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INTRODUCTION

In general, decentralisation refers to the process of transferring powers from a centralised government to local units, respectively municipalities. This process is seen as a way to promote local governance, increase efficiency and better address local problems. The specifics of the decentralisation process in North Macedonia since its independence have been influenced by several political and socio-economic factors.

In the post-independence period, the country faced various challenges in state-building, especially inter-ethnic tensions and slow political reforms. North Macedonia at this stage stood out as the most centralized country in Europe, with local self-government reforms both delayed and unimplemented in the first decade of independence.

In the Ohrid Framework Agreement (August 13, 2001) that ended the 2001 armed conflict, decentralisation was one of the main pillars of reforms, recognising the need for greater local self-government and community representation. This led to expanded powers for municipalities as well as expanded rights and representation for non-majority communities.

During this 30-year transition, there have been ongoing discussions and legal reforms related to decentralisation. These efforts have aimed to strengthen municipalities as the institution closest to citizens, to improve public services at the local level and to address pronounced regional inequalities.

The Law on Local Self-Government is one of the main laws that regulates the functioning of local self-government in the country. This law, together with several others, defines the competences of municipalities as the main institutions responsible for the exercise of local power. In addition, there is a large number of laws whose implementation is the responsibility of municipalities.

This report provides an overview of the legal framework of local self-government in North Macedonia as well as a comparative perspective with the existing experience in the two neighbouring states of Kosovo and Albania. The report also evaluates the dynamics of communication between the central and local governments, in particular in municipalities that are managed by mayors who do not belong to the parties that govern in the central government. In order to measure the level of communication between the local and central government, as well as to identify obstacles in the implementation of policies, in the period April - July 2023, the Institute for Public Policy (IPP) Arbën Xhaferi has carried out comprehensive research in the municipalities of Gostivar, Kumanovo, Tetovo and Vrapciste, notably conducting interviews with the finance sectors of these municipalities.

This analysis evaluates the degree of implementation of local self-government policies in the sphere of the municipal competences, the support offered to them through block grants and other transfers from the central government, as well as the challenges faced by municipalities in fulfilling their legal mandate. The analysis provides recommendations for the central level as well as for the local level, aimed at addressing obstacles in the implementation of policies and supporting the fulfilment of responsibilities of the local self-government.

THE DECENTRALISATION PROCESS IN NORTH MACEDONIA: A SHORT HISTORY

The history of decentralisation in North Macedonia has been characterised by extreme politicisation, significant progress in certain periods and numerous setbacks in the last decade.

In 1991, North Macedonia declared independence from Yugoslavia, and entered a politically turbulent period, facing significant challenges related to state-building, ethnic tensions, difficult political reforms, and numerous socio-economic problems. The issue of decentralisation became important as the country sought to establish a stable and democratic governing structure. Independence found the country with one of the most centralised systems in Europe. As a result of political developments, in 1995 the first law on local self-government was voted, which further centralised power: instead of the existing 34 municipalities, 124 municipalities were created, but with comparatively much less powers and financing.

In 1997, the Parliament ratified the European Charter on Local Self-Government, which confirmed the need for decentralisation, i.e. the transfer of powers from the central level to the local level of government. As a result, in 1999, the government for the first time approved the Strategy for Reforms in the Local Self-Government System.

However, even after the adoption of the strategy, reforms in the local self-government system were insufficiently implemented. This strategy lost its meaning due to numerous delays and dismal implementation, which made the acceleration of the decentralisation process one of the main demands of the Albanian political factor during the armed conflict of 2001. As a result, decentralisation became one of the four pillars of the Ohrid Framework Agreement, in which point 3 of the Basic Principles on the development of decentralised power stipulates that:

3.1 A revised Law on Local Self-Government will be adopted that reinforces the powers of elected local officials and enlarges substantially their competencies in conformity with the Constitution (as amended in accordance with Annex A) and the European Charter on Local Self-Government, and reflecting the principle of subsidiarity in effect in the European Union.

Enhanced competencies will relate principally to the areas of public services, urban and rural planning, environmental protection, local economic development, culture, local finances, education, social welfare, and health care. A law on financing of local self-government will be adopted to ensure an adequate system of financing to enable local governments to fulfill all of their responsibilities.

3.2 Boundaries of municipalities will be revised within one year of the completion of a new census, which will be conducted under international supervision by the end of 2001. The revision of the municipal boundaries will be effectuated by the local and national authorities with international participation.

The Ohrid Agreement became a relatively strong push for the decentralisation process. Decentralisation was placed at the top of the agenda and the political will was created to speed up the processes.

In 2002, constitutional changes foreseen in the Ohrid Agreement were vote, opening the way for accelerated decentralisation. That same year, the new law on local self-government was adopted, which, in addition to significantly increasing the powers of municipalities, enabled the creation of the Ministry of Local Self-Government and the Association of Local Self-Government Units. The 2003-2004 Operational Program for Strengthening Decentralisation was also adopted, which provided for the approval of three basic laws for the decentralisation process: (i) the Law on the Financing of Local Self-Government Units; (ii) the Law on Territorial Division; and (iii) the Law on the City of Skopje, which were adopted in 2004, after much political tension.

With the entry into force of the package of laws on the financing of municipalities, on July 1, 2005, fiscal decentralisation began in stages, whereby municipalities progressively gained the right to collect municipal revenues, including:

- income from local taxes, local fees, percentage of personal income tax and others;
- transfers from the central budget, such as the percentage of value added tax (VAT), earmarked grants, block grants, capital grants and grants for delegated powers.

42 municipalities entered the first phase of the financial independence process. Municipalities moved to the second phase after the evaluation by the evaluation group for the criteria for moving to the second phase of decentralisation. But what did the second phase of decentralisation mean?

If in the first phase of decentralisation the municipalities had received funds from the central budget for limited competencies such as primary and secondary education, culture, health, etc. In the second phase of decentralisation, municipalities began to receive block grants from the central government. Block grants serve not only to cover the expenses for the aforementioned powers of the municipalities, but also for other expenses such as salaries of civil servants, etc. So, in the second phase, the budgetary responsibility of municipalities increased, and with it, the amounts transferred and the flexibility of disbursing funds from block grants also increased. The idea behind this was the gradual transfer of powers in proportion to the increase in the municipal financing. By 2011, all municipalities in North Macedonia passed in the second stage of fiscal decentralisation.

In 2012, changes were made to the Law on Tax Administration, which gave municipalities the ability to collect property taxes. This also gave a push to the process of empowering municipalities, whereby a part of the local taxes would remain with and be managed by the municipalities.

Also in 2012, the rate of VAT transferred to municipalities increased from 3% to 4%. This increase continued in 2013, with VAT returned to municipalities reaching 4.5%, or the maximum allowed with the changes in the 2009 Law on Local Self-Government.

Since 2013, the decentralisation process has clearly dropped on the agenda of institutional reforms and has stagnated since then, halting the further empowerment of municipalities and making their functioning difficult, especially in the period that followed the covid-19 pandemic and the related economic crisis.

Year	Initiative
1995	The First Law on Local Self-Government created 124 local self-government units but left them with limited powers in many areas
1997	The ratification of the European Charter of Local Self-Government
1999	The government approved the Strategy for the Reform of the Local Self-Government System
2001	The Ohrid Framework Agreement put decentralisation at the top of the political agenda
2002	Constitutional changes paved the way for decentralisation
2002	The new Law on Local Self-Government greatly increased municipal powers and created the Ministry of Local Government and the Union of Local Self-Government Units
2002	The Operational Program for the Decentralisation of Power 2003-2004 set the timeframe for the adoption of the necessary legislation, including three basic laws adopted in 2004 that furthered the development of the decentralised system: the Law on the financing of local self-government; the Law on Territorial Organisation of Local Self-Government and; the Law on the City of Skopje
2004	The law on the financing of local self-government strengthened the concept of fiscal decentralisation
2004	The Law on the Territorial Organisation of Local Self-Government reduced the number of municipalities from 124 to 85, including the City of Skopje with 10 local self-government units
2004	The Law on the City of Skopje established a special status for Skopje-capital and the municipalities that make it up
2004	The operational program for the implementation of the decentralisation process (2004-2007) was approved
2005	The beginning of fiscal decentralisation

2005	The detailed plan for the transfer of powers and financial resources in the decentralisation process was adopted
2007	The government established the Commission for evaluating the fulfilment of the conditions for entry into the second phase of fiscal decentralisation
2008	The Operational Program for the Implementation of the Decentralisation Process (2008-2010) was approved
2012	The second Operational Program for the Implementation of the Decentralisation Process (2012-2014) was approved
2012	The amendment of the Property Tax Law gave municipalities the right to administer taxes, fees and other financial revenues
2015	The Programme for Sustainable Development and Decentralisation 2015-2020 was adopted
2021	The amendment of the Law on the financing of local self-government units increased the rate of VAT transferred to municipalities to 5.5% The second Program for Sustainable Local Development and Decentralisation 2021-2026 was adopted

Table 1: The history of decentralisation in RNM

Overall, the 20-year history of the decentralisation process in North Macedonia after the Ohrid Agreement is characterised by the first 10 years of rapid reforms and the last decade with obvious stagnation in terms of the empowerment of municipalities.

North Macedonia must continue the reforms where they were left, to improve the ability of municipalities to implement and expand their mandate. Municipalities need to work with free hands towards fulfilling the needs and expectations of citizens and not be suffocated by the central government as it has been until now.

North Macedonia has the opportunity to make the transition from the most centralised state in Europe once, to a state where the power is as close as possible to the citizen, by addressing obstacles faced by the local government. This research aims to serve this purpose, by returning attention to local government as a factor of development and progress.

FISCAL DECENTRALISATION IN NORTH MACEDONIA

Fiscal decentralisation is defined as the process through which financial powers are transferred from the central government to local self-government units such as regions or municipalities, to improve local self-government and support efficient service provision.

The level of fiscal decentralisation is measured through 3 indicators: expenditure ratio, revenue ratio and revenue autonomy.

When analysing the structure of municipal income in North Macedonia, it can be observed that transfers from the central government, such as grants from VAT and personal tax, earmarked grants and block grants, capital grants and other transfers, account for the largest part in total municipal revenues, with 55% in 2019 and 64% in 2020 respectively. This demonstrates a high level of dependence of local government from central transfers (figure 1).

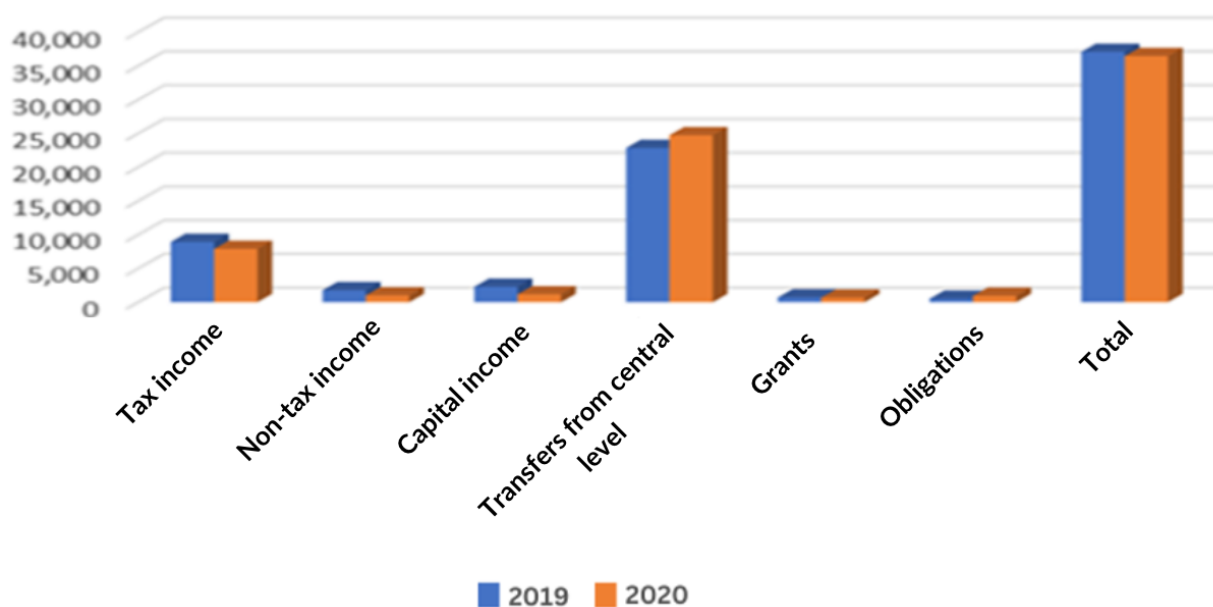


Figure 1: Structure of total revenues of municipalities, Ministry of Finance

Fiscal decentralisation is one of the priorities emerging from North Macedonia's partnership with the EU and is closely related to intergovernmental transfers. Therefore, special attention and maximum commitment is expected from the country in the practical implementation of fiscal decentralisation, with the aim of increasing the autonomy of municipalities.

According to the new methodology for the distribution of VAT revenues to municipalities, in 2023 revenues will be provided in the amount of 5.5% of the VAT realised in the previous fiscal

year, distributed in the following proportion: (i) basic share – 4.5%; (ii) performance share – 0.5%; and (iii) equalisation share – 0.5%. The basic share of the VAT revenue for municipalities will be distributed, as until now, in a fixed amount of 3,000,000 denars for all local self-government units. And the rest, or 88%, is distributed to all municipalities except the municipalities in the City of Skopje and the City of Skopje, which receive 12%.

The distribution of funds to municipalities is done according to a mathematical formula, taking into account the number of inhabitants of the municipality (65%), the area of territory (27%) and the number of settlements in municipality (8%).¹

The practical implementation of fiscal decentralisation is ongoing and remains incomplete, as the transfer of powers has encountered significant obstacles due to the complicated nature of the process but also the political and economic transition in which North Macedonia still is.

¹ <https://zels.org.mk/newsd/3118>

NORTH MACEDONIA'S DECENTRALISATION LEGAL FRAMEWORK: COMPARISON WITH ALBANIA AND KOSOVO

This section provides a comparative analysis of the legal framework for the regulating and organising local self-government in North Macedonia, Albania and Kosovo.

Due to the fact that the three countries use slightly different terminology to refer to local government structures, and since their legal frameworks, although similar, are by no means identical, this report uses the term "local self-government unit" (in the text that follows, LSGU) unless otherwise specified.

A. ADMINISTRATIVE STRUCTURE

With some nuances, North Macedonia, Albania and Kosovo have a stratified system of power, which means that for national level issues, responsibility falls on state institutions (central governments and respective parliaments) while for local issues, responsibilities fall on local self-government units (mayors/prefects and local councils/assemblies). The decentralisation of executive and legislative power in the three countries adheres to the principle of subsidiarity.²

As we will clarify below, there are several international conventions that the three countries respect in their organisation and regulation of LSGUs.

While Kosovo and North Macedonia have specific laws for their respective capitals, Prishtina and Skopje, Albania does not³, which means that for the city of Tirana, despite being the capital, the same laws and regulations apply as for all the other districts/municipalities.

1. Republic of Albania

The separation of executive and legislative power in Albania includes three layers: the central government, districts, and municipalities, which can be divided into even smaller units of self-government with limited capacities and powers - the latter serve as administrative units only for convenience administration, but in themselves they are not the basis of local government, and their representatives are not elected but appointed by the mayor.

In the Council of Ministers of the Republic of Albania, the institution responsible for local governance is the Ministry of State for Local Government.

² The principle of subsidiarity is defined in Article 5 of the Treaty of the European Union. This principle aims to ensure that decisions are made as close as possible to citizens and that continuous checks are carried out on whether actions at the community level are reasonable, comparing them with opportunities at the national, regional or local level.

³ <https://ata.gov.al/2023/10/04/percaktohet-fusha-e-perjegjesise-se-ministrit-te-shtetit-per-pushtetin-vendor/>

The responsibilities of the Ministry of State for Local Government are:

- coordination of the work for the drafting of policies and by-laws for the activities of LSGUs;
- supervision of the implementation of the Intersectoral Strategy for Decentralisation and Local Self-Government, as well as the relevant action plan;
- coordination of work on legal proposals, improvement and drafting of legal and sub-legal acts in the field of decentralisation and local self-government, as well as giving opinions on draft acts related to local self-government issues;
- directing and coordinating the work between the structures established in the framework of inter-institutional relations with LSGUs and associations of local elected officials;
- representation of government policies in the field of local self-government and coordination of work with international organisations and partners that support the development of LSGUs;
- ensuring the fulfilment of obligations, as well as the monitoring and coordination of measures, which flow from the process of integration into the European Union and international agreements, as it pertains to local self-government.

Other central institutions that help the work of municipalities and/or districts include the Consultative Council⁴, the Agency for the support of local self-government⁵, and the Association of Municipalities of Albania.

Relations between the central government and LSGUs are regulated based on the principles of subsidiarity, consultation, and cooperation. The central government consults with the LSGUs on the policies, legislation and norms that regulate and have a direct impact on the exercise of the rights and functions of these units. LSGUs are consulted through representative associations of local self-government and other interest groups, through which they are enabled to present their opinions, comments and proposals on policies and legislation that have a direct impact on the exercise of their rights and functions.

The regulation and organisation of local government in Albania is done through the Law on Local Government⁶. According to this law, the mission of local self-government is to ensure effective functioning and to be as close as possible to citizens through:

- recognising the existence of different identities and values of communities;
- respecting the basic rights and freedoms of citizens, sanctioned by the Constitution or other laws;
- choosing different types of services and other local public facilities for the benefit of the community;

⁴ <https://ata.gov.al/2023/10/04/percaktohet-fusha-e-pergegjesise-se-ministrit-te-shtetit-per-pushtetin-vendor/>

⁵ <https://ata.gov.al/2023/10/04/percaktohet-fusha-e-pergegjesise-se-ministrit-te-shtetit-per-pushtetin-vendor/>

⁶ <https://ata.gov.al/2023/10/04/percaktohet-fusha-e-pergegjesise-se-ministrit-te-shtetit-per-pushtetin-vendor/>

- the effective exercise of functions, powers and the realisation of tasks by local self-government bodies;
- provision of services in appropriate forms, based on the needs of community members;
- effective promotion of inclusive community participation in local government;
- realisation of services, in accordance with the standards required by law or other normative acts.

This law provides for two layers of decentralised powers in Albania, namely the districts and the municipalities.

The territory of Albania is administratively divided into 12 districts which consist of municipalities. Executive power in the district is held by the Prefect, while legislative power is vested in the District Council. Each council also has a Presidency of the District Council, which has legislative and supervisory powers, that is, not executive.

The district represents an administrative-territorial unit, consisting of several municipalities with geographical, traditional, economic, social ties and common interests. The borders of the district coincide with the borders of the municipalities that make it up. The centre of the district is in one of its municipalities. The territorial scope, name and centre of the district are determined by law.

Municipalities are the basic units for local government. In Albania, there are 61 municipalities and administrative units⁸. Municipalities have the city as their centre. Municipalities can be further divided into administrative units that can be towns and/or villages, however these have limited powers and deal only with matters that directly affect the population, and not with matters of a regional/national nature such as policy making. Each municipality has the municipal council as the legislative power and the mayor as the executive power.

2. Republic of Kosovo

All municipalities in Kosovo are legal entities and have two governing bodies: the mayor of the municipality and the municipal assembly, which constitute the local executive and legislative bodies. The municipal assembly consists of municipal councillors who are directly elected by the citizens of the respective municipalities and have a four-year mandate, the same as the mayor. The number of councillors in the municipal assembly depends on the number of inhabitants that the municipalities have.

The Law on Local Self-Government⁷ was approved only two months after the declaration of Kosovo's independence in February 2008. The preamble states that the law is based on the principles of the European Charter of Local Self-Government, the Convention for the Protection of National Minorities, the European Charter for Regional Languages or Minorities and the

⁷ <https://mapl.rks-gov.net/wp-content/uploads/2017/06/Ligji-per-Veteqeverisje-Lokale.pdf>

European Convention on Cross-Border Cooperation between Communities or Territorial Authorities. There are a total of 38 municipalities in Kosovo.⁸

The Law on Local Self-Government is applicable to all municipalities in Kosovo, unless otherwise stated in other laws. The capital city of Prishtina, as stated in the constitution, is regulated by the special Law on the Capital of the Republic of Kosovo⁹, but this law has not been implemented¹⁰ since its approval in 2018. Therefore, all the articles of the law on local self-government that are applicable to other municipalities, also apply to the city of Prishtina.

According to the Law on local elections¹¹, local elections are administered by the Central Election Commission (CEC) and each municipality constitutes a single electoral district. Mayors of municipalities are elected if they receive 50%+1 of the valid votes. If this condition is not met, the CEC organises a second round of elections for mayor in which only the two most voted candidates compete.

City of Prishtina

The capital has a distinct legal position as defined in the Constitution, with its territorial boundaries aligned with those of the city of Pristina. The regulations set forth in the Law on Local Self-Government apply to Pristina, unless expressly stated otherwise in the law on the capital.

The capital city is responsible for ensuring public safety through the Police Directorate specifically designated for the capital (yet to be established), providing health care services through the establishment of the capital's hospital, and providing public services through public enterprises. In terms of structure, the capital shares a similar organisational framework with other cities, featuring the Office of the Mayor and the local assembly with 51 members.

3. Republic of North Macedonia

According to the Constitution, local self-government is regulated by a law that belongs to systemic laws, for which two-thirds of the votes of the total number of deputies (80 out of a total of 120) and a majority of the votes of the total number of deputies who belong to communities that are not the majority in North Macedonia are required. The law also regulates the boundaries of municipalities, local elections and the organisation of the City of Skopje, as well as the financing of municipalities.

The Republic of North Macedonia, according to the Law on Territorial Organisation¹², recognises 84 municipalities, including those of the city of Skopje. There are currently 81

⁸ <https://gzk.rks-gov.net/ActDetail.aspx?ActID=2518>

⁹ <https://gzk.rks-gov.net/ActDetail.aspx?ActID=16506>

¹⁰ <https://gazetametro.net/ligji-per-krvegjytetin-mbetet-ne-sirtar-rama-e-tahiri-kerkojne-implementim-me-te-shpejte/>

¹¹ <https://gzk.rks-gov.net/ActDetail.aspx?ActID=2549>

¹² <https://mls.gov.mk/images/laws/Ligji%20per%20organizim%20territorial.pdf>

municipalities, following the merger of three municipalities within the municipality of Kicevo (Drugovo, Oslomej and Zajas). Decentralisation in North Macedonia is implemented through a model very similar to the one explained above for Kosovo, which means that except for the city of Skopje, which is regulated by a special law, there are only two levels of power, the state institutions, and local/municipal ones.

Articles 31 to 56 of the Law on Local Self-Government¹³ define the organisation and functioning of municipalities. Each municipality has a mayor and a municipal council respectively as executive and legislative power elected by the people.

The law also leaves room for other forms of direct local self-government. They can be established in urban communities in cities or in other settlements in local communities. Residents in these units examine issues, take positions, and prepare proposals for issues of direct and daily importance for the life and the work of the residents of that territory. They can elect the council of the urban or local community, respectively in the manner and procedure defined by the municipal statute.

City of Skopje

According to the Law on the City of Skopje¹⁴, the capital constitutes a separate unit of local self-government. The city of Skopje has municipalities, which are smaller administrative units within the capital, and all have their own councils and mayors. The municipalities of Skopje include: Center Municipality, Aerodrom, Kisela Voda, Gazi Baba, Butel, Saraj, Karpos, Suto Orizare, Cair and Gjorce Petrov.

Municipalities within the City of Skopje, adhering to the legal framework and the principle of subsidiarity, have the power to undertake projects that are considered of public interest in their territory. This authority extends to matters that are not excluded from their jurisdiction, which are not within the competence of the bodies of state power or the bodies of the City of Skopje (Article 17 of the Law on the City of Skopje).

The governance structure of the city of Skopje and its municipalities is divided into the city council and the mayor's office. The Skopje City Council consists of 45 members.

B. COMPETENCIES OF LOCAL SELF-GOVERNEMENT

1. Republic of Albania

¹³ <https://mls.gov.mk/images/laws/Ligji%20i%20veteqeverisjes%20lokale.pdf>

¹⁴ <https://mls.gov.mk/images/laws/Ligji%20per%20qytetin%20e%20Shkupit.pdf>

According to the Law on Local Self-Government¹⁵ local governments in Albania (districts and municipalities) have “functions, powers and delegated functions”. Functions and powers are inherent to all municipalities, while delegated functions come from a central authority, usually the central government. Functions, powers and delegated functions are essentially obligations that districts and municipalities have.

The competencies of the District Council include:

- the election of the Council's committees (consisting of its advisers) and the approval of its internal regulation of operation;
- the election of the chairman of the Council, the deputy and the members of the chairmanship from among the members of the Council, respecting the law on gender equality, and their dismissal;
- appointing and dismissing the Secretary of the District Council;
- approval of the structure, organisation and salary categories/classes for each position in the civil service and the basic regulations of the district administration, units and budgetary institutions depending on the district, as well as the number of their personnel, qualification requirements, salaries and methods of employment and the remuneration of employees and other persons, elected or appointed, in accordance with the legislation in force;
- approving acts of establishment of enterprises, commercial companies and other legal entities created by the District Council or for which the Council is a co-founder;
- approval of the budget and its amendments;
- organisation and supervision of internal control.

On the other hand, for municipalities, according to a 2023 report on local governance of the Institute for Municipalities of Albania¹⁶, there are 41 different classifications of functions, in the field of infrastructure, public services, social services, agriculture, health care, culture, education, etc. According to the Law on Local Self-Government, the functions are divided into the following categories (Articles 23 to 29):

- infrastructure and public services;
- social services;
- culture, sport, recreational activities;
- environmental protection;
- agriculture, rural development, forestry and public pastures, nature and biodiversity;
- local economic development;
- public security.

Some of the main powers of the Mayor include (Article 64):

¹⁵ <https://qbz.gov.al/eli/ligj/2015/12/17/139>

¹⁶ <https://iam.org.al/wp-content/uploads/2023/05/Raport-per-qeverisjen-vendore-2022-Shqip-OK.pdf>

- implementation of council acts;
- taking measures for the preparation of the materials of the municipal council meeting, in accordance with the agenda set by the council, as well as for the issues that he/she asks him/herself;
- reporting to the council on the economic and financial situation of the municipality and its component administrative units at least every 6 months or as often as required by the council;
- reporting to the council whenever requested by it for other problems related to the functions of the municipality;
- serving as a member of the district council;
- appointing, in compliance with the law on gender equality, the deputy mayors of the municipality, and their dismissal;
- appointing, in compliance with the law on gender equality, administrators of administrative units/neighbourhoods and their dismissal;

2. Republic of Kosovo

Some of the main municipal competencies include (Article 17):¹⁷

- local economic development;
- urban and rural planning;
- land use and development;
- implementation of construction regulations and standards for construction control;
- protection of the local environment;
- provision and maintenance of public services and municipal services, including water supply, management of sewerage and drainage systems, wastewater treatment, waste management, local roads, local transport and local heating schemes;
- response to local emergencies;
- provision of public pre-school, primary and secondary education, including registration and licensing of educational institutions, employment, payment of salaries and training of instructors and education administrators;

For municipalities with a Serb majority, the Law provides a list of "extended municipal competences". Articles 19 to 23 define extended competences for municipalities with a Serb majority in the field of health care, university education and culture. Serb-majority municipalities also have the reserved right to participate in the election of local police commanders.

Some of the Mayor's main responsibilities include (Article 58):

- represents the municipality and acts on its behalf;

¹⁷ <https://mapl.rks-gov.net/wp-content/uploads/2017/06/Ligji-per-Veteqeverisje-Lokale.pdf>

- leads the executive of the municipality and its administration and supervises the financial administration of the municipality;
- exercises all competencies, which are not explicitly given to the municipal assembly or its committees;
- applies the acts of the municipal assembly;
- appoints or dismisses his/her deputies;
- appoints and dismisses the members who assist it in performing its duties;
- organises the work and directs the politics of the municipality.

3. Republic of North Macedonia

According to Article 22 of the Law on Local Self-Government, some of the municipality's competencies include¹⁸:

- urban and rural planning;
- environmental protection;
- local economic development;
- supporting cultural activities as well as recreational activities;
- social and child protection;
- primary and secondary education: establishment, financing, and administration of primary and secondary schools;
- health.

Article 22 of the Law on Local Self-Government contains a comprehensive list of the responsibilities of municipalities in North Macedonia. Also, the law provides for delegated competencies that come mainly from the central government.

According to Article 37 of the Law on Local Self-Government, some of the powers of the municipal council include:

- the implementation of the municipal statute and other provisions;
- conducting the budget and annual account of the municipality;
- determining the amount of personal funds of the municipal financial income, in the manner defined by law;
- creation of public activities within the competences of the municipality and supervision of their work;
- appointment of the members of the management councils of the public authorities established by the municipality;
- adopting work programs and financial plans for the financing of public activities established by the municipality;
- approval of the reports on the realisation of the budget and the annual account of the municipality;

¹⁸ <https://mls.gov.mk/images/laws/Ligji%20i%20veteqeverisjes%20lokale.pdf>

- the Council can adopt statutes, programs, plans, decisions and other provisions defined by law.

The mayor of the municipality is elected in direct elections by citizens of the municipality. The competencies of the chairman include:

- representation of the municipality;
- control of the legality of the provisions of the council;
- publication of provisions in the official newspaper;
- ensuring the implementation of council decisions.

City of Skopje

The Law on Local Self-Government regulates the organisation of the City of Skopje as a separate unit of local self-government in which the needs and interests of citizens are realised. The law regulates the competences and financing of the City of Skopje and the municipalities that are constituent parts, the use of languages, the cooperation of the City of Skopje with the municipalities that make up the City of Skopje, as well as other issues in the interest of the city. The law enumerates and limits matters of public interest and local importance that are under the authority of the City of Skopje, as well as under the jurisdiction of municipalities in the City of Skopje.

The competencies of the City of Skopje include:

- planning and regulation of urban space;
- approval of the urban plan for Skopje;
- environment protection;
- local economic development;
- municipal actions (maintenance of roads, water supply, city cleaning services, maintenance of city parks, etc.);
- supporting cultural activities;
- education support;
- sports;
- social protection and child protection services;
- health care;
- aid and rescue services;
- fire protection;
- supervision.

The municipalities of Skopje, on the other hand, have a similar range of responsibilities, only they are limited to their administrative boundaries.

C. FINANCING OF LOCAL SELF-GOVERNMENT

The financing of LSGUs in Albania, Kosovo and North Macedonia is based on a similar model. In the three analysed countries, the central government sets specific budget lines for municipalities. In addition, in all three countries, LSGUs have their own sources of income (mainly municipal taxes) and they have the right to receive loans and donations from third parties. The main difference is in the case of Kosovo, where municipalities are not allowed to receive loans from international entities, but only those entities that operate at the country level.

1. Republic of Albania

Article 38 of the Law on Local Self-Government¹⁹, describes the financing of regional districts in Albania, in which it is stated that the district generates income from its own local sources and income from national sources, which consist of:

- unconditional transfers from the state budget;
- conditional transfers for the performance of relevant functions and competencies delegated by the constituent municipalities;
- taxes raised at the district level;
- fees for public services performed by the district;
- the district is also financed by the membership quotas of the constituent municipalities, determined in the annual budget of the municipalities.

For municipalities, on the other hand, Article 11 of the Law on Local Self-Government determines that the budget resources include:

- own resources, including local taxes, compensations, and taxes;
- the municipality, in the manner determined by law, determines the rates of compensations and taxes;
- State subsidies and other sources of income;
- The municipality has the right to have debts in the internal and external capital market, in accordance with the Law.

In other words, local self-government units are financed by the revenues provided by taxes, fees and other local revenues, by funds transferred from the central government and funds that come directly to them from the distribution of national taxes, borrowings, donations, as well as other sources, provided for in the law.

When it comes to local taxes in Albania, they are categorised as follows:

¹⁹ <https://qbz.gov.al/eli/ligj/2015/12/17/139>

- local taxes on movable and immovable assets, as well as for transactions carried out with them;
- local taxes on the economic activity of small business;
- local taxes on hotel service activity;
- local taxes on personal income, generated by gifts, inheritances, wills or local lotteries;
- income from donations and gifts;
- temporary local taxes, which are imposed in accordance with the law;
- other taxes determined by law.

Other sources of income may include:

- income from the leasing assets owned by the municipality;
- income from capital investments;
- income from titles and other rights purchased by the municipality;
- income from the profit of public enterprises;
- income from public-private partnerships.

2. Republic of Kosovo

The main sources of financing of the municipalities of Kosovo, according to the Law on Local Self-Government are:

- municipalities' own resources;
- grants from the central government;
- donations;
- other resources (loans).

According to the Law on Local Government Finances, municipalities have the right to their own financial resources to ensure fiscal stability. The mayor and directors have the right and authority to manage the financial means derived from the municipalities' own resources or those given by the government as a general grant. This Law determines the funding sources for municipalities, as follows:

Municipalities' own resources:

- municipal taxes, fines (including traffic fines), fees for services, payments for public services, regulatory obligations;
- taxes for business activity permits;
- taxes for professional services permits;
- taxes for motor vehicles;
- taxes for the municipal administration;
- taxes for construction and demolition permits;
- other municipal taxes.

Operating grants transferred from the state budget are:

- general grants;
- specific grants for education;
- specific grants for health protection;
- grants for increased competencies;
- special grants (e.g. in cases of natural disasters, terrorism, or civil insurrection);
- financial assistance from the Republic of Serbia;
- loans (municipalities cannot accumulate external debt; loans are allowed only from sources operating in the country).

The Association of Kosovo Municipalities provides a comprehensive breakdown of all revenues for the municipalities of Kosovo.

City of Pristina

The capital city receives a grant from the central government that is not less than 6% of the total grant for the municipalities. Capital investments that have a national character are also supported by the central government.

3. Republic of North Macedonia

According to Article 11 of the Law on Local Self-Government, in North Macedonia municipalities can be financed through:

- own resources: local taxes, compensations and fees;
- grants from the state government and transfers;
- loans from the internal and external market.

The Law on the Financing of Local Self-Government Units explains the form of financing of LSGUs. This law does not describe in detail what these sources include²⁰. Instead, it is the Law on the City of Skopje, detailed below, which lists all sources of funding for municipalities.

City of Skopje

According to the Law on the City of Skopje, Skopje and the municipalities in the City of Skopje are financed from own revenues, tax revenues, revenues from the state budget and fund budgets, as well as from revenues otherwise determined by law.

To ensure equal conditions for the financing of the municipalities in the city of Skopje and to meet the common needs of the citizens in the city of Skopje, Article 23 of the law establishes the joint fund of the city of Skopje and the municipalities in the city of Skopje.

²⁰ <https://qbz.gov.al/eli/ligj/2015/12/17/139>

The fund is formed from personal income tax, municipal taxes for companies and municipal taxes for the use of roads with vehicles, means of transport and vehicles with trailers and other means, in accordance with the law. The City of Skopje and its municipalities realise the revenues from the Common Fund in accordance with the methodology for the distribution of funds from the Common Fund.

Also, Article 25 of the Law determines that revenues from local taxes are revenues of the City of Skopje and its municipalities and are distributed equally between the City of Skopje and the respective municipality where the taxes are collected.

Own sources of income in the city of Skopje and in the municipalities in the city of Skopje include:

- local taxes (property tax; real estate turnover tax; inheritance and gift tax; other local taxes defined by law);
- local taxes (municipal taxes, administrative taxes and other local taxes defined by law);
- local compensations (compensation for the regulation of construction land; compensation for municipal activities; compensations for urban spatial plans; other local compensations determined by law);
- income from property (income from renting property; income from interest; income from sale of property);
- income from self-contribution;
- income from fines determined by law;
- income from donations;
- other income defined by law.

Municipal taxes from which the City of Skopje and the municipalities in the city of Skopje realise revenues are:

- taxes for signage, namely the name of the business premises;
- taxes for the use of roads with vehicles, means of transport, buses, special vehicles and motorcycles;
- taxes for the use of surfaces as camps for pitching tents and other similar temporary uses;
- taxes for the use of music in public spaces;
- taxes for the use of the space in front of the business premises for carrying out the activity;
- taxes for placing advertisements and announcements in public places;
- taxes for placing showcases for displaying goods outside business buildings;

- taxes for the use of squares and other spaces in cities and other inhabited places, for the purpose of exhibiting articles, presenting exhibitions and other entertainment shows for carrying out the activity;
- taxes for the use and maintenance of public lighting;
- other municipal revenues determined by law.

On the other hand, the funds from the state budget are as follows:

- earmarked grants;
- general grants;
- capital grants;
- grants for delegated competencies.

In the first part, we explained that in North Macedonia, the largest part of the local income structure consists of grants from the central government. From table 2 below, it can be concluded that the own revenues of the municipalities in North Macedonia constitute only 33% of the total, which is significantly below the level of Albania (41%) and the region (38%), but better than Kosovo where personal revenues constitute only 17% of total municipal revenues.

2021	Own income	Common taxes	General grants	Sectoral block grants	Investement grants
North Macedonia	33%	7%	4%	52%	4%
Albania	41%	4%	26%	12%	5%
Kosovo	17%	0%	32%	46%	8%
Western Balkans	38%	15%	21%	18%	8%

Table 2: Structure of local revenues (Source: NALAS)

In terms of local government revenues per capita (table 3), North Macedonia and Kosovo are at the same level with 316 euros per capita, significantly better than Albania with 206 euros per capita. However, all three countries are below the regional average (347 euros per capita) and still far from the level of investment in EU countries (3,718 euros per capita).

Seen as a percentage of public revenues and GDP, the situation is slightly different. North Macedonia is close to the regional average, while Kosovo is better since local revenues make up over ¼ of total public revenues and over 7% of GDP. Albania lags behind here, as revenues account for only 14.2% of total public revenues and 3.8% of GDP.

2021	In millions Euro	In Euros per capita	In % of total public revenues	In % of GDP
North Macedonia	656	316	17.4%	5.5%
Albania	591	206	14.2%	3.8%
Kosovo	564	316	25.8%	7.1%
Western Balkans	6280	347	16.3%	5.6%
EU	1.662.035	3.718	24.4%	11.4%

Table 3: Local government revenue (Source: NALAS)²¹

²¹ NALAS, Local government finance indicators in Southeast Europe, statistical summary 2023.

CASE STUDY: COOPERATION BETWEEN MUNICIPALITIES AND THE CENTRAL GOVERNMENT IN TETOVO, GOSTIVAR, KUMANOVO AND VRAPCISTE

If decentralisation can be defined as a process which has as its main goal the citizen and the provision of a better-quality public service, then genuine cooperation and communication between central and local government are essential to implement efficient policies for the benefit of citizens. In countries that are not sufficiently decentralised, problems in communication between local and central government can have important implications for citizens. These collaboration challenges often lead to inefficiencies, blockages, delays in service delivery, and lack of coordination in addressing citizens' needs.

Even though decentralisation has been implemented in North Macedonia for two decades, the financial dependence of municipalities on the central government remains extremely high. Looking at capital investments realised by the central government at the local level, it is clear we are facing extreme centralism, with municipalities being highly dependent on the government. Moreover, capital investments of the central government at the local level are implemented through government plans and programs as well as a project application system, which in practice should be transparent and objective. However, institutional partisanship can affect access to competitive grants. And it affects even more mayors who do not belong to a party that is in the central government.

This case study is based on the perceptions and attitudes of four municipalities, collected through qualitative interviews based on a standardised research framework. Also, the central budget of the four municipalities has been analysed over the years in terms of capital investments from the central government (table 4), but the level of transparency is insufficient to ensure relevant comparisons between municipalities as information is limited to the project level and not providing details by municipality.

1. MUNICIPALITY OF TETOVO

The municipality of Tetovo is led by Bilall Kasami (chairman of the Besa Movement) since the local elections of 2021. In the two previous mandates, the municipality was governed by the Democratic Union for Integration (DUI), a central government party. Like many other municipalities in North Macedonia, Tetovo faces major challenges to meet its financial obligations. Debts inherited from previous periods and the difficult economic situation have resulted in the blocking of the municipality's account and have limited the financial capacity to carry out projects and provide services to citizens.

Regarding the level of funding, the representatives of the municipality of Tetovo emphasize that when the Municipality of Tetovo is in question, the central government does not cooperate in accordance with the law and prevents the realisation of planned programs and that malicious attempts are observed through this approach.

A significant number of municipal resources come from the central government (through grants, capital investments, etc.) through the formulas of the current financing model, and this creates a great dependence of the Municipality of Tetovo on the central government. Variability in municipal financial situation may result from several factors, including municipality size, levels of local economic development, population, infrastructural needs, and established local policies. As for the Municipality of Tetovo, these financial transfers are insufficient.

The cooperation of the Municipality of Tetovo with the government and the relevant ministries in the application for grants and financial assistance projects exists but is very poorly evaluated, as this cooperation has faced challenges in communication about deadlines, support and supervision during the implementation of projects. The municipality of Tetovo has encountered challenges and difficulties in absorbing grants and projects from the central government outside of transfers and standard financing. In some cases, it has experienced a feeling of being ignored or lacking support from the relevant institutions at the central level. There have been other cases when communication between the municipality and the relevant institutions has been weak and marked with difficulties. These difficulties are the result of various causes, such as the lack of transparency, the impossibility of creating a healthy communication between the two parties, as well as the combination of political and administrative factors.

In some cases, communication with the relevant ministries has been insufficient and unclear about deadlines and procedures for applying for grants. The municipality of Tetovo has encountered difficulties in obtaining information and fulfilling the necessary requirements before the application deadline. The lack of transparency and ineffective communication have brought obstacles for the Municipality of Tetovo in fulfilling the conditions of applications.

Professional support and assistance during the application process and project implementation have been limited. The Municipality of Tetovo has encountered difficulties in obtaining

technical support and advice for the preparation of documentation and the presentation of projects. In some cases, the lack of continuous supervision and assistance during the implementation of projects has resulted in significant difficulties and challenges.

In addition to the bad experiences of cooperation with the central government, the municipality of Tetovo also highlighted positive experiences, emphasizing the cooperation with the Ministry of Finance, which is somewhat satisfactory. The Municipality of Tetovo sees the Ministry of Finance as an active partner in relation to financing and general policy implementation of municipalities. This effective communication allows the municipality to be well informed about regulations and conditions that must be met to receive funding and to plan its budget appropriately.

The Municipality of Tetovo under Bilall Kasami faced a suspension of competences in education regarding the high school "Kiril Pejcinovic" as well as for employment in the municipal nursery. This has resulted in obstacles in the implementation of new educational policies, school organisation and curriculum planning.

The municipality faces problems in the realisation of revenues, especially regarding the collection of local taxes as well as in ensuring the implementation of decisions and verifications for the payment of property tax. This is due, among other things, to the lack of cooperation between institutions, especially in the case of the cadastre, for the updating of data and the inclusion of all properties in the territory of the municipality for taxation. Dependence on the central government for the collection of other taxes such as income tax and other taxes is highlighted as another obstacle, due to the lack of transparency from central institutions.

To address these problems, it is important to improve citizens' awareness of the payment of property tax in the Municipality of Tetovo, improve cooperation with relevant institutions and ensure transparency and regular information about tax revenues and other taxes that belong to the municipality.

The greatest need for fiscal decentralisation reforms according to the Municipality of Tetovo is the increase in funding. Changes in the Law on Local Self-Government may affect the way the Municipality of Tetovo exercises its powers and financial autonomy. According to the Municipality of Tetovo, a problem in itself is the delay of the law on legalisation of buildings, which has created additional problems in the generation of municipal financial resources.

The municipality emphasised that it is important to change the methodology for the distribution of funds for municipalities, to ensure a more stable and sufficient financial base to meet municipal needs. In this context, the expansion of competences in certain areas is an important step towards full decentralisation. The expansion of local competences in sectors such as education, health, transport, urban planning, and economic development will allow municipalities to make decisions and implement policies in accordance with their specific needs.

2. MUNICIPALITY OF GOSTIVAR

The municipality of Gostivar is led by Arben Taravari (chairman of the Alliance for the Albanians) since the local elections of 2017, after a long governance by DUI.

At the political level, the governance of Mayor Taravari has been problematic both in the functioning of the municipality due to the unstable composition of the municipal council and blockades by the opposition, and in relation to the central government during daily communication and application in projects.

There have also been periods where the central government took the powers of the mayor, arbitrarily according to the municipality. However, these difficulties and problems have accompanied the Municipality of Gostivar during the years 2017-2021 when the party of the mayor of the municipality was in opposition at the central level. The municipality of Gostivar throughout this period was flooded by dozens of checks ordered by the central government such as audits, controls by the financial police and other inspections, without reason and without warnings. According to the municipality, this is the result of pressures initiated by the former mayor (Nevzat Bejta) in cooperation with the central government, so that Taravari is prevented and encouraged to resign. After the Alliance for Albanians joined the government in February 2022, the municipality believes that the central government is softer in relation to Gostivar.

Regarding financing, the municipality has not faced any problems regarding the allocation of the annual budget since it is based on the relevant law and the methodology for the distribution of funds. When it comes to projects financed by the government, the municipality has often applied for co-financing, including through the Bureau for Equal Regional Development, but cooperation has been difficult.

The municipality, however, has satisfactory cooperation with several ministries for the realisation of projects. Among them, the Ministry of Ecology and the Ministry of Transport were singled out. With the Ministry of Ecology, the municipality emphasised a project worth 2 million euros, known as the Block 21 project. Among other things, a case was highlighted where the Ministry of Ecology, by decision of the Government, allocated 6 million denars to the Municipality of Gostivar. Moreover, a project for paving two roads has been accepted with the Ministry of Transport.

The municipality of Gostivar is considered one of the municipalities that has excellent cooperation with international organisations, such as the EU, UNDP, USAID, etc. and bilateral programs with Western embassies. The implementation of projects supported by international organisations has been a great help for the functioning of the municipality.

The Municipality of Gostivar highlighted concrete cases when the central government has done injustice to the municipality. For example, there was a government stir that huge investments being made in Gostivar, while in fact the central government directly invested all the financial means in the Gostivar hospital, without allowing this investment to be made through the municipality. The funds in fact came from TAV Airports Holding. While all municipalities received funds and decided their own investment based on municipal interest and priorities, the case of Gostivar municipality was different: the government arbitrarily decided where to spend those funds.

Among other problems faced by the municipality are the difficulties in the collection of property tax, the collection of taxes on specific services, as well as the lack of personnel. On this issue, the municipality is in the process of drawing up a strategy to suspend service provision for those who do not pay taxes.

The Municipality of Gostivar demands more competences in the sphere of culture and primary health, an increase in the return of VAT, since the budget is insufficient to fulfil needs and realise projects. Above all, they demand comprehensive decentralisation.

3. MUNICIPALITY OF KUMANOVO

The municipality of Kumanovo has been led by Maksim Dimitrievski (ZNAM Movement) since 2017. In his first term, Dimitrievski was a member of the SDSM, meanwhile, he won the second term as an independent candidate after his separation from the SDSM.

The Municipality of Kumanovo assesses that it broadly manages to fulfill its legal obligations. It highlights that based on research and surveys carried out by independent organisations, the Municipality of Kumanovo has been among the most successful.

In terms of financing, the main problem faced by the municipality is block grants for which competences are often taken from the central government, specifically in education, culture or in employment and social issues. Funds issued by the government are very low and it is difficult to cover basic expenses in many sectors.

The municipality of Kumanovo pointed out that one of the main problems is with block donations and special grants for firefighters. With these funds, the municipality can pay only 15 firefighters, while 33 are paid from municipal funds.

Regarding investments from the central level, the Municipality of Kumanovo believes it has often been excluded, even though it had all the documentation in order. The municipality of Kumanovo has received very few investments from the central level, at most one or two projects per year. Capital investments from the central government are made in schools, but in 2022 most of the schools were financed by the municipality itself, even though this should have been done by the Ministry of Education.

In Kumanovo, there were only a few years when the Municipality was led by a mayor who came from the party that is in power. The previous mayor as well was from SDSM, while VMRO was in the central government. So, for more than 18 years, the Municipality of Kumanovo has been governed by mayors who do not come from the party that is in power. The Municipality of Kumanovo is used to pressures and it is not the first time that it does not receive transfers from the state. The municipality has been blocked for 12 years, operating with an account blocked by the state, specifically by the Ministry of Finance. Therefore, this problem is not new for Kumanovo and dates back much earlier.

The Municipality of Kumanovo confirmed the dependence from the central government, stressing that *"decentralisation is talked about and nothing is being done in this direction. No matter what it is about, the municipalities depend on the central government for everything."*

Communication with central institutions is difficult, with some positive cases but also very negative cases of communication with the central government. *"When we talk about the Ministry of Finance, it mainly depends on which sector we are talking about. For example, only*

the budget and funds sector is accessible. The other sectors are disastrous, they don't even answer the phone, nor do they answer emails for days. So, all other sectors within this Ministry in terms of communication with the Municipality of Kumanovo are at a low level". Moreover, the municipality said that "it is about issues that must be decided within a day. These are jobs that do not tolerate senseless and unreasonable waiting, and in fact it happens to be waiting for 10 days or more, where, for various occasions, many workers may be left without pay for whole days only because of the lack of proper communication. Legal deadlines are passed, interest is activated, budget rebalancing, etc. To function normally, quick, and efficient communication is needed, which rarely happens due to party affiliation".

At the municipality of Kumanovo, the powers of the mayor have been taken several times. The last case was from the Ministry of Labour and Social Policy, which took over the powers of the mayor for a daycare centre because, according to the management of the daycare centre, the mayor did not start the selection of the new director in time. The municipality denied this immediately by sending a complaint, and the powers were returned to the municipality within the day. The municipality of Kumanovo is often taken its competences in education as well as in social policy, according to the municipality to demonstrate the full control of the central government over the local one.

In the last five years, the Municipality of Kumanovo has been successfully collecting its own income. Some 90% of citizens are regular taxpayers. There are still problems in collection, but efforts are being made for each citizen to pay property tax and municipal taxes.

The municipality of Kumanovo advocates for a complete change of the methodology of the distribution of funds from the central government. Legal changes for full decentralisation are necessary according to the municipality. They estimate that *"it is not possible for X ministry to take over the powers for a trivial matter, then return it the next day and all that to end without any responsibility. Complete decentralisation is needed."*

4. MUNICIPALITY OF VRAPCISTE

The Municipality of Vrapciste is led by Isen Shabani (Alliance for Albanians), since 2017.

The municipality of Vrapciste is a rural municipality and, according to the municipality, it does not have sufficient financial capacity to fulfil its obligations in the service provision to citizens. The municipality estimates that changes that have occurred in the Law on Local Self-Government had a negative impact and have significantly reduced the autonomy of municipalities.

The municipality is satisfied in terms of central investments through block grants and in the form of projects. The Municipality also has good cooperation with international organisations such as UNDP, where the Municipality co-finances 10-20% of each project and the rest is covered by the international organisation.

The main problem in the distribution of funds from the Ministry of Finance according to the Municipality of Vrapciste has to do with the special formula per capita. Vrapciste in the last census has only 19,842 resident inhabitants and 32,000 inhabitants when non-residents are added. So, over a third of the residents have migrated.

The decrease in the number of resident inhabitants automatically decreases the transfers made to the municipality, meaning funds that are insufficient to fulfil obligations. The Palace of Culture in the village of Negotino was mentioned as a concrete case, where from the grant of 3.6 million denars for one year, 3.3 million denars are spent only on salaries. The remaining part is insufficient to realise any project. The same happens with education.

Moreover, the collection of local taxes is one of the biggest problems in the Municipality of Vrapciste, due to its rural nature and the fact that most residents live abroad and make their payments very late when they return to their homeland for vacation.

Regarding communication with the central institutions, the municipality says that there were obstructions until the party to which the mayor belongs was not part of the government, specifically from the Ministry of Education and the Ministry of the Environment, both led by DUI. The municipality estimates that it was discriminated twice for the fact that it is an majority-Albanian municipality and it is led by an opposition mayor. Now that the Alliance for Albanians is part of the government, there is a big improvement in the cooperation and communication of the Municipality of Vrapciste with the central institutions.

CONCLUSION

North Macedonia continues to be a highly centralised state with pronounced stagnation in the last decade in the field of decentralisation. Municipalities are the closest and most open door for communication and services to citizens, yet the central government finds it difficult to leave the municipalities free to carry out their duties.

The process of decentralisation does not reduce the level of powers of the central government, but only eases the responsibility and paves the way for the normal and adequate functioning of the state. Yet, this research proves that decentralisation is still weak in the states of the region, and especially in North Macedonia.

The research proves that the local government is suffocated by the central government, and that the central government is deaf to the constant request of municipalities for more decentralisation. Instead of cooperation, there is pressure and dictate from the central government.

Decentralisation as a process in principle means the independence of municipalities from the central government. Municipalities cannot develop if, for a project, it is necessary to knock on many doors and make many interventions at the political level, as has been the practice until now.

Among the main findings of the research is the fact that the municipalities are highly financially dependent on the central government. This happens for two reasons: the first has to do with excessive centralisation of power, and the second is that the municipalities do not generate enough own income. The VAT refund formula is especially not ideal for the municipal budget and should be changed urgently. From the interviews conducted in the four municipalities that were part of the study, none of them had income from natural resources, such as water sources or energy generation, even though the law provides that 25% of the profit for each concession remains in the budget of the municipality, and 75% goes to the central budget.

Meanwhile, the research has pointed out that inter-municipal cooperation is clearly lacking. This cooperation is foreseen by the Law on inter-municipal cooperation, approved in 2009, which regulates the cooperation between two or more municipalities for the most cost-efficient implementation of municipal powers. This law is not implemented in practice, since the municipalities, instead of cooperating among themselves, must make continuous efforts and spend their time and energy with the central government.

Another important part of the research highlights the lack of adequate preparation of municipal personnel to apply for various grants offered by the IPA funds of the EU or even by other international organisations. Decentralisation should play a direct role here for the stronger

independence of municipalities, increased responsibility, and preparation to face and manage their own competences.

The research has shown that the financing of local self-government units in North Macedonia, Kosovo and Albania is based on similar models, yet North Macedonia is more centralised in fiscal terms. In this regard, it is found that because of centralisation, funding is limited and the pressure of the central government on the local government is easy. This has been proven in all the municipalities that were part of the study, which expressed the same concern about the central government taking their powers.

Another important issue detected by this research is the problem of local tax collection. In fact, this problem affects all municipalities at the country level. Municipalities use different coercive and punitive mechanisms to collect the tax. On the other hand, citizens find it difficult to pay taxes, especially in rural municipalities where the basic conditions for living such as drinking water, roads and sewerage are lacking.

Insufficient and limited funding, the taking of powers due to party motives and obstruction in the performance of functions, the lack of support in applications for grants and other funding investments, are some of the main challenges that should be addressed in the process towards more decentralisation.

RECOMMENDATIONS

- Increasing municipal revenue as the greatest need for decentralisation reforms. It is important to have a new methodology for the distribution of funds to municipalities, to ensure a more stable and sufficient financial base to meet municipal needs. The VAT refund rate should also be increased.
- Expanding competencies as an important step towards full decentralisation. The addition of local competences in sectors such as education, health, transport, urban planning and the economy will enable municipalities to make decisions and implement policies in accordance with their specific needs.
- Easing the criteria for application in government investment projects. Institutions implementing investment programmes should clarify the criteria for participation and selection of projects.
- Implementation of good European practices in the management of capital transfers.
- Investing in training and increasing the staff of municipal administrations to improve the ability of municipalities to provide better quality services to citizens.
- Implementation of campaigns to raise citizens' awareness on tax payment, clarifying sanction and benefits from investments that are realised through the collection of municipal taxes.
- Improvement of efficient and professional communication between the two levels of power regardless of national, party and other differences.
- Creation of regular channels of communication, open dialogue, and technical support from responsible institutions with the aim of improving cooperation between the two levels of power.
- Reviewing municipal borders to adjust and adapt the administrative structure to local realities. This change will allow the municipalities to operate in a more suitable territory and better coordinate with their needs and potentials.
- Understanding and assessing the real needs of municipalities to actively participate in the decision-making process and the implementation of local policies.

Web: www.ipp-arbenxhaferi.org

Institute for Public Politics Arbën Xhaferi
Tetovska 33/2/7
1000 Skopje
North Macedonia

**The State of fiscal decentralisation
in North Macedonia**

March 2024

