



THE LOW LEVEL OF FISCAL DECENTRALIZATION AND THE HUGE REGIONAL DISPARITIES: TWO MAIN STRUCTURAL PROBLEMS OF REPUBLIC OF MACEDONIA

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- A** The purpose of the paper is to analyze the level of fiscal decentralization and regional disparities in the Republic of Macedonia as two big structural problems of this country. The first level of analysis compares the process of financial and fiscal decentralization of Macedonia with Western Balkans (WB) countries and the average of EU. The second level of analysis covers the process of fiscal decentralization and the level of disparities between 81 municipalities and 8 regions in Republic of Macedonia. The analysis covers the 2006–2014 period according to the data published by national authors and institutions of Macedonia and relevant international institutions and authors. The second part of this paper analyzes the impact of the process of fiscal decentralization and implementation of a strategy for equal regional development in order to reduce development disparities in local and regional level. The findings of the author of this study are consistent with findings of international and local researchers. The current process of fiscal decentralization and the ineffective implementation of the law on equal regional development has not resulted in reducing local and regional disparities. Responsibility for the deepening of fiscal and regional disparities falls on the government in Skopje due to the lack of political will in the sense of improving the process of political and fiscal decentralization and allocation of sufficient funds for capital public investments in favour of underdeveloped municipalities and regions in Macedonia.
- B** fiscal decentralization, the regional development, the local and regional disparities, the law on regional development, the capital public investment, the West Balkan (WB), UE.

НИЗЬКИЙ РІВЕНЬ ФІСКАЛЬНОЇ ДЕЦЕНТРАЛІЗАЦІЇ ТА ЗНАЧНІ РЕГІОНАЛЬНІ ВІДМІННОСТІ: ДВІ ОСНОВНІ СТРУКТУРНІ ПРОБЛЕМИ РЕСПУБЛІКИ МАКЕДОНІЯ

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- A** Метою статті є аналіз рівня фіскальної децентралізації і регіональних диспропорцій в Республіці Македонія як двох основних структурних проблем цієї країни. Він складається з порівняння процесу фінансової і фіскальної децентралізації Македонії з країнами Західних Балкан і в середньому в ЄС, а також охоплює процес фіскальної децентралізації і проблему нерівності між 81-м муніципалітетом та 8-ма регіонами Республіки Македонія. Розглядається період 2006–2014 рр. згідно з даними, що їх оприлюднили автори та організації Македонії, а також відповідні міжнародні організації. У другій частині статті аналізується вплив процесу фіскальної децентралізації і реалізації стратегії рівномірного регіонального розвитку з метою зменшення відмінностей на місцевому і регіональному рівнях. Висновки автора узгоджуються з висновками дослідників, що ґрунтуються на міжнародному та місцевому досвіді. Нинішній процес фіскальної децентралізації і неефективна імплементація закону про рівні умови регіонального розвитку не сприяли скороченню місцевих і регіональних диспропорцій. Відповідальний за поглиблення фіскальної та регіональної нерівності насамперед уряд країни, бо він демонструє відсутність політичної волі відносно покращення процесу політичної та фінансової децентралізації і надання достатнього обсягу коштів для капітальних державних інвестицій на користь слабозрозумітих муніципалітетів і регіонів Македонії.
- B** фіскальна децентралізація, регіональний розвиток, локальна і регіональна нерівність, закон про регіональний розвиток, капітальні державні інвестиції, Західні Балкани (WB), ЄС (UE).

НИЗКИЙ УРОВЕНЬ ФИСКАЛЬНОЙ ДЕЦЕНТРАЛИЗАЦИИ И ОГРОМНЫЕ РЕГИОНАЛЬНЫЕ РАЗЛИЧИЯ: ДВЕ ОСНОВНЫЕ СТРУКТУРНЫЕ ПРОБЛЕМЫ РЕСПУБЛИКИ МАКЕДОНИЯ

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- A** Целью статьи является анализ уровня фискальной децентрализации и региональных диспропорций в Республике Македония как двух основных структурных проблем этой страны. Он состоит из сравнения процесса финансовой и фискальной децентрализации Македонии со странами Западных Балкан и в среднем по ЕС, а также охватывает процесс фискальной децентрализации и уровень неравенства между 81-м муниципалитетом и 8-ю регионами Республики Македония. Рассматривается период 2006–2014 гг. согласно с данными, опубликованными авторами и организациями Македонии, а также соответствующими международными организациями. Во второй части статьи анализируется влияние процесса фискальной децентрализации и реализации стратегии равного регионального развития в целях сокращения различий на местном и региональном уровнях. Выводы автора согласуются с выводами исследователей, которые ориентируются на международный и местный опыт. Нынешний процесс фискальной децентрализации и неэффективная имплементация закона о равном региональном развитии не привели к сокращению местных и региональных диспропорций. Ответственность за усиление фискального и регионального неравенства ложится на правительство страны из-за отсутствия политической воли в направлении улучшения процесса политической и финансовой децентрализации и выделения достаточных средств для капитальных государственных инвестиций в пользу слабозастроенных муниципалитетов и регионов в Македонии.
- B** фискальная децентрализация, региональное развитие, локальное и региональное неравенство, закон о региональном развитии, капитальные государственные инвестиции, Западные Балканы (WB), ЕС (UE).

Introduction

The process of building a democratic political system and functioning a market economy in the countries of the Western Balkans (WB) also includes political reforms and fiscal decentralization while also taking into account specific political, economic and ethnic diversity of the countries of WB. Political and fiscal decentralization partly realized goals to build a functioning local democracy and sustainable financial and fiscal level of municipalities and regions, while the process is in the second decade of practical implementation.

Organizational restructuring at the local level is diverse due to the fact that some WB countries have one level of local government; some have two-levels local organization while Bosnia and Herzegovina has a three levels organization. This on the other hand, accompanies by different systems of control over finance which makes it very difficult to conduct a proper comparative analysis of the Western Balkan countries and as compared to the EU (Osmani & Mazlami, 2014).

Research conducted by relevant international institutions such as the World Bank, the European Commission and the fiscal authorities of analysed countries prove that the WB countries compared to the EU have low levels of fiscal decentralization at the level 5–6 % of GDP that equilibrated with 40–50 % of the EU, while compared to the public expenditures this level reaches at 15–16 % that equilibrated with 55 % of the EU.

Financial and fiscal disparities, in terms of development components (indicator of public capital investment) are very high and have deepened the gap between rural and urban municipalities and between the regions in Macedonia. Partial effects of political and fiscal decentralization in Macedonia's case imposed the need for establishment of 8 planning regions, the adoption of a balanced strategy for regional development and practical bodies authorized to implement the strategy.

New regional development policies in Macedonia has been supported with the legal obligation for allocation of 1 % of GDP as additional financial funds for each fiscal year with the objective of reducing local and regional disparities.

The author of the research (Osmani 2013), taking into account his experience as mayor of Gostivar in two mandates (1996–1998 and 2009–2013), estimates that the responsibility for the insufficient political and fiscal decentralization and deepening the disparities among the regions, falls upon the governments in Skopje. In the past two decades, governments in

Skopje constantly manifested lack of political will for increasing political and financial autonomy of the municipalities and to avoid local and regional disparities which today are manifested as territorial and ethnic discrimination with the tendency of further deterioration.

Literature review

The process of fiscal and financial decentralization and regional aspects of this process are analyzed by specialized organizations and institutions such as World Bank, the IMF, USAID, NALAS and other international organizations and national institutions. In the context of the process of fiscal decentralization and regional disparities, the most important papers are the following researches:

- Nalas «Fiscal Decentralization Indicators for South East Europe: 2006–2014» (2016);
- Tony Levitas «Local Government Finances and the Status of Fiscal Decentralization in Macedonia: A Statistical Review 2008–2011, USAID, Macedonian Local Government Activity» (2011);
- World Bank «WB, Sustainable Development Department (ECSSD) SEE-Municipal Finance Review, Local Government Finance in the Western Balkans» (2013);
- 3G Center for development of local democracy «Local Financies in Macedonia 2013–2014 (2016);
- Fondation «Friedrich Ebert «Regional Development in the Republic of Macedonia» (2003).

Toni Levitas research (2011) and the research of Foundation «Friedrich Ebert» (2003) find gaps and the real problems of the process of decentralization and regional development and provide professional recommendations on elimination of disparities at all levels. The research aims to argue the existing regional and local disparities in the field of public finance and in public capital investment.

The paper provides some recommendations for avoiding these fiscal and development disparities in terms of advancing the process of fiscal decentralization being equal to the average of UE and the full implementation of the law on equal development of planning regions in Macedonia.

Research methodology

Through a comparative analysis of the level of decentralization in Macedonia compared to other countries of the EU and WB we intend to argue the

LOCAL GOVERNMENT UNITS IN THE WEST BALKAN COUNTRIES AND POPULATION

TABLE 1

Countries	Population	Number of LGU-s	Average Population of LGU-s	LGU below pop.5000 (%)	Capital city in % of total	Average Density (people /sq.km)
Albania	4,202,098	61	68,886	NA	14,5	NA
FBiH	2,337,660	80	29,591	13,8	18,7	268,75
BiH RS	1,433,038	63	23,114	25,4	15,8	63,42
Kosovo	2,236,963	38	58,867	5,3	11,4	290,47
Macedonia	2,027,697	81	25,033	21,3	25,0	85,77
Montenegro	620,029	21	29,525	14,3	30,0	61,69
Serbia	7,748,519	170	55,836	0,6	21,0	395,22
EU-27 average	–	–	5,580	–	7,0	116,92

Source: WB, (ECSSD) SEE-Municipal Finance Review, LGF in the West Balkans.

main objective of the paper, the high level of local and regional disparities.

More analytically we analyze the impact of government policy in eliminating the disparities in planning regions of Macedonia provided by law (Law on equal regional development of Macedonia, 2007). The research analyzes the different time periods depending on the public information and in a more detailed way; the 2006–2014 period is analyzed in comparative aspect with WB and the EU countries.

The study analyzes the regional aspect of fiscal decentralization and the manner of allocation of public capital investment by regions in the case of Macedonia for the 2010–2014 period. The analysis covers eight planning regions of Macedonia: Vardar Region, Eastern Region, Southwest Region, Southeast Region, Pelagonia Region, Polog Region, Northeast Region and the Skopje Region. We use a common statistical methods and descriptive empirical research to conduct a comparative analysis of the fiscal decentralization process in Macedonia in comparison with Western Balkan countries and regional disparities between the eight planning regions of Macedonia.

The local territorial organization, economic and fiscal situation of the Republic of Macedonia in comparison with WB countries and the EU

Territorial organization, the number of municipalities and the number of population by municipalities in various countries of EU and WB reflects the territorial, economic, ethnic, cultural and political specifics of analyzed countries. Serbia has the largest number of municipalities (170) and the Montenegro has the smallest number of municipalities (21).

The number of municipalities, the number of residents and other important information for all countries of BP are presented in Table 1. These information are

the product of a very complex political decision-making process with the aim of overcoming inter-ethnic, inter-regional and political disputes and solving the inherited asymmetric development at local and regional level.

The common characteristics of all states of WB is concentration of highest population in capitals, a fact which is associated with high concentration of economic and fiscal potential that effectuates favoring capitals and damaging the other regions of all countries of WB.

From *Table 1* of World Bank, the author of this paper has made the following corrections:

- Croatia is removed as EU member state and a country which is not in the focus of this analysis;
- Macedonia's population is corrected based on the latest data of the Statistical Office;
- the number of municipalities is 81 in Macedonia based on legislative changes in 2013;
- the Republic of Albania based on new territorial organization of municipalities in 2015, has constituted 61 communes (municipalities).

Existing territorial organization of municipalities, the number of inhabitants of municipalities, the large concentration of population, economic and fiscal potential in the capitals of the states of WB, imposes the need for reassessment of the effectiveness of this model in a functional and in a development sense. New organization of municipalities and regions should be focused on finding new models with optimal utilization of human potential and economic resources, favoring municipalities and regions with less development and achieving a harmonic municipal, regional and ethnic development in all levels.

GDP PER CAPITA PER CAPITA, COUNTRIES OF WEST BALKANS (2006, 2014) (EURO)

TABLE 2

Countries	2006	2014	Index (2014 / 2006)
Albania	2,460	3,437	1,40 %
B i H	2,331	3,152	1,35 %
Kosovo	1.851	2,935	1,59 %
Macedonia	2,706	4,219	1,56 %
Montenegro	3,464	5,575	1,61 %
Serbia	3,295	4,416	1,34 %
West Balkan (average)	2,684	3,956	1,47 %
EU (28m) (average)	26,500	27,400	1,03 %

Source: Fiscal Decentralization Indicators for SEE 2006–2016, NALAS.

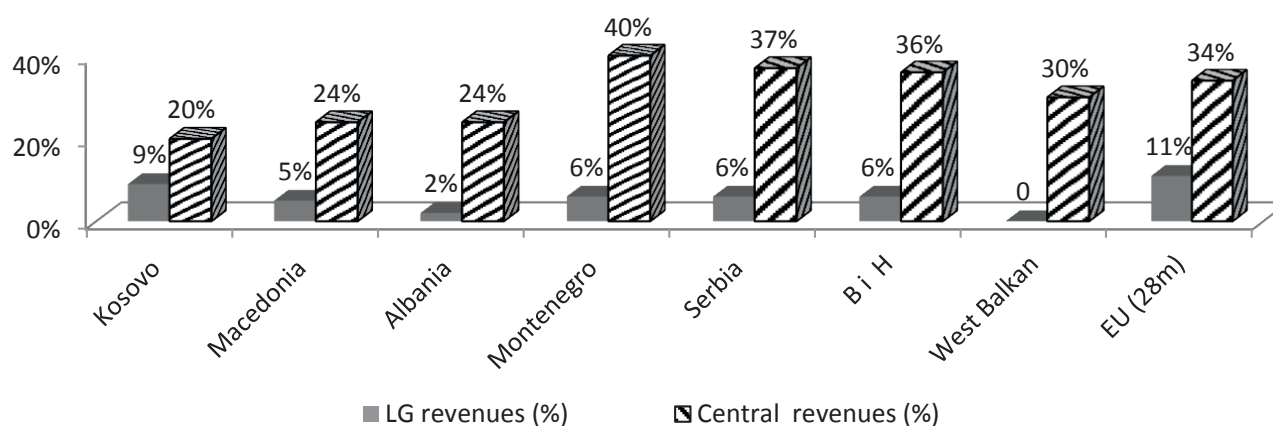


Chart1. Revenues as part of local and central government as part of GDP (2014) (Author’s own calculation)

Despite the fact that in the (2006–2014) period GDP per capita of all WB countries has increased from 34 % to 61 %, and all these countries continue to have low levels of this indicator compared to the EU. The lowest level of this indicator has Kosovo with 2,935 euro per capita, balancing at 74 % of the average of WB that represents only 7 % of the EU average. Montenegro has achieved highest growth of 61 % that enabled this country to be over 41 % of the average of countries of WB but that compared with the EU average is only at the symbolic level of 20 %.

The positive trend of Montenegro is the result of successful implementation of structural reforms in the political, economic and fiscal sphere and the fulfilment of the convergence criteria for membership in NATO and the EU. Positive convergence of this state has impacted positively in elimination of economic and political risks, increase of investment, reduce of unemployment and increase of the standard of living of population.

Macedonia has increased GDP per capita for 56 %, which ranks country up to 7 % of average of WB,

while in relation to the EU average country is in the range of 15 %. In the case of Macedonia these positive trends after 2015 are significantly cancelled due to internal political crisis, the blockage of the process of integration of the country into NATO and the EU as a result of not solving the political dispute with Greece.

The GDP Indicator per capita at WB countries has recorded nominal increase of 47 % in the 2006–2014 period. The level of 3,596 euro (GDP-per capita) ranks these countries at the level of 13 % of the EU average. Such a low level of this indicator that reflects the basic economic indicators in sphere of economy, fiscalization and investment, it deepens the gap between WB and EU states also in the context of fiscal decentralization and regional development.

Chart 1 argues the low level of local finances in relation to GDP and compared with the EU average. It is worth mentioning that a country with poor economic performance between countries of WB (Kosovo) has the highest level of local finances as relative percentage (9 %) despite the average of WB (5,5 %), a level that is only 2 % below the EU average.

LOCAL GOV. REVENUE AS A SHARE OF GDP, AND TOTAL PUBLIC REVENUE (2006, 2010, 2014)

TABLE 3

Description	2006 (%)	2010 (%)	2014 (%)
CG Revenue as % of GDP	31,0	32,0	30,0
LG Revenue as % of Public Revenue	6,8	16,8	18,0
LG Revenue as % of GDP	2,1	5,4	5,4
Real GDP growth rate	4,1	3,2	3,5

Source: authors calculations.

COMPOSITION OF LOCAL GOVERNMENT REVENUE (2006, 2010, 2014)

TABLE 4

Description	2006 (%)	2010 (%)	2014 (%)
Shared Taxes	18	6	7
Unconditional Grants	12	6	7
Conditional Grants	26	57	56
Own Revenues	44	35	31

Source: authors calculations.

Albania has the lowest level of local finance (2 % of GDP), accompanied by Macedonia with (5 % of GDP), other WB countries are balanced at 6 % of GDP which represents 55 % of the average EU level.

The evolution of fiscal decentralization in the Republic of Macedonia for the period 2002–2014

The internal ethnic conflict in Macedonia in 2001 produced the change of Macedonian Constitution and advanced the rights of minorities in particular the political rights of the Albanian community. The process of fiscal decentralization in financial and functional sense in Macedonia has recognized certain progress from 2002 until 2014 (Osmani 2014).

The *table 3* presents the trend of increased of the public money for local authorities in Macedonia as a consequence of transferred of the competencies in the area of primary and secondary education. Through this transfer to local authorities funds were transferred for payment of the salaries of education personnel and financial funds for covering the operating expenses for school buildings. This transfer represents increases of public money for over three times in favor of the local authorities, but essentially this transfer has no meaning in the real growth of the financial and fiscal autonomy because the capital investments in the education sector remain to central government competencies.

Increase of 115 % of conditional grants for primary and secondary education in 2014 compared to 2006 resulted in a substantial decrease of shared taxes for 61 % and decrease of unconditional grants for 41 % in the same period. Negative trends in public revenues resources have reduced revenues in relative sense for

30 %, that has negative consequences on the volume of investment funds of municipalities and regions in Macedonia.

The data presented in *Chart 2* reflects the deterioration in the structure of expenditures in local governments in Macedonia by increasing the participation of the operating expenses from 63 % to 76 % and in this framework the expenses of salaries have the biggest increase of 210 %. Increased operating expenses (fixed) at the level of 76 % of the consolidated budget has decreased by 33 % investment spending in 2006 and 20 % in 2014. Decrease in investment spending is more highlighted in rural municipalities and deepened the disparities among the rural and urban municipalities and within the regions of Macedonia.

Establishment of eight planning regions in function of elimination of regional disparities in the Republic of Macedonia

In order to advance the process of decentralization and reduction of regional disparities during 2007 in Macedonia a Law on equal regional development was adopted. Adoption of the law took into consideration the main findings and recommendations published in the publication of Friedrich Ebert «Regional development in Macedonia». According to the law on equal regional development in Macedonia 8 planning regions were constituted: Vardar Region, Eastern Region, Southwest Region, Southeast Region, Pelagonija, Polog region, North-eastern region and the Skopje region. In accordance with article 3 of the law on equal regional development the following objectives were defined):

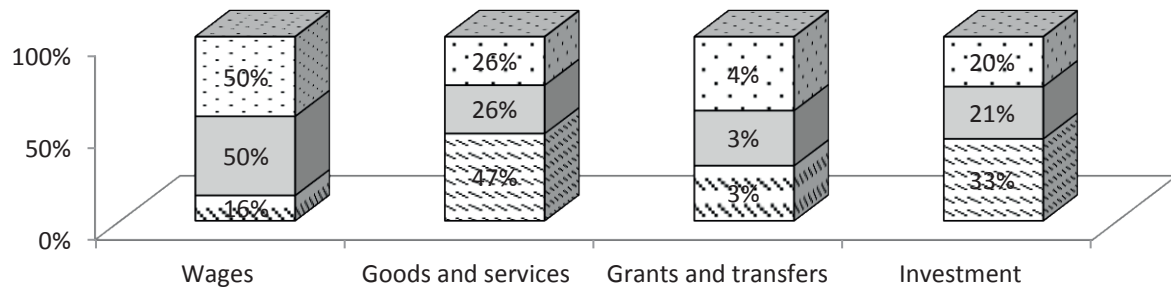


Chart 2. Composition Local Government Expenditure (2006, 2010, 2014) (Author’s own calculation)

SOME RELEVANT INFORMATION BY THE REGIONS OF MACEDONIA (2014)

TABLE 5

Regions	Inhabitants	Households	Active population	Number unemployment	Number of employed
Vardar Region	153,347	47,473	65,200	28,401	36,849
East region	177,700	57,851	74,875	25,273	49,602
Southwest region	220,134	57,701	83,085	28,963	54,122
Southeast region	173,522	49,705	77,056	26,497	50,559
Pelagonija region	213,806	72,546	104,016	41,465	62,551
Polog region	318,995	69,091	70,954	35,411	35,543
Northeast region	176,018	46,296	60,020	29,179	30,841
Skopje region	598,193	163,633	404,426	122,150	282,276
Republic of Macedonia	2,027,697	559,194	856,597	308,376	602,343

Source: authors calculations.

- the balanced and sustainable development throughout Macedonia, based on the model of polycentric development;
- reduction of disparities between and within planning regions and improving the quality of life of all citizens;
- increase the competitiveness of the planning regions by strengthening their innovation capacity, optimal use and valorization of the natural wealth, human capital and economic characteristics of different regions;
- preservation and development of separate identity and promotion planning regions and their development;
- revitalization of villages and development of areas with specific development needs, and
- support for cross-border co-operation and local authorities with the aim of promoting balanced regional development.

Establishment of eight planning regions is based on combination of the territorial division of municipalities under the Constitution of Macedonia of 1974 (34 municipalities) and the territorial division of 2007 (87 municipalities).

The information presented in **table 7** reflects the asymmetrical situation of the planning regions, a fact that has a direct impact in economic and fiscal potential of municipalities and regions. Asymmetrical situation of municipalities and regions in Macedonia justifies the adoption of the law on balanced regional development, the law which in the analyzed (2007–2016) period was partially implemented in particular in the allocation of public capital investment.

The Local Revenues and the Expenditure by the regions in the Republic of Macedonia

Relevant financial indicators presented in table 8 argue high disparities between planning regions in Macedonia. Skopje planning region has biggest economic, fiscal and investment potential analysed from the perspective of citizens and companies as mandatory and tax payers.

Polog region is the second region based on the number of population in Macedonia, while the lowest in the ranking regarding the development and fiscal potential. This fact demonstrates not only territorial but also ethnic discrimination because it is a planning region where the absolute majority of the population belongs to the Albanian community as the non-majority community at the state level.

SOME RELEVANT FINANCIAL INDICATORS PER CAPITA BY REGIONS,(2014) (DENARS)

TABLE 6

Indicators	R. M.	Vardar Region	East Region	S. west Region	S. east Region	Pelagonia Region	Polog Region	N. East Region	Skopje Region
GDP-per capita	243,161	268,819	226,898	178,726	266,524	243,279	118,672	151,462	348,915
Revenues per capita	13,933	13,316	14,254	11,920	13,880	12,969	10,253	10,400	17,144
Tax revenues the core budget per capita	3,404	2,121	2,232	2,690	2,965	2,908	1,711	1,726	5,970

Source: authors calculations.

According to the indicator «fiscal core budget revenues per capita» expresses the fiscal potential of municipalities and fiscal autonomy independent from the central authority. The region with highest fiscal potential is Skopje region with 2.5 times greater potential compared to Polog region which is with the lowest economic and fiscal potential. According to this indicator all other regions are below the fiscal average of the Macedonia, a fact that reflects high disparities to all other regions compared to Skopje region.

Within the Skopje region there are also the deep differences between urban and rural municipalities. This fact argues that the asymmetry is not a distinguishing feature not only between the regions but in the same time the same disparities are entirely different in municipalities within the same regions.

Skopje region collects revenue of the core budget 52 % or 10 % above the average of Macedonia, despite Polog region which derives only 22 % of the

autonomous revenues and 78 % of fiscal revenues are transfers to this region from central government. This proportion in the case of the Polog region expresses fiscal fragility of this region and depending on the central government to fulfill the basic functions of local government as defined by the constitution and law of municipalities.

In the case of rural municipalities and partly urban municipalities in managing public finances weakness of the senior management have been manifested in determining the exact number of taxpayers, collection of taxes and realization of municipal budgets as a result of lack of qualitative human resources and politicization of municipal administration (Osmani 2012). Sustainable fiscal position in terms of own sources of revenues have also Pelagonija region (36 %) and South-west region (34 %), while the fragile fiscal position have the North-eastern region (22 %) and Vardar region (27 %).

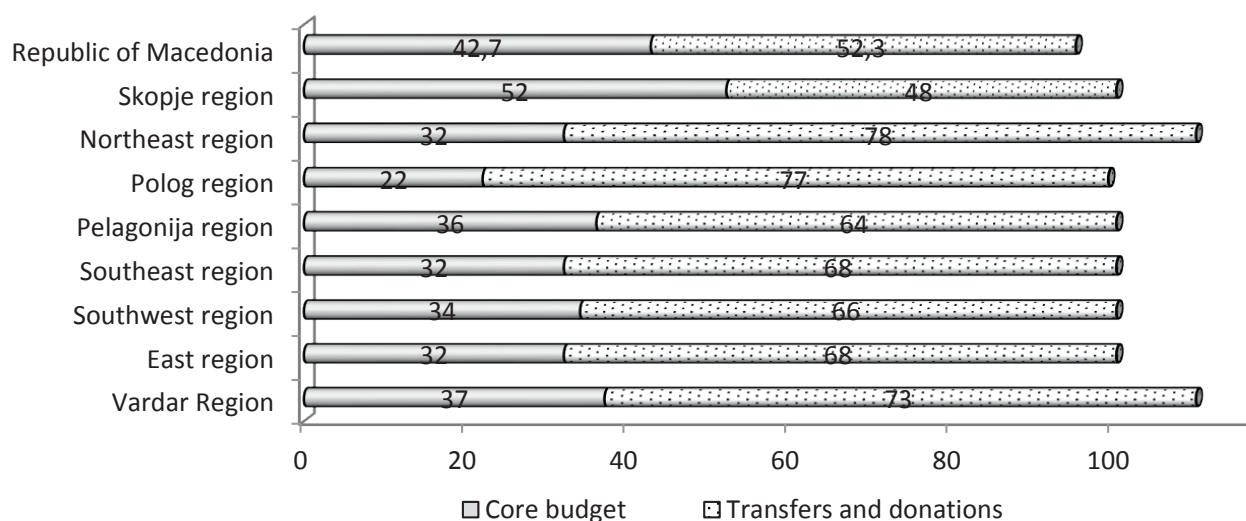


Chart 3. The share of revenues of the core budget and transfers and donations in the total revenue (2014) (Author's own calculation)

EXPECTED VALUE OF THE ISSUED BUILDING PERMITS BY REGIONS (2010-2015) (MIL.DENARS)

TABLE 7

Years	R. M.	Vardar Region	East Region	Southwest Region	Southeast Region	Pelagonia Region	Polog Region	Northeast Region	Skopje Region
2010–2015 (total)	252,515	25,156	18,698	38,994	20,316	14,411	30,240	12,252	92,447
2010–2015 average	42,086	4,193	3,116	6,499	3,386	2,402	5,040	2,042	15,408
Average 2010–2015 (%)	100	10	7,4	15,4	8,0	5,7	12,0	4,9	36,6

Source: authors calculations.

NUMBER OF ACTIVE BUSINESS ENTITIES (2014)

TABLE 8

Years	R. M	Vardar Region	East Region	Southwest Region	Southeast Region	Pelagonia Region	Polog Region	Northeast Region	Skopje Region
2015	70,139	5,470	5,692	7,127	5,889	8,071	7,554	4,139	26,197
Total	100 %	7,8 %	8,1 %	10,2 %	8,4 %	11,5 %	10,8 %	5,8 %	37,4 %

Source: authors calculations.

The information presented in Table 7 is of particular importance in terms of fiscal performance measurement as basic municipal revenues. The granting of permits for construction of buildings depending on the location and the value of the facility enables local authorities the collection of a fee (tax) construction at the stage of issuing the construction permit. The tax (fee) of construction at municipalities where the expansion of building is like the urban municipalities in the region of Skopje the collection of this revenue is up to 50 % from the basic resources. Adoption of the law on legalization of illegally constructed buildings (Official Gazette of RM 2011) highlighted over 300 000 residential and business facilities at the state level.

This process was additional fiscal revenue to municipality’s because the fee for legalization was defined (€1– €20) depending on the type of buildings, location and destination of the facility. Construction and legalization of residential and business buildings produces more positive multiplier effects in favor of the municipal budgets.

Besides the payment of tax for construction in the stage of sale the buyers pay the turnover tax with rate (2–4 %) based on the market value of the buildings, and after giving in use the buildings owners become obligatory annual payers of property tax by rate (0,1–0,2 %) based on the market value of real estate.

Municipalities within the Skopje region gather 37 % of municipal taxes as a result of building permits and legalization of illegal buildings, that enables them greater comparative fiscal and investment advantage

compared to other municipalities and regions of Macedonia

From 70.139 of active companies in Macedonia in Skopje region 37,4 % of companies operate, that means that in terms of collection of tax on companies (firmarina) this region collect more than 60 % financial funds. The majority of large and medium companies are operating in the region of Skopje and they produce big amounts of financial funds that benefits the budgets of this region compared to other regions bases. Other municipalities and planning regions in the collection of local taxes from building permits and tax from active firms have similar participation in country level as well as at other financial and fiscal indicators.

Capital Expenditure Policy by regions in function of increasing fiscal and development disparities

The author of this paper in a previous research has rightly concluded that «Fiscal Discrimination and underdevelopment of municipalities of different regions is a systemic problem» (Osmani 2014). Law on equal regional development with the aim of eliminating regional disparities and implementation of harmonized regional development has planned financial allocation of funds at 1 % of GDP for each fiscal year in the form of capital public investment.

Chart 4 argues the extreme disparities in decision making process of central government in relation to the regions and municipalities. The failure to allocate proportionally the public capital investments

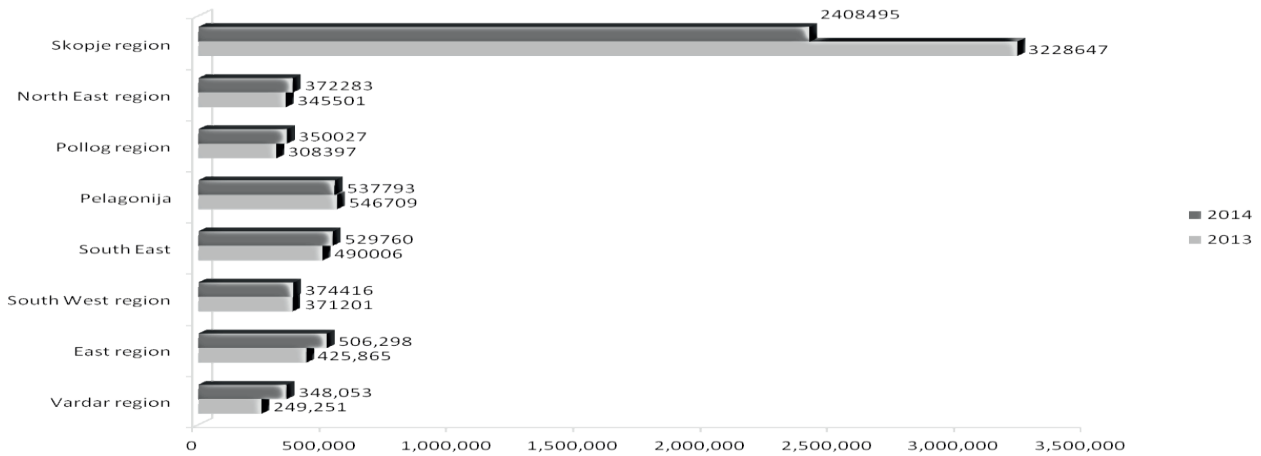


Chart 4. The total capital expenditure by regions (000 denars) 2013–2014 (Author’s own calculation)

in less development regions argues the political responsibility of the government in Skopje despite the legal obligation based on Law on equal regional development.

Implementation of the policy of discrimination and deepening of disparities in territorial, political and ethnic basis by the government in Skopje was concluded in the report of the UNDP «In the Republic of Macedonia capital investments and grant transfers are made based on political and party criteria. These actions result in political and ethnic discrimination and degrade even more these low levels of fiscal decentralization in minority-dominated municipalities» (Country report 2012).

Failure of the authorities in Skopje to comply good practices of regional policies of some candidate countries to the EU presented by Hans Beck (Director of the Bureau for the regions of Hungary in Brussels) has produced minimal results in the implementation of the law for the equal development of regions (Regional Development of Macedonia 2003).

Realization of capital investments per capita at the level of average (2,826 denars) achieved in Macedonia in disadvantaged regions requires additional allocation of investment funds per capita according to the trend presented in the chart 5. Through additional allocation of funds it can be achieved the balancing effects and mechanism for gradual elimination of discrimination and disparities at the level of municipalities and regions in the sphere of public capital investment.

At the level of regions, the highest discrimination in the area of capital investment is applied to the Pollog region with 1,032 denars per capita less capital investment, followed by the Southeast region with 1,693 denars per capita, Vardar with 1,947 denars per capita and so on. As the most extreme cases of discrimination within the region of Skopje is the proportion of 5,309 denars per capita in the urban municipality of «Center» despite the investment of only 85 denars per capita in the rural municipality of «Aracinovo» which represents a difference of 62 times (6,150 %).

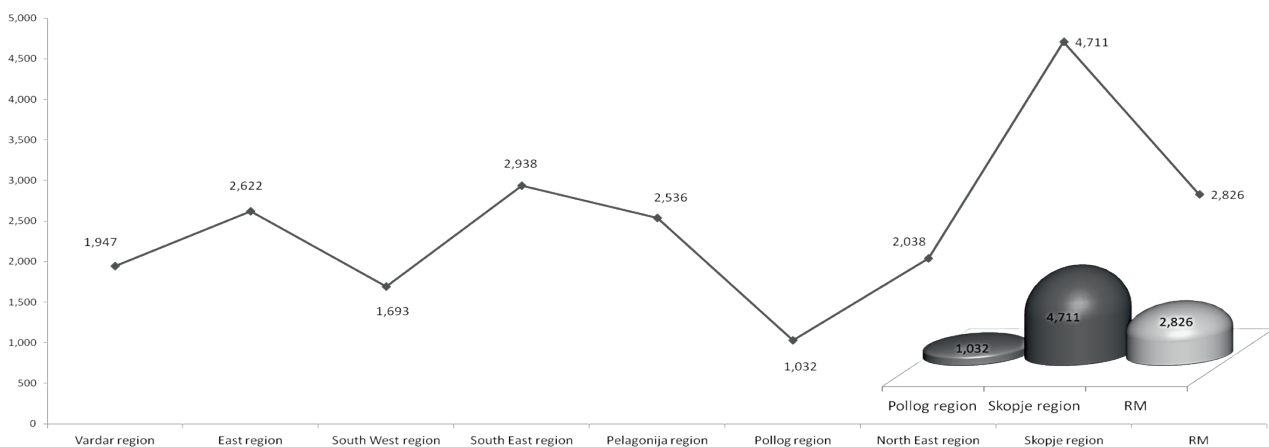


Chart 5. The disparities in allocating the capital expenditure per capita by regions (denars 2013–2014) (Author’s own calculation)

Research conducted by the Centre for development of local democracy finds that the government in Skopje in 2014 has realized the biggest investment per capita (15,716 denars) in the rural municipality of Novaci despite lowest investment per capita (85 denars) that was realized in the municipality of Haraqina which represents disparities more than 18 times (18,400%).

Data presented in chart 5 argues the deepening of disparities as a result of discriminatory policies implemented by the government of Skopje as a result of not respecting the law on equal regional development in the time (2007–2014) period. Despite discriminated regions in 2013–2014 Skopje region has realized 65 % more capital investment per capita compared to the average level realized in Macedonia or 356 % more capital investment per capita compared to the Polog region and therefore it has a direct impact on further strengthening of local and regional development disparities.

Conclusions and recommendations

- The process of political and fiscal decentralization in Macedonia and the Western Balkans countries despite the fact that has entered the second decade of practical implementation has identified serious setback in comparison with the level of decentralization of EU countries.
- The level of fiscal decentralization in Macedonia with the exception of Albania in the analyzed (2006–2014) period is in the lowest level within the countries of Western Balkans and in comparison with the countries of UE.
- Despite the nominal growth of municipal revenues with destiny for covering operating expenses of the education sector, in real terms it is recorded a decrease of relative basic fiscal resources that has produced the reduction of funds for public capital investment and deepening of disparities in development among municipalities and regions.
- Fiscal volatility at underdeveloped municipalities and in particular at rural municipalities imposes the need to increase delegated revenues (VAT and personal income tax) by 4 %, as is currently to 10 %, which would provide a normal level of fiscal autonomy not influenced by the central government.
- The inadequate level of fiscal decentralization and the large fiscal disparities among municipalities are associated with greater inter-communal and inter-regional disparities among the planning regions in Macedonia.
- For the purpose of financial stabilization of municipalities and overcoming the disparities among the regions in Macedonia with the law on equal regional development were constituted eight planning regions and were allocated for each fiscal year 1 % of GDP (70–80 million euros) as capital public investment for less developed municipalities and regions.
- Research finds that governments in Skopje in the (2011–2014) period have failed in fair allocation of financial funds for capital public investment, with what the government have directly contributed to the deepening of disparities in the local and interregional level.
- Research recommends restoring the territorial organization of 34 municipalities as compact and functional in economic and development aspect as a precondition for the realization of balanced development in local and regional plan.
- Research recommends as indicator «the average level of capital investment per capita in Macedonia» for allocation of additional capital investment funds of 1 % of GDP with adequate proportions only in underdeveloped municipalities and regions.
- Research recommends that investment funds of 1 % of GDP in conformity with mechanism of balancing to be directly transferred to management of underdeveloped municipalities within the regions, while the central government only to monitor and control the manner of performance without the right of reallocation of investment funds as it has been the practice in the analyzed period.
- Research recommends that the issue of decentralization and balanced regional development in Macedonia as an important political, ethnic and development issue requires multi-disciplinary research and consultation of successful experience of developed countries such as Switzerland and Belgium in order to prepare a comprehensive strategy and successful practical implementation.

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