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FINANCING THE CITY OF SKOPJE: POLITICAL, ADMINISTRATIVE, ECONOMIC AND SOCIAL ASPECTS

Abstract

The paper begins with chronical, historical development of the City of Skopje, in order to show its demographic, territorial and social development. It consists of five parts; each of them examines political administrative, economic and social aspects of financing the capital of Republic of Macedonia.

The conclusion offers some remarks about every day's city's problems that are generated by the newly adopted model of local financing. Several proposals are given for improvement of the financial architecture, mostly focused on the sharing formula between the City and ten sub municipalities.

Introduction

Today, Skopje is the capital and largest city in the Republic of Macedonia, with more than a quarter of the population of the country, as well as the political, cultural, economical and academic centre of the country.

Some of the famous people born in Skopje are: Justinian the Great – Eastern Roman Emperor (482 – 566); Mother Teresa – Roman Catholic Humanitarian (1910 – 1997); Darko Pancev – European Cup Football Winner (1965 -); Milčo Mančevski – Macedonian film director (1959 -); Yahya Kemal Beyatlı – famous Turkish poet (1884 – 1958)¹.

1. Historical background (population and administrative trends)

City of Skopje has great history roots. It has been inhabited since at least **3500 BC**, and known from the Roman period under the name of *Scups*. In **1689**, it was completely burnt² – ostensibly to eradicate an outbreak of cholera. The city's fortunes waned over the next 200 years and its population shrank to only about 10,000 people by the **middle of the XIXth century**. It revived **after 1873** - with the building of the railway from Belgrade to Thessalonica, which passed through Skopje. At the beginning of the XX century (**1905**), the Skopje's population exceeded to 32,000, and in **1920** it has grown approximately three times to 92,136. It had developed rapidly after World War II. Considering territorial and administrative aspects of organization, Skopje was the capital of the Republic of Macedonia – as a member of the Socialist Federative Republic of Yugoslavia.

The period of socialism brought high-speed development to the Macedonia's capital in the area of new constructions (roads, bridges, housing area development) which were financed by state funds.

¹ <http://en.wikipedia.org/wiki/Skopje>

² Skopje was burned by the Austrian general Engelberto d'Ugo Piccolomini.

The city's surface area of 1581km² was composed by mostly urban area, and the city population exceeded from 312980 in 1971 to 448229 in 1991.

In normative sense, during socialism, the City's authorities were equipped with full competences in the area of local-self governance, but deeply dependent of the state's funds. Moreover, there was strong influence over decision making processes by the structures of the, then unified Communistic Party. In reality, **the local government city's bodies only confirmed the decisions that were imposed and decided outside on higher state levels and in advance.** Also, economic emigration has been very characteristic for the country, so it is not a surprise, considering its size, that, in comparison with the other former Yugoslav Republics, the highest rate of emigration was found here (the Macedonian rate in 1981 was 5.2 per cent; the Yugoslav 3.9 per cent). After this time, more qualified and highly educated persons moved out, leading to the modern 'brain drain' migration of today.

In **1991**, when SFRY broke up and the Republic of Macedonia began building an independent, democratic society, mostly characterized by rigid centralistic organization. All municipal local responsibilities, fiscal powers and financial revenues were detracted by the central government, which from today's point of view could be justified with the tools of national building strategy. Although the Constitution of 1991 provided basis for establishing a new democratic system of local self-governance system, this was not done in the first 5 years of the independence, but postponed for **1996**.

2. Political, administrative, economic, social, and demographic trends of the City of Skopje in the transition period (in the national context)

First five years of state's independency (1991 to 1995) was a period of extreme centralisation as the main concern was to build and legally organize national institutions, as well to work on international country's' recognition. Therefore, all fiscal functions and responsibilities were centralised. In this period, the system of local government was organized into **34** municipalities (as part of administrative division) which had no own revenues or any fiscal responsibilities. Skopje has been a part of administrative Skopje's region, with 5 municipalities forming urban city area ([Gazi Baba](#), [Karpoš](#), [Kisela Voda](#), [Centar](#) and [Čair](#)). In this period, many citizens left the country and the population of the city decreased from 448229 to 444299 (according to census from 1994).

In **1996** the Local - self government began as a process. The Law on territorial division established **123** municipalities in Macedonia. Within Skopje, it was defined that as a distinct unit of the local-self-government covering 7 sub-city municipalities³: [Gazi Baba](#), [Karpoš](#), [Kisela Voda](#), [Centar](#) and [Čair](#), [Šuto Orizari](#) and [Gjorče Petrov](#). The special status of the City meant that it is unified as spatial, urban, economic, political and ecological unit. In the period up to **2002**, the newly established city's local self-government felt a bit of the new-fangled local responsibilities. Municipal financial situation was weak and unstable because of the lack of harmonized legal regulation (Law on Budgets, Law on Public Enterprises, Law on Construction land); Revenue assignments were not properly implemented, because of the lack of municipal own source

³ Two municipalities have been annexed since the previous territorial organization.

revenues⁴; All the local revenues were composed as grants and they had been transferred from the Ministry of Finance. The State Public Revenue Office collected Property taxes (main local revenues) and then transferred them to each municipality (according to a certain formula).

The point is that, although there was a Law on local self-governments with number of assigned local responsibilities, actually, the central government mainly performed the activities, and we name this period as “deconcentration”.

In 2001, the country affronted war conflict that ended with the Ohrid Framework Agreement (FA). One of the main points of the FA was to change the Constitution and to provide the Albanian language as official in those municipalities where the Albanian population exceeded more than 20%. Second point was to enlarge the scope of local responsibilities through the country, within one tier local self-government organization of 84 municipalities. Because Skopje did not have 20% of Albanian population according to the census in 2002, a new Law for territorial organization (2004) had been brought in order to make annexation of three new areas with Albanian population to the City, aiming to satisfy the criteria for the Albanian language as official in the country's capital. However, this Law caused huge political and public debate, which ended on referendum in November 2004. The referendum fell, and the territory of Skopje was enlarged from 1581km² to 1818km² (mainly rural area of the newly annexed territory, mostly settled by Albanian population). Since then, new City's borders are covering 10 sub municipalities. Those changes cause today's estimation of City territory as 15% rural, and Albanian language is second official language.

The period of 2002 to 2004 was a preparation stage for proper implementation of fiscal decentralization. During that period, the government prepared itself for fiscal decentralisation and made comprehensive assessments of the administrative, economic and technical capabilities of municipalities. **Since July 2005**, decentralisation has picked up steam, but more intensively it happened in 2006.

2.1. Skopje's differences in economic, social, and demographic trends

The amalgamation of 3 poor and mostly rural municipalities with 7 relatively rich and urbanized municipalities in the City caused today's huge inequalities among 10 Skopje's sub-municipalities in view of economic, social and demographic aspects.

- **Economic indicators:**

- City of Skopje's covers the largest urban area in the country and it is populated with higher income population of 6430 \$ per capita;
- Economic development in Skopje offers much better opportunities for businesses than the rest of the country where income per capita is 2230 \$;
- Large concentration of higher income population is very favorable environment for development of a market for service industry, which has generated high growth rates of economy in this area (more than 5% in 2007)⁵;

⁴ The City could autonomously execute only the fire protection and some other small communal responsibilities.

⁵ On the other side, in the other regions, the service sector was not able to generate sufficient growth that would compensate for the decline of the old industrial capacities;

- In addition to favorable growth pattern, Skopje's area has the lowest unemployment rate of 28.46%, which is drastically below the country's rate of unemployment in 2002 (38.07%). Two City's municipalities have unemployment rate over 60% (Saraj and Suto Orizari). For one of them- Saraj, it is essential that it was not a part of the city's urban area before 2004, but annexed after the new territorial division. The other - Shuto Orizari - is inhabited Roma's population and it has the lowest income and education in the country. At the other hand among other eight urban municipalities, the sub municipality Karpos has unemployment rate below 17%. However, in 2005 the rate of unemployment started to decrease (from 38% in 2004 to 37% in 2005 to 36.2% in 2006), as a result of an accelerated economic growth (4% for 2006). This rate is questionable, because there is still large number of people working without being considered as employed (because of the social aid from the state funds), so far it may be considered as much more decreased.
 - Concentration of urban municipalities in the City is the main factor behind such severe discrepancy with other parts of country.
 - **Social state**
 - The City of Skopje has the highest rank in the social area (compared to the other country's municipalities), characterized by: low **illiteracy rate**, due to the factor that large number of its population are students; easy access to relatively good health services; numerous public cultural objects, low youth delinquency rate, developed civic participation and gender equality.
 - Before 2001, the participation of minority population in public administration was below 5%, today after 7 years of implementation of the FA it is more than 19%, which is a very important issue concerning the process of improvement of the social state of the Albanian population in the country.
 - As to **households and dwellings**, total number of individual households in Skopje is 146546, or 26% of country's individual households, and the number of all type of living quarters (dwellings) in Skopje is 163745, which is 23.5 % of the total country's dwellings. Nevertheless, cross-city analysis of data confirms that the inadequate territorial organization of the City has generated problems in unbalanced state of households.
 - The average price of house in Skopjes urban area is 80000 euro, as opposite to country province or rural city's municipalities where the price is 39000 euro.
 - Skopje is by far the smallest region by size of the area, but the largest by population, which gives high density of population in high-income region. Thus, the largest road network is a logical consequence.
 - **Education**
 - The situation in the City drastically differs from country's average. Population with faculty education is 12 % in the City, and 6.52% as country's average. This state is caused by the facts that
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main faculties and academies are settled in the City, so young population migrates after graduation to the City from all over the country because of the higher opportunities for employment.

- There are enormous differences between each of the City's municipalities. For example the rural municipalities (Saraj, Suto Orizari and Gazi Baba) have an average of 0.78% of population with faculty education, which is an enormously small number compared to the rest of the City's and the country.

- The same three sub municipalities had total of 5190 persons without education, which is nearly one half of total City's population without education (11259).

- **Demographic trends**

From demographic point of view, The City of Skopje has positive population trend. The City's population is continuously increasing, mainly because of the migration from the province of the country, but also because of the rate of population growth.

3. Legal environment

The City does not have any additional or larger scope of responsibilities than other country's municipalities. The state did not pose any kind of different activity for the capital, neither in the Law nor in the practice, and that is why problems arose from inadequate treatment of the City of Skopje- from the aspect of the metropolitan and very important area for the economical and administrative development.

The sectoral ministries (justice, finance, education, culture, economy, transport etc), have control on the performance of the activities, in means of legality of the decisions and content and standards of the services.

It is essential to note that no Law could be brought on any municipal level. The budget autonomy (drafting, adopting, and execution) is the most important legal act confirming autonomy of the City and its sub-municipalities.

Under the City's Law (2004), *all matters of local significance that are functionally indivisible and equally significant for the whole territory of the City of Skopje are done by the bodies of the City of Skopje*. Each sub-municipality does the matters of local significance that are functionally divisible in their character and are important for its functioning. *This legal division has reflection on sharing financial assets between the City and 10 municipalities*.

Practically, almost all local functions are shared between the City and 10 City's municipalities. One of the most significant functions is *urban and rural planning* including issuing technical documentation and construction permits and regulation and maintenance of construction land. The City has no exclusive authority on this local function, and therefore its influence is strongly limited only on determining standards, giving opinions and agreements. In practice, 10 sub-municipalities are separately responsible for urban and rural planning on their territory, in accordance with the main urban plan of the City and all technical issues and construction permits.

Second important local function is *communal activity*. For example, The City is in charge for the whole water supply and heating, by managing two public enterprises. In addition, the City is responsible for all traffic regimes.

Sharing responsibility exist in the area of parks, green spaces, park forests and recreational spaces, and in reconstruction and protection of local roads, streets and the infrastructure, where the division exists on basis of main and local roads within the City.

Another sharing of responsibility exists in the social welfare and child protection. This local function is composed by owing, financing, investments and maintenance of kindergartens and homes for the elderly; social care for disabled persons, children without parents and parental care, as well as for children with educational and social problems and special needs.

The City is responsible for tasks, which have significance for the whole area, like protection and care for persons with drug and alcohol addiction problems, housing of persons put to social risk, sheltering people, care for elderly etc. Each of 10 municipalities is in charge for kindergartens and primary schools on their territory. All activities are always guided by the State, in accordance with the National Program for Development of Social Care.

The City of Skopje and the sub municipalities have the status of **legal entities**, a **coat of arms** and **flags**, simultaneously used with the coat of arms and flag of the City of Skopje. They have **separate authorities** (councils, majors, administration), and **shared local revenues**, separated expenditures and completely divided budget autonomy. All of them can establish public enterprises for conducting public works of local significance within their competences, but so far, only the City is owner of six such enterprises for communal activities, that are covering completely the metropolitan area (water supply, heating, cleaning, waste and drainage management etc).

The City of Skopje and all sub-municipalities have two main bodies: 11 Councils (representative body) and 11 Majors (executive body).

Citizens vote on the same elections for: Council members of the City, Council members of their sub municipality, City's Major and for each City's municipal Major. In the two level model of Local-self government in Skopje among which there are typical rural and pure urban municipalities, there is a problem in communication. As a result, in the everyday City's management deals with many different needs with very diverse content (communal issues, economic development). In order to establish cooperation between the Mayor of the City of Skopje and the Mayors of the municipalities in the City of Skopje, there is a **Coordinative Body**, composed of the 11 Majors, and managed by the Mayor of the City of Skopje.

The Council of the City of Skopje consists of 45 members elected on general, direct, free elections, for an imperative mandate of 4 years, which cannot be recalled from their posts. Its members elect Council's President. The Council has the power to make decisions within the framework of the City of Skopje's competences.

The City and City's municipalities publish separate (11) official gazettes and all of them are obliged to publish financial and other important issues on the net.

Considering the way of performing different tasks and functions it is very important that the City and City's municipalities can establish public agencies, for the purposes of performance of their competences and certain activities of public interest. Regarding to this, they may delegate

some of those tasks to these legal entities, on basis of an agreement, but the municipality is subsidiary responsible for the performance of the activity. The City's Council had established 22 commissions and 6 public enterprises for different purposes.

The City's Major is an executive body, elected by the citizens for a mandate of 4 years. He represents and acts as an agent of the municipality and he is in charge to control the legality of the regulations of the Council and to ensure the enforcement of the Council's decisions. In fact, he is responsible for all kind of execution of all activities in the City (municipality). The major proposes and executes the budget (after the Council adopts it). Considering the performance of the public enterprises, the Major elect their managers. The Major is responsible for the management of the City's administration, and therefore he decides on hiring, rights, duties and responsibilities of the employees of the City administration. A special Law on state level regulates all wages of public servants on central and on local administration level, and in the field of education as well.

It is interesting that in Skopje the City Major appoints the City Architect, but the other City's municipal Majors do not have the right to appoint such a person. Due to the financial matters, most important role of the Major is that he is responsible for the budget proposal to the Council and for the execution of the budget expenditures during one fiscal year.

4. Financial architecture

The Law on financing municipalities that launched numerous changes in intergovernmental relations was adopted in 2004, but it was drafted in a relatively quite and not transparent manner, in the nightfall of the days when major political parties had been arranging about the referendum for new territorial division. The public was a bit allured with the political issues⁶; instead of realizing, that the future of the local development and the future of the whole process of decentralization - mainly the fiscal part, will depend on the Law for financing municipalities.

At the end, the City of Skopje has been mostly injured by the new Law for financing local self-governments (LFLSG), because of the lack of additional or supplement source for financing urban functions, different from the rest of the municipalities. The main point was to enable a system of sharing financial resources, following the scheme for sharing local activities, responsibilities and tasks between the City and the City's municipalities set in another Law. Many additional sub-laws which followed for the City of Skopje, gave only provisions in order to arrange the formulas for sharing the own resources and grants. Furthermore, the quality of sub municipality's financial management and responsibility for providing local services in each sub-municipality are questioned, because there is only one tax administration for the whole territory (City's). As a result, citizens paying and expecting good local services do not know all financial rules about the division of responsibility and financial accountability and therefore they cannot blame for bad services either municipality where they live or the City.

Broadly speaking, the City of Skopje and its 10 sub-municipalities are being financed from their own sources of revenues (local taxes, fees, and

⁶ About the new territorial boundaries and implementation of a second official language.

user charges), shared taxes with central government, grants from the Budget of the Republic and "off budgetary state funds", revenues from loans in accordance with the law and other minor revenues determined by Law.

4.1. The own sources of revenues

The own sources of revenues of the City of Skopje are: property taxes, local fees and local charges, the revenues from municipal assets, self-contribution, fines, donations and other revenues determined by law.

Local taxes. Traditionally, for over 50 years, three types of **taxes** compose local property taxes: Property tax (taxation on real estate); Tax on sales of real estate; and Tax on inheritance and gift. Although their revenues are relatively poor (compared to other central taxes: Personnel income tax, Tax on Profit and Value Added Tax), these taxes are characterised by immobile subject of taxation, easy detection of the subject of taxation, conventional for local financing and most of all, the tax evasion is not as common as in the area of direct taxation.

City's tax administration collects and distributes property tax's revenues to the municipalities on monthly basis, in the ratio of 50% for the City of Skopje and 50% for the appropriate municipality in the City of Skopje.

The Council of each City municipality has the authority to set the tax rate in the frame of the Law on Property taxation, outlined by the central government⁷. This kind of financial authorisation has been introduced for the first time in Republic of Macedonia on local level. There are some minor differences among 10 sub-municipalities, according to urban or rural city area.

Actually, these relatively complicated financial relations (determining tax rates, sharing revenues) just confirm that it was very difficult to formulate an appropriate system of sharing revenues in a second tier system existing in the one tier system of Local self-governance.

Furthermore, each of the Macedonian municipalities (and those 10 City's municipalities as well), were evaluated in order to entering the second phase, by indicators based on their tax administration capacities. In 2007, the tax administration collected just 65% of the Property taxes. The problem was, and it is still occurring, that those 10 municipalities were not objectively accountable for property tax collection, because the City's administration was in charge.

Local fees. A variety of revenues composes local fees, mainly: communal⁸ and administrative fees. These revenues are distributed

⁷ For example: the tax rate of Property tax on real estate is outlined in the Law on Property tax as from 0,1% to 0,2 %; for property sales tax between 2-4 %; In the case of the third type of the property tax - the tax on inheritance and gifts, the Law sets range of tax rates for different inheritance ranks. The first inheritance rank is tax free, and the second and third inheritance ranks have tax rates between 2-4%, or 3-5 %.

⁸ Fees on: usage of streets with passenger, cargo motor vehicles, buses, special vehicles and motorcycles; on usage of areas for camping by putting tents and other similar temporary facilities; for playing music in public cafés; for usage of space in front of the business facility for conducting own activity; for placing advertisements, announcements and ads in public places; for placing shop windows for exhibiting goods outside the business facilities; for using squares and other areas in the cities and other populated places in order to exhibit objects, have exhibitions and other entertaining events for conducting one's activity; for using and maintaining the public lighting.

between the City of Skopje and sub municipalities following the rule: whether they are related to conducting works that are in the competence of the City of Skopje, or of the sub-municipality. Anyway, it is very difficult to set the right proportion of fee's revenues to the City or to any of 10 municipalities, because the local functions are shared or overlapping in practice. Most of the time, they span the responsibility for providing services one to another, as the bylaws have no strict division of the competence for conducting works, neither financial support in the straight line by the existing fees.

Local user charges. These revenues are set to be fiscal revenue, but with compensational nature, therefore they are often called compensations. The city has three very important profusion types of revenues: Compensation for arranging a construction land; Compensation for communal activity and Compensation for spatial urban plans.

Their revenues are distributed in the ratio of 60% for the City of Skopje and 40% for the municipality. In the past years, there were many unpleasant situations with corruption affairs in the construction area, connected with compensation's benefit.

Ownership's revenues. A mixture of compensation fees and user charges compose such revenues as the revenue from leases on property. Revenues from interest and revenues from municipal property sale compose local non-tax revenues. Division of those revenues between the City and sub municipalities follows the division of the property ownership, outlined by the Law.

Self-fees. This sort of local fiscal revenue is not popular in other European local financial systems, but here it is inherited from the federal fiscal system of ex Yugoslavia. The point of introducing a self - fee is found in having a connecting quoits between the local authorities and citizens. If the Council sets the self-fee (for example as a percentage of the wages of the citizens, it has to be approved by referendum. The generated revenue is used only for capital investment projects. In the past 2 years, one sub-municipality (Gjorce Petrov) introduced self-fee for construction of new water supply infrastructure. The self-fee revenues participated with 30% in the total project cost, 40% was donated from a foreign country and the 30 % supported by the government with special capital grant. Introducing new fiscal loading to citizens could improve the direct relation and proximity between the local elected authorities and local taxpayers, but if revenues are wasted incorrectly, the damage will be double. It is important that these revenues could not be shared between the City of Skopje and sub-municipalities, but they belong to the subject that had launched them. In the past 2 years, there is an idea for introducing a self-fee for construction of metro or tramway station by the Major of the City. Still, there is only a debate.

Personal Income Tax as shared tax. The City of Skopje and sub municipalities get revenues from the Personal income tax. The tax rate on national level is just 10%. The central tax administration has the authority for determining, administering, collecting and distribution. Three percent (3 %) of personal income tax generated from taxation of wages and pensions in Skopje goes as a grant to the Joint fund of Skopje's municipalities, where the fund's management divides separate amounts to each of City's municipalities according to the taxpayer's residence criteria. The municipalities dispose these revenues independently.

Personal income tax has broad tax basis, where beside wages and pensions, there are many other subjects of taxation: dividends from stocks, capital gains, income from authorship, incomes from lottery games and all other types of personal incomes. However, under the Law, the municipalities get only 3% of the Personal Income Tax generated from wages. This is deeply restraining the municipal revenues⁹. Many research projects underline the need of Skopje to get distinct treatment in the case of the sharing formula and to be assigned with 15-20 % of the revenues generated by Personal Income tax.

The Joint Fund of City of Skopje. In order to provide equal conditions for functioning of the municipalities in the City of Skopje there is a Joint Fund of the City and the municipalities in the City, established by various funds, to be shared between the City and sub-city municipality. Major revenue is the component of the grant from Personal income tax. Other revenues of the Joint Fund are communal fee for company title and the communal fee for using the streets by passenger, cargo and auxiliary vehicles. The revenues are realized in accordance with the methodology for distribution of the funds from the Joint Fund, adopted by the Minister of Finance.

Grants from state budget and off budget funds. The City of Skopje receives grants from the Budget of the Republic of Macedonia:

- Earmarked grants
- (Grant from value added tax - VAT grant);
- Block grants
- Capital grants;
- Grants for delegated competencies.

In the first decentralization phase, all (limited) functions in education, culture and childcare were financed by earmarked grants (aimed just for maintenance of objects). In the second phase, earmarked grants were replaced by block grants, aimed to finance larger scope of functions in those areas (including wages and tuitions of employees in education, culture and childcare). The central government decides for the need of distribution of the capital and grants for delegated competences the City and sub municipalities separately without sharing formula. Off budget funds for roads and fire brigades, distribute special grants based on cost outlined in a bylaw act.

The VAT grant. The grant from VAT that every municipality receives is determined for appointed tasks¹⁰. However, within a very complicated formula for division of the VAT grant among all 85 municipalities in the country, the City of Skopje and 10 City's municipalities have another complicated sharing system. First, from the total generated VAT revenue, 3% goes to the municipalities. Second, from those 3%, only 3% are distributed for the special reserve fund, that is established for a kind of assistance to fiscally weaker municipalities in the State, where City's municipalities are not included. The rest of 97% (of the 3% for all

⁹ The only argument that the Central government gives in the justification of the relation 97% towards 3% in the sharing formula is that Republic of Macedonia has objectively low tax rates, especially in the area of direct taxation.

¹⁰ The VAT makes the highest tax revenue in Republic of Macedonia. The tax rates are 18% and 5%.

municipalities in the country), are shared on the following formula: 88% goes to all country's municipalities, and 12% goes to the City of Skopje and 10 City's municipalities. They share this amount as 40% for the City' budget and 60% to the sub municipalities' budget, according to the number of population.

Loans. Entering the capital market in local-self governance means either borrowing from commercial banks or issuing local bounds. This kind of local financing is legally recognized, but conditionally set for the second phase of Fiscal decentralization. Considering relatively low fiscal capacity of majority of municipalities, and the fact that they do not entirely own the land as guaranty for borrowing, argues to the conclusion that in the near future borrowing and issuing bonds will not take a part in sub municipalities, but maybe just in the case of City of Skopje.

5. Financing urban services

Fees and user charges (compensations) finance the basic urban services, through different public enterprises established and managed by the City (waste management, transportation etc). Off budget institutions like Fund for roads, Fund for woods, Pension fund, Fund for social insurance, Health fund and Fund for unemployed exist just on the national level. Except the first one (for regional and local roads), they do not transfer or share any activity with local self-government.

The City of Skopje and City's municipalities do not have funds or off budget institutions, except the Joint fund. They were abolished and their accounts were converted into a part of local budget accounts in 2005, when the decentralization process started.

Conclusion

From today's point of view it could be easily concluded that before and after the independence in 1991, the City of Skopje has experienced various systems of administrative organization followed by fiscal relations between the central and local authorities.

First, in the newly adopted system of fiscal decentralization (2004), there are huge economic, infrastructure and mostly financial disparities among the City's municipalities. Therefore, asymmetric decentralization (different dosage of financial powers to each municipality) gives opportunity for "going further" for richer and developed municipalities such as the City of Skopje, but also stimulates the others to become better organized and to straighten their financial capacities.

Second, cross-City analysis due to economic, social and demographic indicators de facto confirm the thesis of extinction of urban-rural balance that is causing problems to the urban city development. It is obvious that after annexation the City has been involved in an unpleasant situation, having in mind the inheritance of a couple of rural municipality's communal and infrastructural problems, such as bad water supply, lack of waste management, terrible roads infrastructure etc. After the annexation, much of the City's joint financial assets were to be focused to these municipalities that made the rest of the metropolitan municipalities dissatisfied.

As third, there is not satisfactory and objective method of financing the poorer municipalities in the framework of the City's legislative.

The fourth conclusion is that there has to be reformation of the territorial organization in the City of Skopje, or equalization transfers have to be established, that will support less developed City's municipalities. Meanwhile, this problem will generate new problems, mainly in the area of communal responsibilities and assignments between the City and its sub municipalities.

Fifth, following international experiences, and comparing Skopje to the metropolitan cities in the region, it is clear that Skopje as capital has special larger scope of economical, communal, cultural and other unique needs that differ from other country's municipalities and have to be financially supported and satisfied, in order to have satisfactory development of the metropolitan area. Otherwise, the capital of the country will remain on its margins. This is not just a claim, but also an argument that can be easily detected in the theory of urban and metropolitan financing, and in practise. For example, in October 2007, the City of Skopje was a host of international Conference of European capital cities, where one of the main conclusive remarks was to giving diverse treatment to the capital cities¹¹.

Sixth, the two-tier system was aimed to satisfy different needs of the City, but its implementation in Skopje showed that in the past two or three years there was overlapping of responsibilities and financial problems between the City and 10 sub-municipalities. The Law on the City of Skopje set the special legal status, considering two level self governments, but the City has not an authorization or practical power to place some decisions to the other 10 City's municipalities, differently of the other state municipalities. In general, the City shares all revenues with the 10 municipalities that are placed in the City's boundaries. All areas of decentralized functions that are assigned for other municipalities in the country are the same in quantity and content as for the City. The communal activities, activities in the area of social care, education, culture and also economic development activities are set to be shared between two levels of self government in the Macedonian capital. So, the City and sub municipalities are forced and obliged to have cooperation in all fields of local governing and to share revenues by different formulas set by the law. Even more, the Coordinative Body of Mayors could not arrange any diverse sharing formula, based on different approach or needs of the municipalities in some field of activity.

Seventh, in the cooperation between central government and the City, there is always some kind of political pressure of the Mayor vis a vi his political party. Most of the Mayors of the City's municipalities (9) are from political party that is running the central government, and it can be said that they have relatively better cooperation with the central government. All this bring the City's Mayor in an unenviable political position.

Eighth, there are some very large (in area), and highly populated city's municipalities, that are making pressure both in political and legal, and most of all in financial means to have more independence from the City. They place many arguments based on the facts that they need to go further in the decentralization process, to provide better quality of the

¹¹ Data, conclusions and other documents of the Conference could be found on the web site of the City of Skopje.

local services etc. There are strong experts' and political debates, mainly focused in two different courses. The first one is to change the organization of self governance in the City and to make only one tier of local self governance. This implies that the annexed municipalities will be cut of, and the City's boundaries will be detracted¹².

Second wave of arguments is mostly made by the mayors and members of Councils of the sub municipalities. They had felt the power, and they will not leave it easily. They argue that in the everyday sub-municipal's management many different needs with totally diverse content, which need to be solved by completely different approach and by various vertical fiscal transfers. In addition, they argue that their municipalities do not have the same powers as other Macedonian municipalities, which brings them in unequal situation. They argue for getting stronger fiscal powers and minimizing City's powers.

Generally, if the situation of sharing functions stays as it is, many problems will continuously rise. Since two-tier system is in force, there is a lot of confusion in detecting responsibility, as well in measuring quality of urban services among the City and sub municipalities. In addition, there is an inadequate balance between the city's competences and financial resources, and therefore frequently, the responsibility for bed City services is being spanned between the City and its municipalities. As a result, there are conflicts between the authorities of the City and its sub municipalities, unsatisfied local taxpayers, accumulated communal problems, all without clear detection of title's accountability between them. In practice, the existing financial model of the City of Skopje has shown that it is inappropriate for the most of the City urban area, causing everyday problems and concern over the future development.

¹² This will have the following consequences: decreased population from 515926 to approximately 420000; pure urban area in the capital; responsibility of the City authorities for all activities, that has been span between the City and 10 municipalities in this period; decreasing of the expenditures for administration (cutting off 10 Councils, Mayors, financial administrations etc); more revenues concentrated in the City budget; better allocation of expenditures, focusing capital investment in the urban area that was impossible in the previous 2 years because of investment in the rural area and villages that needed more attention and financial resources; concentration on economic and urban development in the City.

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