



LSEE Papers on Decentralisation and Regional Policy

**DECENTRALISATION AND REGIONAL POLICY IN THE
REPUBLIC OF MACEDONIA: DEVELOPMENTS AND
PERSPECTIVES**

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Decentralisation and regional policy in the Republic of Macedonia: developments and perspectives

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Introduction

Decentralisation and regional development policy in the Republic of Macedonia have evolved under different circumstances, but both involve a possibility for positive changes at the local level. The decentralisation policy has mainly derived from the political requests of the municipalities regarding the devolution of competences in many areas from the central to the local level, while regional development policy was mainly created as a response to the problem of huge economic and social differences between the capital city and other parts of the country. There was also an external dimension in the creation of regional development policy, attributable to the EU accession process of the Republic of Macedonia. Given the regionalisation practices in the EU member states, along with the aim of social cohesion within the EU, each candidate country is obliged to start with preparations for adoption of the EU regional policy during the accession process. That significantly influenced the efforts of the Macedonian authorities regarding development of the regional development policy. However, according to the EU standards, the Republic of Macedonia would qualify as a single region for use of the Structural and Cohesion Funds upon membership, which implied elaboration of the regional development policy that addresses the internal disparities between the regions in the Republic of Macedonia. Despite of the primarily domestic focus, the EU principles were respected in the elaboration of the regional development policy. In addition, this policy is expected to contribute to the increase of the sub-national level capacity for the absorption of EU funds, through establishing sound standards for elaboration and realisation of regional projects.

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Both policies were developed in different time frameworks, but their implementation could be related. The decentralisation policy was outlined in the Law on Local Self-Government adopted in 1995, which largely reflected the legislation of the Former Yugoslavia. The current Law on local-self government was adopted in 2002 following the resolution of the armed conflict of 2001 and the adoption of the consequent Ohrid Framework Agreement. As a means of offering greater 'say' in decisions over local public expenditures, the law stipulated the transfer of administrative functions in more than 12 areas, from the national to the local level. The actual transfer of competences began in July 2005, after the enforcement of the Law on Territorial Organization of Local Self-Government (adopted in 2004). The transfer of competences has not yet been completed, indicating the complexity of the decentralisation policy. On the other hand, the regional development policy was set up in a shorter period of time (2007-2009), with the adoption of two major documents - the Law on Balanced Regional Development (2007) and the Strategy for Regional Development (2009). However, the actual implementation of this policy is in its early stages, especially with regards to the activities focusing on the main aim of the policy – a more balanced development within the country.

Regardless of the different background of the policies, both were tailored to provide a greater role for the municipalities in the utilisation and management of their resources. The decentralisation policy involves the devolution of administrative power to the local level, based on the territorial division of the Republic of Macedonia into municipalities. The regional development policy does not entail any official level of government, but the Law stipulated the establishment of eight 'planning regions' and other regional structures to support the implementation of the policy. The planning regions comprise municipalities who should work together in the preparation and realisation of the regional development projects. The system for funding of the regional projects involves compulsory inter-municipal cooperation of at least two municipalities within the region. Therefore, both policies rely on the same basic unit – municipalities. Also, the creation and implementation of both policies has been allocated to the Ministry of Local Self-government. This could be a positive step with regards to the coordination of local and regional development planning, but implies a need for a strong capacity of the Ministry in both areas, as well as for effective coordination with the relevant stakeholders on a national, regional and local level. In this regards, the aim of this paper is to explore developments and perspectives of the decentralisation and regional development policy, with a focus on the possibility for matching both policies, in order to ensure their more efficient and effective implementation.

The decentralisation policy

The decentralisation policy is very complex and could be analysed from different perspectives. Apart from the political dimension of the process, it could also be viewed from the perspective of creating strong and independent municipalities which would serve as a driving force of the country's development. In this regard, the analysis of the decentralisation policy involves several aspects: setting-up the relevant legal framework; the process of implementation, including the transfer of the competences and the delivery of services; and the monitoring of the effects of decentralisation.

The legal framework

The major Laws comprising the legal framework for decentralisation policy include:

- 1) Law on local self-government in the Republic of Macedonia (2002)¹
- 2) Law on territorial organisation of the local self-government in the Republic of Macedonia (2004)² and
- 3) Law on financing of the units of the local self-government in the Republic of Macedonia (2004).³

In addition, numerous sector laws are related to the specific competences, such as the Law on education, the Law on Catering and Tourism (related to local economic development), the Law on Culture, and the Law on Urban and Spatial Planning which also had to be adjusted to the decentralisation process.

The Law on local self-government (Article 22) stipulated the transfer of the following competences from the national to the local level: ⁴

- urban and rural planning;
- environmental protection;
- local economic development;
- communal services;
- culture;

¹ Law on local self-government, Official Gazette of the Republic of Macedonia 05/02

² Law on territorial organisation of the local self-government in the Republic of Macedonia, Official Gazette of the Republic of Macedonia 55/2004

³ Law on financing of the units of the local self-government in the Republic of Macedonia, Official Gazette of the Republic of Macedonia 61/04

⁴ Law on Local self-government, op.cit

- sport and recreation;
- social and child protection;
- education;
- health protection,
- prevention and protection of citizens and goods from elementary disasters and other catastrophes;
- fire-fighting and
- monitoring of the outcomes from undertaken local competences.

The Law on territorial organisation of local self-government determined the establishment of 84 municipalities and the city of Skopje.⁵ The Republic of Macedonia has over two million inhabitants, while the structure of the municipalities according to their size is as follows:

- 16 municipalities with up to 5,000 inhabitants;
- 16 municipalities with 5,001 to 10,000 inhabitants;
- 21 municipalities with 10,001 to 20,000 inhabitants;
- 17 municipalities with 20,001 to 50,000 inhabitants;
- 13 municipalities with 50,001 to 100,000 inhabitants;
- 1 municipality with more than 100,000 inhabitants.

As is evident from the data, most municipalities are quite small, with around 38% of the municipalities having up to 10,000 inhabitants. In terms of urban/rural structure, there are 41 rural municipalities (out of 84 plus the city of Skopje) in the Republic of Macedonia. The size and the structure of the municipalities imply serious difficulties for some of the municipalities, especially the small and rural ones, to undertake some of the transferred competences. Therefore, a gradual transfer of the competences was stipulated in the legislation, in particular for the competences requiring strong skills in the area of financial management at the local level. In this context, the most important process was that of fiscal decentralisation, stipulated in the Law on Financing the Units of Local Self-government. According to this Law (article 44), the fiscal decentralisation was to be implemented in two phases.⁶ The first phase consisted of the transfer of ear-marked grants, which represented the allocation of a share (percentage) of the fiscal revenues, such as property tax and

⁵ The city of Skopje is a separate unit of self-government, consisting of 10 municipalities (as part of those 84)

⁶ Law on financing of the units of the local self-government in the Republic of Macedonia, op.cit

personal income tax from the national to the local level. In order to enter the first phase of fiscal decentralization, the municipalities should have:

- at least two employees within the municipal administration qualified to work in the area of financial management, budget preparation, its execution, accounting and preparation of financial reports and
- at least three employees within the municipal administration qualified to work on the determination and collection of taxes.

The second phase of the fiscal decentralization consisted of a transfer of block grants from the state to the local budgets for the execution of competences in the areas of culture, education, social and health protection solely by the municipalities. In this context, the municipalities were required to fulfill the following conditions:

- To fulfill the conditions of the first phase;
- To have adequate human resources capacity for financial management;
- To have good financial results for a period of at least 24 months;
- To deliver financial reports to the Ministry of Finance in a timely and regular manner;
- Not to have outstanding debts towards suppliers or other creditors.

The first phase began on 1st July 2005 and was expected to be finalized relatively quickly. However, eight of the municipalities (out of 84 plus the city of Skopje) had still not completed it by the end of 2010. The second phase unofficially started on 1st October 2007 and included only those municipalities which had completed the first phase and had fulfilled the conditions for the second phase.

The process of implementation

Given the variety of competences which were the subject of transfer from the national to the local level, the implementation of decentralisation involves a serious legal adjustment with a change of the existing (or set-up of new) legislation. In this respect, legal reform has been pursued since 2002. Unfortunately, most of the legal adjustment was only completed with a huge delay, indicating that the decentralisation policy has lacked a systematic approach from the start, and also that it has been a politically contentious issue. The reform was intensified in the last few years, and over 30 legal acts

(laws and bylaws) were changed or adjusted in the period 2008-2010.⁷ Besides the legal adjustment, the process of decentralisation involves many challenges, which imply difficulties in achieving positive effects, especially in a short or medium time frame. In this regard, it is also difficult to measure the actual effects of the decentralisation, especially since analytical evidence of the pre-decentralised performance of the competences is rather limited. This is certainly the case in the Republic of Macedonia.

However, some studies have focused on the process of decentralisation in Macedonia. In the period 2002-2008, the Ministry of Local Self-government undertook six public surveys of municipalities concerning the implementation of the decentralisation process. The last survey, undertaken in November 2008, was sent to all 84 municipalities and the city of Skopje, and 67 municipalities responded to it. The summarised findings of this survey show that:⁸

- About 82% of the municipalities have completed the process of transferring competences;
- About 52% of the municipalities consider their human resources as neither sufficient nor competent to perform all denoted competences;
- About 70% of the municipalities have entered the second phase of fiscal decentralisation.

As previously mentioned more recent data indicate that eight municipalities (out of 84 plus the city of Skopje) were still in the first phase of the fiscal decentralisation at the end of 2010. That implies improvement of the situation compared to 2008, although the transfer of competences from the central to the local level has not yet been completed.

However, the most problematic indicator - the low human resource capacity of the municipalities have not changed significantly, mainly due to their limited financial capacity. Within the frame of the 6th survey, the majority of the municipalities indicated insufficient finances to be main reason for problems in carrying out the transferred competences (Table 1). In terms of specific competences, about 78% of the municipalities have reported a lack of finances for carrying out their competences in the area of education, while about 75% have noted shortages of finances for environmental protection. The former reflects the inadequate school infrastructure in many municipalities, while

⁷ Information of the realisation of the process of decentralisation 2008-2010, Ministry of Local Self-government of the Republic of Macedonia, p. 4

⁸ Report from the sixth public survey of the local self-government units in Macedonia, Ministry of Local Self-government of the Republic of Macedonia, 2008

the latter has been largely attributable to non-existing infrastructure and very limited human resources for environmental protection. The situation is similar in the other areas too. The “best” ranked competences - culture and social and child protection - were reported as lacking sufficient finances by 59% of the municipalities.

The lack of finances in the municipalities has been also confirmed in the “Report on monitoring the process of decentralisation in the Republic of Macedonia: Performances of the municipalities 2008-2009”.⁹ According to the Report, elaborated on a representative sample of 12 municipalities, about 85% of the municipalities’ expenditures have been spent on salaries and current expenses.¹⁰ Therefore, the municipalities have had very limited assets available for investment in carrying out or improving the transferred competences. In addition, the second phase of fiscal decentralisation, consisting of financial transfers from the state to the municipalities for performance of certain competences, involved a very passive role of the municipalities. More specifically, about 80% finances transferred by the state in 2008 and 2009 were explicitly ear-marked, implying that they must be spent for a purpose determined by the state.¹¹ So, the municipalities only “convey” these finances to the final recipients, such as employees in the area of education and culture, who receive their salaries from the block transfers. In other words, the responsibilities have been simply delegated to municipalities, rather than genuinely devolved in a manner in which they would gain real decision making power of the mix of services which they could deliver to their residents.

Table 1 Sufficiency of available finances in the municipalities for performing the transferred competences in 2008 (% of the total municipalities)

Competence	Sufficient finances	Insufficient	No response
Education	17.9	77.6	4.5
Environmental protection	19.4	74.6	6.0
Communal activities	25.4	67.2	7.5
Urban/rural planning	26.9	65.7	7.5
Local economic development	22.4	65.7	11.9
Protection and rescue of citizens	16.4	62.7	20.9
Sport and recreation	31.3	61.2	7.5
Health services	9.0	61.2	29.9
Culture	26.9	59.7	13.4
Social and children protection	16.4	59.7	23.9

⁹ Report on monitoring the process of decentralisation in the Republic of Macedonia: Performances of the municipalities 2008-2009, FOSIM, 2011

¹⁰ Ibid, p.11

¹¹ Ibid

Source: Report from the sixth public survey of the local self-government units in Macedonia, Ministry of Local Self-government of the Republic of Macedonia, 2008, p.74

Furthermore, the block transfers accounted for about 63% and 65% of the municipalities' revenues in 2008 and 2009 respectively,¹² implying that the municipalities depend largely on the finances from the state. Given the limited own revenues of the municipalities in the analysed period, along with the fact that only one fifth of the block transfers could be spent according to local discretion, it could be argued that municipalities have serious difficulties in playing a primary role in the decentralisation process. In the light of this analysis, it appears that the success of the process of decentralisation in the Republic of Macedonia would require much greater financial independence of the municipalities, which could be achieved by the use of financial instruments such as issuing municipal bonds or obtaining loans from donors and commercial banks. However, according to the legislation, some of these instruments have been conditioned with a guarantee (collateral) by the state, implying another type of subordinated relation between the state and the municipalities.

The lack of finances naturally influences the quality of the services which can be provided. According to the assessment of citizens¹³ about the quality of the services provided at the local level which is set out in the "Report on monitoring the process of decentralisation in the Republic of Macedonia", the average score for the quality of services in seven areas of transferred competences was 2.7 (out of 5) in 2010, with the lowest scores of 2.2 and 2.3 in the areas of social protection and local economic development respectively.¹⁴ The latter has been recognized as a possible area for inter-municipal cooperation by over 37% of the municipalities (67 out of 84), who responded in the 6th survey of the Ministry of Local-self Government (Graph 1). As evident from Figure 1, the drive for provision of better services at lower costs has implied that there have been significant efforts for the common provision of services in some of the transferred competences at the local level, ranging from almost half of municipalities cooperating in the provision of fire protection services, to just 7.5% of municipalities cooperating in the provision of sports and recreation services, and 10.4% in the provision of health services.

Apart from the legal obligation for the common provision of fire-protection by two or more municipalities, the cooperation in the other areas has depended on voluntary cooperation. However, the engagement of the municipalities in voluntary cooperation has been mostly focused on one or

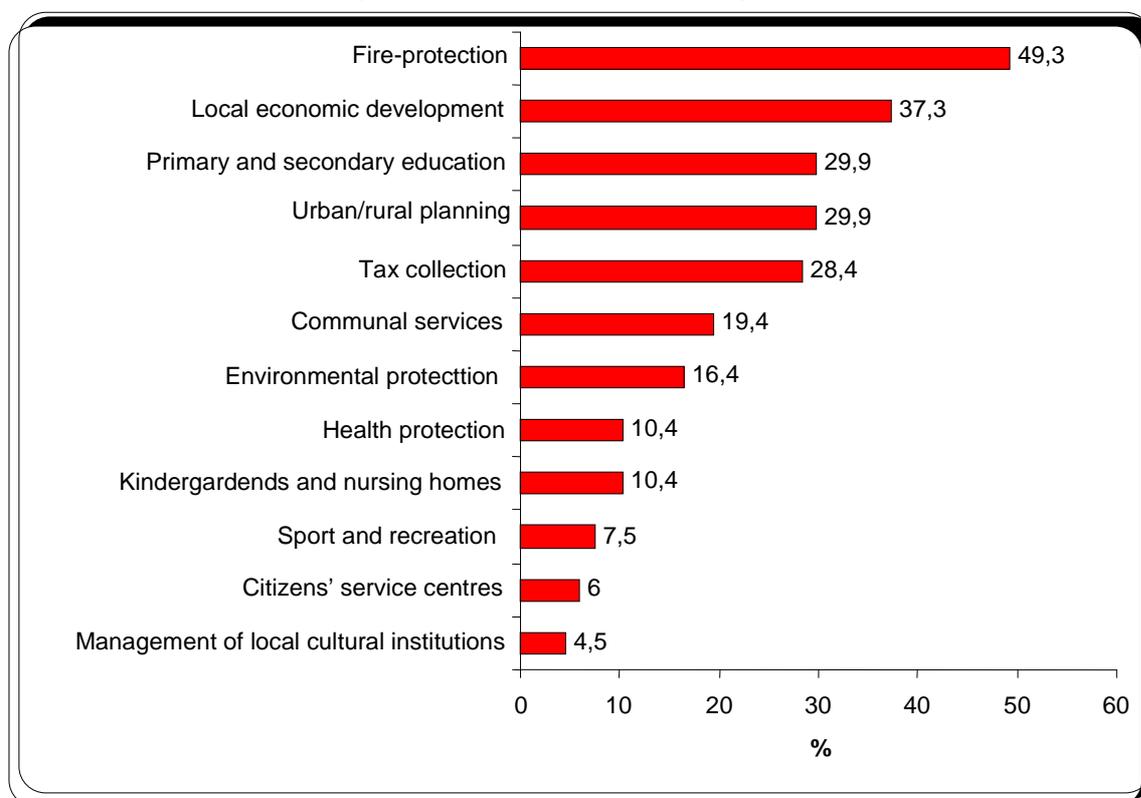
¹² Ibid, p. 54

¹³ The survey sample consisted of 1759 citizens.

¹⁴ Report on monitoring the process of decentralisation, op.cit, p.93

two activities in each area, indicating that the actual inter-municipal cooperation is far below the potential one. This could be confirmed by data from the 6th survey showing that 58% of the interviewed municipalities consider their own interests significantly more relevant than the common or inter-municipal interests.¹⁵ Again, the lack of finances has been identified as the primary obstacle to inter-municipal cooperation by 73% of the municipalities, while around 58% of the municipalities have admitted that their understanding of the common benefits from inter-municipal cooperation is rather low.¹⁶

Figure 1: Municipalities involved in inter-municipal cooperation for delivery of services in the areas of the transferred competences (% of the total municipalities)



Source: Report from the sixth public survey of the local self-government units in Macedonia, Ministry of Local self-government of the Republic of Macedonia, 2008, p.130

The effects of decentralisation

The measurement of the effects of the decentralisation process in the Republic of Macedonia is made difficult by the limited data about the pre-decentralisation performance of the transferred competences, as well as by the incomplete system of monitoring and evaluation of the performance

¹⁵ Report from the sixth public survey of the local self-government units in Macedonia, op.cit, p.129

¹⁶ Ibid.

of the decentralised competences in the municipalities. Setting up such a system of monitoring and evaluation has been stipulated as an obligation for each municipality, but the implementation of this function has been rather slow (Table 2).

As is evident from the data presented in Table 2, more than two fifths of municipalities had established a system for monitoring and evaluation of the performance of transferred competences in the areas of urban planning, education, communal activities, local economic development and administration of the finances from the block transfers. The other competences were much less covered by a system of monitoring and evaluation, in particular social protection and health services, as only 6% and 9% of the municipalities, respectively, have responded to the obligation for setting up such a system. This situation indicates significant weaknesses in the process of decentralisation. The lack of regular monitoring and evaluation hinders the ability of municipalities to diagnose problems and to undertake activities to improve their performance.

Table 2 Established system for monitoring and evaluation of the performance of the transferred competences in 2008 (% of the total municipalities)

Competence	Yes	No	Partially	No response
Urban planning	46.3	14.9	14.9	23.9
Education	43.3	19.4	22.4	14.9
Communal activities	43.3	19.4	17.9	19.4
Administration of finances from the block transfers	43.3	19.4	14.9	22.4
Local economic development	40.3	16.4	20.9	22.4
Environmental protection	26.9	22.4	25.4	25.4
Fire-fighting	25.4	34.3	14.9	25.4
Sport and recreation	20.9	22.4	28.4	28.4
Children protection	11.9	43.3	16.4	28.4
Culture	13.4	32.8	23.9	29.9
Health services	9.0	53.7	10.4	26.9
Social protection	6.0	49.3	16.4	28.4

Source: Report from the sixth public survey of the local self-government units in Macedonia. Ministry of Local self-government of the Republic of Macedonia, 2008, p.74

The measurement of the effects of decentralisation has been rather partial, due to its focus on selected competences. In the "Report on monitoring the process of decentralisation in the Republic of Macedonia: Performances of the municipalities 2008-2009", the focus was mainly on finances, education and urban planning, which served as a base for the calculation of an index of decentralisation. The average index of decentralisation has actually fallen to a score of 3.04 (out of

5) in 2009, compared to 3.11 in 2008.¹⁷ The finances were the most valuable input with share of 50% in the calculation of the overall index, as they determine the success of the transfer of competences. The index could serve as a measure of the success of the decentralisation process, but the focus on only three of the transferred competences (although the most demanding and complex ones – finances, education and urban planning) poses limitations for its wider use. In addition, the annual reports of the Ministry of Local Self-government do not incorporate this index or any other specific measurement of the extent or success of decentralisation, which implies a systemic weakness at the national level.

Another available measure of the effects of decentralisation can be derived from public opinion surveys about the services provided by the municipalities. In a survey undertaken by the Ministry of Local Self-government in 2006, about 31% of the citizens were expressed a positive opinion about the process and stated their satisfaction with the developments in the decentralisation of the denoted competences (Table 3). However, around 40% of the interviewed citizens expressed a view that decentralisation did not bring about any positive changes, while 19% consider the situation worse compared to pre-decentralisation (Table 3).

Table 3: Quality of services provided within the decentralisation process in 2006 and 2010 (% of the provided responses by the interviewed citizens)

	Improved		Same as Before		Worse than Before		Do not Know	
	2006	2010	2006	2010	2006	2010	2006	2010
Business and economy	22	42.7	38	37	29	10.3	11	10
Urban planning and construction	47	34.2	31	37.3	15	10.3	7	18.1
Education	27	37.7	47	41	14	9.7	11	12.2
Obtaining various permits	31	/	37	/	15	/	17	/
Social protection & kindergarten	18	/	44	/	17	/	21	/
Communal services	36	/	36	/	23	/	5	/
Environmental protection	32	/	39	/	18	/	11	/
Average	31	38.2	39	38.4	19	10.1	11	13.4

Source: Data for 2006 - Ministry of local self government; data for 2010 - Report on monitoring the process of decentralisation in the Republic of Macedonia: Performances of the municipalities 2008-2009, FOSIM, 2011

¹⁷ Report on monitoring the process of decentralisation, op cit, p. 8

Comparable data for 2010 can be derived from the opinion survey published in the “Report on monitoring the process of decentralisation in the Republic of Macedonia: Performances of the municipalities 2008-2009”, which provides such responses in only three competences: education, local economic development, urban planning and construction. As presented in the Table 3, the satisfaction of the respondents was relatively high with regards to categories of local economic development and education, while urban planning was assessed as being unchanged by most of the interviewees. Although limited to only three competences, the comparison enables tracking of the trends of development of the services as result of the decentralisation, implying the most important finding that less or only 10.1% citizens have assessed the services in those three competences worse in 2010 than in the pre-decentralisation period, compared to 19.3% in 2006. The improvement in the indicated two competences was also confirmed in the Report’s findings about the actual quality of the provided services by the municipalities (Table 4). The citizens assessed highest quality of the services in the education (3.24 out of 5) and local economic development (3.15), while social protection services got lowest mark of 2.24, along with the democracy, transparency and accountability with 2.49. However, the average mark of the services is rather low – only 2.7.

Table 4: Citizens’ assessment of the quality of decentralised services in 2010

Competences	Local economic development	Urban planning	Education, culture and sports	Social protection	Communal services	Protection	Democracy, transparency and accountability	Average mark
Average mark (1 - lowest 5 - highest)	3.15	2.84	3.24	2.24	2.88	2.83	2.49	2.71

Source: Report on monitoring the process of decentralisation in the Republic of Macedonia: Performances of the municipalities 2008-2009, FOSIM, 2011, p.93

According to the survey respondents, the three worst provided services were related to the scarcity and conditions in the nursery institutions for homeless children (81.2% of the citizens expressed dissatisfaction) and institutions for rehabilitation from alcohol and drugs (79%), as well as measures for handling the problem of the homeless people (73.4%). Furthermore, the activities of the municipalities for increasing employment were assessed as poor by 68.8% of the interviewed citizens, along with 65% who were dissatisfied with the municipality’s fight against the corruption and activities for promotion of the municipality as an attractive business destination.¹⁸ Apparently, the main problems in the performance of the decentralised competences of the municipalities are

¹⁸ Report on monitoring the process of decentralisation, op cit, p.95

located in the socio-economic area. That logically corresponds to the high level of poverty in the country. According to the State Statistical Office of the Republic of Macedonia, the level of poverty in the rural municipalities is very high at 48% in 2010, followed by a poverty rate of 39.2% in the urban municipalities and 12.8% in the municipalities of the city of Skopje.¹⁹ Those indicators are really devastating and reveal the limited potential for investment at the local level attributable partly to low savings and investments. In this respect, socio-economic problems cannot be treated solely by the municipalities and tackling local economic development is a rather challenging competence for the municipalities. Efforts to match decentralisation with other national policies, such as regional development policy, might therefore have a positive effect on the capacity of municipalities to implement their devolved competences.

Regional development policy

Regional development policy is a relatively new policy in the Republic of Macedonia, with a long-term goal to ensure polycentric development of the country, with competitive regions and minimal disparities between them. The analysis of regional development policy involves several aspects including the set-up of the relevant legal and policy framework and the process of implementation and monitoring of the effects of the policy.

The legal framework

The main document in the area of regional development is the Law on Balanced Regional Development in the Republic of Macedonia²⁰, adopted in 2007. It introduced the concept of regional development planning and defined the main framework of the regional development policy of the country, including its principles and objectives. The Law stipulated the creation of 'planning regions', which territorially correspond to the statistical regions at NUTS 3 level,²¹ dating from 2005. Eight planning regions were established in the country: Vardar, East, Southwest, Southeast, Pelagonia, Polog, Northeast and Skopje. As mentioned above, the planning regions have been created only for development planning purposes and have no independent administrative power.

¹⁹ Regional Statistics, State Statistical Office of the Republic of Macedonia (www.sso.gov.mk)

²⁰ Law on Balanced Regional Development, Official Gazette of the Republic of Macedonia 63/07

²¹ Division on NUTS 3 regions serve for statistical purposes and measurement of the disparities within and among EU member states, as well as candidate countries. According to the demographic criteria for NUTS 3 region, it could cover territory with 150,000-800,000 inhabitants. Due to the territory and specifics of particular areas, eight NUTS 3 (statistical) regions have been established in Macedonia.

The main objectives of the regional development policy address the internal disparities and are defined as follows:²²

- Achieving a balanced and sustainable development of the whole territory of the Republic of Macedonia, based on the model of polycentric development;
- A reduction of the inter and intra-regional disparities and an increase of the quality of living of all citizens;
- An increase in the competitiveness of the planning regions;
- The preservation and formation of the specific identities of the planning regions;
- The revitalisation of rural areas and the development of areas with specific development needs;
- Enhancement of the inter-municipal and cross-border cooperation of municipalities aiming to enhance regional development.

According to the Law, the regional development policy-making competences were divided among following institutions:²³

- The National Council for Regional Development, consisting of representatives from different ministries and the eight planning regions, which has a competence to harmonise regional development policy with the macroeconomic and sector policies of the government.
- The Ministry of Local Self-government, with a competence to formulate and implement regional development policy.
- The Councils for Development of the Planning Regions (one for each of the planning regions) consisting of the mayors of the municipalities within the planning region, with a competence to create and implement the development programme of the respective region.

In addition to these institutions, the Law on Balanced Regional Development stipulated the establishment of a Bureau for Regional Development (on a national level) and Centres for Regional Development (one for each region) to serve as operational units for the implementation of the regional development policy. The Bureau for Regional Development operates under the umbrella of

²² Law on Balanced Regional Development, op.cit, Article 3

²³ Law on Balanced Regional Development, op.cit

the Ministry of Local Self-government, while the Centres for Regional Development are subordinated to the Councils for Regional Development of the planning regions. Also, municipalities were delegated with specific role in the regional development planning process – to develop joint regional projects that will contribute to advancing the level of development of the region. These institutions were established in all planning regions in the period 2008-2009. Thus, the institutional set-up for implementation of the policy has been established.

The policy framework

The planning regions serve as the main units for regional development in Macedonia. According to the development index, the centre (capital) differs substantially from the other regions, as presented in the Table 5. The Skopje region is almost three times more developed than the most lagging region – the Northeast. The development index has been calculated as a combination of the economic-social and demographic indexes (both presented in the table 1, based on the data for the period 2003-2006). The economic-social index is based on GDP per capita, gross value added of the non-financial sector, fiscal revenues per capita and the rate of unemployment, while the demographic index is based on the rate of population growth, the ageing coefficient, the rate of migration and the proportion of university degrees per 1000 inhabitants. In both indexes, the Skopje region scores much higher than the average index 1 for the country as a whole. The other regions do not differ much in their overall development index, but there are differences in the composing indexes, indicating the specifics of the regions in socio-economic and demographic development.

Table 5. Classification of the planning regions in Macedonia

Planning region	Development index	Socio-economic index	Demographic index
Macedonia	1	1	1
Skopje	1.48	1.86	1.25
Southeast	0.89	1.38	0.58
Pelagonia	0.73	0.79	0.69
Southwest	0.72	0.50	0.86
Polog	0.72	0.18	1.05
Vardar	0.69	0.63	0.73
East	0.67	0.95	0.50
Northeast	0.56	0.33	0.70

Source: Decision on classification of the planning regions according to the development index for the period 2008-2012, Official Gazette of the Republic of Macedonia 162/08

The economic differences between the capital and other regions are huge (Table 6). As mentioned, Skopje contributed to creation of around 46% of the country's GDP in 2008, followed by the

Pelagonia region with a share of 12%, while the least developed – the Northeast region had a share of only 5%. Moreover, the Skopje region had a predominant share of around 38% in the total industrial output and over 50% in the total merchandise trade and the total employment of the country. Also, most investment (including foreign investment) has been carried out in the Skopje region (62.6% of gross capital formation), providing a basis for widening the economic disparities between the centre and other regions. The economic predominance of the Skopje region has also implied a much better social and cultural standard of the centre as well. However, this region also faces high unemployment and has serious problems related to the poor public transport infrastructure. The country is lagging far behind the EU with a GDP per capita of about 30% of the EU average. This indicates that even the Skopje region could not be perceived as developed, while the situation is much worse in the other regions.

Table 6. Major development indicators of the planning regions in Macedonia in 2008

Region	GDP (in million Euro)	Share in national GDP creation (in%)	GDP per capita (in euros)	Share in total value added in industrial sector (covering quarrying and energy)	Share in total value added in trade sector, covering catering and transport	Unemployment rate	Share in gross capital formation	Transport infrastructure (local roads in km)	Health protection indicators (population per doctor)
Macedonia	6694.7	100.0	3270.7	100.0	100	33.8	100.0	8995	713
Vardar	490.5	7.3	3187.4	11.5	5.9	43.6	5.1	1088	622
East	509.5	7.6	2826.3	11.5	4.3	20.0	6.4	1245	703
Southwest	544.6	8.1	2451.6	7.5	9.0	39.3	4.5	1301	848
Southeast	471.4	7.0	2735.1	5.9	5.3	11.7	4.3	902	755
Pelagonia	798.2	11.9	3398.2	15.6	6.9	34.5	6.9	1165	528
Polog	484.3	7.2	1549.2	5.3	5.8	26.4	7.7	1193	1.106
Northeast	345.8	5.2	1983.9	5.0	3.6	58.0	2.5	909	806
Skopje	3050.4	45.7	5114.3	37.7	59.2	37.3	62.6	1192	638

Source: Regional statistic database, State Statistical Office of the Republic of Macedonia (<http://www.stat.gov.mk/pjweb2007bazi/Database/Статистика%20по%20региони/databasetree.asp>)

The data presented in Table 5 and Table 6 suggest a very strong mono-centric model of development which has been pursued over a long period of time. The Republic of Macedonia has not had any regional development policy since its independence in 1991. The only form of development support was applied to highly underdeveloped, mainly rural areas, but without any coherent measures which would have reduced the disparities between the regions. The lack of a regional policy has resulted in

devastating outcomes for the peripheral urban and rural areas that are seriously lagging behind the capital in terms of economic, social, and cultural dimensions.

It was hoped that this policy gap would be bridged by the Law on Balanced Regional Development in 2007, which set up the main principles of the policy, while the conceptual development of the policy was set out in the Strategy for Regional Development, adopted in 2009. The Strategy comprises two main objectives:

1. Competitive planning regions characterized by dynamic and sustainable development
2. Greater inter and intra-regional demographic, economic, social and spatial cohesion.

Both objectives were disaggregated by priorities that were needed to achieve the respective goals. The priorities are presented in Table 7.

Table 7: Priorities of the Macedonian strategy for regional development

Priorities of the strategic objective 1: ²⁴	Priorities of the strategic objective 2: ²⁵
Enhance the economic development of the planning regions	Demographic revitalisation and more even inter and intra-regional distribution of the population
Develop modern infrastructure in the planning regions	Create functional-spatial structures for better integration of urban and rural areas in the planning regions
Identify and use of the innovation potential and increase the technological base of the leading industries in the planning regions	Increase investment and employment with a focus on a more even dispersion across and inside the regions
Increase the human capital in the planning regions	Increase the level of social development of the planning regions
Create competitive advantages of the planning regions	Support areas with specific development needs
Optimal use and valorisation of the natural resources and energy potentials of the planning regions	Increase cross-border and inter-regional cooperation of the planning regions
Environmental protection in the planning regions	Increase the capacities for regional development planning and implementation in the planning regions

Source: Strategy for regional development of the Republic of Macedonia, Official Gazette of the Republic of Macedonia 119/2009

²⁴ Strategy for regional development of the Republic of Macedonia, Official Gazette of the Republic of Macedonia 119/2009, pp 50-59

²⁵ Ibid, pp. 59-65

These priorities, along with the set of measures elaborated for each of them, provide the overall strategic framework for development of the regions. However, the implementation of the Strategy is related to the provision of a sufficient level of finance, which is difficult to provide from the state budget.

The process of implementation

The Law on balanced regional development stipulated an obligation for the government to allocate budget finances of at least 1% of the GDP per year to the regional development policy.²⁶ This financial framework could be supplemented with additional finances from the municipalities. The line ministries, such as Transport and Economy, could also contribute additional funds to projects leading to a reduction of regional disparities. In addition, donors could play a significant role in supporting regional development. However, the perception about financing regional development has been mostly related to the finances provided from the budget. Despite the legal obligation, only 0.1% of the GDP was designated for regional development in the state budgets in 2009 and 2010. In the course of 2009, the finances allocated for this purpose were transferred to initiate the Centres for Regional Development so no regional projects were financed. In 2010, finances were allocated to regional projects proposed by the planning regions but the total amount was rather limited and failed to provide visible results.

Furthermore, no increase of the finances for regional development has been registered in the state budget for 2011. Therefore, the main question related to the implementation of the regional development policy concerns the prospects of its financing. It is difficult to expect that the budget allocation for regional development would substantially increase in the upcoming years, as the country faces fiscal challenges posed by the recent financial crisis. Apart from budgetary finance, some assistance for regional development activities in the period 2009-2011 has been provided by donors such as GTZ, UNDP and USAID. However, this allocation should not be treated as standard and long-lasting, implying that regular funding must be assured by the state if it seriously intends to implement the regional development policy. Given that finance for regional development projects are used by municipalities for projects relevant for the region, an analysis about providing additional financing for regional development policy should focus on financial flows from the state to the municipalities in relation to different policy areas. In this regard, the municipalities receive regular

²⁶ Law on Balanced Regional Development, op.cit

direct transfers from the state to cover the devolved competences within the decentralisation policy, as well as finances for projects within the national programmes of the line ministries such as infrastructure building stipulated in the transport policy and the support of cultural events projected in the cultural policy.

Despite the inflow of finances from the national to the local level on behalf of such national policies, there has been little effect on the devolved competences. In addition, there are serious financial impediments for the implementation of regional development policy. In this respect, matching the areas important to municipalities with those vital to the regions could be a good basis for a more rational use of finance and for achieving better results. This cooperation requires strong coordination of the decentralisation and regional development policy, in particular with regards to the prioritisation of the activities in both areas, which would enable a more efficient and effective allocation of the available funds. More specifically, the regional projects comprising the common activities of two or more municipalities within the planning regions should be related to the activities for performance of the devolved competences in those municipalities. That would enable a parallel realisation of the regional projects and the transferred competences, with a more rational allocation of the available resources (finance, staff and equipment). At the current level of development of both policies, their implementation is rather isolated and no efforts have been undertaken to match the policies and the available resources. In addition, a similar coordination effort could be carried out in relation to the other national policies that affect sub-national development, such as transport, environmental, culture, social and other policies. Although establishing an effective coordination is a rather challenging task, it is likely that it would enhance development activities in the country.

Apart from the lack of finances discussed above, the low capacity for regional development at the national, regional and local level also serves as an impediment for the implementation of regional development policy. According to the study “Mechanisms for linking national, regional and local development planning processes in the Republic of Macedonia” in 2009, the development planning capacity was assessed as insufficient at all three levels.²⁷ The assessment was mostly focused on the specific skills needed for the national, regional or local development, while the specific dimensions of the process itself (such as political, economic and social perspective) were not tackled. The assessment provided by the Ministry of local-self-government and other relevant institutions at the

²⁷Silvana Mojsovska, Mechanisms for linking national, regional and local development planning processes in the Republic of Macedonia, UNDP 2010

national level, and Centres for Regional Development and municipalities has shown that existing capacity needs to be upgraded, especially in terms of quality of the personnel, and with regard to the competence for regional development, strategic and operational planning, project management and access to the EU funds.²⁸ The need to increase the capacity for development planning has been recognized at all three levels, although the national, regional and local development has not been assessed from the perspective of matching the competences to ensure a more rational use of the available resources. However, the study contains findings about the horizontal and vertical cooperation within and between the three levels which could serve as an indicator of the potential for further collaboration between them.

The study has also shown that the horizontal coordination of the development planning process, regardless of the level, mainly involves working groups consisting of representatives from relevant institutions as well as regular communication (oral and written) between the institutions. However, the need for further strengthening of the functionality of the development planning system was stressed by the interviewed participants.²⁹ According to the study, the main mechanism for the vertical coordination of the institutions in the development planning process mainly refers to communication between the institutions, as well as participation in working groups. However, certain deficiencies in the process were stressed by the relevant institutions on all levels, implying the need to further strengthen communication, to provide a clear and precise legal framework (especially by-laws), continuous capacity building related to development planning in the institutions, and mechanisms for better coordination.³⁰ The findings also refer to the implementation process, given its importance for realization of the plans along with similar links between the institutions applied in the process of implementation.

The effects

Considering the importance of finance for the implementation of regional development policy and the very low level of funding (one tenth of the envisaged amount) provided from the state in the period 2009-2011, it could be expected that the effects of the policy have been rather minimal. However, a positive assessment could be made regarding the completed legal and institutional structures which enable the basic preconditions for the functioning of the system. Also, inter-

²⁸ Ibid., pp 20-24

²⁹ Ibid, pp. 28

³⁰ Ibid

municipal cooperation as the main (compulsory) instrument of regional development policy is expected to provide positive changes in terms of awareness raising and carrying out joint activities of the municipalities for the realisation of regional projects. As indicated above, the participation of municipalities in inter-municipal cooperation has been limited to a few activities, mainly due to municipalities' focus on their individual interests. The legal obligation for cooperation as precondition for use of the regional development funds might also have a positive effect on the process of decentralisation. Nevertheless, the real effects of the regional development policy depend upon the deployment of regular and sufficient sources of finance.

Relationship between decentralisation and regional development policy

Although decentralisation and regional development policy have been established on different grounds, both are expected to result in improved economic performance, to provide conditions for enhanced social and cultural life, and to raise infrastructure, education, health and other aspects of the quality of life at the sub-national level, both regional and local. Decentralisation policy has had a strong political dimension and has entailed a transfer of decision making power to the municipalities, while regional development policy has involved a combination of national decision making and inter-municipal cooperation on regional projects. The political dimension of the decentralisation process has not been focus of this paper, as attention has been devoted to the possibility for matching both policies so as to underpin and reinforce their more efficient and effective implementation. In this regard, the discussion of the relationship between decentralisation and regional development policy can be further elaborated through the specific long-term goals of both policies – to provide good quality local public services (decentralisation policy) and to ensure balanced regional development through a decrease in the disparities between and within the planning regions (regional development policy).

The regional development policy's goal also encompasses improved quality of public services at a local level, while most of the decentralised competences could also be related to the regional development policy (Table 8). As presented in the Table 8, eight (out of twelve) competences could be related to the specific objective or priority in the Strategy for Regional Development (SDR). Given that some of those competences were indicated as areas where decentralised services should be improved (Table 4) it should be expected that regional development projects related to the achievement of specific regional development goals could also result in positive outcomes for the decentralised services. For instance, a regional project to establish a nursery school as a joint activity

of three municipalities could also contribute to the improved performance of the devolved competence in social protection in all three municipalities. Taking in consideration that inter-municipal cooperation is a compulsory instrument of regional development policy, the municipalities involved in a regional project might have a double benefit – improved performance of the devolved competences as well as a contribution to the development of the region.

The links in Table 8 also indicate a great potential for matching both policies in the direction that regional projects enhance the performance of the decentralised competences. However, the main question with regards to the realistic prospects of matching the two policies concerns the interests of policy makers. If sufficient funding were made available for regional development it could be expected that decision makers in the process of decentralisation (the municipalities) would express a high level of interest, as the regional policy would provide additional support to the decentralisation process. In return, it is likely that municipalities will show considerable enthusiasm to undertake common efforts and pledge resources (personnel and finances) to the regional development projects. This situation would be ideal, as it would enable implementation of both policies, while none of the policies will entail interference in the decision-making of the other policy. The national institutions will remain responsible for the regional development decisions, while municipalities will practise inter-municipal cooperation in the areas prioritized by the state, but they will also decide independently about other activities in their domain. However, the very limited financial resources provided by the state for regional development impose a strong obstacle to this virtuous circle of interaction between the two policies. Apart of the link, discussed above, that regional development could support the implementation of the decentralisation policy, a debate about the opposite relationship might be developed – could decentralisation support regional development policy? The areas of the decentralised competences considerably match with the areas of regional development policy as indicated in the Table 8. However, the decision-making processes relative to both policies would hinder their matching, primarily due to the strong focus of municipalities towards their own interests. Currently, there is a low level of awareness about the benefits of inter-municipal cooperation which requires time and intense efforts to change, implying few prospects for generating this link in the near future. Some results could be expected in the provision of communal services. The municipalities need to provide these services, so sharing the expenses related to the infrastructure might serve as a driver for inter-municipal cooperation, which might foster regional development in this policy area as well. The realisation of this link depends on capacity building

among decision-makers at the national (regional development policy) as well as the local level (decentralisation), and on establishing an effective mechanism for coordination between them.

Table 8. Links between the decentralised competences and the strategy for regional development of the Republic of Macedonia

	Decentralised Competence	Strategy for Regional Development
1.	Urban and rural planning	Development of functional-spatial structures (Priority 2.2)
2.	Environmental protection	Environmental protection (Priority 1.7)
3.	Local economic development	Increase the competitiveness of the regions Decrease inter and intra-regional disparities
4.	Communal activities 1.1. Waste management 1.2. Water management 1.3. Construction and maintenance of public roads	Develop modern infrastructure in the planning regions (Priority 2.2) Environmental protection (Priority 1.7)
5.	Culture	Decrease inter and intra-regional disparities
6.	Sport and recreation	No specific link to the Strategy for Regional Development
7.	Social protection and child care	Increase the level of social development in the regions (Priority 2.4)
8.	Education	Increase the level of human capital in the regions (Priority 1.4)
9.	Health care	Increase the level of social development in the regions (Priority 2.4)
10.	Protection and assistance to citizens and goods in case of disasters and catastrophes	No specific to with the Strategy for regional development
11.	Fire-fighting	No specific link to the Strategy for regional development
12.	Monitoring of the outcomes of the transferred competences	No specific link to the Strategy for regional development

Considering the difficulty in realising such links between the policy areas based on the practice of inter-municipal cooperation, a natural dilemma concerns the possibility for additional matching of the policies. Finance and inter-municipal cooperation are the basis for any matching between them, with more realistic prospects for the scenario in which regional development policy supports decentralisation policy. These two policies both share same basic unit – municipalities - and both deal with development issues. However, given the relatively unsatisfactory outcomes from decentralisation so far, as well as the poor prospects for alleviating the huge regional disparities of

the country, it is clear that providing more finance from the state, along with the inter-municipal cooperation would be a necessary condition for the effectiveness of policies in both areas. This would also assist in increasing the absorption capacity of the municipalities for the use of financial assistance and the realisation of projects, which is also a pre-condition for the effective use of EU assistance funds in the future.

Conclusion

Decentralisation and regional development policy have different backgrounds and distinct rationales for their elaboration, decision-making settings and process of implementation. The decentralisation policy has derived mainly from political considerations, while regional development policy from the necessity for the state to address the huge economic and social gaps between the regions in the country. Decentralisation has implied a transfer of decision-making powers to the municipalities by devolving more than a dozen competences from the state to the local level. Regional development policy does not entail any new administrative powers at the regional level, and consequently the decision-making power remains at the national level. Despite decentralised competences, the implementation of the former policy has mainly involved financial block transfers from the state to the municipalities, without any realistic increase of the decision-making power of the municipalities with regards to resource allocation. On the other hand, the implementation of regional development policy has required central state decision-making about the distribution of the funds for regional development, but the limited amount of such finance has limited even this role of the relevant national institutions.

The decentralisation policy has been applied since 2002, but few significant effects have been observed so far. The further advance of the policy requires a development of the sector laws and by-laws that regulate the devolved competences, an improvement in the quality of services and an increase in monitoring of the performance of the devolved competences. At the present time, over 90% of the municipalities in Macedonia have taken on all the stipulated competences, but most of them have reported a serious lack of finance and an insufficient human resource capacity to carry out activities relevant to the decentralised competences. This situation has reflected on the quality of services too, with a low measured popular opinion about the quality of services in seven areas of transferred competences as revealed by the survey carried out in 2010. Despite such deficiencies in implementing the competences, there has been very little monitoring or evaluation of services by

the municipalities which hinders their ability to diagnose problems and to undertake actions to improve their performance.

With regards to regional development policy, the main findings refer to the legal and policy set-up. However, the implementation of regional development policy relies on substantial finance from the state, as there is no legal provision for other regular sources of finance. Starting from the implementation of the policy in 2009, the state has proven to be unreliable in providing the 1% of the GDP which is stipulated in the Law of Balanced Regional Development. Instead, only one tenth of the stipulated amount has been provided, implying small prospects for the alleviation of the huge regional disparities within the country. Besides finance, a low awareness and a limited human resource capacity has been reported by institutions at national, regional and local level which deal with regional development, indicating additional difficulties for implementation of the policy. Nevertheless, the designation of the inter-municipal cooperation as main (compulsory) instrument of the regional development policy is expected to have a positive impact through raising awareness and through promoting joint activities of the municipalities for implementing regional projects.

Apart from the obvious differences between both policies, it is possible to identify some mutually reinforcing links between them. In the long run, the decentralisation policy aims to provide good quality local public services in education, infrastructure, health, local economic development, social protection and other areas of life. The regional development policy aims to ensure a balanced regional development through a decrease in regional disparities in most of the policy areas covered by the decentralised competences. Therefore, there is a potential for matching both policies as most of the devolved competences could be linked with the objectives and priorities of the Strategy for Regional Development. For example, it could be expected that regional projects might enhance the performance of municipalities in exercising some of their decentralised competences. Given sufficient funding for regional development, municipalities would have a strong incentive to apply for regional projects that would be linked to the devolved competences, and so regional policy would provide additional support to the decentralisation process. In return, it is likely that municipalities would show considerable enthusiasm to undertake common efforts and pledge resources (personnel and finances) to regional development projects. This situation would be ideal, as it would enable support to the implementation of both policies through a process of positive policy spill over. However, the insufficient finance applied to the regional policy represents huge obstacle for the realisation of such a virtuous circle.

However, the prospect that decentralisation policy would provide support to regional development policy is considerably lower, mostly due to the self-interest of the municipalities and the low level of awareness about the benefits of the inter-municipal cooperation. Despite certain incompatibilities, both policies share same basic unit – the municipalities - and deal with similar development issues. Given the relatively unsatisfactory outcomes in the process of decentralisation and regional development so far, providing more finance by the state along with a greater degree of inter-municipal cooperation could provide a solid basis for creating more effective policies in both policy areas.

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