

ADMINISTRATIVE REFORM IN THE MEDITERRANEAN REGION

Summary of Macedonia



**Lello Esposito, an important contemporary Neapolitan artist, created and donated the cover artwork, which revolves around the colours of the Mediterranean featured in the web site: blue, green, and yellow*

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The views expressed do not imply the expression of any opinion whatsoever on the part of the United Nations and of Italian Department for Public Administration and Formez.



The reform process for the Macedonian public administration, which was launched right after independence from Yugoslavia (September 1991), was severely slowed by the political and military crisis of March 2001 that was caused by the exasperation of tensions between ethnic Macedonians and the extremist fringe of the ethnic Albanian population (UCK)¹.

The conflict, which lasted several months, ended thanks to the intervention of the European Union and the United States, who promoted the Ohrid Framework Agreement that defines the steps that must be taken in order to avert further crises and re-launch institutional reform processes. One of the agreement's main provisions is to increase the presence of all ethnic minorities within public sector offices and firms, launch important reforms in education, promote the diffusion of minority languages and introduce special parliamentary procedures for all constitutional laws regarding ethnic minorities. Another important aspect of the agreement is the launching of a decentralisation process that should strengthen democracy in the country and bring the public administration closer to the citizenry. The central themes of this process include defining the competences to be attributed to municipalities and identifying the criteria that will characterise the implementation of fiscal federalism.

The implementation of the agreement requires a series of legislative changes that are also necessary in order for Macedonia to be compliant with EU legislation, in light of the country's future entry into the EU. In order to do this, the Parliament is already undertaking some important revisions to existing legislation. This work requires in-depth knowledge of EU legislation and of international agreements, whose compatibility with national legislation must be evaluated. In order to speed up legislative updates, technical assistance programmes from the international community will be very helpful, and indeed some have been launched already.

Assistance from the international community will also be necessary in order to tackle other important challenges in Macedonia's development. These include fighting serious corruption problems within the public administration, completing privatisations, promoting entrepreneurship, restructuring the agricultural sector, and reducing poverty.

A survey on the state of the public administration reform process in Macedonia identified and analysed the process' shortcomings and the sectors in which government action has been concentrated so far. One of the reform process' main priorities is to redefine the competences and the financing system of local autonomous administrative units (municipalities), which have been recognised by the Constitution². The Constitution sets out the principles for their functioning and identifies the "Law on local government" as the main legislation disciplining their tasks.

In January 1998 the Macedonian government set up a Commission for Public Administration Reform headed by the Minister of Justice. The Ministry for Local Government is a member of this commission. In February 1999 Macedonia defined a strategy for public administration reform which identified local autonomy as the main axis of the entire reform process.

1 The population of Macedonia is made up of Albanians (27% of the overall population), Macedonians (64.6%) Turks (4%)

2 The current (1996) Law on territorial division identifies 123 municipalities, seven of which are part of the city of Skopje. In the same year Macedonia ratified the Council of Europe's Charter on local autonomy.



The Government subsequently produced an Action Plan to analyse the state of the decentralisation process and to increase the responsibilities of local governments

In March 1999 the Ministry for Local Government launched phase 1 of the Action Plan by appointing a study commission made up of representatives from several ministries (local government, finance, and territorial planning), Mayors, local government experts from the United States Agency for International Development (USAID) and administrative reform experts working on the UE PHARE programme.

The analysis of the status of the decentralisation process shows that the local government system is still too dependent on the central government both in terms of responsibilities and in financial terms.

Regarding responsibilities, there are still strong restrictions on the autonomy of local governments even in sectors for which they are nominally responsible, especially in the case where these responsibilities must be exercised in accordance with other existing and future laws. Local governments have limited or inadequate responsibilities in terms of territorial planning, management and development of public utilities – in disagreement with the Constitution and the European Charter on Local Autonomy – and further decentralisation is thus necessary in these sectors. Public participation in local affairs, as established by article 115 of the Constitution, is still too limited. Furthermore, the legislation on local government fails to respect some of the principles set out by the European Charter on Local Autonomy and will have to be modified in order to meet European standards. Finally, a well-defined division of tasks within the organisational structure of municipalities is still lacking, especially in terms of planning, finances, and road maintenance; more efficient governance models in these sectors are still needed.

In terms of the financial system, the most relevant problem concerns the inadequacy of financial resources assigned to local governments in light of the responsibilities assigned to them by the Constitution and other relevant legislation. This problem is compounded by the fact that local institutions cannot finance themselves through local taxation because of the limits of existing legislation. It is therefore necessary to set up a revenue allocation system that reflects the further responsibilities that will be transferred to local governments as well as eliminating current restrictions on allocating funds in order to be able to more broadly define public spending policies. Local governments also need to implement efficient budgeting and spending control systems, in order to improve their accountability and surmount the difficulties associated with the excessive fragmentation of funds.

The goals of the reform effort also include strengthening the administrative and managerial capabilities of public offices through adequate training policies for existing staff that include incentive systems.

Macedonia received considerable assistance from the international community in implementing its reform process. These initiatives include the following:

UE PHARE

Program of technical and other support of the public administration (1997 – 1999)

Technical assistance in terms of financial relations between the central administration and local governments; institutional building and human resource development; support for the Ministry for Local Self-Government.

Programme of support for the development of local self government

Support for the Ministry for Local Self-Government; implementation of pilot projects at the municipal level in order to assist in implementing existing laws and introduce organisational improvements; developing training programmes on matters of local interest.

US Agency for International Development (USAID)

Programme for technical assistance in the reform of local self government (September 1999 – August 2002)

Institutional building and human resource development; re-designing the financing system for local governments; improving service standards; supporting legislative innovation; developing skills in terms of collecting funds for local government responsibilities.

United Nation Development Programme (UNDP)

Project on urgent reaction to the effects of the Kosovo crisis in the Republic of Macedonia
Creation of a municipal development fund to attract foreign financial resources for assistance programmes aimed at local institutions; creation of a Co-ordination Unit for activities proposed by international organisations.

United Nation Development Programme (UNDP)

Second Country cooperation for FYR Macedonia (2001 – 2003)

Strengthening the administrative skills of local government administrations; strengthening the accountability and transparency principles in managing the public functions for which local governments are responsible.

Along with local authority reform, other important developments have taken place in education, labour policy, justice and the fight against illegality.

As early as 1997 important reforms were taking place in the education sector, though training programmes for teachers and the definition of a quality control system aiming to improve the skills of young people through the diffusion of ICT and the creation of pilot schools and of regional employment centres that encouraged stronger links between schools and the job market.

In terms of labour policies, Macedonia's high unemployment rate (32% in 2002) means that effective employment policies must be adopted, such as those implemented by the Office for Employment, which organises and co-ordinates training and re-training courses for both workers and those looking for employment.

The justice sector is another critical sector. It is characterised by highly inefficient management practices that greatly hinder the conclusion of trials, as well as by high levels of corruption among judges that endanger the respect for democracy and the rule of law. The reform process



in this sector aims to set up a judiciary system that is free from political interference and that can take adequate measures to fight corruption. At the same time, management procedures must be modernised, in part by making sure that the entire court system has adequate access to ICT.

In the economic field, Macedonia has taken important steps forward in the transition from a centralised economic system towards a free market economy. In order to meet this goal the government has intervened in both the public sector – through privatisations and the tax system – and the private sector – through commercial law reform and the modernisation and strengthening of the financial system. The awareness that creating a competitive, efficient private sector was a crucial step for reforming the economic system encouraged the government to strengthen legislation that protects shareholders, thus creating a favourable climate for attracting investments.

The process to privatise public firms that began in 1989 is being completed. By the end of 2002, 1688 public capital firms had been privatised, while 84 were still being privatised. The 1999 law on privatisations increased the powers of the Agency for Privatisations (which had been created by the preceding privatisation law in 1993), which is the government agency in charge of promoting investments. This same law also modified the modalities for dealing with bankruptcies. A new law on auditing also improved financial reporting for firms subject to privatisation.

The government has also intervened on the financial sector both through modifying legislation and through modernising management systems. With regards to the former, the most important legislative innovations include the July 2002 law on the banking system (Official Gazette n° 63/00) that among other things reduced restrictions on national and foreign investor participation in the share capital of Macedonian banks (by making it possible to own as much as 33% of shares, up from the preceding 20%); and the new law on the functions and role of the Central Bank. With regards to the latter, Macedonia took important steps in modernising payment systems and banking operations by approving a law on electronic payments and the introduction of credit cards and e-banking.

Finally, both legislative efforts and administrative reform have encouraged the entry of foreign capital in Macedonia. One of the main obstacles to foreign investment is the continued presence of lengthy and confusing bureaucratic procedures.

In order to surmount these obstacles, Macedonia launched two important projects in administrative innovation. The first deals with the computerisation of the cadastre, which will allow for quicker updating and transmission of information on real estate and landholdings. This project was implemented by the National Land Bureau, the Ministry of Agriculture, and the Ministry of Justice. The second project is co-ordinated by the Ministry of Economy and regards the creation of a one stop shop that will deal with all the bureaucratic requirements faced by foreign firms that want to operate on Macedonian territory.

Legislation on property rights and on investments does not discriminate against foreigners. Fiscal legislation also encourages foreign investment through fiscal incentives.