



Supporting Decentralisation in Macedonia: An Assessment of SDC's Support to Decentralisation in Macedonia

-Second draft-

Shandana K. Mohmand and Andrés Mejía Acosta

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Glossary

CBO	Community based organisation
CDPR	Centres for the Development of the Planning Regions
CHF	Swiss Franc
EU	European Union
FYR	Former Yugoslav Republic
GA	General Assembly – Part of ZELS, a national association made up of all 85 mayors (including the city of Skopje)
GDP	Gross domestic product
GIZ	The Deutsche Gesellschaft für Internationale Zusammenarbeit- The German Society for International Cooperation
LSG	Local self-government
LSGF	Local self-government finances
MB	The managing board- part of ZELS in charge of making executive decisions, made up of 19 members elected by the General Assembly
Mesni	Existing community groups in Macedonia
MoLSG	Ministry of local self-government
NGO	Non governmental organization
NUTS	Nomenclature of territorial units for statistics- the NUTS classification- a hierarchical system for dividing up the economic territory of the EU
OFA	Ohrid Framework Agreement
OSCE	Organization for Security and Co-operation in Europe
PIT	Personal income tax
SDC	Swiss Development Corporation
UNDP	United Nations Development Programme
Urbani Zaednici	Existing community groups in Macedonia
USAID	United States Agency for International Development
VAT	Value added tax
VMRO	Vatreshna Makedonska Revolyutsionna Organizatsiya - The Internal Macedonian Revolutionary Organization
ZELS	Association of the units of local self government

EXECUTIVE SUMMARY

In this report we aim to assess the support provided by the Swiss Development Corporation (SDC) to Macedonia's decentralization process in order to suggest possible future strategies for continuing such support. We focus on two specific institutions through which SDC has sought to support and strengthen decentralization: Community Forums, and the support provided to the Association of the Units of Local Self Government (ZELS). The assessment is based on a need to reassess SDC's involvement with decentralization in Macedonia beyond 2014 and is not a full technical assessment of SDC's support. Instead, the recommendations presented in this report are based on providing policy guidelines for SDC's new strategy for supporting decentralization in Macedonia beyond the current on-going interventions. It is also based on the need to position SDC more centrally within the process of decentralization, to which, according to some respondents, it remains marginal.

This study is not a formal evaluation or a technical assessment of SDC's support to decentralization in Macedonia. It bases its findings and recommendations on, (a) an engagement with the literature on decentralization and citizen participation, (b) review of SDC's internal project and programmatic material; (c) review of relevant laws and official documents of the Government of Macedonia; (d) review of project and programmatic material produced by other international donors in Macedonia; and most importantly, (e) conducting a one week field mission to Macedonia during which a team of three consultants (2 international and 1 national) conducted semi-structured interviews with key respondents from various institutions within the government, regional centres, municipalities (mayors and staff), a variety of NGOs, research think tanks and donor organizations. The field mission included interviews both in the capital Skopje and in six municipalities that represented a mix of urban and rural areas, demographic composition (Albanian and Macedonian majorities, or a mixed population), and varying experience with SDC cooperation. The data has been analyzed through a systematization of the evidence generated through the interviews, and a triangulation of this evidence with a broad range of written sources listed above.

The recommendations in this report are based on our main finding that the process of decentralization in Macedonia is not yet coherent, and that the local governance system is not fully integrated. Based on this we recommend that SDC can play a much more active role to advocate for greater coherence and integration across the various units involved in decentralization, and can also work towards greater integration through the interventions it chooses to initiate in support of Macedonia's decentralization process.

At present, Macedonia's large number of monotype municipalities work individually with a host of national and regional institutions that are not fully integrated with one another, and that do not coordinate their individually defined responsibilities with one another to make the process of decentralization seamless. These include the Ministry of Local Self-Government (MoLSG) that has a coordinating responsibility for decentralization, ZELS that represents all mayors, the Ministry of Finance that is responsible for fiscal transfers, and various line ministries from which block transfers are made to municipalities. As far as the day-to-day functions of municipalities are concerned, there is minimal coordination across these national institutions to make the

system coherent. Instead, each municipality is left to individually negotiate and coordinate with each national institution from a position of obvious disadvantage.

More recently, a layer of Regional Councils have been added to this mix that are made up of the same municipal mayors that constitute ZELS. Yet, there appears to be minimal coordination between ZELS and the Centres for the Development of the Planning Regions (CDPR), the administrative bodies that support the Regional Councils. This is true even of the CDPR of Skopje, which lies in close physical proximity to ZELS. Therefore, as things stand at present, municipalities spend a lot of time negotiating with multiple, uncoordinated national institutions in addition to carrying out their daily tasks.

Given this situation, we suggest in this report that there is a role for SDC to play in rationalizing this process. We draw out the recommendations one piece at a time through this report, but in essence, we are recommending the following integrated structure.

1. SDC should work with ZELS to further the process of institutionalisation of citizen participation and to incentivise participation within the working of municipal governments. It is extremely important to find a way to ensure that decisions reached through the forums or other participatory mechanisms are reflected in municipal actions. We also recommend that SDC should set up training courses within ZELS on participatory governance for mayors and municipal staff.
2. SDC should concentrate the bulk of its support on developing the new planning regions as a coherent and effective upper tier of a two-tier system of local governance, in order to rationalize what respondents called an unsustainable decentralized system that has spread administrative capacity too thin across a large number of units.
3. In this, it should work to improve the coordination between MoLSG, ZELS and the Regional Councils. ZELS and the Regional Councils are constituted by the same members — the mayors of municipalities — whereas Regional Councils fall under the purview of MoLSG. Yet, each institution complained of a lack of coordination with the others. These three institutions represent an important opportunity for effective integration.
4. In working with the regions, SDC should continue to promote greater coordination with the MoLSG and ZELS for drafting new laws that will see some competences moving up from the municipalities to the regions, and some additional competences moving from the centre to the regions. In doing this, MoLSG could play an important role in rationalizing finances for these competences with the Ministries of Finance and other line ministries.
5. While developing the planning regions as an upper tier of local governance, SDC should follow the GIZ model of concentrating on developing local enterprises through the mandates of the planning regions. This will lead to the generation of greater revenue by municipalities for their administrative and development needs, especially in the highly prioritized area of tourism development.

6. This tiered system of governance is also fully integrated into the EU NUTS 3 system of territorial classification, and will enable SDC to play a role in another high priority area in an integrated manner — the collection of quality data on local governance and equitable, balanced regional development within Macedonia. This will not only help SDC improve advocacy and policy influence, but will also help it develop a single narrative of what decentralization is, how to secure political commitment for this, and how to measure progress towards it. SDC should help develop ZELS ability to collect and disseminate transparent information on regional and intra-regional inequality.

Introduction

Decentralization in Macedonia presents a rather unique case. Most interviews with stakeholders across a wide spectrum of sectors start with the fact that the decentralization reforms that came out of the Ohrid Framework Agreement of 2001 were a response to an important need — the resolution of ethnic conflict and continuing ethnic tensions. This, however, is quickly followed by the observation that decentralization in Macedonia has been accompanied by continuing centralization in which the central state has held on to the most important functions and decisions. The general opinion appears to be that while decentralization was certainly needed, the process that followed the 2001 Agreement has provided for limited and incomplete local government.

The limited nature of Macedonia's decentralization is explained by the fact that the main impetus for it came from the need to end an ethnic conflict and resolve tensions between its two main ethnic groups — Macedonians and Albanians — rather than from an expressed need to devolve power away from the centre or to improve the delivery of public services. Therefore, the reforms sought to allow for power-sharing between the main ethnic groups by sub-dividing the country into 85 units according to demographic considerations that would allow minority groups to self-govern in those parts of the country where they are in a majority. The reforms did not, however, seek to empower these units vis-à-vis the central state, and so only limited functions and finances were transferred to these newly created sub-units. In other words, while political decentralization has been accomplished, administrative decentralization appears to have happened only in a limited manner, and fiscal decentralization has yet to be tackled in earnest, and has not kept pace with the devolution of administrative functions.

In this report we aim to assess the support provided by the Swiss Development Corporation (SDC) to Macedonia's decentralization process in order to suggest possible future strategies for continuing such support. We focus on two specific institutions through which SDC has sought to support and strengthen decentralization: Community Forums, and the support provided to the Association of the Units of Local Self Government (ZELS). The assessment is based on a need to reassess SDC's involvement with decentralization in Macedonia beyond 2014 and is not a full technical assessment of SDC's support. Instead, the recommendations presented in this report are based on providing policy guidelines for SDC's new strategy for supporting decentralization in Macedonia beyond the current on-going interventions. It is also based on the need to position SDC more centrally within the process of decentralization, to which, according to some respondents, it remains marginal.

In undertaking this assessment, we employ a political economy perspective in order to understand the broader political dynamics of the process within which these reforms occurred, and within which most actors related to the process, including donor agencies, have to operate. Such a perspective is also helpful in identifying the actors and institutions that are central to the decentralization process, both as champions and opponents. More importantly, a political economy approach allows for these actors and institutions, and their specific priorities, to be placed at the centre of both the analysis of decentralization, and of strategizing effective and sustainable interventions. In the case of Macedonia, this requires attention to be focused on: the central government and its

priorities; various line ministries along with the Ministries of Local Self Government and Finance; the four main political parties of the government and the opposition; ZELS; municipal mayors and administrative staff; the Regional Councils; and various donors.

To guide SDC's future strategic orientation in Macedonia, we identify four main interventions. The first of these considers an expansion and strengthening of support within the currently existing modalities — the Community Forums and ZELS. The second suggests a reorientation of SDC support towards regional development centres in order to rationalize a process of decentralization that by most accounts has spread the state's administrative capacity too thin, and has thus made it ineffective. The third new strategy points out the importance of systematic data collection as an effective tool for ensuring greater transparency especially in the management of public finances. The report suggests that SDC can play a significant role to support local institutions for the collection, maintenance and analysis of reliable data on decentralization and development in Macedonia. Promoting the disclosure and use of decentralization data is also a concrete mechanism to empower local governments and civil society organizations to advocate for an effective and proportional devolution of administrative and fiscal resources from the central government.

Methodology

Since this study was not a formal evaluation or a technical assessment of SDC's support to decentralization in Macedonia, it bases its findings and recommendations on, (a) an engagement with the literature on decentralization and citizen participation, and some comparisons with other country contexts, (b) review of SDC's internal project and programmatic material; (c) review of relevant laws and official documents of the Government of Macedonia; (d) review of project and programmatic material produced by other international donors in Macedonia; and most importantly, (e) conducting a one week field mission to Macedonia during which a team of three consultants (2 international and 1 national) conducted semi-structured interviews with key respondents from various institutions within the government, regional centres, municipalities (mayors and staff), a variety of NGOs, research think tanks and donor organizations. The field mission included interviews both in the capital Skopje and in six municipalities that represented a mix of urban and rural areas, demographic composition (Albanian and Macedonian majorities, or a mixed population), and varying experience with SDC cooperation. The data has been analyzed through a systematization of the evidence generated through the interviews, and a triangulation of this evidence with a broad range of written sources listed above.

Outline

This report is divided into the following sections. Section 2 looks at the historical and political background of decentralization in Macedonia, and the main rationale for it. It also provides a brief history of its various phases, as well as the previous forms of decentralization that existed in Macedonia under the Yugoslav regime and in the period immediately after independence. This section also provides a brief overview of the political economy of decentralization in Macedonia, and the role of SDC within this. In

particular, it considers the role played by various actors in this process in order to point out an incongruence between national and municipal actors and institutions that explains the current limited nature of decentralization in Macedonia. Section 3 then focuses entirely on SDC's on-going support to the decentralization process through two specific institutions: the Community Forums and ZELS. It assesses the strategy for support and then provides recommendations on how to reorient this support beyond 2014. Section 4 suggests new interventions that we recommend should constitute the package of SDC's support within its new cooperation strategy after 2014. Section 5 concludes.

SECTION 2

History and Political Economy of Decentralization in Macedonia

2.1. History of Decentralization in Macedonia

The development of local self-government (LSG) in the Republic of Macedonia has gone through three distinct phases since the country's independence in 1991:

- The first phase includes the period from 1991 until 1995. During this time there were 34 large municipalities that were based on the territorial organization inherited from former Yugoslavia.
- The second phase includes the period from 1995-2002 and was based on a Law on Local-Self Government passed in 1995¹ and one on municipal boundaries passed in 1996². Under this law the number of municipalities rose to 123, plus the City of Skopje,³
- The third phase includes the period from 2002 until present. The new Law on Local-Self Government was passed in 2002, while a law on municipal boundaries was passed in 2004 that reduced the number of municipalities to 84, plus the City of Skopje.

There is very little writing on local self-government in the period 1991-1995. There appears, however, to be a consensus on the fact that local governance at this time was characterized by the recentralization of competences at the national level, compared to the period before 1991. The new constitution of independent Macedonia in November 1991 established local self-government as a constitutional category and provided for a single tier of LSG. The second phase started in 1995 when the new legal framework for LSG was created, with new municipal boundaries that increased the number of municipalities to 123. The aim was to bring decision-making as close as possible to citizens but the new municipalities were extremely small and had limited finances. They had a number of competences devolved to them while remaining entirely dependent on financing from the centre.⁴, so that they operated largely as administrative districts.

The third and most recent phase in local self-government began with the Ohrid Framework Agreement (OFA) in 2001, which ended the confined ethnic war in the country, and laid down the principle of decentralization as a new model for inter-community relations in Macedonia.⁵ The new Law on Local-Self Government was adopted in 2002, whereas the new law on municipal boundaries which reduced the number of municipalities to 84 was passed in August 2004. A series of other pieces of legislation was passed in order to effectively start the real handover of competences, including assets and personnel from the central to the local

¹ *Official Gazette of the Republic of Macedonia no. 52/95* of 1 November 1995.

² The full name of the legal act is Law on Territorial Division of the Republic of Macedonia and Determining the Areas of the Units of Local Self-Government, *Official Gazette no. 49/96* of 14 September 1996.

³ *Official Gazette of the Republic of Macedonia no. 52/95* of 1 November 1995,

⁴ Competences devolved at this time included: regulation and use of construction land, collecting farming land charges, building and maintenance of local streets and roads, water supply and sewage, public hygiene, public parks, local and city public transportation, cemeteries, public markets, and some extremely limited responsibilities in the area of education.

⁵ The most famous and widely quoted provision (1.2) from the OFA is that “there are no territorial solutions to ethnic issues.”

level. Critically important among these was the Law on Financing of Units of Local-Self Government.⁶ Based on this long period of institutionalization, decentralization in Macedonia is officially dated from 1st July 2005⁷.

2.2. Political Economy of Decentralization in Macedonia

Decentralization is recognized as an important component of political development. By bringing governance, decision-making and implementation of basic services closer to the people, decentralization promises both greater efficiency and more responsive government based on more accurate information. The proximity between people and state can foster greater understanding and a better perception of the needs at the local level. At the same time, the closer contact promises greater transparency of decision-making processes and greater accountability of elected officials to the general populace. Most importantly, it has the potential to allow citizens to play a direct role in decision-making and implementation at the local level. Whereas decentralization requires a simple act of legislation to alter the structure of governance, its success depends on much more. Successful decentralization is, in fact, a difficult outcome to achieve when assessed in terms of sustainability, local and national ownership, equitable regional development, and effective citizen participation.

Our main finding regarding decentralization in Macedonia is that the process is not yet complete. While political decentralization has been accomplished, administrative decentralization appears to have happened in a more limited manner. Fiscal decentralization, on the other hand, has yet to be tackled in earnest, and has not kept pace with the devolution of administrative functions. In other words, decentralization in Macedonia is accompanied by continuing centralization of finance, economy and many important administrative functions, including the ownership of most natural resources.

The 2001 ethnic conflict in Macedonia led to the realization of the need for self-governance by the country's ethnic groups. The resultant 2002 Law of Local Self-Government was more a response to this conflict than to the needs of effective local governance. Therefore, the country was divided into a single tier of decentralized government based on monotype units, or municipalities. These units, according to many respondents, did not account for demographic, financial and resource differences between municipalities and, instead, devolved uniform competences to each one regardless of size or type. An important consequence of this uniform decentralization is the fact that rural, small, remote and unequally endowed municipalities are operating in ways that are considered unsustainable by some respondents who have worked within the system, such as current and ex-mayors.

⁶ Official Gazette no. 61/04 of 13 September 2004.

⁷ The (first draft of the) *Program for Implementation of the Process of Decentralization 2008-2010 (PIPD)* of the Ministry of Local-Self Government (MLSG) from June 2007 operates with a number of over 40 pieces of legislation which were passed in order to implement the transfer of competences defined in article 22 of the Law on Local-Self Government (p.6). The list of laws to be adopted was defined in the Operation Program for Decentralization 2003-2004 (OPD), a government document from 2003. The PIPD reads that the "laws set forth in the OPD were passed by 1 July 2005. With the necessary normative and institutional foundations in place, the process of decentralization of competences and resources began on 1 July 2005". This is the year which is most often taken as the official start of decentralization. The recent OSCE *Decentralization Assessment Report 2006-2011* (February 2012) notes that "more than 80 laws were adopted or amended (p.4)". It also notes, however, that most of the legislative work was completed by 2005 (p. 4).

Another consequence of this single-tiered system of local self-governance is that Macedonia's large number of small, monotype municipalities work individually with a host of national and regional institutions. These include the Ministry of Local Self-Government (MoLSG) with coordinating (albeit weak) responsibility for decentralization, ZELS as a non governmental organization that represents all mayors, the Ministry of Finance that is responsible for fiscal transfers, and various line ministries that allocate block transfers to municipalities. Coordinating this broad network of institutions is a difficult job, considering that these national institutions have diverse responsibilities, different technical capacities and uneven access to resources. From the perspective of municipalities, there is no single focal point where mayors can come to in order to address their needs or demand resources. We find that in practice, each municipality is left to individually negotiate and coordinate with each national institution from a position of obvious disadvantage. For example, ZELS (the Association of the Units of Self Local Government) has the responsibility to negotiate with national institutions and actors on behalf of municipalities, but ZELS tends to reproduce a representation bias in favor of the most influential mayors and municipalities, which tend to be urban more than rural, more government oriented than opposition, and of Macedonian descent rather than ethnic Albanian. Similarly, municipal mayors are in a weak bargaining position vis-à-vis the Ministry of Finance, given that all of the budgetary allocations are already assigned without an explicit formula to facilitate a more equal redistribution of resources.

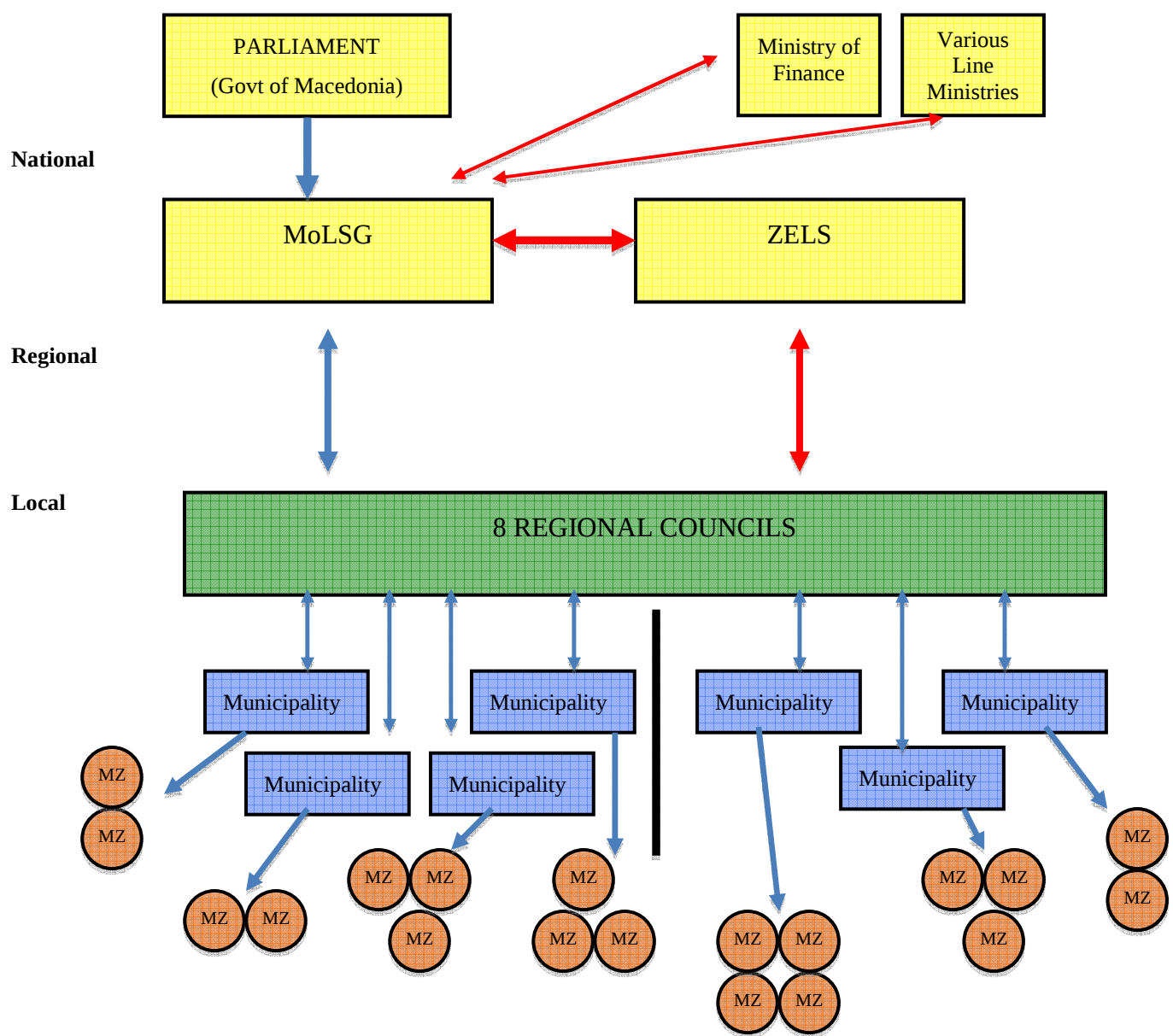
In the case of the Ministry of Local Self Government, this is a weak but formally important institution in charge of coordinating the decentralization process. The MLSG has formal oversight capacity over the Centre for the Development of the Planning Regions (CDPR), an administrative body that supports the work of the Regional Council of mayors. The Ministry is also part of the National Council for Regional Development, with representatives from the eight regions, ZELS and seven other line ministries, including Economy, Finance, Transportation, Environment, Health, Education and Social Work. In practice however, the MLSG has to work hard to maintain a central place in the decentralisation scheme in at least two ways. Horizontally, the Ministry needs to reassert itself vis-à-vis the role of other line ministries who do not have incentives to share information or policy programming with the Ministry given its weak technical capacity and shortage of funds. Vertically, the MLSG appears to be in direct competition with ZELS for political influence, programme design, and access to resources for activities, as reported by representatives of both institutions. Cooperation agencies also reported and confirmed the weak role of the MLSG for effectively representing mayors at the national level or delivering national level programmes at the local level. Despite their weak positionality, we consider that the MLSG still has an important role to play in helping to balance and equalize the representation of municipalities at the national level, especially those that represent Albanian majorities.

Finally, in some cases, mayors can gain some political leverage at the national level through their representative at the National Assembly, but the brokerage of MPs between the central and local government is rather sporadic and very much along partisan lines.

In recent times, a layer of Regional Councils has been created to facilitate the decentralization process. But the RC are made up of the same municipal mayors that

constitute ZELS, thus creating an overlap of functions and attributions. Further, it is reported that there is minimal coordination between ZELS and the Centres for the Development of the Planning Regions (CDPR), the administrative bodies that support the Regional Councils. This is true even of the CDPR of Skopje, which lies in close physical proximity to ZELS. Figure 1 illustrates the extent of the fragmentation of the decentralisation architecture. Currently, municipalities spend a lot of time negotiating with multiple, uncoordinated national institutions in addition to carrying out their daily tasks.

Figure 1: Integrated structure of local governance in Macedonia



2.3. Administrative vs. Fiscal Decentralization

Fiscal decentralization is, for the majority of stakeholders interviewed for this study, the most visible and concrete face of the current decentralization process in Macedonia, which is generally dated from the 2005 passing of the Law of Financing Local Self-Government. There have been multiple efforts to devolve competences and responsibilities from the central to local governments since independence in 1991 and the drive to decentralize was reinforced with the signing of the Ohrid Framework Agreement in 2001, as a way to give local governments more authority and resources to avoid escalating of ethnic conflict. However, it is only with the adoption of a Local Authority Financing Act of 2004 and the Law of Financing Local Self-Government of 2005 that the process of fiscal decentralization was re-opened and brought to the national debate (Maksimovska-Veljanovski 2007). From its conception, fiscal decentralization was always framed in terms of improved service delivery but as we will further expand, there were no explicit references, mandates or mechanisms intended to redress socioeconomic inequalities or bridge the urban and rural gap between local governments.

To implement fiscal decentralization, the IMF recommended a two-stage process. During Phase I (starting in July 2005) the goal was to devolve greater responsibilities for delivering public services from the national government (ministries) to local governments. In this phase, local governments were given earmarked grants to pay for the costs of maintaining primary and secondary education, cultural institutions, sports facilities, old age homes, and fire protection units. In 2006, earmarked grants for education made 13% of total local government revenues. For stage II (starting in January 2008) the goal was to endow local governments with the authority to benefit from more revenues to finance those services as well as to pay for the wages of employees of the facilities stated in phase I. Some earmarked grants in the form of sectoral block grants were transferred so that local governments could decide and spend on the most appropriate mix of education packages. At the time of transition, only 40 (out of 85 municipalities) qualified for stage II, and approximately 90% (76/84) of them qualified in January 2011. In practice, most stakeholders concurred that the additional monies transferred in stage II were no more than pass-through income given the additional burden of wages.

Different stakeholders and analysts concur that the decentralization process has made very slow progress and when it took place, it reproduced existing socioeconomic inequalities. These outcomes are explained by several factors. One element has been the lack of technical capacity of municipal governments to manage greater spending or collect more revenue. While this capacity gap was meant to be addressed through the two-stage process and multiple training initiatives, in practice there are many gaps in terms of human capital and technical expertise that still remain in Macedonia (Levitas 2009).

The other deterrent factor cited by stakeholders and analysts was the fear of government elites that fiscal decentralization would increase ethnic tensions, especially by making concessions to and empowering Albanian municipalities [Beyta and OSCE interviews]. Pearson (2009) succinctly writes: “Ethnic Macedonians fear that these and related aspects of decentralization are the first step toward federalization or partition of the country. They view the use of the Albanian language throughout the country as a threat

to their national identity and believe that ethnic Albanians will simply refuse to communicate in Macedonian. Thus, Macedonians fear that they will be at a distinct disadvantage in a new bilingual environment, given that almost no ethnic Macedonians can speak Albanian". While it is true that alleviating ethnic tensions were central to the spirit of the Ohrid Framework Agreement, we found that there are no existing legal frameworks with specific provisions to leverage the *fiscal* structure of opportunities for ethnic Albanians or Macedonians. The following section illustrates the main components and consequences of fiscal decentralization and identifies some entry points for future intervention.

Piecemeal devolution

The Law on Local Self-Government Finances (LSGF) of September 2004 established three sources of funding for local governments: their own revenue, transfers from the central government budget and the national funds, and loans (art. 3).⁸ Key stakeholders and analysts agree that the breath and pace of fiscal devolution has been insufficient to ensure that local governments can keep up with the delivery of services. In the best of cases, additional revenues have been transferred to cover increased competences but without room for savings or further investments. In other cases, some gradual reforms have been bargained between municipalities and the central government but remain insufficient to fulfil the potential of more fiscal autonomy.

Own revenues made up 29% of total LSG revenue in 2010 (Levitas 2011). The LSGF (art. 4) considers different **types of own revenues**, including: 1) local taxes (property tax, property transfer tax, inheritance and gift tax, and other taxes provided for by law); 2) local charges (communal charges, administrative charges, other charges provided for by law), 3) local fees (land development fees, communal fees, urban planning fees, other fees provided for by law), 4) revenue from property, 5) revenue from donations, 6) revenue from fines, 7) revenue from self-contributions, 8) other revenue defined by law. Also municipalities collect 3% of the personal income tax (PIT) from their residents, and 100% of the PIT paid by artisans. In terms of **transfers from the central government budget**, these include: 1) a share in the value added tax (VAT), also referred to as a "general grant", 2) earmarked grants, 3) capital grants, 4) block grants, and 5) grants for delegated competences. As discussed elsewhere, local governments receive 3% of VAT but have successfully lobbied the central government to increase their take towards a gradual raise of 4.5% by 2013.⁹ In¹⁰ 2010, the shared revenues from PIT and VAT accounted for 6% of LSG revenue (Levitas 2011). In terms of the **earmarked grants**, these are given by the central government to cover for the operating costs of the facilities transferred to them in the first and second phases of decentralization as described above.¹¹ With most of the municipalities in the country

⁸ Official Gazette No. 61/04

⁹ Official Gazette No. 159/09. The law raises the LSG share to 3.4% in 2010, 3.7% in 2011, 4% in 2012, and 4.5% in 2013.

¹⁰ At the occasion of his re-election for a consecutive 2-year term as president of the association of municipalities (ZELS) in July 2011, the mayor of the City of Skopje, Koce Trajanovski said that ZELS remains at its position that the share of VAT to local-self government should be 6%. He also repeated the position that the share of the personal income tax going to municipalities should be 30%. (Karajkov Risto, Context Watch for Swiss Development Cooperation, Skopje, See for example *Трајановски уште две години на чеко на ЗЕЛС* [Two More Years at the Helm of ZELS for Trajanovski], Dnevnik, 13 July 2011.

¹¹ The rationale of the block grant is that municipalities have autonomy in allocating these funds in the respective sectors, for example, education, child care or culture. According to Levitas (2011): "this however is

having entered the 2nd phase of decentralization, LSG revenue from block grants has increased significantly accounting for 53% of the total in 2010¹² (Levitas 2011). Most of this increase is accounted for by teachers' wages. In general, "more than half of all local government revenues are earmarked for education purposes" (Levitas 2011). Finally, the 2011 law on management of state owned-land has given municipalities the right to directly manage (sell) public construction land. Since 2009, the central government has shared the revenue from construction land in a 80/20 ratio with local governments.

Recurrent biases, pending issues

The empirical evidence documenting the extent and magnitude of fiscal transfers shows that for the most part, decentralization has not reached its full potential due to the small volume of transfers from the central to local governments, the incipient capability of municipalities to collect and administer funds, and the impact of existing devolution mechanisms which tend to reinforce existing inequalities in favour of urban municipalities that are generally associated with government parties.

In an assessment of fiscal decentralization prepared for USAID in 2009 and 2011, Tony Levitas has made the most compelling analysis of the biases resulting from the current system. Levitas documents an important but insufficient increase in revenues for municipalities since the adoption of the LSGF. Between 2005 and 2010, local government revenues as share of GDP rose from 1.7 to 5% and of total public expenditures rose from 5.4 to 15.3%. These increases respond to some extended taxation schemes, increased take of VAT rates and increases in local fees, but at 5% GDP, Macedonian municipalities remain below the expected revenues of 8% or 9% GDP needed to cover the new assigned functions. The decentralization process has not improved the equity of Macedonia's intergovernmental finance system either. In 2006, the richest 25% of municipalities had 3.2 times more per capita revenue than the poorest municipalities; this ratio increased to 5 times in 2008. The problem of unequal revenues is tangible within Skopje municipalities as well (Levitas 2011). This growing inequality is due to some structural factors as well as due to the absence of effective instruments of fiscal equalization. Regarding structural factors, most sources of income (Transfer Tax, Land Development Fee, and share of the value of the sale of urban construction land) depend on fluctuations of the real estate market which affect (benefit) urban municipalities for the most part. The current decentralization structure also does not contemplate equalization mechanisms. For example, the distribution of VAT and Road funds tend to distribute revenues in a way that gains do not correspond to the yield of taxes collected. There are further rigidities associated with the way the grants given to municipal governments during second phase are allocated (e.g. If there was no state financed kindergarten before decentralization, there will be no money sent out for this *function* after decentralization).

not really happening. On the one hand, instead of a single block grant for education, we have three block grants, one each for primary and secondary education, and another one, administered by the Ministry of Labor and Social Welfare, for kindergartens.. Similarly, instead of a single block grant for culture we have separate programs within the grant for culture for Libraries, Museums and Theaters, that can only be spent for the specific programs. On the other hand, it seems that local governments have limited administrative authority to change the employment patterns in the institutions they have been assigned. As a result, most local governments are little more than the payroll agents of the institutions."

¹² Levitas, Chart 4; not counting 5 more municipalities which entered the 2nd phase in 2011.

There are currently no plans or mechanisms to develop an effective way of equalizing fiscal decentralization in Macedonia in a way that local governments receive appropriate funding to fulfil decentralized social sector functions or to prevent increased differences in public service provision across municipalities over time (Levitas 2011). The challenge is significant as the most influential champions of fiscal decentralization in urban, wealthier areas are precisely those that benefit from the existing bias in the allocation of funds.

SECTION 3

Recommendations for Current SDC Support Decentralization in Macedonia

In this section we assess the support provided by the Swiss Development Corporation (SDC) to Macedonia's decentralization process in order to suggest possible future strategies for continuing such support. We evaluate two specific institutions through which SDC has sought to support and strengthen decentralization: Community Forums, and the support provided to the Association of the Units of Local Self Government (ZELS). The assessment is based on a need to reassess SDC's involvement with decentralization in Macedonia beyond 2014, and is based on the assumption that while the support to ZELS may continue over a longer period, the Community Forums will be phased out slowly.

This section does not provide a systematic evaluation of SDC's work to date. Instead, it looks at its current involvement with the decentralization process through the support to ZELS and the Community Forum only to assess its future strategic orientation, and to get a clearer picture of the vehicles through which SDC's involvement with the decentralization process may be most effective. The section, therefore, does not assess SDC's interventions, but rather, assesses how to sustain them and how to move forward.

3.1. SDC's Donor Profile in the context of Decentralisation

SDC has a unique role to play both within Macedonia and within its decentralisation process. As various donors have departed one by one over the last few years, and with GIZ's imminent exit, SDC will soon be the only bilateral donor left in Macedonia. Multilateral donors such as UNDP, OSCE and the EU, however, continue to work in Macedonia. Within this group SDC is an influential actor that is considered to have a lot of influence especially within ZELS. It is largely because of this that many respondents suggested that SDC should take on a greater advocacy role through ZELS to push for more legislative and legal changes at the national level in order to both deepen and rationalise the decentralisation process in Macedonia. In fact, when asked for recommendations for SDC, many municipal level actors indicated that they needed an actor that could press for policy changes to complete the as yet incomplete decentralisation process, and they felt that SDC was well-placed in its relationship with ZELS to be able to take on this more political role. Some of these policy changes are discussed at various points in this report.

SDC is particular well-known and respected within civil society organisations, many of which it has funded through its Community Forums Programme. It is also well regarded by mayors. However, many of these have not benefited directly from SDC and do not consider it a major actor at the municipal level. This is despite SDC's involvement with municipalities through the Community Forums. One mayor went so far as to say that SDC had made itself marginal to the real issues of decentralisation by concentrating entirely on the national level (ZELS) and on participation. He recommended a more active role for SDC that would directly impact the functioning of municipal governments. Our recommendations in Section 4.1. are aimed at dealing with this.

There are two particular roles that SDC can play effectively within decentralisation in Macedonia. The first is in rationalising the structure of local government in Macedonia, and

making the system better integrated and more efficient. In terms of interventions, this requires policy-level advocacy, lobbying for change, and conducting studies on the particular requirements of decentralisation in Macedonia. This can either be done directly, or by funding civil society organisations, researchers and media organisations who are able and willing to lobby the state for more effective decentralisation. From the point of view of municipal authorities and officials, this was the most important and effective role that SDC could play.

The second is through support to various actors within the system of local governance, such as MoLSG, ZELS, CSOs, Regional Bodies. Of these it already works closely with ZELS and some CSOs, and in this study we suggest maintaining a working relationship with MoLSG and the Regional Development Centres. The intervention required here is either project or budgetary support. Many CSOs supported this role for SDC. They pointed out that SDC could provide them with project or budgetary support to lobby for changes to municipal statutes and local rule books; to be the continuous link between successive governments to ensure they all work according to the needs of citizens; to work with citizen and community groups to deepen the demand from citizens for greater decentralisation; and as oversight groups that monitor the work of municipal governments.

General Recommendations to Strengthen SDC role in the Decentralisation process

The recommendations in this report are based on our main finding that the process of decentralization in Macedonia is not yet coherent, and that the local governance system is not fully integrated. Based on this we recommend that SDC can play a much more active role to advocate for greater coherence and integration across the various units involved in decentralization, and can also work towards greater integration through the interventions it chooses to initiate in support of Macedonia's decentralization process.

Given this situation, we suggest in this report that there is a role for SDC to play in rationalizing the decentralization process in Macedonia. We draw out the recommendations one piece at a time through this report, but in essence, we are recommending the following integrated structure, graphically represented in Figure 1 below.

1. SDC should work with ZELS to further the process of institutionalisation of citizen participation and to incentivise participation within the working of municipal governments. It is extremely important to find a way to ensure that decisions reached through the forums or other participatory mechanisms are reflected in municipal actions. We also recommend that SDC should set up training courses within ZELS on participatory governance for mayors and municipal staff.
2. It should concentrate the bulk of its support on developing the new planning regions as a coherent and effective upper tier of a two-tier system of local governance, in order to rationalize what respondents called an unsustainable decentralized system that has spread administrative capacity too thin across a large number of units.
3. In this, it should work to improve the coordination between MoLSG, ZELS and the Regional Councils. ZELS and the Regional Councils are constituted by the same members — the mayors of municipalities — whereas Regional Councils fall under the purview of MoLSG. Yet, each institution complained of a lack of coordination with the others. Despite their different technical capabilities and

different political influence, these three institutions need to be effectively integrated to facilitate the decentralization process.

4. In working with the regions, SDC should advocate for a more central role for MoLSG (in coordination with ZELS) in drafting new laws that will see some competences moving up from the municipalities to the regions, and some additional competences moving from the centre to the regions. In doing this, MoLSG would also play a role in rationalizing finances for these competences with the Ministries of Finance and other line ministries.
5. While developing the planning regions as an upper tier of local governance, SDC should follow the GIZ model of concentrating on developing local enterprises through the mandates of the planning regions. This will lead to the generation of greater revenue by municipalities for their administrative and development needs, especially in the highly prioritized area of tourism development.
6. This tiered system of governance is also fully integrated into the EU NUTS 3 system of territorial classification, and will enable SDC to play a role in another high priority area in an integrated manner — the collection of quality data on local governance and equitable, balanced regional development within Macedonia. This will not only help SDC improve advocacy and policy influence, but will also help it develop a single narrative of what decentralization is, how to secure political commitment for this, and how to measure progress towards it. SDC should help develop ZELS ability to collect and disseminate transparent information on regional and intra-regional inequality.

3.2. Citizen Participation and the Community Forums

Within both political science and development studies the concept of popular participation by citizens in the political process has become synonymous with political development. Governance reforms have increasingly come to be characterized by a need to develop closer, more direct and more responsive relationships between the state and its citizens. This is considered an important part of “deepening democracy” (Gaventa 2002), and is the idea behind “co-governance” (Ackerman 2004). These concerns have led to a greater emphasis on including citizens in decision-making processes and on moving towards more participatory governance. They have highlighted that “citizens should have direct roles in public choices or at least engage more deeply with substantive political issues and be assured that officials will be responsive to their concerns and judgments” (Cohen and Fung (2004) in Gaventa 2006).

Decentralization reforms in particular have the capacity to bring governance processes closer to the people, and to create both representative and participatory (or direct) forms of governance. While representative decentralization requires that citizens participate in governance by electing their representatives to make decisions for them, participatory decentralization requires much more of its citizens. It requires them, and not just their representatives, to become an active part of decision-making itself. To this end, it requires the state to provide an enabling environment within which citizens can play out this role, and it requires citizens to exercise active social agency.

The Community Forums Programme

Participatory decentralisation is usually very difficult to achieve and there are many more

cases of local governments around the world making decisions without the participation of their citizens than there are of fully participatory governance. In Macedonia, however, an extremely interesting instrument for citizen participation was developed through SDC support. This is called the Community Forums Programme (CFs), whose main objective is “to support participatory community development through direct citizens’ participation in local governance, through accountable, trusted and capable local administration and increased citizens’ identification with the newly established local institutions” (Parvex 2009; SDC TORs). Community Forums seek to promote citizen participation at the local level by creating spaces within which citizens can communicate directly with their mayor, and engage in a dialogue with the municipal administration on various community-based issues.

This programme has a unique structure. It is organised and run by a set of civil society organisations that are supported by SDC. Municipalities are expected to apply to the programme, in which the CSOs support four types of CFs; (a) project forums,¹³ (b) budget forums,¹⁴ (c) inter-municipal forums,¹⁵ and (d) topical forums.¹⁶ CFs were organised in a total of 25 municipalities through the 1st and 2nd phases of the programme (2006-2010), of which 17 had project forums, three had budget forums, four had inter-municipal forums, and only one had a topical forum.¹⁷

Each of these types of forums have certain common features. They are actively moderated by the CSOs and bring together the community to discuss local issues, review the budget, prioritise between required projects and discuss solutions for common problems. Many of the projects decided upon are then jointly funded by the municipality and SDC. The forums are organised as successive sessions over the period of a few months, with each session consisting of ‘working tables’ of 5-10 participants each. Each of these tables are organised according to the social and economic interests of the participants and there is an attempt to ensure both gender and ethnic balance in order to be fully inclusive. Through the successive sessions participants short-list, prioritise and discuss issues and projects.

The chart below lays out the basic steps and procedures involved in the Community Forum modality.¹⁸ It starts with the state bodies and regulations on top, and SDC and the implementing CSOs at the bottom, coming together in the centre to jointly organise the CFs with the participation of citizens, who are brought together by the CSOs. At the very top of the chart is the Legal Act, which ensures that the mayor and municipal council organise the Community Forums. This is because in collaboration with ZELS SDC was able to have a new section and ordinance added to the law that legally validates the CF process within the statutes of the municipalities. 37 municipalities have so far added this section to their statutes, which now compels the mayors and municipal councils to organise a forum during the budget process for the following year, and to set priorities for capital investments in their regions. A manual is available to help municipalities set up CFs on their own, along with certified moderators to run these forums through the CSOs that have been engaged in this process over the last six years.

¹³ Organised to review and discuss multiple projects of interest to the community, and to prioritise and decide which to implement from amongst these.

¹⁴ Organised to review and discuss next year’s budget.

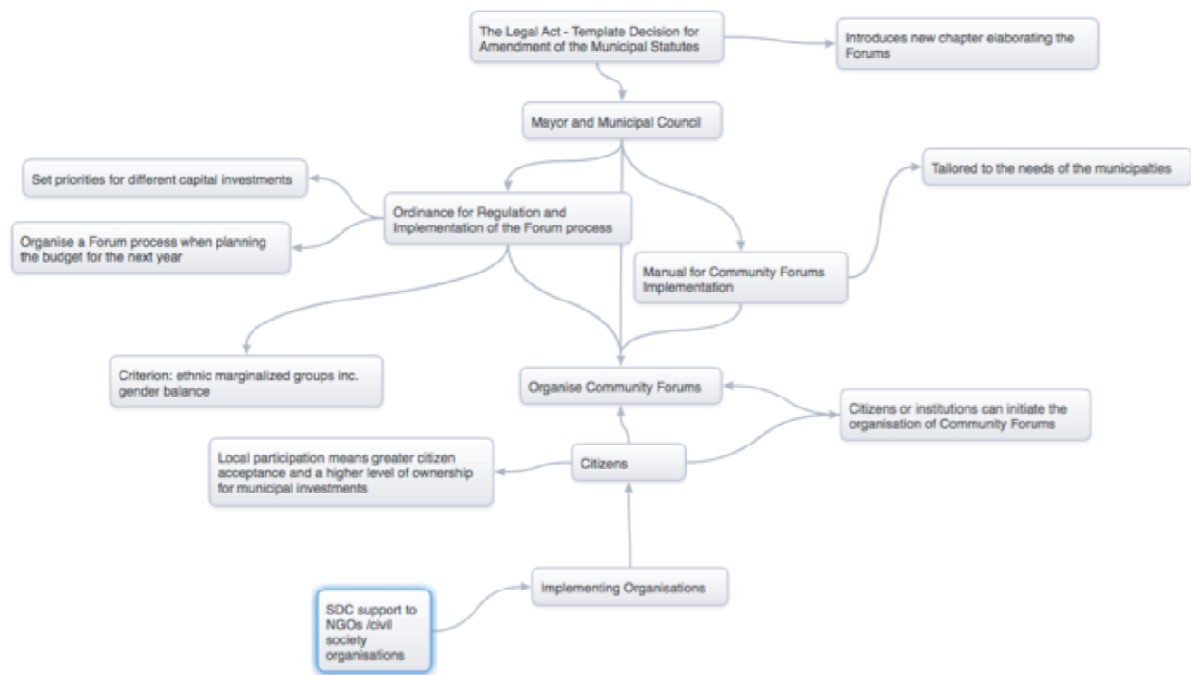
¹⁵ Organised to review and discuss projects of mutual interest and concern to municipalities that lie in close proximity to one another.

¹⁶ Organised to review a specific, pertinent issue that requires a discussion within the community.

¹⁷ <http://forumivozaednicata.com.mk/content/view/216/89/lang,en/>

¹⁸ Based on CP Community Forum – Macedonia: Community Forums Programme – Sustainability Phase March 2001-Aug 2014

Figure 2: The Community Forums modality



Phase 3 of the Community Forums programme, which runs from 2011 to 2014, seeks largely to consolidate and institutionalise the forums within the municipalities that were a part of the first two phases, and to expand these to other municipalities that have not yet used them. In order to allow municipalities to be able to use the CF modality on their own, there has been an attempt during this phase to make the process both easier and cheaper through the introduction of Assisted forums and a simplified version of the full forum process.

A basic assessment of the CFs

This study was not meant to be a formal assessment of the Community Forums programme. However, a number of strengths and weaknesses of the programme became apparent during our interviews with various stakeholders. Our analysis of the CFs does not differ greatly from the mid-term review conducted by Parvex (2009).

Most respondents that we spoke with were very supportive of the Community Forums modality and the role that it had played in including citizen groups in municipal governance. Mayors were especially appreciative of the chance to communicate with their constituencies over their needs and priorities. Many respondents pointed out that these forums allowed mayors to gain a clear idea of what the community requires, and that it was useful in making mayors more appreciative of the impact of participation on better decision-making. A respondent from a civil society organisation that organises CFs pointed out that the process was also useful because it meant that despite some communities being left out of traditional electoral participation, a consequence of the list system of elections, people could still participate in local governance and decision-making.

Respondents also pointed out that a major advantage of the process was that it results in very concrete, visible outputs in some of the regions where it was implemented. Mayors in two

municipalities immediately identified sports facilities (football stadiums), waste collection improvements (the purchase of a waste collection truck) and public infrastructure improvements (900 metres of pavement) that had happened because of the CFs. Some respondents from civil society organisations explained that while municipalities were expected by law to include citizens within the budgetary process, the CF modality implemented through CSOs added a very definite value to this procedure by improving the exchange of information between citizens and the municipality, raising awareness, and ensuring greater participation through the use of posters and leaflets, and by publicising the forums through schools and hospitals, and talking to community leaders. This is explained in Box 1 below. A respondent from a CSO provided the example of a municipality that attempted to organise a CF on their own without the involvement of CSOs and managed to get only seven people, three of whom were from one CSO, two were from the media, and only two were interested citizens. This they said was largely because they advertised only through newspapers and put little effort into publicising the event beyond that.

Box 1: Citizen participation in the budgetary process

Citizen participation in budgetary process by law	
1.	Citizen groups to send in proposals by Sept
2.	Draft documents prepared
3.	Budgetary debates with citizen groups organised between 15 th Oct and 15 th Nov to discuss these draft documents
4.	These are followed by 20 days of discussions within the Municipal Council
5.	Budget planned within Municipal Council from 15 th Nov to Mid-Dec
6.	Budget finalised and adopted by 15 th Dec
Value added to this process by Community Forums	
7.	1. Municipalities tend to not send out background documents to citizen groups well before discussions. Community Forums and the NGOs that manage these ensure that documents reach people in time to make informed decisions.
8.	2. The Community Forum process helps explain these documents to people, and ensure that they are understood by all, and can be used as a basis for contribution.
9.	3. Outreach activities to ensure wider participation by both urban and rural groups, men and women, various neighbourhood group, and all relevant institutions. This is done by visiting homes, organizations and <i>Mesni Zaednici</i> presidents to ensure greater participation.

On the other end of the spectrum, the most obvious weakness of the CF modality is the issue of sustainability. This came through very clearly in interviews with some mayors in particular. Many respondents pointed out that despite “an initiative from ZELS” to make these forums permanent, few municipalities have done so. Even in a municipality that had used CFs in the past, the mayor pointed out that they were not planning any forums on their own just yet and would consider them possibly in the future if some new interest was expressed by citizens. He said that besides the CFs that they had used in the past, there were no other formal process through which to involve citizens in the work of the municipality. “When a need arises”, he said, “citizens form their own forum, and we send an officer who deals with communicating with citizens. He is represented in their meetings and brings back their project proposals for consideration. But we do not discuss our budget with citizens”.

Many respondents pointed out that the lack of sustainability of the forums even in areas that had experience with these was based on two factors; (a) change of politicians within municipalities with each election, so that new actors are less aware of the process and its strengths and advantages; and (b) the lack of enforcement mechanisms for citizen

participation within the additions to the statutes. This second point is central, and also explains why the process depends so heavily on the interest and commitment of individual actors. While the new statutes compel mayors to involve citizens in the budgetary process according to the procedure laid out in Box 1 above — as a respondent that works with convening Community Forums explained, the law requires that between 15th Oct and 15th Nov of each year each municipality must include the community in the budgetary process, either by calling people to a meeting or by visiting the community organizations called the *Mesni Zaednicis*, in order to openly debate the budget — there is nothing that holds them accountable if they do not do so. The failure to discuss the budget with the community does not affect the municipality's ability to continue to function. Therefore, some respondents pointed out that many mayors choose to forego the effort of convening budget forums during the budgetary process and, instead, take quick decisions within the local government offices. At the most, they simply provide feedback on whether citizen proposals were accepted or rejected. A respondent from a CSO that organises CFs also pointed out that municipal representatives are not incentivised within the process, and deal with CFs only as a matter of routine, without having any other interest in increasing citizen participation. He explained that officials remain adamant about mayors taking decisions on all issues, and that much of the struggle on the part of CSOs comes down to convincing municipal staff that decisions should be made by citizens and not just the mayors.

The respondent from the CSO also pointed out that a major limitation of the CF modality has been the fact that nothing holds mayors to the decisions that are taken within these forums. “Mayors just go ahead and cancel decisions that have been taken and also cancel budgets that have been discussed and agreed. If you object to this, it is common for them to say, ‘Are you trying to tell me I’m not in charge here?’”. A particularly harmful impact of a system of participation that operates without incentives or sanctions is that over time it can drive citizens away if they realise that the effort they put into participating does not translate into actions by the municipal governments. This can considerably weaken any initial gains in terms of building a ‘habit’ of participation within a community. A study in the US argued that citizens took to political activism after noticing that while their input was sought by public administrators, it was rarely included in official plans and decisions (Gibson *et al.* 2005).

Other mayors have chosen to forego the CF process because they see them as unnecessary additions to a system that has other available modalities for citizen participation. As the mayor of a major town that had participated in CFs pointed out, “CFs were a good experience but they were too limited and too small. It is hard to institutionalise these. We will now continue to include citizens, but we will do this through their councillors on the Municipal council, who are their representatives. We can manage the process successfully through the councillors, since each one has a political base, and through the community leaders in the *Mesni Zaednicis*. Through these we are in touch with the needs of our citizens”.

The literature also indicates that facilitated participation through CSOs is expensive and unsustainable (Gibson *et al.* 2005, Teague 2006), and suggests that “provisions for the institutionalisation of people's participation” should be made within the structure of decentralisation, that these should be congruent with available, sustainable sources of funding, and that attention should be paid in particular to political and social obstacles to such regular, institutionalised participation (Work 1999). In other words, the recommendation is to institutionalise participation organically within the system and then work in particular not on participation itself, but on identifying and removing the obstacles to such participation by citizen groups. SDC's attempts to rationalise the CFs during Phase 3 by making them

simpler, cheaper and more integrated within municipal governance processes is a step in this direction. The outcome of this, however, is yet to be seen.

Recommendations for Community Forums

SDC expects to phase out CFs by 2016, and will use the period of the new strategic engagement starting from 2014 to integrate the CF modality within municipal governance and make it sustainable. Our challenge in this report, therefore, is to move beyond these CFs and suggest other possible interventions through which SDC could engage effectively with local governance in Macedonia. However, there are a few interventions that can be considered with regard to CFs during the period 2014-16, or even earlier.

1. SDC should work with ZELS to further the process of institutionalisation of citizen participation. There are two interventions to be considered here:

(a) Facilitate the process of expansion to other municipalities through a legal stipulation that requires that all municipalities include clear modalities for citizen participation in their work, and outline these modalities as simple processes that can be adopted easily and at little cost. This is especially important if the CF modality during the new phase is going to be demand driven. As seen in the comments above, there is at present little incentive for municipal staff to respond to such demands from citizens.

The law already stipulates certain benchmarks to encourage citizen participation. Article 26 on civic initiatives stipulates that the municipal council has to discuss an issue put forth by at least 10% of the voters in the municipality or within the community self-government unit (*Mesni* or *Urbani Zaednici*), while Article 27 on citizen assemblies stipulates that the mayor has to call a citizen's gathering if at least 10% of the *Mesni* or *Urbani Zaednici* request it. In collaboration with ZELS, SDC may want to investigate what the main obstacles are that keep citizens from using these legal provisions effectively.

(b) Incentivise municipal officials, especially the mayors, to involve citizens in municipal decisions, and apply some type of moderate sanctions to municipalities, especially if there is no obvious attempt to involve citizens in the budgeting process. In many countries the transfer of central funds are dependent on clear evidence of citizen participation. However, a simple measure such as the maintenance of a public list of municipalities that have high levels of citizen engagement, and those that do not, together with an annual award system, may also be effective.

2. Work with CSOs and the media to improve awareness of the forums and the modality, manuals and moderators that are available for use by all interested municipalities. A mayor of a small rural town that lies just on the outskirts of Skopje seemed to be entirely unaware of any such modality. "There is no legal framework for formalisation or institutionalisation of citizen participation. It is entirely dependent on the mayor and I do what I can. I do not know anything about Community Forums, or any donor working on this". As a first step towards institutionalised expansion across the country, it is important that all municipalities become aware of the modalities that have been developed through great effort and cost.

3. Set up training courses within ZELS on participatory governance for mayors and municipal staff, and to familiarise mayors with the importance and advantages of an engaged

community. As a respondent from a CSO that runs CFs pointed out, “Municipalities mainly want infrastructure, especially from donors. And we come in talking about participation. They don’t understand why”. The NGOs that currently coordinate and manage the Community Forums can be contracted by ZELS (and not SDC) to carry out these trainings and conduct monitoring follow-ups.

As a final note it should be mentioned that a lack of awareness of CFs, or an inability to convene forums, does not mean that there is no participation. By most accounts, there is active interaction between municipal governments and communities, or at least their leaders. Most mayors claimed to talk regularly with community groups, called *Mesni* or *Urbani Zaednici*. The mayor of Skopje referred to their role repeatedly with regard to communicating and negotiating with business groups in the city. He also pointed out that many complaints and critiques of the local government are brought to him through these community organisations, and that he regularly discusses the functions and future of public companies with them. An ex-mayor of another city explained that he had convened formal citizen participation mechanisms within his municipality during his tenure long before the CF modality because it helped him tailor his decisions to the needs of his constituency. The mayor who claimed to have no knowledge of CFs explained that he traveled around his constituency regularly to meet with community leaders and find out what their communities needed. It would help, however, if these processes were formalised and institutionalised, and regulated through incentives and sanctions.

The prevalent role of *Mesni* or *Urbani Zaednicis* as local governance institutions

An unexpected finding during fieldwork in Macedonia was the systematic and active presence of local governance institutions that play an active role in promoting citizen participation in decision making at the municipal level. The *Mesni* or *Urbani Zaednicis* (depending on whether they are rural or urban) are a traditional form of sub-municipal, community-based self-government that are recognised and regulated in the 2002 Law on Local Self-Government (Articles 82-86, Section XII). Municipal statutes lay out their form, their relationship with the municipality, the tasks delegated to the president, and resources needed for their functioning. They are legally recognised as forums where citizens can come together to discuss issues, decide on strategies, and formulate proposals on issues of local significance. These institutions have presidents that are elected by citizens for 4-year terms, can elect a community self-government council, and can have resources allocated to them for certain tasks delegated by the mayor.

These semi-formal institutions act as an organic, legitimate system of intermediation between citizens and municipal governments. According to most of the interviews we conducted, *Mesni* or *Urbani Zaednicis* provide a significant opportunity for sustaining citizen participation. Almost all mayors explained that they work closely with the elected leaders of these institutions, and that they are very important local actors through which a mayor can get information on the needs of communities. A civil society organisation that works on implementing Community Forums (CFs) explained that the relationship between municipal mayors and community leaders is usually a very close one because they are both elected by the same people. They, therefore, co-habit and work through one another. Though their connection is not formal, it is strongly political — since the influence of the community leader affects the electoral vote bank of the mayor — and moral, since these community elders command respect, and exercise influence and authority, within areas of the municipalities.

Various respondents also pointed out that these community groups have legitimacy and command respect, they are trusted, and are considered a natural focal point by citizens for the expression and

representation of collective interests. As a scholar pointed out, “they are there for a reason”. However, *Mesni* or *Urbani Zaednicis* are not integrated with one another or within the working of municipalities, and though they are active, they work essentially outside the local government system. Many respondents — from within municipal governments as well as civil society organisations — pointed out that their integration would greatly improve the working of municipal governments and their ability to assess community needs. They pointed out that these semi-formal institutions can be used by municipal governments to negotiate with communities on certain issues, such as paying taxes, to raise awareness on issues, such as environmental protection, to facilitate the implementation of projects, such as waste management, and to help the municipality manage inter-community relations (pointed out in particular by a CSO that works on this issue). They explained that while this happens already, there are no incentives built into the formal system to compel these semi-formal actors and institutions to work together with mayors on a consistent basis. As a civil society organisation explained, if *Mesni* or *Urbani Zaednicis* were integrated within the system, not only could their capacity and professionalism be improved, but they could also play an important role in the budgeting process in which municipalities often have to consolidate the needs of between 20-50 villages. The respondent from the organisation added, “The CFs are of central importance, but the way to institutionalise these is through the *Mesni Zaednicis*. However, their work needs to be formally budgeted”. The mayor of a major town made the same point, and added that the most effective model of decentralisation was provided by the 1974 constitution, in which *Mesni Zaednicis* were formally included and had access to their own revenues, made local expenditures, and managed their own land. He added, “This worked well, as far as I am concerned, and citizens were included”.

The systematic evidence collected in Macedonia regarding the legitimacy, effectiveness and important political role of these indigenous local governance institutions strongly suggests that MZ should be taken into account in the design and development of future local governance initiatives. As demonstrated by similar experiences in many other countries, there is a growing scholarly and policy awareness that these (semi-formal) institutions have tremendous potential to strengthen citizen participation, encourage inclusive decision making and promote improved service delivery at the local level.

3.3. Support to the Association of the Units of Local Self Government (ZELS)

The Association of the Units of Local Self-Government of Macedonia (ZELS) is a non government organization that represents all 84 municipalities and the City of Skopje.¹⁹ According to their mission statement, “ZELS is devoted to building a local governance system to the measure of the citizens, with local government units that are successful, efficient, and financially independent”.²⁰ Founded on April 26, 1972, ZELS is one of the key actors of the decentralization process in Macedonia, both in terms of formal and legal prerogatives to facilitate administrative and fiscal decentralization, and in terms of their political role in brokering power relations between local and central government.

ZELS is a national association of all 85 mayors (including the city of Skopje) who make up its General Assembly (GA). The Managing Board (MB), in charge of making executive decisions, is made up of 19 members who are elected by the General Assembly. The board is led by a president who is a mayor from the government party (currently led by the Mayor of Skopje) and two vice presidents: one from the Albanian coalition party and one from the

¹⁹ "Association of Local Government of the Republic of Macedonia- Zels." ZELS. Macedonia. Web. 22 Mar. 2012. <<http://www.zels.org.mk/Default.aspx?id=0f80db91-1de3-4f90-85d0-fa2f62496171>>.

²⁰ See <http://www.zels.org.mk/Default.aspx>

leading opposition party. It is argued that the Managing Board makes most of the decisions by consensus, but this should not be surprising since it is also noted that the Board heavily represents pro government and urban mayors. Below the Managing Board, there is a 5 member Steering Committee to supervise the execution of decisions made by the MB and GA. In addition, ZELS is made of a 12-member Committee of the Council or the concilliary, and close to 13 additional working committees (made of 5 to 7 mayors each) to address diverse thematic issues such as finances, economic development, environmental concerns, energy, education, water management, etc.

ZELS is well placed to advance the technical and administrative as well as the political aspects of the decentralization process. According to their own documents, ZELS has four main functions:

- a. Promote cooperation and information sharing amongst members;
- b. Act as a lobby group and advisory body to the central government;
- c. Establish relations with national and international association of local authorities;
- d. Organize training and conference opportunities for its members.

ZELS has played a critical role to ***facilitate the managerial and administrative capacities of local governments*** to meet the responsibilities associated with existing decentralization legislation. Although Zels had been active for three decades already, this facilitating role became especially important after the 2001 Ohrid Framework Agreements and the adoption of a Local Self Government Law in 2002. During the last decade, ZELS had received significant financial support from USAID first and then from SDC to provide training and capacity building, to design and develop administrative software, and to help improve municipal service delivery capabilities.

Between 2002 and July 2007, ZELS benefitted from a \$11.5 million USD technical assistance decentralization project from USAID to help local governments become more effective, responsive, and accountable.²¹ In the majority of municipalities, project funding was aimed to improve the managerial and administrative capacity of Macedonian municipalities to assume their new responsibilities. To this extent, ZELS sought to:

1. Support the establishment of financial management and tax administration capacities, with a special focus on property taxes and relevant local revenues;
2. Ensure regular utilization of citizen participation mechanisms in public decision-making through practicable IT solutions; and,
3. Assist in the implementation of one stop permitting systems that result in improved zoning, city planning, permitting, etc.²²

ZELS has been also involved with other capacity building activities to help municipalities gain increased financial independence, by training and certifying local government officials for the provision of communal services, improved financial management and better customer service. A USAID democracy and governance assessment (conducted as a part of its strategic planning process for the development of its 2010-15 country assistance strategy) reported a positive contribution of ZELS to the decentralization process (Clavelle 2009). More specifically, it highlighted ZELS' potential to expand the organizational, analytical and policy capability of municipal governments.

²¹ <http://macedonia.usaid.gov/en/sectors/democracy/decentralization.html>

²² <http://macedonia.usaid.gov/en/sectors/democracy/decentralization.html>

SDC support to ZELS seeks to help municipalities become credible development partners to the central government (Clavelle 2009). To this extent, it is believed that strengthening the role of ZELS can help to bridge the gap between “the limited financial and human resources of local self-government” and the expectations for improved service delivery.²³ As an expression of this commitment, SDC provided on-budget and off-budget support to ZELS in the magnitude of CHF 2.650 million (about USD 2.9 million) between 2007-2010.²⁴

Over time, ZELS has continually expanded their participation as the (near exclusive) providers of technical support to municipalities, including capacity development initiatives, training of staff, examination and certification of technical abilities, and providers of the necessary public management software. For example, ZELS has developed a software application to assist municipalities with assessment of construction land, energy efficiency, service provision, and other e-government initiatives for declaring taxes and issuing building permits (Interview with Dusica Perisic, Executive Director of ZELS). Similarly, ZELS claims to have a growing role in the training of municipal staff (1000 people trained in 2010, 1500 in 2011 and hopefully 2000 in 2012 according to the ZELS Director). But it is yet unclear how this capacity training is directly contributing to an expansion of municipal capabilities given the magnitude of the investment. In conversation with other cooperation agencies like OSCE and UNDP, it emerges that ZELS is also beneficiary of capacity building and training programs from these institutions. It would be advisable to conduct an impact evaluation of training programmes to assess the extent to which donor investments have produced value for money over time.

Parallel to its technical and administrative contribution to the decentralization process, ZELS has played a key role for **brokering effective political agreements between central and local governments**. This brokering role demands a delicate balancing act to consolidate its relationship with local governments and to represent the interests of the local governments at the national level. On the one hand, ZELS has maintained its role as legitimate representative of the interests of local government thanks to the inclusive governance structure (described above) which ensures, at least in principle, a more democratic decision making process. ZELS has also tried to preserve its neutrality from partisan politics when the MB decided not to influence the debate on which municipalities should be abolished when the Law of Territorial organization reduced the number of mayors from 124 to 84 in 2004. ZELSW has also cultivated good ties with mayors by serving as a platform to launch and advance their political careers. This is the case of Nevzat Bejta, a former mayor, who benefited from his national salience as Vice President of ZELS to then become the current minister for Local Self Government.

The question of whether ZELS is a valid counterpart to or an extension of the central government interests remains a controversial point with many stakeholders interviewed. Some have openly questioned the extent to which ZELS can effectively be a representative of the interests of mayors vis-à-vis the central government and not the other way around. The belief that ZELS is “an extension of the central government” was supported by the fact that the current president of ZELS, Koce Trajanovski, is also the mayor of Skopje and one of

²³ http://www.swiss-cooperation.admin.ch/macedonia/en/Home/Facilitating_Decentralisation/ZELS_Autonomy_and_Service_Project

²⁴ http://www.swiss-cooperation.admin.ch/macedonia/en/Home/Facilitating_Decentralisation/ZELS_Autonomy_and_Service_Project

the largest beneficiaries of government transfers. The Director of ZELS, Dusica Perisic has ensured that they remain independent from the government because most of their funding comes from other (donor) sources and they have remained fairly independent in their advocacy and policy influencing work. Evidence suggests that, for the most part, ZELS tends to reproduce a representation bias in favour of the most influential mayors and municipalities, which tend to be urban more than rural, more government oriented rather than opposition, and of Macedonian descent rather than ethnic Albanian.

A recent example of this bias involved the 2004-2005 policy campaign initiated by ZELS to demand an increase of the Municipal take on the collected VAT, from 1% to 5%. While it is true that all municipalities would benefit from increased share of tax revenues, VAT is not the most redistributive tax but rather would tend to reproduce a bias that would favour wealthier municipalities. What was interesting to note is that ZELS clearly articulated the VAT campaign nationwide, it effectively lobbied members of parliament to participate on the hearings, and brought the Finance minister to account for the decision. In the end, ZELS obtained a compromise solution with a 3% devolution of VAT effective in 2009, with a sliding and gradual scale of increments towards 4.5% in 2013.

Recommendations for making ZELS more accountable to local governments

While it is a well known fact that ZELS plays a central role in the decentralization process in Macedonia, some questions remain as to whether ZELS is a consistent agent of positive change. On the one hand, many stakeholders agree that given the internal governance structure and the political affinity of its president with the ruling VMRO party, ZELS is no more than an “extension” of the central government in local government affairs. Similarly, it remains unclear the extent to which ZELS is an association representing the interests of all mayors (including those from rural, poor or opposition ruled municipalities) or it is a lobbying vehicle for the benefit of a selective group of influential mayors.

Despite some criticism, stakeholders agree that even if ZELS is a powerful gatekeeper, it is also one of the few (if not the only) legitimate and effective voices for local governments to represent different regional, ethnic and economic interests at the national level. The advantage is that ZELS represents these interests with a single voice, which facilitates the bargaining and advocacy efforts with the central government.

From the perspective of SDC interventions, the relevant question is: how to make ZELS a more accountable, responsive and transparent agent of the decentralization process? And more specifically, how can SDC support to ZELS have a maximum impact on the process of Macedonian decentralization? We identify four specific challenges:

1. ***To make ZELS more accountable to the needs of all mayors.*** SDC is in a privileged position to exert more leverage on the governance of ZELS given that it contributes with nearly 80% of its total funding. One way to ensure a broader representation of marginalized municipalities is to ensure that relevant fiscal information concerning the existing inequalities and government transfers to different municipalities is widely shared with all mayors.
2. ***To make ZELS more accountable for the use of resources received from donors.*** Given its centrality in the decentralization process, ZELS benefits from important contributions from different cooperation agencies in order to conduct capacity

building, e-government initiatives and other support to municipalities. SDC would need to coordinate with OSCE and UNDP to request greater accountability in the use of resources, to ensure broader coverage, and to improve the quality and visible impact in the provision of these services.

3. SDC could **encourage greater transparency in ZELS operations** as a way to improve coordination with national level government bodies. There are different government institutions with diverse functions in charge of decentralization, including the Parliament, the Ministry of Finance, the Ministry of Local Self Government and other line ministries. ZELS has the potential to play an informal coordinating role between these national level bodies and municipal governments. But greater coordination would also entail a combined design of programmatic activities to avoid duplication of functions and maximize the use of resources.
4. **To encourage ZELS to work closely with Mesni or Urbani Zaednici** in order to train community leaders to work closely with municipal staff in the delivery of public services, e-government and community participation.

Political influence

1. Fiscal reforms are quite difficult to achieve especially in a fragmented and ethnically sensitive context. SDC however, could demand from ZELS the disclosure, analysis and utilization of existing datasets to target the most vulnerable municipalities. Greater access to fiscal transfers data, currently in the hands of ZELS, should empower mayors in the discussion and eventual design of better mechanisms for distribution of resources according to needs assessments or existing socioeconomic indicators.
2. Analyzing and disseminating fiscal transfers data is a powerful way to lobby for more inclusive distribution of fiscal resources, either through increasing the share of tax revenues available to municipalities or increasing the access to pooled funding for regional development. This work could be supported and done by leading non governmental organizations to liaise with mayors, the general public and raise awareness of existing fiscal inequalities. Other stakeholders like media could be also brought in to participate.
3. Building on the successful experience of the VAT reform led by ZELS, SDC could also play a supporting role to build the capacity of leading think tanks and NGOs to lobby Members of Parliament in order to discuss and design proposed mechanisms to minimize fiscal disparities across Macedonian municipalities.

Further research

1. An ongoing and updated analysis of fiscal decentralization in Macedonia is needed building on good existing data produced by USAID. SDC could play an important role to strengthen the capacity of leading local think tanks and research institutions to develop a long term research agenda to analyze the gaps, possibilities and sources of funding to genuinely strengthen the process of fiscal decentralization.

SECTION 4

Recommendations for Strategic Orientation Beyond 2014

In this report we identify four main strategies for future intervention by SDC. The first of these considers a restructuring, expansion and strengthening of support within the currently existing modalities — the Community Forums and ZELS. This was discussed in the previous section. In this section we look at three other strategies that SDC could adopt to strengthen and support the process of decentralization in Macedonia. These three strategies constitute new areas of intervention for SDC.

The first of these suggests a reorientation of SDC support towards regional development centres in order to rationalize a process of decentralization that by most accounts has spread the state's administrative capacity too thin, and has thus made it ineffective. The second new strategy points out the importance of data collection and proposes that either SDC should get directly involved in collecting, maintaining and analysing quality data on decentralization and development in Macedonia, or it should advocate for this and enable other institutions to gather and analyse such data. The rationale for this comes from the fact that comparative data on municipalities, regions, ethnic groups and classes can help build pressure for greater, more effective and more equitable development in the country, with decentralization as an important tool through which to achieve this. The final strategy suggests greater advocacy efforts by SDC to push for political changes that will allow greater administrative and fiscal decentralization to deal with the current stalemate identified by various respondents.

4.1. Regional Development

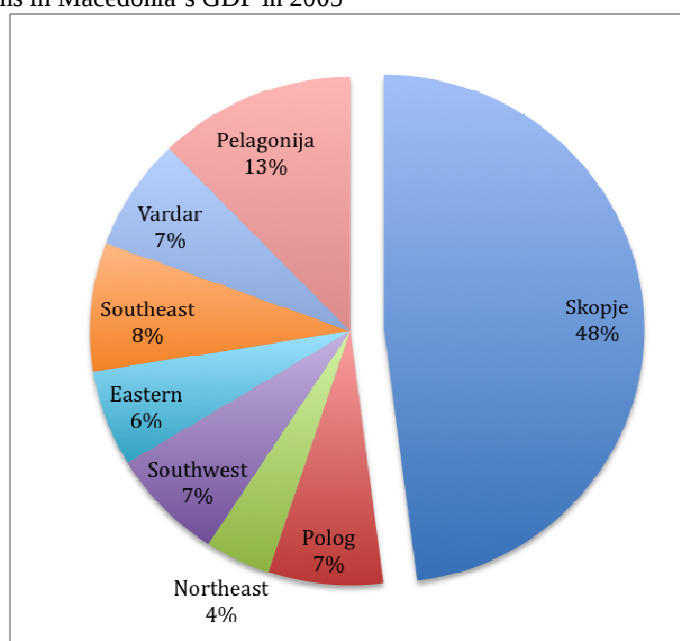
Macedonia has eight planning regions — Vardar Region, East Region, Southwest Region, Southeast Region, Pelagonia Region, Polog Region, Northeast Region and Skopje Region. Each of these is managed by an executive body called the Centre for Development of the Planning Region (CDPR). Municipalities fall within these planning regions, the main aim of which is to enable balanced regional development (referring to equity across municipalities) and inter-municipal cooperation. This is a new strategy for dealing with development and is based on a new law, the Law on Balanced Regional Development that was passed in 2007. The law is a response to various critiques of the fact that Macedonia is an unequal country with very unequal distribution of resources and revenue, but that the law of decentralization does little to deal with this.

The law also set up a Regional Council that is made up of the mayors of each municipality within the region. The CDPR is an administrative body that supports this Council in its work and submits a monthly report to the Ministry of Local Self-Government (MoLSG). Within the Councils mayors work towards cooperation with one another, and discuss and prioritise projects of common interest. At the national level a National Council for Regional Development was formed that includes the eight regions, ZELS and eight ministries, which include the MoLSG, Economy, Finance, Transportation, Environment, Health, Education and Social Work.

To support the work of the planning region and Council, the law stipulated that 1% of national GDP will be provided each year to the eight planning regions for regional development through various ministries, such as agriculture, transport and environment. However, given that these regions and the new regional strategy for development is rather new, the regions have a difficult working relationship with ministries and are not yet recognise them as being part of their financing responsibilities. According to a respondent who heads one of the planning regions, The MoLSG is currently working with the ministries to gain greater recognition for the planning regions and their funding needs.

Our focus on suggesting a reorientation of SDC's support away from Community Forums and towards regional development is motivated by four factors. First, and foremost, amongst these is the extreme inequality that exists between regions in Macedonia. This includes unequal development indicators and an unequal distribution of resources across regions (Figure 3 and Table 1 below). A recent study concluded that in Macedonia, "a wide variation in the quality of life is observed at regional levels. This finding emphasises the relevance and importance of developing regional policies that could raise the quality of life in the more deprived regions. It should be recognised, of course, that there is also substantial intra-regional variation, and that the issue of the quality of life at a municipal level is one which affects all regions to a greater or lesser degree" (Bartlett *et al.* 2010: 157). This points to two aspects of regional development; (a) balanced and more equitable development across regions, and (b) more equitable development and distribution of resources within regions between urban and rural areas. In either case, a regional approach to development, rather than one based on individual municipalities, is called for.

Figure 3: Share of regions in Macedonia's GDP in 2005



Source: Novkovska 2010

Table 1: Classification of the planning regions of Macedonia according to the development indices

Planning region	Development index	Economic- social index	Demographic index
1. Skopje region	1.48*	1.86	1.25
2. South-eastern region	0.89	1.38	0.58

3. Pelagonija region	0.73	0.79	0.69
4. South-western region	0.72	0.50	0.86
5. Polog region	0.72	0.18	1.05
6. Vardar region	0.69	0.63	0.73
7. Eastern region	0.67	0.95	0.50
8. North-eastern region	0.56	0.33	0.70

Source: Novkovska 2010

*Index 1 = average national development level of Macedonia

Second, many respondents who have been deeply involved with the process of decentralization in different capacities were of the opinion that ethnic concerns arising from the 2001 conflict in Macedonia has resulted in the country being divided into a single tier of decentralized government based on monotype units. These units, they pointed out, did not account for demographic, financial and resource differences between municipalities and, instead, devolved uniform competences to each one regardless of size or type. Furthermore, the size of each municipality has resulted in municipalities suffering from diseconomies of scale. These respondents believed that the state's administrative capacity has spread too thin, and has thus been made ineffective, especially within smaller, poorer and remote municipalities. One ex-mayor went so far as to call the current units "unsustainable". They suggested that to make the system effective the unit of administration in Macedonia needs to be rationalised to a more efficient and practical size, for which they advocated the "regionalisation" of certain administrative functions within the recently established planning regions, accompanied with a greater devolution of some fiscal functions and responsibilities to the regional level. This would accomplish two aims: make the system of local governance more rational and effective, while at the same time maintaining the current number of municipalities so as to not upset the delicately maintained ethnic balance in the country.

Third, our focus is motivated by the fact that fiscal decentralization has failed to keep pace with administrative decentralization, and municipalities are increasingly restricted by limited financing. Most interviews with municipal mayors and staff revealed a great interest in developing local business ventures, especially in the area of tourism. However, they are severely restricted in this by limited capacity and even more limited finance available for initial investments. At the same time, the CDPRs that have responsibility under the law for supporting exactly such ventures and initiatives are as yet unclear about their role. As one staff member of a CDPR explained, "We will be supporting business incubators, but we are not sure yet what we will be doing in this area". They explained that a lot more support, capacity building and finance is required before the CDPRs can take on these roles. The planning regions stand to provide immense support to municipalities in an area of high priority — the raising of own revenue and a measure of financial self-sufficiency — but for this they themselves need a higher level of support than is currently provided by the central government. This, together with the need to rationalize governance highlighted above, provides a unique opportunity for intervention by SDC in a high priority area.

From the perspective of municipalities, one mayor also raised the point that an effective way to help municipalities effectively deal with the provision of services is through a two-tiered system of local government (like the city of Skopje and its municipalities, he explained) that would consolidate the responsibility for social policy and social services at the regional level,

and will help build capacity and inter-municipal cooperation in these areas. While regions take greater responsibility for health, education, social policy, sports and culture, the centre can then devolve more down to the municipalities, such as responsibility for roads and transport, collecting and managing local taxes.

Finally, our focus on SDC involvement with the planning regions and CDPRs is motivated by the fact that the only donor who is currently supporting their work, GIZ, is soon to exit Macedonia. GIZ has to date prioritized the business development aspect of Macedonia's regional strategy in their work, and have looked to improve capacity in this area (GIZ 2008). However, with their impending exit they will leave a large gap in a high priority area of intervention.

Recommendations for Support to Regional Development Centres

All of the reasons discussed above lead us to recommend that in their new phase of support to Macedonia's decentralization beyond 2014, SDC should focus their attention at the regional level. In specific, we propose that:

1. SDC should partner with GIZ to develop an action plan for working at the level of regions to support the work of the Regional Planning Centres. GIZ's support has three main components: (a) strengthening capacity for regional development on a national level and facilitating the drafting of by-laws, (b) strengthening capacity of regional centres for regional governance, and (c) improving business climate at the local level and developing tools to support local economic development through local businesses (GIZ 2010). SDC can either adopt the same model, or add to this model through specific other regional initiatives it may want to prioritise in accordance with its mandate or with Geneva's strategic priorities.
2. If SDC chooses to follow the same model, it could support the process by working in the four planning regions that GIZ has not yet worked in. These include Vardar Region, Pelagonia Region, Northeast Region and Skopje Region (GIZ works in East Region, Southwest Region, Southeast Region and Polog Region). This would provide SDC with the opportunity for direct and detailed involvement in the centre of the country from north to south.
3. If SDC chooses to look at additional avenues of support beyond those in which GIZ is currently involved, the following are other points of intervention identified during interviews with planning regions:

Greater coordination with ZELS, with whom Regional Councils share the same mayors, but with whom they have almost no contact. This indicates that important and obvious synergy points exist within the structure but are as yet unexplored.

Capacity building of mayors in preparing common work plans that will benefit various municipalities (infrastructure development, environmental protection, water supply, tourism development, labour fairs, industrial economic zones), including understanding complex regional procedures;

Institutional capacity building to prepare projects for cross-border cooperation projects;

Capacity building to support the development of Small and Medium Enterprises;

Evaluation of projects and monitoring of development.

4. Eventually, as GIZ rolls back its activities to prepare for a possible transit out of Macedonia, SDC may want to consider taking on a certain role of support to all eight planning regions.

Political influence

1. Respondents pointed out that the planning regions are currently unable to live up to their coordination potential because of restricted funding. While the law stipulates the transfer of 1% of GDP stipulated, only a fraction of this is actually provided. One respondent who has dealt with the original proposals for regional bodies pointed out that the 1% figure came to about €60 million but that only €3 million was actually disbursed (the government claimed that the rest came through line ministries. See point 3 below). SDC could use its influence to press for a proper financing of the Regional Councils and CDPRs. Over time the money allocated to regions would also have to increase since 1% is not enough to meet the needs of all eight regions (e.g. the city of Veles alone would require about €50 million for its high priority water purification needs).
2. Advocate actively to make Macedonia's decentralised system a two-tiered system of local government that comprises of (a) regions, and (b) municipalities that fall within each region. In other words, regions should be recognised as a formal tier of local government. Advocate also to make the planning regions viable entities for planning and municipal support through the devolution of more administrative responsibility to this level from the centre. At present they operate simply as councils made up of a number of mayors.
3. This will also require fiscal disbursements to be revisited. Since the 1% comes to the CDPRs through various line ministries rather than directly, when, for example, the ministry of transport makes a regional road, not necessarily in consultation with the regional centres, they consider the finances to have come out of the 1% earmarked for the planning regions, and their responsibility thus fulfilled. Thereafter if the CDPR comes to the ministry with a proposal formulated by its member municipalities, there will obviously be no remaining funds available.
4. Some municipal competences should be moved upwards from municipalities to these regions, while others should be devolved from the centre to the regions to allow these planning regions to play the kind of planning and coordination role between municipalities that would be played by provinces or states in other countries. Competences that are at present proving too much for smaller municipalities and could possibly be moved to the regional administrative level could include:
 - Management and financing of secondary schools;
 - Student residences for secondary schools;
 - Regional roads and water supply systems;
 - Some social care functions;
 - Construction and inspections.
5. Respondents foresaw a reluctance on the part of the central government to such regionalisation, based largely on the secessionist threat in western Macedonia. This threat, they felt, was exaggerated but it may require SDC to deal with carefully and in consultation with scholars and research institutions that work on the issue of ethnicity in Macedonia.

Further research

1. Commission research to identify competences that should be moved from municipalities to regions, as well as identify competences that should be devolved from the centre to the regions to make them effective entities. This research can also look into the financing needs of the planning regions. This piece of research can be used by SDC to apply political influence on the government of Macedonia in the areas identified above.
2. Commission research on the best way to integrate municipalities within the Regional Development Centres, or at least to increase their synergy with one another. This research should also look at the types of business plans and ventures that are highly valued by municipalities and that can be best provided through cooperation the Regional Planning Centres. GIZ may already have some of this available through its own work with the regions.

Advantages of these recommendations:

1. Involvement with economic development in line with the expressed priorities of many municipal authorities.
2. Assist Macedonia in meeting EU regulation on NUTS.
3. Provide support to an important identified need in the country: “Regional policy is becoming more and more important for the socio-economic development of the country. The main objective of the regional policy is the decrease of the differences among the natural, economic, demographic, social and infrastructural characteristics of the municipalities in the country” (Novkovska 2010).

Associated risks: This is a new area of intervention and has not yet rendered great results for those involved, such as GIZ, which has had limited success over its 4 year period of involvement.

4.2. Data Collection and Monitoring

Collecting, analyzing and communicating timely and accurate data is a key element to ensure greater transparency in the decentralization process. Currently there are several reporting mechanisms that keep track of diverse indicators of decentralization, but they are not interconnected, nor do they measure the same things. Some reports, like the OSCE sponsored Report on the Fiscal Decentralization Process in the Republic of Macedonia looks at the legal competences and actual transfer of revenues, intergovernmental transfers, and debt management.²⁵ Other documents such as the 2011 UNDP Local Governance and Decentralization, FYR Macedonia account for different indicators of service provision.²⁶ Other agencies like USAID and GIZ have also produced detailed accounts of the decentralization process. There are no compared assessments however that link up indicators of fiscal transfers with service delivery

²⁵ See for example the OSCE sponsored “2006 REPORT ON THE FISCAL DECENTRALISATION PROCESS IN THE REPUBLIC OF MACEDONIA”
<http://www.osce.org/skopje/30746>

²⁶ See for example
<http://www.undp.org/content/dam/undp/library/Democratic%20Governance/Democratic%20Governance%20The%20Trust%20Fund/dgttf-ll-Macedonia-LGnD.pdf>

with quality of participatory mechanisms for example, that could a) create a common narrative around the meaning, the importance and value of decentralization in Macedonia, and b) serve as a monitoring tool to assess progress over time, and c) serve as a coordination mechanisms to align advocacy efforts with political commitment and policy reforms. The underlying assumption is that good quality data on municipalities, regions, ethnic groups and classes, that is reliable and produced in frequent intervals, can help build influence for greater, more effective and more equitable development in the country.

One concrete way forward is to develop this set of comprehensive set of indicators according to EU regulations. For example, the NUTS classification (Nomenclature of territorial units for statistics) is a hierarchical system for dividing up the economic territory of the EU for the purpose of the collection, development and harmonisation of EU regional statistics. Following the existing Law on Regional Development (Official Gazette 63/07), more consistent data could be gathered along three levels of NUTS for the 8 regions. NUTS 1 would cover major socio-economic analysis of regions, NUTS 2 would cover basic regions for the application of regional policies and NUTS 3 would look at small regions for specific sector diagnostics. Currently, the government does not have real integrated accounting and tracking of where investments come from and where they go, although everyone is aware of only their own area and constituency (Adler GIZ interview). Collecting data and monitoring capital investment per municipality or per region should provide a very vivid picture not only of the extent of inequality and unequal investment in regions, but will also become a good advocacy point for pressing for more balanced regional development (Adler GIZ interview).

Thinking ahead, more investment and research would be needed to define the criteria for balanced regional development, track progress separately in each of the regions, and use consolidated reports as advocacy tool to press for greater regional integration and cooperation.

4.3. Advocacy

Our final recommendation is that SDC should use its influence with the Government of Macedonia to advocate for certain policy reforms within the area of decentralization. We have already discussed some areas that require policy influence and advocacy efforts within the preceding sections (those that have to do with Community Forums, ZELS and the planning regions). Here we discuss these again, and look at a few additional areas of required change.

Administrative reforms

Respondents that worked within municipalities pointed out that to further the process of administrative decentralization and to allow municipalities to function more effectively, a few more competences should be devolved from the centre to municipal governments. These include the following:

- Management of social work centres;
- Management and control of medical services;
- Responsibility for secondary health care (along with the current primary health care);
- Issuance of registration documents, such as birth certificates and driving licenses;

- Ownership and complete management of construction land.²⁷
- Management and ownership of agricultural land, pastures and forests.

Many respondents believed that the fact that municipalities had only partial responsibilities within each of these areas — education, health, social care, land management — and remained dependent on the centre and various line ministries for related activities means that they are unable to take comprehensive decisions regarding these services at the local level. Furthermore, this division of responsibilities between the centre and local levels within the same sector also restricts the ability of municipalities to undertake holistic planning. These factors contribute greatly to making them ineffective in delivering services.

Fiscal reforms, ZELS and Data Collection

1. SDC should ensure that ZELS publishes and disseminates the existing and detailed information regarding revenue collection and fiscal transfers to municipalities. In principle, greater access to good quality data, should empower mayors, research institutions and civil society organizations to become aware of existing disparities, in order to analyze, design and propose better mechanisms for the distribution of scarce resources.
2. SDC could facilitate and encourage a greater dialogue and coordination with the Ministry of Finance, the Ministry of Local Self Government and cooperation agencies like UNDP and OSCE to promote the discussion of fiscal reforms to reduce existing fiscal inequalities through increasing the share of tax revenues available to municipalities or increasing the access to pooled funding for regional development.
3. Building on the successful experience of the VAT reform led by ZELS, SDC could also play a supporting role to build the capacity of leading think tanks and NGOs to lobby Members of Parliament in order to discuss and design proposed mechanisms to minimize fiscal disparities across Macedonian municipalities.
4. Currently, the government does not have real integrated accounting and tracking of where investments come from and where they go, although everyone is aware of only their own area and constituency. Collecting data and monitoring capital investment per municipality or per region should provide a very vivid picture not only of the extent of inequality and unequal investment in regions, but will also become a good advocacy point for pressing for more balanced regional development.

Community Forums

1. Build on the current recognition provided in the law to *Mesni* or *Urbani Zaednici* (municipal council has to discuss an issue put forth by at least 10% of the voters in the municipality or within the community self-government unit, and the mayor has to call a citizen's gathering if at least 10% of the *Mesni* or *Urbani Zaednici* request it) to advocate for the institutionalisation of citizen participation even further within local governance processes by tying it to budget process formally. This will make citizen participation sustainable, and will make it less dependent on the personality, will and commitment of the mayor.

Planning Regions

1. Use political influence to advocate for the sufficient financing of the Regional Councils and CDPRs.

²⁷ Municipalities have only partial management and income at present, and no ownership.

2. Advocate actively to make Macedonia's decentralised system a two-tiered system of local government that comprises of (a) regions, and (b) municipalities that fall within each region. In other words, regions should be recognised as a formal tier of local government. Advocate also to make the planning regions viable entities for planning and municipal support through the devolution of more administrative responsibility to this level from the centre.
3. Advocate to move some municipal competences upwards from municipalities to the planning regions, while others should be devolved from the centre to the regions. Competences that are at present proving too much for smaller municipalities and could possibly be moved to the regional administrative level include:
 - Management and financing of secondary schools;
 - Student residences for secondary schools;
 - Regional roads and water supply systems;
 - Some social care functions;
 - Construction and inspections.
4. Work with scholars and research institutions to assess the secessionist threat from western Macedonia since this has limited the scope of both administrative and fiscal decentralization. Based on this, advocate for greater and more effective decentralization.

CONCLUSION

Macedonia moved a great step ahead with the Local Self-Government Act of 2002, especially in terms of the political accommodation of its major ethnic groups. However, many respondents felt that the process of decentralisation has now reached a stalemate and that major reforms in the areas of both fiscal and administrative decentralisation are required to further deepen this process. As one respondent, who had been part of the design process and had later served as a mayor of a major municipality, put it, “decentralisation should be for the benefit and interests of the people. Instead, here it often feels like it is simply in place to provide international legitimacy to the government and politics of Macedonia”.

Given this situation, we suggest in this report that there is a role for SDC to play in deepening this process and in making it more effective. We suggest reforms that can be implemented in the areas of intervention through which SDC is already involved in the decentralization process. However, we also go on to suggest possible other areas of intervention that SDC is not currently involved in, and that would allow SDC to contribute as a more prominent and central actor to making decentralisation more complete, effective, sustainable, equitable, accountable and participatory.

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Annex 1: QUESTIONNAIRE

PART I: POLITICAL ECONOMY ANALYSIS OF THE DECENTRALISATION PROCESS

Background and current state

Opportunities and challenges

10. What was the main rationale for decentralisation in Macedonia according to you?
11. Who were the main champions of this process?
12. In your opinion (judging from your experience) how successful has the process of decentralisation been? How do you define this success?
13. Could you give examples of positive aspects of decentralization?
14. What were the key factors/institutions that enabled decentralization to work?
15. What are the key remaining challenges? How do you think these can be addressed?

Key attributes

16. Have transfers from the central government been sufficient to enable admin decentralization? (Have administrative and fiscal decentralisation kept pace with one another?)
17. What are the main strengths and weaknesses in the relationship between the central and local authorities?
18. Has decentralization helped to reduce inequality:
 - (a) between regions?
 - (b) between municipalities?
 - (c) between ethnic groups?(Get details on how the inequity was manifested and how it has been reduced or increased)
19. How exactly was inequality reduced? (Possible options: representative politics, increased participation, better and more equitable service delivery, fiscal devolution or decentralised decision-making)?
20. Who decides on the formula for making fiscal transfers? Who releases the monies? Who authorizes payments?

- More importantly for municipalities: is money really reaching you? How large is the accumulated debt?
21. What is the main criteria according to which these are allocated? (Possible options: extent of poverty/backwardness, population size, proposals/demands, infrastructural/developmental requirements, party affiliation?)

Main actors and incentives

22. Are all political actors equally committed to this process? Who are the most interested, and why? Who are the most reluctant, and why?
23. Do relations between the centre and the municipalities vary based on which political party is in power?
24. What is the influence of business groups and other elite groups in municipal governments? (Possible options: diversion of resources, affecting the agenda, disproportionate role within decision-making)
25. Would you recommend a role for “local community groups” (*Macedonian = Mesna Zaednica, Albanian = Bashkasia Locale*) in local governance in cooperation with municipal governments? What kind of role do you think they can play?

Organisational contribution and role

- What is the role of your organisation in this process?
- What are the main challenges that your organisation has had to deal with in the process of decentralisation?
- Who were your allies/opponents in the process of decentralization.

PART II: RELEVANCE AND EFFECTIVENESS OF SDC SUPPORTED DECENTRALISATION INTERVENTIONS

- Are you familiar with SDC’s support to decentralisation?
- What do you think of their support to ZELS, or their involvement with the Community Forums?
- How would you evaluate this support? What more can they do?
- (For government) How long do you envisage the cooperation with the Swiss to last?
- In which sectors in particular do you think donors have contributed effectively (especially SDC), and in which sectors in particular do you think more effort is needed?
- In your opinion should donor support be in the form of short-term project-based interventions, or longer-term, programmatic interventions.
- To what extent do you think donors coordinate their efforts to support the process of decentralisation?
- What is the relationship between donors and the government? And the opposition?
- What remains in their ability to work with one another and with the government? (We should be able to ask a more specific question at this point about missing interventions).

PART III: POSSIBLE NEW AVENUES IN SUPPORTING DECENTRALISATION

1. How could SDC support to CSO's further be shaped to more effectively sustain the decentralization process in Macedonia?
2. Are there any other vehicles or institutions to promote effective decentralization that should be supported by SDC?
3. What are the specific strengths of donors in the process? Comparative strengths of SDC in particular?

To ask in ZELS interview:

1. How is political neutrality maintained? What are the challenges in being able to maintain neutrality?
2. What are the current capacity gaps at ZELS? What kind of training is required?
3. Do the current cooperation agreement with SDC cover everything that is required?
4. What is the future of SDC's involvement with ZELS?
5. What is the possibility and future of ZELS' involvement with the Community Forums? (Possible options: Future hosts? Institutionalisation?)

To ask in Community Forum / Municipality interviews:

1. (For municipalities only) What percentage of the staff here is from central line departments?
2. (For municipalities only) How did the territorial reorganization of municipalities in 2002 impact your capacity to deliver services? What do you need as support now (besides funds)?
3. (For municipalities only) What percentage of total VAT or Income tax do you raise in this municipality? What do you get back?
4. (For municipalities only) How does the budgeting process/sequencing work within the municipalities?
5. Is your involvement with the Community Forums continuing? - If not, why not?
6. What kind of outreach activities are conducted?
7. How complicated or easy is it for municipalities to start a Community Forum? (Finances, procedures, management?)
8. Who generally participates in these? Who are the first ones to join? Which individuals or groups participate most actively?
9. What is the future of SDC's involvement with the Community Forums? How can the CFs be improved?

To ask in CSO interviews:

1. Are you involved in the Community forums? Why, or why not?
- What is your incentive for involvement?
2. What is the role of CSOs in the facilitating the participation of citizens in municipal governments?
3. How interested are you in continuing with your involvement with Community Forums?
- If yes, for how long? How can these be sustained over a longer period of time?
4. How can Community Forums be safeguarded from the change of Governments?
How can they be institutionalised?

Annex 2: Stakeholders interviewed

Position	Organization	Sector
Mayor	Municipality of Saraj	Local government
Program Director	ADI (Community Forums)	Civil Society Organization
Mayor	Municipality of Gostivar	Local government
Director	Community Development Institute	Civil Society Organization
Director	Civil (NGO)	Civil Society Organization
Executive Director	MCMS (Community Forums)	Civil Society Organization
Mayor	Municipality of Zelenikovo	Local government
Minister	Ministry of Local Self-Government	National government
Scholar	Expert on decentralisation	Research
Program Director	OSI (Community Forums)	Civil Society Organization
Director	Akcija Zdruzenska	Civil Society Organization
Director	CRD Skopje Region	National government
President	ZELS (Mayor of Skopje)	Local government
Head of Governance Unit	UNDP	Cooperation
Municipal staff	Municipality of Veles	Local government
Head	OSCE - Good Governance	Cooperation
Director	ZELS	Civil Society Organization
Scholar	Expert on decentralisation, ex-mayor of Veles	Research
Director	GIZ - Regional programmes	Cooperation
Deputy mayor	Municipality of Cair	Local government
Scholar	Expert on fiscal decentralisation	Research
Scholar	Expert on decentralisation	Research
Director	Focus (CSO)	Civil Society Organization

Director	Centre for Research and Policymaking	Research
Member of Parliament	National Assembly	National government
Director	Ministry of Finance - Budget	National government