

A report prepared for the

USAID Local Government Reform Project

Development Alternatives, Inc.

3330-103

Skopje, Macedonia

In collaboration with

USAID/Macedonia
EEU-I-00-99-00012-00 #801

IR 2.3.2 ^{3/4} A Coherent System of Local Finances Established

Obstacle Analysis

1. Concerns about the integrity of Macedonia's macroeconomic stability.

A major responsibility of the Ministry of Finance and its principal international advisor, the International Monetary Fund, is the macroeconomic fiscal policy of Macedonia. They understandably are concerned that reform of the policy framework for local government finance be appropriately sensitive to the macroeconomic strategy of the country. These include, in the near term, balance in the finances of the public sector and, in the long term, reduction in the overall size of the public sector.

LGRP advisors are sensitive to these concerns and have adopted a strategy of assembling a solid data base of information on public sectors finances with a view to developing credible estimates of the likely impacts on local budgets of the devolution of service responsibilities in the amendments to the Law on Local Self-Government. These estimates will, in turn, provide the empirical basis for calibration of the decentralized fiscal system that is to be elaborated in the Law on Local Government Finance. The exercise will, of course, be carried out in an overall fiscal framework that reflects the macroeconomic strategy of Macedonia.

2. Absence of sound data on government finances in Macedonia.

The national statistical agency of Macedonia currently compiles and publishes only the most fragmentary data on public finances. This is a near-critical obstacle to policy analysis and policy development involving government finances, especially the finances of municipalities. The Budget Department of the Ministry of Finance is the principal custodian of the incomplete and poorly classified supply of fiscal data. Unfortunately, these data are neither regularly published (the annual national budget offers data only at a level of aggregation that is virtually useless for analytical purposes) nor readily available from the Ministry in unpublished form.

LGRP advisors have been working with the Ministry officials for nearly a year to build technical credibility and to obtain the necessary data. We believe that the first objective has been achieved, but the flow of data has been slow. In an effort to deal with this problem for purposes of the empirical needs of the design of the finance law, LGRP has enlisted a team of local finance officers (employees of the Ministry of Finance) to assist in obtaining the data from individual ministries that are needed to develop estimates of the impacts on local budgets of (1) new responsibilities devolved by the amendments to the Law on Local Government and (2) increased spending likely to result when amendments to the Law on Local Government clarify the division of responsibilities that are shared by municipalities and ministries under current law.

3. Lack of lobbying experience and staff-support capacity for the ZELS and AFO representatives on the Working Group on the Law on Local Government Finance.

LGRP's strategy for dealing with this problem has been to focus on development of the institutional capacities of ZELS and AFO to deal with this problem, including arranging for the appointment of policy committees of members to handle these responsibilities. See the work plan for the development of the institutional capacity and sustainability of ZELS and AFO for details on this strategy.