

**USAID/MACEDONIA
STRATEGIC OBJECTIVE CLOSE OUT REPORT**

SO Name: More Effective, Responsive and Accountable Local Government
SO Number: 165-023 **(To be confirmed by the Program Office)**
Approval Date: 1998 **(To be confirmed by the Program Office)**
Geographic Area: Macedonia
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 USAID: \$8,957,605 (to be confirmed by the Program Office)
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Principle Implementing Partners:

The Urban Institute (UI)
Development Alternatives Inc. (DAI)
Chemonics International, Inc.
International Center for Environmental Research and Development/City University of New York
(ICERD/CUNY)

Background

Since gaining independence in 1991, Macedonia has been perhaps the most centralized country in all of Europe, with authority and resources concentrated in the hands of the central government, leaving the 123 municipal governments (now 85) weak, with limited competencies and limited resources to carry out the competencies they do have. This concentration of power and authority in the central government was consistent with the centrality of politics in the country and the concentration of power in the hands of a few top party leaders. A situation of local governments controlled by the central government also provides better patronage opportunities for the political parties and allows ruling parties to direct resources to municipalities on a partisan basis. Support for decentralization is therefore a key means by which to address the problem of a highly politicized, highly centralized state with power concentrated in the hands of a few. Additionally, as the level of government closest to the people, the success of local government in achieving effective, independent governance, and in providing the means by which citizens can participate in making decision that affect their daily lives, will make a major contribution to the building of strong democratic institutions and traditions in Macedonia. A more effective and responsive local government should also contribute to reducing ethnic tensions by allowing minority groups in Macedonia (Albanians principally) to resolve local issues locally rather than relying on centralized decision-making which they perceive as not always serving their interests.

Until 1998, USAID's local government activities (under S.O. 2.1) targeted a small number of pilot cities with the aim of developing public participation and improved local management capacities. This approach had limited success, primarily because local efforts were not accompanied by comparable work on policy issues at the national level, and local development approaches were at times out of synchronization with Macedonia's highly centralized legal and administrative government framework. This solidified the Mission's belief that it was a favorable time to undertake a comprehensive local government reform effort, for the following reasons:

- The elections of 1998 and the expressed will to reform of the new government, including the specific confirmation by the Council of Ministers that it would revise key laws; and
- The establishment of a Ministry of Local Self Government.

The influx of refugees, in 1999, and the loss of trade and income added a new element –economic development- that needed to be emphasized at every level of government, including local government. However, at that time the lack of authority to make decisions severely inhibited municipalities' potential to create an enabling environment for economic development. Equally important, local municipalities needed to be empowered to collect revenues at the local level and retain them, as a means of increasing overall funds available for local development.

Our hypothesis, therefore, was that decentralization of authorities and responsibilities to the local municipalities will have a two-fold impact on Macedonia. It will empower local officials to act directly for their constituents, thereby improving their ability to be responsive, more effective and accountable, and it will increase the total volume of revenues available to improve local infrastructure and encourage economic growth throughout Macedonia.

As stated in the 1998 USAID strategy, the GOM showed initial commitment to decentralization of municipal responsibilities and authorities by adoption of a law of Local Self-Government in 1995. Subsequent to passage of that Law, USAID and the European Commission both declared their intent to assist the GOM in this effort.

In the 1998 USAID strategy, the Mission identified a two-phase approach. Phase I was to undertake an analysis of the existing legal framework for local self-government and to provide the basis for a sustained dialogue on local government reform. Based on the recommendations of the Phase I report, Phase II began in late 1999. This phase focused on both the national policy level to accomplish decentralization policy reforms, and on the local, municipal level where it will develop local capacity to implement expanded responsibilities, identify and formalize channels to enable citizens to participate fully in local decision-making, and strengthen the ability of the National Association of Local Self-Governments (ZELS) and the Association of Finance Officers (AFO) to represent local officials in national policy dialogue and also to offer services to the municipal level.

Summary of overall impact at Strategic Objective (SO) level and Intermediate Result (IR) level

SO2.3: More Effective, Responsive and Accountable Local Government

Note: The life of this SO from 1998 (? – Program Office) to 2000 (three years). The main activity under this SO, the Local Government Reform Project, started in late 1999. The Kosovo refugee crises had a major impact on the Mission projects, creating a delay in the start-up of certain critical activities. During the one year of project implementation, visible project results were limited; thus, this section will focus on the key outputs of the SO activities during that timeframe.

IR 2.1.1: Clearer delineation of local and national government roles and responsibilities

The impact of activities related to this IR is:

- *Working groups with representatives from the central government and local level were established to work on amendments to the Law on Local Self Government and the Law on Local Government Finance. This was the first time that such a multi-party working group had formed and such practice has now become commonplace.*
- *The draft Law on Local Self-Government (LLSG) was drafted and subsequently discussed by Parliament. In response to the increased ethnic concerns, this law is a tangible example of the government's efforts to give minorities more influence and authority over their own interests and needs. The LLSG is also the cornerstone of the legal framework for the decentralization process that is now moving forward in Macedonia.*

IR 2.3.2: A coherent system of local finances established

The impact of activities related to this IR is:

- *Key working groups took the initial steps for drafting the Law on Local Government Finance. No such law previously existed and this law now provides the general legal framework for all the secondary legislation and regulations related to fiscal decentralization.*

IR 2.3.3: Improved channels for the expression of popular input into local service

The impact of activities related to this IR is:

- *Citizen Information Centers as a mechanism for communication between local governments and citizens were introduced.*
- *Through the Environmental Fund, ten community level projects were planned and approved in areas such as the establishment or improvement of landfills and disposal of wastewater.*

IR 2.3.4: Strengthened local management capacity

The impact of activities related to this IR is:

- *Five pilot cities completed trial activities in areas such as financial management, parking management, sanitation, revenue enhancement, management information systems and infrastructure cost allocation. Illustrative results from these pilot experiences included a 14 percent increase in revenues from improved management of public parking and taxi licenses in one municipality and 25 percent increase in another.*
- *A cost allocation system enabled savings of ten percent in the operating budgets of two other communities.*
- *The Environmental Action Program, which completed activities in early FY 01, made progress toward strengthening the management ability of the national Environmental Fund, bringing it into operational and financial sustainability.*

IR 2.3.5: Strengthened advocacy by municipal associations and networks

The impact of activities related to this IR is:

- *Activities have been reoriented to be more responsive to members' needs, particularly in the area of advocacy.*
- *The success of the Association of Financial Officers was underlined by a 20 percent increase in the number of its dues paying members.*

Significant changes in the Results Framework during the life of the SO

This SO was approved in 1998 (? - Program Office). During its life, no significant changes to the framework were made.

Summary of activities used to achieve the SO and their major outputs:

Local Government Sector Assessment (1999)

- In 1999, USAID conducted an analysis of the existing legal framework for local self-government to provide the basis for a sustained dialogue on local government reform. This study, undertaken by the Urban Institute, had as its major finding that Macedonia had made an incomplete transition towards a more decentralized system of local self-government.

The report made several recommendations:

- Clarify local jurisdictions.
- Establish a coherent system of local finances.
- Implement competition in local public services.
- Strengthen local management capacity.
- Expand public information and participation.
- Provide a role for the local communities in determining the boundaries of the units of local self-government.
- Strengthen ZELS (Municipal Associations) and AFO (Association of Local Financial Officers).

Local Government Reform Project

The key components of this activity, implemented by Development Alternatives, Inc., are as follows:

- **Policy Reform** – This component was aimed towards providing technical assistance to the Government of Macedonia in the reform of the legal framework for local government. It was actively engaged in developing the Law on Local Self-Government Government, the Law on Local Government Finance, Laws and regulations in the area of decentralization of education, the Law on Property Taxes, and other critical legislation.
- **Citizen Participation** – This component assisted municipalities to increase their knowledge about the importance of citizens' involvement in local government decision making. The team supported municipalities in establishing mechanisms for partnership with citizens. These mechanisms included: Citizen Information Centers, Citizen Advisory Boards, Budget Hearings, use of Media, etc.
- **Municipal Management** – This component assisted municipal administrations and communal enterprises. Its goal was to improve management of the municipal services. It assisted directly more than 15 municipalities and ten communal enterprises in the improvement of financial management practices. It also provided technical assistance to more than 50 finance officers in the areas of cost allocation and program budgeting. The assistance also included areas of water loss management, local economic development, urban planning and one stop permitting, and property tax administration.
- **Association Development** – This is one of the crucial components of the Local Government Reform Project. It was aimed at strengthening of the advocacy capacity and member service capacity of the National Association of Local Self-Governments (ZELS), the Association of Finance Officers (AFO) and the Public Enterprise Association (MAKKOM).

Environmental Action Program Support Project

- **The EAPS was a regional project implemented by Chemonics. International, Inc. Its primary purpose was to provide technical assistance in the countries of the region for environmental project identification, selection, and preparation for investment financing. An EAPS environmental investment project is one in which heavy pollution from a point source is significantly reduced through improvement in the operation of the polluting facility, usually requiring investment in improved technology and/or energy source substitution. Financing may involve one or more domestic environmental funds, commercial banks, international financial institutions, and other sources. EAPS also provides institutional capacity building, training, and information dissemination in subjects related to its work, and in certain cases can procure and install equipment to improve environmental performance and reduce health risks in and around polluting facilities.**
- **In Macedonia, EAPS assisted the Macedonian Environmental Fund in strengthening its management and financial capacity. Jointly with the Fund, it co-financed a number of projects, such as: rehabilitation of a wastewater treatment plant, fuel conversion for heating systems, and sewer systems development.**
- **EAPS also developed a feasibility study on recycling of containers for the Skopje Brewery.**

Environmental and Economic Development Program

The main objective of the proposed activity was to address wastewater treatment problems throughout the country, especially in areas that have difficulties connecting to bigger wastewater treatment plants. This included:

- **Designing small-scale, cost-effective wastewater treatment units based on local needs through a participatory process with the communities, local firms and other relevant institutions;**
- **Supporting the local economy, by producing these units and providing maintenance for them, which meant creating jobs and increasing income;**
- **Improving the living environment for citizens;**
- **Increased public awareness regarding pollution and resulting environmental and health problems.**

Prospects for Long-Term Sustainability of Impact and Principal Threats to Sustainability

During the life of this SO, the Kosovo crisis and its spillover in Macedonia was a dominant event. This serious and unexpected occurrence caused a shift in program priorities. Despite this, support to decentralization remained a major program of the Mission.

The Government of Macedonia had shown initial commitment for decentralization by ratifying the European Charter of Local Self-Government in 1997, establishment of the Ministry of Local-Self Government in 1998, and adopting the Strategy for Local Government Reform in 1999. The central elements of the Strategy were: 1) Devolution of important service responsibilities to local governments; and 2) fiscal decentralization. The Ministry of Local Self-Government was officially charged by the Strategy with preparing the key regulations: 1) Amendments to the Law on Local Self-Government; 2) a new Law on Local Government Finance; 3) amendments to the Law on Territorial Division; and 4) amendments to the Law on City of Skopje. However, despite of these concrete steps of commitment, in the period from 1999 to 2001 progress on decentralization reform moved very slowly. Meanwhile, interethnic relations deteriorated. This made the concept of “bringing government closer to citizens” even more important.

USAID, as a major donor in this sector, continued its support to the decentralization process at two levels: at the central level, supporting the legislative reform, and at the local level, strengthening the

management capacity of municipal governments. Additionally, the support included strengthening the capacity of municipal associations' advocacy and member services.

With the closing of SO 2.3 in 2001, the level and importance of USAID's involvement in decentralization did not diminish. In contrary, in the following years it became a higher priority for both the Government of Macedonia and the USG. For activity management purposes, activities of SO 2.1 and 2.3 were consolidated into a new SO 2.0 More Legitimate Democratic Institutions.

Lessons Learned

Many specific implementation lessons have been learned from this SO. Unless decentralization process is an inclusive process, with participation of all the stakeholders, mayors, line Ministries, Parliament, and citizens, decentralization programs will not be successful. It is important to note that the legislative reform necessary to enact decentralization may take longer than originally expected, and that it requires sincere political will on the part of the ruling parties to move the process forward. Delays in the process likely will impact the transfer of competencies from central to local level. In the case of Macedonia, several unexpected political crises were the primary factors that caused a shift of the program focus. Therefore, programmatic approaches should be flexible to allow activities to adjust for these externalities and still contribute towards achieving the overall Mission objectives.

It is imperative to require "cost-sharing" and tangible counterpart input, in order to build sustainability in municipal development programs. If this is not done, the municipalities become overly dependent on foreign donors and are unable to exist without outside support.

It is also crucial that non-partisan, multiethnic, multiparty municipal associations are developed. Their strong advocacy skills and proper member service is key for a "healthy" decentralization process. It is also vital that financial sustainability is incorporated in the programs that support municipal association strengthening.

Decentralization is a complex long-term process. It requires commitment by the Government and support by the international community. In order to ensure synergies and avoid duplications, coordination among donors should be ensured. USAID Macedonia managed to take this concept one step beyond the norm of donor coordination. In collaboration the World Bank, the European Agency for Reconstruction, UNDP and other donors, USAID jointly designed decentralization activities in the area of training, urban planning, local economic development.

When designing and implementing local government programs, USAID should take into consideration the linkages between the democracy and education, social sector and economic growth. Examples of this are the successful USAID programs in the areas of local economic development, fiscal decentralization, education decentralization, Roma.

SO Level Performance Indicators

Indicator 1: Number of pilot cities setting goals with citizens' input and making efforts to meet them in a fiscally responsible manner, thereby promoting greater effectiveness, responsiveness and accountability. By effectiveness the indicator measures the extent to which mechanisms of inclusiveness, openness, access, transparency, and legitimacy in goal setting are in place. Responsiveness means citizen comments are registered and responses are tracked in established formal procedures. Accountability relates to transparency in budget explanations and reconciliation of previous disbursement.

Note: This indicator was selected in 1999, before the end of the SO life. The baseline for 1999 was 0. With the merging of this SO with SO 2.1 into the new SO 2.0, More Legitimate Democratic Institutions, the Results Framework was changed.

Evaluations and special studies

USAID Reports and Assessments

USAID/Macedonia Results Review and Resource Request (R4): 1998, 1999, 2000, 2001

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