

THE DECENTRALIZATION PROCESS IN MACEDONIA

Ivana Boskovska

INTRODUCTION

Republic of Macedonia was regarded as one of the most centralized countries in Europe and through the 1990s the government in Macedonia tried to keep centralized control on the municipalities. There were 134 small municipalities, with no essential prerogatives and no intermediary level between them and the central government. But in practice the central government had little or no control over the territories populated with ethnic Albanians. As a result of centralized governance, the local authorities were with limited capacity to address the social, economic, infrastructure needs of local communities. The reforms of the system of local self-government that started in 1999 were a necessity for the further development of democracy in the country and an integral part of the overall process of public administration reform.

We can define decentralization as a process of transferring power to popularly elected governments. Transferring power means providing local governments with political authority, increase financial resources and more administrative responsibilities¹. There is an effective decentralization when the local government and the communities gain the authority, resources and skills to make responsive choices and to act on them effectively and accountably. Civil society organizations and individual citizens need to take responsibility, participate in the work of the communities, assist in the implementation of their decisions and monitor their effectiveness.

The reforms and the process of decentralization in Macedonia started with the signing of the Ohrid Framework Agreement in 2001.

OHRID FRAMEWORK AGREEMENT

After extensive political and interethnic negotiations in Macedonia, as well as international pressure, the Ohrid Framework Agreement (OFA) was signed on 13 August 2001. The Agreement aimed to put an end to the armed conflict in 2001 and to address Albanian demands through constitutional amendments. One of the key elements of the Ohrid Agreement is the process of decentralization, and after 2001 the Macedonian Parliament adopted a set of laws on decentralization and constitutional amendments. Also a new Law for Local self-government was adopted in 2002. According to the provisions of this Law the units of local self-government shall be autonomous in the performance of their competencies determined by the Constitution, by this and other laws². This

¹Neil Levine and Gary Bland; "Decentralization and Democratic local governance programming handbook", Center for Democracy and Governance, Bureau for Global Programs, Field Support and Research; U.S. Agency for International Development; Washington, DC 20523-3100 ; May 200, 5-6

²Law on local self-government, Official Gazette of the Republic of Macedonia No. 52/95, article 4

Law also provided new territorial re-organization and reduced the number of municipalities from 134 to 84, plus the Capital Skopje. With this re-organization some Albanian-populated municipalities were attached to some ethnic Macedonian ones, thus changing the interethnic balance in favor of the Albanians. This whole re-organization process was more result of political compromise (between the ruling SDSM and DUI), instead of respecting the demographic, social, economic, cultural, administrative and other criteria.

According to the OFA and the new laws a wide range of competences were transferred from central to local level and the new municipalities gradually took over functions previously performed by central government. The municipal competencies, prescribed in the Law on Local Self-Government include: child protection, collecting taxes, urban and rural planning, managing primary health care, primary and secondary education, social welfare services, communal activities (comprising water supply, sewerage, public hygiene, waste administration, public transportation, construction and maintaining local roads), sport and recreation and all cultural activities, local economic development.

The Government of the Republic of Macedonia formed Secretariat for the Implementation of the Ohrid Framework Agreement (SIOFA) and its mission is to take part in implementation of the OFA; to follow and monitor the results from the process of decentralization and equitable representation of minorities in the public administration³; to coordinate and monitor the process of education; monitor the use of languages according to the Law on Use of the Macedonian languages⁴, corporation with organizations and foundations in Macedonia; as well as providing administrative and technical support for the Vice President of the Government of Macedonia who is responsible for the implementation of the OFA⁵. Implementation of the Ohrid Framework Agreement and the Badinter majority (mechanism specific to Macedonia for insuring the interests of minorities in the process of decision making), beside the SIOFA will be ensured within the regular coordinative meetings with the President of the Assembly of the Republic of Macedonia and the parliamentary groups⁶.

On the central level the double majority voting on matters concerning rights of minorities means that a proposal can be accepted only if a majority of all members of the Parliament votes for it, as well as a majority of the representatives of the ethnic minorities in the Parliament. This voting pattern has also been adopted as a rule in new municipal councils.

FISCAL DECENTRALIZATION

The fiscal decentralization process in Macedonia started in July 2005. The evolution of Macedonia's intergovernmental fiscal system is strictly connected with the two phased approach to fiscal

³ Officially recognized ethnic (cultural) minorities are those mentioned in the Preamble of the Constitution: Albanians, Turks, Roma, Serbs, Bosnians and Vlachs

According to the OFA, in the units of local self-government, where at least 20% of the population speak a language other than Macedonian, that language and its alphabet will be used as an official language, in addition to the Macedonian language and its Cyrillic alphabet

⁵ http://siofa.gov.mk/mk/misija_i_vizija_na_sekretarijatot.html

⁶ National programme for adoption of the acquis communautaire, Skopje, 29 May 2009

decentralization reform. The Law on Financing the Units of Local Self Government foresees the following type of transfers from the central government to the municipalities:

- Three earmarked grants for assisting municipalities respectively in the areas of education, culture, social policy and child protection;
- A general purpose transfer from VAT (shared) revenues;
- Retention of Personal Income Taxes;
- Capital grants;
- Funds received for delegated competencies.

The second phase of fiscal decentralization was supposed to start in July 2007 but its implementation has been postponed to January 2008. The second phase is conditional in the sense that to access to this phase municipalities have to comply with certain criteria defined as well in the Law on Financing of the Units of Local Self Government⁷:

1. The condition for phase I are fulfilled⁸.
2. Good financial results are shown in the past 24 months.
3. There is an adequate staff capacity for financial management.
4. Timely and regularly notification to the Ministry of finance about the good results from the work, and verification by the Ministry of Finance and
5. There are no outstanding liabilities towards suppliers or any other creditor that overcome the usual payment condition.

A Commission for monitoring and assessment of the fulfillment of the conditions for moving towards the second phase of the fiscal decentralization process was established in January 2007 to evaluate compliance with these conditions. The Commission consists of president, nine members and a secretary appointed by the Government of Macedonia. Notably among the members are the President and Vice President of ZELS, mayors of municipalities, representative of the line ministries, academia and international experts. The first and most important step for successful fiscal decentralization is the clear assignment of expenditure responsibilities. Without certainty and transparency in “who is responsible for what” there is no accountability in the system and further, there is no point in discussing or defining revenue assignments or transfers since it would be impossible to identify the revenue needs of local governments.

⁷ Article 46

⁸ These conditions for phase I were: 1) the municipal administration should have at least two employees who are qualified to work on financial management, budget preparation, budget execution, accounting and financial reporting; 2) the municipal administration should have at least three employees who are qualified to work on determination and collection of taxes.

The assignment of expenditure responsibilities in Macedonia presents two main problems. First, despite all the progress that has been made to date, the assignment of expenditure responsibilities still lacks clarity and this is a very serious problem for the further development of the decentralization system in the country. Second, little or no attention has been given in current legislation and practice on how to arrive at the expenditure needs that are associated with the current expenditure assignments. An assignment of responsibilities that lacks clarity would not allow a precise computation of expenditure needs, but in reality no forward looking methodology has been proposed or put to actual use to link expenditure assignments and expenditure needs⁹.

Once expenditure assignments and the expenditure needs associated with them are determined, it is necessary to look for what tax instruments and the other sources can be assigned to local governments so that they can finance their expenditures. Prior to recent reforms, local government units' independent collection of public revenues was limited. Most revenues were collected by regional branches of the Public Revenue Office of the Ministry of Finance and deposited in the national treasury account and then the funds were distributed to the municipalities in accordance to the defined criteria. Starting with the first phase of the fiscal decentralization in July 2005, the collection of revenue from municipal revenue instruments was assigned directly to the municipal administrations.

The examination of individual sources of municipal revenue shows revenue increase for all sources except communal fee and charges, which are dominated by revenue from construction permit fees. At the same time it should be pointed out that the revenue from property taxes almost doubled in absolute terms between 2004 and 2006. Between 2005 and 2006 revenue for all three property related taxes increased but especially for the real estate transfer tax. However, these increases in property taxes were outweighed by the revenue drop from communal charges resulting in an overall decline in municipal own revenue.

According to the Law on financing the Units of Local Self Government and subsequent legislation the municipal revenues are¹⁰:

- Property taxes (annual property tax, tax on transfer of real estate, tax on inheritance and gifts)
- Local fees (communal fees, administrative fees)
- Communal charges (construction land charges, communal activity charges, spatial planning charges)
- Revenue from assets (leasing, interests, property sale)
- Financial donations (a contract between the donator and the mayor after approval from the municipal council)
- Fines

⁹ Information is provided from UNDP mission in Macedonia in July 2007

¹⁰ Articles 4-7

- Self contributions (authorized through a local referendum)
- Revenues from concessions on mineral resources and
- Revenues from Personal Income Tax (PIT).

Local authorities operate through a set of separate budgetary accounts:

- Principal budget;
- Budget of donations;
- The budget of earmarked grants and
- The budget of self-financing activities¹¹.

Essentially local authorities have full discretion for the allocation of funds from the principal budget account only. Resources in the donations account are often bound by donations agreement; earmarked grants can be used only in line with financial plans of institutions (schools, museums, etc) approved by line ministries; and receipts from self-financing activities (e.g. renting school premises for extra-curriculum activities) are paid directly to the accounts of individual institutions, which can use these money at its own discretion (possibly sanctioned by school boards and subject to the general public finance regulations).

According to the functional classification of local expenditures most of local resources are allocated to provision of economic infrastructure: roads and development-related services account for almost a third of local expenditures and almost a half of the principal budget. The second largest functional category of expenditures is general public administration, mostly dominated by the municipal apparatus as opposed to the elected bodies. The relative share of administrative costs is high by international standards. Several explanations may be behind this performance. First, high administrative costs might also be explained by the high fixed costs due to rigid personnel requirement mandated by financial and sectoral regulations, which do not take into consideration the size of municipalities. Second, because administration costs are largely fixed costs of operation, the relative share for these operations tends to be higher in countries where local government expenditures represent smaller share of consolidated public expenditures. Third, it is also possible that municipalities do not fully account costs by different functions and general administration becomes a default category. The third largest functional category is education services (primary and secondary). Municipal expenditures on education financed with funds from the principal budget are very low. Most of the total expenditures on education are financed by earmarked grants and self-financing sources for the schools.

The design of revenue assignments in Macedonia faces the constraint of very significant fiscal disparities. While own revenue on average covers about 70 percent of local expenditures, in some rural municipalities it is as low as 6 percent. There is great disparity in revenue sufficiency among municipalities ranging from 88 percent for the Skopje local governments to 53 percent for the other ur-

¹¹ In addition, there can be another account for loans of a municipality is authorized to borrow

ban municipalities to just 29 percent for rural municipalities. These disparities impose a limit on how much to rely on increase in tax autonomy. Another fundamental problem with revenue assignments in Macedonia is the need for increased revenue autonomy. Even though the property tax has been assigned to local level with discretion to change tax rates, this and other local taxes still fall short of providing adequate financing to local government.

With the exception of the possibility of delegated functions, all municipalities have the same expenditure responsibilities. While the City of Skopje has special legal provisions for sharing the competencies with its constituent municipalities, the municipal and city governments of Skopje as a whole are assigned the same package of functions as other municipalities. The law provides municipalities with sufficient flexibility to seek the most efficient modes of service delivery. Thus municipalities can establish municipal companies for public services or delegate actual delivery to private companies. In addition, some municipalities are making use of inter-municipal cooperation agreements with neighboring municipalities for the implementation of some functions requiring certain scale. Despite this, an appropriate legal framework is still lacking. On 10 September 2009, UNDP in partnership with the Ministry of Local Self Government announced the call for grants for inter-municipal cooperation¹². The grants are provided with the support of Norwegian Government and aimed for all municipalities in the country which will submit request for grants in the area of inter- municipal cooperation¹³.

PROGRESS AND PROBLEMS IN THE PROCESS OF DECENTRALIZATION

Macedonia has good legal framework and all legislative provisions are up to the European standards¹⁴. A Strategy on Reform of the System of Local Self-Government was adopted in November 1999. Also amendments to the Constitution were adopted within the framework of implementation of the Ohrid Agreement. These amendments offer former guarantees for the achievement of the objectives defined by the Strategy. They enable the process of further decentralization of competencies, provide enlarged scope for the use of languages in the local government and define new procedures for adoption of laws that relate to the system of local self-government.

An Action Plan for implementation of the local self-government reform was adopted and a Coordinative Body for planning, monitoring, management and coordination of the reform was established in order to implement this complex and lengthy reform. The adoption of a new law on Local Self-Government in January 2002 represented very important step for the reform. Beside this Law, there are three other crucial laws: The Law on Financing of Municipalities, law on Territorial Boundaries and Law on the City of Skopje. These three laws went through the first reading in the Parliament in February 2004 and its adoption represents huge move forward in enhancing the quality of local governance by enabling further development of the system i.e. the functional and fiscal decentralization. In order to carry out the transfer of competencies, funds, facilities and personnel from central to local level amendments to over 70 other laws will be required.

An Operational Programme for Decentralization of powers 2003-2004 was developed with which the time-schedule for passing the identified laws laid out. The decentralization process is coordinated with other reforms in the

¹² <http://www.undp.org.mk/Default.aspx?LCID=35&NewsID=294>

¹³ The amount of the grants is 1,240,000 denars (20.000 EUR)

¹⁴ Macedonia signed the European Charter of Local Self Governments in 1996 and the Parliament ratified it in 1997

social and administrative sphere through inter-ministerial Decentralization Working group and a Coordinating Body of State Secretaries.

Even though the legal base of the decentralization process corresponds to the best European practices, the EU states that “The respect and law enforcement remains deficient mainly due to the consequence of weak institutions of law enforcement, limited administrative capacities and high level of corruption and organized crime”.

When it comes to fiscal decentralization, some reforms have been in the right direction, but some important issues still remain. Most important are:

- a) Great diversity and disparities among municipalities to perform specific functions;
- b) Relation between the mayor and the Council at the municipal level (in practice there are problems when the Mayor and the majority of the Counselors belong to opposing political parties);
- c) Information, supervision and monitoring (good decentralization requires a strong central government with a god ability to monitor);
- d) The central government does not always keep the rules it makes.

According to the European Commission and its progress report, the process of decentralization continued. The Law of Inter-Municipality Cooperation was enacted in June 2009 and helped municipalities to exercise their powers more effectively. Another six of the 85 municipalities entered phase two of the fiscal decentralization process, which provides for a more substantial transfer of competencies to the local level, leaving seventeen in phase one. Municipal tax collection improved. Municipalities received a higher share of the revenue collected from management of the State-owned land. Efforts were made to strengthen the capacity of municipalities in the areas of property tax administration, public financial management, debt management and financial control. Internal audit units were established in ten more municipalities, bringing the total up to thirty eight. In thirty six municipalities service centres and their branch offices were established. Staff was trained and working procedures were put in place. Municipalities performed better in the field of education. Also the EU sectors in some ministries were strengthened with a total amount of twenty additional staff. The 2009 version of the National Programme for adoption of the aquis communautaire envisages a total of 1, 168 new civil service posts, for which appropriate budgetary provision was made. Staff in municipalities is gradually being trained to implement parts of the aquis assigned to local level to manage EU funds¹⁵.

However, revenue remains insufficient to allow municipalities to perform their tasks properly. Management of State-owned land is still centralized. The municipalities which remain in phase one have sizeable debts. The accounts of twenty two municipalities (twelve of them are in phase two), have been blocked by legal proceedings relating to arrears. There is no consistent set of data on ar-

¹⁵ Commission of the European Communities; Brussels, 14.10.2009; Commission staff working document-The Former Yugoslav republic of Macedonia 2009 progress report; access at: http://ec.europa.eu/enlargement/press_corner/key-documents/reports_oct_2009_en.html

years accumulated in municipalities. The Association of Municipalities (ZELS) continues to hold important responsibilities for taking forward the decentralization process. The administrative capacity of some municipalities, particularly the smaller ones, remains low in the areas of financial management, tax administration and financial control. In some municipalities property tax collection is not adequately monitored or enforced and the databases of tax payers are not updated. The transparency and accountability of local government administrations remains inadequate. In several instances, trained staff of municipal service was replaced following the election of a new mayor. Exchanges of data between the cadastre, the civil registry, the Republic revenue Office and the municipalities need to be strengthened. The Ministry of Local Self-Government is not facilitating the decentralization process sufficiently. The local government budget unit in the Ministry of Finance lacks capacity to support fiscal decentralization and at last the inter-ministrial working group did not meet for a year prior to August 2009¹⁶.

Some of the problems appeared before the start of the decentralization process. Ethnic Macedonians opposition parties and nationalist parties were against the new decentralization and re-organization plans, and for this reason they called for a referendum. Although domestic and external factors warned that the referendum could undermine the achievements and the OFA, the referendum took place on November 7, 2004. The referendum failed due to low turn-out of barely 26% of the voters after an openly declared EU and US support of the Macedonian government. However, this was an evidence for the lack of political dialog and political equilibrium, as well as the fragility of the ethnic coexistence in the country. The call for referendum illustrates the need for redefining the political decision making process to involve all stakeholders, citizens and civic organizations. This would decrease the chances of mobilization along ethnic lines and increasing the chances for the Framework Agreement to endure.

The major flaws in the decentralization process stem from inconsistent implementation, where good governance principles give way to partisan attitudes; ethnic preferences; corrupt behavior -or their combination in most cases lead to: poor delivery to the citizens; failure of reform; low legitimacy of the democratic governance process.

BENEFITS FROM THE PROCESS OF DECENTRALIZATION AND INTERNATIONAL HELP

The developed countries use the decentralization process as a mechanism to disperse power, to ensure political stability, to bring representative governance closer to citizens and to improve the accountability and responsiveness of local leaders. Decentralization has also been undertaken because of dissatisfaction with the efficiency of centralized provision of public services. Often inefficiencies have been tied to the difficulties of coordinating large sets of activities in disparate locations from a centralized point. Greater autonomy in decision-making process has removed layers of bureaucracy and decreasing decision-making time. The decentralization can also improve allocative efficiency by bringing greater diversity into the supply of public services, providing a greater scope for meeting heterogeneous preferences for public good.

¹⁶ <http://www.esiweb.org/index.php?lang=en&id=420#6>

Another possible benefit from decentralization is that this process can promote policy innovation. Decentralizing policy choice to local governments has the advantage that several different policies can be considered simultaneously¹⁷.

Decentralization in Macedonia is very important because it is a process for regulating difficult and complicated political problems in a domestic political aspect¹⁸, as well as an external integrative aspect: the country's accession to the EU and NATO.

International help in the implementation of the process of decentralization is essential for our country. The main objectives of EU assistance are to support the achievements to date in the field of democracy by strengthening the institutional and administrative capacity of the state and of the actors of the civil society. EU aims to bring Macedonia closer to EU standards and principles and to assist the country in the framework of the Stabilisation and Association process. One of the main areas of support is the local government, to strengthen the capacity of the Ministry of Local Self Government to manage the decentralization and to enhance the dialogue between the different levels of government: central and local¹⁹.

International development assistance has an important role in supporting and promoting reform in the country. The EU is the largest donor in the region. Its importance gradually increases, as the resources available such as the World Bank and USAID decline. The EU CARDS programme reinforces the objectives of the SAP process. The assistance supports finance investment, institution building and other programmes in four areas²⁰.

In order to enhance the operational capabilities of the Association of Municipalities (ZELS), the EU has allocated financial help for the reconstruction of the administrative head-quarters building. Managed by the European Agency for Reconstruction, this project will provide a fully operational headquarters that will facilitate the work of the ZELS and contribute to the continued development of the local decentralization process. The EU special Representative and Head of EC Delegation office continue to play a key role in assuring effective political coordination of the decentralization process.

On 28 April, the Delegation of the European Union in Skopje organised a Closing ceremony to highlight the results of two of its projects that support the decentralization process in the former Yugoslav Republic of Macedonia: the 2008 Municipal Awards project and the Municipal Infrastructure project. The 2008 Municipal Awards project objective was to recognize outstanding and sustainable achievements and best practices of the municipalities which have a tangible impact on improving the livelihood of people living in the municipality.

¹⁷ Koleman S. Strumpf, "Does Government decentralization increase policy innovation?" ; (research paper, Department of Economics); University of North Carolina at Chapel Hill; June 1999.

¹⁸ Conflicts in a plural post-communist society with deep cleavages; intra-integrative problems –consolidation of our society; implementation of the OFA

¹⁹ European Union assistance; Second edition; November 2000

²⁰ EIB Medium-Term Strategy for the Western Balkans. European Investment Bank, December 2004; access at: <http://www.eib.org/projects/publications/eib-medium-term-strategy-for-the-western-balkans.html>

The 1st prize amounting to EUR 333,000 has been awarded to the Municipality of Resen for the project: Reducing environmental impacts of agriculture in the Prespa region. The 2nd prize of EUR 200,000 has been awarded to the Municipality of Ilinden for the project: Local economic development of Ilinden Municipality. The 3rd prize, amounting to EUR 133.000 has been awarded to the Municipality of Chair for the project: New Municipal Building complex²¹.

Instrument for Pre-Accession Assistance (IPA) was established by the EU Council with the adoption of the Regulation (EC) No. 1085/2006 dated 17th July 2006, as unique pre-accession instrument for the period 2007-2013, the main goal of which is providing targeted assistance for the candidate countries and the potential candidates for EU membership. This instrument replaces and unifies the so far pre-accession instruments: Phare, ISPA, SAPARD, CARDS and the Instrument for Pre-Accession Assistance of Turkey.

The European Union, through IPA, gives assistance to the candidate countries and the potential candidates in their progressive harmonization with the EU standards and policies, as well as with the *acquis communautaire* on the road to EU membership.

Instrument for Pre-Accession Assistance (IPA) includes the following 5 components:

- Transition Assistance and Institutional Building;
- Cross-Border Cooperation;
- Regional Development;
- Human Resources Development;
- Rural Development.

Republic of Macedonia as candidate country for EU membership has access towards all IPA components²².

Another significant help comes from U.S Agency for International Development. USA-ID/Macedonia has defined three primary objectives for the Ministry of Local Government:

- Municipalities have increased financial management capacity and accountability, and as such are eligible to continue to Phase II of the decentralization process and to borrow from private credit markets;
- Municipalities are increasingly capable of generating own-source revenues and are decreasingly dependent on central government transfers; and
- Municipalities are increasingly transparent and accountable to citizens regarding local government finances and decision-making.

²¹ <http://www.delmkd.ec.europa.eu/en/index.htm>

²² <http://www.finance.gov.mk/node/1084>

CONCLUSION

Decent and effective local government, well trained and qualitative civil servants that provide services, better local infrastructure, lower unemployment rate and local economic development can be achieved with more successful cooperation between the central and the local government, inter-municipal cooperation, improvement legislation related to the decentralization and transparent decision making.

The sustainability of the process of decentralization will also largely depend on the adopted political strategies of the key actors in the country and the degree of success in management and government of local institutional infrastructure. Yet, sustainability will come only if a range of institutions approaches the process in a positive manner. The appearance and operation of independent local media is going to play a very important role. Media intent on furthering the process of decentralization provide crucial channels of communication with local populations. They are very helpful measurement tools for the levels of acceptance of policies and success of various decisions. Local media will provide useful channels for increasing the level of information and understanding of decentralization as well as for voicing concerns and grievances emerging along the way. Ideally, local media will not be exclusively concerned with playing the role of buttressing political positions of various actors. A degree of distance and objectivity when presenting and analyzing local affairs is a precondition for the successful inclusion of media in the project of successful decentralization. Tracking these processes in the area of media development is another feature of important future research.

Part of the decentralization process touches on the issue of non-ethnic minorities. The initial findings show that here is potential for over-emphasis of 30ethnic politics at the local level. If unchecked, this could lead to the sidelining of other minorities such as women, handicapped, etc. Given the magnitude of the political and governmental agenda, this may not seem a very important matter. Yet, given the intensity of expectations created by the decentralization process, the elaboration of good and inclusive policies vis-à-vis the other minorities may provide an unexpected pool of legitimacy to decentralization. In any case, this consideration is part of a more developmental agenda, the implementation of which will have decisive relevance for overall success.

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Ivana Boskovska is a graduated student in Public Administration, from the South East European University in Tetovo. She has previous experience in working in municipal government as an intern.