

**LOCAL GOVERNMENT MANAGEMENT IN THE REPUBLIC OF MACEDONIA**

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**Abstract**

*In this paper an analysis of the management of local government in several municipalities in the country in terms of management of municipal property; spatial and urban management, organization and operation of the municipality; intermunicipal cooperation regarding the functioning of the common administration and common funding and the whole process of transfer of funds from the central budget to local government. Special emphasis is placed on subsidies affecting the development and prosperity of the local government. The results of the paper should reflect the operation and performance of Macedonian municipalities after the decentralization process in Macedonia.*

*Keywords: Local government, subsidies, municipal property, municipal administration, municipal authorities.*

**INTRODUCTION**

A developed local government is a prerequisite for a modern, democratic and integrated Europe. Considering the fact that Macedonia aspires to join the European Union, the importance of this issue is growing. The organization of the local government is crucial in the life of the citizens or for their daily functioning, but for its realization funding is a key business processes. Local government is a form of governance in local communities in which citizens directly or through representatives who they choose, decide on the interests and issues of local

importance. Constitutional concept of local self-government emphasizes direct democracy in decision-making at the local level. Citizens in this way are more involved in the affairs of the municipality where they live and this organization can achieve greater decentralization of power and greater efficiency in achieving the goals that are set for a municipality or in its entirety.

## **EUROPEAN CHARTER OF LOCAL SELF-GOVERNMENT**

The charter of Local Self-Government is a modern, pragmatic, flexible legal instrument which should protect the rights of local authorities as closest to the citizens and to enable them effective and wide participation in solving local problems i.e.their involvement in local public life. The charter is one of the important pillars of democracy and the European integration and a first multilateral legal instrument that guarantees a high degree of local autonomy.

### **Organization of local government in the Republic of Macedonia**

The draft of the Law on Local Self-Government of the Republic of Macedonia establishes municipalities as units of local government and the City of Skopje is considered as a separate unit. In the municipalities, citizens participate in decision making on issues of local importance established by the Constitution and the law through their representatives. The citizens of the municipality may establish local communities and other forms of local government. In local government there are two types of jurisdiction: original and delegated. The municipalities and the city of Skopje perform their original jurisdiction work through direct participation of citizens in decision-making through and through their bodies which constitute the representatives of the citizens. The direct participation of citizens in decision-making is accomplished through referendum and through other forms of direct expression. In performing the duties of original jurisdiction, the municipalities and the city of Skopje are independent and their rights cannot be abridged nor limited by Act of the Republic of Macedonia, or other public authority, except in cases and under the conditions laid down by law. Forms of original jurisdiction of municipalities include: the municipality adopts the spatial and detailed urban plan and program for construction of the land. The municipality provides and regulates the development of settlements, the maintenance and use of local roads, streets and bridges and other public buildings of importance to the municipality. Also, the municipality provides the supply of drinking water, waste water disposal, public hygiene, supply of electricity, public lighting, and many other responsibilities in the field of culture, sport, social and child protection, education, health care, protection of the environment.

Supervision of the work of the municipalities and the city of Skopje is performed by authorities of the republic with the jurisdiction to perform works of delegated authority. The government of the Republic of Macedonia by law, can entrust certain administrative matters

within its competence in the municipality such as use of land, housing area and the social control of prices of goods and services and so on.

For the activities of local government, municipalities are financed from their own sources of income determined by law, from funds derived from income and property rights, property tax, tax on income from property, utility fees, part of the Sales Tax products and other sources. If the realization of municipal activities is lacking funds, they are provided from the State Budget. The municipality is guaranteed grants and subsidies by the state, and the right to borrow on the domestic and foreign market, but according to the law. The Association of Local Government (ZELS) brings together all 84 municipalities in the Republic of Macedonia and the city of Skopje as its members. For the realization of the objectives which are inherently unique, ZELS has found mechanisms for active participation of all intellectual and technical capacities of the municipalities, forming special committees covering all of the aspects of decentralization.

### **Funding sources of funding to municipalities**

Providing the funding for municipalities is very important for the creation of preconditions for the implementation of competencies. The mayors of municipalities, a large part of the time spend on requests for financial support for projects, finding business partners for cooperation, preparation of appropriate projects that will use IPA or other funds and providing grants. Municipalities are financed from their own revenues, grants from the central budget and the budget of funds and by borrowing. Own sources of revenues are revenues that are provided by local taxes, local charges, local fee and income from property. The local taxes are: property tax, inheritance tax and gift tax on real estate and other local taxes established by law. The local charges are: utility fees, administrative fees and other local fees established by law. The local fee includes: the fee for construction land compensation of communal activity and compensation for spatial and urban plans and other local fee established by law. The municipality can generate income from: property (income from rent, interest and income from sale of property), donations, revenue from fines stipulated by law, revenue contribution from other income determined by law. The municipality has no right to sell the property if the disposition is to disturb the exercise of public functions and responsibilities of the municipality. The municipality takes part of the revenue realized from the personal income tax, 3 % of the personal income tax or from wages of individuals who live and reside permanently in the municipality and the total amount of personal income tax from natural persons that are crafts man in the place of registration. Proceeds from donations in the form of funds revenue budget and donations in the form of items are also recorded as property of the municipality. The Budget of the Republic of Macedonia and the budget funds allocated following types of grants or transfers of funds to the budget of the municipalities:

- Income derived from value added tax;
- Designated grants intended to fund a specific activity;
- Capital subsidy or grant intended to fund municipal projects for capital investment;
- Block grant intended to fund competencies in each area established by law and
- Delegated authority grant or transfer of funds from the budget of the state administration to the municipal budget used to finance the delegated authority.

## ANALYSIS

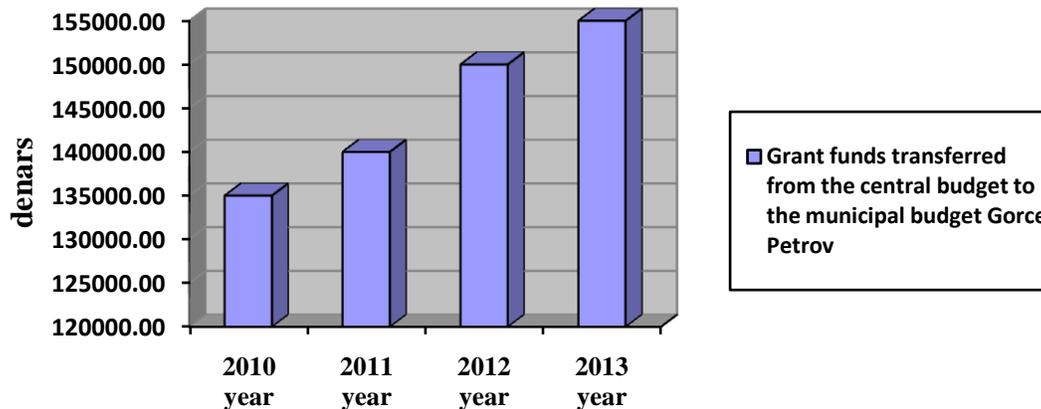
### **Analysis of grants from the budget of the Republic of Macedonia to the budgets of the three local governments**

The local government in the Republic of Macedonia is a constitutional matter. It is a fundamental value of the constitutional order. With the method of positive enumeration, the Constitution sets out the basic areas that extends municipal authority, guaranteeing their own sources of revenue and republic funds for their realization. In order for the municipalities to successfully operate their management method and management methodology are very important. In the surveyed municipalities the model is simple because the management of the municipality is basically the mayor and the Council that the citizens elected in local elections and the municipal administration that perform work in the jurisdiction of the municipality. The municipal administration is organized in departments and divisions. The Council may establish municipal inspectors and oversight of the municipal operations. With grants from the Budget of the Republic of Macedonia and the budget funds, additional revenues are being provided for the municipality for its responsibilities under the law. The type, amount and distribution of grants to municipalities are part of the budget of the Republic of Macedonia and budget funds. The competent ministries and funds by the 30th April of the current year's publish criteria, procedures and deadlines for allocating capital and earmarked grants. Grants distributed in the Republic of Macedonia to the budgets of the municipalities in the following ratio:

- 82 % of total assets related to block grants;
- 10 % of total assets related to value added tax;
- 8 % designated grants.

Subsidies from the budget of the Republic of Macedonia in the budgets of the municipalities belong to the largest percentage of block grants, or 82 % of the total package of grants, while the grant of Value Added Tax takes 10 % , while the lowest percentage of 8 % belong to designated grants. The trend of grants transferred in the last four years from the central budget to the budget of the Municipality GorcePetrov is given in Fig. 1.

Figure 1: Trend of grants transferred from the central budget to the budget of the municipality GorcePetrov



Source: Budget of the Municipality of Gorce Petrov period: 2010, 2011, 2012 and 2013

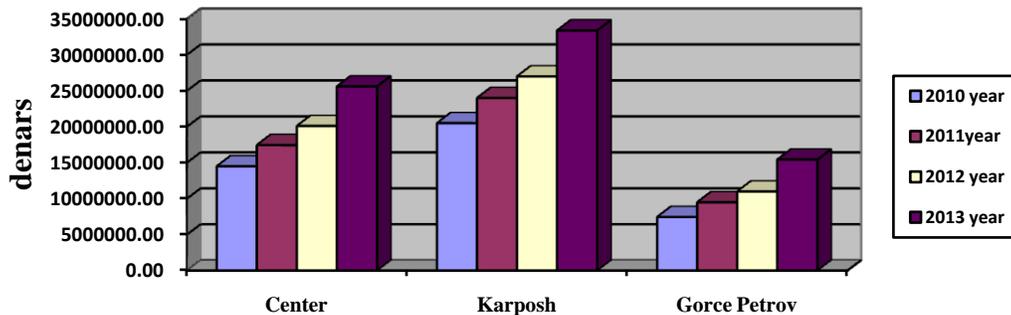
From Fig. 1 we can see that the growing trend of transferred funds from the central budget to the budget of the municipality GorcePetrov from 2010 to 2013 is a result of the growth of the central budget and the increased delegated responsibilities of local governments.

### **Analysis of revenues from value-added tax as a subsidy from the Budget of the Republic of Macedonia to the three local governments**

Revenues from value added tax (VAT) are grants that fund municipal competencies established by law and they are provided in the amount of 3 % of the total value added tax in the previous fiscal year. The distribution of revenues from value added tax (VAT) is 50 % done according to criteria per capita as well as other criteria established by the Regulation on the methodology for the allocation of VAT revenues adopted by the Government on the proposal of the Minister of Finance no later than June 30 of the current year for the following year. The use the VAT municipality decides its own. Fig. 2 presents the distribution of grants or trend of value added tax (VAT) from the central budget to the budget of the three local governments: Center, Karposh and GorcePetrov in the period from 2010 to 2013.

From Fig. 2 we can see that revenues from grants from value added tax from the budget of the Republic of Macedonia to the municipal budget has seen a continually increasing trend as a result of increasing population and the number of companies in the municipalities.

Figure 2: Trend of grants from value added tax in the period 2010-2013 for the Municipality of Center, Karposh and GorcePetrov



Source: Municipal Budgets Center, Karposh and GorcePetrov for 2010, 2011, 2012 and 2013

### Analysis of designated grants from the budget of the Republic of Macedonia to the three local governments

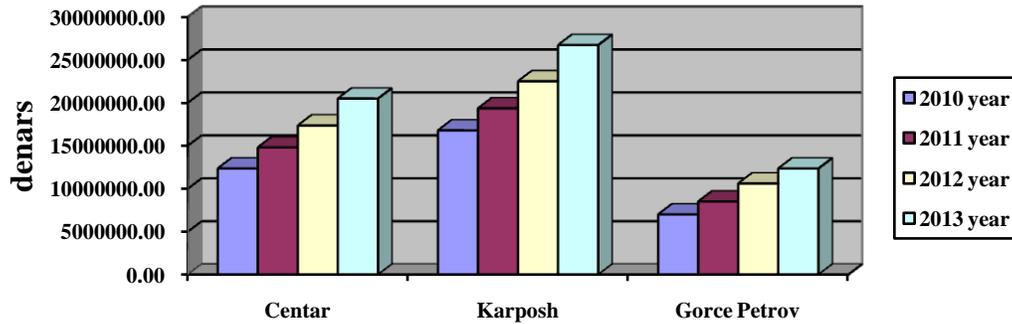
Designated grants are used to fund specific activities. The competent ministries and Funds make a suggestion to the Treasury for allocation of designated grants to municipalities' projects, institution and / or programs, budget calculation for the next budget year. The competent ministries and funds follow the use of the designated grants. In case of irregularities in the use of the grants the Ministries and Funds can stop payments and report to the Ministry of Finance. Designated funds as are distributed according to the following criteria:

- Variable costs or assets to finance activities of library, museum and music activities of local interest;
- Operating costs of local cultural institutions and related heating, electricity, water, sewer and garbage and property insurance institutions at prices determined by the insurance policies.

The Ministry of Culture transfers funds designated for grants to local institutions, municipalities and the City of Skopje, in agreement with the dynamics given from the Ministry of Finance in accord with the budget of the Republic of Macedonia. Fig. 3 presents the distribution of designated grants from the central budget to the budget of local governments: Center Karposh and GorcePetrov in the period from 2010 to 2013.

From Fig. 3, it can be seen that as a result of the increased responsibilities of the municipalities an increased number of activities has been undertaken thus an increase in the total revenue of municipalities from grants from the budget of the Republic of Macedonia can be noticed.

Figure 3: Trends in the distribution of designated grants from the central budget to the budget of local governments

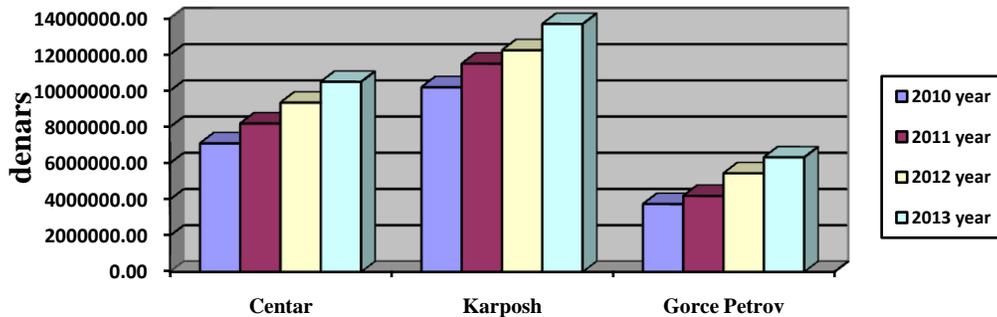


Source: Municipal budgets of Center, Karposh and GorcePetrov for 2010, 2011, 2012 and 2013

### Analysis of capital subsidy from the budget of the Republic of Macedonia to the three local governments

A capital grant based on the program established by the Government of the Republic of Macedonia is used to finance investment projects. The competent Ministries and Funds in the allocation of capital grants give priority to projects that are fully collateralized by financial assets. The competent ministries and Funds monitor the use of the capital grant and if irregularities are found the competent ministries and funds can stop the disbursement of funds and inform the Ministry of Finance. Fig. 4 presents the trend of allocation of capital grants from the central budget to the budget of the three local governments: Center, Karposh and GorcePetrovin the period from 2010 to 2013.

Figure 4: Distribution of capital subsidies from the central budget to the budget of the local government of Center, Karposh and GorcePetrov



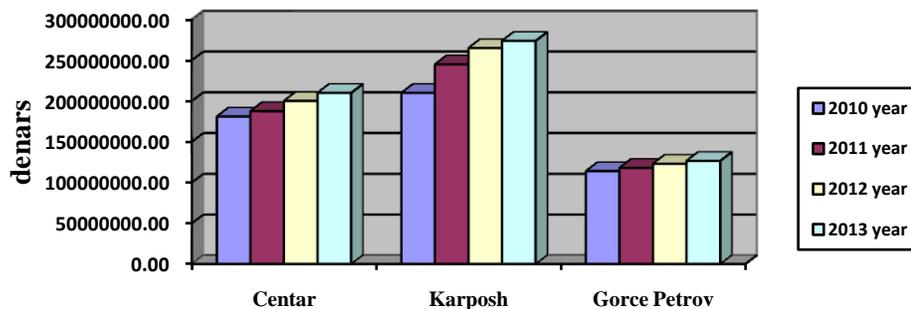
Source: Municipal Budgets for Center, Karposh and GorcePetrov for 2010, 2011, 2012 & 2013

From Fig. 4 it can be concluded that over the years there is a growing trend of investment projects by individual local governments funded by the Republic's Government as a result of increased central budget of the Republic of Macedonia.

**Analysis of the block grant from the budget of the Republic of Macedonia to the three local governments**

Block grants are used to fund the responsibilities defined by the Law on local self-governance through specific programs. The competent ministries and Funds have developed a methodology for determining the criteria for allocation of block grants to municipalities. The government of the Republic of Macedonia adopted a Decree on the methodology for determining the criteria for allocation of block grants to the proposal of the competent ministry. Funds designated as block grants are used basic high schools expenditures such as: salaries, wages and employee benefits, supplies and other services. Fig. 5 presents the trend of allocation of block grants from the central budget to the budget of the three local governments: Center Karposh and GorcePetrov in the period from 2010 to 2013.

Figure 5: Trend in the allocation of block grants from the central budget to local governments: Center, Karposh and GorcePetrov



Source: Municipal budgets of Centers, Karposh and GorcePetrov for 2010, 2011, 2012 and 2013

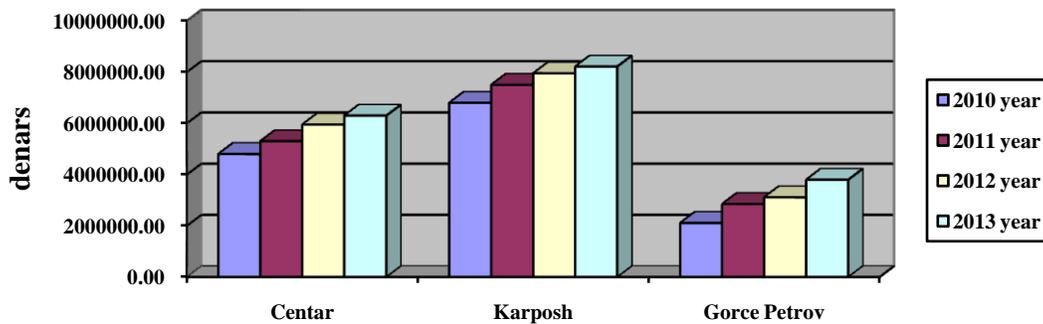
From Fig. 5 we can see revenue based on block grants from the central budget of the Republic of Macedonia is increasing proportionally as a result of the increase in the central budget of the Republic of Macedonia.

**Analysis of grant for delegated authority from the budget of the Republic of Macedonia to the three local governments**

The grants for delegated authority are used to finance the delegated authority from the state administration to the mayor. The grants of delegated authority are transferred in a manner that allows for timely execution of the delegated work. The Minister who runs the civil administration

and the mayor sign an agreement regulating the mutual relations associated with the grant of delegated authority. If the mayor does not perform the planned delegated authority, he is obliged to return the funds received to the Budget of the Republic of Macedonia within 30 days from the day when exercising of the delegated authority should have started, unless there were objective obstacles. The public administration body notifies the Ministry of Finance of any contracts for delegated authority. Fig. 6 presents the trend of allocating grants for delegated authority from the central budget to the budget of the three local governments: Center, Karposh and GorcePetrov in the period from 2010 to 2013.

Figure 6: Distribution of grants for delegated authority from the central budget to local governments: Center, Karposh and GorcePetrov



Source: Municipal budgets of Center, Karposh and GorcePetrov for 2010, 2011, 2012 and 2013

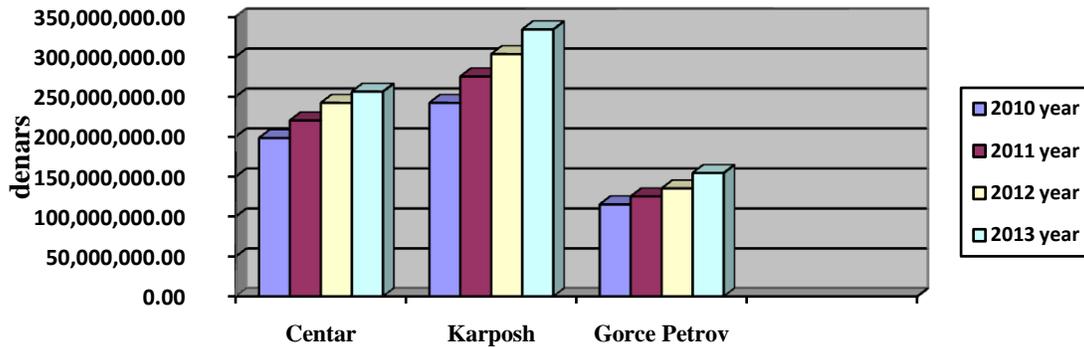
From Fig. 6 it can be seen that a very small percentage of total income in respect of grants accounted for grants of delegated authority and it is due to the decentralization of local government or the fact that there is still a great deal of responsibilities that belong to the central government.

### **Comparative review of grants from the Budget of the Republic of Macedonia to the municipal Center, Karposh and GorcePetrov**

Fig. 7 presents the trend of grants from the central budget to the budget of the three local governments: Center Karposh and GorcePetrov in the period from 2010 to 2013.

We can see that with the advance of the process of decentralization of the municipalities and consequently the increase of the scope of their responsibilities a growth of total revenue that municipalities receive based on grants from the budget of the Republic of Macedonia can be noticed.

Figure 7: Trends of 2010-2013 for grants from the central budget to the three municipalities:  
Center, Karposh and GorcePetrov



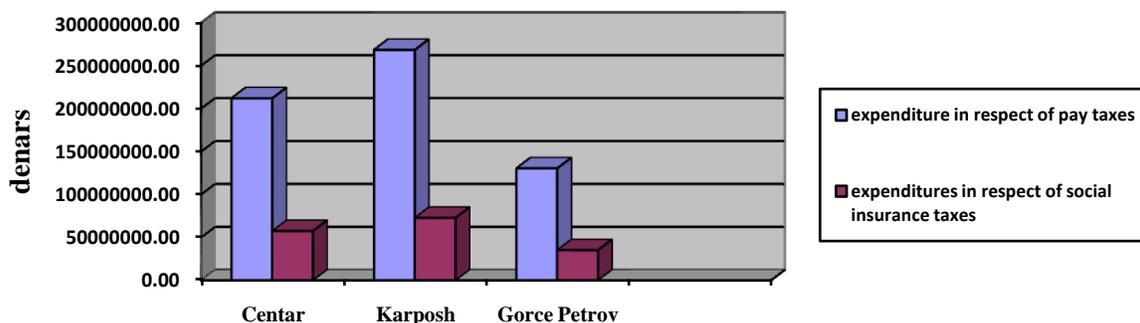
Source: Municipal budgets of Center, Karposh and GorcePetrov for 2010, 2011, 2012 and 2013

## MANAGEMENT OF LOCAL GOVERNMENT BASED ON FINANCIAL PERFORMANCE

### Analysis of expenditure by municipalities

Fig. 8 shows the expenditure in respect of pay and allowances and social security contributions for 2013.

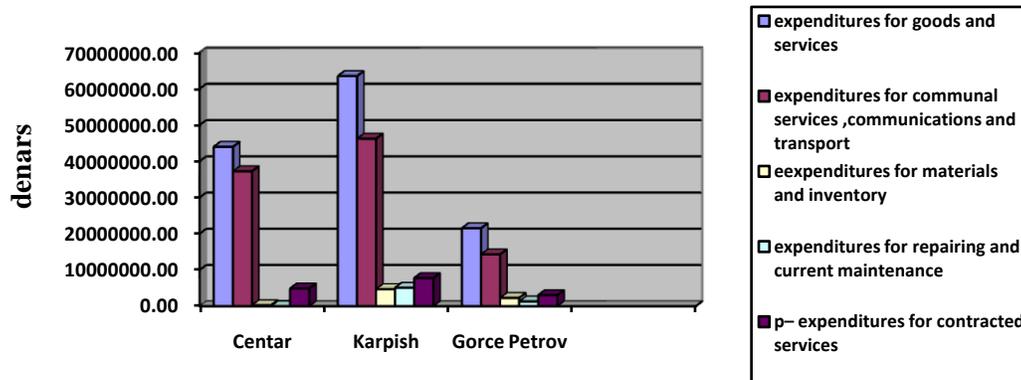
Figure 8: Comparative review of expenditure in respect to salaries, wages and social security contributions



Source: Municipal budgets of Center, Karposh and GorcePetrov for 2013

From Fig. 8 we can see that the larger territorial municipalities serve a growing number of people and they need more staff in municipal administration compared with territorially smaller municipalities, consequently a greater percentage of the total budget funds were available for the municipality spendings based on salaries, wages and social security contributions for employees. Fig. 9 presents costs based utilities, communications, transportation, materials and inventory, repairs and maintenance, and contract services for 2013.

Figure 9: Comparative review of expenditures for utilities, communications, transportation, materials and inventory, repairs and maintenance and contract services for municipalities: Center, Karposh and GorcePetrov 2013



Source: Municipal budgets for Centers, Karposh and GorcePetrov 2013

From Fig. 9 we can see that municipalities with larger populations, through which a growing number of people transit and in which territory there are many commercial entities, a large part of the funds from the municipal budget is used for current needs: utilities, communications, transportation, materials and inventory, repairs and maintenance, and contractual services .

### **Analysis of liquidity municipalities**

Liquidity of municipalities means that they are able to meet in a timely manner their financial obligations in full extent toward third parties, arising from the ongoing operations of the municipality. The municipalities Center Karposh and GorcePetrov plan their expenditures successfully based on current costs and ongoing projects within the allowed funds in the budget for the current year and in none of the above mentioned years (2010-2013) the municipalities did not work with a loss.

### ***Analysis regarding the management of municipal property***

The municipalities Center, Karposh and GorcePetrov generate income from renting of offices, businesses, sports entities, parks and municipal land etc. Specifically, Center makes the largest municipality revenue in this respect because of its numerous businesses that operate there (unlike the other two municipalities), and the number of forest parks that fall under the jurisdiction of the municipality. The municipality Centar and Karposh have responsibilities transferred from the Ministry of Transport and Communications of the Republic of Macedonia regarding the disposal of undeveloped land which also generates additional income. The municipality GorcePetrov has a small number of companies on its territory, a few offices that

may be subject to lease, and does not have any responsibilities transferred to manage the construction and build on state owned land. The GorcePetrov municipality in terms of management of municipal property has planned an income from property in the amount of 90,000 Euros in 2013.

### **Analysis in terms of inter-municipal cooperation**

IMC in the country is poorly developed due to the low level of technical - technological equipment, the small number of people in certain communities and lack of skilled human resources in certain municipalities. The municipalities: Center, Karposh and GorcePetrov are not immune to this condition because of the aforementioned facts and the fact that the mayors of the municipalities come from different political parties.

### ***Analysis of spatial and urban planning and management***

In the period from 2010 to 2013, based on previously developed urban projects in accordance with the detailed urban plans and general urban plan of the city of Skopje, the largest urban expansion was experienced by the municipality of Center in whose territory many residential buildings were built, public surfaces were renovated, roads were expanded and improved, a trend that the municipalities of Karposh and GorcePetrov follow. For the realization of these plans each municipality has a municipal administration department for Physical and Urban Planning.

### ***Analysis of the organization work of municipal bodies***

On the level of the Republic in Macedonia, the number of employees in the municipal administration by individual municipalities corresponds to the number of residents of the territories of these communities, but in the age of information technology there is still a slow and insufficiently effective administration. The reasons lie in the age structure of the municipal administration causing it to be slow and inert toward changes and lifelong learning. To improve this situation employment of young, highly educated people willing to deal with the challenges posed by working in municipal administration and ones who have the desire and vision for improvement is required.

The commission to monitor the development of the system of financing municipalities has access to the necessary data in accordance with municipal law. Reports prepared by the Commission for monitoring the development of the municipal funding are submitted to the Government, which informs the public for their content.

## CONCLUSION

Based on the study we can provide recommendations towards the improvement of business processes in local government and in terms of spatial and urban planning based on urban plans, the intensification of inter-municipal cooperation, in order to improve quality and delivery of decentralized services and success in the process of decentralization. Considering the fact that a number of municipalities have weak financial results, the local government should not be the only place that will provide improved services, but will secure their quality and delivery. It is needed that the European Charter is fully implemented regardless of the personalization of the municipalities. Local government should manage municipal property more constructively because the funds flowing into the budget will promote the work of the municipal apparatus. Following the example of West European countries where local governments receive 30-40 % of the personal income tax, the recommendations would be instead of 3 %, an increase to 5 % should be performed, and no correction to the grants received from the Budget Republic of Macedonia should be made. The distribution of grants in the country is 82 % for block grants compared with only 8 % of the total for designated grants. The recommendation is not to make reduction in subsidies but changing the redistribution or an increase of designated grants and delegated powers at the expense of block grants. The recommendations to local governments are to improve the business climate for small and medium enterprises, and one possibility is the IMC following the successful example of Gazi Baba where the YES - incubator exists, a business system of free space for new small businesses. A new item in the budget should be set up for educational support of entrepreneurs and businesses by creating local business community.

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