

DECENTRALIZATION ASSESSMENT REPORT 2006-2011

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Foreword

The participation of citizens in decision-making is the core element of democracy. One of the most effective tools to increase participation and involve citizens in governance, as well as to improve the stability and security of the communities, is decentralization. While in the period of the former Yugoslavia, the host country had experienced a high level of decentralization, in the first decade after independence the predominant tendency was to centralise most of the competences. However, the quality of services at the local level deteriorated, resulting in a constant pressure by the local communities to reverse this trend. Later on, at dawn of the XXI century, decentralization was proclaimed as a key principle of the Ohrid Framework Agreement (OFA). It took almost half a decade for the process to enter into the right speed, for the legislative to set the framework for participation in all decision-making phases and the execution of development projects.

Decentralization is a process that requires a sustainable and organised effort of the institutions involved at both local and central levels. It also entails a continuous re-adjustment of the relations between different stakeholders, through permanent dialogue and negotiation, which cannot be achieved without the political will of all parties.

The OSCE Mission to Skopje, within its precise mandate to monitor the implementation of the OFA, initiated in 2006 its activity of surveying the implementation of decentralization process. The most visible products of this activity were the annual reports on decentralization, which were bringing forward local authorities perceptions about the process benefits and challenges and aimed to support stakeholders in the process.

The central authorities as policy makers and regulators of the decentralization process may have found in these reports important information for legislation improvement and implementation modalities to further support local authorities. Even more, the report's impartial recommendations provided useful hints and sometimes well elaborated ideas for overcoming obstacles and improving the process.

The international community present in the country and the donor organizations that seek the inclusion of efficient participatory and accountability elements in their endeavours could use the outcomes of the reports to shape their assistance to the central and local authorities, thus achieving higher effectiveness with fewer resources.

Certainly, local authorities are also benefiting from the results of the surveys, as they can adjust their undertakings in order to better respond to the citizens needs and improve the quality of the services delivered.

In this sense, we believe that the present Decentralization Assessment Report 2006-2011 offers a unique opportunity to motivate all the players to re-examine their role in the process and to refocus on increasing democracy and good governance throughout the country. As the decentralization process enters its next stage of implementation, this will be of crucial importance, in particular given the forthcoming period for the country's top integrative priorities.

We strongly believe that these reports add new tiles which enhance the mosaic of democracy and good governance in the country and we invite you to make use of them in the way you find most suitable.

Ambassador Ralf Breth
Head of the OSCE Mission in Skopje

Acknowledgments

This report is the result of a field research and desk analysis conducted by the members of the Public Administration Reform Unit, Good Governance Department of the OSCE Mission to Skopje during the period 2006-2011. It grounds its findings both on survey analyses and direct interviews with central and local government officials.

The OSCE Mission to Skopje would like to extend its gratitude to those mayors and municipal administration in the country that provided their valuable contributions and invested their time in completing the survey questionnaire.

Special thanks go to Brima Gallup – Skopje who played an essential role in defining the methodology for processing and analyzing the data.

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INTRODUCTION

This Assessment Report of the Decentralization Process (2006-2011) was developed by the OSCE Mission to Skopje, Good Governance Department. It portrays the perceptions of municipal leadership and administration on a range of key aspects of the decentralization process. It also assesses progress made in the implementation of key decentralized competencies and identifies challenges affecting the effective delivery of public services locally. The report is focused on the Survey on Decentralization 2011 and the Comparative Analysis of the Decentralization Process for the period 2006 – 2011.

The Survey on Decentralization 2011 is based on responses to a questionnaire surveying progress made in the decentralization process during 2010-2011. The survey was sent to all units of local self-government across the country between May and July 2011 and consisted of 77 open and closed questions covering a range of issues. A total of 74 municipalities responded to the questionnaire, which represents 87% of the total number of municipalities in the country. Of these, 38 were considered urban and 36 rural municipalities. Responses were collected by the OSCE Public Administration Reform Unit staff through face-to-face interviews in each municipality, and the data was then processed by Brima Gallup – Skopje, using the statistical analysis software SPSS.

The Comparative Analysis of the Decentralization Process examines key trends in the implementation of transferred competencies in the country during the period 2006 – 2011. It assesses whether the decentralization process has created units of local self-government that are more efficient, effective and accountable, and is based on responses to OSCE Surveys on Decentralization conducted during the period 2006 – 2011.

The structure of this report is organized into the following sections:

- General Status of the Decentralization Process
- Status of Urban Planning
- Local Economic and Balanced Regional Development
- Communal Services
- Status of Fiscal Decentralization
- Education Reform at Local Level

Each section provides background information, state of affairs and a comparative analysis regarding the specific aspect of decentralization under review and is followed by conclusions and recommendations.

Most of the results in this report are not focused on accurate statistical data of individual cases, but concentrate on revealing the general trends in the decentralization process. Additional sources of information have also been used in the preparation of this report, such as relevant legislation, municipal strategic documents, official bulletins, and governmental reports. The figures presented in this report are not intended for comparison with official statistics from the host country's government or other sources.

I. GENERAL STATUS OF THE DECENTRALIZATION PROCESS

I.1. INTRODUCTION AND BACKGROUND

After gaining independence in 1991, the country inherited a system of 34 municipalities and was regarded as one of the most decentralized countries in Europe. However, the adoption of the Law on Local Self-Government in 1995 and subsequent territorial organization which created 124 local self-government units is widely regarded as an attempt to create a more centralized system of governance since the municipalities acquired only limited competencies in areas such as urban planning and communal activities. In 1997, the Parliament ratified the European Charter of Local Self-Government, formally accepting the European standards for devolution of competencies from central to local government. The signing of the Ohrid Framework Agreement (OFA) in 2001 laid the foundations for the country's further decentralization, since one of its key provisions emphasized the development of a decentralized government. The OFA also secured an enlarged scope for the use of languages in local government.

Following the signing of the OFA, a new Law on Local Self-Government was adopted in 2002, strengthening the powers of elected local officials and substantially increasing municipal competencies in conformity with the European Charter on Local Self-Government. Consequently, laws on the Territorial Organization, the Financing the Units of Local Self-Government and the City of Skopje were adopted in August 2004.

The current process of decentralization in the country began on 1 July 2005 and included two main components: the administrative transfer of human resources, equipment, and property to municipalities, and financial transfers from the central to local level.

At present, the country is territorially organized in 84 municipalities and the City of Skopje as an independent unit of local self-government. All local self-government units are responsible for implementing the following 12 competences:

- Urban and rural planning;
- Protection of the environment;
- Local economic development;
- Communal activities (including water supply, sewerage, public hygiene, waste management, public transportation, construction and maintaining local roads);
- Culture;
- Sport and recreation;
- Social welfare and child protection;
- Education (primary and secondary);
- Healthcare;
- Activities for the protection and rescuing of citizens and goods;
- Fire-fighting;
- Supervision over the performance of municipal competencies.

In order to accelerate activities related to the implementation of the decentralization process, central government adopted in 2003 an Operational Programme for Decentralization of Powers for 2003-2004. The Programme defined the time-schedule for approving the necessary laws. The Government established an Inter-Ministerial

Decentralization Working Group in the same year, along with a Coordinative Body of State Secretaries in order to coordinate implementation of the decentralization process. It also signed memorandums for cooperation with the Association of the Units of Local Self-Government (ZELS), formalising their partnership with central government, and with the Civil Servants Agency, one of the principle providers of training for local civil servants.

The first Decentralization Program was followed by two three-year Programs for Implementation of the Process of Decentralization (2004-2007 and 2008-2010) and the Detailed Plan for Transfer of Competences and Resources in the Process of Decentralization (April 2005)

Table 1. Relevant laws regulating the decentralization process

Urban and Rural Planning	<ul style="list-style-type: none"> > Law on the Determination of Names of Streets, Squares and other Infrastructure buildings > Law on Public Roads > Law on Water Supply and Sewerage > Law on Public Transportation
Protection of the Environment	<ul style="list-style-type: none"> > Law on Nature Protection > Law on Environment / Waste Management > Law on the Quality of Air
Local Economic Development	<ul style="list-style-type: none"> > Law on Catering > Law on Tourism > Law on Craftsmanship > Law on Trade
Culture	<ul style="list-style-type: none"> > Law on Culture > Law on Museums > Law on Memorial Monuments > Law on Libraries
Sport and Recreation	<ul style="list-style-type: none"> > Law on Sport
Social Welfare and Child Protection	<ul style="list-style-type: none"> > Law on Social Protection > Law on Child Protection
Education (primary and secondary)	<ul style="list-style-type: none"> > Law on Primary Education > Law on Secondary Education
Health care	<ul style="list-style-type: none"> > Law on Health Protection > Law on Infectious Diseases and the Protection of Inhabitants
Activities for the protection and rescuing of citizens and goods	<ul style="list-style-type: none"> > Law on Defence > Law on Protection and Rescue
Supervision over the performance of municipal competencies	<ul style="list-style-type: none"> > Law on Education Inspection
Other	<ul style="list-style-type: none"> > Law on Communal Taxes > Law on Administration Taxes > Law on Property Taxes

In order to complete the transfer of competencies, finances, facilities and personnel from the central to local level, more than 80 laws regulating the decentralization process were adopted or amended. The majority of the laws identified in the Operational Programme for Decentralization of Powers were adopted before the official start of the implementation of the decentralization process (July 2005).

During 2008 and 2009 Parliament adopted additional legislation intending to further regulate implementation of municipal competencies. The Law on Inter-Municipal Cooperation, for example, defines the forms and instruments for stimulating inter-municipal cooperation in the delivery of decentralized competencies. A new Law on Social Care was adopted in 2009, which establishes the network of public institutions for social care. Changes to the Law on

Construction Land stipulate that starting July 2011 municipalities are authorized to directly manage the construction land on their territories.

To continue its support in a coherent way, in September 2011 the Government of the h/country has adopted the newest triennial Program for the Implementation of the Process of Decentralization (2012-2014) that will focus, inter alia, on:

- Efficient and effective continuation of the decentralization as a key principle of the Ohrid Framework Agreement;
- Fiscal decentralization of the remaining municipalities in the first phase;
- Specific measures and activities for strengthening the capacity of local governments for debt management;
- Further improvement of normative framework for funding local governments in order to optimize the implementation of the responsibilities transferred in earlier phases;
- Further strengthening of the capacities of the local governments for exercising their responsibilities;
- Ensuring proactive access to public information and increased level of transparency and accountability;
- Increased inclusion of the citizens in the processes of policy development and decision-making at the local level;
- Further developing existing partnerships; and
- Ensuring smooth and equal regional development and a decrease in existing disparities among the municipalities.

I.2. CURRENT STATUS

Traditionally, the progress of decentralization in the host country was assessed using a survey based on written questionnaires. Responses to the 2011 Survey on Decentralization suggest the municipalities believe greatest progress has been achieved in the decentralization of primary and secondary education. This was confirmed by 57 out of the 74 municipalities (77%) that responded to the survey. The second most significant achievement has been identified in the delivery of communal services, such as water and waste management, as confirmed by 55 municipalities (74% of respondents). A majority of municipalities (64% of respondents) also consider progress has been made in the realisation of urban planning, whilst far fewer municipalities consider achievements have been met in the delivery of childcare, care for the elderly, and citizens' protection.

Two of the municipalities, namely Bitola and Prilep, have indicated they achieved progress in all 11 areas of competence, followed by Demir Kapija, Ilinden and Veles who identified progress in nine areas. In contrast, Plasnica indicate that no progress was made in any area, whilst Lipkovo, Gostivar, Struga, and Vevcani showed progress in only one area of their competences (see Chart 2).

In terms of the urban/rural character of the municipalities, the survey is showing that, in practically all areas, urban municipalities are progressing better than the rural ones. In the top three areas where most progress has been achieved, the ratio between urban and rural municipalities is very close and varies from 1(urban):0.96(rural) in communal services, to 1(urban):0.74(rural) in urban planning. However, regarding the delivery of childcare and care for the elderly, no or very few rural municipalities have considered improvements.

Chart 1 below depicts the perception of achieved progress in each area of the transferred competencies, where municipalities had the possibility to select more than one option.

Chart 1. In which of the transferred competences has your municipality achieved biggest progress?

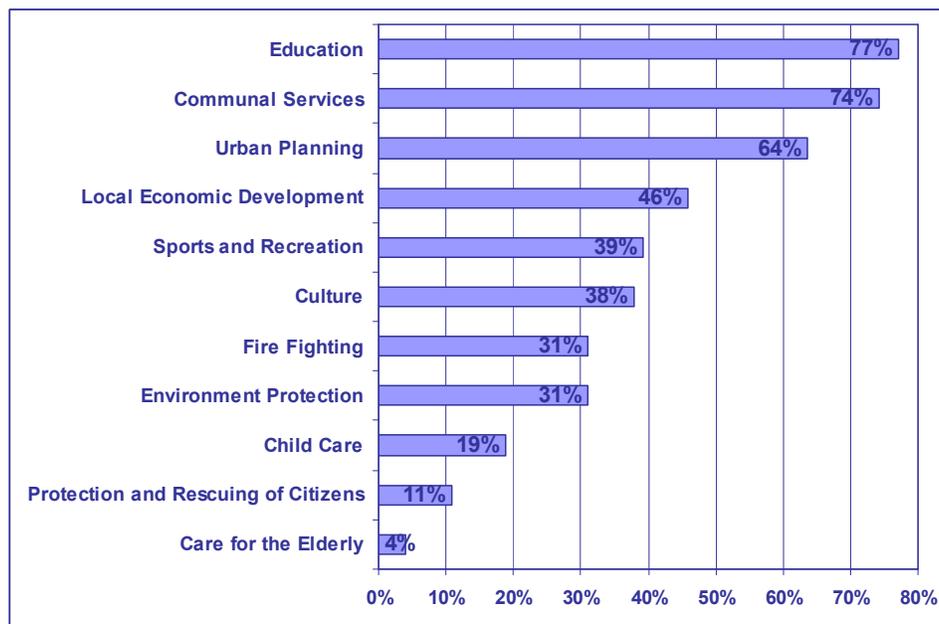
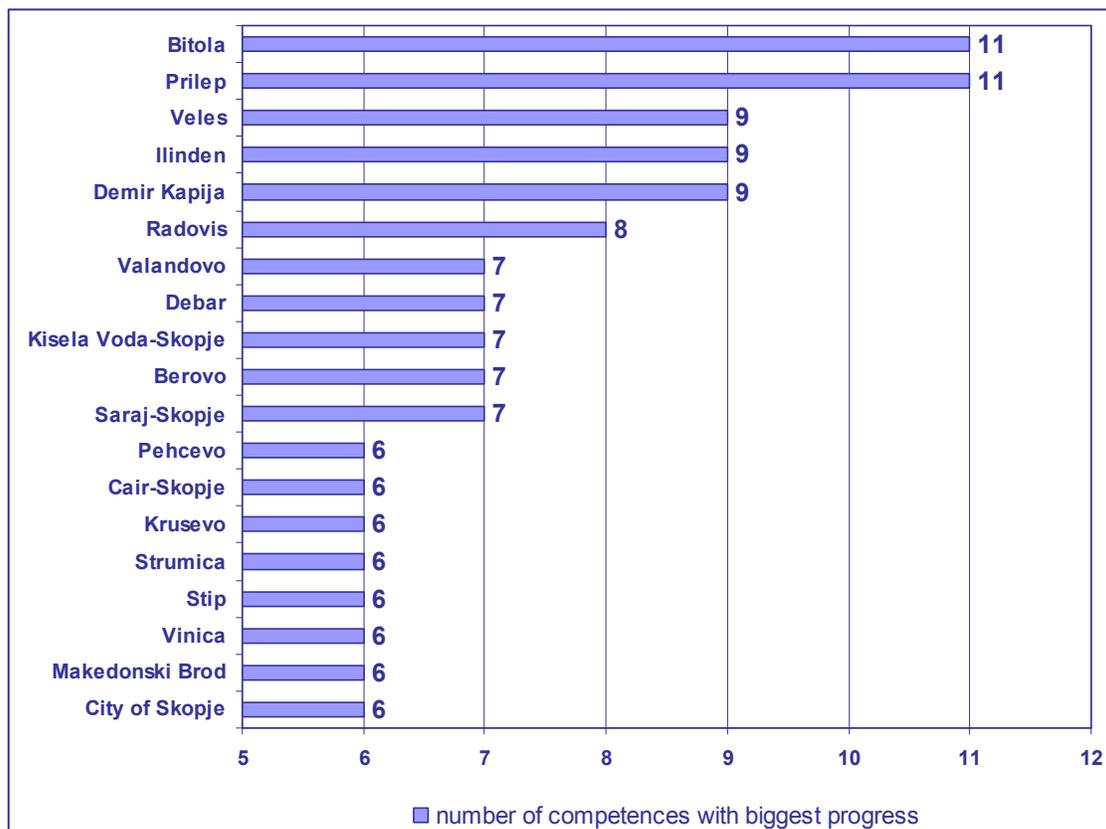


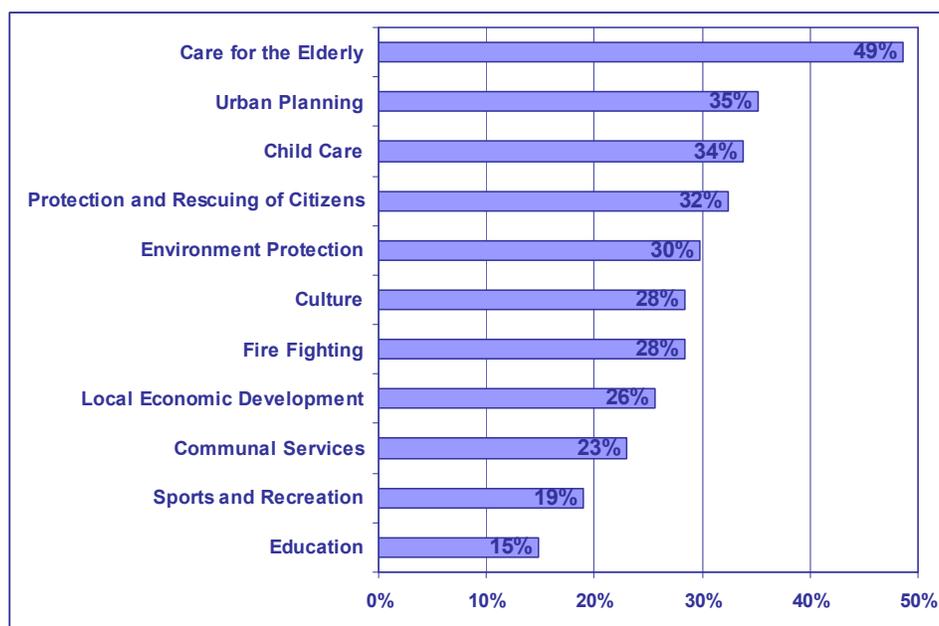
Chart 2. Municipalities with progress achieved in most competences



The municipalities have faced many challenges in the delivery of services to citizens. Expectedly, the municipalities confirmed they had experienced most difficulties in the delivery of care for the elderly (Chart 3). Namely, 36 or almost half of the municipalities (49%) that responded to the survey have faced challenges in the implementation of this competence. A significant proportion of municipalities also identified difficulties in the delivery of urban planning, childcare and citizens' protection (35%, 34% and 32% respectively). Education seems the least problematic of all decentralized competencies, although 15% of respondents declared that challenges still remain.

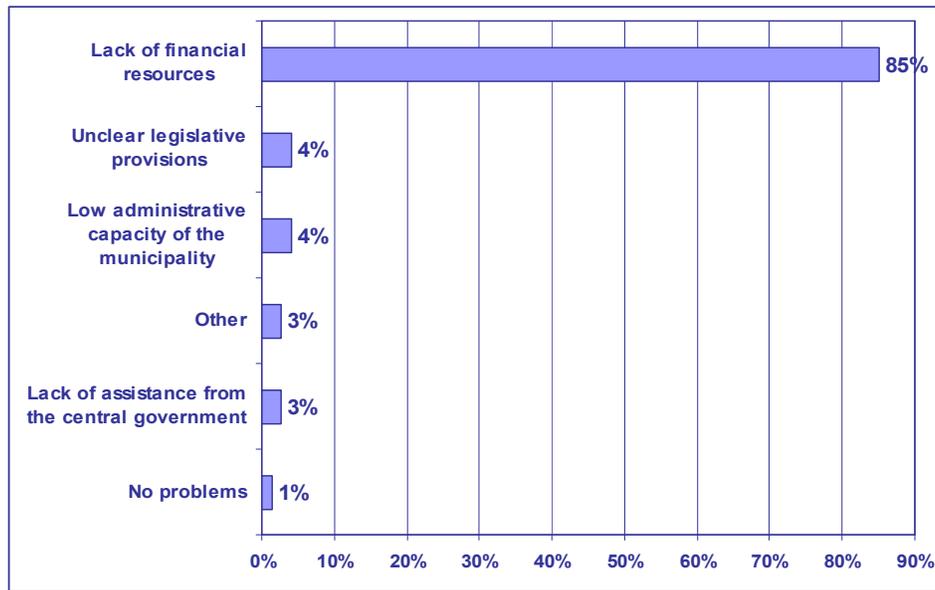
In terms of the urban/rural character of the municipalities, the survey is showing that rural municipalities are experiencing more problems in the realization of their competences than urban ones. Yet in the top three most problematic areas, the ratio between urban and rural municipalities varies and is not in line with the declared achievements. Namely, regarding child care the ratio is 1(urban):1.50(rural) while regarding care for the elderly the ratio is 1(urban):0.86(rural). One possible reason may be that in rural areas, the local communities are more likely to take care themselves of the elderly even though the public services are not available or properly provided by the public authorities.

Chart 3. Which proved to be the most problematic competences in your municipality?



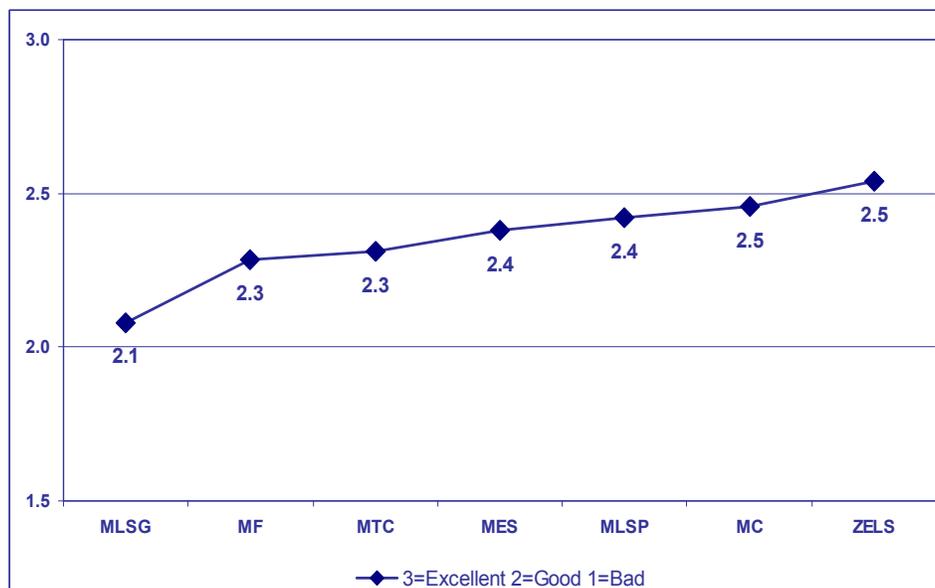
The survey responses show (Chart 4) that the municipalities consider the most significant challenge to the implementation of their competences to be the lack of necessary financial resources. Namely, 63 municipalities or 85% of respondents declared they had experienced financial difficulties in the implementation of their competences. Low administrative capacity within the municipalities was considered problematic for a small proportion of municipalities (4%), along with lack of assistance offered by central government (3%). Unclear legislative provision was also considered problematic by 4% of the municipalities.

Chart 4. What has been the biggest problem in execution of the competences?



The chart below illustrates the municipalities' views on their relationships with key national stakeholders, such as relevant line ministries and the municipal association, ZELS. Effective cooperation between the municipalities and national institutions is essential for the realisation of efficient decentralized governance. The municipalities evaluate cooperation with ZELS to be most favourable, followed by the Ministries of Culture (MC), Labour and Social Policy (MLSP), and Education and Science (MES). In contrast, relations with the Ministries of Finance and Local Self-Government have been evaluated as least favourable by the municipalities, albeit both are expected to be particularly instrumental in the overall functioning of the decentralization process.

Chart 5. How do you assess your cooperation with the institutions listed below?



The municipalities indicated ineffective communication as the biggest challenge to cooperating with almost all listed national institutions. Insufficient finance, an unbalanced approach to the allocation of capital investments by central government, in addition to time consuming procedures were among the most prevalent problems identified by the municipalities. The following chart identifies the most significant difficulties experienced by the municipalities in their interaction with specific national institutions.

Table 2. Which are the biggest problems that municipalities face in cooperation with the following institutions?

Institution	Problems
Ministry of Local Self-Government	<ul style="list-style-type: none"> • Lack of communication • Lack of advisory support offered to the municipalities • Failure to notify the municipalities of events and provide sufficient information on them • Website not updated regularly
Ministry of Finance	<ul style="list-style-type: none"> • Unresponsive and frequent delays in communication • Reduction in finances allocated to the municipalities • Insufficient finances for the realization of competencies • Very centralized approach and influence
Ministry of Transport and Communication	<ul style="list-style-type: none"> • Problematic communication • Unresponsive and frequent delays in communication • Protracted procedures • Delays experienced in road construction
Ministry of Education and Science	<ul style="list-style-type: none"> • Delays experienced in transferring funds to the municipalities • Insufficient and reduction in funding • Reduction in timescales for submitting budget proposals • Protracted procedures for the approval of new employment
Ministry of Labour and Social Policy	<ul style="list-style-type: none"> • Unbalanced allocation of capital investments • Lack of interest in the needs of rural municipalities • Poor communication with the municipalities
Ministry of Culture	<ul style="list-style-type: none"> • Lack of sufficient finances for implementing projects • Unbalanced allocation of capital investments • Lack of cooperation with municipalities • Very centralized approach
ZELS	<ul style="list-style-type: none"> • Lack of information provision and insufficient involvement in central government processes • Insufficient engagement with authorized institutions • Lack of coordination • Lack of interest in the needs of rural municipalities

With regard to the participatory planning activities that municipalities have performed, 70 of the interviewed municipalities (94.6% of respondents) stated they have arranged specific consultation/open hours during which individuals may meet municipal staff. Meetings in neighbourhood self-government units were also organised in 66 municipalities (89.2%), whilst two thirds of municipalities scheduled meetings with groups of citizens based on a particular issue. The following Chart 6 illustrates the various ways municipalities involve citizens in local planning processes.

Chart 6. Which of the participatory planning activities has your municipality performed in 2010?

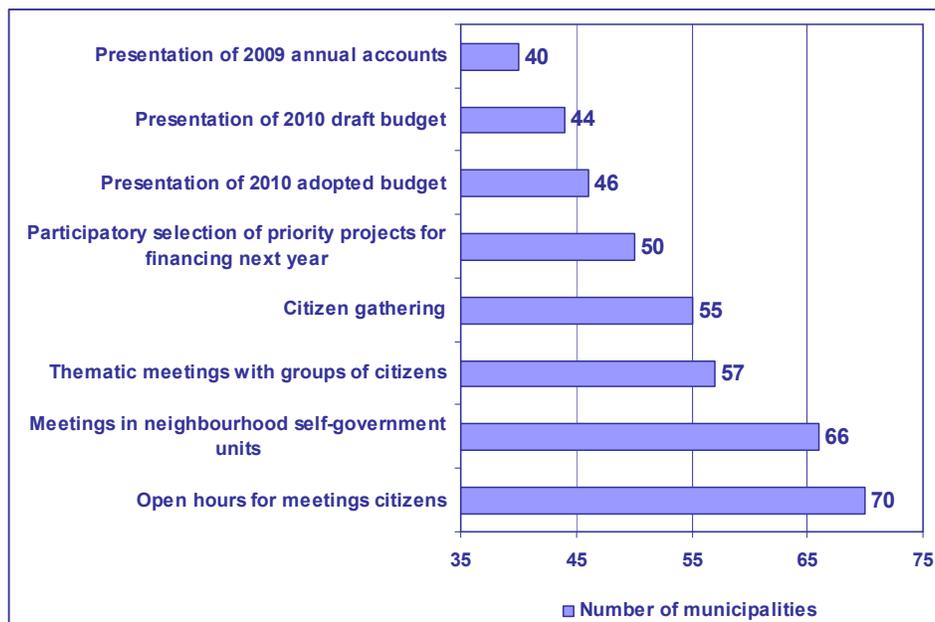
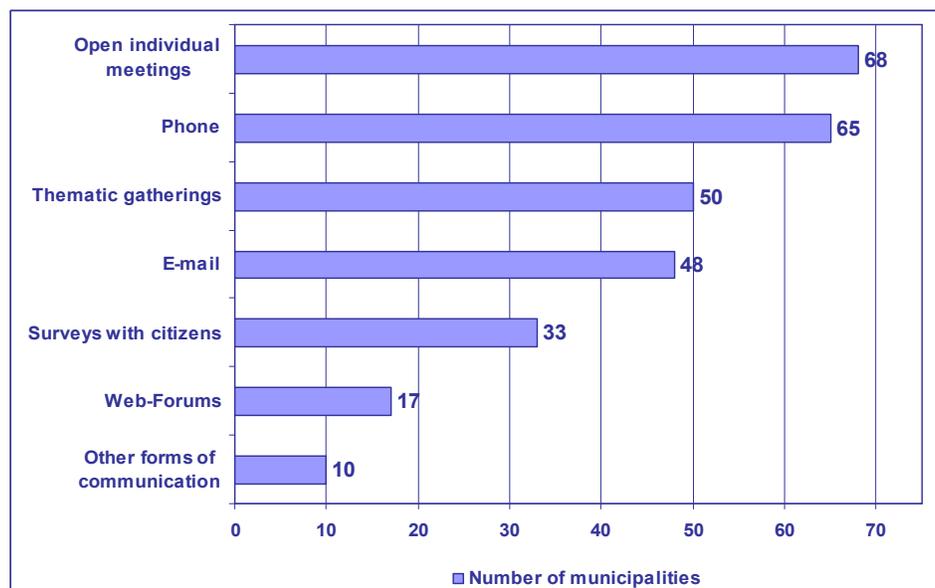


Chart 7. In which other ways do you communicate with citizens?¹



On the other side, when asked about their means of communication with the citizens, the chart above indicates the various mechanisms used by the municipalities to reach out to their constituency. The responses of 68 municipalities (92% of respondents) have confirmed that open individual meetings remain the most popular method of communicating with citizens. This tool was initially used by the mayors at the onset of the process of decentralization (back in 2005) to enable citizens to be heard in the policy making process. However, most of

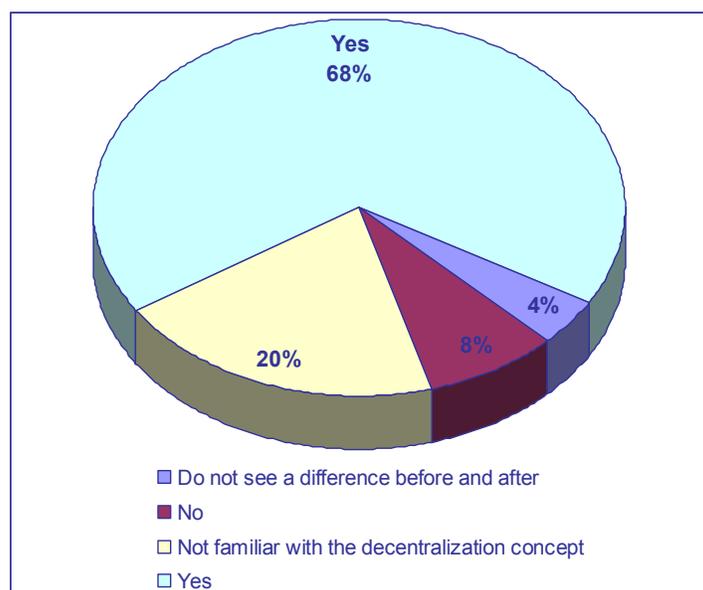
¹ The municipalities were allowed to select more than one method of communication.

the citizens have seen these individual meetings as an opportunity to ask for employment or other personal favours by municipal staff, including mayors. Although emails and web forums are also indicated to be utilized by a high number of municipalities, it is obvious that citizens still prefer face-to-face ways of communication, which include: thematic gatherings, surveys, local media.

Free access to information is very important in the communication between citizens and municipal administration. In this respect, according to the Law on Free Access to Information the municipalities are obliged to appoint a focal point that would be responsible to respond to citizens' requests. The majority of municipalities (57% of respondents) indicated they had appointed a person responsible to deal with citizens' requests for public information. The remaining municipalities used other ways to respond to such requests, mostly using their Citizen Information Centres (26% of the respondents).

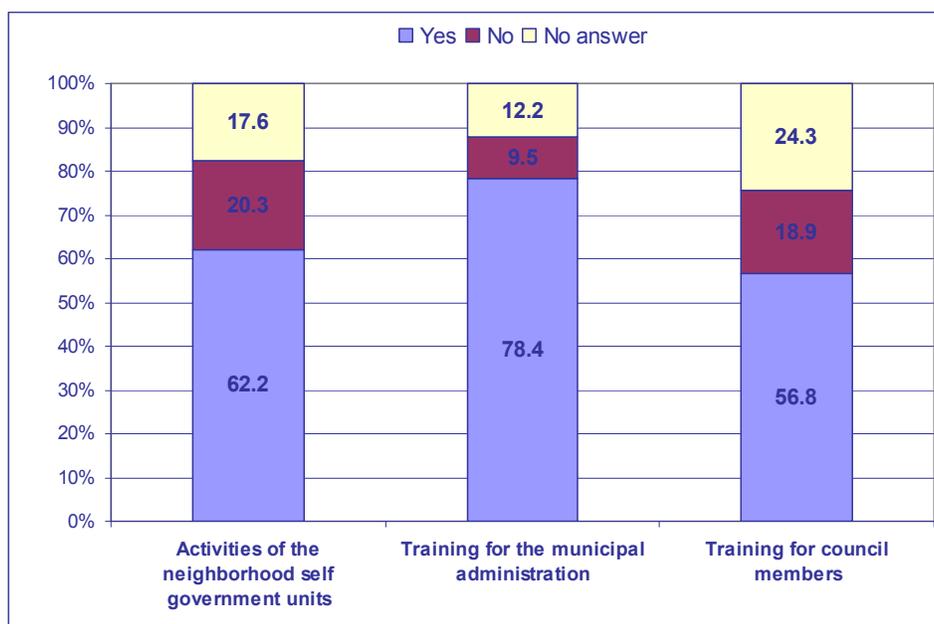
When asked whether they think citizens were satisfied with the decentralization process, 50 out of 74 municipalities (68% of respondents) perceived that citizens were satisfied with the increased competencies acquired by their municipality. However, in 15 municipalities (20%) representatives think that citizens remained unfamiliar with the aims of decentralization and the changes brought about by the reforms. Six municipalities (8%) stated they believed citizens were not satisfied with the decentralization process whilst a smaller proportion (4%) held the opinion that citizens remained unable to identify changes resulting from the decentralization process.

Chart 8. Do you think that the citizens in your municipality are satisfied with the process of decentralization and increased competencies in the municipality?



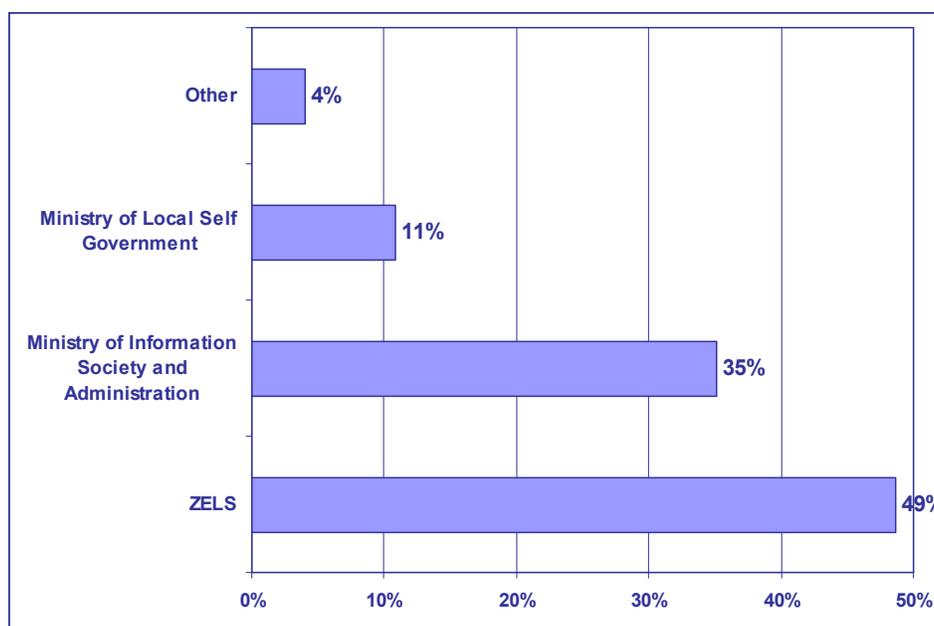
Neighbourhood self-government units are an important mechanism for implementing the subsidiarity principle of delivering public services and it is therefore very important to support their activities financially through municipal budgets. In this regard, the survey asked the municipalities whether they had planned a specific budget item in 2011 budget to support activities of the neighbourhood self-government units. 46 municipalities (62% of respondents) confirmed they had done so, whilst 15 municipalities (20%) declared they had not. In addition, a larger proportion of municipalities indicated they have allocated funds for training administration staff and council members. Municipalities are more likely to allocate resources to training of administrative staff than of elected officials (78% and 57% respectively).

Chart 9. Have you planned a budget item in your 2011 budget for...?



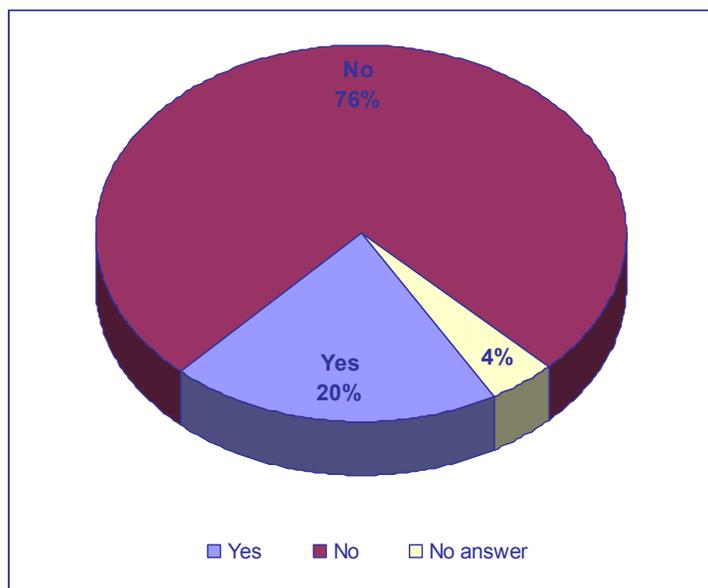
When asked to indicate the most suitable institution for coordinating and implementing training activities for the local self-government units, almost half (49%) of the interviewed municipalities believe ZELS is best placed to meet local training needs. However, a significant proportion of municipalities (35%) also believe that the Ministry of Information Society and Administration should deliver training to municipalities, with fewer respondents advocating for the Ministry of Local Self-Government or other training providers.

Chart 10. In your opinion which would be the most suitable institution to coordinate and implement training activities for the local self-government units in the country?



With regard to instances in which municipalities have had local decisions challenged by the Constitutional Court, 15 municipalities (20% of respondents) confirmed that since 2005 they experienced such an action. In the majority of municipalities (56 or 76% of respondents) however, this did not happen.

Chart 11. Since 2005, have you had any of the decisions of your municipality challenged by the Constitutional Court?



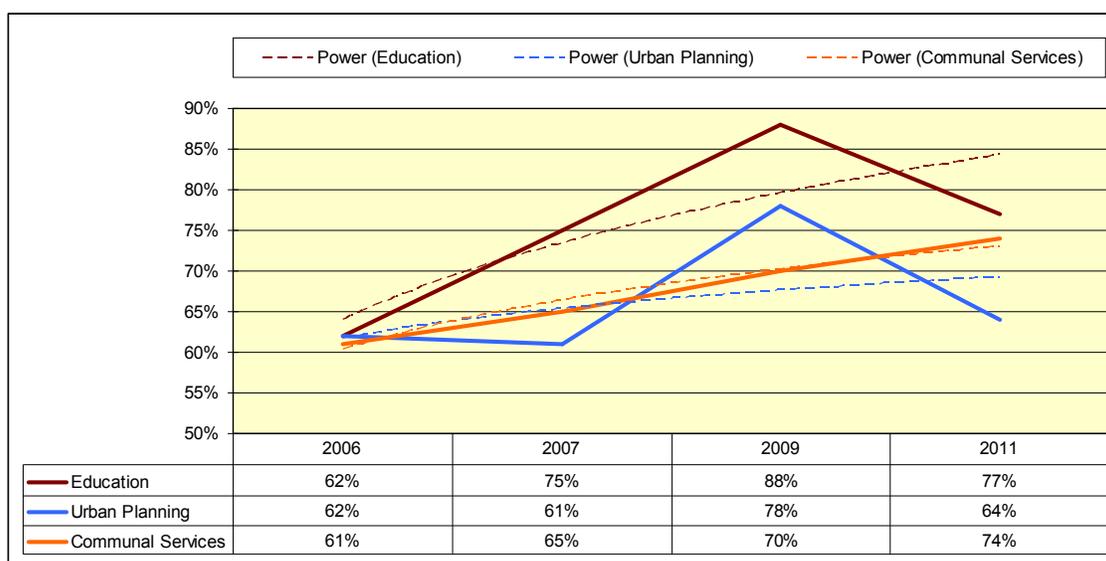
I.3. COMPARATIVE ANALYSIS

Since the beginning of the decentralization process one may observe clear progress, not just in terms of the statistics, but in the perceptions of citizens and administrations at the local level. In general the three decentralized competencies where the municipalities stated they achieved the most significant continual progress are education, urban planning, and the delivery of communal services. Although the level of progress has not been consistent during the period 2006-2011 (Chart 12), it is clear that in all three competencies continuous progress has been achieved.

Over the past five years municipal administrations always perceived progress as highly successful with the lowest levels of perception above 60% in 2006 and the highest levels above 70% in 2009. The municipalities consider primary and secondary education to be the area in which most progress has been achieved, with 88% of them regarding process to be 'outstanding' in 2009. However, the most recent survey has indicated that progress achieved is now slowing; an observation also found in the area of urban planning. The reason behind such indicators may be process fatigue, but also an increase in other responsibilities acquired by the municipalities. For example, the new municipal responsibility for managing construction land is directly linked to urban planning and may have affected municipal perceptions of progress in this area.

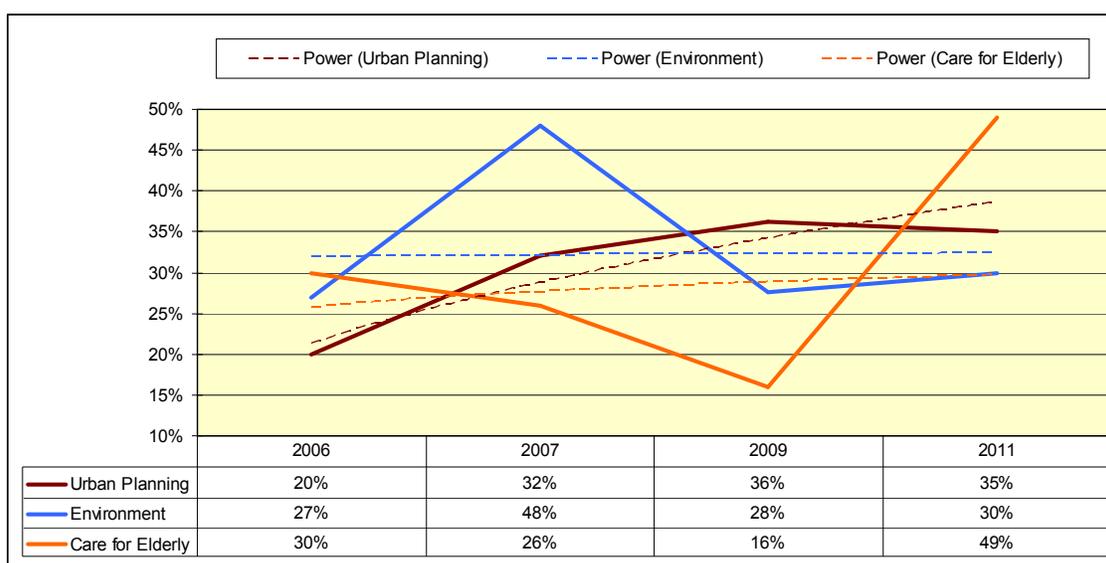
The area of delivering communal services is very interesting to observe, since it is the only competence where the municipalities agree they have achieved constant progress since the beginning of the decentralization. This is quite logical, since this is an area where results are more visible and tangible, for example higher levels of public hygiene.

Chart 12. Competencies with highest progress according to municipalities (%)



The municipalities identified which competencies they considered most problematic during the period 2006 - 2011. From year to year perceptions changed, so for the purpose of this analysis only the competencies that were listed at least twice among the top most problematic have been considered. The three most problematic competencies identified were environmental protection, urban planning, and care for the elderly. The following Chart 13 illustrates how the most problematic competencies were ranked by the municipalities during the period 2006-2011. Although environment and care for the elderly have been perceived quite differently during the period of observation, specific trends can be noted. The proportion of municipalities which consider urban planning to be the most problematic competency has increased gradually over the past five years. Urban planning, therefore, requires a more detailed observation since it is also one of the competencies the municipalities perceive to be most successful.

Chart 13. Most problematic competencies according to municipalities (%)

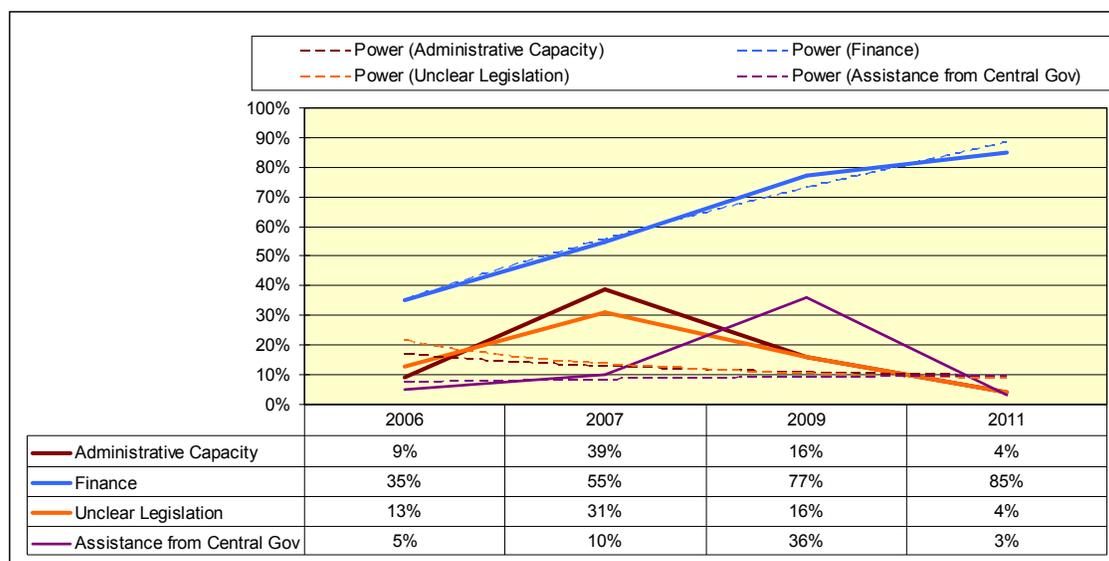


The OSCE decentralization surveys have been analyzing the types of challenges the municipalities have been facing in the execution of their competences since the decentralization process began. One of the most significant and continual challenge experienced by the municipalities in the execution of their competencies is the lack of adequate financial resources. At the beginning of the decentralization process, this issue was raised by more than a third of the municipalities which responded to the questionnaire. The proportion has risen to almost 90% in 2011. The municipalities require additional financial support from central government if they are to improve the realization of their competencies, and especially those in the second phase of decentralization, who face difficulties in the execution of their responsibilities.

Other problems - lack of administrative capacity, lack of assistance from central government, lack of or inadequate legislation - are so overshadowed by the lack of finances that they appear almost irrelevant (Chart 14.). Whilst inadequate legislation and assistance from central government represent issues in which the municipalities can do little to change, improving administrative capacity is within their area of responsibility. The municipalities should pay more attention to building the capacities of personnel and take every opportunity available, in particular the generic training programmes organized by the Ministry of Information Society and Administration.

Certainly, cooperation and assistance from central government cannot be disregarded, and if only this year's survey results are taken into consideration, cooperation with line ministries has not been satisfactory. It is even more disappointing that the municipalities are facing their most significant communication challenges with those ministries that are supposed to be leading the decentralization process: the Ministry of Local Self-Government and the Ministry of Finance.

Chart 14. Biggest problems in delivery of transferred competencies according to municipalities (%)



I.4. CONCLUSIONS AND RECOMMENDATIONS

I.4.1. Conclusions

The process of decentralization refers to the transfer of competencies from central to local government. As such, it brings new rights and responsibilities to the local self-government

units. The existing legal framework provides a solid foundation for the further development of a decentralized system of government in the country. Moreover, several important milestones have been reached in implementing the decentralization reforms.

The OSCE decentralization surveys over the past five years illustrate positive trends regarding the implementation of the decentralization process. The findings show that most municipalities are gradually developing their capacities in the management of the devolved competencies and the provision of local services to citizens. The citizens acknowledge this as well, based on improvements perceived in the administration of local competencies.

The three competencies where most progress has been achieved are education, the delivery of communal services, and urban planning. Most municipalities consider education as the area where greatest progress has been made. The main benefit of the successful implementation of these competencies is the more effective and efficient delivery of services to citizens. As a result, a greater number of citizens were satisfied with the delivery of these services. However, the municipalities also noted that they face persistent difficulties alongside the progress made. The municipalities' biggest problem in the implementation of transferred competencies is a continual lack of finance. Local revenues remain insufficient to allow the municipalities to perform their tasks effectively.

The success of a decentralized government in the country would require municipalities and line ministries to work together effectively. Whilst the municipalities are most satisfied with the relationship they have with ZELS, the realization of effective communication with line ministries is inconsistent across central government. The two most important players, the Ministry of Finance and the Ministry of Local Self-Government, are considered the least cooperative with the municipalities during 2011.

Participation of citizens in political life has not been a widespread phenomenon across the country in the past. However, at present there are examples of citizens participating in decentralized local self-government where they are able to directly voice their concerns to local officials and launch initiatives that affect their local environment. Still more progress in this area is needed.

Whilst the legal framework permits various methods for encouraging citizens' participation in local decision-making processes, there is still a culture of passivity in the country as far as citizen involvement at the local level is concerned. Citizens are often unwilling to respond or actively react to insufficient, low quality, or lack of public services, and often do not take part in developing and defining public policies. This is may be caused by the fact that many people still consider local officials to be too powerful and unapproachable.

1.4.2. Recommendations

Due to the complexity of the process and the involvement of many stakeholders, the decentralization reforms could become a burden rather than a generator of effective and efficient local governance. It is of the utmost importance that commitment to the process, along with the required support to the municipalities, is secured from all relevant stakeholders. Effective communication between central and local government and with the citizens, financial stability, and efficient implementation of administrative procedures are all essential preconditions for further achievements in the decentralization process.

- All stakeholders should improve inter-governmental communication and the coordination of activities related to the decentralization process. In particular, the Inter-Ministerial Decentralization Working Group and the Body of State Secretaries should strengthen efforts to improve the coordination of activities and agree effective solutions to resolve the challenges discussed in this report.
- The municipalities should take responsibility for strengthening staff capacities rather than relying solely on central government assistance. Establishing municipal performance management systems based on merit, whilst respecting the principle of

- equitable representation, is essential for depoliticizing and professionalizing local administrations.
- Capacity building efforts at both local and central levels should be intensified and should focus on areas where the municipalities have shown least progress. Central government should provide technical assistance to the decentralization process via the opportunities available in the Instruments for Pre-Accession (IPA) funds.
 - Participatory planning methods should be enhanced locally to ensure greater transparency and accountability in decision-making processes. Such methods represent an effective democratic tool for identifying problems and prioritizing solutions. Central and local government should guarantee the existence of areas for the effective operation of civil society groups, ensuring that these groups truly protect the interest of the community, allowing them to work free from the political interference.
 - Information dissemination should be improved and citizens should be encouraged to intensify their communication with the municipal administration, utilizing a variety of mechanisms and tools that are at their disposal.

II. FISCAL DECENTRALIZATION

II.1. INTRODUCTION AND BACKGROUND

Fiscal decentralization is a core component of the decentralization reforms. In order to perform decentralized competences effectively, local self-government units must have an adequate revenue base. Municipalities must also possess adequate capacity to finance the newly acquired functions. Within the decentralization context, higher levels of autonomy of the local self-government units result in an increased ability to impose and set the scale of own revenues.

Fiscal decentralization officially began on 1 July 2005, when a package of laws entered into force. The Law on Financing stipulated a phased approach towards assuming greater and gradual financial responsibilities of the local self-government units. The following principles were the basis of this phased approach:

- Gradual devolution of responsibilities in line with the capacity of the municipalities to undertake those responsibilities;
- An equitable and adequate provision of funds for the efficient and continuous execution of the transferred competencies;
- Reduction of funds in the state budget, since the funding of competencies is transferred to the municipalities, and they finance competences with own revenues.

Central government decided on deadlines within which the municipalities in the country had to build their internal capacities. The first phase of the fiscal decentralization began when the municipalities obtained the right to administer the following sources of revenues:

- Own sources (local taxes, local fees, local charges, donations, self-contributions);
- Transfers from the central government budget (earmarked grants for education, social welfare, culture, fire-fighting; capital grants for road construction and maintenance; revenues from value added and personal income tax); and
- Revenues from borrowing.

The Government transferred revenues from the central budget to the municipalities in the first phase of the fiscal decentralization within the following context:

- The Government adopted criteria for the distribution of revenues generated from value added tax, and capital, earmarked and block grants;
- The Ministry of Finance notified the municipalities through a budget circular of the amount of revenues planned in the central budget for the local self-government units;
- The municipalities were obliged to develop plans for resolving the arrears from debts towards contracting partners and other creditors for liabilities which occurred prior to 31 December 2001;
- For at least 90% of the municipalities, which cover at least 90% of the population in the country:
 - › The municipal administration to have at least 2 employees qualified in financial management, budget preparation and its performance, accounting and the preparation of financial reports; and
 - › The municipal administration to have at least 3 employees qualified in tax identification and collection.

In January 2007 the Government established a committee for assessing whether the municipalities had fulfilled the necessary conditions for entering the second phase of the fiscal decentralization. The committee provided quarterly reports on the achievements of the municipalities in preparation for the start of the second phase. Accordingly, in July 2007, two years after the start of the first phase, the first group of 42 local self-government units, including the City of Skopje, entered into the second phase of the fiscal decentralization. These municipalities were obliged to meet the following criteria:

- Meet all the conditions from the first phase;
- Possess adequate staff capacity for financial management;
- Show positive financial results for at least 24 months;
- Inform the Ministry of Finance on time of their financial results, and the Ministry of Finance to confirm this;
- Have no arrears to suppliers or any other creditors exceeding the ordinary terms of payment.

As of June 2011, six municipalities remain in the first phase of the fiscal decentralization. These municipalities are Ohrid, Vinica, Delcevo, Vranestica, Zhelino and Plasnica; the reason being difficulties clearing unpaid debts. Resolving the debt problems in these municipalities remains one of the most serious challenges to the Government's decentralization agenda. It is expected that as of 1 January 2012 all the municipalities will be admitted to the second phase of the fiscal decentralization.

Important legislative acts have been amended gradually since 2005, improving the financial environment at the local level. The Committee tasked with monitoring developments to the system of local self-government financing is chaired by a representative from the Ministry of Finance and is comprised of members from the Ministry of Local Self-Government, Ministry of Education and Science, Ministry of Labour and Social Policy, and the municipal association, ZELS. This Committee has a policy role in negotiating and proposing legislative amendments to the Government which are necessary for overcoming procedural shortcomings.

The Law on Financing has been amended four times since its adoption in August 2004. All these changes were directed towards improving the revenue base of the municipalities. According to this Law, sources of municipal financing are own sources of revenue, grants from the central budget, central budget funds (Road Fund, Water Fund, Fund for Underdeveloped Areas, etc.), and borrowing. With this Law, the municipalities obtained the right to define local tax rates and fees as the main sources of municipal revenues.

⇒ **Own source revenues**

Own source revenues are the group of revenues that the municipal administration has sole responsibility for collecting. Local taxes, local fees, local charges, revenues from ownership, donations, fines and self-contributions belong to this group.

The municipalities are entitled to 3% of revenues generated from the Personal Income Tax (PIT) of their residents, while the remaining 97% is paid to the central government's budget. In addition, the municipalities are permitted 100% of the PIT of local residents who perform craft activities (tailors, silversmiths, hat makers, jewellers, etc.). PIT revenue is for general use and every municipality spends it in accordance with its specific needs.

⇒ **Revenues from the central budget and budgets of the funds (Road Fund, Water Fund, and Fund for Underdeveloped Areas)**

Revenues derived from the central government budget and budgets of the funds consist of the following:

- Revenues from the value added tax (VAT);
- Earmarked grants;
- Block grants;
- Capital grants; and
- Grants for a delegated competency.

Revenue deriving from the VAT is allocated to the municipalities by way of monthly transfers from the central budget. Earmarked grants are grants intended for financing a specific activity and cannot be reallocated to another purpose. Capital grants are intended for financing municipal capital investment projects, while block grants finance competencies in certain areas determined by law, for example education, social welfare (child protection and care for the elderly), culture, and health. Grants for delegated competencies represent transfers from the state budget to the municipality and are used to finance a competency originally assigned to central government but has since been transferred to the municipality. Line ministries and the Funds announce the criteria, procedures and terms for the distribution of earmarked and capital grants annually, at the end of March. This information is important for the municipalities since it enables them to calculate the amount of revenue they will receive in the next year's budget.

A particularly significant amendment to the Law on Financing was introduced in 2009. The Government approved a gradual increase in the proportion of VAT revenue assigned to the municipalities from 3 to 4.5%. This was despite the request by the municipalities, articulated by ZELS, that the proportion of VAT transferred to them be increased to at least 6%. This revenue is distributed to the municipalities according to a methodology proposed by the Minister of Finance and adopted by the Government. The municipalities receive a fixed amount of VAT revenue, in addition to a variable amount, which is calculated on the basis of predefined criteria determined by the number of inhabitants in a municipality, the number of settlements, and the size of its territory. The following table provides a more detailed insight into the VAT redistribution methodology in 2011.

Table 3. Redistribution of the VAT revenues to local self-government units

Revenues from VAT that are transferred to local self-government units							
Fixed portion	Variable portion						
3,000,000 Denars to each local self-government unit	12% for the City of Skopje and the ten Skopje municipalities			88% for the municipalities outside of Skopje			
	40% for the City of Skopje	60% for the ten Skopje municipalities			65% population	27% territory	8% settlements
		65% population	27% territory	8% settlements			

Revenues deriving from the VAT are not earmarked, which means the municipalities can decide themselves on how best to use them according to local priorities.

Line ministries, such as the Ministries of Local Self-Government, Transport and Communications, Education and Science, Agriculture, Forestry and Water Economy, transfer earmarked grants to the municipalities for financing particular projects. The line ministries propose to the Ministry of Finance the criteria for distribution of earmarked grants to each municipality. As previously mentioned, those municipalities that have transferred into the

second phase of the fiscal decentralization receive block grants for the financing of education, child protection and care for the elderly, culture, and healthcare. The Government has adopted clear formula-based criteria for the distribution of block grants in order to ensure transparency in the allocation of funds to local level. In addition, the Government adopts an annual program for financing investment projects. Based on this program, the line ministries distribute capital grants to the municipalities.

The increase in fiscal authority of the municipalities has required the introduction of a sound system of supervision and control over their work. According to the Law on Public Internal Financial Control, larger municipalities with an average annual budget above a threshold of 3 million denars, specified in the Law, are obliged to establish units of internal audit with at least two employees. Based on an annual program, these units perform independent audits and provide valuable input for improving the work of the municipal bodies. Municipalities with smaller budgets can establish joint administrative units for internal audit through inter-municipal cooperation. In addition to internal controls and audits, the State Audit Office (SAO) performs periodic audits in selected municipalities, in accordance with international auditing standards. The team of auditors from the SAO provides recommendations to the Mayors and municipal administrations on how to improve their operating processes. The SAO also proposes legal amendments to the Government with the aim of making the fiscal framework more efficient.

II.2. CURRENT STATUS

Since the start of the fiscal decentralization reform, the municipalities have generally improved the performance of their financial management systems. This year's survey focused on several important aspects of financial management at local level. These key areas are: municipal budgeting processes, internal controls and audit functions, the administration and collection of local revenue, implementation of local development plans, capital investments, and financial reporting.

⇒ Budgeting processes

One of the main preconditions for the effective functioning of the municipalities is the timely adoption of their budget. The budget is an annual plan of municipal revenues and expenditures. Since the start of the fiscal decentralization process, the budget of the municipalities has been consolidated and incorporates the financial plans of all municipal budget users (local public institutions). The financial document therefore provides a comprehensive overview of the financial situation in the municipality.

In this year's survey, the municipalities provided answers on whether they regularly adopt a budget calendar. The Law on Financing introduced this as a tool for facilitating efficient planning, including the realization of participatory and budget planning activities. When used properly, the budget calendar enables the participation of citizens and relevant stakeholders in budgeting processes, thus improving municipal transparency and accountability.

Table 4. Number and proportion of municipalities that have adopted a budget calendar

Response	Urban	%	Rural	%	Total	%
Yes	34	89.47	31	86.11	65	87.84
No	4	10.53	4	11.11	8	10.81
No answer	-	-	1	2.78	1	1.35
Total	38	100.00	36	100.00	74	100.00

The budget calendar can also contribute to the timely execution of activities relating to the budget's adoption and execution. According to the survey responses, the majority of municipalities (87.84%) regularly adopt a budget calendar.

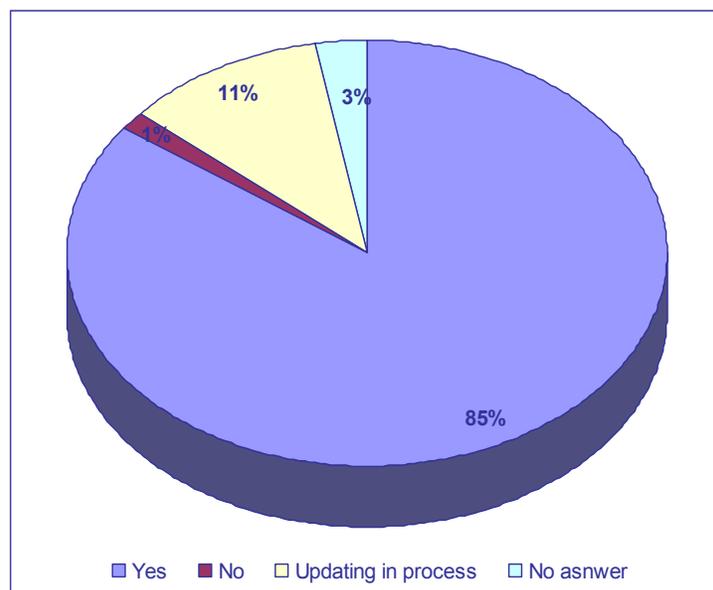
⇒ **Administration of local revenues**

In accordance with the Law on Financing, the Ministry of Finance was obliged to transfer the database of taxpayers and relevant personnel to the municipalities prior to the start of the decentralization process. However, the transfer of necessary assets was delayed by one year and during this time the database of taxpayers became obsolete. The municipalities were therefore required to update their respective databases as a matter of priority, since they create the necessary conditions for calculating tax bills and increasing collection rates.

The survey asked the municipalities at what stage they are in updating their database of taxpayers. Responding to the survey, 63 municipalities (85% of respondents) confirmed they have updated their database of taxpayers. Only eight municipalities stated they are currently in the process of updating it, which should facilitate progress regarding the collection of municipal own revenues in the future.

Just as important as the process of updating the taxpayers' database is the process of re-assessing the value of local real estate. This is crucial since property tax rates are based on the value of the property. The process of re-evaluating real estate is an expensive and time-consuming process, and the Government has adopted a methodology which the municipalities use when evaluating the property of citizens. Based on survey responses, 52 municipalities (60% of municipalities in the country) have completed new assessments of the market value of local real estate. A further 15² municipalities are currently completing assessments, while only the municipalities of Vrapchishte, Gjorche Petrov and Chair have so far failed to re-evaluate local property values.

Chart 15. Proportion of municipalities that have re-assessed local property values



² Berovo, Sv. Nikole, Dojran, Chucher-Sandev, Ohrid, Jegunovtse, Staro Nagorichane, Pehchevo, Valandovo, Kisela Voda, Krushevo, Arachinovo, Negotino, Makedonski Brod, Kumanovo

Grants from the central government budget in the form of inter-governmental transfers are the most important source of municipal revenue. One of the most significant factors in determining the amount and type of inter-governmental transfers from the central budget is to measure the fiscal capacity of the municipalities. According to this year's survey, 49 municipalities (66% of respondents) confirmed they had already assessed their own fiscal capacity. The proportion of rural municipalities that have not already done so is twice the rate of urban municipalities. It is essential that indicators regarding the fiscal capacity of the municipalities exist in order to design a functional system of intergovernmental transfers from central to local government.

⇒ **Internal audit in the local self-government units**

Municipalities are obliged to establish systems of internal audit; the purpose of which is to provide an objective assessment of the legality of their operating processes. Municipalities with annual budgets above a certain threshold are required by law to establish their own internal audit units. Those municipalities not legally required to establish an internal audit unit have the possibility of entering into inter-municipal cooperation agreements. This is a form of cooperation where a larger municipality, possessing qualified and experienced staff for the performance of internal audit functions, offers its services to a smaller municipality. The municipality using the services pays a fee to the municipality providing the service. After each audit has been conducted, the internal auditors produce an audit report including their main findings and recommendations. The Mayor and management structures in the municipality should implement these recommendations, even though doing so is not mandatory and failure to implement them is not penalised by law. Municipal responses to survey questions concerning the existence of an internal audit unit within the municipal administration are presented below.

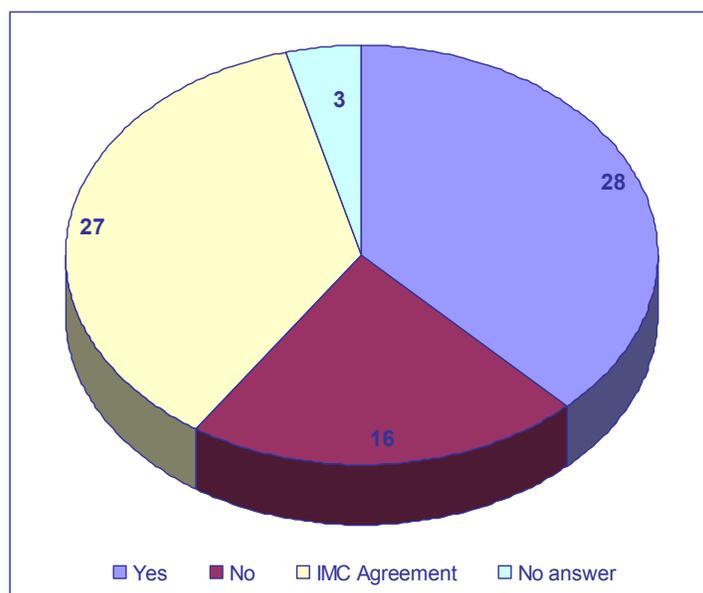
Table 5. Proportion of municipalities that have established internal audit units

Response	Urban	%	Rural	%	Total	%
Yes	21	55.3%	7	19.4%	28	37.8%
No	7	18.4%	9	25.0%	16	21.6%
Inter-Municipal Cooperation agreement with another municipality	9	23.7%	18	50.0%	27	36.5%
No answer	1	2.6%	2	5.6%	3	4.1%
Total	38	100.0%	36	100.0%	74	100.0%

The chart below gives a better visual presentation of the figures showed in the above table.

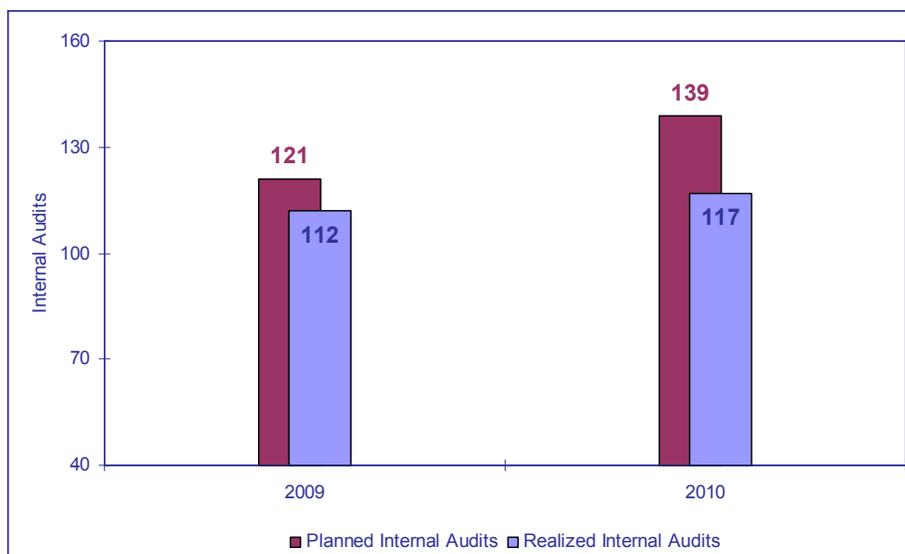
A total of 28 municipalities or 37% of survey respondents confirmed they have established an internal audit unit within their municipality. An almost equal number of municipalities have entered into inter-municipal cooperation agreements with a neighbouring municipality for the purpose of performing internal audit functions. The proportion of municipalities that have not yet made any arrangements is approximately 21%. When analysed, the respondents' replies suggest 42.85% of municipalities with a predominantly Macedonian population and 25% of municipalities with a predominantly Albanian population perform internal audit units. The situation differs slightly regarding agreements on inter-municipal cooperation. Approximately 38% of predominantly Macedonian municipalities and 31% of predominantly Albanian municipalities have entered into inter-municipal cooperation agreements for the performance of internal audits.

Chart 16. Number of municipalities that have established Internal Audit Units



Before the start of the fiscal year, municipal internal auditors are obliged to prepare annual plans on the audits they intend to conduct in the forthcoming year. A separate unit within the Ministry of Finance's Public Internal Financial Control Department collects the municipalities' annual internal audit plans and compares them with the reports of implemented internal audits during the year. The following chart provides details of the number of planned and realized internal audits as well as the number of municipalities that have such plans and realization over the past two years.

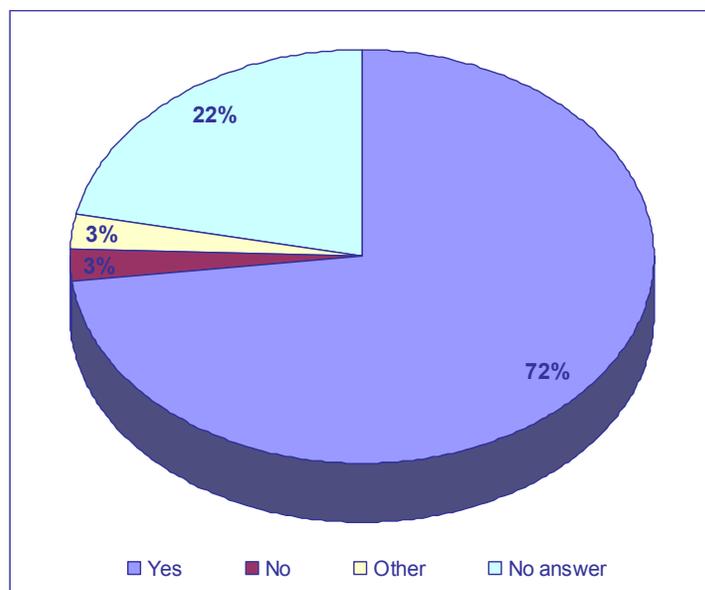
Chart 17. Number of planned and accomplished internal audits and municipalities with such plans in 2009 and 2010



Municipalities should create an environment in which internal auditors can operate independently. Municipal internal audit units are under the direct supervision of the mayor and should be organizationally and functionally independent from the rest of the

administration. Organizational independence is provided by positioning the unit outside any other municipal department. Functionally, the head of the unit should report directly to the mayor, who is responsible for ensuring the auditors are not assigned additional tasks outside their remit. The auditors provide professional advice and recommendations regarding the efficient use of available resources exclusively to the mayor. The following chart displays the survey responses regarding the functional independence of municipal internal auditors, as provided by the heads of finance units.

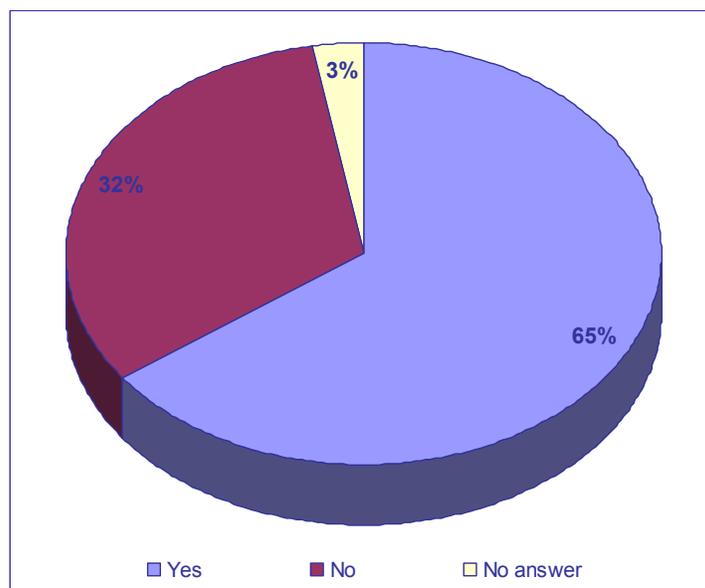
Chart 18. Functional independence of municipal internal auditors (according to municipal financial officers)



The majority of respondents - municipal finance officers - believe municipal internal auditors perform their functions independently. However, it is significant to note that 21% of respondents did not answer this question, suggesting a fifth of the municipalities may not share this opinion. If the municipalities want to improve the legality and effectiveness of operational processes, it is essential the independence of the internal audit function be further promoted.

⇒ **Internal control**

Chart 19. Number of municipalities that employ an authorized accountant



Internal financial controls, a financial management function, represent the second component of a public internal financial control system. One of the conditions for municipalities entering the second phase of the fiscal decentralization is that they have a formal financial control system. It is responsibility of the mayor to appoint an authorized accountant who is in charge of controlling and guarantying for the proper performance of financial operations. Internal financial controls consist of several components: the environment, communication, risk assessment and management, controlled activities, and monitoring.

The survey asked the municipalities whether they had appointed an authorized accountant to undertake internal financial controls. As previous chart illustrates, more than half the municipalities have already done so. Since the municipalities are legally obliged to appoint an authorized accountant, the remaining municipalities (32% of respondents) should appoint a responsible person as a matter of urgency. The Ministry of Finance, along with the Committee for following the development of the system of local government financing, should monitor the appointment of authorized accountants and the performance of internal controls within the municipalities. The Committee should notify the Government in the case of any perceived problems.

⇒ **Municipal revenue collection**

This year's survey asked the municipalities a series of questions regarding the collection and realization of own source revenues. The first question concerned the average collection rate of property taxes, and compared actual amounts collected with those planned in the municipal budget. The data provides information on how realistic the municipalities were in planning revenue collection, as well as how successful they were in collecting the anticipated funds. As one may observe from the table below, the average municipal collection rate of property tax in 2010 was 71.2%. The municipality of Vasilevo achieved the highest collection rate (168%), whereas the municipality of Makedonska Kamenica realized the lowest (5%). The City of Skopje collected 88% of planned property tax revenues.

Table 6. Average collection rates for planned property tax revenues and total revenues in 2010 (%)

	Collection Rate of Planned Property Tax Revenues	Collection Rate of Total Revenues
Average	71.2%	67.2%
Minimum	5%	9.6%
Maximum	168.18%	98.5%

The municipalities were asked what proportion of the planned property tax revenues they had collected in 2010. The next table presents data on the realization of property tax revenues which has been clustered into intervals. This should provide a clearer picture of municipal tax collection efforts. As demonstrated, almost half of the municipalities succeeded in collecting over 76% of planned property tax revenues. Future trends should lead towards achieving higher levels of own revenue collection.

Table 7. Collection rates for planned property tax revenues in 2010, according to the number and proportion of municipalities

Collection Rate	No. of Municipalities	Proportion (%)
Up to 25%	5	6.76
26% - 50%	15	20.27
51% - 75%	19	25.68
76% - 100%	25	33.78
Over 101%	9	12.16
No answer	1	1.35
Total	74	100.00

The municipalities also provided data concerning total revenue collection rates. The average collection rate during 2010 amounted to 67.23%. The lowest collection rate was 9.6% in the municipality of Kratovo, while the highest collection rate of 98.5% was achieved in the municipality of Ilinden. The City of Skopje collected 89% of planned total revenues. The budget realization percentage is an important indicator for evaluating the planning capacities of finance administrations. A frequent remark at the start of the fiscal decentralization was that municipal budgets were not realistic. The municipalities should improve their budget planning capacities in the future in order to achieve higher revenue realization rates.

Implementing the principle of the participatory budgeting and involving citizens in decision-making processes regarding local project funding should encourage citizens to contribute more to the development of their local community. The Law on Financing provides the municipalities with an opportunity to organize referenda related to the collection of self-contributions from citizens. This represents a form of co-financing of certain infrastructural projects for which the municipalities do not possess the necessary funds. Revenues generated from self-contributions are earmarked and cannot be used for a purpose other than what the referendum was called for. The survey asked the municipalities whether they had organized such a referendum since the start of the decentralization reform and succeeded in collecting financial contributions from citizens to fund specific projects. Responses to this question are displayed in the table below.

Chart 20. Municipalities that have declared a referendum on the collection of citizens' self-contributions



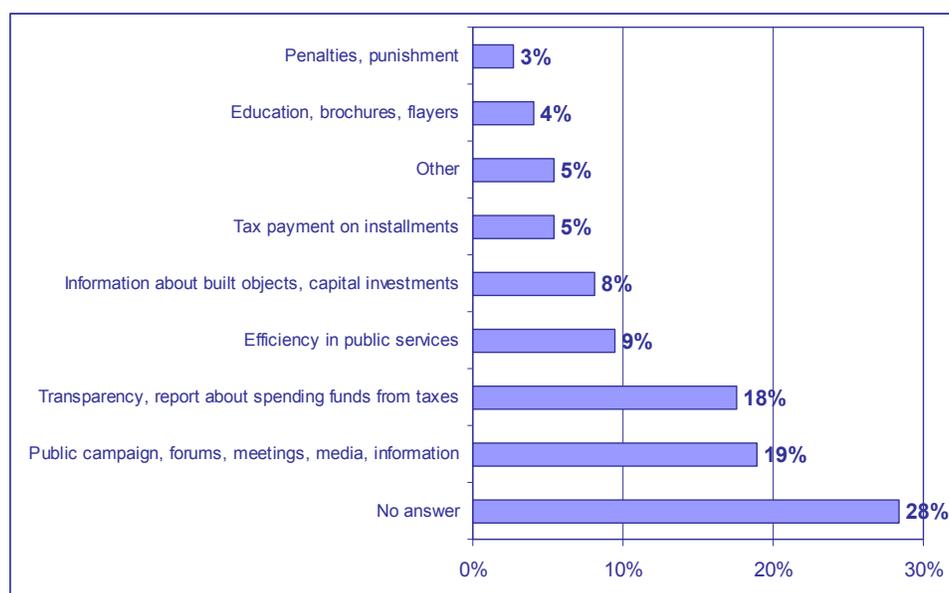
As responses to the survey suggest, citizens' self-contributions was not the most preferred funding option for the municipalities since the start of the decentralization process. In addition, when this method has been applied, the municipalities have faced significant challenges in the administration of self-contributions from citizens. There have been cases, for example, where a referendum had been successful but the actual collection of revenues was very low, preventing the municipality from achieving its intended goal. By improving the transparency and accountability of the municipal authorities, it is hoped citizens will increase confidence in their abilities and be more willing to finance local priority projects through self-contributions in the future.

⇒ **Improving revenue collection**

In cases where collection rates are very low, especially of own revenues (taxes, fees, and charges), municipal administrations and mayors should invest efforts in motivating citizens to pay their dues. The municipalities were asked to provide ideas on how they could motivate citizens to pay local duties (property taxes, fees, charges) fully and on time. Their responses are displayed in the following chart.

The municipalities are obliged to send quarterly financial reports to the Ministry of Finance. These quarterly reports incorporate the parameters of the monthly reports which are submitted to the municipalities by their municipal budget users (public enterprises, schools, cultural institutions, etc.). The Municipal Council adopts these quarterly reports and the Mayor sends them to the Ministry of Finance. In this way central government is able to monitor the financial performance of the municipalities. The Municipal Council should adopt the final annual report and accounts of the municipality by end of March in the following fiscal year. The annual report shows the realization of planned revenues and expenditures, referred to as execution of the municipal budget. Six years since the start of the fiscal decentralization process, the majority of municipalities regularly adopt an annual report. This indicates the solid financial management capacity of the municipalities.

Chart 21. *Municipal activities for encouraging citizens to pay local duties*



II.3. COMPARATIVE ANALYSIS

One of the main advantages of the decentralization reforms is that the municipalities obtained the right to administer their own revenues. Before the start of the fiscal decentralization, central government through the Public Revenues Office was responsible for the administration of these revenues and their transfer to the municipalities. However, due to the fact that the Public Revenues Office had little incentive for improving the collection of these revenues, collection rates for property tax prior to decentralization were extremely low. When the municipalities assumed responsibility for administering these revenues, they succeeded in increasing the collection of their own revenues significantly.

⇒ **Local government revenues**

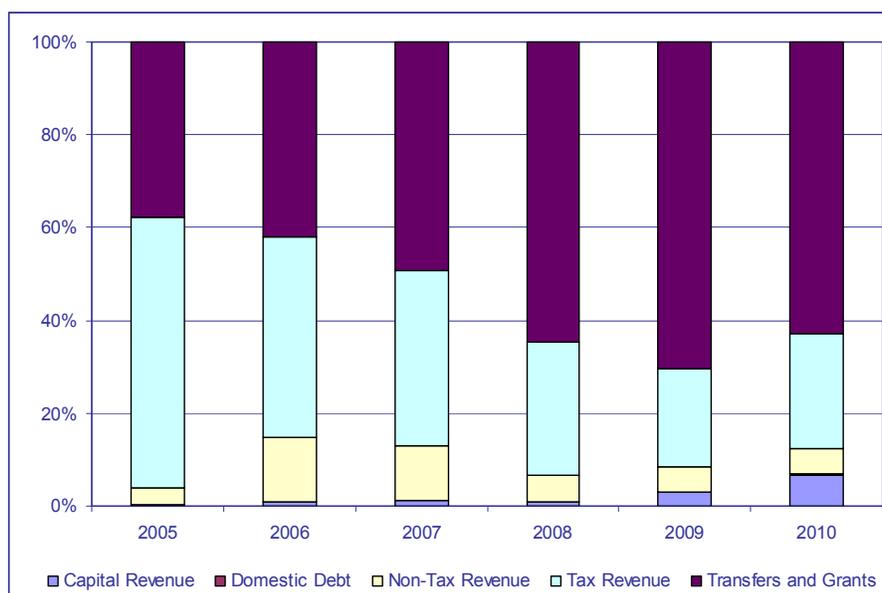
Since the start of the fiscal decentralization in 2005, the total amount of local government revenues has increased by over 400%, from 5,413.00 million Denars in 2005 to 23,895.00 million Denars in 2010. Increases in all revenue categories are visible however the most significant increase has been achieved in capital revenues. These amounted to 4.26 million Denars in 2005 and 1,570 million Denars in 2010. Increases in the amount local government revenues since the start of the decentralization process are presented in the following table.

Table 8. *Local Governments Revenues 2005-2010 (actual in million Denars)*

	2005	%	2006	%	2007	%	2008	%	2009	%	2010	%
Capital Revenue	4.30	0.08	85.00	1.06	120.80	1.08	175.00	0.8	696.10	3.01	1,570.00	6.57
Domestic Debt	13.60	0.25	0.00	0	0.00	0	30.40	0.14	37.10	0.16	117.00	0.49
Non-Tax Revenue	188.30	3.48	1,116.50	13.89	1,322.20	11.81	1,200.60	5.71	1,192.70	5.15	1,261.00	5.28
Tax Revenue	3,169.60	58.55	3,462.70	43.09	4,230.00	37.78	6,055.70	28.79	4,914.20	21.24	5,918.00	24.8
Transfers and Grants	2,038.20	37.65	3,380.70	42.07	5,523.00	49.33	13,575.3	64.53	16,299.1	70.44	15,029.0	62.9
Total	5,414.00	100.01	8,044.90	100.11	11,196.0	100.00	21,037.0	99.97	23,139.2	100.00	23,895.0	100.04

Source: OSCE database of annual accounts of the local self-government units for the years 2005- 2010

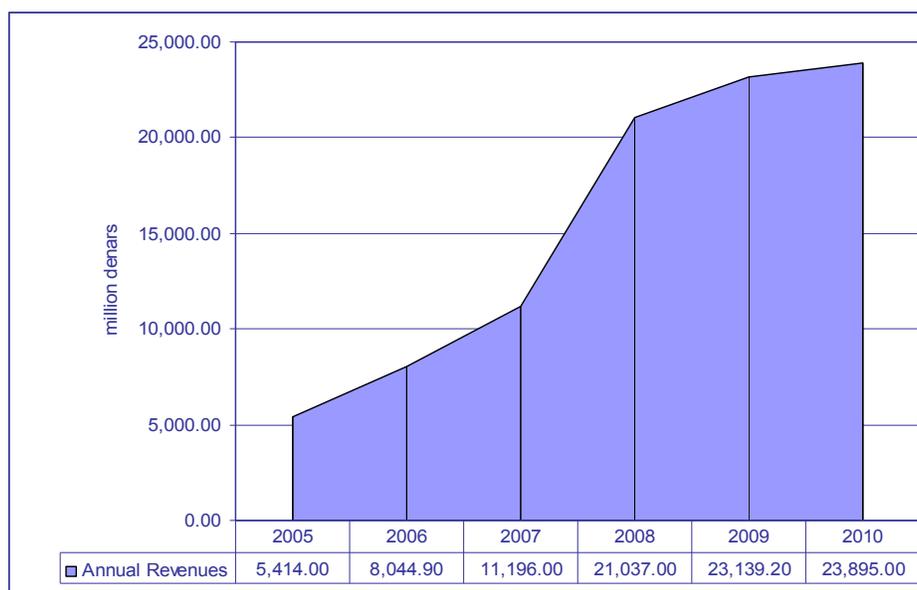
Chart 22. Structure of Local Government Revenues 2005-2010



Source: OSCE database of annual accounts of the local self-government units for the years 2005- 2010

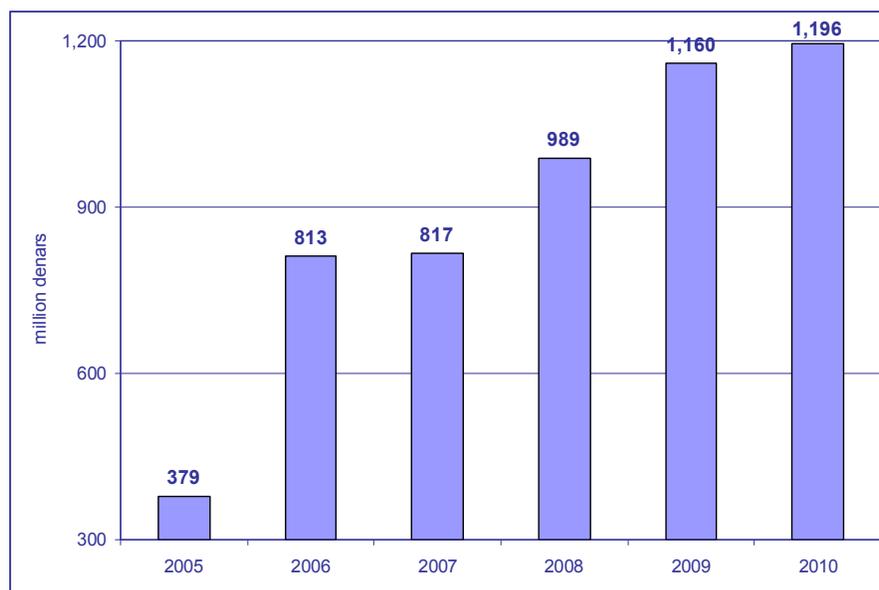
The positive trend in the growth of local government revenues is a result of the increased efforts of the municipalities to collect more own revenues, in addition to the increase in funds transferred to them by central government. In the structure of municipal revenues, transfers from the central budget remain the largest revenue category, making up 62.9% of total local revenues in 2010. If we compare the structure of municipal revenues in the previous years of the decentralization reform, we can see that central government transfers and grants have always been the largest category of local government revenues. Rapid growth of this revenue category took place in 2008 with the introduction of block grants for financing primary and secondary education, child protection, care for the elderly, and health competencies. For a clearer presentation, the trend of total and individual local government revenue categories is shown in the chart below.

Chart 23. Trend of annual local government revenues, 2005-2010 (in million Denars)



Other reasons for the growth in transfers from the central to municipal budgets was the government's decision to increase the proportion of revenue assigned to the municipalities that is generated from renting and selling construction land. The impact of the government's decision to amend the Law on Financing in 2009 and increase the municipalities' share of VAT revenue was also a significant factor.

Chart 24. Local Government Revenue from the VAT, 2005-2010 (in million Denars)



VAT is one of the most stable and significant sources of revenue for the municipalities. The chart above presents the amounts of VAT revenue transferred to the municipalities during the period 2005-2010. As the chart shows, municipal revenue from VAT in 2010 was 47% higher than in 2006, 21% than in 2008 and 3% higher than in 2009. This is partly a result of amendments made to the Law on Financing in 2009, which increased the percentage allocated to the municipalities from 3% to 4.5% of total VAT revenues (the municipalities will get the 4.5% in 2013). We can expect the proportion of revenues from central transfers in the structure of local revenues to decrease in the future. This will be a result of improved local tax collection rates (i.e. property tax) and non-tax revenues (utilities and administrative fees, charges and local fines) by the municipalities. Further capacity building of the municipal administration in the areas of financial management and the administration of taxes will also contribute to this result.

⇒ **Local government expenditures**

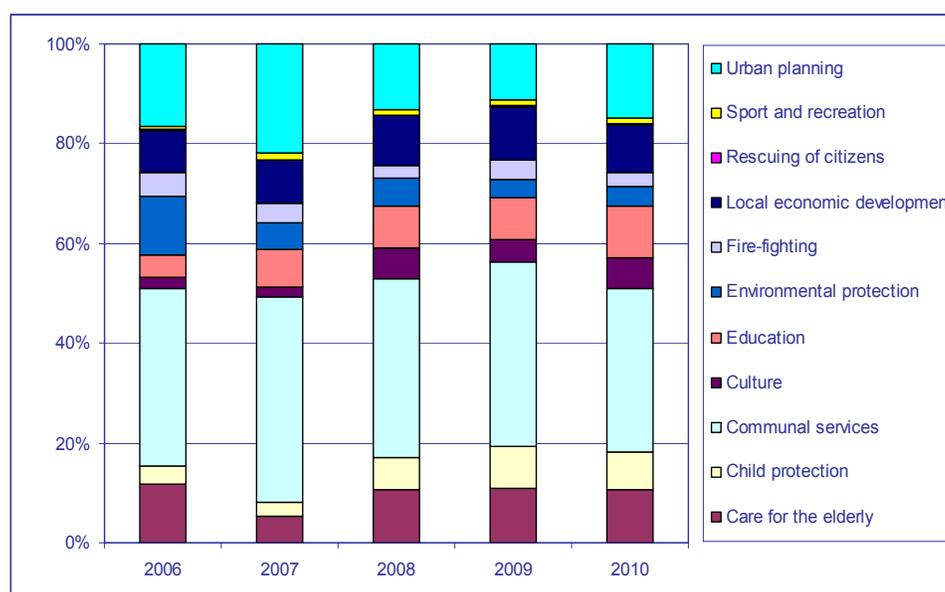
Since the start of the decentralization process, the municipalities have made efforts to attract additional investments into their municipality. The survey asked the municipalities to provide information on the amount of capital investments, according to local competencies.

Table 9. Average capital investments in the municipalities, 2006-2010 (million Denars)

Competency	2006	2007	2008	2009	2010	Total
Care for the elderly	7.93	3.91	12.64	12.76	15.72	52.95
Child protection	2.52	2.17	7.80	9.99	10.91	33.39
Communal services	23.89	30.15	42.68	43.14	48.32	188.17
Culture	1.45	1.49	7.49	5.24	9.24	24.92
Education	3.16	5.63	9.96	9.77	15.12	43.65
Environmental protection	7.94	4.01	6.58	4.19	5.87	28.60
Fire-fighting	3.09	2.89	3.12	4.46	4.07	17.63
Local economic development	5.79	6.36	12.13	12.72	13.70	50.71
Rescuing of citizens	0.06	0.00	0.08	0.07	0.39	0.60
Sport and recreation	0.40	0.97	1.11	1.53	1.87	5.88
Urban planning	11.19	16.11	15.84	13.00	21.77	77.91

The table above contains data regarding the average size of capital investments made in the municipalities per transferred competences. The municipalities invested most in improving communal services and in urban planning. This is understandable, since both areas are priorities in rural and urban municipalities alike. Citizens consider communal services and urban planning to be areas where the municipalities should focus their investment policies and programs. The total amount of capital investments (in all municipalities) according to each competence is presented graphically in the following chart.

Chart 25. Structure of the average capital investments in the municipalities (2006-2010)



A key indicator of the level of decentralization in a particular country is the share of Gross Domestic Product (GDP) on local government expenditures. Prior to the start of decentralization the country was one of the most centralized in the South-Eastern Europe region. Since 2006, the percentage of GDP on local government has constantly increased. This trend is illustrated in the chart below. The 5.5% share of GDP on local government can

be considered adequate, although far below that of other decentralized countries (for example 32.8% in Denmark in 2009).

Chart 26. Total capital investments, according to municipal competences 2006-2011 (million Denars)

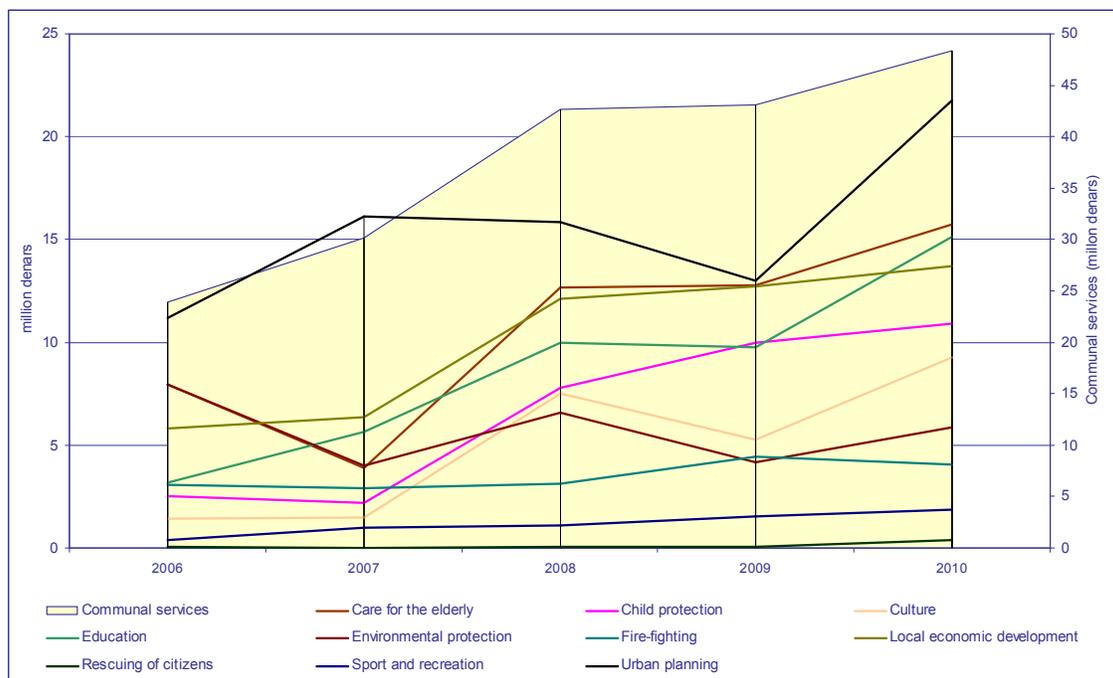
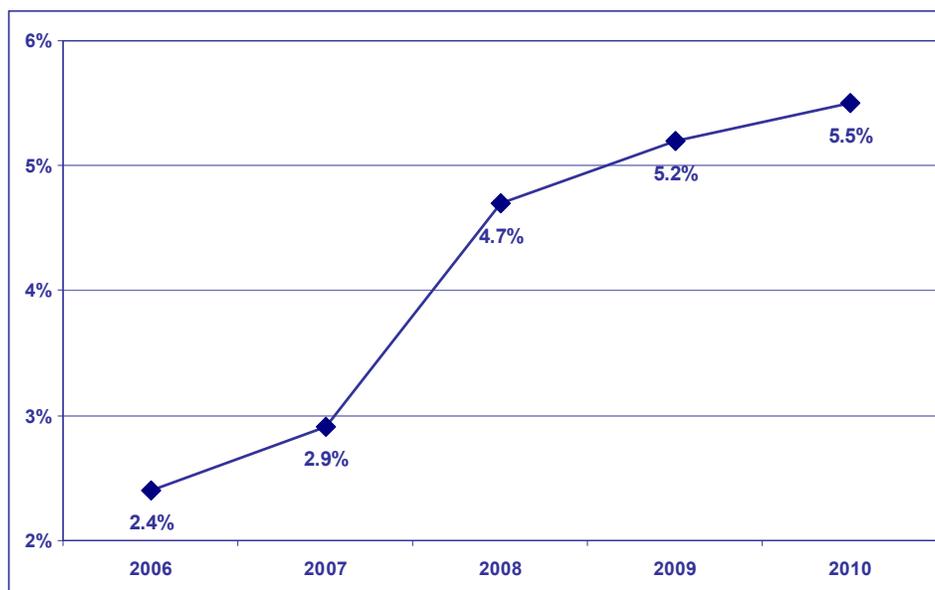


Chart 27. Local government expenditure according to its share of GDP (2006-2010)



The following table contains data from the annual accounts of the municipalities during the period 2005 to 2010. Salaries represent the largest share of local government expenditure. This share increased significantly in 2008 with the start of the second phase of fiscal

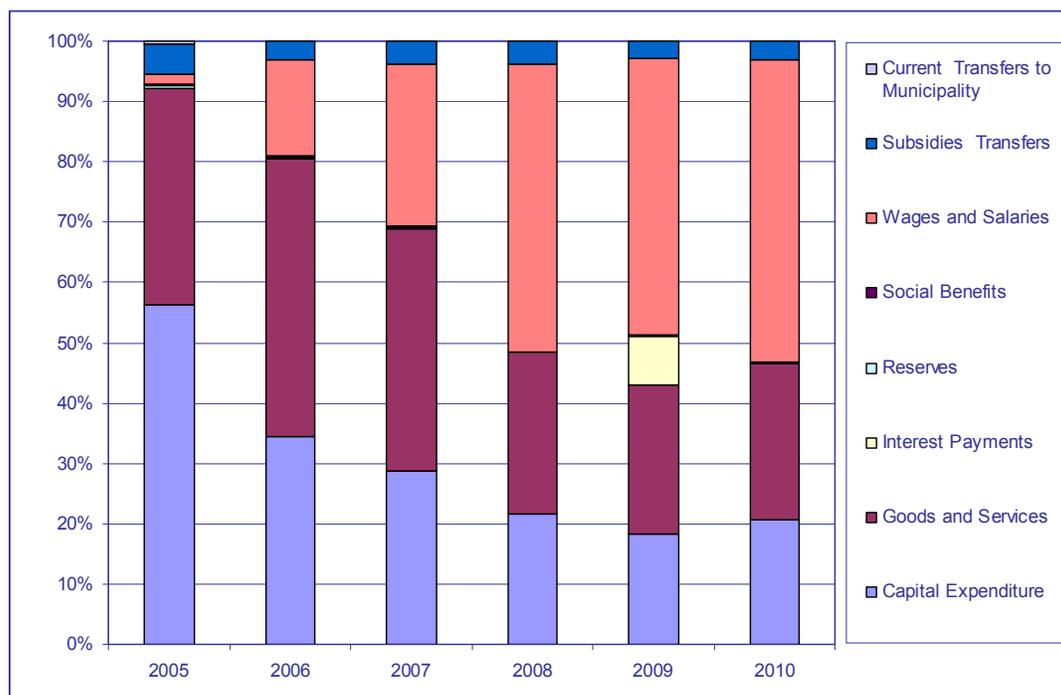
decentralization and when the salaries of public employees were transferred to municipal accounts in the form of block grants. Ever since, salaries have accounted for approximately 50% of total municipal expenditures. The next largest shares of local expenditure are those based on goods and services and capital investments. It is expected the proportion of local expenditure designated to capital infrastructure projects will increase once the municipalities are able to borrow from banks and issue municipal bonds.

Table 10. Structure of the Local Government Expenditures 2005 - 2010 (in million Denar)

	2005	%	2006	%	2007	%	2008	%	2009	%	2010	%
Capital Expenditure	2,446.6	48.89	2,581.6	34.43	2,838.0	28.84	4,053.3	21.68	4,163	19.76	4,839	20.64
Goods and Services	1,554.5	31.06	3,443.3	45.92	3,950.0	40.14	4,985.9	26.67	5,687	27.00	6,067	25.88
Interest Payments	2,9	0.06	1,6	0.02	0,4	0.004	1,3	0.01	1,824	8.66	1	0.00
Reserves	23.4	0.47	22,6	0.30	15,4	0.16	33,2	0.18	39	0.19	41	0.17
Social Benefits	6,9	0.14	13,7	0.18	12,4	0.13	14,1	0.08	21	0.10	22	0.09
Wages and Salaries	69,9	13,96	1,193,3	15,92	2,662,4	27,05	8,901,8	47,61	10,478	49,74	11,715	49,98
Subsidies Transfers	220,7	4,41	224,8	3,00	363,0	3,69	705,9	3,78	669	3,18	750	3,20
Current Transfers to Municipality	19,8	0,40	0,2	0,00	0,0	0,00	0,1	0,00	1	0,00	0,00	0,00
Total	5,003,9	100,0	7,497,8	100,0	9,841,6	100,0	18,697,1	100,0	21,064	100,0	23,441	100,0

Source: OSCE database of annual accounts of the local self-government units for the years 2005- 2010

Chart 28. Structure of the Local Government Expenditures 2005 - 2010



Realization of expenditures is an important indicator of the financial management capacities of the municipalities. The municipalities are obliged to send quarterly financial plans to the Ministry of Finance which contain expenditure projections for each quarter of the forthcoming fiscal year. The dynamics of the realization of municipal expenditure follow the dynamics of revenue collection. It is therefore important that revenue collection be as balanced as possible. In 2007, approximately two thirds of the municipalities managed to execute up to 40% of their planned expenditure in the first half of the fiscal year.

Chart 29. Trends in local government expenditures, 2005-2010 (as presented in the annual accounts of the municipalities, million Denar)

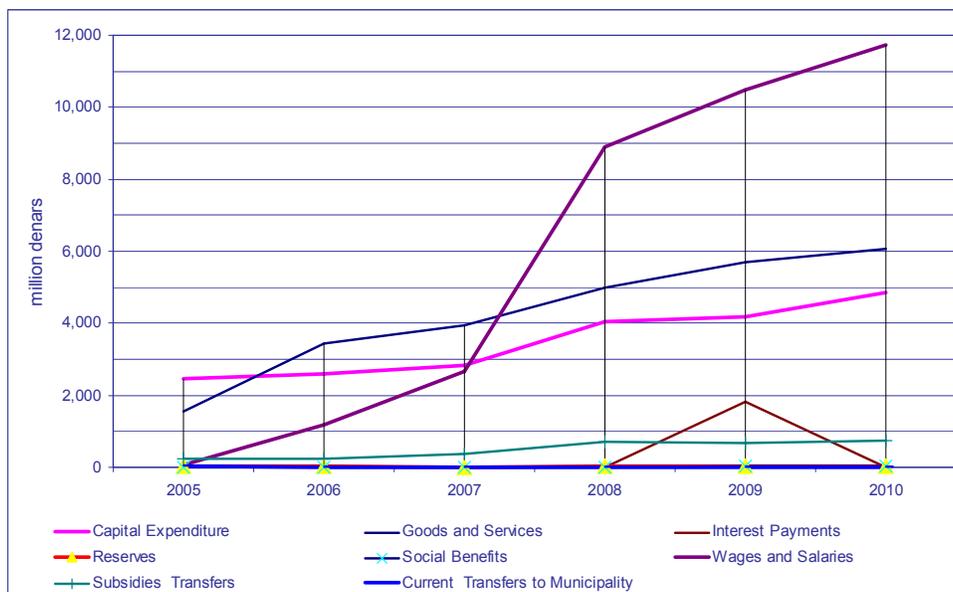
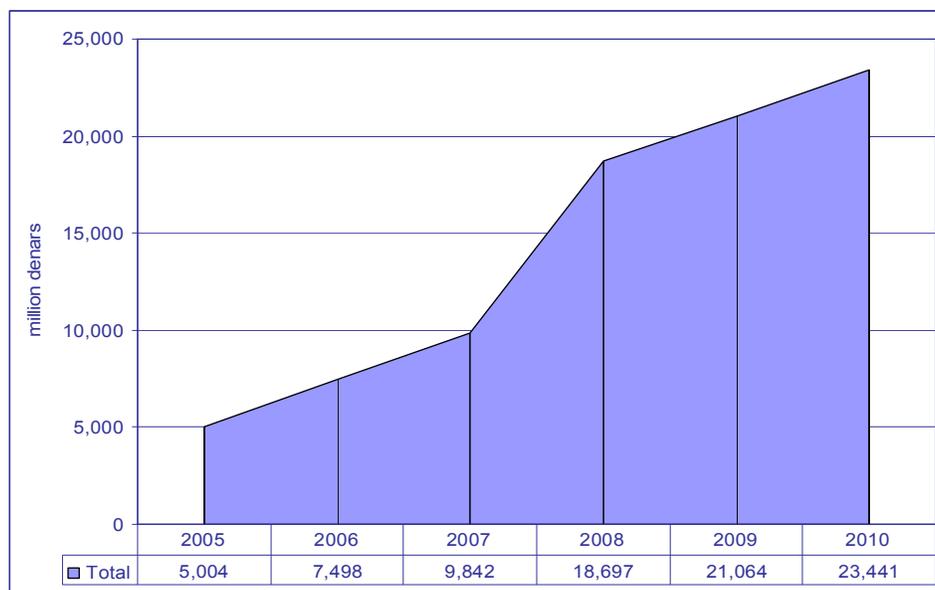


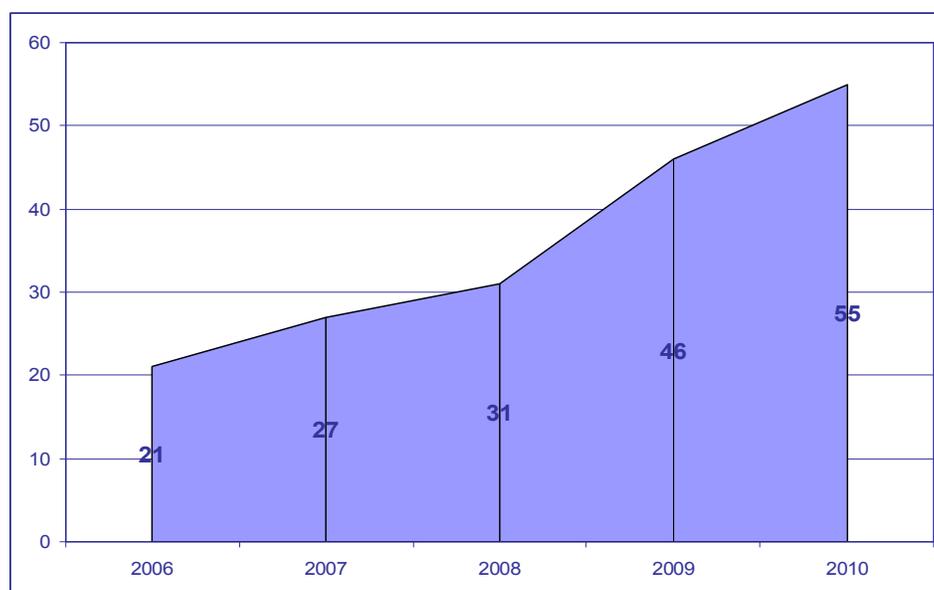
Chart 30. Total local government expenditures, 2005-2010 (as presented in the annual accounts of the municipalities)



Ideally, the municipalities should execute 25% of their planned expenditure in each fiscal quarter. However, due to the dynamics of collecting different revenue types, a balanced execution of local expenditures throughout the year is not possible. Very often, the largest amounts of expenditures are realized at the end of the financial year, coinciding with the inflow of property tax revenue. Trends in the realization of local government expenditures since the beginning of the decentralization process are presented in the following chart.

⇒ **Internal control and internal audit**

Chart 31. Number of municipalities that have established internal audit units, 2006-2010



Since 2005, a positive trend in the establishment of internal audit systems in the municipalities is apparent. In previous years the number of municipalities that have appointed an internal auditor has increased gradually; from 21 in 2006, to 27 in 2007, 31 in 2008, 46 in 2009 and 55 in 2010. Out of this number, 27 municipalities realize this function through inter-municipal cooperation agreements. The amendments to the Law on Public Internal Financial Control of 2009 provided that only larger municipalities are now obliged to establish internal audit units and many units have been closed in smaller municipalities as a result. This trend is presented graphically in the following chart.

⇒ **Participatory budgeting**

Based on the principle of subsidiary, one of the primary goals of the decentralization reform is to bring decision-making processes closer to citizens. The process of involving citizens in budget-related activities throughout the fiscal year is called participatory budgeting. Municipal bodies – the mayor and municipal council - should plan and provide opportunities for citizens to contribute to local life. Municipal authorities should involve citizens at an early stage in setting local priorities, adoption of municipal development plans and budget, budget execution, and approval of the annual accounts. Through increased transparency and accountability the decentralization process will trigger democratic development at the local level. In 2007, 89% of the municipalities reported they included citizens in setting local priorities. In 2008, the majority of survey respondents (29 municipalities) confirmed they organize up to five meetings with citizens annually, although the number dropped slightly to 23 municipalities in 2009. Fewer municipalities reported organizing between six and ten meetings with citizens, although the number remained almost constant (14 municipalities in

2008 and 13 in 2009). In contrast, the proportion of municipalities declaring they had arranged more than ten meetings with citizens rose significantly from seven in 2008 to 13 in 2009. For 2010 there were no data from the municipalities.

II.4. CONCLUSIONS AND RECOMMENDATIONS

Without a stable revenue base, the municipalities would not be able to successfully perform their assumed competencies. There are significant differences in the fiscal capacities of the local self-government units in the country. One of the main priorities for the future is to overcome fiscal gaps and enable those municipalities with the lowest fiscal potential to function normally and provide the necessary services to citizens.

Based on the finding of the analysis, one can conclude that since 2005 the municipalities have progressed significantly in the management of local budgeting processes. The majority of them have adopted a budget calendar as a tool for improving the planning and execution of budget-related activities. Appropriate planning enables the municipalities to devote sufficient time to consult with citizens on different topics, such as setting local priorities for their community were adequate. The majority of municipalities have also completed the process of updating their database of local taxpayers and re-assessed the value of real estate. These two activities have resulted in a significant increase in municipal own revenues, one of the main results of the decentralization process. By improving the financial management and planning capacities of municipal administrations, it is expected the share of local tax and non-tax revenues will increase.

Prior to 2010, the municipalities had been responsible for administering only own sources revenues and those from the central budget. Borrowing additional revenue was not permitted in the first two years of the fiscal decentralization since the municipalities had to first prove their financial management capacities. In 2010 the Ministry of Finance issued consents for the commencement of loan procedures in nine municipalities. These municipalities were Shtip, Kisela Voda, Veles, Gostivar, Kumanovo, Gazi Baba, Centar, Pehchevo and the City of Skopje. In the forthcoming period the municipalities can expect further developments in area of long-term borrowing, since the Ministry of Finance has published instructions for the municipalities regarding the process of issuing municipal bonds.

One of the perceived benefits of the decentralization process is to improve local control over the use of public funds. Municipal authorities are obliged by law to provide opportunities for citizens to participate in decision-making processes. A new system of internal control and internal audit has been introduced in the municipalities. In addition to periodic audits performed by the State Audit Office, municipal internal auditors are tasked with providing timely recommendations on the areas where their municipality should make changes in order to comply with legislative provisions to improve the management. It is important to note that the local self-government units have succeeded in providing timely information concerning their financial results and the execution of interim budgets throughout the years. In this way they have enabled the central authorities to manage the decentralization process based on accurate information.

On the basis of the above conclusions, the following recommendations regarding the future course of the fiscal decentralization process in the country could be provided:

- The Committee for Monitoring the Development of the System of Financing should intensify its work in order to provide continuous support to the municipalities and ensure continuing efficient implementation of the fiscal decentralization. The practice so far shows that the Committee convened only sporadically, which prove to be insufficient for achieving better efficiency and effectiveness;

- The Government should address the problem of unresolved arrears in the six municipalities remaining in the first phase of fiscal decentralization so that momentum is created for further progress;
- Some of the municipalities, especially those in rural areas, must have a precise assessment of their fiscal capacities so that they can obtain the necessary support from other revenue sources, such as additional revenues from the equalization fund;
- Municipal administrations should invest more effort in improving the collection of the own revenues. As the process of decentralization progresses, the municipalities should increase their share of municipal own-source revenues in the municipal budget's structure;
- The Government should amend the system of inter-governmental transfers with a special focus on identifying solutions that will promote further fiscal equalization and overcome the current fiscal discrepancies among the municipalities;
- The municipalities should take advantage of new sources of funding, such as issuing municipal bonds, as an opportunity for generating additional funding for capital investments;
- The municipalities should continue and increase implementation of participatory planning activities, such as citizens gatherings, thematic forums, etc., which will improve transparency and accountability towards citizens. This would also result in an enhanced commitment from citizens in paying local duties and therefore investing in the future of their local communities;
- The Ministry of Finance should intensify its communication, through regular meetings, letter exchanges, etc., with all stakeholders in the area of fiscal decentralization, especially the municipalities;
- The respective Government institution responsible for training and development of the civil servants should provide opportunities for a continuous capacity-building of municipal administrations, with the aim of investing in the further advancement of the decentralization process;
- The system of internal control and audit in the local self government unit should be strengthened with the support of the central government, especially the Ministry of Finance. Internal auditors should properly perform their function and advice mayors and municipal administration on the implementation of the local self-government regulatory package. In this way they would become an important stakeholder in the country's efforts to increase the rule of law and prevent corruption at local level.

III. LOCAL ECONOMIC AND BALANCED REGIONAL DEVELOPMENT

III.1. INTRODUCTION AND BACKGROUND

⇒ **Local Economic Development**

Among the most important activities of modern local governments is their responsibility to search for, attract, and retain investors. Each new investment means new jobs, new business opportunities for existing enterprises, as well as the generation of municipal revenue through the payment of taxes and fees. There are two main approaches to examining local economic development (LED). The first is to assess how municipalities promote the creation of a business-friendly climate by establishing appropriate conditions for existing businesses and attracting new ones, including entrepreneurship activities. The second is a precondition to the first: reviewing municipal efforts to enhance the economic capacity of their territories through infrastructure development (transport links, communication, land parcels, utilities, etc.).

According to Article 22, Paragraph 3 of the Law on Local Self-Government enacted in 2002, LED includes “local economic development planning; determining of development and structural priorities; running of local economic policy; support to the development of small and medium size enterprises and entrepreneurship at local level and in that context, participation in the establishment and development of local network of institutions and agencies; promotion of partnership”. The Law does not include prescriptive measures on how to perform the LED competence. It rather leaves room for the municipalities to pursue methods most appropriate to their own socio-economic and financial needs.

Another crucial piece of legislation within the legal framework governing LED is the Law on Financing of the Units of Local-Self Government, enacted in 2004. This Law prescribes the financial framework of the municipalities, provides them with the opportunity to generate their own sources of revenue, and allows them to bring executive decisions regarding local spending. With this Law, the implementation of the LED practically became feasible. The legal framework of the country also permits municipalities to establish partnerships with the private and civil society sectors. LED represents a complex and multi-dimensional process and is therefore supported by a growing range of legislation, by-laws, and policies. Knowledge of access to all of these tools is essential.

The Law on Construction Land, adopted in February 2011, has created additional opportunities for enhanced LED. Upon fulfilment of the criteria described in Article 89 of this Law, the municipalities and the City of Skopje can acquire the right to manage construction land in the country. The benefits for LED are manifold. For example, the Law simplifies the process of establishing public-private partnerships and negotiations between potential private investors and those municipalities that have gained the right to manage construction land. In doing so, it substantially alleviates the process of concluding business deals since lines of communication are created directly between the municipality and investor.

⇒ **Balanced Regional Development**

The policy of balanced regional development is a very complex, lengthy, and multi-dimensional process involving economic, demographic, spatial, cultural, and social domains.

These aspects require a thorough understanding of the concept of regional development, and effective coordination between all stakeholders and their macroeconomic policies if disparities between regions are to be reduced.

The country began work on the promotion of balanced regional development with the adoption of the Law on Balanced Regional Development in 2007. The Law stipulates the goals, regulations and responsible stakeholders concerning the policy on balanced regional development, and provides a legal framework for the planning, financing, and allocation of funds for advancing balanced regional development. It also specifies evaluation and monitoring mechanisms for the implementation of regional development plans and projects.

The Law prescribes the establishment of eight regions for the purpose of planning and implementing regional development activities. The planning regions are equal to the eight statistical regions in the country and are not administrative or political units. Regional development planning is based on two key documents. The first is the Regional Development Strategy for the territory of the whole country, which covers a period of ten years and was adopted by the Government in 2009. The second key document is the Planning Region Development Program, which cover a period of five years and is prepared in each of the eight regions by the Centers for Development of the Planning Regions. These Programs are adopted by the eight respective Councils for Development of the Planning Regions, with prior approval received by the Council for Balanced Regional Development of the country. They must be developed in accordance with the national Regional Development Strategy and program documents for the country's EU accession, and be based on a methodology prescribed by the Minister of Local Self-Government.

The Law on Balanced Regional Development determines the following as bearers of the Policy for Balanced Regional Development:

- Government of the country;
- Council for Balanced Regional Development, chaired by the Deputy Prime-Minister for Economic Issues and whose membership includes the Ministers of Local Self-Government, Finance, Transport and Communications, Labour and Social Policy, Culture, Environment, Agriculture and the Presidents of the Councils of the Planning Regions;
- Ministry of Local Self-Government; and
- Councils for the Development of the Planning Regions. Members of the Councils include Mayors from the planning region. The Councils can also involve experts, representatives of economic chambers, workers unions, associations of citizens, and other relevant partners from the private and civic sectors in their work.

Other important regional development stakeholders are the Bureau for Balanced Regional Development (former Bureau for Development of Underdeveloped Regions) and the eight Centres for Development of the Planning Regions. The Bureau is a body within the Ministry of Local Self-Government with a status of a legal entity. Its responsibilities range from providing the analytical basis for drafting planning documents, preparing annual reports on the implementation of the action plans and proposing a list of areas with specific development needs. The Bureau also provides professional assistance to the Centres for Balanced Regional Development and disseminates information on the range and scope of funds for stimulating regional development. The eight Centres for Development of the Planning Regions are located in the municipality with largest number of inhabitants in each planning region. They are however established by all municipalities within the region and are funded from their budget and the central government on a 50%-50% basis for the first five years. According to the current legislation, the Centres for Balanced Regional Development shall be purely financed by municipal contributions as of January 2013. The Manager of these Centres is selected on the basis of a public advertisement.

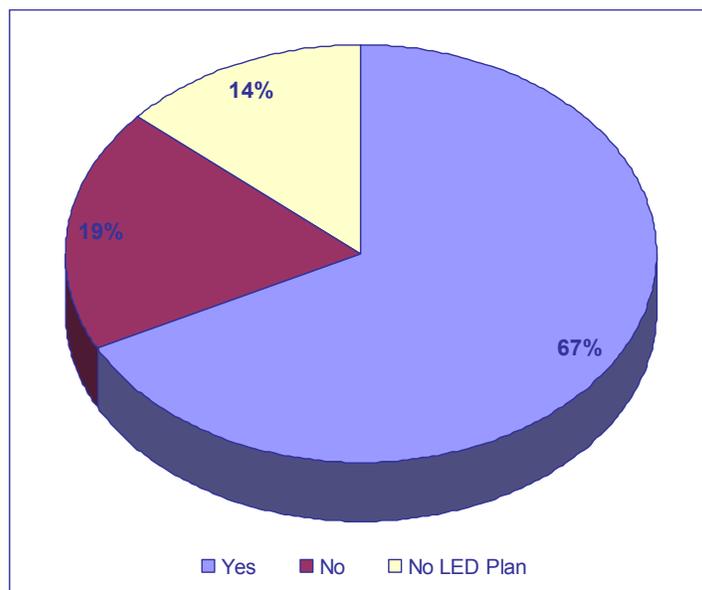
According to Article 27 of the Law on Balanced Regional Development, besides contributions from municipal budgets, at least 1% of GDP (approximately 45 million Euros) of the budget of the country should be allocated annually for the promotion of regional development. The allocation of funds from the budget of the country is based on the level of development and the specific development needs of the municipalities, measured through economic and demographic indexes. In addition to national and municipal funds, other sources are available for implementing of this Law, such as EU funds, private and other donations, etc.

The following chapter depicts the status of local economic development (LED) as a cross-cutting competency and its implementation since decentralization began in July 2005. It provides information on the activities undertaken by the municipalities in the realization of this competency (systematic and ad hoc), and reviews the most common obstacles they have faced. This chapter also measures municipal perceptions regarding current and previous unemployment rates, and determines the availability of accurate data on local businesses, which form the basis for LED planning and policy development. Finally, trends in the allocation of municipal budget funds for local economic development are identified. The concept of balanced regional development is also assessed from the aspect of activities implemented by the eight Centers for Development of the Planning Regions. Trends in the allocation of municipal budget funds for the implementation of regional development activities are identified, in addition to those received from central government. In the end, the chapter elaborates the usefulness of the balanced regional development concept from the point of view of the benefit it provides to municipalities and regions as a whole.

III.2. CURRENT STATUS

⇒ Local Economic Development

Chart 32. Has your municipality faced any obstacles in the implementation of the municipal action plan for LED?

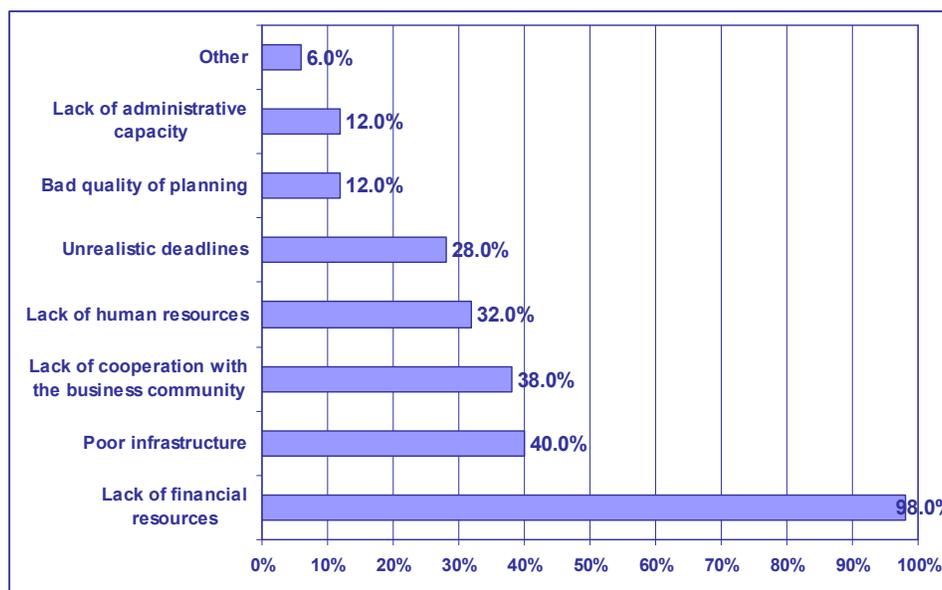


This year's survey found that the majority of municipalities have adopted action plans for local economic development (LED). However, ten municipalities out of the 74 that responded to this year's survey do not, and they are Aerodrom, Arachinovo, Centar Zhupa, Debar,

Krivogashtani, Kumanovo, Mavrovo and Rostusha, Lozovo, Vrapchishte and Zhelino. Of the 64 municipalities (86% of respondents) that formally plan their economic development activities, only 14% declared they face no obstacles to their implementation.

When asked what challenges they face in the implementation of LED, 49 of the 50 municipalities that responded to this question cited implementation of their LED action plans lacked the necessary financial resources. This obstacle was identified as the most difficult and common. The municipalities also noted inadequate infrastructure, a lack of cooperation with the local business community, limited human resources, and unrealistic deadlines for realizing actions as challenges to the promotion of economic development locally. Only few municipalities suggested a lack of administrative capacities or bad planning had inhibited development of the local economy.

Chart 33. Most common obstacles to implementing LED action plans



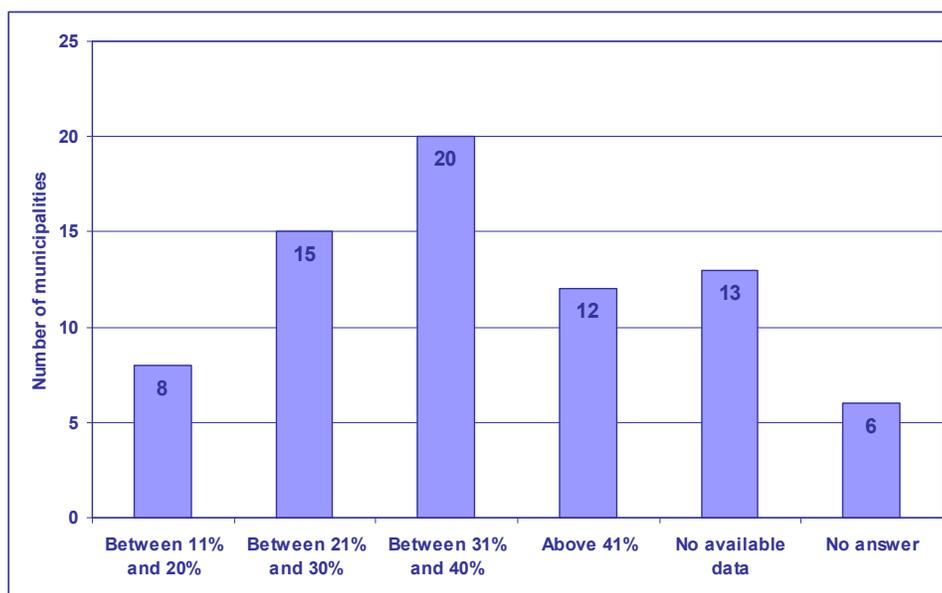
The Chart 22, below, depicts municipal perceptions of local unemployment rates. 16% of municipalities have recorded local unemployment above 41 per cent. Combined with the fact that a further 27% of municipalities cite a rate between 31 and 40% and an additional 20% of municipalities with a rate between 21 and 30%, this represents clear evidence of the low levels economic development locally. Only 11% of municipalities regard unemployment in their locality to be less than 20%, with no municipalities suggesting it has fallen below 10%. It is of particular concern that almost 20% of those municipalities that responded to this year's survey confirmed they did not possess information on the unemployment rate in their municipality. The fact that a further 8% did not respond to this particular question suggests the proportion of municipalities without this information may indeed be higher.

The following table illustrates the proportion of municipalities that have unemployment rates above 30%, according to which planning region they belong to. On average, approximately 43% of municipalities in the country have unemployment rate greater than 30%.

Table 11. Proportion of municipalities with an unemployment rate above 30%, according to planning region

Vardar	East	Southwest	Southeast	Pelagonia	Polog	Northeast	Skopje
44 %	20 %	50 %	50 %	38 %	56 %	50 %	42 %

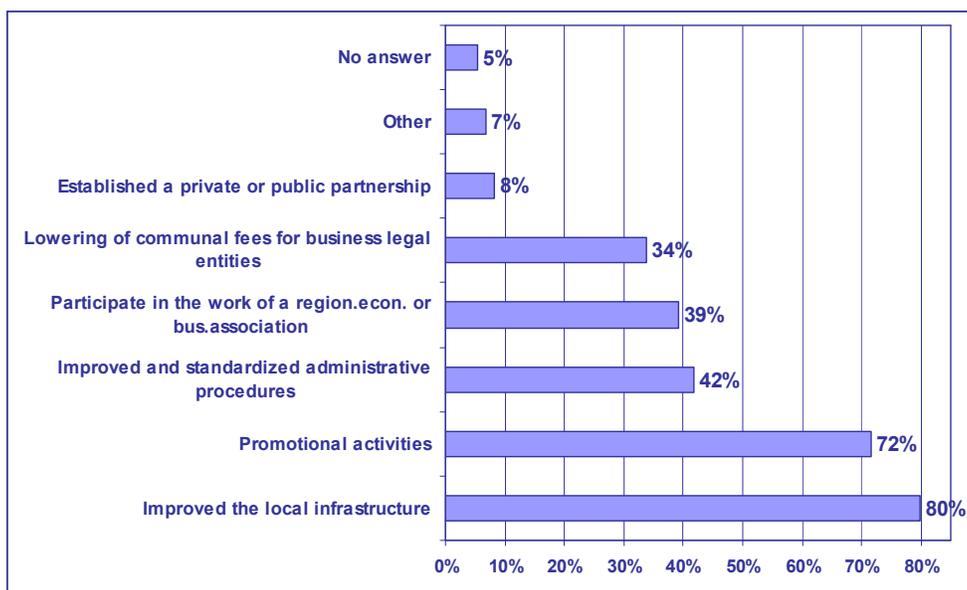
Chart 34. According to your records, what is the unemployment rate in the municipality?



According to respondents, 70% of municipalities have established a sound basis for economic development planning by establishing up-to-date databases containing details of existing local businesses. In addition, the detailed urban plans of 65 municipalities include designated areas for an industrial zone.

In their attempt to attract investors and improve the local economic climate, the majority of respondents (59 municipalities) have made improvements to the local infrastructure. 53 municipalities have promoted their economic potential within the municipality and externally, while a further 31 municipalities have improved and/or standardized administrative procedures.

Chart 35. Municipal activities to improve local economic development and investment opportunities (% of municipalities)



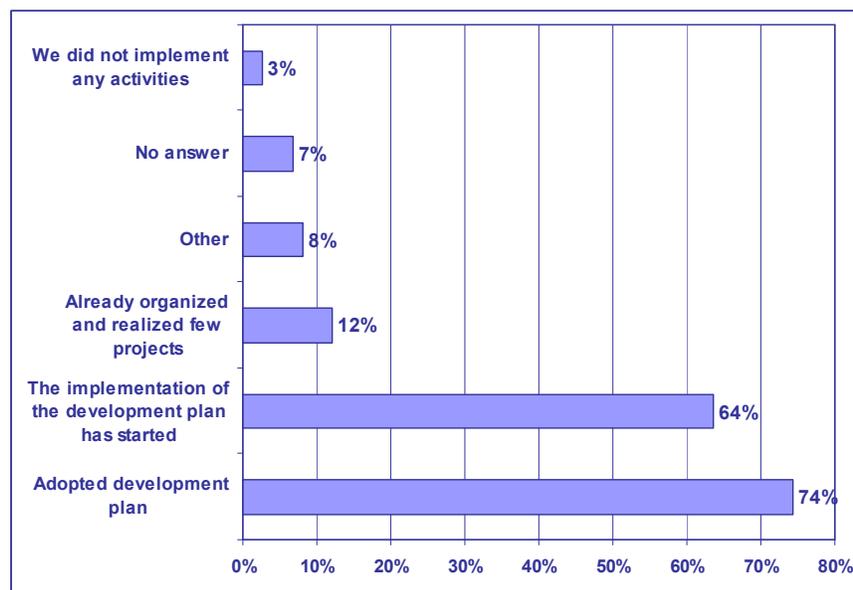
The municipalities have also participated in the activities of the regional economic / business association (29 municipalities), and some have even lowered communal fees for local businesses (25 municipalities). Only six municipalities have established public-private partnerships as a means of attracting local investments so far; all of which are located in urban areas. The analysis suggests, in general, urban municipalities are twice as likely to take active measures to improve the local economic climate as their rural counterparts.

Municipal budgets allocated to the promotion of local economic development are generally used to cover: salaries, equipment and activities of municipal LED offices; promotional and networking activities, such as participating in fairs; training; regional promotion; and the production of local economic profiles. The realization of infrastructure projects that contribute indirectly to economic development locally are not considered LED activities. Based on this understanding, this year's survey revealed that 8% of the municipal budget funds were allocated to LED activities in 2010, which is a slight reduction compared to the previous year.

⇒ **Balanced Regional Development**

According to this year's survey results, 74% of the municipalities that responded confirmed that their local Center for Balanced Regional Development had adopted its development program and action plan. However, the proportion of municipalities which stated their local Center had begun implementation of these plans was less (64%).

Chart 36. Municipal perceptions on the work of Centers for Balanced Regional Development



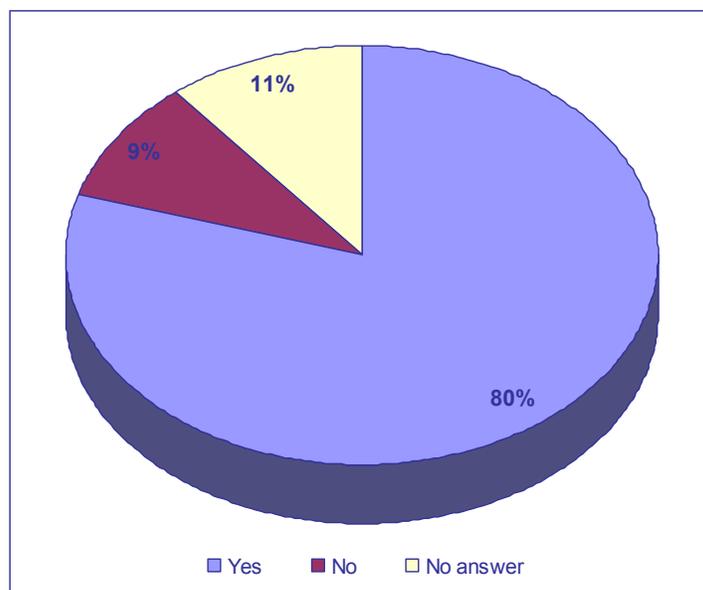
Projects that were either fully implemented or in the process of implementation were cited in the spheres of infrastructure development, business development and incubators start-ups, training on investment opportunities, and the promotion of cross-border cooperation.

The negative trend in the allocation of municipal budget funds for local economic development is mirrored by a negative trend in the allocation of municipal budget funds for balanced regional development. The average annual investment from municipal budgets to regional development programs fell from 2.5% in 2008/09 to 1.9% in 2009/10.

According to the 44 municipalities that responded to the question, the average amount of funds transferred from the central government budget to the planning regions in 2010 was

10,449,571 MKD, with most planning regions receiving around 7,266,952 MKD each. The fact that 30 municipalities failed to answer this question suggests they were either unable to answer it or their local planning region had not received any funding from central government. These figures do not match the information provided by the Bureau for Balanced Regional Development. According to the Bureau, the total amount spent on projects approved by the Bureau and Ministry of Local-Self Government in 2010 was 168,800,000 MKD, or an average of 21,100,000 MKD per planning region.

Chart 37. Does your municipality benefit from the implementation of the balanced regional development concept in the country?



80% of the municipalities that responded to the survey believe they have benefited from regional development programs implemented in the country. Those that felt they had not benefited cited inadequate implementation of the relevant legislation as the main reason for the failure of the regional development concept.

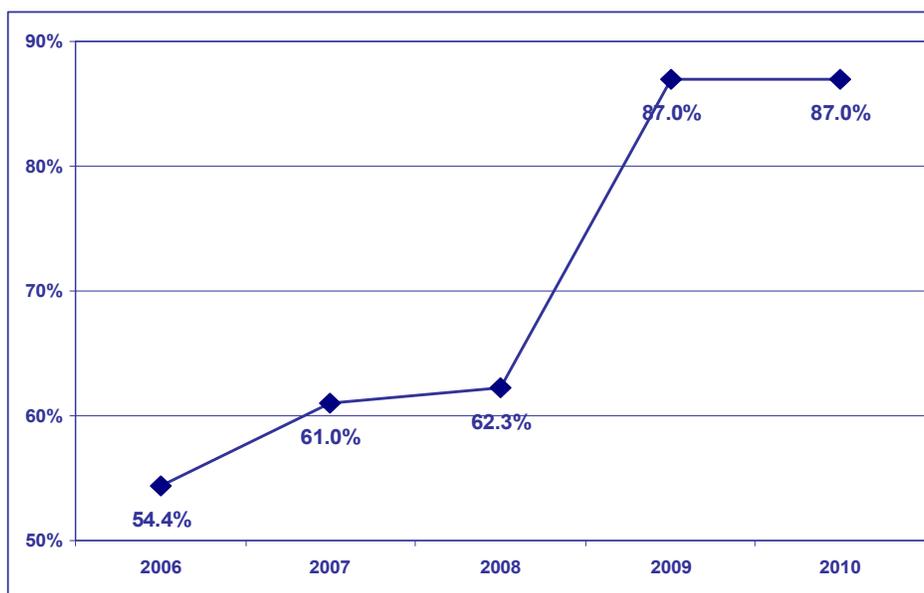
III.3. COMPARATIVE ANALYSIS

III.3.1. Local Economic Development

The proportion of municipalities that have adopted LED action plans and employed a formal approach to pursuing economic activities has increased steadily from 54.4% in 2006 to 87% in 2009 and 2010.

About two thirds of the municipalities that base their economic activities on action plans have faced and continue to experience obstacles in their implementation. Alarmingly, the municipalities cite a “lack of financial resources” as the principle obstacle to implementing their LED action plans. The second most common obstacle cited by the municipalities over the past six years is “poor cooperation with the business community at local level”, followed closely by “poor infrastructure”. It is worth noting that in 2006 the municipalities suggested a “lack of adequate human resources” to be a key barrier to the realization of their LED action plans. This is no longer the case, although the municipalities do still regard it as an on-going, albeit less, significant concern.

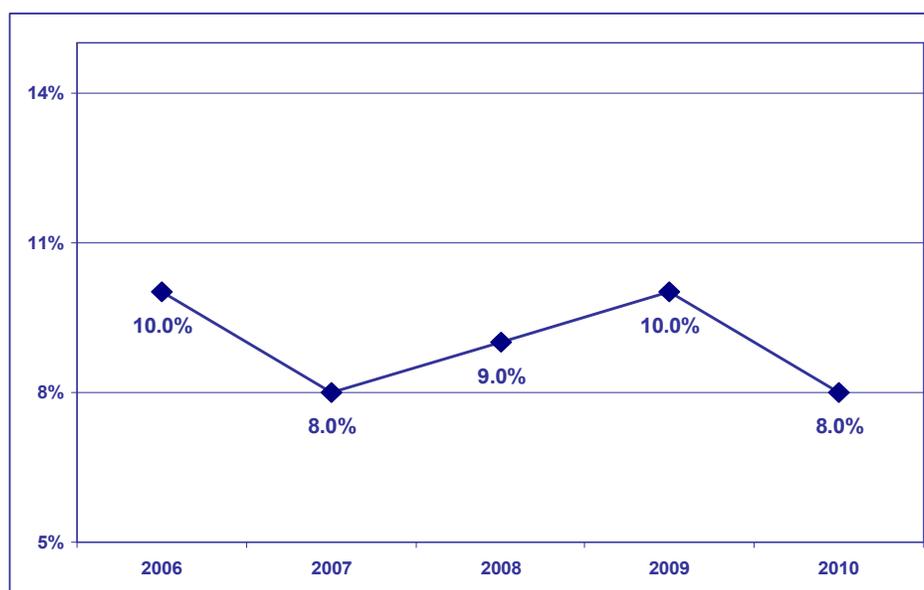
Chart 38. Proportion of Municipalities that have Adopted LED Action Plans



Such positive trends suggest the municipalities understand the importance of the LED competency and have taken a more active approach to its implementation in recent years. However, they continue to face serious financial and organizational challenges. The process of strategic planning becomes useless without proper access to financial resources for implementation of planned activities. In addition, not all municipalities used participatory planning and other professional methods in the drafting of their strategic documents. Their validity is therefore questionable.

The chart below depicts the average percentage of municipal budgets allocated to LED activities since 2006. It shows an almost constant trend, with the municipalities allocating between eight and ten percent of their budget to the realization of such activities.

Chart 39. Proportion of Municipal Budgets Allocated for Local Economic Development



Since the decentralization process began, “improved local infrastructure” has dominated the list of activities implemented by the municipalities for boosting economic development locally and attracting investors. As illustrated in the table below, the second most important activity is the “promotion of economic potential”, followed by “improved and standardized administrative procedures” and “lowered municipal taxes and fees”. Only in 2010 did the “promotion of economic potentials” prevail over “improved local infrastructure”. Despite the fact that public–private partnerships are widely recognized local economic development tools in other modern democratic market-oriented societies, this is the least employed investment promotion activity in the country. Even more disappointing is the declining trend in using this tool.

Table 12. Types of Activities Implemented by the Municipalities to Promote Local Economic Development, 2007-2010

Activities Implemented to Improve LED (Number of Municipalities)	2007	2008	2009	2010
Improved local infrastructure	61	53	65	59
Promotion of economic potentials	52	38	55	53
Improved and standardized administrative procedures	36	24	36	31
Lowered municipal taxes and fees	16	17	-	25
Participation in the work of regional business networks	9	27	29	29
Established public-private partnerships	10	8	-	6

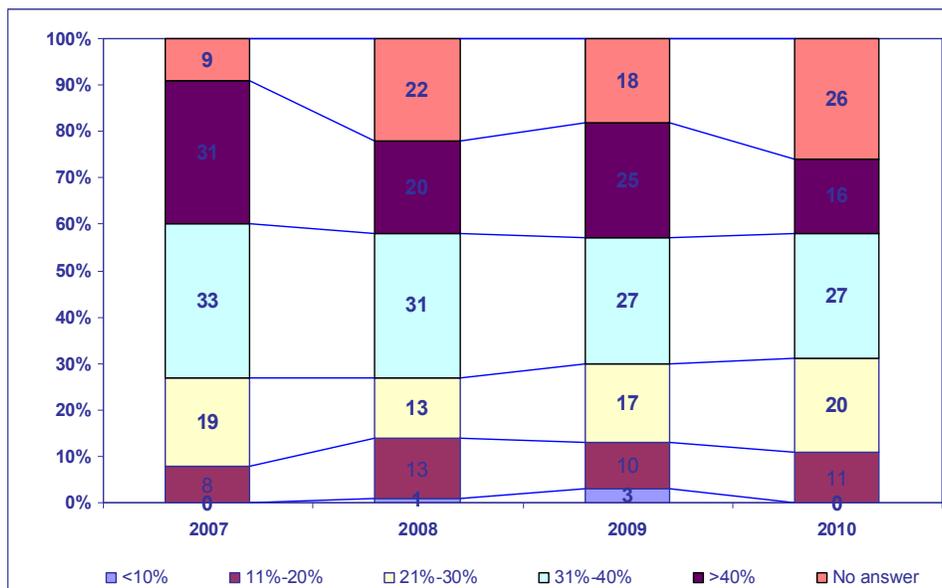
The number of municipalities that have included space for an economic zone in their detailed urban plans has generally remained constant (61 or 62 municipalities) in recent years. The proportion of municipalities that have updated their database of existing local businesses has however increased, from approximately 42% in 2007, to 50% in 2008 and 70% in 2010.

A clear trend regarding the reduced number of municipalities that report local unemployment rates above 30% is also apparent. In 2007 for example, 64.33% of the municipalities declared local unemployment to be over 30%. The proportion doing so fell to approximately 52% during 2008 and 2009, and dropped further to 43% in 2010.

Nevertheless, this percentage remains unsatisfactory since it still remains the case that a larger proportion of municipalities have local unemployment rates above 30% than between 10 and 30%. Most of those municipalities declaring particularly high unemployment rates are considered rural municipalities. Particularly alarming is the very small number of municipalities that have local unemployment rates below 10%. In 2007 and 2010 no municipality declared unemployment to be below 10% locally, while in 2008 and 2009 the proportion of municipalities that belonged to this category were 1.0% and 2.8% respectively.

Agriculture remains the most dominant economic activity in the majority of municipalities during the period 2005-2010 (an average of 62% of municipalities). It is followed by trade and industry and production, which dominate the local economy in around one third of the municipalities. Disappointingly, tourism is being developed in only 11-13% of municipalities. A slight increase in the development of the service delivery sector is apparent, dominating local economies in 22% of the municipalities in 2008 and 26% in 2009. The proportion of municipalities whose local economies are dominated by stock breeding activities has remained constant however (approximately 22%).

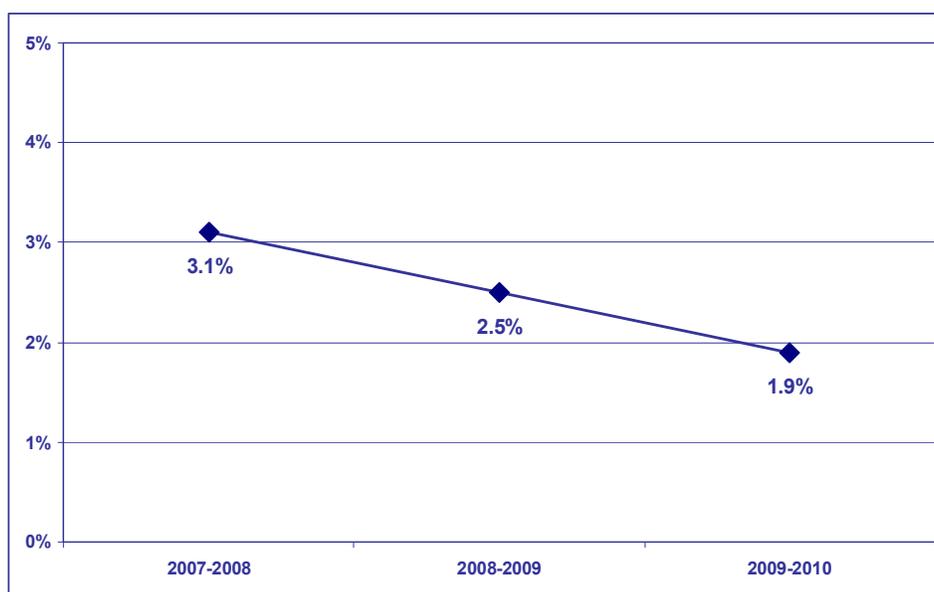
Chart 40. Local unemployment rates according to the percentage of municipalities, 2007-2010



III.3.2. Balanced Regional Development

The Centers for Balanced Regional Development have progressed gradually from a purely strategic planning phase to implementing project activities. In 2008 only 18% of the municipalities claimed their respective planning region had begun implementation of their action plans. Whereas in 2011 municipalities participating in all planning regions declared they had begun implementing project activities. This positive trend is in contrast to the declining proportion of municipal funds being allocated to regional development since 2007.

Chart 41. Average proportion of municipal budget allocated to balanced regional development (2007-2010)



According to information provided by the Bureau for Balanced Regional Development, the amount of funding allocated from the central budget (Programs of the Bureau for Balanced Regional Development and Ministry of Local Self- Government) for the realization of balanced regional development in the past three years is as follows:

Table 13. Central government funding for the realization of balanced regional development (MKD)

	2009	2010	2011
Approved and realized budget for the planning regions development program	131,810,000	118,160,000	92,065,766
Approved and realized budget for the program for the development of areas with specific development needs	37,660,000	33,760,000	26,304,505
Approved and realized budget for financing projects for the development of villages	18,830,000	16,880,000	13,152,252
Total	188,300,000	168,800,000	131,522,523

A gradual but consistent reduction in central budget funding for the promotion of regional development is clearly apparent. The trend is even more concerning if data from the period prior to and after adoption of the new Law on Balanced Regional Development in 2007 is compared.

The comparison between the two funding periods (1994-2007 and 2008-2011) clearly illustrates that a much more significant proportion of funds were allocated to regional development under the previous Law on Stimulation of the Development of Economically Underdeveloped Regions.

In spite of the negative trend in financing balanced regional development in the country from both central and municipal budgets, this year's survey found that the vast majority of the municipalities have experienced noticeable benefits from the work of the Centers for Balanced Regional Development. Only a small proportion of municipalities declared they had experienced no benefit from their activities.

Table 14. Approved and Planned Central Budget Funds for Underdeveloped Economic Regions (1994-2007)

Year	Amount Approved in the Budget (MKD)	Prescribed by Law (1% of GDP) (MKD)	% of Prescribed Funds Approved
1994	418,000,000	1,464,090,000	28.55
1995	700,000,000	1,695,210,000	41.29
1996	750,000,000	1,764,440,000	42.51
1997	500,000,000	1,860,180,000	26.88
1998	520,000,000	1,949,790,000	26.68
1999	470,000,000	2,090,100,000	22.49
2000	758,000,000	2,363,890,000	32.08
2001	560,000,000	2,338,410,000	23.95
2002	850,000,000	2,388,900,000	35.58
2003	238,000,000	2,388,900,000	9.96
2004	221,132,000	2,652,570,000	8.33
2005	205,132,000	2,866,260,000	7.15
2006	166,000,000	3,076,290,000	5.40
2007	184,000,000	3,326,090,000	5.53

Source: "Monitoring the Implementation of the Principles of Good Governance with Public Funds", draft report, FOSIM, 2008

III.4. CONCLUSIONS AND RECOMMENDATIONS

III.4.1. Conclusions

⇒ Local Economic Development

Stimulating the local economy represents a multi-dimensional, complex process which requires the attention and efforts of all stakeholders responsible for its implementation. Decision-making on economic development activities often operates in complex and uncertain environments and requires the municipalities to act strategically in order to overcome the information asymmetry. Municipal strategic planning is a sound and logical response to rapid changes in the local economic environment and the complexity of its management. LED strategies and action plans must therefore be carefully assessed against the capacity of staff to implement them, along with the budgetary resources to do so.

The number of municipalities in the country that plan their local economic activities strategically has increased since the start of the decentralization process. Yet, the quality of the strategic and action plans produced varies significantly between municipalities. Not all municipalities, for example, have used participatory planning methods and have included contributions from the wider public in the development of these documents. In addition, many municipal LED plans remain inactive and do not necessarily correspond to local economic realities.

Almost all municipalities face serious obstacles in the implementation of their planned activities. A significant lack of financial resources is the most frequently cited challenge, but not the only one. Very few examples of public-private partnerships exist in practice and trust between municipal administrations and the business sector remains low. Public-private partnerships are not yet perceived to be a productive tool for acquiring the much needed finances for project activities. Conditions for attracting foreign direct investment at the local level have also not been fulfilled. Most local infrastructures remain poor, the problem regarding the ownership and management of construction land has only recently been resolved, and the municipalities still do not have the right to manage agricultural land.

Low levels of local economic development are reflected in high local unemployment rates. Even though positive trends in recent years are apparent, almost half of the municipalities have unemployment rates consistently above 30 per cent. Most of these municipalities are considered rural and are located in the southeast, southwest and northeast planning regions. This is an extremely serious problem which must be addressed, even if unemployment rates are potentially distorted by undeclared economic activities. Agriculture remains the most important economic activity in the country, whilst the service sector is making modest progress.

Local economic development is a necessary precondition for improving the quality of life of citizens. In the short term, municipal budget funds need to be invested to stimulate local economic development. This investment will pay off in the longer term however as the local tax base will expand and municipal creditworthiness will improve. The funds allocated from municipal budgets to stimulate local economic development do not currently correspond to the needs of their strategic and action plans. It seems the municipalities prefer to pursue external funding opportunities or donor assistance for their implementation. This is not a negative trend per se, but the problem lies in the ad hoc basis upon which financial planning for the realization of LED plans is made.

The fact that more than two thirds of the municipalities have an up-to-date database of existing local businesses is evidence that municipal leaderships understand the importance of proper planning and realize it is impossible to do without mapping the actual situation on the ground. Yet, many of the municipalities have not exploited their full capacities in

generating own source municipal revenues, such as the collection of municipal taxes and fees.

⇒ **Balanced Regional Development**

A clear negative trend in the allocation of municipal budget funds for balanced regional development exists. This trend puts into question how effectively the legal obligation prescribed by Article 62, Paragraph 3 of the Law on Balanced Regional Development, according to which Mayors (as members of the Councils for the Development of the Planning Regions) are obliged to ensure 50% of the funds required for the functioning of the Centres for Balanced Regional Development from municipal budgets until 2012, is being realized. The fulfilment of this obligation is a necessary precondition for achieving the agreement on co-financing the Centres between the Ministry of Local Self-Government and the Councils for the Development of the Planning Regions. This retrograde step may indicate reduced confidence on behalf of the municipalities in the work and effectiveness of the Centres and the concept of balanced regional development as a whole. The negative trend does however contradict the views cited by the majority of municipalities that took part in this year's survey, who indicated they have benefited from the work of their respective Centres.

According to current legislation, the Centres for Balanced Regional Development shall be purely financed by municipal contributions from January 2013. This fact provokes the need for deeper involvement of municipalities in the work of the Centres, both financially and administratively. Central government funding will no longer be available to support the operational needs of the Centres after this date.

Judging by the types of projects approved in the past two years, municipalities and Centres for Balanced Regional Development do not make a distinction between projects benefiting a particular regional and those benefiting individual municipalities. Often, as the list of projects included in the Annex demonstrates, regional development activities encompass to only one or two municipalities, rather than regional in its entirety.

Discrepancy exists between information gathered by central and local institutions concerning the average funds allocated by central government for the promotion of balanced regional development. Regardless of the amounts proposed, both central and local government data confirm decreasing trends in the allocation of national funding for the purpose of balanced regional development. The funds allocated from the central budget are significantly lower during the period 2007-2011 and after the adoption of the new Law on Balanced Regional Development than those distributed according to the previous Law on the Stimulation of the Development of Economically Underdeveloped Regions from 1994.

Last but not least, central government has consistently failed to fulfil the obligation stipulated in the Law on Balanced Regional Development requiring at least 1% of the country's GDP (approximately 45 million Euros in 2011) be allocated for the purposes of promoting balanced regional development.

III.4.2. Recommendations

⇒ **Local Economic Development**

Municipalities need to involve more stakeholders, including local citizens and businesses, in the drafting of LED strategic documents. One or two individuals will be unable to see the broader picture and produce a realistic municipal profile and 'SWOT' analysis. Municipal strategic documents should in the future include entrepreneurial elements and explore new economic and development possibilities. Traditional industries, such as agriculture and stock breeding, are important, but insufficient on their own in responding to the changing global environment and market.

Strategic planning must be more closely connected with financial planning. Those municipalities that lack their own budget funds should explore external funding possibilities. The capacities of municipal human resources must also correspond with the level of activities foreseen in strategic and action plans. Capacity building efforts should ensure staffs possess the required knowledge to attract domestic and foreign investors.

Municipal leadership and administrations must do more to promote the development of public-private partnerships and encourage entrepreneurs. The municipalities need to make local business growth possible, even if it means taking moderate risks. Municipal leaders should work on improving relations and building trust between the public and the private sectors. Local property registers and databases with existing businesses should be updated regularly to ensure they correspond with reality.

Municipalities need to improve administrative procedures, relations with local citizens, and the quality of service delivery. One recommended action is that the municipalities work towards acquiring certification for standardized administrative procedures from the International Organization for Standardization (ISO). This serves as a guarantee for good business relations between external stakeholders and the municipal administration and contributes positively to attracting foreign investors to the country.

Following the model of transferring the construction land management competence to the municipalities, central government must modify the legislation to ensure municipalities also have the right to manage agricultural land. This would boost the economic potential of the municipalities, particularly those in rural areas.

Central government needs to revise the methodology for sharing tax revenues with the municipalities. The portion of value added tax (VAT) aggregate transferred to municipalities, which is intended to reach 4.5% by 2013, is insufficient. Real decentralization entails sound financial plan for its implementation. Since the municipalities are unable to self-generate the required level of revenues to perform their competences, particularly in light of low levels of local economic development, central government must demonstrate readiness to share its fiscal capacities with the municipalities. The recommended financing model would initially increase the portion of VAT assigned to the municipalities to above 10%, thereby creating conditions necessary for developing the local economy. As local revenues gradually rise, the percentage of VAT assigned to the municipalities can then begin to decrease. This reversed approach will help the municipalities build fiscal and economic independence. Municipal share of personal income tax (PIT) should also increase from 3% to at least 30% of the total aggregate. The full amount of PIT revenue generated from agricultural activities should be transferred to municipal budgets.

Finally, interest-free borrowing for those municipalities with solid local economic development projects should be considered by central government. Central government could also consider issuing municipal bonds to those municipalities that fulfil the prescribed criteria. Both represent good possibilities for financing long term capital projects that directly contribute to local economic development.

⇒ **Balanced Regional Development**

Both the municipalities and the Centers for Balanced Regional Development must distinguish between local from regional development projects. All project activities supported by the Centers and financed by the Bureau for Balanced Regional Development should include a regional component in which all municipalities within the particular planning region benefit from the project outcomes. Regional development project must not to be used for the benefit of only one or two municipalities, unless the focus of the project is of a regional interest.

Central government must fulfil its funding obligations prescribed by the Law on Balanced Regional Development and provide 1% of the GDP annually for the realization of balanced regional development.

In order that they operate effectively, Centers for Balanced Regional Development should build the capacities of their staff, particularly in project cycle management techniques, fundraising, establishing professional networks with domestic and foreign organizations, and applying best practices to their work.

Municipalities should begin preparing for the period when they will be obliged to fully self-finance the Centers for Balanced Regional Development (from January 2013). Realization of this commitment requires the municipalities to take a more serious approach to the work of the Centers.

IV. URBAN PLANNING

IV.1. INTRODUCTION AND BACKGROUND

Urban planning is one of the most challenging competences transferred to the local government units since decentralization officially began in 2005. Municipalities can issue building permits only in accordance with the urban plans; a legal requirement before any construction activity can commence. In the absence of a building permit or other compulsory documentation, or in the case that a building does not respect the approved provisions, municipal authorities can impose measures against the offender, including fines and the demolition of objects.

As prescribed by the Law on Local Self-Government, the municipalities are responsible for regulating the urban landscape within their territory, as well as issuing building permits to investors and construction companies. This function involves all sectors of the municipality; from municipal councils approving the urban plans, to the mayors, who are responsible for the overall monitoring and enforcement of the law including decisions to demolish illegal buildings. This process also involves the municipal administration, who process requests for building permits and make technical inspections at construction sites. The current legislation enables citizens to have a greater say in urban planning. It obliges municipalities to hold public discussions and address citizens' concerns in the development of urban planning prior to their adoption by the respective municipal council.

The Law on Spatial and Urban Planning foresees different types of urban plans, among which the most important are the general urban plans (GUP) and the detailed urban plans (DUP). GUPs are approved by all cities determined by law. In addition to defining the boundaries of each urban area, GUPs also contain data regarding the aims and means to solve urban issues, special conditions for spatial development, and the parameters for evaluating the implementation of GUPs and DUPs. GUPs are valid for at least ten years, whilst DUPs are adopted for specific areas where a general plan has already been developed. DUPs offer a closer analysis of urban sectors in order to more precisely determine the spatial organization of the land. Structured similarly to the GUP (comprising a territorial map of the examined area and information on general conditions for building, development and land use, as well as data on transport and telecommunication networks), DUPs provide specific guidelines on the construction of facilities in each area. They are valid for at least five years.

IV.2. CURRENT STATUS

Urban planning related activities, such as issuing building permits, represent a source of revenue for the municipalities. Moreover, the proper organization of their territory provides the municipalities with detailed information of all existing premises, allowing a more precise assessment of property values. This is particularly important, since property taxes (i.e. in heritage and gift tax, tax on the transfer of real estate) are an important source of municipal revenue.

Municipal performance in urban planning has been evaluated from two different perspectives: the development of urban plans and the number of building requests versus building permits issued by the municipalities in 2011. Findings have also been measured

according to the extent and manner of participation of local stakeholders in the development of the urban plans.

⇒ **Development of urban plans**

Both categories of plans have to be adopted on the basis of a draft program conveying all instances of local residents and enterprises. After a first clearance by the Ministry for Environment and Physical Planning, the technical layout of the plan is outsourced to an external company, and must be subsequently approved by the municipal council. Prior to the final adoption of the urban plan or of any amendments to it by the municipal council, a public discussion over the draft is to be organized by the mayor.

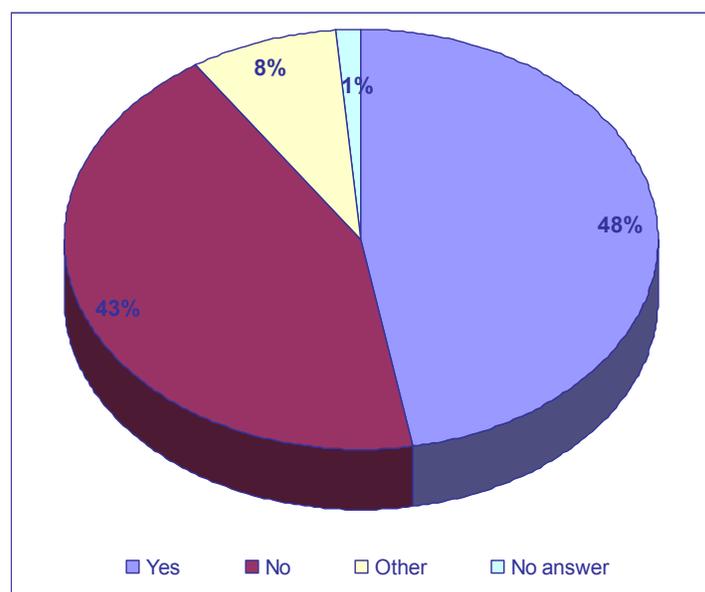
Data relating to the proportion of municipal territory not yet covered by Detailed Urban Plans show that 39 of the 66 municipalities that responded to the question in 2011 still have over 50% of their territory not covered by any urban plan. Three municipalities (5%) indicated they had no urban plans at all, whereas 15 municipalities (23%) declared more than 70% of their territory was not covered by an urban plan. Only three municipalities out of the 66 that responded claimed their territory was completely covered by urban plans. These figures confirm that a large number of municipalities still have far to go in order to complete the mapping of their territory, which is a prerequisite for issuing building permits, preventing illegal construction and current legalizing illegal buildings.

⇒ **Issuing of building permits**

When measuring how effective the municipalities are in processing building permit requests, the responses of urban and rural municipalities differ. Urban municipalities appear to be more advanced in issuing building permits as a result of sufficient and competent staff. For example, the municipality of Ilinden (Skopje region) received the largest number of requests during the period 2009-2011. Out of 941 requests they processed 933. Bitola received and processed the second largest number of requests, with a ratio of 780/703, followed by Struga (450/434) and Gostivar (325/280).

⇒ **Urban planning inspectors**

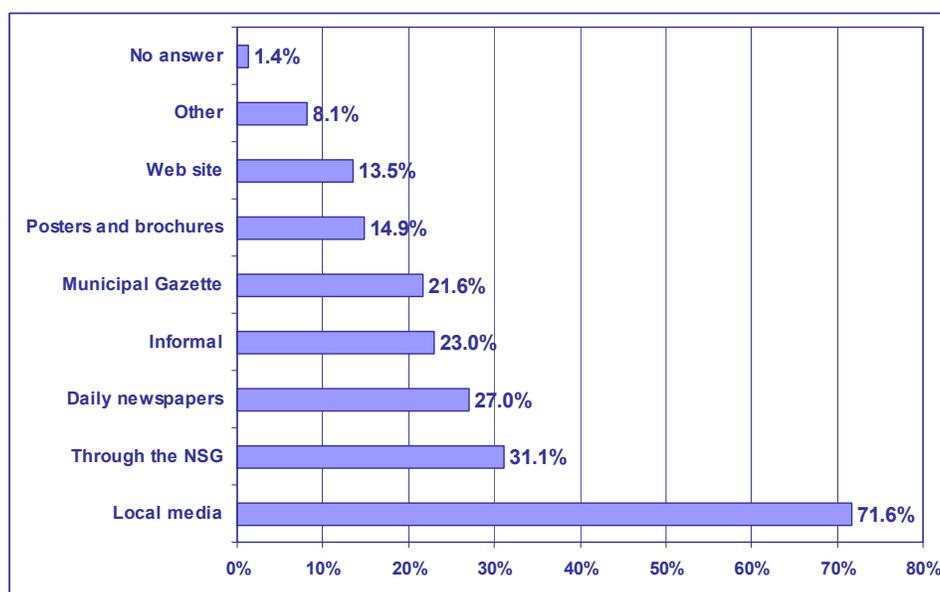
Chart 42. Has your municipality appointed an Urban Planning Inspector?



From the total of 74 municipalities that responded to the question of appointment of municipal inspectors on urban planning, 35 municipalities (47%) confirmed that they had appointed inspectors, while 32 municipalities (43%) indicated they had not yet appointed one. The remaining seven, mainly rural municipalities confirmed they had established inter-municipal cooperation in the area of urban planning.

Another important aspect of urban planning activities examined by the survey is the participation of different local stakeholders in the development of the plans. According to the Law on Spatial and Urban Planning, municipalities are obliged to organize timely open public presentations of the draft urban plans so that local citizens' comments can be incorporated before the plans are adopted. Chart 16 below shows that the municipalities use a variety of methods to invite citizens to participate in development of urban plans. Local media proved the most popular method of informing citizens of the public discussion (72%), followed by the involvement of neighbourhood self-government units (31%), and daily newspapers (27%). Other activities utilized by the municipalities to advertise the event were informal meetings (23%), posters/brochures (15%) and the municipal website (14%).

Chart 43. Methods for announcing the public discussion of the urban plan³



⇒ **Informal Settlements**

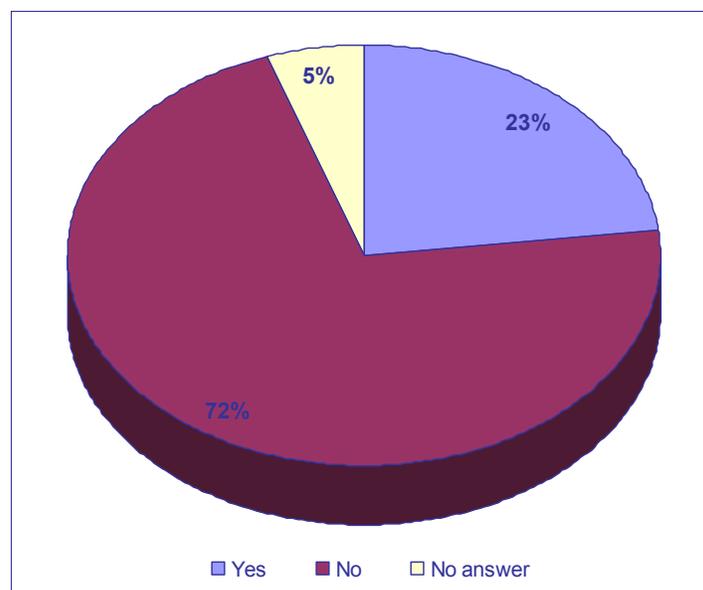
Informal settlements are human settlements which, for a variety of reasons, do not meet the legal requirements for recognition and have been constructed without respect for formal ownership or construction procedures. They are characterized by informal and insecure land tenure and by inadequate access to basic public services (social and physical infrastructure and housing financing). Sustainable urban management requires that informal settlements be integrated into the local social, economic, spatial/physical and legal frameworks. Successful regularization efforts contribute to long-term economic growth, as well as to social equity, cohesion and stability within the municipalities. Effective policies to address the presence of informal settlements would prioritize their legalization and integration into the surrounding urban and rural structures.

³ The municipalities were able to tick more than one answer

The report aims to assess the treatment of informal settlements by the municipalities within the context of the Law on the Legalization of Informal Settlements. It remains to be seen whether the municipalities possess the capacity to incorporate informal settlements into their urban plans, having in mind the Law only came into effect in April 2011. Two important factors need to be considered when addressing illegal buildings: land ownership and their integration into functional land use determined by the urban plans.

Out of the 74 municipalities that responded to this year's survey, only 17 municipalities (23%) declared they have developed a database on informal settlements. 53 municipalities or 72% of respondents stated that they did not have a database on illegal constructions.

Chart 44. Have you established a data base on informal settlements?



According to data collected by year's survey, 15,907 illegal settlements exist in the 14 municipalities that responded to the question. Furthermore, 69 municipalities confirmed that they had received 19,197 requests for the legalization of informal settlements to date. The municipality of Aerodrom received the highest number of requests (3,500), followed by Prilep (2,200) and Gjorce Petrov (2,140). Data collected in the survey dates before the adoption of the new Law on the Legalization of Informal Settlements which stipulates that the deadline for submitting requests for the legalization of properties expires six months after the Law takes effect. According to the latest data collected country wide the number of applications to legalize the informal settlements has exceeded the figure of 300,000. The owners of illegal buildings must therefore submit requests for their legalization to the municipality by 3 September 2011.

The data illustrated in Chart 18 suggests that out of the 69 municipalities that responded to the question, more than half (39) do not believe the new Law will put an end to illegal constructions. Only 31 municipalities (42% of respondents) believe the Law will put an end to illegal constructions.

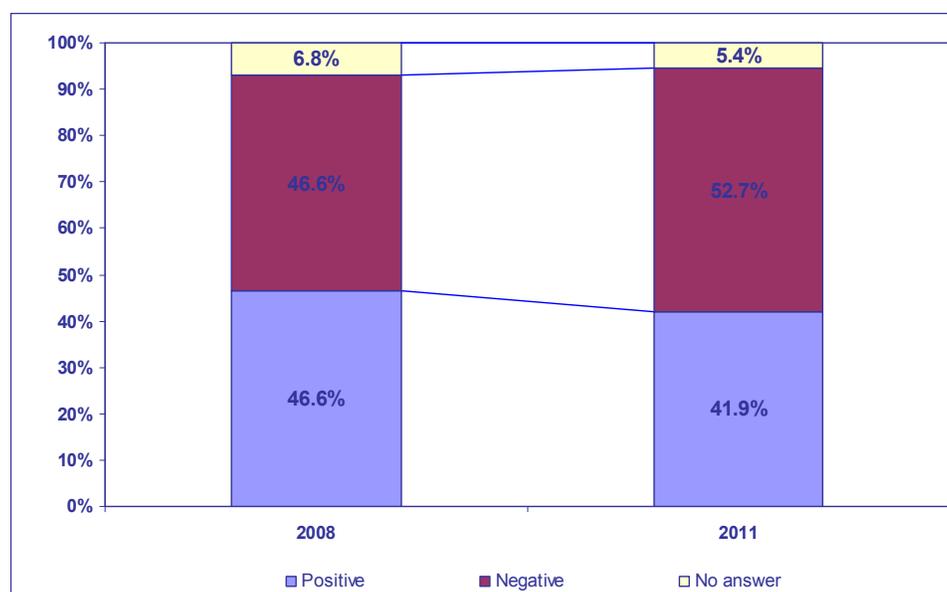
IV.3. COMPARATIVE ANALYSIS

According to recent development, the Association of Architects in the country requested the withdrawal of this Law and the creation of an alternative that would provide a more effective legal solution for addressing illegal construction. In an open letter addressed to the

Government and Parliament, the Association suggested the proposed Law did not support elementary argument, and therefore deviated from the basic principles of good governance, non-discrimination and equality. The Association believed that the Law had not been harmonized with the provisions of other relevant legislation, such as the laws on Urban and Spatial Planning, Construction Land, Ownership, Cadastre, Property Tax, as well Article 244-a of the Criminal Code which prescribes illegal construction as criminal act. The Government decided that owners of illegally constructed premises, such as individual houses, factories and workshops, must pay 1 euro per square meter in order to legalize their property. Mayors from political parties in the government coalition praised the Law, whereas mayors representing opposition parties criticized the Law, suggesting it discriminates against citizens since those that built properties legally had had to pay a lot more than one Euro per square meter. There have been announcements that the Law will be challenged in the Constitutional Court by the Association of Architects and several opposition mayors.

The Chart 18 below illustrates the impact of the Law on Legalization of Informal Settlements on the illegal constructions. It is quite obvious that the municipalities' scepticism is getting higher. Namely, in 2008, when the law was still in the drafting stage, the municipalities were even in their expectations, while this year the number of those who do not believe in the effects of the Law has increased from 46.6% to 52.7%. It is also worth underlining that no significant difference can be observed between the views of urban and rural municipalities.

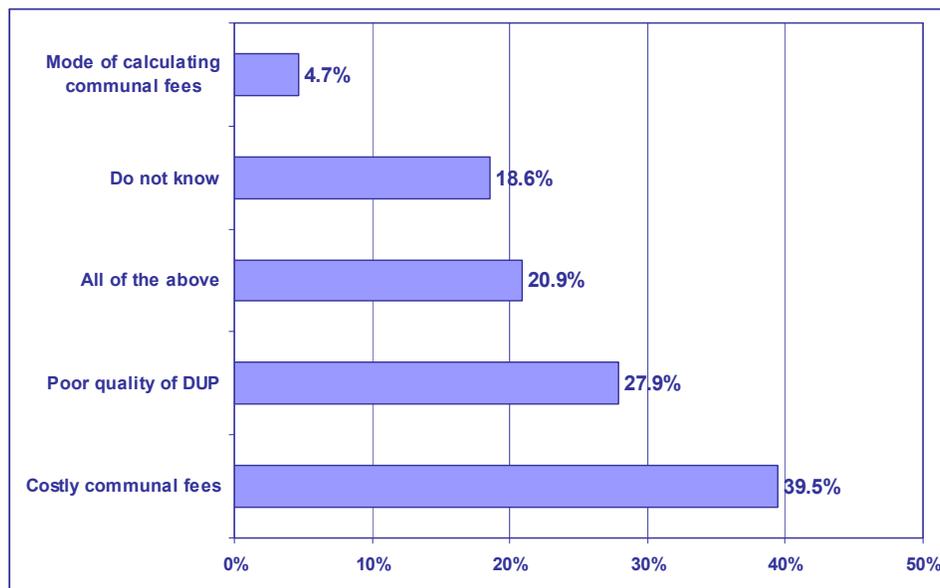
Chart 45. Impact of the Law on the Legalization of Informal Settlements to illegal constructions



Responses from citizens (in the survey of 2008), suggest that costly communal fees are seen as a possible reason for the existence of informal settlements by 39.5% of the respondents, while poor quality of the DUP is the second most mentioned reason (27.9%). The mode of calculating communal fees accounts for only 4.7%. Expectedly, one fifth of the respondents answered that all of the given responses, as a total, lead to the existence of informal settlements (Chart 19).

Other reasons cited by the municipalities were: lack of appropriate legislation, poor inspections, low standards of living, and lack of completed urban plans. Compared to the survey results from 2008, it can be concluded that the municipalities have not undertaken much to resolve the issue of informal settlements, since no significant improvements can be observed.

Chart 46. *Reasons for existence of informal settlements in your municipalities? (2008 survey)*



IV.4. CONCLUSIONS AND RECOMMENDATIONS

The 2011 survey data showed inconsistency with the officially published data on the number of illegal buildings in the country. According to the figures provided by 69 municipalities that responded to the questionnaire, there were 15,907 illegal buildings in first part of 2011. The figures increased significantly during June-August 2011, before the expiration of the September deadline for submission of requests for legalization. Based on the official number of requests for legalization, it appears that more than 300,000 illegal buildings are existing country wide. This inconsistency between the survey data and official figures may occur because of various reasons such as: most municipalities do not have a comprehensive and up to date database of the illegal constructions, lack of municipal inspectors and poor or no public awareness on this burning issue.

The following recommendations can be drawn regarding the performance of the urban planning competences by the local self-government units:

- The problem of informal settlements and adequate housing is likely to be high on the municipalities' agenda for the foreseeable future. Dedicated studies which focus on the management of informal settlements will therefore be required. A detailed assessment of how the Law on the Legalization of Informal Settlements has been implemented locally is recommended.
- Although improvements have been made in the sphere of urban planning, further work remains in updating and completing urban plans in order that the main prerequisites for the legalization of informal settlements are met. This will require more effective cooperation between all stakeholders involved, including mayors, municipal councils, and the Ministry of Transport and Communications. Delays in the approval of urban plans or their amendment impact negatively the development of municipalities, since the promotion of investment opportunities are obstructed.
- Coordination among all relevant subjects will be of utmost importance for preventing the creation of further informal settlements in the future. Municipalities will have a key role to play here, and should work hard to encourage the participation of affected

- citizens, as well as governmental and non-governmental organizations in future processes.
- All actors in the sphere of urban planning should make further efforts to address and eliminate the various causes of irregularities. As the survey results indicate, one important way of addressing irregularities is for municipalities to appoint urban planning inspectors to supervise construction activities locally.
 - Relevant national and international stakeholders should consider providing financial support and technical expertise to the municipalities in order to further build local capacities in the sphere of urban planning. Such efforts will be vital for training municipal administrations and raising public awareness on the risks and consequences of constructing and living in informal settlements.

V. PROVISION OF COMMUNAL SERVICES

V.1. INTRODUCTION AND BACKGROUND

Communal services constitute the core of the municipal competencies and represent a wide range of activities. These activities are executed in accordance with the laws and bylaws enacted by Parliament on the one hand, and decisions and acts adopted by the municipal authorities on the other. The list of competencies of the municipalities in the area of communal services is defined in the Law of Local Self-Government, Article 22/ paragraph 1, enacted in 2002. They are the following:

- water supply;
- sewerage system;
- street cleaning;
- scavenging services;
- urban public passenger transportation (buses and taxis);
- electricity;
- gas and central heating distribution networks;
- maintenance of parks;
- maintenance of street lighting;
- construction and maintenance of public parking places;
- maintenance of local roads and traffic signalling; and
- maintenance of public burial grounds.

Besides the Law on Local Self-Government, communal services are also regulated by the Law on Communal Activities (Article 3, Official Gazette 45/1997) and amendments to this Law (Article 1, Official Gazette 45/2002).

The Law on Communal Activities defines the organization and manner for delivering communal activities. Although the legal framework provides sufficient space for municipal councils to choose the most appropriate way of organizing the delivery of communal services locally, in most cases the municipalities have established public enterprises for communal works. Accordingly, in most municipalities only one municipal Communal Public Enterprise (CPE) is responsible for performing most of the communal activities. Only in a few larger municipalities and the City of Skopje, the performance of communal works is delegated and shared between two or more CPEs.

The Law on Public Enterprises, which sets the legal parameters for the establishment and management of communal enterprises, and the Law on Communal Fees, which defines the tariffs for communal services, constitute the legal framework for regulating communal services. In addition, the amendments to the Law on Public Enterprises establish mechanisms for the municipalities to manage the costs of communal services. Finally, the Law on Employment regulates the status of communal employees.

Amendments to the Law on Public Enterprises enacted in 2006 introduced competitiveness among the CPEs. The Law prescribed competitive principles in the performance of public activities, allowed for the transition from public enterprises to shareholder companies, foresaw the establishment of partnerships between both private and public enterprises. The Law also defined the main ownership structures of the public enterprises. For example, in

case that the municipality becomes the majority shareowner in the company, it is authorised to appoint the director of the enterprise who must be selected through an open, competitive process, based on predefined criteria.

V.2. CURRENT STATUS

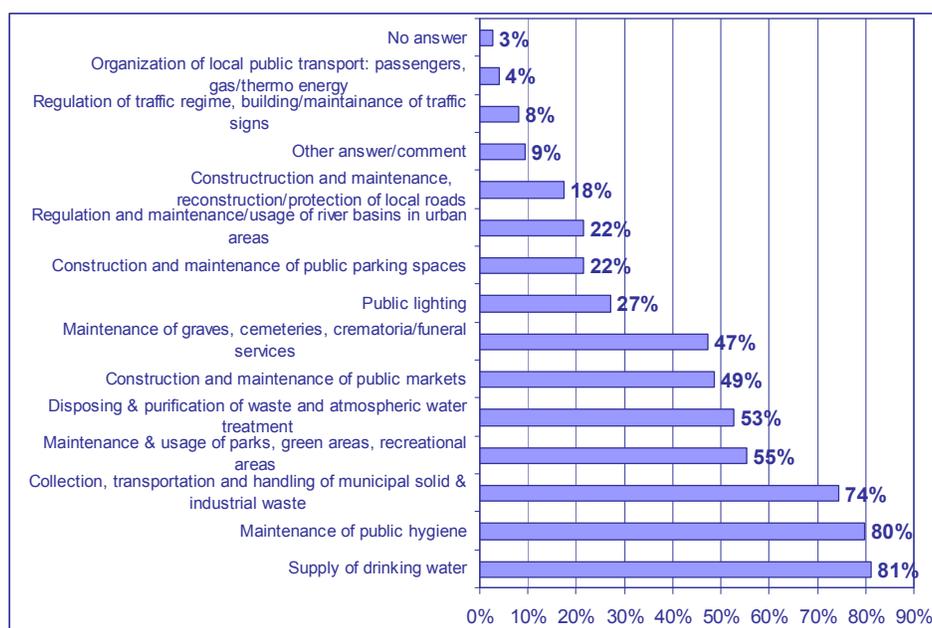
As it can be observed in the table below, three municipalities did not provide answers to the question related to the number of communal enterprises on their territory. Concerning those that responded, 53 of the 74 (71.6%) municipalities have only one communal enterprise within their territory, while 11 municipalities (14.9%) have two. A small minority of municipalities have between five and seven enterprises located within their territory, representing 2.7% of the total number of communal enterprises present in the country.

Table 15. Number of communal enterprises operating in the municipalities (2011)

No. of Public Enterprises	No. of Municipalities	Proportion of Municipalities
1	53	71.6
2	11	14.87
3	1	1.35
4	1	1.35
5	2	2.70
6	1	1.35
7	2	2.70
Total	71	95.92

In 60 municipalities (81% of respondents), the supply of drinking water is the main communal service provided by the communal enterprises. The second most common activity, according to 59 municipalities (80%), is maintenance of public hygiene, whilst the collection, transportation and management of solid and industrial waste are provided in 55 municipalities (74%). Least common activities performed by communal enterprises are traffic management (8% of municipalities) and the organization of public transport (4% of municipalities).

Chart 47. Activities run by communal enterprises at the local level



The services provided by communal enterprises do not cover the entire territory of the municipalities. The 47 municipalities that responded to this question suggested the size of their territory was the principle reason why they are currently unable to deliver communal services to all citizens. They also claimed a lack of financial resources and/or not possessing sufficient equipment as additional reasons. A common theme detected in the responses received was that communal enterprises were least able to supply services to all settlements in sparsely populated municipalities.

Chart 48. Do the services of the public communal enterprises cover the entire territory of the municipality?

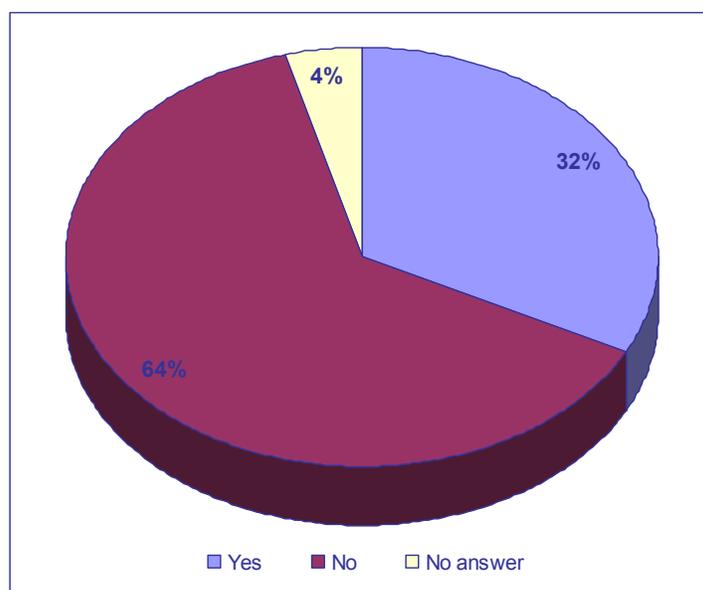
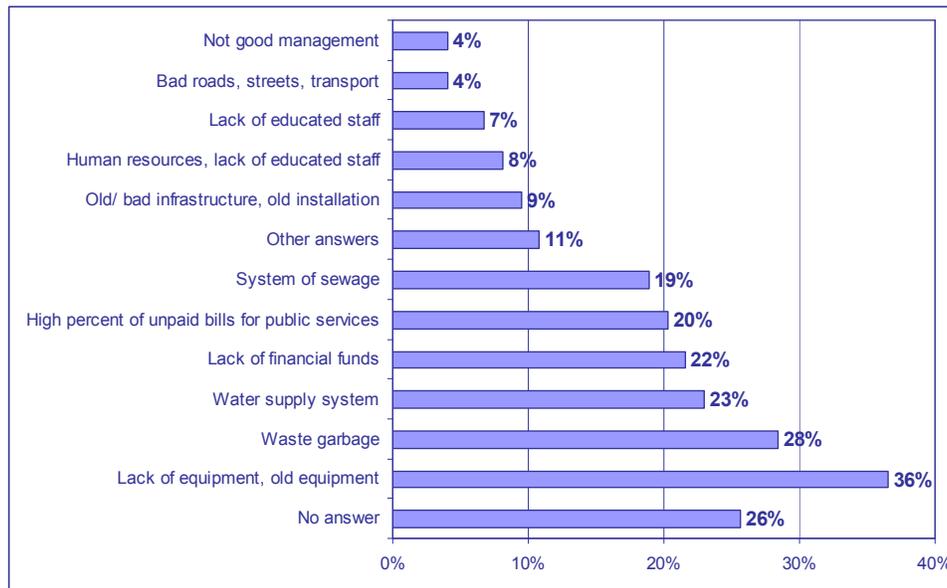
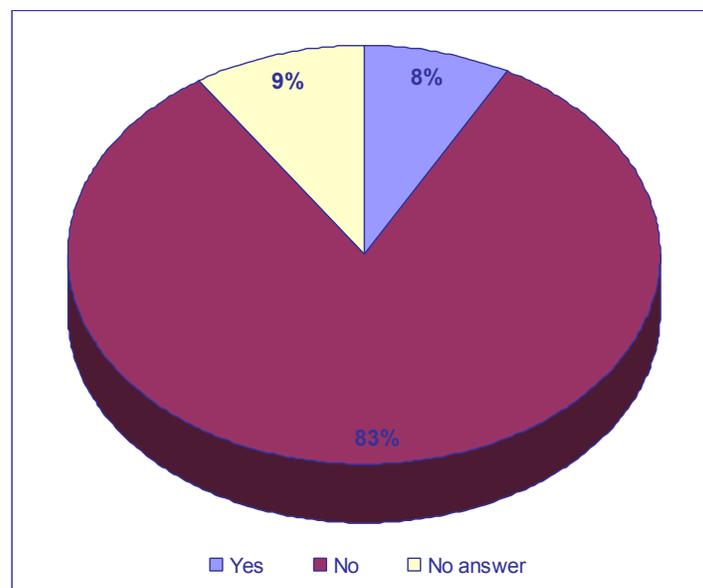


Chart 49. What are the three most common types of problems affecting the delivery of communal services?



When asked what are the main challenges affecting the delivery of communal services, 36% of municipalities suggested a general lack of modern equipment as a barrier to effective service delivery. The municipalities also emphasized difficulties relating to: management of solid waste (28%), water supply systems (23%), and insufficient finances (22%). The least frequently cited reason for poor service delivery noted by the municipalities was the bad management of communal enterprises.

Chart 50. Have the municipal public communal enterprises faced political interference in their management processes?



The survey asked the municipalities whether local public communal enterprises had faced political interference in the management of local services. Political influence on how public

services are delivered may adversely affect the ability of the enterprises to serve citizens equitably, fairly, and in a cost-effective manner. 61 municipalities (82% of respondents) answered they had not experienced any political interference in the management processes of municipal public enterprises. Only six municipalities (8%) declared they had faced political interference, while seven municipalities (10%) did not provide answer to the question.

V.3. COMPARATIVE ANALYSIS

Municipalities consider communal service provision to be one of the most successfully performed competencies at local level. This may be because the responsibility had been inherited from the previous Law on Local Self-Government, so the municipalities already had experience in delivering such services to citizens. However, the municipalities continue to face some challenges in the realization of this competence.

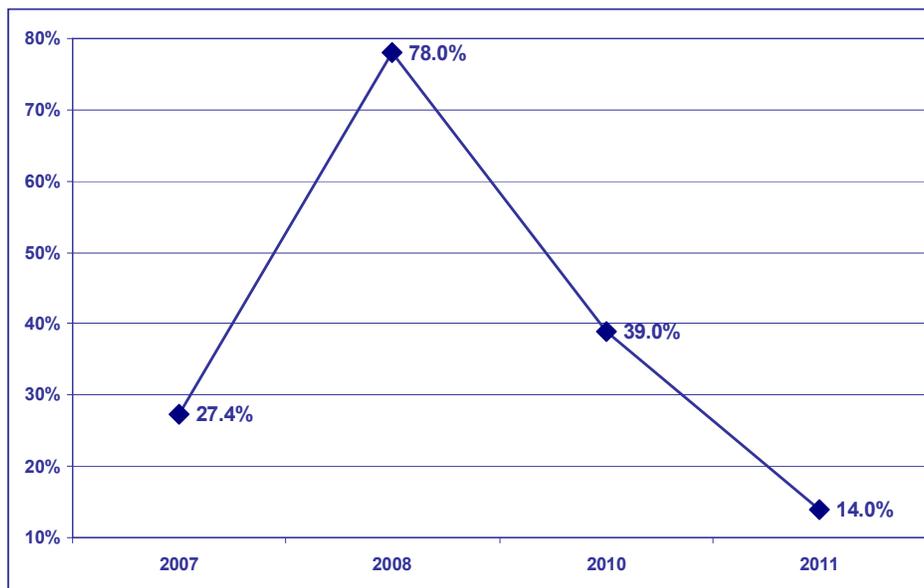
⇒ **Low collection of communal fees**

A significant challenge in this area continues to be the low collection rate of communal fees, even though moderate improvements have been made in recent years. 21.4% of the municipalities who responded to the survey in 2007, for example, reported low fee collection rates to be a significant problem, whereas in 2010 and 2011 only 20% of municipalities did. In order to improve the collection of communal fees, most municipalities reduced fees by 5% in 2008. However the 2009 survey results suggest citizens still consider communal service fees to be excessive. The reasons for the difficulties in the area of fee collection may be a result of the difficult economic situation of citizens, or the lack of knowledge and skills among the staff in the communal enterprises to develop effective solutions for improving the fee collection rates.

⇒ **Challenges for the communal enterprises**

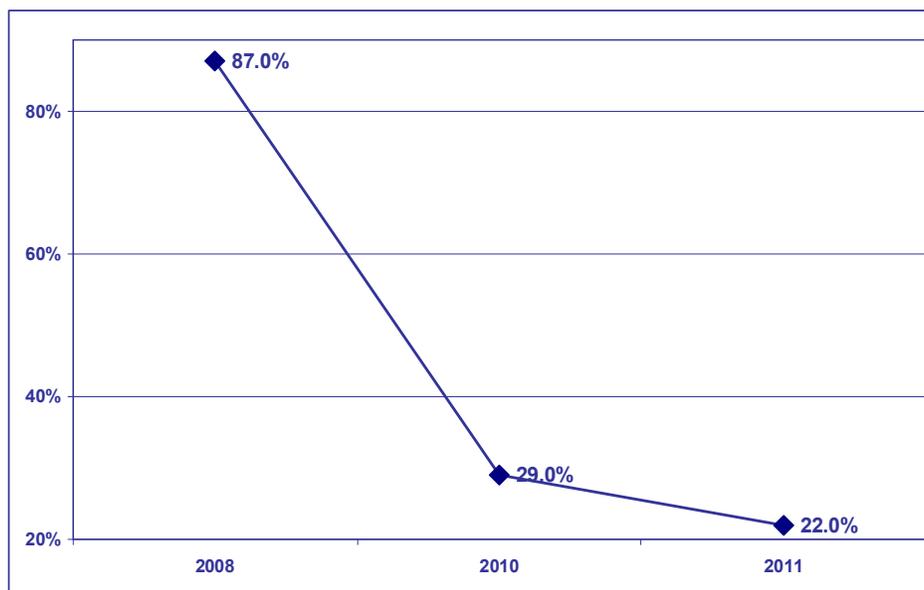
Another persistent challenge cited by the municipalities was the continual lack of modern equipment required for effective service delivery. The results show that the proportion of municipalities affected by this continues to be high and is caused primarily by insufficient municipal funds necessary for modernization of the current equipment. 27.4% of the municipalities indicated a need for new equipment in 2007. The problem increased dramatically in 2008 when 78% of municipalities cited outdated equipment as a challenge to maintaining service delivery standards. In recent years however the problem has decreased. 39% of municipalities cited it as a challenge in 2010 and only 14% of respondents in 2011. The fact remains, however, that the municipalities continue to face problems with outdated equipment and all are in need of modernization of the current equipment. Whilst some municipalities bought new equipment from own funds or from donations since 2008, this remains to be a challenge for most of the municipalities with respect to the effective service delivery.

Chart 51. Proportion of municipalities that cite the need for new equipment as a challenge to effective service delivery (%)



The municipalities indicated a lack of financial funds of the communal enterprises as the third most significant challenge affecting service delivery during the period 2008-2011. 87% of municipalities reported it as a problem in 2008. The proportion of municipalities dropped to 29% of respondents in 2010, and to 22% in 2011.

Chart 52. Proportion of municipalities that cite a lack of funds as a challenge to effective service delivery' (%)



Clearly, the limited financial means experienced by communal enterprises impacts negatively on their ability to make the necessary modernization of the equipment.

V.4. CONCLUSIONS AND RECOMMENDATIONS

Provision of communal services constitutes a core municipal competency which is of the utmost importance for maintaining citizens' wellbeing. It is the most visible municipal competence. Citizens' perceptions regarding the overall effectiveness of their municipality are based primarily on the communal service delivery.

Despite progress, communal services face challenges in terms of their adequate financing, modern equipment and management capacities. At the same time, there is a growing demand from citizens to have improved service provision. Given the challenges they face, the municipalities and public enterprises are compelled to reduce the number of communal activities offered to citizens. Consequently, less important services are delivered either in some parts of the municipal territory (particularly in large rural areas) or not delivered at all. The least often delivered communal services by the municipalities are traffic management and signage, and the organization of local public transport.

Even though provision of communal services is positively assessed by the municipalities, the overall perception at local level is that the weak management hinders the better performance of the public enterprises. It can also result in additional problems, such as inability to introduce new methods for the collection of fees and management of communal services. The municipalities must pay more attention to improving the management of public enterprises and the quality of service provision. Recognition of this fact will help the municipalities and communal enterprises to identify their weaknesses and focus on how to overcome them in the future.

In the next phases of the process, the following recommendations should be taken into consideration:

- The municipalities should transform the communal enterprises into more competitive, self-sustainable and market-oriented entities. In the past, communal enterprises had been considered a source of local employment for political party members. Since the majority of municipalities believe this is no longer the case, the establishment of professional and market-oriented management structures should become a reality. Such a development is particularly significant, bearing in mind the municipalities are responsible for appointing the managing structures of communal enterprises, selecting members of management boards, and deciding on initial investments in equipment and facilities. The municipality also supervises the enterprises' outputs, adopts annual working plans, the annual finance bill and reviews reports.
- Municipalities should take full responsibility for the provision of communal services, while central government must provide additional support to the municipalities in the realization of this competency. This may include financial assistance by the central government to allow public enterprises purchase new equipment. Technical assistance should be directed towards development of the management and programming capacities of the communal enterprises.
- Besides support from central government, all municipalities should invest in modernization of the equipment which will enable the delivery of higher quality public services. This approach will support the sustainability of the communal enterprises and improve their competitiveness.
- The problem of debt management needs to be addressed urgently. Failure to do so would result in having great numbers of local citizens without access to basic communal services. Because of the outstanding debts of the communal enterprises, their accounts are blocked, which in turn prevents regular payment of their financial liabilities. Enabling bank loans for the purpose of reprogramming existing debts would be beneficial.

- Municipalities should consider establishing a municipal consumers' council, foreseen as a special municipal body under the Law on Local Self-Government, to improve communication between the public enterprises and service users (i.e. local citizens). The council would serve as a forum for discussing fee collection and negotiating acceptable prices. Adequate pricing policies, if established by the public enterprises, which would result in improved income generation, allowing the enterprises to repay loans and improve fee collection rates. Other important priorities, such as the development of strategies to expand communal services throughout municipal territories and the introduction of additional services may also be addressed by such a council.

VI. EDUCATION REFORM AT LOCAL LEVEL

VI.1. INTRODUCTION AND BACKGROUND

Article 22 of the Law on Local Self Government defines and lists the competencies of the municipalities in the field of primary and secondary education. According to this Law, decentralization in education involves establishing, financing and administering primary and secondary schools, and organizing the transportation of students and their accommodation in dormitories. The Law does not however specify the legal mechanisms for implementing these competencies. Instead, more details can be found in the following legislation: Law on Primary Education, Law on Secondary Education, Law on Education Inspection, and the Law on Financing the Units of Local Self-Government.

The decentralization process, which seeks to enable greater community involvement in educational matters either directly or indirectly through their municipal representatives, began on 1 July 2005. Responsibility for primary and secondary education was transferred to the municipalities and they became 'founders' of schools; assuming ownership over school buildings, responsibility for their maintenance, and the payment of staff salaries. Municipalities acquired the task of organising transport for students living more than two kilometres from school, student dormitories, and for taking decisions on the opening and closing of schools, based on pre-defined criteria and the approval of the Ministry of Education and Science (MoES). They are also authorized to appoint municipal education inspectors to supervise the delivery of education locally. The decentralization process means that local influence over the appointment of school directors is also enhanced. Mayors are now responsible for their appointment and dismissal, based on proposals from school boards.

The task of financing primary and secondary education was transferred to those municipalities that entered the second phase of decentralization in July 2007. In accordance with the Law on Financing of the Units of Local Self-Governments, municipalities in the second phase receive block grants covering teachers' salaries and funds for school maintenance. These block grants cannot be lower than the equivalent funds allocated to them in the State Budget during the first phase of decentralization. In contrast, those municipalities remaining in the first phase of decentralization are allocated the necessary funds according to the previous funding formula. Teachers' salaries and the maintenance costs of school buildings continue to be paid by central government.

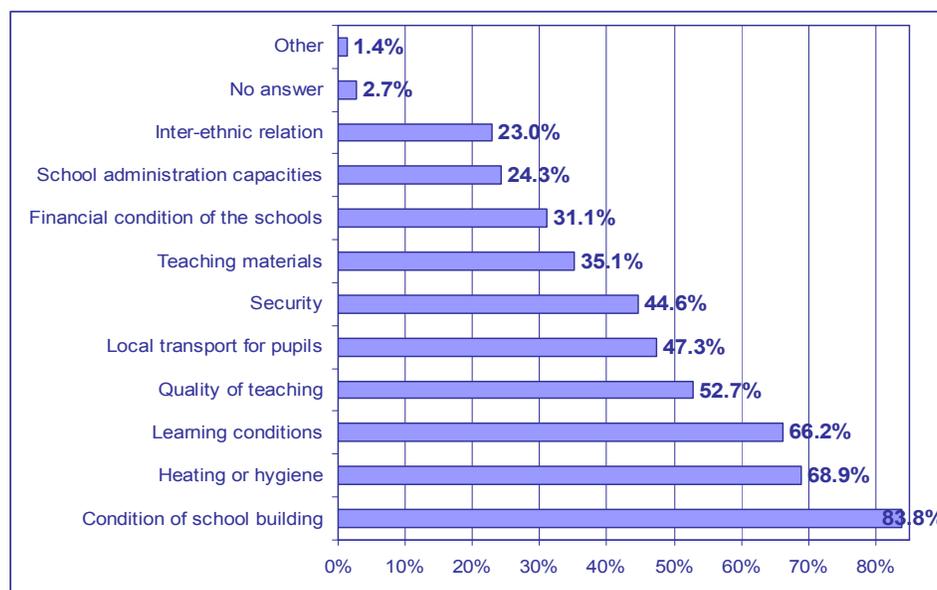
Decentralized education entails the participation and coordination of key local stakeholders, such as municipalities, school representatives, parents and students in the management of primary and secondary education. The role of school boards has been significantly increased as a result and they have authority to propose the appointment and dismissal of the school director, to determine the school budget, and to adopt the statute of the school. The national level entails the participation of the MoES and the Ministry of Finance.

VI.2. CURRENT STATUS

Almost all of the municipalities that responded to the survey (97%) confirm the decentralization process has had a positive impact on the delivery of primary and secondary education locally. Nonetheless, a small minority (3%) believe the decentralization process had not brought positive effects.

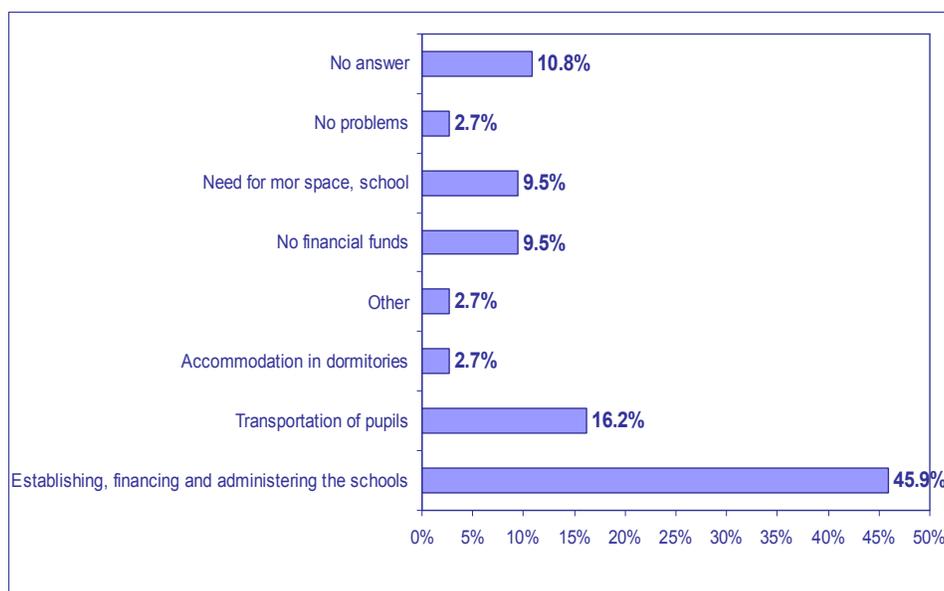
According to 62 municipalities (83.8% of respondents), the most significant improvements have been made to the condition of school buildings (Chart 52 below). Improvements to school heating or hygiene systems were noted by 51 municipalities (68.9%), while 49 municipalities (66.2% of respondents) reported learning conditions had improved since the decentralization process began. Although inter-ethnic relations aspects have been seen as beneficial from decentralization by small number of the respondents (23% or 17 municipalities), more important is that seven of those (municipalities of Dolneni, Chucher-Sandevo, Brvenica, Vrapchishte, Chair, Petrovec, and Mavrovo-Rostushe), are ethnically mixed municipalities.

Chart 53. Which aspects of the public education have improved with decentralization?



Regarding the problems experienced by the municipalities in the sphere of education (Chart 54), 34 municipalities (46%) reported difficulties in the establishment, financing and administration of schools. Although transportation of pupils to schools was recognised as improvement by almost half of the respondents (47.3%), it is also reported as the second main difficulty experienced by municipalities. However, this was noted by only 12 municipalities (16.2%).

Chart 54. What are the main problems in the area of education in your municipality?



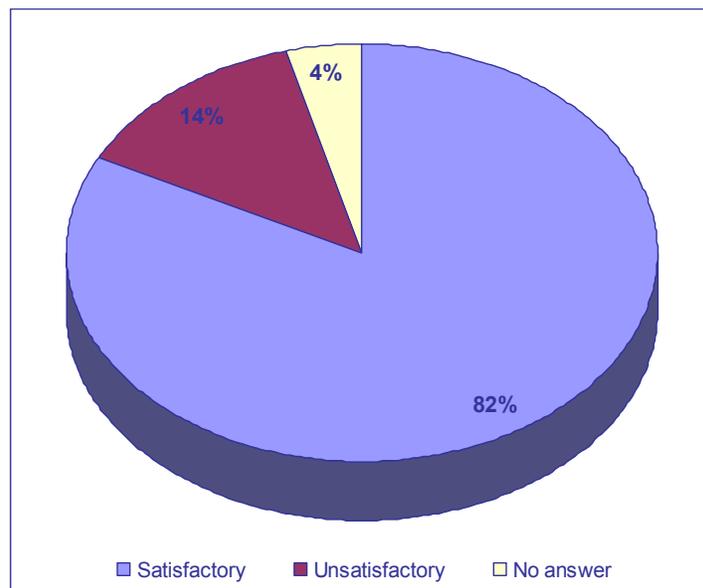
When asked to evaluate their relations with local stakeholders, 73 municipalities (99%) consider the level of cooperation between municipal education officers and schools to be satisfactory. Only one municipality responded negatively to this question. Municipalities also consider the frequency of their communication with school directors and school board members to be high (Table 16). In most cases (75.68% of respondents), the municipalities stated they met school board members and school directors a few times each month, while five municipalities (6.75%) indicated they met school representatives on a daily basis.

Table 16. How often does your municipality meet the directors and school board members?

Frequency of Meetings with Directors and School Board Members	No. of Municipalities	Percent
Every day	5	6.75
Few times a month	56	75.68
Few times a year	12	16.22
No answer	1	1.35
Total	74	100.0

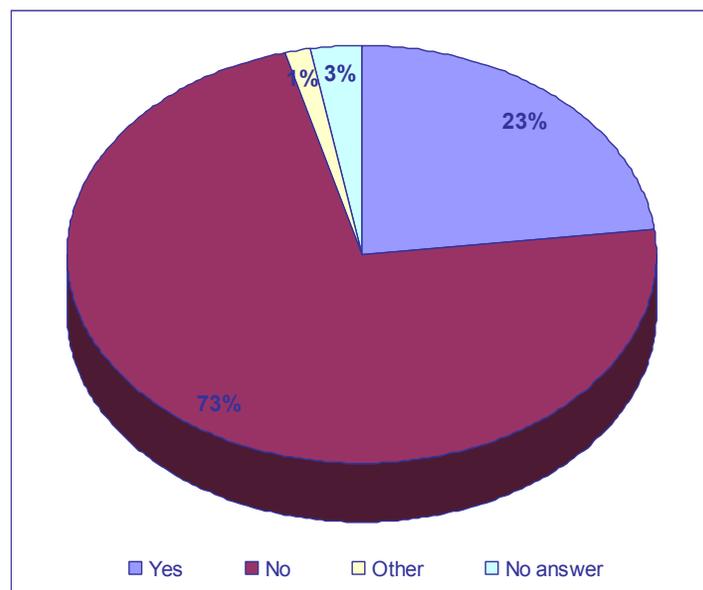
Regarding relations with the MoES and other central governmental agencies (Chart 55), 61 municipalities (82% of respondents) consider cooperation to be satisfactory, while only 10 municipalities (14%) consider such cooperation as unsatisfactory. This is pretty much in line with the general analysis of relations between the municipalities and ministries as shown in Chart 5 at the beginning of this document.

Chart 55. How would you rank the cooperation Ministry of Education and Science and other governmental agencies?



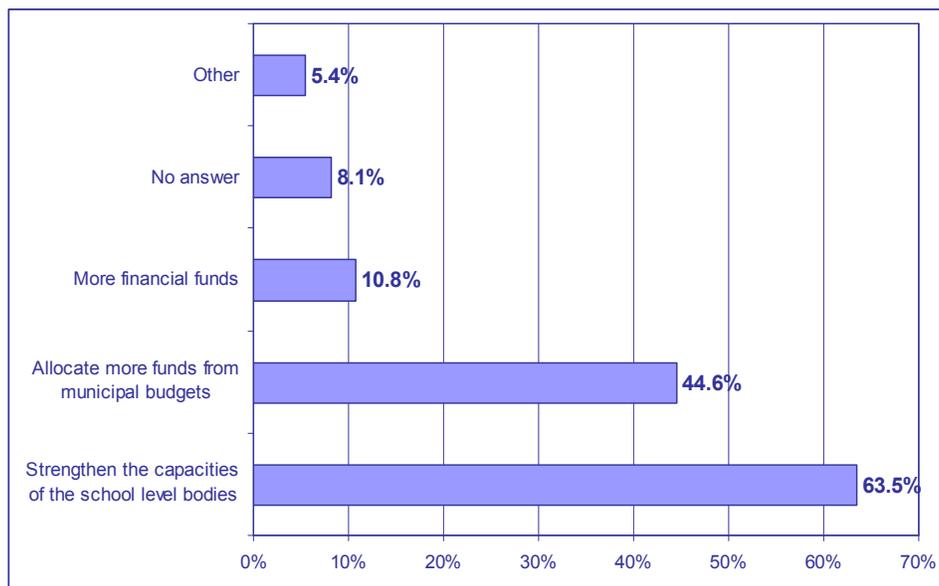
When asked whether they received complaints from citizens regarding the quality of decentralized education services, the vast majority of respondents 54 municipalities (73%) replied negatively. However, one may note that almost a quarter of municipalities (23% of respondents) stated they received complaints from citizens.

Chart 56. Has your municipality received complaints from the citizens regarding decentralized educational services?



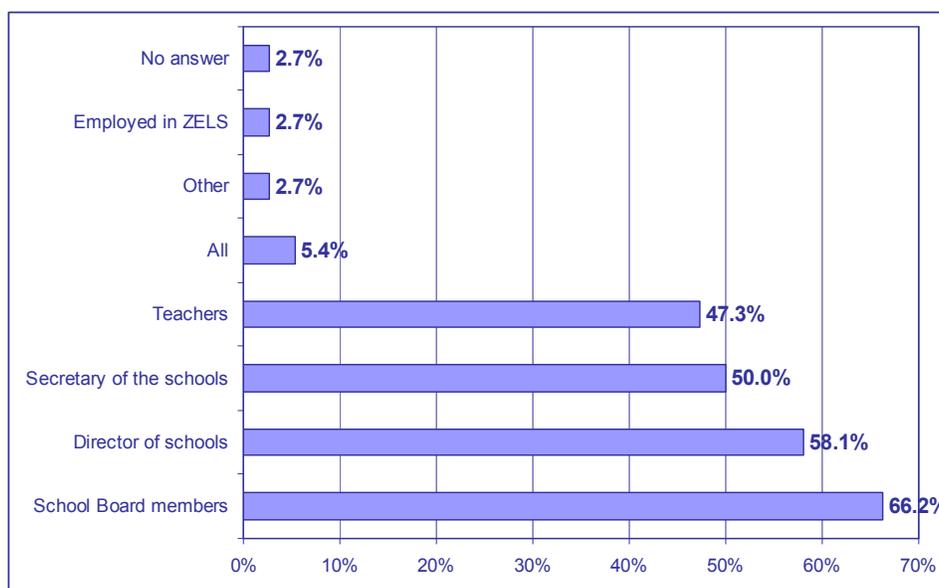
When asked what changes should be made in order to improve the quality of education services in the municipality, 47 municipalities (63.5% of respondents) stated that the capacities of the school bodies (directors, school boards and teachers' councils) need to be strengthened.

Chart 57. What should be undertaken by your municipality to provide better services in primary and secondary education?



Also, 33 municipalities (44.6%) consider that an increase in funds from the municipal budget (own source revenue) would improve educational services within the municipality, whilst only eight municipalities (10.8%) believe additional financial resources from central government are required. It is positive that so many municipalities recognise they should contribute a greater proportion of own source revenue to the development of local educational services. Within the context of decentralized education, central governments assume municipalities will contribute to the cost of delivering services locally.

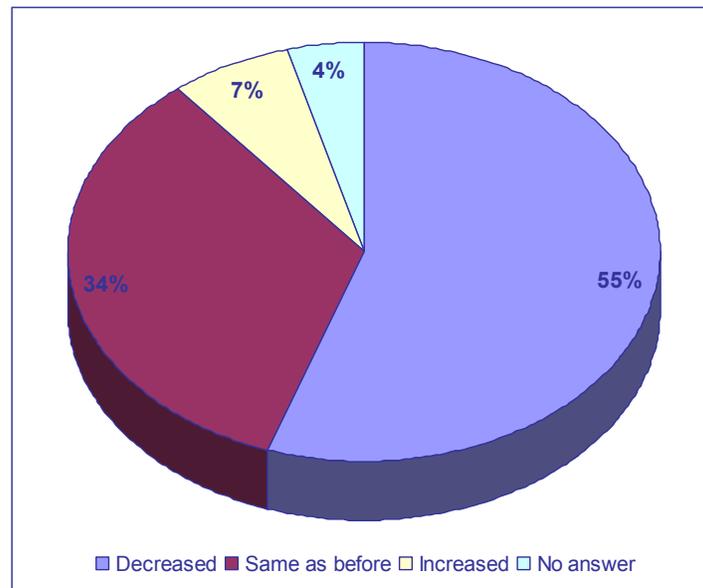
Chart 58. Which of the stakeholders require trainings on the issues of education and decentralization?



The majority of municipalities believe tailor-made training programmes should increase for all of the main stakeholders. Namely, 66.2% of the respondents believe that increased capacities are needed for the school board members. Additional 58.1%, 50%, and 47.3% of municipalities believe school directors, secretaries of the schools, and teachers, respectively, should also attend such trainings (Chart 58).

When asked whether the influence of politics in education has increased or decreased since the start of the decentralization process, 41 municipalities (55.4% of respondents) reported that the influence of politics in education has decreased in their municipality. Yet, a sizable proportion of 34% of the respondents considers that political influences are still the same as before, while further five municipalities (7%) indicated the influence of politics in education has in fact even increased.

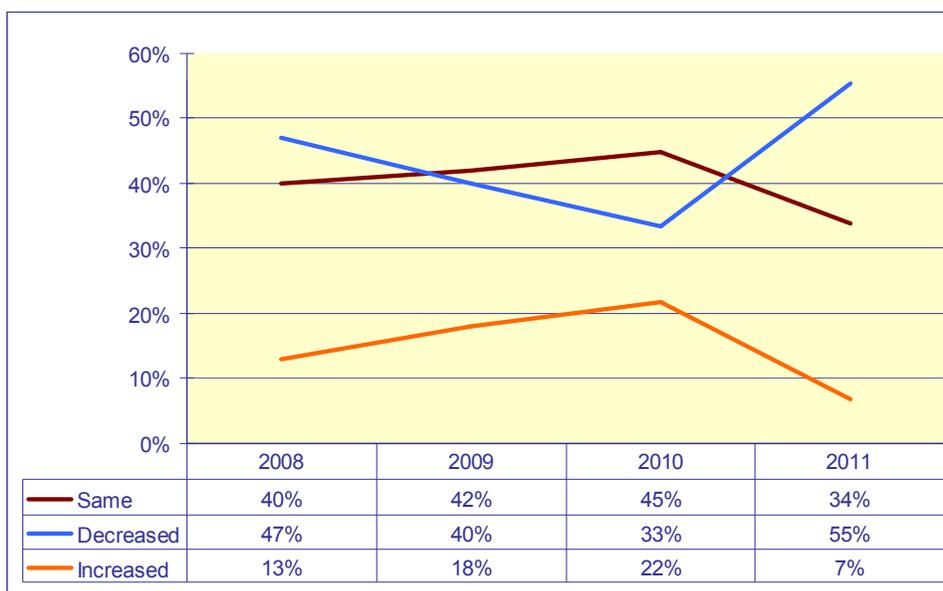
Chart 59. The influence of politics in education since the start of the decentralization process



VI.3. COMPARATIVE ANALYSIS

Some changes can be observed regarding the influence of politics in the delivery of education services over the past four years. Between 2008 and 2010, for example, political influence grew steadily (Chart 60). However, the proportion of municipalities reporting an increase in the politicization of the sector dropped significantly in 2011. This may be a result of greater accountability and transparency in decision-making processes through the enhanced powers of school boards. The introduction of state exams for school directors may also have had an impact on de-politicizing their recruitment process. However, the fact that last municipal elections were held in 2009 may also be considered as a contributing factor.

Chart 60. Political influence over the delivery of education services



Over the past four years, municipalities have consistently emphasizing the importance of building the capacities of local education stakeholders in improving service delivery. In this regard, it is important to include municipal education officers in any further training organised for education stakeholders so they may also have an opportunity to strengthen their capacities. The municipalities have an important role to play in ensuring the local community understands the changes introduced as a result of decentralized education. In this sense municipalities have also noted that parents continue to lack a general understanding of their rights and responsibilities with regards to education service delivery, especially since they also seat in the school board that is the school's main decision making body.

Chart 61. Stakeholders that require further training on issues of decentralised education

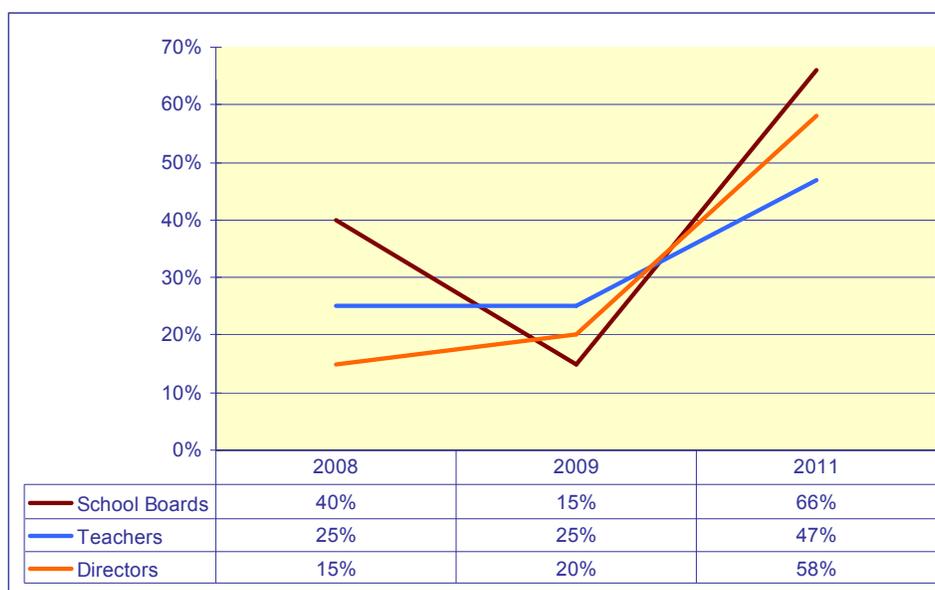
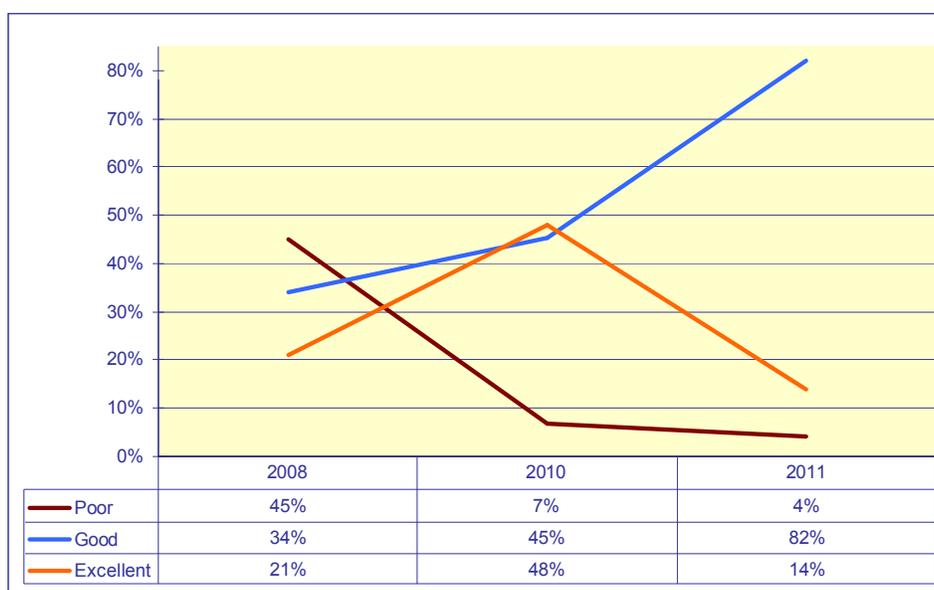


Chart 61 compares changes in municipal opinion regarding the training needs of various local education stakeholders in the last years. It is obvious that the trend is upward for all stakeholders albeit in 2009 the proportion of municipalities that were believing school board members need training fell down. This change in the perceived training needs of school board members may be a consequence of the implementation of the OSCE training programme offered to school board members in 2008.

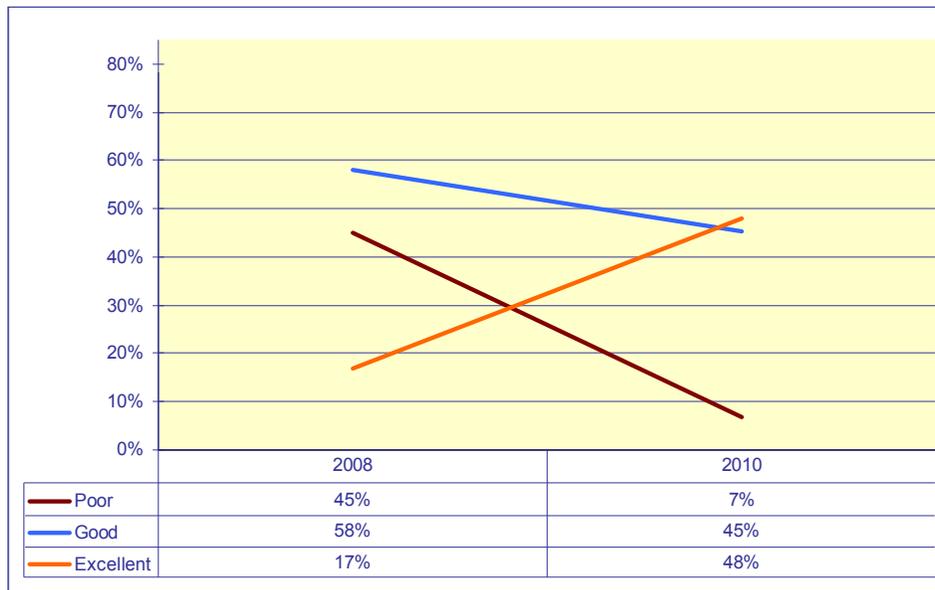
An essential precondition for achieving positive results in the delivery of education services is effective communication between the municipalities and central government on the one hand, and individual schools and municipalities on the other. The charts below are showing the trends in these cooperations over the last years. It is obvious that in general the trends are positive. The quality of cooperation between the central government agencies and municipalities is constantly improved although the municipalities' 'enthusiasm' is dropping. That can be seen in the change of ratio between 'good' and 'excellent' ratings (Chart 62).

Chart 62. Level of cooperation and communication between the municipalities and the Ministry of Education and other governmental agencies



However, this municipal 'enthusiasm' is present when it comes to the evaluation of cooperation with their schools, as Chart 63 is showing. Effective communication between the municipalities and schools is essential, especially since the municipalities have an influential role in determining the overall management of the schools.

Chart 63. *Level of communication between the schools and municipalities*



VI.4. CONCLUSIONS AND RECOMMENDATIONS

VI.4.1. Conclusions

The municipalities consider education to be the most successfully decentralized competence. They emphasize that the most significant improvements have been achieved in the condition of school buildings, school heating and hygiene systems. Almost all municipalities that participated in this survey (97%) were satisfied with the impact decentralization has had on the delivery of primary and secondary education locally. Even further, 23% of respondents believe that inter-ethnic relations also benefited from decentralization of education.

However, challenges remain and those most persistent relate to the establishment, financing and administration of schools.

When interviewed, the municipalities reported that the central government does not always take a balanced approach in the allocation of capital investments in education. The municipalities also suggested that, in many cases, central government has transferred education funds directly to schools rather than via the municipality, as required.

Whilst positive trends in the relations between municipalities and schools, and between municipalities and central government are apparent, communication between all education stakeholders must be improved. Such improvements are particularly important between municipalities and the State Education Inspectorate and Bureau for the Development of Education, since these institutions are responsible for curricula development and the teaching programme at the national level. Improved communication between municipalities and school representatives will result in a greater understanding of the rights and responsibilities of each stakeholder, as well as improvements in service provision.

The municipalities believe that school board members, directors and teachers require additional training in order to maintain the progress already achieved in the delivery of education services locally. Improving capacity at the local level will contribute to enhanced accountability mechanisms and transparency in decision-making processes, and should further contribute to reducing the influence of politics in the education sector.

VI.4.2. Recommendations

Despite the fact that the municipalities consider primary and secondary education to be the most successfully decentralized competence, there is still room for improvement. The Ministry of Education and Science, the municipalities and schools should strengthen cooperation so that solutions to the challenges facing the delivery of education service can be addressed effectively. It is therefore recommended that all stakeholders invest in the development of so-called 'soft skills' of management in order that communication and cooperation between stakeholders improves. Further capacity building programs should be designed for each of the stakeholders which emphasize the importance of effective communication. It is also necessary to provide training in advanced management skills, creative problem solving methods, and on accessing donor funds, especially those which promote cross-border cooperation since schools are eligible to apply for these funds. Municipal education officers and inspectors in particular should be included in future training activities.

The block grants system seems sufficient to only cover the salaries of education personnel, the purchasing of school equipment, and minor maintenance activities. The government should increase education transfers to the municipalities so that greater investments in the sector can be made in particular for school infrastructure. In turn, the municipalities should use participatory planning techniques to prioritize the investments and involve citizens in decision-making processes.

The municipalities should allocate a greater proportion of their budget towards education services. Current rates of own-source contributions from municipalities in the second phase of decentralization (1.5% for primary schools and 3.7% for secondary schools) are too low.

The municipalities should analyse the problem of overcrowding in schools and define the necessary steps to overcome it. Those municipalities with relatively large numbers of students and complex school networks should pay particular attention to this issue, since most face the problem of lacking sufficient school premises. Such measures must not involve separating pupils along ethnic or linguistic lines and should seek to integrate those pupils already separated in this way.

An analysis of education funding completed by USAID in May 2011 suggested the simultaneous use of both the lump sum payment and population density weights in the calculation of primary education categorical and block grants is excessive and as a result, rural municipalities are receiving relatively too much compared to urban municipalities. This policy needs to be carefully reviewed. In particular, the MoES needs to review rationalization strategies for school networks which affect small schools situated in rural, sparsely populated municipalities. Both central and local government should agree a policy which will ensure enhanced education grants be used not only to raise teacher salaries, but to facilitate investment aimed at improving the quality of educational services in the future.

The municipalities should take steps to increase transparency in the way fiscal and educational resources are distributed between central schools and its branches. Municipalities could, for example, introduce registries of resources to monitor access to equipment, teaching aids, and staff time. They could also request that schools submit for review and approval separate financial plans for each branch, rather than one for the whole school.

VII. CONCLUDING REMARKS

The “Decentralization Assessment Report 2011” provides an overview of the progress achieved in the decentralization process during 2006 – 2011 as well as of the main challenges that remain to be addressed, based on the perceptions of the municipal leadership and administration. Specific conclusions and recommendations regarding key areas (fiscal decentralization, local economic and balanced regional development, urban planning, provision of communal services, and education reform at local level) are also included in the report.

Achieving significant progress in the decentralization process requires strong support from the central government; financial resources that correspond to the needs, conditions and responsibilities of the municipalities; adequate administrative capacities both at local and central level; coherent policies in recruitment, placement, training and career development; well informed and proactive civil society and citizens.

There needs to be a stronger interaction and cooperation among all stakeholders involved in the decentralization process as well as between the central government and municipalities. This would significantly improve the inter-institutional communication and coordination thereby identifying and addressing challenges and shortcomings in a more efficient way.

In the context of fiscal decentralization, the financial resources of the municipalities should be commensurate with their tasks and responsibilities and ensure financial sustainability and self-reliance. Municipalities should strengthen their fiscal capacities, increase municipal own-source revenues and attract new sources of funding. In addition, appropriate mechanisms are needed to ensure a fair equalization and distribution of revenues. At the same time, strong and transparent systems of internal control and audit should be further built in the local self government units.

To ensure sustainable progress in the decentralization, human resources capacities for both administrative and elected staff should be further strengthened especially in areas where significant challenges or less progress have been identified. Capacity building activities should target the enhancement of administrative, technical and managerial skills and knowledge that would enable local authorities to ensure high quality in the provision of services to the citizens. These activities should be supported by fair and transparent staff recruitment and retention based on performance, professional competence and experience whilst respecting the principle of equitable representation.

Improved public participation is likely to create more confidence in the end result and in the institutions which deliver policies both at local and central levels. This would require more efforts in improving the dialogue with civil society, business sector and citizens in the decision making process and in the implementation of public policies. The municipalities should use participatory methods and tools in a more active manner and on regular basis thereby contributing also to increasing their transparency, openness and accountability.

The process of decentralization in the country is now entering a new chapter in which new challenges will arise to add to the existing ones. Performance and result based planning, implementation and evaluation systems will need to be institutionalized at both central and local level, e-governance needs to be further introduced in the administration, and key areas such as transparency and accountability are now more important than ever due to the long-lasting global economic crisis. Effective leadership, political determination and commitment from all parties and effective participation from the civil society will positively contribute to overcome those present and future challenges, further increasing the motivation to continue with the decentralization process as a crucial step forward in the implementation of the Ohrid Framework Agreement.

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- The Law on Legalization of informal Settlements (O.G. of the RM no.23/2011)
- The Law on Spatial and Urban Planning (O.G. of the RM no.4/96);
- The Vienna Declaration on Informal Settlements in South Eastern Europe

LIST OF PROJECTS FOR DEVELOPMENT OF THE PLANNING REGIONS FINANCED BY THE CENTRAL BUDGET

2009/2010	2010/2011
EAST Planning region	
<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Production of a main project for construction of connection road on Osogovo mountain for the municipalities M. Kamenica, Kochani, Probishtip, Kratovo and K.Palanka • Production of Feasibility Study for a draft project for construction of small accumulations in the settlement Aramiska Cheshma, Kochani. • Signing of tourist areas in the micro-region Pijanec – Malesh, Delchevo • Production of technical documentation for the road in Vidovishte village • Production of a project for faecal water filter station in Zrnovci village • Production of Feasibility Study and urban project for production of mini accumulation on Kosevichka river • Construction of eco-path for connection of v. Lesnovo and v. Pantelej • Production of collector system for v. Mitrashinci • Asphaltting of the road v. Pantelej – v. Rajchani and connecting of v. Tursko Rudare <p><i>Projects for development of villages:</i></p> <ul style="list-style-type: none"> • Asphaltting of the road v. Beli – Monastery St. Ilija <p><i>Projects for development of areas with specific development needs:</i></p> <ul style="list-style-type: none"> • Finishing the sewage system in v. Gabrovo • Production of technical documentation for the sewage system in v. Trsino • Production of faecal system (left collector) and filter station for faecal waters in v. Crnik 	<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Study (with proposed solutions) on development of the Ponikva ski-centre on Osogovo mountain • Study on development of regional stock breeding support centre • Ethno – cultural tourism in function of the regional growth • Cultural tourism – the past in support of the future regional development <p><i>Projects for development of villages:</i></p> <ul style="list-style-type: none"> • Construction of a local road section P – 208 to Bukoravenska Maala in v. Sasa • Asphaltting of the street ASNOM in v. Orizari <p><i>Projects for development of areas with specific development needs:</i></p> <ul style="list-style-type: none"> • Construction of the street “Baskalska” v. Dvorishte • Installation of sewage system in v. Spanchevo
POLOG Planning region	
<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Construction of sidewalks along the regional road P-402 • Production of an outside settlement urban plan for the economic industrial zone in the locality called “Klisura” • Reconstruction of the local road Gostivar – Balin Dol • Water supply (distribution network) for v. Skudrinje • Capacity building (trainings) to the Development Centre • Water supply network in v. Raotince • Local road v. Gurgurnica <p><i>Projects for development of villages:</i></p> <ul style="list-style-type: none"> • Local road for v. Lomnica 	<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Project for regulation of the Recica River basin in v. G. Recica – Tetovo • Production of an urban plan outside the formal settlement “ Industrial economic zone” v. Vrapchishte • Installation of water supply pipeline in v. Debreshe – Gostivar municipality • Construction of sewage system in the settlement Zelino • Production of a special plan for v. Dobroshte <p><i>Projects for development of villages:</i></p> <ul style="list-style-type: none"> • Construction of reservoir for drinking water in v. Nerashte <p><i>Projects for development of areas with specific development needs:</i></p> <ul style="list-style-type: none"> • Follow up construction of the new eater supply

<p><i>Projects for development of areas with specific development needs:</i></p> <ul style="list-style-type: none"> • Modifications and amendments to the technical documentation for water supply and sewage system for v. Palatica, Trebosh, Ozormishte • Reconstruction and extension of the water supply system in v. Dobroshte • Main collector for faecal waters, v. Brvenica • Reservoir in v. Nerashte 	<p>system in v. Pirok</p>
<p>NORTHEAST Planning region</p>	
<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Production of local plans as a basis for establishment of a regional system for waste management • Study for optimal exploitation of geothermal waters for tourist and agriculture development • Study on the needs for future investments in water supply and sewage infrastructure with investment prioritization criteria and management systems • Creating pre-conditions for rural development, tourist development and mobility in the region through production of technical documentation for road infrastructure and mapping of the existent and needs analysis for future road network • Creating pre-conditions for higher living standard: study and technical documentation for better exploitation of the social infrastructure • Creating pre-conditions for tourist and sport development <p><i>Projects for development of villages:</i></p> <ul style="list-style-type: none"> • Construction of a faecal system for v. Orizare • Construction of a small bridge on Radibushka River • Production of a technical documentation for the local road Orah - Drenak 	<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Creation of conditions for rural development, tourist development and region mobility *(production of technical documentation) • Production of project documentation for regional water supply system in Lipkovo and Kumanovo municipalities • Project documentation for installation of gas system in Kratovo and Kriva Palanka municipalities <p><i>Projects for development of villages:</i></p> <ul style="list-style-type: none"> • Construction of faecal system in v. Orizare <p><i>Projects for development of areas with specific development needs:</i></p> <ul style="list-style-type: none"> • Construction of faecal system in v. Otlja • Construction of depositor (precipitator) in Crni Vrv . v. Prikovci
<p>SOUTHEAST Planning region</p>	
<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Revision of the main project for construction of hydroelectric power plant Konjsko • Revitalization of Dojran Lake coast section – Old Dojran • Production of a draft project for using the Smiljanska River waters for the water accumulation in the hydroelectric power plant Mantovo • Integrated approach in tourist development <p><i>Projects for development of villages:</i></p> <ul style="list-style-type: none"> • Construction of a tourist recreational sidewalk Dojran – Paljurci • Sewage system in v. Dedino <p><i>Projects for development of areas with specific development needs:</i></p> <ul style="list-style-type: none"> • Finishing works at Gabrovo waterfalls, v. Gabrovo • Construction of a street in v. Koleshino • Digging a canal in v. Radovo • Reconstruction of new water sources locality in v. Visoka Maala • Sewage system on Nikola Karev street, Old 	<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Reconstruction and repairing of a local road section Karbino M-6 (Strumica - Shtip to Dobrashince settlement • Establishing of a regional certification centre of the Southeast planning region • Space arrangement around Smolarski Waterfalls <p><i>Projects for development of villages:</i></p> <ul style="list-style-type: none"> • Construction of roads in v. Petralinci and v. Monospitovo • Construction of secondary road v. Banice –v. Veljusa • Horticultural arrangement of the yard area of the Kindergarten in v. Negorci <p><i>Projects for development of areas with specific development needs:</i></p> <ul style="list-style-type: none"> • Construction of a passage to the Children's Summer Camp "Plachkovica" • Construction of a sewage system in v. Karatmanovo

Dojran	
SOUTHWEST Planning region	
<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Study on solving the faecal waters problem • Modernization and follow-up construction of the regional road P – 415 Boshkov Most – Izvor (technical documentation) • Promotion of agricultural and milk products <p><i>Projects for development of villages:</i></p> <ul style="list-style-type: none"> • Production of detailed urban plan for small industrial zones in v. Vevcani • Production of faecal system in v. Popolzani • Follow up construction of a local road in v. Slivovo <p><i>Projects for development of areas with specific development needs:</i></p> <ul style="list-style-type: none"> • Water supply system in v. Chelikovci – Dolno Srogomishte and Kolibari • Installation of water pipeline in v. Labunishta • Cleaning of informal dump sites in v. Kuratica • Construction of a bridge on Suvodolica River in v. Plasnica • Construction of a local road in v. Shutovo • Water supply network from v. Shum to v. Frangovo 	<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Feasibility Study for faecal waters network construction from Gradishte to Sv. Naum • Installation of measurement point for gas emission and air pollution from TEC Oslomej and production of a Feasibility Study with proposed solutions for air pollution protection • Waste selection and procurement of waste bins for the twelve municipalities from the Southwest planning region • Production of a technical project for faecal system in Veleshta (part), Vevchani, Podgorci, Oktisi, Dolna • Organization of folklore groups events, presentation of traditional food and costumes, ethno performances and exhibitions • Procurement of equipment for detection of water losses in the Southwest region <p><i>Projects for development of villages:</i></p> <ul style="list-style-type: none"> • Improvement of the water supply system in v. Delogozda • Production of sewage system project for v. Popolzani <p><i>Projects for development of areas with specific development needs:</i></p> <ul style="list-style-type: none"> • Construction of transit pipeline for sewage system in v. Lozani, Bidzevo, Novo Selo, Livada, Delogodzi, Dzebin and Korishta • Construction of a local road in v. Crvice II phase • Production of a project for reconstruction of the local water supply system in v. Cer • Construction of faecal waters system in v. Vranishta • Arrangement of the square in v. Planica
VARDAR Planning region	
<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Alternative and transit tourism development • Identification and promotion of competitive agricultural products – brands <p><i>Projects for development of villages:</i></p> <ul style="list-style-type: none"> • Follow up construction of water supply system in v. Mustafino • Installation of water supply system in v. Kjesendre • Reconstruction of water supply network section in v. Konopishte – Gorno Maalo 	<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Promotion of Vardar region as attractive business destination • Production of a Feasibility Study for determining the regional potentials for using renewable resource • Physical activities in function of the healthy mental development of children in the pre-school age • Increased energetic efficiency by electric power savings in the public institutions, particularly in the schools from the municipalities of the region. Phase I: production of technical documentation <p><i>Projects for development of villages:</i></p> <ul style="list-style-type: none"> • Feasibility Study on production of a system for collection and filtering of faecal waters for seven territorially connected villages and the industrial zone Ovce Pole • Finishing the construction works of the faecal system in v. Bistrenci <p><i>Projects for development of areas with specific development needs:</i></p> <ul style="list-style-type: none"> • Construction of a sewage system in v. Karatmanovo

PELAGONIJA Planning region	
<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Institutional building for coordination and support of business activities in Pelagonija region <p><i>Projects for development of villages:</i></p> <ul style="list-style-type: none"> • Reconstruction on a local road to v. Golemo Konjari • Construction of chlorine filter station in v. Debreshte <p><i>Projects for development of areas with specific development needs:</i></p> <ul style="list-style-type: none"> • Green market arrangement in v. Krivogashtani • Reconstruction of local road in v. Budakovo • Construction of local streets in five villages 	<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Production of technical documentation for road construction from the settlement Zapolzani, Dolneni municipality to Slavej, Krushevo municipality • Construction of a road section P-516 Demir Hisar – Krivogashtani – Krushevo in a length of 1,5 km between Vrboec and Sveto Mitrani • Production of technical documentation for revitalization of the regional road P – 512 Ropotovo (connection with P-513) - Krivogashtani-Demir Hisar (connection P-416) (from v. Graishte to Krivogashtani) • Production of technical documentation for revitalization of the regional road P – 119 Vasharejca, Mogila municipality – Bucin, Krushevo municipality • Production of technical documentation for revitalization of the road P – 120 from connection P-509 Novaci, Novaci municipality to connection M-5 Topolchani, Prielp municipality • Production of a complete technical documentation for reconstruction of Bitola ZOO • Production of technical documentation for construction of stock market parking place in Krivogashtani • Adaptation – reconstruction of the motor way “Novacki pat” as part of the P-509 section Bitola - Novaci km 0+000 km 1+640 • Improvement of the traffic conditions and safety on the regional road M-5 on the section from Bitola to Resen through production of a technical documentation for lightening of the traffic zone “Makazi” and the traffic zone at the entrance to Resen from Bitola side • Production of a Study for connection and promotion of the monastery tourism on Baba mountain (Bitola and Resen municipality) • Procurement of equipment for TPPE Prilep (covers the region of Prilep, Krivogashtani and Dolneni) and equipment for the volunteers’ units • Second phase construction works of the chlorine filter station v. Debrishte <p><i>Projects for development of villages</i></p> <ul style="list-style-type: none"> • Water supply system in Podmol settlement, construction of pipeline third phase • Small dam in v. Makovo • Construction of sewage system in Crnilishte settlement <p><i>Projects for development of areas with specific development needs:</i></p> <ul style="list-style-type: none"> • Construction of water supply system in v. Ostrec • Small water accumulation for livestock in v. Brod
SKOPJE Planning region	
<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Local road Dracehvo - Motel Kitka <p><i>Projects for development of villages</i></p> <ul style="list-style-type: none"> • Production of technical documentation for the 	<p><i>Regional projects:</i></p> <ul style="list-style-type: none"> • Production of project documentation for the canal system “Skopsko Pole” • Production of a Study on mapping and

<p>local road Sopsishte – Usje</p> <ul style="list-style-type: none"> • Local road v. Shishevo – v. Grchec <p><i>Projects for development of areas with specific development needs:</i></p> <ul style="list-style-type: none"> • Cleaning of the main canal and the secondary canal network 	<p>promotion of the natural and cultural-historical heritage in the Skopje planning region</p> <ul style="list-style-type: none"> • Production of technical documentation for installation of new parallel water supply system on the currently existent one made of asbestos (from Cementara Usje to Drachevo) • WEB GIS application for strategic planning support of the Skopje planning region and monitoring of the achievements in the implementation of the strategic goals • Mapping of investment potentials • Production of a Feasibility Study for establishing of public-private partnership for management of “Treska” lake <p><i>Projects for development of villages</i></p> <ul style="list-style-type: none"> • Construction of local road Shishevo – Grchec <p><i>Projects for development of areas with specific development needs</i></p> <ul style="list-style-type: none"> • Reconstruction of a local road Mralino – Petrovec-Drma
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MAIN CHALLENGES DURING IMPLEMENTATION OF THE FOLLOWING DECENTRALIZED COMPETENCIES

<i>Municipality</i>	<i>Fiscal Decentralization</i>	<i>Communal Services</i>	<i>Urban Planning</i>	<i>LED (Action Plans)</i>
Aerodrom	Fifth on the list of municipalities with 97% realized own revenues in 2010; the percent of realization of planned revenues from property tax in 2010 amounted to 87%.	Communal services are the competence of the City of Skopje	50% of the territory is without urban plan	Do not have an LED Action Plan
Arachinovo	No data	Two communal enterprises provide 20% of the communal services; no particular problems highlighted.	No answer	Do not have an LED Action Plan
Berovo	Full realization of the planned property tax revenues in 2010, amounting to 100%; succeeded to collect 79% of the planned own revenues.	50% of the communal services provided; biggest problem solid waste collection and treatment	30% of the territory is without urban plan	Unrealistic deadlines, lack of human resources, poor infrastructure and poor access to EU funds
Bitola	Realized 69% of the property tax and 82% of the planned total own revenues in 2010. 3 rd on the list of municipalities, realizing capital investments in amount of 756.9 million denars in the period 2006-2010; per competence, invested mostly in communal activities.	Five communal enterprises provide 80% of the communal services; high percent of unpaid bills.	30% of the territory is without urban plan	Do not face any obstacle
Bogdantsi	Collected 40% of the planned property tax revenues and realized 60% of the planned own revenues in 2010; in the period 2006-2010 realized 47 million denars in capital investments, mostly in LED activities.	Two communal enterprises provide 50% of the communal services; lack of funds for capital investments	50% of the territory is without urban plan	Lack of financial resources, poor infrastructure and lack of cooperation with the business community
Bogovinje	Very successful in collecting the revenues from property tax, amounting to 93%; realized 61% of the planned own revenues in 2010; in the period 2006-2010 realized 94.52 million denars in capital investments, mostly in communal activities.	Most of the communal services not provided, problem with garbage collection, lack of equipment and educated staff	No answer	Bad quality of planning, unrealistic deadlines and lack of financial resources

Bosilovo	Realized 115% of the planned property tax revenues in 2010; among the municipalities with highest realization of own revenues, amounting to 98%; in the period 2006-2010 realized 84.96 million denars in capital investments, mostly in LED activities.	50% of the communal services provided; lack of funds.	60% of the territory is without urban plan	Lack of financial resources and poor infrastructure
Brvenitsa	In the group of municipalities with highest percent of realization of total own revenues in 2010 amounting to 90%; collection rate of property tax revenues amounted to 78%; in the period 2006-2010 realized 54.23 million denars in capital investments, mostly in communal activities.	No communal enterprise; old/ bad infrastructure, old installation, lack of funds.	90% of the territory is without urban plan	Do not face any obstacle
Centar Zhupa	Collected 21% of the planned property tax revenues and realized 45% of the planned own revenues in 2010; 19 th on the list of municipalities, realizing capital investments in amount of 124.5 million denars in the period 2006-2010; per competence, invested mostly in communal activities	Only one communal service provided; lack of educated staff and equipment	90% of the territory is without urban plan	Do not have an LED Action Plan
Chair	Collected only 25% of the planned property tax revenues and realized 46% of the planned total own revenues in 2010.	Communal services are the competence of the City of Skopje	Has fully covered its territory with an urban plan	Lack of financial resources and poor infrastructure
Chashka	Collected 63% of the planned property tax revenues and 65% of the planned total own revenues in 2010; in the period 2006-2010 realized 20.42 million denars in capital investments, mostly in communal activities.	45% of the communal services provided; problem with water supply, lack of equipment and educated staff.	90% of the territory is without urban plan	Do not face any obstacle
Cheshinovo-Obleshevo	Collected 75% of the planned property tax and 51% of the total own revenues in 2010; in the period 2006-2010 realized 15.05 million denars in capital investments, mostly in sports.	20% of the communal services provided; bad infrastructure and lack of funds.	70% of the territory is without urban plan	Lack of financial resources
Chucher-Sandevo	Succeeded to collect 75% of the planned property tax revenues and 78% of the planned total own revenues in 2010; in the period 2006-2010 realized 1.13 million denars in capital investments, mostly in education.	30% of the communal services provided.	90% of the territory is without urban plan	Lack of financial resources
Debar	In the group of 25 municipalities with a collection rate of revenues from property tax in the interval 76-100%, amounting to 86%; realized 62% of the planned own revenues in 2010; 13 th on the list of municipalities, realizing capital investments in amount of 190.5 million denars in the period 2006-2010; per competence, invested mostly in communal activities.	40% of the communal services provided; influence of politics in the communal enterprise.	80% of the territory is without urban plan	Do not have an LED Action Plan

Debartsa	Realized 78% of the property tax and 82% of the planned total own revenues in 2010; in the period 2006-2010 realized 57.01 million denars in capital investments, mostly in communal activities.	50% of the communal services provided; lack of equipment, lack of regional landfill.	60% of the territory is without urban plan	Do not face any obstacle
Delchevo	Still in the 1 st phase of fiscal decentralization because of unresolved debts; 87% realization of the planned property tax and 78% of the planned own revenues in 2010; in the period 2006-2010 realized 5.2 million denars in capital investments, mostly in urban planning.	60% of the communal services provided; biggest problems are the lack of equipment and educated staff, high percent of unpaid bills.	30% of the territory is without urban plan	Lack of financial resources, lack of human resources, poor infrastructure and lack of cooperation with the business community
Demir Hisar	Succeeded to realize 69% of the planned property tax and 78% of the planned total own revenues in 2010; in the period 2006-2010 realized 53.14 million denars in capital investments, mostly in LED activities.	45% of the communal services provided; no particular problems.	10% of the territory is without urban plan	Bad quality of planning, unrealistic deadlines, lack of financial resources, lack of human resources and lack of cooperation with the business community
Demir Kapija	More efforts needed to increase the rate of 53% collection of property tax revenues and 48% of the total own revenues in 2010; in the period 2006-2010 realized 17.2 million denars in capital investments, mostly in urban planning activities.	Most of the communal services adequately provided; biggest problem the water supply system and modernization of the equipment.	10% of the territory is without urban plan	Lack of financial resources and poor infrastructure
Dojran	Succeeded to collect 92% of the planned property tax revenues and realize 70% of the total revenues from own sources in 2010; in the period 2006-2010 realized 35.35 million denars in capital investments, mostly in communal activities.	Lack of equipment, water supply and sewage system.	60% of the territory is without urban plan	Lack of financial resources and poor infrastructure
Dolneni	In the period 2006-2010 realized 9.4 million denars in capital investments, mostly in education.	40% of the communal services provided; high percent of unpaid bills; lack of funds; lack of equipment.	Has no urban plan at all	Lack of financial resources, poor infrastructure and lack of cooperation with the business community
Drugovo	Realized 42% of the property tax revenues and 61% of the planned total own revenues in 2010; in the period 2006-2010 realized 2.6 million denars in capital investments, mostly in communal activities.	20% of the communal services provided; waste water treatment.	80% of the territory is without urban plan	Lack of financial resources and lack of cooperation with the business community
Gjorche Petrov	Realized 73% of the planned property tax revenues in 2010; fourth on the list of municipalities with highest realization of own revenues, amounting to 97.2%; 9 th on the list of municipalities, realizing capital investments in amount of 233.94 million denars in the period 2006-2010; per competence, invested mostly in communal activities	Communal services are the competence of the City of Skopje	30% of the territory is without urban plan (part of the City of Skopje)	Lack of financial resources, lack of human resources and poor infrastructure

Gostivar	Serious efforts needed to improve the collection rate both of the property tax revenues in 2010 amounting to 17% and the realization of own revenues of 31%.	85% of the communal services provided; old equipment.	60% of the territory is without urban plan	Lack of financial resources and lack of cooperation with the business community
Gradsko	Realized 75% of the planned property tax revenues in 2010; Second best municipality, which realized 98% of the planned own revenues; in the period 2006-2010 realized 82.15 million denars in capital investments, mostly in LED activities.	55% of the communal services provided; no particular problems.	50% of the territory is without urban plan	Do not face any obstacle
Ilinden	Municipality with the biggest percentage of realization of total own revenues in 2010 amounting to 104.6%; Realized 105% of the planned property tax revenues; 10 th on the list of municipalities, realizing capital investments in amount of 214.35 million denars in the period 2006-2010; per competence, invested mostly in LED activities.	45% of the communal services provided; old equipment and low prices of communal services.	20% of the territory is without urban plan	Do not face any obstacle
Jegunovtse	Realized 57% of the property tax and 73% of the planned total own revenues in 2010; in the period 2006-2010 realized 70.02 million denars in capital investments, mostly in communal activities.	The communal enterprise provides only 15% of the communal services.	85% of the territory is without urban plan	Lack of financial resources and lack of cooperation with the business community
Kavadartsi	Collected only 43% of the planned property tax revenues and 72% of the total own revenues in 2010; 14 th on the list of municipalities, realizing capital investments in amount of 180.59 million denars in the period 2006-2010; per competence, invested mostly in communal activities.	60% of the communal services provided; water supply and sewage system.	30% of the territory is without urban plan	Lack of financial resources, lack of human resources and lack of cooperation with the business community
Kichevo	Succeeded to collect 80% of the planned property tax revenues and 66% of the total own revenues in 2010.	60% of the communal services provided; old equipment, lack of educated staff.	20% of the territory is without urban plan	Bad quality of planning, unrealistic deadlines, lack of financial resources and lack of cooperation with the business community
Kisela Voda	Realized only 62% of the planned property tax and 79% of the planned total own revenues in 2010.	One communal enterprise provides 50% of the communal services; bad infrastructure	Has fully covered its territory with urban plan	Lack of financial resources
Kochani	Succeeded to realize 88% of the planned own revenues in 2010; the percent of realization of planned revenues from property tax amounted to 99%; 12 th on the list of municipalities, realizing capital investments in amount of 191.33 million denars in the period 2006-2010; per competence, invested mostly in LED activities.	50% of the communal services provided; biggest problem high rate of unpaid bills	20% of the territory is without urban plan	Lack of financial resources and lack of cooperation with the business community

Kratovo	Municipality among the 10 very successful in realization of planned property tax revenues in 2010 amounting to 93%; Serious efforts should be invested to increase the 9.6% of the realized planned total own revenues; 20 th on the list of municipalities, realizing capital investments in amount of 112 million denars in the period 2006-2010; per competence, invested mostly in communal activities.	Two communal enterprises provide 45% of the communal services; bad infrastructure, old equipment, solid waste treatment.	98% of the territory is without urban plan	Unrealistic deadlines, lack of financial resources and lack of administrative capacity
Kriva Palanka	Realized 89% of the property tax and 8% of the planned total own revenues in 2010; in the period 2006-2010 realized 86.96 million denars in capital investments, mostly in LED activities.	60% of the communal services provided; biggest problem - obsolete equipment.	70% of the territory is without urban plan	Lack of financial resources and poor infrastructure
Krivogashtani	In the group of 12 municipalities with a percent of realization of total own revenues above 80%, amounting to 80%; realized 82% of the planned property tax revenues.	40% of the communal services provided by the communal enterprise; no bigger problems highlighted.	30% of the territory is without urban plan	Do not have an LED Action Plan
Krushevo	In the group of 19 local self-government units with a percent of collection of property tax revenues in the interval 51-75%; realized 74% of the property tax revenues and 56% of the planned total own revenues in 2010; in the period 2006-2010 realized 40.6 million denars in capital investments, mostly in communal activities.	No information	90% of the territory is without urban plan	Lack of financial resources, poor infrastructure and lack of cooperation with the business community
Kumanovo	In the group of 24 local self-government units with a realization of planned total own revenues in the interval 51-75%; realized 75% of the planned property tax and 73% of the planned total own revenues in 2010. 5 th on the list of municipalities, realizing capital investments in amount of 797.2 million denars in the period 2006-2010; per competence, invested mostly in communal activities.	Five communal enterprises provide 70% of the communal services; no particular problem highlighted.	20% of the territory is without urban plan	Do not have an LED Action Plan
Lipkovo	Collection rate of 11% of the property tax revenues in 2010 and realization of 52% of the planned total own revenues; in the period 2006-2010 realized 82.8 million denars in capital investments, mostly in LED activities.	Most of the communal services not provided; lack of equipment, lack of educated staff and high percentage of unpaid bills.	80% of the territory is without urban plan	Bad quality of planning, unrealistic deadlines, lack of financial resources, lack of human resources, lack of administrative capacity, poor infrastructure and lack of cooperation with the business community
Lozovo	Realized 65% of the property tax and 76% of the planned total own revenues in 2010; in the period 2006-2010 realized 13.1 million denars in capital investments, mostly in communal activities.	70% of the communal services provided; water supply and sewage system.	90% of the territory is without urban plan	Do not have an LED Action Plan

Makedonska Kamenitsa	12 th on the list of most successful municipalities in terms of property tax revenues; realized 98% of the planned property tax revenues in 2010; however, serious efforts should be invested to improve the collection of total own revenues amounting to only 17% in 2010; in the period 2006-2010 realized 92.08 million denars in capital investments, mostly in LED activities.	Two communal enterprises provide 45% of the communal services; no particular problem.	No answer	Unrealistic deadlines, lack of financial resources and poor infrastructure
Makedonski Brod	In the group of 25 local self-government units with a percent of collection of property tax revenues in the interval 76-100%; realized 77% of the property tax revenues and only 37% of the planned total own revenues in 2010; in the period 2006-2010 realized 47.87 million denars in capital investments, mostly in communal activities.	60% of the communal services provided; lack of funds and equipment.	80% of the territory is without urban plan	Lack of financial resources
Mavrovo and Rostusha	In the period 2006-2010 realized 10.77 million denars in capital investments, mostly in communal activities.	20% of the communal services provided; high percent of unpaid bills old equipment.	70% of the territory is without urban plan	Do not have an LED Action Plan
Mogila	No data on revenue realization; 18 th on the list of municipalities, realizing capital investments in amount of 129.85 million denars in the period 2006-2010; per competence, invested mostly in education.	Most of the communal services not provided; serious problems with lack of finances, water supply and sewage system	90% of the territory is without urban plan	Bad quality of planning, unrealistic deadlines, lack of financial resources and lack of administrative capacity
Negotino	Collected only 32% of the planned property tax revenues and realized 63% of the planned own revenues in 2010; in the period 2006-2010 realized 102.9 million denars in capital investments, mostly in communal activities.	70% of the communal services provided; lack of funds, old equipment.	50% of the territory is without urban plan	Do not face any obstacle
Novo Selo	Second best municipality that collected 143% of the planned property tax revenues in 2010; realized 70% of the planned total own revenues; in the period 2006-2010 realized 30.01 million denars in capital investments, mostly in communal activities.	60% of the communal services provided; biggest challenge to improve the management process.	90% of the territory is without urban plan	Lack of financial resources
Ohrid	Still in the 1 st phase of fiscal decentralization because of unresolved debts. Realized 101% of the property tax and 89% of the total own revenues. 4 th on the list of municipalities, realizing capital investments in amount of 737 million denars in the period 2006-2010; per competence, invested mostly in communal activities	70% of the communal services provided by 7 communal enterprises; no bigger problems.	20% of the territory is without urban plan	Lack of financial resources and poor infrastructure

Oslomej	In the group of 28 local self-government units with a percent of realization of total own revenues in the interval 76-100%; realized 67% of the property tax and 78% of the planned total own revenues in 2010; in the period 2006-2010 realized 55.69 million denars in capital investments, mostly in communal activities.	45% of the communal services provided; water supply system, high percent of unpaid bills.	90% of the territory is without urban plan	Unrealistic deadlines, lack of financial resources and not enough investment by the business community
Pehchevo	Among the 10 municipalities that collected property tax revenues in the interval 90-100% of the planned revenues; collected 91% of the property tax revenues, but only 26% of the planned own revenues in 2010; in the period 2006-2010 realized 47.75 million denars in capital investments, mostly in LED activities.	80% of the communal services provided; old equipment and lack of fund.	15% of the territory is without urban plan	Lack of financial resources, lack of human resources and lack of cooperation with the business community
Petrovets	Realized 76% of the planned property tax and 68% of the planned total own revenues in 2010; in the period 2006-2010 realized 102.9 million denars in capital investments, mostly in LED activities.	Only one communal enterprise provides waste treatment services	No answer	Do not face any obstacle
Plasnitsa	Still in the 1 st phase of fiscal decentralization because of unresolved debts.	15% of the communal services provided; problems with the water supply.	100% of the territory is without urban plan	Do not face any obstacle
Prilep	Ranks second on the list of local self-government units with biggest amount of capital investments in the period 2006-2010, amounting to 1,713.1 million denars; collected 67% of the planned property tax and 72% of the planned total own revenues in 2010. 2 nd on the list, which has realized 1,713.1 million denars in capital investments in the period 2006-2010; per competence, invested mostly in education.	55% of the communal services provided by 4 enterprises; no particular problem highlighted.	10% of the territory is without urban plan	Do not face any obstacle
Probishtip	Ranks 13 th on the list of municipalities with the highest collection rate of property tax revenues in 2010, amounting to 95%; realized 70% of the planned own revenues; in the period 2006-2010 realized 41.67 million denars in capital investments, mostly in communal activities.	45% of the communal services provided; lack of equipment and educated staff.	No answer	Lack of financial resources, lack of human resources and poor infrastructure
Radovich	Fourth best municipality, which collected 117% of the planned property tax revenues in 2010; realized 56% of the planned own revenues; 17 th on the list of municipalities, realizing capital investments in amount of 132.41 million denars in the period 2006-2010; per competence, invested mostly in LED activities.	55% of the communal services provided; old installation.	30% of the territory is without urban plan	Lack of financial resources, lack of human resources and lack of cooperation with the business community

Rankovtse	Serious efforts needed to improve the collection rate of property tax revenues in 2010 amounting to only 33%, and the realization of own revenues of 38%; in the period 2006-2010 realized 29.15 million denars in capital investments, mostly in communal activities.	30% of the communal services provided; biggest problem with the water supply	90% of the territory is without urban plan	Lack of financial resources
Resen	In the group of 19 municipalities with a collection rate of revenues from property tax in the interval 51-75%, amounting to 73%; realized only 38% of the planned own revenues in 2010.	55% of the communal services provided; sewage system in rural parts.	80% of the territory is without urban plan	Lack of financial resources
Rosoman	In the period 2006-2010 realized 20.28 million denars in capital investments, mostly in communal activities.	55% of the communal services provided; rural parts not covered; lack of funds and high percent of unpaid bills.	No answer	Lack of financial resources, lack of human resources and lack of administrative capacity
Saraj	Collected only 31% of the planned property tax and realized 68% of the planned total own revenues in 2010.	One communal enterprise provides garbage collection services.	No answer	Do not face any obstacle
Shtip	Municipality among the nine most successful in realization of planned property tax revenues in 2010 amounting to 103%; Realized 81% of the planned total own revenues; 15 th on the list of municipalities, realizing capital investments in amount of 145.1 million denars in the period 2006-2010; per competence, invested mostly in communal activities.	All communal services provided by two communal enterprise; biggest problem the construction of water supply system in rural parts and high percent of unpaid bills.	50% of the territory is without urban plan	Bad quality of planning, unrealistic deadlines, lack of financial resources, lack of human resources, lack of administrative capacity, poor infrastructure and lack of cooperation with the business community
Skopje	Realized 88% of the tax and 89% of the total own revenues in 2010; the City of Skopje tops the list of local self-government units with the biggest amount of capital investments in the period 2006-2010, amounting to 3359 million denars.	70% of the communal services provided; biggest problem is the obsolete equipment.	Not applicable - It only adopts the General Urban plan (GUP) for the entire territory of the City	Unrealistic deadlines, lack of financial resources, lack of human resources
Sopishte	Serious efforts needed to improve the collection rate of property tax revenues in 2010 amounting to 17%, and the realization of own revenues of 47%; in the period 2006-2010 realized 29.9 million denars in capital investments, mostly in communal activities.	15% of the communal services provided; problems with garbage collection and lack of equipment.	60% of the territory is without urban plan	Lack of financial resources
Staro Nagorichane	Collected 50% of the property tax and 40% of the planned total own revenues in 2010.	20% of the communal services provided; no bigger problems highlighted.	90% of the territory is without urban plan	Do not face any obstacle

Struga	In the group of 24 local self-government units with a percent of realization of total own revenues in the interval 51-75%; realized 65% of the planned total own revenues and only 50% of the property tax revenues in 2010; in the period 2006-2010 realized 85 million denars in capital investments, mostly in environment protection activities.	40% of the communal services provided by six communal enterprises; need for a new landfill	50% of the territory is without urban plan	Lack of financial resources, lack of human resources and lack of cooperation with the business community
Strumitsa	Third best municipality, which realized 134% of the planned property tax revenues in 2010; succeeded to realize 97% of the planned own revenues. 6 th on the list of municipalities, realizing capital investments in amount of 686 million denars in the period 2006-2010; per competence, invested mostly in urban planning.	Three communal enterprises provide 60% of the communal services; no particular problems highlighted.	7% of the territory is without urban plan	Unrealistic deadlines and lack of financial resources
Studenichani	Least successful in collecting property tax revenues in 2010; collected 5% of the planned revenues from property taxes and realized 53% of the own revenues in 2010.	Only one communal enterprise provides maintenance of public hygiene; problem to cover the territory of the municipality, lack of funds.	30% of the territory is without urban plan	Do not face any obstacle
Sveti Nikole	Municipality among the eight most successful in realization of total own revenues in 2010 amounting to 93%; Realized 85% of the planned property tax revenues; in the period 2006-2010 realized 18.31 million denars in capital investments, mostly in sports.	Most of the communal services adequately provided; biggest problem the garbage selection and treatment	Has not provided any answer.	Unrealistic deadlines, lack of financial resources, lack of human resources, poor infrastructure and lack of cooperation with the business community
Teartse	No data on the revenue realization; in the period 2006-2010 realized 25.9 million denars in capital investments, mostly in education.	20% of the communal services provided; bad management; lack of funds and educated staff.	70% of the territory is without urban plan	Lack of financial resources, lack of human resources
Tetovo	Collected 86% of the planned property tax and 61% of the planned own revenues in 2010. 7 th on the list of municipalities, realizing capital investments in amount of 476.92 million denars in the period 2006-2010; per competence, invested mostly in communal activities.	55% of the communal services provided, biggest problem the water supply	50% of the territory is without urban plan	Lack of financial resources, poor infrastructure and lack of cooperation with the business community
Valandovo	Realized 92% of the planned property tax and 83% of the planned total own revenues in 2010; in the period 2006-2010 realized 51 million denars in capital investments, mostly in communal activities.	45% of the communal services provided; problems with old installation and provision of funeral services.	60% of the territory is without urban plan	Lack of financial resources

Vasilevo	Realized 168% of the planned property tax revenues. In the group of municipalities with the biggest percentage of realization of total own revenues in 2010 amounting to 86%; 11 th on the list of municipalities, realizing capital investments in amount of 196.87 million denars in the period 2006-2010; per competence, invested mostly in education.	50% of the communal services provided; no bigger problems highlighted.	50% of the territory is without urban plan	Do not face any obstacle
Veles	Realized 91% of the property tax and 87% of the planned total own revenues in 2010; 16 th on the list of municipalities, realizing capital investments in amount of 140.65 million denars in the period 2006-2010; per competence, invested mostly in communal activities.	45% of the communal services provided; problem s with solid waste and waste water treatment.	35% of the territory is without urban plan	Lack of financial resources
Vevchani	No data	40% of the communal services provided; lack of equipment and lack of educated staff	90% of the territory is without urban plan	Lack of financial resources
Vinitsa	Still in the 1 st phase of fiscal decentralization because of unresolved debts. Realized 103% of the planned property tax and 79% of the planned total own revenues in 2010; in the period 2006-2010 realized 45.9 million denars in capital investments, mostly in communal activities.	55% of the communal services provided; problems with water supply and sewage system; political influence.	10% of the territory is without urban plan	Lack of financial resources
Vrapchishte	Collected 65% of the planned property tax revenues and realized 70% of the planned total own revenues in 2010.	15% of the communal services provided; high percent of unpaid bills.	50% of the territory is without urban plan	Do not have an LED Action Plan
Zajas	Serious efforts needed to improve the collection rate of property tax revenues in 2010 amounting to 37% , and the realization of own revenues of only 28%; in the period 2006-2010 realized 4.08 million denars in capital investments, mostly in environment protection.	20% of the communal services provided; problems with the waste treatment, bad management, high prices.	80% of the territory is without urban plan	Lack of financial resources and poor infrastructure
Zhelino	Still in the 1 st phase of fiscal decentralization because of unresolved debts; realized only 36% of the property tax and 40% of the planned total own revenues in 2010.	60% of the communal services provided; no bigger problems highlighted.	70% of the territory is without urban plan	Do not have an LED Action Plan
Zrnovtsi	Realized 80% of the planned property tax and 80% of the planned total revenues in 2010.	Most of the communal services not provided; serious problems with lack of finances	20% of the territory is without urban plan	Unrealistic deadlines, lack of financial resources, lack of human resources, poor infrastructure and lack of cooperation with the business community