



Brief

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Conceptualizing decentralization trends in Macedonia

As of writing this brief, Macedonia is in the wake of the first anniversary of the start of decentralization process. More than a year has passed since 1 July 2005 when it was marked the beginning of a very complex and major reform process the country has experienced since its independence. The importance of the first anniversary of the decentralization process comes at the critical era when the country is on the eve of starting with the second phase of the decentralization process when new fiscal and budgetary resources will be transferred from central government to the responsibilities of local self-government units. Also, it is the period when country is closely monitored by the EU institutions for its ability in being able to start with the accession talks.

At this critical juncture, it is right time to establish a record card of the overall decentralization process in Macedonia. The changes seen in the cities around the country in the last twelve or some months offer very good opportunity for the review of the so far results of Macedonia's decentralization project. Various municipalities, which have shown a remarkable change from the start of the decentralization process, scale of change not seen in the modern history of the country's municipalities, provides a good case for delivering a modest assessment of the progress of Macedonia's decentralization process. It has been difficult to identify a source that would provide a clear answer to the status of decentralization currently and what is remaining. Also, taking into account the complexity of the process of decentralization, gradual approach adopted in its implementation, and due to the fragmented changes in various areas under this process, it is very difficult at this stage to draw conclusions on the situation with regard to the decentralization process. However, this is an attempt to underline major aspects of the decentralization as of writing this brief.

The story of Macedonia's decentralization project

Macedonia, by default, as one of the beneficiaries of breaking empires and federations, has experienced various different cycles of decentralization of the executive power in its history. However, it has

been its active decentralization agenda undertaken with the turn of the century that has brought the country at the forefront of the major international policy discussions on the value of devolving wider responsibilities to the local self-government units.

Signature of the Ohrid Framework Agreement in August 2001, bringing in the first place an end to the inter-ethnic incidents that occurred in the course of the first part of 2001, and later becoming a symbol of change and a basis for wider structural reforms in the country, established a strategic vision on how to proceed with the decentralization as one of the major democratic projects of Macedonia in the new millennium. However, the vision set at the Ohrid document did not suffice to bring necessary results as sizable public circles until recently were not convinced on the value of the decentralization to the future of the country. Clear expression of the dissatisfaction was witnessed with the organization of the referendum in November 2004 aiming to prevent the continuation of the decentralization project. The threat of the referendum was overcome with the majority of voters aligning themselves with the government's policy of continuing with the decentralizing of the power, including with the reorganization of the municipal boundaries. Overcoming the challenge of the referendum was possible by strong domestic political support and international assistance complemented by the vision provided to the country in terms of its perspective for EU membership. The perspective of EU membership offered with the Thessaloniki Summit of June 2003 and at other subsequent EU summits, gave an overarching philosophical underpinning to the country's decentralization process: that the decentralization is a European value to which Macedonia as a potential member aspires to associate itself with.

Thus, there were the visions underlined at Ohrid and at Thessaloniki that set the stage for the start of a comprehensive package of decentralization. Following these two wider processes, the project of the decentralization started to be realized through putting in place necessary constitutional and legal bases. Laws were changed, new ones adopted, including the adoption of the Laws on Self-Government, on Financing the Units of Local Self-Government and on Territorial Organization of the Local Self-Government, amendments to the Constitution (Articles 114-117), and adoption or amendment of number of other sectoral laws. With this new legal framework and other subsequent legislative and regulatory acts, the Government, albeit with lack of strong willingness on the part of the Ministry of Finance as a line ministry with major responsibilities in the area of decentralization, provided necessary ownership and leadership to the process.

Encouraged also by the complementary EU and other donor assistance to the decentralization process, the Government brought together major units of the government bureaucracy in planning and implementing necessary actions for the functioning of the process. Provided leadership and ownership by the Government to the process has proven to be sufficient in holding the momentum of reform and change.

The new system of decentralization contains large sectoral and financial devolvement from the central government to local government units that is set to transform the system of local and central government relationships in the country. The areas where municipal competences have legally been assigned but not yet as a whole decentralized include communal services, urban and rural planning, local economic development, culture, education, environment, social welfare and child protection, health care, fire protection and crisis management, sports and recreation. Presently, by the writing of this brief, the major competencies that have been decentralized include in the sectors of communal services, education, social welfare, culture, fire protection, and urban planning. Also, presently municipalities receive a 3 percent share of the VAT and of the personal income tax. They have also been receivers of ear-marked grants to fund education, welfare, fire protection and cultural institutions and have been given responsibility for the collection of municipal taxes, including property taxes. Moreover, tens of thousands of posts have been transferred to the local level, including in the educational services, cultural institutions, kindergartens, fire fighting and protection units, public revenue offices and the regional offices of the Ministry of Transport and Communication responsible for the urban planning function. The salaries of the transferred posts continue to be paid from the state budget with the expectation that the same to be paid by the municipal budgets starting from 1 January 2007. The transfer has also consisted of transfer of buildings (over 550 so far), equipment, vehicles, debts, documentation and assets in the sectors that have undergone decentralization.

Comparing the old system with the new one

Earlier system of sharing the responsibilities and financial resources among the central and local governments coupled with the weak municipal leaderships in fulfilling the promises laid down in the legislation, imposed unsustainable situation where for number of years no adequate investments were made to municipal infrastructures and other needs of the local self-governments leading to the worsening of the already then existing sound economic and social structures. The worsening of the situation started to be reflected with the de-industrialization, witnessed with the closure of major industrial

complexes that maintained thousands of the jobs around the country's municipalities, growing unemployment rates and increasing number of people living under the poverty line. The situation was not promising as it did not also provide resources for economically sound and financially sustainable functioning of the municipalities.

The distorted economic structures that developed in 1990s and early 2000s were associated with a highly unequal distribution of resources. Some insiders inheriting from the old regime their positions in the public services and utilities, had managed to turn their overseeing institutions into their own rent incomes, which in the end brought unequal distribution of the resources. This was the case with the holders of the rent incomes from various facilities within and around the towns, such as *traffikas* = newsstands/corner shops, whose later dissolution by the new municipal authorities in the case of Gostivar, a town in western part of the country, caused major discussions.

Then, local self-government competencies were very limited concerning responsibilities of expenditures and revenues. For example they did not have competencies in the significant areas such as urban planning, local economic development and financing. Before the adoption of the recent reform oriented laws, there was no possibility for the local self-government units to be funded by the revenues from local fees and taxes according to rates that would be defined by municipalities.

This system that predominated throughout much of 1990s and early 2000s, paralyzed much of Macedonia. But constitutional and other legal reforms undertaken since the adoption of the Law on Local Self-Government of 2002 have attempted to promote the decentralization in order to move the country into line with European standards of governance. In the new system, the municipalities enjoy a general power of competence. They are able to raise their own taxes, levy fees and borrow. They receive central government budget transfers and share various taxes with the central government including the personal income and value added taxes. They have control over their own budget, administration, property and cooperate with each other in delivering services or improving the infrastructure.

In sum, in the new system, the municipalities are entitled to decisively break with the centralized excesses of 1990s and early 2000s and they are vested with the appropriate authority and resources needed to fulfil their tasks. With both authorities and resources, the municipalities are credited to deliver the local services properly and effectively. Earlier centrally provided services currently are being provided through local

institutions, closer to the residents of the municipalities. The staff and service of earlier central and currently local institutions, in principle, has not changed. What has changed is the administrative layer from central to local level providing more legitimacy to municipal authorities and resources to carry communal and other required services.

Post 1 July 2005 ...

With the start of the decentralization process on 1 July 2005, coupled with the earlier local elections of March 2005 that brought new local municipal leaderships, the cities around the country entered into the process of serious change, mainly with regard to their infrastructure and their economic and social development and in other spheres of their public life that have had effects on all levels of the municipalities. The change witnessed has brought new optimism first to the local residents, and secondly, to the country as a whole. For instance, Gostivar's newly elected municipal leadership, having strong local and political backing, with its rigorous actions, brought sweeping change to the city's economic and social life. It was its initial actions in cleaning the city's streets coupled with the removal of illegal buildings and other facilities, and later followed up by other major actions, mainly in the infrastructure, brought a breakthrough in the functioning of the decentralization system in the town. Decentralization framework set, thus came into test with the changes seen in the streets of the cities around the country. Changes seen in the country, in principle, have shown the workability of the framework agreed with the adoption of the Law on Local Self-Government of 2002.

Looking at the so far record, Macedonia's model of decentralization, particularly in those municipalities that have shown success, consists of following main processes. First, size of the municipality and thus economies of scale providing optimal resources for the sound functioning of a municipality matters a lot. Economic viability of a city ensures the sustainability and success of a decentralization process. Second, there is a need for strong central government and donor support to the changes undertaken. Third, it is critical to have a qualified leadership with strong backing from local population. Leaders with clear electoral majorities and strong governmental and donor support provide sustained momentum for change and reform. Fourth, decentralization as is about theory, it is also about the practice, therefore successful decentralization needs successful cases as a model to be followed by others. Because reforms in transition countries requires strong visibility with concrete changes made, successful decentralization also needs successful cases as leading champions of

overall project. All of these processes have been the sources of the change seen in number of municipalities around the country.

In the second phase of the decentralisation, to start in 2007, transfer of payment of salaries, block grants and right for borrowing are expected once the municipalities individually fulfil the requirements set by the Law on municipality financing.

Completing the story

With the undertaken changes, a new basis has been established that has set a new stage in the local governance system of Macedonia. What remains now as a challenge for the country is providing continuous reform environment in order to build upon earlier decentralization successes. There is still work to be done in order to catch up with the needed economic potential at the local level. What is outstanding is adoption of a large number of laws and bylaws in various sectors, particularly in the area of local economic development where transfer of management of construction land is much awaited by the municipalities in order to stir the local economic growth. The transfer of competencies in the area of local economic development currently is limited to three areas only: tourism (contained only with low scale investments), catering and crafts. Bigger investments are still managed by the central government until the plans for the change of the Law on the State Owned Construction Land have been finalized.

What can be said at this stage, based on the above analysis is that decentralization is a far reaching project of Macedonia where much has been done but also a lot remains to be done in order to complete the process that has been set with the Law on Local Self-Government of 2002. However, with all its advantages and disadvantages, challenges and opportunities, the decentralization project of Macedonia has proven to be a tool for democratization, stabilization and European integration of the country. The right of citizens to participate in the political, economic, social, and cultural life of their country can only be fully realized via localization of the decision-making and services. Despite the fact that Macedonia's municipalities are not yet equipped sufficiently, the overall change in this regard has become a critical ingredient driving democratic consolidation. The initiative has established incentives in turning municipalities into socially just, politically participatory, economically productive, and culturally vibrant towns. The story, while far from finished, illustrates how deliberate state policies promoting the powers of municipalities can become an impetus for democratization and stabilization and grassroots political participation in multiethnic societies such as Macedonia.