooperation for national

development policies; and providing heterogeneous regions, interests, and communities with a stake in the survival of the political system.

2. The degree to which decentralization increases administrative effectiveness, by promoting greater coordination among units of the national government and between them and subnational administrative units, local governments, and nongovernmental organizations, or by encouraging closer cooperation among organizations to attain mutually acceptable development goals.
3. The degree to which decentralization contributes to promoting economic and managerial efficiency, by allowing governments at both the central and local levels to achieve development goals in a more cost-effective manner.
4. The degree to which decentralization increases government responsiveness to the needs and demands of various interest groups within society.
5. The degree to which decentralization contributes to greater self-determination and self-reliance among subordinate units of administration or nongovernmental organizations in promoting development or meeting highly valued needs within society.
6. The appropriateness of the means by which policies and programs are designed and carried out to achieve the goals of decentralization; however they are defined (Rondinelli 1984, 29).

Any assessment of decentralization should take a more holistic approach. Examining the political effects, or any one aspect of the reform process, alone will result in an incomplete study. Therefore, it is essential to take into consideration the cultural and historical context of each country, which aids in correctly studying the political and legal ramifications of such policies.

By the same token, focusing solely on the financial aspect of decentralization, while an important part of any decentralization program, similarly results in an incomplete examination of decentralization. While undertaking a study that examines all the salient aspects of reform is a daunting task, it is nevertheless critical that a complete and thorough study be undertaken if one seeks to fully understand the impact and success of a decentralization program.

Chapter 4

Methodology

Methodologies Used

In order to get the clearest picture possible of decentralization and its effects on planning in Macedonia, it was necessary to employ more than one method of research and analysis. Therefore, a case study analysis and key informant interviews were identified as the best means of answering the research question.

Case Study

The case study of decentralization in Macedonia begins with a thorough review of all legislation that has been enacted since the country gained independence in 1991, and analyzes the relevant developments that have been made in the process in relation to planning. This type of analysis allowed the researcher to answer the “how and why” and focuses on contemporary events, all of which is crucial in understanding the decentralization process in Macedonia (Yin 2003, 5). The case study relies on data drawn from a variety of sources, most of which were reports and publications from the main international organizations that work with the government of Macedonia in a number of capacities to assist in the reform process, and are, therefore, at the forefront of research and the best source of such information. The organizations that have had the most experience working in this field are the United States Agency for International Development, the United Nations Development Program, and the Open Society Institute.

Key Informant Interviews

The other method of research is conducting interviews of “key informants,” who are people familiar with the decentralization process in Macedonia. There is a strong presence of international organizations that are active in the political reform process, and each has a program or division that specializes in decentralization. It was assumed when beginning the thesis that the people identified have considerable knowledge and insight into how Macedonia has performed in executing the reforms of the decentralization process and would be able to answer the questions pertaining to the research. The following is a list of interviewees who participated in this study:

- Jan Herczyński, Warsaw University, Poland; United States consulting company DAI as a consultant on a United States Agency for International Development project in Macedonia (first Local Government Reform Project, later Make Decentralization Work);
- Islam Yusufi, European Agency for Reconstruction;
- An employee of an international development consulting firm who wished to remain anonymous.

Conducting interviews of professionals who are working in Macedonia with a number of international organizations provides invaluable insight into the decentralization process. The interviews were especially important because they are a means of obtaining the most current information, providing an assessment of recent developments that contribute to the evaluation of the reform process that information from the other sources could not provide. The recent, on-the-ground information provided an opportunity to enhance and substantiate information derived from the case study.

Chapter 5

Analysis

Case Study Analysis

The process of decentralization in Macedonia began with the drafting of the Constitution in 1991 after achieving independence from Yugoslavia. In the sixteen years since, countless steps have been made to decentralize. However, many of these efforts have been misguided and resulted in the central government retaining power, or have left the municipalities unable to effectively deliver the services they were assigned. Further complicating this process is the mixture of political inefficiency and ethnic disputes that have plagued Macedonia since gaining its independence in 1991. In too many instances, attempts to decentralize have been thrown off course by a number of factors, most notably the will for decentralization being much more evident in the government's rhetoric than in its actions. The international community has been increasingly involved in the decentralization process over the years and has had a significant impact on the overall process, having identified the need for a stable and democratic Macedonia as being in the interest of the citizens of Macedonia, as well as the entire region and beyond.

1. Constitution of the Republic of Macedonia, 1991

Article 8 of the 1991 Constitution established local self-government as one of the fundamental values of the Republic of Macedonia. The right of local self-government is guaranteed under Article 114, which defines the municipalities as local self-government units in which communal self-government may be organized (Constitution of the Republic of Macedonia 1991). Under

Article 115 of the 1991 Constitution, local municipalities were granted a very limited amount of power and had very few competencies for which they were responsible. Local governments were responsible for communal activities (trash collection and parks), urban planning, culture, sports, social and child care, and primary health care. Although any local government had the right to perform its duties and select priorities without interference from the central government, the central government was still able to exert control over the local municipalities in certain situations. Although the constitution stipulated that the municipalities were to be financed by their own sources of revenue as established by law, the financial autonomy of local governments was severely limited. The local governments were required to report their financial situations to the Ministry of Finance, which then determined the size of the local governments' budgets. The central government monitored the legality of local government activities and could suspend any act adopted by local authorities that did not comply with the Constitution. The central government could also supervise and provide guidelines for a task which was entrusted to a local authority, as well as exercise financial control over the project (Todorovski 2001, 251).

The government of the Republic of Macedonia had the right to dissolve a city council that failed to meet for a period of more than six months or that held fewer than two meetings in a year. It could also do so if a council failed to pass a budget for the next year before December 31st. The central government also had the right to dissolve a council if it adopted an act which endangered the sovereignty and territorial integrity of the country. If a mayor of a local municipality was not willing or not able to perform his or her duties, the central government could appoint a commissioner until the next elections (Todorovski 2001, 252).

The financial autonomy of the local governments was also guaranteed, though limited, in that they financed a portion of their budgets with their own revenues through charges and fees for various utility and administrative services, referred to as communal fees. The local governments managed some tax revenues, such as the property tax, inheritance and gift taxes, and the tax on real estate and rights transactions, but these were insufficient for the local governments to be genuinely autonomous financially. Because of this, local governments could exercise fiscal autonomy by utilizing funds from state grants, domestic and foreign donations, and other revenues transferred to local governments (Todorovski 2001, 267). The central government still collected the value added tax, excise tax, profit tax, and personal income tax, which are all the highest quality revenue sources (UNDP 2004, 26). All of this meant that the local governments were still largely dependent on the central government.

The Constitution of 1991 addressed the issue of decentralization, but fell short of providing a solid framework for it. The right to local self-government was explicitly guaranteed in the Constitution, but it did not allow for decentralization in any discernible way. This led to a concentration and centralization of power to the national government, making Macedonia one of the most centralized countries in all of Europe.

2. Local Government Act, 1995

In 1995, the Local Government Act was adopted by the Macedonian Parliament. The act transferred revenue-raising authority to the municipalities, created their financial system, and instituted two phases of fiscal decentralization (Todorovski 2001, 266). This act was the first major effort to increase the role that local governments had in governing and managing their

populations and reduced the interference of the central government in the day-to-day operations of the municipalities. While there were some changes in the division of power between the central government and the municipalities, the biggest changes were related to financing. This act allowed for an expansion of the revenue sources for the local governments. Under this act, local governments were entitled to a share of the sales tax on goods and services and other economic activities. These powers had previously been reserved solely for the central government. They were also able to collect on the profits from municipal public enterprises and from the fines for violations of municipal regulations, both of which went to the central government under the Constitution of 1991. Revenues from taxes granted by the central government were also disbursed to the local governments, but these funds were unevenly distributed based on political and ethnic preferences, i.e., those municipalities whose elected local officials belonged to the ruling party in the central government and had an ethnic Macedonian population (Todorovski 2001, 266).

The Local Government Act created a number of state grants that local governments utilized as sources of revenue. The Fund for Economically Underdeveloped Areas was administered by the Ministry of Development and benefited individuals and legal entities. The majority of the recipients were rural municipalities that needed funds for local infrastructure, such as roads, water pipes, primary schools, and health centers. The Fund for Communal Activities and Roads was another state fund that targeted the construction and repair of roads and streets in all local government units. The Fund for Pipes and Sewerage financed construction, repair, and maintenance of water supply systems and sewer networks in all the municipalities. These three funds provided the necessary funds to carry out these functions that would not have been

provided with the revenues the municipalities relied on previously. Municipalities became increasingly dependent on these funds, and the share of municipalities' revenues that these funds represented increased significantly every year, jumping from 22.2 percent in 1994 to 42.2 percent of municipalities' revenues in 1998 (Todorovski 2001, 269). This was coupled with a decrease in the independent or original revenues that municipalities generated themselves, from 77.6 percent of their total revenue in 1994, to 55.1 percent in 1998. This was due to establishment of these funds, but also due to the overall increase in the number of municipalities, most of which were in rural, underdeveloped areas with poor financial resources of their own and were, therefore, dependant on these funds from the central government.

In 1996, the Law on Territorial Division of the Republic of Macedonia and Demarcation of the Municipal Boundaries was passed. This law increased the number of municipalities from 34 to 123 plus the City of Skopje and redefined their territorial boundaries. This meant a dramatic reduction in the size and populations of municipalities. The idea was that these smaller units of local government would allow for common interests to be more easily identified in order to solve problems. It was also to further increase the responsiveness of local governments and to have citizens closer to their local governing bodies. This act created a more streamlined organizational structure that reflected this reduction in territorial size and competencies of local governments (Todorovski 2001, 247). This created the office of the mayor, which was previously a collective executive body, and the city council, which had consisted of three chambers of the municipal assembly with up to one hundred and twenty delegates under the old law. The underlying goal of this system was to simplify the local governing process and to clearly draw the lines of responsibility among these actors. Along with these changes, the

proportional voting system was introduced for local representatives, replacing the majority electoral system. This applied only to the election of city council members, not to the election of mayors, who were still elected by majority vote (Todorovski 2001, 247).

The new territorial organization was meant to bring government closer to the citizens, but this did not happen due to the inability of the local governments to manage the interests and problems of the citizenry. A major problem of this law was the increase in the number of municipalities, which led to a significant increase in the number of municipalities with small populations. As shown in Table 1, the majority of municipalities, 79 percent, had populations smaller than 20,000 people. These small municipalities were not sustainable in terms of demographic structure, economic viability, and organizational capacities. The majority of the new municipalities also lacked the resources, primarily financial, to meet the problems they faced. This was largely due to the lack of financial authority the municipalities had at this time. This is illustrated by the low level of spending of Macedonian municipalities compared to their counterparts in other European Union countries. In the 15 member states in 1998, local governments accounted for an average of 22 percent of general government expenditures, which is the equivalent of 9 percent of GDP. In contrast, Macedonian municipal spending accounted for 1.8 percent of general expenditures, the equivalent of less than 1 percent of GDP (Rafuse 2000, 3).

Table 5.1 Population of Municipalities after the 1996 Law on Territorial Division

Population	No. of Municipalities	Percent
0-1,000	5	4.1
1,001-2,000	9	7.3
2,001-5,000	33	26.8
5,001-10,000	24	19.5
10,001-20,000	26	21.1
20,001-30,000	7	5.7
30,001-40,000	4	3.3
40,001-50,000	4	3.3
50,001-100,000	9	7.3
100,000+	2	1.6
Total	123	100

Source: UNDP 2004, 81

The government of Macedonia signed and ratified the European Charter of Local Self-Government on October 1, 1997. The member states of the Council of Europe are required to sign and adopt the Charter, which binds them to guarantee the political, administrative and financial independence of local authorities. It stipulates that the law of local self-government will be recognized in each country's legislation and, where practicable, in the constitution. The ratification of this Charter was an important step in the decentralization process and signaled the government's commitment to it. As a contracting state, Macedonia must provide the legal and

constitutional right and ability of municipalities to regulate and manage a substantial share of public affairs under their own responsibility and in the interest of the local population (European Charter for Local Self-Government, Article 3). In fulfilling the principles of the Charter, the Ministry of Local Self-Government was established in 1999 as the lead central body to oversee the decentralization process and ensure the principles of the Charter and relevant legislation were followed.

3. Local Self-Government Act, 2002

The Ohrid Framework Agreement was adopted on August 13, 2001, to provide political and institutional solutions to the ethnic conflict that occurred between ethnic Albanians and the Macedonian government in that year. The agreement came out of the political negotiations between the government and the four main political parties, as well as intense pressure from the international community. The development of local self-government was one of the five basic principles of the Ohrid Framework Agreement. It was seen as essential in “encouraging the participation of citizens in democratic life, and for promoting respect of the identity of communities” (Ohrid Framework Agreement 2001, 1). In this way, decentralization was identified as an important way to resolve the relative deprivation of the Albanian minority and to further the process of Euro-Atlantic integration with respect to reforming the political system (Institute for Regional and International Studies 2006, 9). The agreement stipulated that that government adopt a revised law on local self-government within 45 days of signing the Framework agreement. It called for a law that reinforced the powers of elected local officials and enlarged substantially their competencies in conformity with the Constitution and the European Charter on Local Self-Government. The agreement also outlined the enhanced

competencies in the areas of public services, urban and rural planning, environmental protection, local economic development, culture, local finances, education, social welfare, and health care (Ohrid Framework Agreement 2001, 1). Ensuring the autonomy of the municipalities, the agreement specified that the new law ensure that any national standard or procedure established in any law that concerned an area that municipalities have independent competencies must be limited to those that cannot be accomplished effectively at the local level. Out of this agreement was born the Local Self-Government Act in 2002.

The Law on Local Self Government of 2002 broadly defines the responsibilities of the municipalities. The law distinguishes between: the general competency to perform activities of local importance, a list of specific competencies assigned to municipalities, and delegated competencies (Feruglio 2007, 9). This new act shifted many competencies to the local municipalities and guaranteed them as primarily municipal responsibilities. The idea behind this was to limit the authority of the central government and build the capacities of local self-governments to counter-balance the power of the central government. The competency to perform activities of local importance is, as a rule, comprehensive and exclusive, which allows municipalities to “independently regulate and perform activities of local importance within the legal framework” (Feruglio 2007, 10). These competencies are full and exclusive and cannot be limited or taken away, except for cases specified in the law (UNDP 2004, 25). The law also allows them to perform activities or duties that are not under the competency of the central government that are not explicitly laid out under the law. As for the delegated competencies, the central government can transfer the execution of certain functions to the municipalities. The delegation of these responsibilities is done taking into consideration the size of the municipality

in terms of population and land area, as well as the administrative capabilities in that particular area. The central government finances the delegated responsibilities and holds the municipality accountable for the delivery of the service assigned to it (Feruglio 2007, 11).

The competencies are carried out through bodies that are directly elected by the citizens, which are the Mayor and Municipal Council. The Municipal Council is the legislative body while the Mayor is the head of the executive organ and the manager of the municipal staff. It should be noted that under the Law on Civil Servants, the Secretary of the Municipality has managerial competencies over the staff as well (Feruglio 2007, 5). The relationship between Mayor and Council is asymmetric in nature. The council can only send proposals to the mayor but not hold him/her accountable for his/her acts. The mayor, however, can suspend the enactment of a council resolution by rejecting it and sending it back to the council with his/her objections. If the council overrules the mayor's objections by a simple majority, the mayor has to promulgate it and has an option to appeal the decision to the Constitutional Court (Feruglio 2007, 5).

The local governments have the right to establish local administrative departments and commissions according to local needs, which translates into significant organizational independence. Municipalities also have a significant amount of flexibility in determining the modes of service delivery. The municipalities are able to create municipal companies for public services or delegate the delivery to private companies (Feruglio 2007, 11). Municipalities are also able to use inter-municipal cooperation agreements with neighboring municipalities to carry out services of a certain scale that the municipality can not do alone because of capacity or scale constraints. The only control of the central government is in its ability to supervise the legality

of the operations of the municipalities but not on the substantive action of the local authorities (UNDP 2004, 28). The responsible central authority has the right to appeal an alleged illegal decision to the Constitutional Court. This is to ensure that the local governments' decisions are in compliance with previous approvals or decisions of the competent state organ (Feruglio 2007, 6). In addition to those checks, the Ministry of Finance monitors the financial operations of the municipalities and the State Audit Office performs external audits of the municipalities. The position of the mayor has also been strengthened by raising the position's function to a professional level and making it illegal for the government to terminate the mandate of the mayor. Another change that occurred with the adoption of this law was the ability of municipalities to set up associations in order to protect and promote shared interests, such as the Association of Local Self-Government Units (ZELS), as a counterbalance to the central government.

The Municipal Council is responsible for the adoption of the municipal charter (statute), the approval of annual budgets, the establishment of public institutions and communal enterprises, the appointment of managers upon the mayor's proposal, and the establishment of the municipality's administrative organs. The Mayor signs and proclaims the acts of the Council and is responsible for the implementation of the Council decisions, execution of the budget, and managing the municipal administration and its employees and property (Feruglio 2007, 5).

The municipalities are responsible for creating administrative organs to perform specific administrative functions, such as a department of budgeting and accounting. Because the municipalities create different administrative departments based on the needs of each

municipality, there is a high degree of diversity with respect to the organizational structure of the municipalities. With the creation of new departments, and hence employment positions, there is a need for additional skills to perform the new competences assigned to the local governments. In order to fill the gaps in capacity and the need for exchange of information, coordination, and decision-making in the area of professional development and training of the employees of the municipal administrations, a Trilateral Committee for Coordination of Trainings was established. This committee harmonizes, coordinates, and decides upon all activities in the area of professional development and training in the municipal administrations (Feruglio 2007, 6).

Prior to the adoption of the Local Self-Government Act of 2002, local governments still had competencies in a limited number of areas. Under the 1995 Local Government Act, the only form of urban planning carried out by the local government was in authorizing the urban plans, which then had to be approved by the Ministry of Development (Yusufi 2006, 7). The 2002 law transferred all urban and rural planning competencies to the local municipalities, allowing municipalities to have full control over the creation and adoption of plans. The new law also transfers the issuance of building permits from the central government to the municipal governments. The planning and management of local economic development initiatives is done by the appropriate local authorities, as are the protection of the environment and nature conservation. The organization and management of communal infrastructure, such as water supply; the sewage system and wastewater treatment; construction and maintenance of local streets and roads; trash collection and treatment of solid waste; public transportation; gas and electricity supply; parks and recreation areas; regulation, maintenance and use of river banks in urban areas; and the naming of streets, squares, and other infrastructure objects, have become the

responsibility of local municipalities. Institutional and financial support for cultural institutions and cultural events are also included in the competencies of municipalities (UNDP 2004, 29).

Table 5.2 Competencies of Local Governments in Macedonia after 2002

Urban and rural planning	Urban planning, issuing of technical documentation for construction, and issuing of construction permits; regulation and maintenance of construction land.
Environment	Measures for protection and prevention of water, air, and land pollution, protection of nature, protection against noise and ionizing radiation.
Local economic development	Local economic development planning; determining of development and structural priorities; running of local economic policy; support of the development of small- and medium-size enterprises and entrepreneurship; participation in the establishment and development of local networks of institutions and agencies; and promotion of partnerships.
Communal activities	Water supply infrastructure; drainage and purification of waste water; public lighting; treatment of storm water; collection, transport, and treatment of communal solid and industrial waste; regulation and organization of local public transport; supply of natural gas and heating energy; maintenance of graves, cemeteries, and burial services; construction, maintenance, reconstruction, and protection of local roads, streets, and other infrastructure; regulation of traffic; construction and maintenance of traffic signals; construction and maintenance of public parking spaces; construction and maintenance of markets; maintenance and use of parks, green belts, and recreational spaces; regulation, maintenance of river beds in urbanized areas, determining names of streets, squares, bridges, and other infrastructure, etc.
Sport and recreation	Development of general sport and recreational activities of citizens; organization of sporting events; maintenance and construction of sport facilities of public interest for the municipality.
Social welfare and child protection	Kindergartens and homes for the elderly; social care for disabled persons, orphans, children with educational and social problems, children with special needs, children from single-parent families, persons exposed to social risk, persons with drug and alcohol addiction; raising of citizens' awareness; housing of persons at social risk, sheltering and education of pre-school children.
Education	Establishing, financing, and administering primary and secondary schools, in cooperation with central government, in accordance with law; organizing transportation of students and their accommodation in dormitories.
Supervision	Supervision over the performance of activities under municipal competency.
Delegated function	Municipalities can also be tasked by a public administration body for the execution of certain tasks from its competency.

Source: Law on Self-government, January 29, 2002, Official Gazette. No. 5/2002. Also online: <http://www.zels.org.mk>. (From Yusufi 2006, 7).

Since the adoption of the Law on Local Self Government, the Government of Macedonia has worked to better define the legal and regulatory framework needed to transfer the responsibilities assigned to the municipalities, as well as clarify the content of the competencies and the resources needed to do so. The Operational Program for Decentralization of Powers (OPDP) was initiated in 2003 to outline the legislation and amendments required to guide the transfer of competencies. A more detailed program called the Detailed Plan for Transfer of Competencies and Resources (DPTCR) in the Process of Decentralization was adopted in 2005 to examine more specifically the process of transferring the competencies (Feruglio 2007, 11). Overall, ten laws and 47 by-laws had yet to be adopted as of December 2006.

Table 5.3 Progress with the Legal and Regulatory Frameworks for Transferring Functions

Sector	Identified in OPDP & DPTCR				Identified by the Sub-groups			
	Laws		By-law		Laws		By-laws	
	Adopted	Total	Adopted	Total	Adopted	Total	Adopted	Total
Urban Planning	6	6	17	27	3	5	-	-
Local Econ. Development	4	5	1	4	4	7	3	3
Culture	4	4	5	8	1	1	-	-
Education	3	3	5	16	-	-	-	-
Protection & rescue of citizens and goods	2	2	4	7	-	-	39	39
Environmental protection	4	5	21	29	0	2	-	-
Communal services	3	3	3	5	11	12	3	7
Social & child protection	2	2	8	9	1	1	2	2
Sport & recreation	1	1	1	3	-	-	-	-
Healthcare	2	2	-	-	-	-	-	-
Total	31	33	65	108	20	28	47	51

Source: Feruglio 2007, 12

The major issue slowing the transfer of responsibilities to the municipalities is that developments in the legislative and regulatory frameworks have been done independently by the municipalities through the *Official Gazette*. Further complicating this process is the fact that responsibilities

have been implemented without follow-up from the line ministries. This has resulted in lower quality and poorer standards for monitoring, and is particularly more difficult for smaller municipalities, which are more likely to lack the tools to monitor and appropriately comply with the legislative changes (Feruglio 2007, 12).

The Detailed Plan for Transfer of Competencies and Resources examined the transfer of institutions, employees, movable and immovable property, and documents to the municipalities in the respective areas of competence. Most of the transfers have been completed. However, some have not due to a complex set of reasons, including the existence of disputed ownership titles (Feruglio 2007, 13).

Table 5.4 Status of the Content of Transferred Competencies

<u>Sectors</u>	<u>Content of the Transfer</u>	<u>Transfer Status</u>
Urban planning (regional branch offices of the Ministry of Transport and Communication)	Decision-making authority; title of movable and immovable goods; employees; working means and documentation	Over 280 employees, movable properties and documentation through individual agreements ¹¹ has been transferred. Title of immovable goods of the 34 regional units of the Ministry of Transport and Communication yet to be transferred due to disputed ownership rights.
Local economic development	Decision making authority	
Culture (institutions in culture such as museums, libraries, theatres and homes of culture)	Decision-making authority; founding rights of the public institutions; title of immovable goods; employees; working means and documentation	The founding rights have been transferred in 2004. A total of 48 institutions located in 28 municipalities out of which 40 are municipal and 8 are of the City of Skopje. Title of immovable goods of 28 out of 48 institutions yet to be transferred due to disputed ownership titles. Contracts or individual agreements have been signed by 26 municipalities and 3 are still to be signed.
Education (dormitories for pupils; primary and secondary schools; transport for secondary school; area units of the Ministry of Education and Science)	Decision-making authority, founding rights of the public institutions; title of immovable goods; employees; working means and documentation	339 primary schools with around 18,505 employees, 81 secondary schools with 6,655 employees and 25 dormitories have been transferred to the municipalities and the City of Skopje. This includes the title of immovable goods, equipment, inventory, archive, teaching equipment, documentation and other means. The transfer of the movable assets and real estate property of the regional units of the Ministry of Education and Science is ongoing
Protection and rescue of citizens and goods (Territorial Fire-Fighting Units)	Decision-making authority, founding rights, title of immovable goods; employees; working means and documentation	29 Territorial Fire-Fighting Units have been transferred only one has not been transferred. Title of immovable goods yet to be transferred due to disputed ownership titles. Out of 715 employees 710 have been transferred.
Environmental protection	Decision-making authority	
Communal services	Decision-making authority	
Social and child protection (child day care centers, elderly homes)	Decision-making authority, founding rights of the public institutions; title of immovable goods; employees; working means and documentation	Founding rights, 51 child day care centers with 3236 employees transferred. Title of immovable goods of 33 child day care centers yet to be transferred due to fully or partially disputed ownership titles. Founding rights, 3 out of 4 elderly homes as well as the ownership title of movable assets and employees have been transferred.
Sport and recreation (sport facilities)	Decision-making authority, founding rights; title of immovable goods; employees; working means and documentation	Right to use 9 buildings for sport and recreation transferred to the City of Skopje, 3 to the municipalities of the City of Skopje as well as 10 sport facilities to nine other municipalities
Health care (Board of Directors and health prevention-vaccination)	Decision-making authority	

Source: Feruglio 2007, 13

The transfer of facilities, operating responsibilities, and personnel is an important feature of the process of transferring responsibilities. The municipalities that did not have any of those facilities within their jurisdiction continue to be deprived or unfunded for the full exercise of the transferred functions. This is due in many cases to the transfer of resources is earmarked for specific expenses in the existing facilities rather than local needs for specific services (Feruglio 2007, 14).

4. Law on Territorial Organization of Local Self-Government, 2004

From 1996 to 2004, there were 123 municipalities, plus the City of Skopje as a special unit of local self-government. The number was decreased to 85 units with the adoption of the Law on Territorial Organization of Local Self-Government on August 11, 2004. This law overturned the 1996 law and reduced the number of municipalities with the idea that municipalities of a larger size and configuration would have sufficient capacity to raise their own revenue and that municipal services could be organized more efficiently (USAID website, retrieved 10/28/2006). It became apparent that the previous arrangement with such a large number of small municipalities was not sustainable. The local self-governments are divided into three groups: City-municipalities; Village-municipalities; and Municipalities in the City of Skopje and the City of Skopje itself. This last is treated as a special unit of local self-government as stipulated in the Law on the City of Skopje. This reduction in the number of municipalities resulted in the merging of some of the old jurisdictions. However, it did not terminate the work of the old offices of the previous units. They continued to function as service centers dealing with the demands and complaints of local residents (Yusufi 2006, 7).

Table 5.5 Number of Municipalities before and after 2004 Law on Territorial Organization

Type of Local Governments	Number of Local Governments (2004)	Number of Local Governments (1991-2004)
City-municipalities	33	116
Village-municipalities	41	n/a
City of Skopje municipalities	10	7
City of Skopje	1	1
Total	85	124

Note: A city, according to the country's laws, has more than 3,000 residents (city-municipality). A village-municipality has fewer than 3,000 residents.

Source: Yusufi 2006, 8

The changes made were not ushered in without problems. The law changed the ethnic balance in several municipalities in favor of ethnic Albanians and was highly controversial. The opposition party called for a referendum to annul the law and collected enough signatures to proceed with the referendum. Although the referendum ultimately failed, it showed that the schedule of the implementation of decentralization was somewhat uncertain and that people were divided in respect to the referendum and the very idea of decentralization. Had the referendum passed, it would have significantly set back the entire decentralization process. Another serious issue with this law was that there was inadequate consultation of the municipalities in drafting this law, further reducing the support for it (Council of Europe 2007, 2).

The Law on Local Self-Government of 2002 significantly increased municipal competencies. However, it did not fully address the issues of the imbalance in the distribution of competencies between the municipalities and the central government. While this law contained a number of overall improvements, it did not radically alter the organization of local authorities (Council of Europe 2007, 4). Insufficient finances, and technical and staff problems resulted in an incomplete decentralization of power (UNDP 2004, 82). Many of the municipalities still lacked

the financial capacity to carry out their new competencies. Another issue that was not properly addressed in the new legislation was citizen participation in the political process. Since independence, citizen participation had always been limited in Macedonia. The citizens lacked understanding of how the local government worked and what services were provided, which was due to the complex instruments that were available for citizen participation. An example is the referendum with a requirement of at least 20 percent of the voters and a citizen initiative that required at least ten percent. The 2002 Law on Local Self-Government did little to change this and only gave citizens the right to submit suggestions about the work of their local governments (UNDP 2005, 134).

While the Law on Self-government drafted in January 2002 precipitated several changes in the fiscal power of the municipalities, it did not go far enough in providing the municipalities with adequate financial autonomy. A new decentralization reform package that was part of the Territorial Organization Law from 2004, along with other reforms that were initiated by the Ministry of Local Self-government, was formally launched on July 1, 2005. These new reforms increased the speed of decentralization. The reforms consisted of three main processes: the transfer of a new set of competencies from the central to the local level, the transfer of civil servants and other state employees from central to local institutions, and the transfer of funds to overcome the unfavorable conditions for decentralization and equalization in Macedonia (Yusufi 2006, 5). These adopted reforms were made in order to overcome the deficiencies of the previous legal framework.

In the new system, the general competencies of local governments are ensured under the principle of subsidiarity, which is the right for municipalities to perform activities of local importance on their territory that are not excluded from their competency or are not under the competency of the organs of the state administration. Municipalities have the right to regulate and perform activities of local importance independently. The competencies are, by law, comprehensive and exclusive and cannot be taken away or limited. Local self-government is a constitutional right recognized by the Constitution of Macedonia. The new competencies were transferred to the 85 municipalities after the local elections, held in March 2005 (Yusufi 2006, 6).

The Law on Financing Units of Local Self-government from 2004 gives the right to the municipal council, as well as the mayor, to bring a case before the Constitutional Court as to the constitutionality of a law, as well as the constitutionality and legality of the acts of ministries and other state bodies in which the constitutional position and the rights of the municipality may be infringed (Yusufi 2006, 8). This financial autonomy of the local governments mainly covers issues such as budgeting, expenditure, revenue raising, property ownership, and borrowing.

5. Law on Financing the Units of Local Self-government, 2004

There were numerous shortcomings with the previous finance system in Macedonia. Under that system, there was no possibility for local self-government units to be funded by the revenues from local fees and taxes according to what each municipality deemed to be appropriate. There were limited discretionary rights for local self-government units to establish spending policy within their competency because the funds allocated by the state were for specific uses only.

Before the law took effect, resources administered by municipalities represented less than two percent of total public expenditures (Channel Research 2007, 3). This, along with the delays in state transfers, left the municipalities unable to perform even some of their most basic legal obligations. Another issue was that municipalities had difficulty accessing the national capital market. Even more problematic was the fact that there was no consultation or coordination from the state bodies and agencies that were responsible for distributing funds to finance projects at the local government level (Yusufi 2006, 9). Additionally, there was no framework legislation governing municipal finances in the country. Instead, the rules governing the revenues, the formation and execution of the municipal budgets, as well as their financial reporting obligations, were set by a wide number of laws and ordinances that were decided annually by the central government (Yusufi 2006, 9).

A local public financing system was developed with the adoption of the Law on Financing Units of Local Self-government in 2004, which enabled a high level of financial independence that was not present under any of the previous systems. The new system amended the laws that previously limited the sources of funding for the municipalities that were from the Law on Local Self-government of 1995. As is required in any decentralized system of government, it balanced the sources of financing with the actual needs of the municipalities. Additionally, this legal framework supported a far more transparent system of financial balancing of the local self-government units by establishing a set of clearly defined criteria to decide on the financial scheme of the municipality. The new law strengthened the discretionary rights of the municipalities to allocate funds in the framework units responsible for the setting and execution of the budget (Yusufi 2006, 10). Municipalities are able to finance themselves through their

own and other sources of financing. The own source revenues that are available to municipalities are local taxes, charges, and fees determined by law. The municipality, within the framework determined by law, is to define the level of tax rate and the level of charges and fees of its own source revenues. Grants from the state are also available, and municipalities can borrow from the domestic and foreign capital markets as well. Municipalities are, within their designated competencies, able to use their own source revenues according to their own needs, independent of the central government.

This law also introduced new requirements for the staff of the local governments' administrations. A commission to monitor the decentralization process as it pertains to the system of intergovernmental finance was set up. This commission is responsible for monitoring the implementation of the criteria for the central government transfers and to provide recommendations for improving the system. This commission ensures the system is transparent and will provide recommendations for the formula for transferring the grants from the value-added tax and about methods for the distribution of grants from the central government. The commission is comprised of representatives from the ministries responsible for local self-government, finance, science and education, and labor and social policy, and representatives from the Association of Local Self-Governments (ZELS) (UNDP 2005, 134).

1. Budgeting

Prior to the reforms initiated in 2004, the preparation of local budgets was done in close coordination with the preparation of the general budget of the state. With the Law on Budgets of 1993, the local self-governments' budgets were prepared and adopted using the same procedures

and guidelines assigned to the central government budget. During the period that this law was in effect, local governments did not have control over a consolidated budget. Instead, municipal budgets were composed of an administrative budget and a number of off-budget funds that sometimes were referred to as programs (Yusufi 2006, 8). With the recent reforms, a municipality has greater independence to prepare and execute its own municipal budget. If the revenues and expenditures are not completed as planned by the municipal budget within the fiscal year, the mayor has the ability to propose that the council change and amend the budget, which is a power not previously granted to the municipality.

2. Spending Autonomy

Before reform, local governments did not have the autonomy to decide on spending their own source revenues that were capped at a level decided by the central government. The Law on Caps of Own Revenues of Units of Local Self-government limited the already scarce revenues of the municipalities. With recent reforms, municipalities are now able to allocate their own source revenues as they see fit, independent of any state interference, so long as it is within its competencies laid out by law. The municipality may decide autonomously about the use of its own revenues, as well as revenues from shared taxes such as the personal income tax (Yusufi 2006, 8). As a share of GDP, local expenditures nearly doubled from 1.37 percent in 2002 to 2.43 percent in 2006. It is worth noting that while this is an improvement, local public expenditures remain quite low by international standards. As a share of total government expenditures, in 2006 local expenditures accounted for less than seven percent compared to the 26 percent average for all other transitional countries (Feruglio 2007, 14).

It should be pointed out that local governments operate through four different accounts: the principal budget, the budget of donations, the budget of earmarked grants, and the budget of self-financing activities. Local authorities have full discretion for the allocation of money from the principal budget only. The donation budget is restricted by the terms of the donation agreement, and the earmarked grants can only be used according to the plans of the institution receiving the funds and must be approved by line ministries. According to data from the Ministry of Finance, the principal budgets of all the municipalities represented 70 percent of local expenditures. This means that local authorities have total discretion of 70 percent of the total expenditures (Feruglio 2007, 16).

Table 5.6 Composition of Local Expenditures by Program in 2006 (% of total)

Program	Principal budget	Donations	Self-financing	Earmarked Grants	Total
General public services	26.5	0.1	0.0	0.0	26.6
Fire protection	0.2	0.0	0.0	3.4	3.6
Economic affairs	30.5	0.1	0.0	0.0	30.5
<i>Arranging of construction land</i>	7.5	0.0	0.0	0.0	7.5
<i>Maintenance of local roads & streets</i>	5.0	0.0	0.0	0.0	5.0
<i>Construction and rehabilitation of local roads</i>	12.7	0.0	0.0	0.0	12.7
Environmental services	3.4	0.1	0.0	0.0	3.5
Housing and community amenities	7.4	0.0	0.0	0.0	7.4
Recreation, culture, and religion	1.1	0.1	0.5	0.7	2.5
Education	0.8	0.1	7.2	11.5	19.6
Social protection	0.0	0.0	3.4	1.9	5.4
Other	0.8	0.1	0.0	0.0	0.9
Total	70.8	0.6	11.2	17.5	100.0

Source: Feruglio 2007, 17

3. Borrowing

Prior to the reforms, municipalities were able to borrow as needed. However, they were limited to the funds of the general budget of the country and to the domestic market. After the reforms, the municipality has the right to borrow from foreign capital markets. However, the central government is still able to exert some influence in that the municipality is only able to borrow from foreign entities with prior consent from the central government (Yusufi 2006, 9). The municipality can take out short-term loans, which must be repaid by the end of the fiscal year; and may be used for covering the municipalities' temporary cash deficits, but not for the paying of fines and any penalty interest. The total amount of this short-term borrowing cannot exceed 20 percent of the overall revenues from the current operational budget of the municipality from the previous year (Yusufi 2006, 9). The municipality is also autonomous in terms of long-term borrowing for the financing of capital assets or investment projects, but with the stipulation that repayment be made in equal or decreasing annuities. The municipal council approves the proposed long-term borrowing only after a public hearing has taken place. The decision reached by the council shall be valid only if the agreement for borrowing is concluded in the same fiscal year of reaching the decision. The total amount of the annual debt-service from long-term borrowing in one fiscal year can amount up to 15 percent of the overall revenues in the current operational budget of the municipality from the previous fiscal year (Yusufi 2006, 9).

4. Revenue Raising

Prior to recent reforms, local governments' independent collection of public revenues was limited. Most revenues were collected by the regional branches of the public revenue office of the Ministry of Finance, paid to the account of the central budget, and then the funds were

distributed to the local governments according to predefined criteria (Yusufi 2006, 8). After recent reforms, municipalities' administrations were given the responsibility of calculating and collecting their own revenues. The municipality is also able to define the level of tax rates and the level of charges and fees (Yusufi 2006, 8). In order to ensure that the municipalities carry out this responsibility in an efficient manner, the municipalities will take on employees from the Public Revenues Office and the Department of Common and Financial Affairs of the Ministry of Finance to perform these newly acquired taxation and revenue competencies.

Composition of Local Government Revenues

Under the old system, revenues from a limited number of sources were available to municipalities. The taxes that municipalities could collect were: the property tax; the tax on inheritance and gifts; and the tax on the transfer of immovable property and rights. They were also able to collect fees, charges, and other revenues. These were the land fee (construction site utilization charge); communal fee (construction site arrangement charge); property revenue, etc.; and earnings from public enterprises founded by the local self-government unit (charges for providing local services/local public transportation, water supply, sewerage, waste disposal, etc.). There were also funds available from various state bodies or agencies, donations from domestic and foreign sources (in goods and money), and local contributions both in manpower and financial resources (Yusufi 2006, 10).

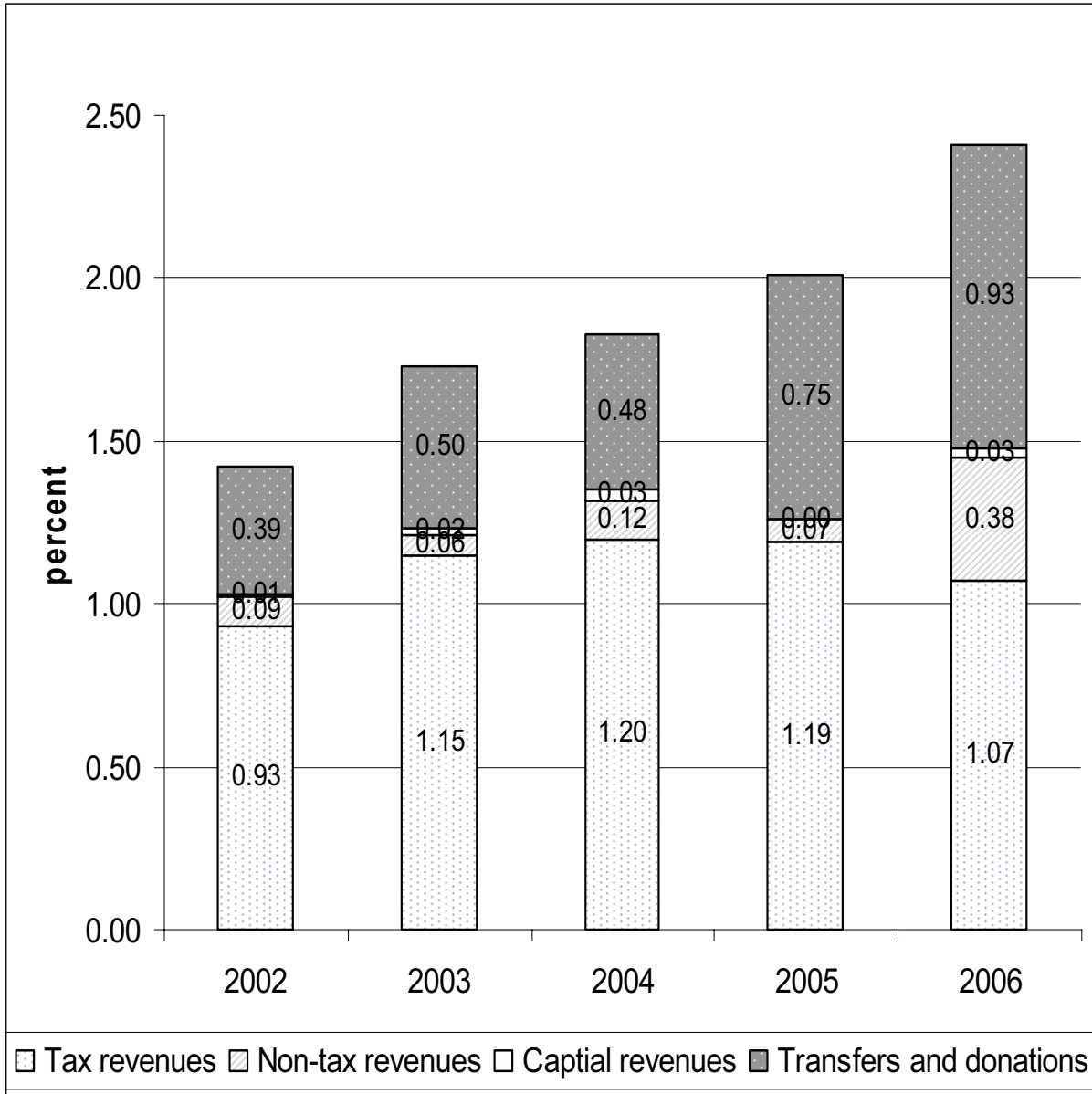
Local self-government units in Macedonia were extremely under-funded with these sources of revenues and essentially had no own revenue raising authority or spending powers. There were massive vertical imbalances between the central government and local governments, as well as

horizontal imbalances between the local governments themselves. The vertical imbalances that existed were characterized by the large amount of debt the municipalities owed to the suppliers of goods and services, amounting to around MKD three billion (US\$60 million). Additionally, the local government expenditures made up only 1.7 percent of GDP in 2003, compared to the central government's GDP expenditures of 21.3 percent (Yusufi 2006, 10). This illustrated the highly centralized fiscal system in Macedonia at that time. The high fiscal dependency of local governments on central government was also further illustrated by the high dependency of local governments on various central government sources of revenues. According to figures from 2001, 67 percent of the municipal revenues were derived directly from the national government (Yusufi 2006, 10). The horizontal imbalance was characterized by the high share of local governments with per capita revenues well below the national average. In 2003, 41 local governments, representing 36 percent of Macedonia's population, had per capita incomes of less than 50 percent of the national average (Yusufi 2006, 10). In 2002, 88 municipalities, which make up 72 percent of the total number of municipalities, accounted for less than 40 percent of the total expenditures of that year for municipalities (Yusufi 2006, 10).

Under the old system, the Public Revenue Offices of the Ministry of Finance, which were regional branches of the central government, were responsible for administering the local tax revenue (property tax, inheritance and gift tax, and tax on real estate and rights transactions) and collecting the revenues (Feruglio 2007, 22). However, the collection was poor since the highest-quality revenue sources were economic activity-related taxes (VAT, personal income tax), which were available only to central authorities. This contributed to the inefficient financial system of local self-governments (Yusufi 2006, 10). These public revenue offices also suffered from poor

collection rates that increased the horizontal and vertical imbalances under this system. In 2000, 20 out of 30 local units of public revenue offices collected fewer taxes than the average collection rate (Yusufi 2006, 10). There were also severe problems in the distribution of local revenues. The funds were distributed to the municipalities in accordance with defined criteria. This frequently left the municipalities being not well informed as to the amount of money collected from the various sources of revenue that would serve their needs (Feruglio 2007, 22). A pilot project was undertaken in 2004 in four cities (Gostivar, Struga, Sveti Nikole, and Veles) to test the ability of these municipalities to collect certain revenues. The project was a test for devolving the administration of property taxes to the local municipalities. The project results showed a 41 percent increase in the property tax collection rate. The collection rate of the property transfer tax increased by 195 percent (Yusufi 2006, 11).

Figure 5.2 Local Revenues as a Percent of GDP: 2002-2006



Source: Feruglio 2007, 23 (based on Ministry of Finance data)

All sources of own source revenue increased for the municipalities between 2004 and 2006 except for communal fees and charges, which are dominated by revenue from construction permit fees (Feruglio 2007, 23). This is due to the delay in the approval of local master plans by the Ministry of Transport, which resulted in a backlog of building permit applications since

municipalities cannot issue them without an approved master plan by the Ministry of Transport (Feruglio 2007, 23). Between 2005 and 2006, all three property related taxes increased as a percent of GDP, especially the real estate transfer tax which increased from 0.24 percent to 0.35 percent (Feruglio 2007, 25).

Table 5.7 Yield of Local Revenue Instruments in 2003-2006 (% of GDP)

Type of Revenue	2003	2004	2006
Income tax	-	-	0.07
Property taxes	0.26	0.26	0.42
Communal fees and charges	0.89	0.94	0.58
Administrative fees and charges	0.00	0.00	0.02
Service fees	0.01	0.05	0.29
<i>out of which:</i>			
<i>Collected by schools and child day care centers</i>	-	-	0.26
Other government services	0.01	0.01	0.01
Other non-tax revenues	0.04	0.05	0.06
Sales of capital assets	0.01	0.03	0.03
Sale of land and non-material assets	0.01	0.00	0.00
Foreign donations	0.02	0.01	0.09
Total	1.24	1.35	1.57

Source: Feruglio 2007, 24 (based on Ministry of Finance data)

Beginning in July 2005, the new system of financing was initiated that followed the adoption of new Law on Financing the Units of Local Self-Government from 2004. The sources of financing for municipalities were extended and now include: shared taxes, own sources of revenue, transfers of funds from the budget of the republic and budgets of the state funds, and borrowing.

Figure 5.3 Revenue Performance of Major Local Taxes as Percent of GDP: 2005-2006



Source: Feruglio 2007, 25 (based on ZELS data)

Shared taxes

As a shared tax, the Personal Income Tax (PIT) was to be a major new source of revenue for local governments. In this case, the municipalities were to receive revenues from the personal income tax collected in that year. Revenues from personal income tax were to be distributed to the municipalities according to the following criteria: three percent of the personal income tax from salaries of persons collected in the municipality where they are registered with a permanent residence; and 100 percent from the personal income tax from physical persons who are performing craft activity, registered in the territory of the municipality in accordance with the Law on Craft Activity (Feruglio 2007, 31). In total, the amount collected from the personal income tax amounts to about MKD 180 million (US\$3.6 million), or about four percent of the total revenues of local governments in 2003 (Yusufi 2006, 10).

Own Taxes/Sources

According to the Law on Financing the Units of Local Self-Government (Article 4-7) and subsequent legislation, municipalities are entitled collect revenues from the following sources:

1. Property taxes (annual property tax, tax on transfer of real estate, tax on inheritance and gifts);
2. Local fees (communal fees, administrative fees);
3. Communal charges (construction land charges, communal activity charges, spatial planning charges);
4. Revenues from assets (leasing, interest, property sales);
5. Financial donations (a contract between the donor and the mayor after approval from the municipal council);
6. Fines
7. Self contributions (authorized through local referendum); and
8. Revenues from concessions on mineral resources (Feruglio 2007, 26).

Municipalities are fully responsible for collecting property taxes, which makes them responsible for property identification, property valuation, preparing and issuing of tax bills, collection, accounting, enforcement, and the initial review of appeals (Feruglio 2007, 27). The Law on Property Taxes gives the municipalities discretion in setting the property tax rate, which must be between 0.10 percent and a maximum of 0.20 percent of the market value of the property.

The tax on the transfer of real estate is essentially a sales tax on real estate transactions. This tax on property transfers has been a more productive source of revenues than the property tax, yielding 0.35% of GDP compared to 0.06% for the annual property tax (Feruglio 2007, 29).

Another important source of revenue for municipalities is charges and fees for various activities. Among those listed in the table above, the construction permit fee is the most significant of all municipal own source revenues. On average it accounts for 20 percent of local budget revenues nationwide. It should be noted that in the capital Skopje, the fees on construction of land

account for 40 to 50 percent of the total local revenues. In other urban municipalities that number is less than 25 percent, while in rural municipalities it is less than 15 percent (Feruglio 2007, 30). This can largely be attributed to two things. First, most construction occurs in the cities, so the smaller and more rural municipalities do not have access to this type of revenue. Secondly, it can be attributed to the fact that smaller municipalities do not have urban plans that have been adopted or approved by the central government, without which they cannot issue construction permits (Feruglio 2007, 30).

Transfers from the Central Budget

Grants were made available from the central government to provide additional revenue meant to improve the performance of the competencies of the local governments determined by law.

Grants from the budget of the Government of Macedonia and budgets of special funds provided additional revenue for the municipalities to finance their competencies. The goal of these grants was to assist in the equalization of the financial situation among the municipalities (Yusufi 2006, 11). The following are types of grants that could be allocated from the budget of the Government of Macedonia:

- Earmarked grants: used for financing a special activity. The line-ministries and funds office propose to the Ministry of Finance the distribution of the earmarked grants per municipality, project, institution, and/or program with a budget calculation for the following year. The line ministries and the funds office monitor the execution of the earmarked grant. A line ministry manages a particular grant under its authority.

- Capital grants: The capital grant, on the basis of the program determined by the government, is used for financing investment projects. The line-ministries and the funds office, in their distribution of the capital grants, give priority to projects that previously have collected the necessary funds and to projects that have been started but not completed. The line ministries and the funds office control the execution of the capital grant. This includes the Ministries of Transport and Communication, Environment, and special funds, including the Fund for Economically Underdeveloped Regions and the Fund for Regional Roads.
- Block grants: are used for financing through concrete programs the competencies of the local self-governments in the fields of culture, social welfare and child protection, education, and healthcare.
- Grants for delegated competency: The grant for delegated competency is used to finance a delegated competency of a mayor's central state management function. The funds for the delegated competency are provided from the amount set in the budget of the republic for the line-state management body. The minister who manages the state administration body and the mayor of the municipality conclude an agreement for the regulation of mutual relations regarding the grant for delegated competency (Yusufi 2006, 12).

Equalization Measures

Prior to the adoption of the Law on Financing of Local Self-government in August 2004, and its implementation in mid-2005, there were no instruments to equalize the financial situation of local governments. There were transfers and funds not formally designed for equalization

purposes but used for such purposes. These funds were earmarked for investments in infrastructure; however, the municipalities had no control as to how they would be utilized (Yusufi 2006, 12). Most of these transfers were distributed through the Bureau for Economically Underdeveloped Regions. Other programs that transferred funds to the municipalities were: The Fund for Roads, The Water Supply Program, The Physical and Urban Planning Program, The Program for Revitalization of Rural Areas, The Rural Areas Electrification Program, and projects funded from the sale of the Macedonian Telecommunications Company (Yusufi 2006, 12).

Because of insufficient funds and the lack of objective criteria in the distribution and allocation of these funds, the transfers did not create a properly functioning equalization system (Yusufi 2006, 12). One problem with this arrangement was that there were no objective criteria set for the priority allocation of funds. There were also complaints by mayors and council members that party interests heavily influenced the decisions. There was a high level of central government discretion, mainly political, in the transfer of funds to municipalities. Only the Road Fund transfers were made according to the defined quantitative formula (Yusufi 2006, 12). In sum, mismanagement and lack of objective criteria in the transfer of funds dominated the financial equalization system in Macedonia. The method of transfers did not include standards for the minimum acceptable levels of expenditure for municipalities. It was essentially a mechanism for donating funds to the municipalities that had no fiscal or administrative capacity to generate their planned budget revenues (Yusufi 2006, 12). There was no clear link between the levels of the municipalities' own revenues per capita and transfers per capita. This did not remove horizontal disparities, which resulted from the allocation of funds not being based on acceptable standards for provision of public services, and the methods did not take into account municipal fiscal

capacities (Yusufi 2006, 13). This system of transfers from the central government to municipalities suffered from the problems typically faced by developing countries that lack sound fiscal equalization mechanisms. As is often the case, large municipalities received the largest share of transfers from the central government. However, there were also instances of smaller municipalities receiving resources that were well beyond their fiscal needs (Yusufi 2006, 13). The funds were generally transferred on the basis of political and personal connections of the mayors. Municipalities were, therefore, significantly dependent on the central government, which was especially true for rural municipalities. These transfers to rural and poorer urban municipalities did not result in any equalization of the financial status between municipalities (Yusufi 2006, 13).

A capping system was in place that allowed the government to pass laws that limited the expenditures of municipalities by imposing a cap on the amount of shared taxes, primarily the property tax, which could be allocated to the administrative budgets of the municipalities (Yusufi 2006, 13). The rates for all taxes, fees, and charges were set by the national government. In addition nearly, all were collected by the government's public revenue offices (Yusufi 2006, 13). With the cap system, the Ministry of Finance distributed the funds that were collected from the taxes of the local governments based on criteria that utilized a system of 80:10:10, whereby the first number was population of the municipality, the second the number of inhabited settlements, and lastly the area in square kilometers of the municipality (Yusufi 2006, 13). This applied only to revenues of the administrative budget of local governments, which covered all items relating to the operation of the local governments' staff (Yusufi 2006, 13). The cap system meant that the regionally collected shared taxes were redistributed back to local governments within the region on the basis of the 80:10:10 formula until they reached their caps, at which point any

surplus became property of the national government (Yusufi 2006, 13). The government did redistribute most of the surplus back to local governments once or twice a year, but on an ad hoc basis.

With the adoption of the Law on Financing Units of Local Self-government in 2004, the only newly defined equalization instrument is the revenue that is transferred from the value added tax (VAT). For the City of Skopje and the other municipalities in the City of Skopje, a joint fund has been created for the purposes of equalization. This is funded by the revenues generated from the personal income tax, communal tax for company title, communal street tax for passenger, cargo and auxiliary vehicles, and other means (Yusufi 2006, 14). Although not explicitly mentioned, block grants are available to be used by the national government to equalize the financial situation of local governments (Yusufi 2006, 14). New reforms have eliminated the caps system on the revenue that local governments receive from shared property taxes and communal fees and with it the redistribution of the surplus. The same taxes and fees are becoming the true own-source revenues of local governments. In the new system, local governments are responsible for setting the rates of the property tax, the property transfer tax, and the gifts and inheritance tax, as well as for communal fees and charges like the hotel charge and the sign fee (Yusufi 2006, 14). Also significant is that responsibility for maintaining tax rolls, cadastres, and collections are to be transferred from the Public Revenue Offices to local governments. The new reforms in the system of intergovernmental transfers reflect the formation of a genuine financial equalization system (Yusufi 2006, 14). This requires resolving the basic issue of a transfer allocation mechanism. Regarding the distribution of transfers, the system should be objective and transparent, i.e., using a formula to determine the amount of funds to be received by each individual municipality (Yusufi 2006, 14). Also, the total transfer

amount should be defined in advance, to avoid ad hoc decisions that might jeopardize overall fiscal discipline (Yusufi 2006, 14).

The value-added tax (VAT) is used as an equalizing tool in financing local governments. The new regulations provide that three percent of all VAT revenues collected nationwide from the previous fiscal year will be distributed to the municipalities. The distribution of the revenue from taxes is to be executed according to the criteria per capita and other criteria defined by an ordinance on the distribution of revenues from VAT enacted by the national government in the Ministry of Finance (Yusufi 2006, 14). The City of Skopje is a special case, with different criteria to determine the method to correct the differences between the City of Skopje and the other municipalities. With the Joint Fund for the City of Skopje and the municipalities in the City of Skopje, revenues are distributed in accordance with the methods approved by the Minister of Finance (Yusufi 2006, 14). In 2003, the revenues from the VAT that were available to municipalities, which is the three percent of total VAT, totaled MKD 700 million (US\$14 million), or about 16 percent of total revenues of the sector (Yusufi 2006, 14). With this three percent share of the VAT, local governments increased their revenues by 30 percent on an aggregate level.

There remains, however, a serious problem in the area of transferring land that is held by the central government to the municipalities. The process requires the municipalities to apply for each parcel of land they wish to acquire. Due to inefficiencies and an interest on the part of those in certain segments of the central government to keep these transfers from happening, the applications get held in the review process for extended periods of time, in some cases for

several years. This has been detrimental to the decentralization process as municipalities have lost countless opportunities for investment because they could not secure the land in order to finalize the sale of the property.

Within these changes, there has been a focus on capacity-building in the municipalities' offices in order to enable them to properly assume the new responsibilities. The new program has approved an operational program for decentralization of power, created a coordinating body for decentralization consisting of the secretaries from all ministries, created a decentralization working group made up of representatives from all ministries, signed a memorandum of cooperation with the Association of Local Self-Governments (ZELS), and adopted a communication strategy for the decentralization process and coordinated trainings for the Local Self-Government administration. Although these are significant steps, the process is still moving forward slowly (UNDP 2005, 130).

Further delaying the decentralization process is the fact that a large number of competencies that were to be transferred to the local governments under the 2002 law still remain in the central government. The following functions have yet to be devolved and show the ministries that are still responsible for them: libraries, monuments and memorials, museums, art centers (Ministry of Culture); primary and high schools, student standards (Ministry of Education); street names, management of traffic, construction and urban planning (Ministry of Transport and Communication); tourism, crafts and trade (Ministry of Economy); primary healthcare, protection of contagious diseases (Ministry of Health); financing of municipalities, devolution of property tax responsibility and local fees and charges (Ministry of Finance); protection of

children and elderly (Ministry of Labor and Social Policy); protection of environment and nature, waste management, water management, air quality, spatial and urban planning (Ministry of Environment and Urban Planning); and firefighting (Ministry of Interior). It should be understood that in some of these areas, certain aspects of these functions have been transferred to the local governments, but not nearly all of them that should have been under the law (UNDP 2005, 136).

Even in areas where the local municipalities have assumed some of the responsibilities given to them by law, they are often limited to “municipal housekeeping,” meaning communal services. This is due to the fact that the line ministries have not completed the devolution of the designated functions to the local level (UNDP 2005, 136). Many of the problems that have been associated with communal enterprise still remain as a result of the lack of capacity to handle these responsibilities. There are other problems as well, such as a lack of price uniformity for services provided that are not due to differences in cost of production. This is largely due to the failure of communal enterprises to collect fees. Nationwide, the average collection rate for communal fees is 54 percent, and even if they did collect 100 percent, communal enterprises would not recover costs because of the low level of fees charged (UNDP 2005, 137). This could be due to the lack of collection and enforcement powers that plagues the country in nearly all areas of government, and the low incomes of the majority of the population that renders them unable to pay for such services. Another factor complicating matters is that communal enterprises suffer from an organizational culture focused on revenue collection as way to provide salaries that does not foster a desire to increase efficiency and improve the quality of services. A recent survey done by the Economic Institute of Skopje found that only 65 percent of citizens benefited from water

supply services, and 25 percent of citizens benefited from services such as solid waste management and green areas (UNDP 2005, 136). The same study concluded that this is attributed to the infrastructure of communal enterprises being obsolete, dating back to the 1950s. In most communities, water loss was estimated to be between thirty and fifty percent due to the poor condition of the water supply infrastructure. The problem continues because financing of enterprises comes from municipalities' own expenses, roughly ninety percent of the costs and the rest is provided from loans and grants. Municipalities are unable to sufficiently cover these costs because of the budget limitations put on them by the current system and the low levels of economic activity in the majority of the municipalities that would otherwise generate revenues from taxes. Highlighting this fact is the low level of expenditures of municipalities, which is only 1.38 percent of total GDP (UNDP 2005, 137). The majority of these expenditures are not put to upgrading and maintaining infrastructure and service provision, as a good share of this goes towards wages, averaging 45 percent nationwide and in some municipalities it is nearly 100 percent. This is emblematic of the wide disparity in expenditures among municipalities, which is reflected in the fact that the poorest municipalities spend three dollars per capita on these services, while the richest spend over one hundred (UNDP 2005, 138). This demonstrates a need for an equalization system and a more balanced economic development program.

Key Informant Interviews

Dr. Jan Herczyński, Warsaw University

Dr. Jan Herczyński stated that there is no doubt that the responsibilities of the local governments in the Republic of Macedonia have been significantly strengthened, especially in the second phase of decentralization. According to Dr. Herczyński, the central government has transferred

the responsibilities to the municipalities as outlined in the legislation and that the laws have been fully implemented. In regard to any resistance that exists within the government to transfer responsibilities, it is his opinion that while central government authorities and politicians do not represent a uniform block, the main resistance comes from some Macedonian politicians, who are supported by the frustrated ethnic Macedonian population.

Dr. Jan Herczyński feels that the municipal departments are free from direct central interventions. However, the central government has the right, and often uses it, to not give approval to some local policies (such as closure of small schools). That being said, in every country, the central government has the right and responsibility to define overall policies and monitor how they are implemented. There is a political process through which the central government monitors and may annul some decisions by the local governments, but this is prescribed by the law. There are legally prescribed limits on central government interventions in local policies (environment, building safety, access to education, etc.). Dr. Herczynski is aware of a few delays on the part of the central government in regards to education, but feels they are not significant.

Regarding the capacity of local staff to perform the duties transferred to them, Dr. Herczynski believes that it is much better for the municipalities to train and advance their own staff rather than rely on the staff transferred to them from the central government. The central government has transferred staff to the municipalities as prescribed in the law. He is aware of some cases where the transferred staff was less than 100 percent professional. However, training new staff is a long process, and finding quality staff is hampered by low salaries. He feels the lack of

managerial and technical skills that exists at the municipal level as a long term problem. He believes that the local staff can only learn by doing, and the learning process has already started. That said, there are many opportunities to train them, but these opportunities are mostly organized by donor institutions and tend to be of rather low quality or relevance. Dr. Herczyński states that there have been some investments in the offices and technology in the municipalities and does not think that this is a major barrier now.

According to Dr. Herczyński, the implementation of the Ohrid Framework Agreement has gone quite well, especially in the area of education. In his view, the international community was offering its sometimes heavy-handed assistance to the Macedonian government from the signing of the Ohrid Framework Agreement, without waiting for the Macedonians to seek it. The interference of the EU and the US in local political process was quite marked.

The main purpose of the Law on Territorial Organization was to consolidate the smallest jurisdictions. This goal was not fully achieved because of the ethnic factor, with the consolidation of municipalities resulting in a number of municipalities that changed the majority population from Macedonian to Albanian, which was resisted by much of the Macedonian population. There are still too many small municipalities that are unable to deliver adequate and efficient education, but the barriers and distrust are too deep for this to be changed.

There is a problem with assigning a single scope of functions to all municipalities that risks substandard provision of functions in some localities while failing to utilize capacity in others. However, taking some functions from some municipalities and transferring them to larger ones,

such as to the cities, opens an even more difficult and conflict-ridden process than the Macedonian democracy is able to address now.

The problem with inter-municipal cooperation is not the lack of adequate opportunities, which does exist, but with the unwillingness of neighbors to share tasks and funds, especially when different ethnic communities are involved. He sees this problem of inter-municipal cooperation as a “dead end,” which is a problem in countries with a homogenous population like Poland.

He feels that the issue of information sharing between the central government and the municipalities is governed by laws, and the reporting obligations of local governments are quite significant. The transparency and openness of the central government, however, is a serious issue. There is also a serious issue with municipalities sharing pertinent information with the citizenry. There are constant discussions between the central and local governments on the level of funding and revenue-raising authority for specific services, like education, so there is no “scientific” truth regarding this issue. However, given the increasing responsibilities of Macedonian municipalities, their budgets expressed as shares of GDP are still relatively small. He also feels that, on the whole, the municipalities have sufficient freedom to form their budgets and to execute them as they see fit.

Anonymous individual, employed by an international development consulting firm

According to this informant, Macedonia has adopted a complete decentralized education system. As such, based on the reform approved by the government, the impression from the outside may be that the municipalities are ready to execute their responsibilities. However, the reform did not

prepare the municipalities with the necessary technical skills and training to execute their duties. One of the major issues regarding the functioning of municipalities is the lack of clarification of the legal competencies among all stakeholders.

Based on the informant's experience working with municipalities in Macedonia during the first phase of decentralization, the major issues identified were that local governments did not have the right staff, or the staff was not trained with the right skills to execute the new responsibilities. The needs that were identified were: prioritization of investment needs of the school system, division of the responsibilities among school directors and the municipality education staff, and providing quality advice in improving management capacity and skills of local governments to better manage their new responsibilities. Even though the transfer of competencies to local governments has been a significant and important step, without the adequate resources necessary to perform the tasks assigned to the municipalities, decentralization may fail.

In general, Macedonia has made positive progress during the first phase of decentralization. The second phase will impose a large burden for the municipalities if the central government does not provide clear guidance to them and also if does not provide the support they need.

Islam Yusufi, European Agency for Reconstruction

In Mr. Yusufi's opinion, the current legislative framework of decentralization, in principle, provides for sound functioning of the municipalities. All responsibilities set in the new legislative framework have been transferred to the municipalities, with the exception of the management of state owned land. However, as can be expected when taking power away from

one entity and transferring it to another, the central government has shown some resistance to transfer some responsibilities. He feels that the overall political commitment to decentralization of the citizens and the international community has mitigated such actions. In principle, the municipalities are free to act independently of any central government ministries and officials. However, regarding economic development, the municipalities require the right to manage the state owned land within their jurisdiction, which creates a problem because the central government still has the right to manage that state owned land. This creates difficulties in implementing development plans.

In the areas where the responsibility has been given to municipalities, they are able to act without interference from the central government. However, it often happens that line ministries take away some of the rights given to municipalities, such as the case when the Minister of Education took away the rights of some municipalities to appoint school directors. Fortunately, municipalities can appeal such actions to the government inter-ministerial committees.

Mr. Yusufi believes that the municipalities are deficient in both the number and quality of staff to allow them to perform the duties assigned to them. Nevertheless, the central government has transferred the staff from the central government and/or field offices to the municipalities as outlined in the legislation. There are training opportunities offered to the municipalities by the government and by international donor agencies, such as the European Union. In terms of municipalities being equipped with the technology and resources to perform the functions prescribed to them, Mr. Yusufi feels that the urban municipalities possess the needed technology and resources while the smaller and more rural ones do not.

Regarding the Ohrid Framework Agreement, the areas of decentralization, equitable representation, and language use have been the most successfully implemented. The government has also sought assistance from the international community as outlined in the framework.

Mr. Yusufi believes that the 2004 Law on Territorial Organization of Local Self Governments has in principle achieved the goal of creating the optimal number of municipalities that are of adequate size. This fact is reflected in the 50 or so municipalities that have already been able to transition to the second phase of the decentralization process, which provides for more funding from the central to local government. He also sees success in inter-municipal cooperation due to the legislation governing this area, and forms of it have proven to be successful in various cases.

Mr. Yusufi believes that, generally speaking, the municipalities have the necessary revenue-raising authority to sufficiently fund the devolved activities under the relevant legislation due largely to their ability to collect revenue from property taxes and share with central government the Personal Income Tax and the Value Added Tax. Whether or not they are entirely sufficient depends on the level of taxes collected in each individual municipality.

Chapter 6

Conclusions and Recommendations

The findings of this research lead this author to conclude that Macedonia has made significant progress in the decentralization process. Overall, the relevant responsibilities have been transferred to the local municipalities as prescribed in the laws pertaining to decentralization over the past sixteen years. Although each law passed has not been without flaws, the system currently in place provides a sound legal framework that clearly outlines the municipalities' responsibilities and has significantly strengthened the role the municipalities play in the lives of the citizens. This has created a structure of governance that is far more decentralized than any previous arrangement in the country's history and has helped Macedonia make significant progress towards creating better local democracy. However, despite the fact that municipalities have considerable more authority and financial autonomy, the municipalities face several hurdles in becoming sustainable entities with independent authority over all of their responsibilities.

Outcomes of the Decentralization Process

The drafting of the 1991 Constitution was a landmark event that established local self-government as one of the fundamental values of the Republic of Macedonia. It guaranteed the right of local self-government and defined the municipalities as local self-government units in which communal self-government could be organized. The constitution granted municipalities limited power and gave them responsibility for a limited number of competencies, as well as limited financial autonomy. Although the constitution granted only a limited number of

responsibilities to the municipalities and did not make substantial progress in terms of financing for them, it nevertheless proved to provide a good foundation from which to create a more decentralized form of governance.

The Local Government Act of 1995 marked a significant increase in the financial autonomy of the municipalities by transferring revenue-raising authority to them. This act expanded the revenue sources for the local governments and allowed them access to a variety of revenue sources that were previously reserved for the central government. However, the law created a number of grants that the municipalities became heavily dependant on. This resulted in a limited amount of financial autonomy for the municipalities that is a fundamental component of any decentralization system that seeks to allow them to execute the decentralized functions effectively.

The Law on Territorial Division, which followed the Local Government Act, increased the number of municipalities from 34 to 123. This was seen as a way to create smaller units of local government that would allow for common interests to be more easily identified in order to solve problems. This was to increase the responsiveness of local governments by bringing government closer to the citizens. This did not happen since the law ultimately created too many municipalities that were too small in size and lacked the financial capacity to effectively handle the responsibilities transferred to them and manage the interests and problems of the citizenry.

The Local Self-Government Act of 2002 ushered in a whole new era of decentralization and marked a significant improvement in the functioning of the municipalities. The act shifted many

competencies to the local municipalities and guaranteed them as primarily the responsibility of the municipalities. The law made the competency to perform activities of local importance as comprehensive and exclusive, which allowed them to regulate and perform these activities independently of the central government. The law granted municipalities the right to establish local policy and departments according to local needs without influence from the central government. The only control of the central government is in its ability to supervise the legality of the operations of the municipalities but not on the substantive action of the local authorities. With this law, the municipalities became far more responsible for carrying out the functions that are normally associated with local governments and gained political, financial, and policy independence. Another positive change that occurred was the ability for municipalities to set up associations in order to protect and promote shared interests, such as the Association of Local Self-Government Units (ZELS), as a counterbalance to the central government. Inter-municipal cooperation is a key component of any decentralization program as it strengthens the position of the municipalities and provides opportunities to collaborate and share in the delivery of services when needed. While the Law on Self-government drafted in January 2002 precipitated several changes in the fiscal power of the municipalities, it did not go far enough in providing the municipalities with adequate financial autonomy.

The Law on Territorial Organization of Local Self-Government of 2004 decreased the number of municipalities to 85. This was to create municipalities of a larger size in order to ensure they have sufficient capacity to raise their own revenue and provide municipal services more efficiently and effectively. This law succeeded in creating municipalities that were larger in both size and population, but the fact remains that there is still a significant percentage of

municipalities that have small populations and weak economic bases that they are not able to generate the revenue needed to adequately perform the duties assigned to them.

The Law on Financing the Units of Local Self-Government of 2004 addressed the shortcomings of the 2002 law regarding the financial autonomy of the municipalities. This new law established a new local public financing system that enabled a higher level of financial independence than any other system before it. This law achieved one of the cornerstones of a decentralized system by balancing the sources of financing with the actual needs of the municipalities. An important component of this law was granting municipalities the ability to collect revenues from a larger number of sources and allowing them to define the level of tax rates and the level of charges and fees for their own source revenues. By increasing the sources of revenue for the municipalities and allowing them to utilize these revenues according to their own needs independent of the central government, Macedonia came closer achieving a truly decentralized form of government with substantial political, economic, and policy authority for the municipalities.

That said, there are still a number of issues that the reforms have yet to fully address. The most significant issue Macedonia faces regarding decentralization is the inadequacy of financial resources available to the municipalities. There are still a number of municipalities that still lack the financial resources to handle the newly acquired competencies. Autonomous financial responsibility is at the core of the concept of decentralization. Without the necessary financial resources, these municipalities will not be able to govern effectively and provide the public services they are responsible for. This is a major hurdle for reform in Macedonia, as local policy

makers and officials are unable to make effective decisions without the necessary financial resources. One example of how municipalities fail in generating sufficient revenue is the underperformance of the revenue raised from the property tax. Because of administration difficulties and the structure of the system (as in low rates), in 2006, revenues from the property tax represented only 2.7 percent of the municipalities' total budget or 0.06 percent of GDP. The average percent of GDP collected in developing and transitional countries from the property tax is about ten times what is currently collected in Macedonia. There is great potential for this tax to become a much more important source of municipal revenues.

There are also serious shortages in many municipalities of properly trained staff that lack the professional skills to effectively execute the functions of local government assigned to them. While the central government has successfully transferred the staff to the local municipalities, as was required in the legislation, there simply was not enough staff in the central government to adequately staff the new offices created in the municipalities. The municipalities still do not have the needed number of staff to handle the new responsibilities. There are also cases where municipalities have the needed number of staff, but the staff does not have the technical and professional skills to perform the functions of the local office. While there has been an effort on the part of the government of Macedonia and the international community to provide training for staff development, it has not been sufficient to address the lack of capacity of the municipalities.

Recommendations

In order to address the inability of municipalities to generate sufficient revenue, it is recommended that the municipalities' share of total public resources is increased in stages to

reach levels comparable with those found in other European countries of similar size (approximately 16 percent corresponding to 8 percent of the GDP). The financial autonomy of the municipalities would be strengthened by increasing the actual share of local taxes (or the municipalities' share of value added tax and personal income tax) and at the same time reduce state subsidies. This would assist the municipalities in achieving financial independence. Along those same lines is the recommendation that Macedonia adopt the principle of concomitant financing, which ensures that all transfers of responsibilities to local authorities are accompanied by the transfer of resources equal to those which central government allocated to the activities in question.

In order to address the shortage of properly trained and skilled staff in the municipalities, it is essential that the skills and professionalism of municipal staff be strengthened. It is crucial that there be genuine expertise in local management and inculcating a new culture whereby questions are addressed from the perspective of public efficiency and quality of service to the public. Therefore, there must be increased efforts to provide vocational training for local government employees and improve their technical abilities. The many initiatives underway in this area must be properly coordinated among all relevant stakeholders and expanded. It is recommended that in order for the municipalities to make full use of the powers transferred to them, they must strive to strengthen their administrative services and recruitment of qualified staff, especially specialists in town-planning law, education, and financial administrators.

Primary Lessons Learned

A number of lessons can be drawn from Macedonia's decentralization process that can be applied to other countries' efforts to decentralize.

1. The decentralization process is an ongoing process that is continuously evolving. Policymakers must address the realities of instituting such large-scale reforms and factor in the time involved and the ability to continually examine the effectiveness of the program. The political reality that exists when the process begins might be drastically different ten or fifteen years later. Additionally, it is not reasonable to assume that granting local units of government more authority will result in stronger units overnight that are able to perform the functions devolved to them. With this in mind, policymakers and others involved in the process, including the public, must be realistic and patient with the slow and, at times, painful transition to establishing local units of government that are more effective, efficient, and accountable.
2. Decentralization should not be used as a tool to achieve purely political objectives. Such behavior can lead to short-sighted solutions to long-term problems that can be detrimental to the process. Often such action stems from certain interests in the government and political system to capitalize on the frustrations of their constituents for their own personal or political gain. Not only does this distract from the other objectives of decentralization, but can lead to discontent among the population that threatens the success of not only the decentralization process, but the long-term political stability of the country. In Macedonia, the only time that the decentralization process suffered from a

strong lack of public support was following the 2001 conflict when heavy-handed reforms, although reasonable to many observers familiar with decentralization, were quickly pushed through. These reforms were seen by some Macedonians as an attempt to use decentralization as a way to strip power away from Macedonians in favor of ethnic Albanians. Whether or not that was the case is beyond the scope of this study, but it does illustrate how, if peoples' suspicions were true, using decentralization as an instrument to achieve political objectives can potentially derail the reform process, and ultimately threaten the political future of a country.

3. Macedonia's success in clearly defining the rights and responsibilities of the local units of government is an example of how the legislative framework ought to be. Although early laws pertaining to decentralization fell short of achieving the kind of results that a sound decentralization reform process seeks, the Macedonian government was able to learn from the lessons of those early attempts and draft clearer and more sound legislation that increased the municipalities' ability to govern more effectively. The Macedonian government displayed maturity and prudence in not rushing through the process and drafting legislation that did not clearly define the responsibilities of the municipalities.
4. Macedonia's decentralization process has not been without its shortcomings. The most significant failure has been the lack of municipal capacity in certain areas, primarily due to deficiencies in financial authority and human resources. It was not until 15 years into the process that the financial capacity of the municipalities was adequately addressed, and even then there are still problems with municipalities not being financially independent. This can be attributed to the government not taking into the financial capacity of the municipalities and transferring responsibilities to them without the

necessary revenue sources to handle them. It is therefore imperative that the highest quality sources of revenue be made available to the local units of government. Another issue regarding financial authority is the fact that there are municipalities that, due to certain geographic and economic realities, will always lack the ability to generate the revenue needed to effectively provide certain public services. The same logic applies to the lack of qualified staff in many municipalities that hinders the municipalities' ability to perform the responsibilities transferred to them. Several of the areas of public administration and service delivery suffer from the problem of underperformance due to deficiencies in the quality and quantity of properly trained staff. Ample opportunities for training and professional development must be made available to the municipalities to ensure such problems do not exist.

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Appendix

Each informant was asked the same series of questions:

1. To what extent does the current system allow for the municipalities to fully execute the responsibilities granted to them under the Constitution and subsequent laws?
2. To what degree has the central government transferred the responsibilities to the municipalities, as outlined in the legislation that pertains to local self-government?
 - a. Is there resistance on the part of central government authorities and politicians to transfer responsibilities to the municipalities as envisioned in the Constitution and subsequent laws?
 - i. If so, what system is in place to mitigate such actions?
3. To what degree are the municipalities free from central government ministries and officials to:
 - b. design the policies of each office in its respective area, and
 - c. execute them appropriately?
4. If any, what systems are in place to allow municipalities and locally elected officials to function without interference from the central government?
5. Does the central government perform the duties prescribed to it in the legislation, for example do the central government authorities review and approve plans set forth by the local governments in a timely and fair manner?
6. Do the municipalities have the necessary staff to perform the duties that have been transferred to them?
 - d. Has there been a transfer of staff from the central government and/or field offices to the municipalities as prescribed in the legislation?

7. Do the local officials have the managerial and technical skills needed to take over functions previously held by the central government?
 - e. If not, are there opportunities and funding available to properly train them?
8. Do the municipalities have the technology and resources (not financial) needed to perform the functions associated with the new responsibilities?
9. Regarding decentralization, has the Ohrid Framework Agreement been followed as intended?
 - f. In what areas has the OFA been implemented successfully?
 - g. Has the Macedonian government adequately sought assistance from the international community in implementing the OFA?
10. The Law on Territorial Organization of Local Self Governments was intended to create the optimal number of municipalities that are of adequate size.
 - h. Do you feel that the law achieved that goal?
 - i. Are the municipalities of appropriate size to efficiently provide basic municipal services?
 - i. If yes, how many/which ones?
 - j. Is there a problem with assigning a single scope of functions to all municipalities that risks substandard provision of functions in some localities while failing to utilize capacity existing in others?
 - i. If yes, are there any (or adequate) opportunities for inter-municipal cooperation to mitigate this issue?
11. How much is pertinent information being shared between the central government and municipalities?

- k. How much is pertinent information being shared between the municipalities and the citizenry?

- 12. Do the municipalities have the necessary revenue-raising authority to sufficiently fund the devolved activities under the relevant legislation?

- 13. Is the scope of local government discretion in expenditures sufficient in terms of their expenditure needs?

Additional information/opinions: