

## Public Administration Reform in Macedonia with Particular Focus on Decentralization Process

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### Abstract

*This paper is dedicated to the overall Public Administration Reforms process in Macedonia, putting a special focus on Decentralization process, which was most significantly initiated with the Ohrid Framework Agreement, signed in 2001. Decentralization constitutes a crucial element in the agreement because it is perceived as a serious mechanism for ensuring full participation of all communities in the social, economic and political flows.*

*Decentralization started formally in 2005, with the transfer of certain competences from Central Government to Units of Local Self Government (municipalities). Such competences mainly include: health and social care, education, urbanism, culture, rural planning and local economic development.*

*Based on the achievements regarding this process, one can simply conclude that despite progress in certain areas, there are still many vast issues lagging behind. Doubtlessly, it is the full introduction of fiscal decentralization the issue that has until present been subject to delays and postpone. Contrary to this, legal framework is an issue that although far from perfect, deserves some high praise. There have been some crucial laws put in place such as: Law on Self-government, Law on Territorial Organization, Law on Equitable Regional Development, Law on Financing of the Units of Local Self Government...*

*Talking generally, the PA in Macedonia has permanently been subject to serious criticism from the international and domestic factors as well. Its weakest points are the lack of political will to create an apolitical environment in the overall system, inadequate staffing, high corruption rates, low service delivery etc.*

**Key words:** public administration, decentralization, civil service, municipality, EU integration, Macedonia.

**JEL Classification:** H4, H7

### Introduction

For many countries in the world improving Public Administration System (PAS) has been on top of their agenda. Improving effectiveness of the public service has been seen as clear indicator for increasing the capacity for economic development as well as increasing the capacity for providing better service to all citizens. The way that the effectiveness is measured is through the commitment and quality of public services offered to the citizens.

The citizens of Macedonia view the PAS as failure to meet and create efficient living standards for its citizens because these living standards are the basic economic and social welfare needs. The main reason why this is the case is because Macedonia is lacking capacity to provide the PA system with functional policies. Moreover, problems tend to occur in the implementation of these policies. Correspondingly, the 2008 Euro Barometer report on Macedonia contains a survey about the trust of Macedonian citizens towards national and EU institutions. Compared to national institutions, the citizens' trust in the EU institutions is evidently higher.<sup>1</sup>

It is important to note that further improvements in the PAS have been a prerequisite for many

years as primary strategic priority of Macedonia for namely the Euro-Atlantic integration processes.

After expressing the urgent need for appropriate actions, the involved parties of the PAS began compiling a number of strategies and actions for the improvement of the PAS. A serious institutional effort on fulfilling the criteria of an effective PAS was initiated with the Public Administration Reform Strategy (PAR) adopted in 1999. As stated in the previous report by Analytica on the “Evaluation of the Public Administration Reforms in Macedonia” this strategy identified key areas of reform, set short and mid term objectives as well as the values the PAR process aimed to achieve”.<sup>ii</sup>

The implementation of the PAR strategy still has not reached the pre-assigned tasks, though a slight progress is evident especially in the civil service reform and in the administrative legal frame. However, vast issues still continue to have an impact on the effectiveness of PAS. Politicization, low quality of public services, corruption and low salary levels are some of the major issues and concerns that get in the way of the effectiveness of the PAS.

The greatest concern for Macedonia since the Independence has been the high “politicization of public service” that mainly involves the interference of the political parties that are in power in the organizational structure of the Civil Service and wider into PAS. Politically motivated hiring or replacements in large scales and horizontal mobility after each change of government office has become a common practice than an exception, thus concerning directly the quality of the services provided to the citizens.

Politicization is mostly expressed within jobs, for instance employees that have high positions in the hierarchy of state institutions are degraded by appointing politicized individuals (supporters of the political party in power) in their place, while lay offs mostly occur in cases when employees have a status of a temporary employee.

However, looking at what has been achieved up until now in regard to the effectiveness of the CS system there is certainly some imperative information that needs to be evaluated such as, the establishment of a special unit within the General Secretariat of the government responsible for coordination and horizontal alignment of PAR in different sectors; the adoption of the Law on Civil Servants (LCS); the establishment of the Civil Servants Agency (CSA)- the protector of the functionality of the civil servants’ legislation, and the Ministry of Local Self Government. These essential steps gave the green light for further proposals that would lead to a desired outcome, which is to create apolitical, effective, and professional PAS.

Through research in identifying gaps for increasing effectiveness of public administration, we have identified the following areas for improvement as part of our recommendations:

### **Motivation of employees:**

In every organization high motivation of employees has direct impact on the effectiveness of overall organization performance. This is also true for public organizations. Factors that have a stimulating effect on the employees’ mentality can be named as, achievement, recognition, challenge, interest, responsibility, advancement, salary and benefits<sup>iii</sup>.

The salary system is one of the main factors that motivate staff. The Law on Civil Servants (LCS) dedicates a whole chapter to the salary system, giving a brief description of the salary and its

components and also states the conditions when an employee gains the right to receive allowances and demand supplements. Career development is also considered as challenging and motivating factor for employees, as it is also an integrated part of the LCS. According to the law, each position shall have four career development steps regarding the job to which a civil servant is assigned to. Passing from one stage to another entails a 3 year working experience as a civil servant or at a current stage.<sup>iv</sup>

The efforts on motivating employees in Macedonia should continue intensively. Particular focus should be given to the fair implementation of the dispositions of the LCS regarding increasing of the salaries as well as assuring a more flexible structure for career development in the public sector. This could lead into making them more competitive in the labor market or to an approximation to those in the region -Slovenia or Croatia.

The CSA's role should consist on ensuring full implementation of the provisions regarding performance related supplements. Consequently, such changes can pave the way for attracting more qualified candidates for public service jobs.

#### **Better structure for performance management and assessment:**

Performance management is another factor that will flourish the effectiveness of the PAS. This requires the measuring of results, and upon these results creating new principles and goals that will award the employees that have achieved these outcomes. Rewards represent the real meaning of the performance management. Awards, remunerations, bonuses, shared savings, performance contracts and agreements are tools that should be used for attaining the perfect performance management.

Although Macedonia recently has undertaken substantial steps in improving the performance of the civil servants, unfortunately, this process is still considered as an *ad hoc* process and an issue with minor importance. Not undermining the fact that performance management measures can serve as a stimulant for changes in the bureaucratic organizational culture and administrative systems.

Assessment of the civil servants is also integrated in the LCS. According to the Law, the assessment of the managerial civil servants shall be done by the minister (head of the body), while the assessment of the expert and expert-administrative civil servants shall be done by the immediate managerial civil servant. The question is how effectively this assessment process is/will be done? And how much the results are considered relevant and taken into consideration?

The performance management and assessment in Macedonia's PAS is still at its initial stage. The understanding of the performance management and assessment is poor and the state administrative bodies' capacity to implement is low. More efficient processes of performance management are needed. Structural changes and coordination of assessment outcomes for improving performance is crucial. Among these, Macedonia should also apply strong efforts when it comes to the strengthening of the role of CSA in the assessment of the civil servants' performance.

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**Introducing career system elements as a counter attack for the politicization of the PA:**

The introduction of the career system elements like: high competitiveness, self motivation and resistance to political pressure of civil servants, in the civil service is of high importance in setting stable, citizen-friendly and well performing institutions. It would provide a counter attack for some deviations that occur in the service. These elements make the system more challenging and it is offering job positions based strictly on the performance of the civil servant.

Better implementation of a system combined with elements of both career and position based system in Macedonia would represent an improvement of the effectiveness for the civil service and the overall PA. Based on the LCS, Macedonia introduced the position-based system in the civil service system. The legislators of this law stated that the position-based system would be a more transparent and effective one, giving an opportunity to all candidates (from inside and outside the CS) when applying for vacancies in the CS. However, the reality claims the opposite. Since its introduction there have been many irregularities recorded, mainly resulting in recruitment of politicized individuals in the civil service and broader. These malformations made the system dysfunctional and unable to produce impact on the overall PA's effectiveness.

The implementation of the 'spoil system' by the political parties in power noticeably points out the necessity for intervention in the LCS. It should address the replacement of the 'spoil system' with the one that is based on merits. An action of that type seems to be fundamental in awakening the civil service. The above mentioned facts clearly emphasize the weakness and instability of the LCS, which has undergone many changes and amendments since 2000. Amendments and changes in this law are causing confusions in the implementation process, making it unable to meet up the expectations of the citizens and fulfill the criteria of a stable and productive legislative act.

As underlined previously, it is essential for Macedonia to solidify the dispositions and the implementation of the LCS and reset new rules for the system. Such changes with no doubt would help in boosting the professionalism of the CS.

**Effective fight against corruption:**

Corruption is one of the greatest obstacles that every society faces when trying to develop and progress. By observing the political system, corruption is seen as an abuse of the public office for private benefits and interests. Corruption occurs in circumstances of derogatory and degrading civil service salaries and advancements not based on performance.

A problem for combating corruption is the politicization of the anticorruption bodies, making them have a selective approach when tackling this issue, mainly intending to degrade the political opponents of the parties in power.

Impacts of corruption are fatal for the society. They affect the administrative values of equity, efficiency, transparency and openness thus having a direct impact on the effectiveness of the PAS, obstructing it in the achievement of its primary goal – social and economic welfare. A significant progress in combating corruption has been recorded since 2006. In 2006, Macedonia was ranked 105 in the Corruption Perception Index (CPI) conducted by Transparency International (TI), while two years later it recorded a jump of 34 places, and was ranked 72.

However, continuing the fight against corruption is still one of the main challenges that the country needs to face in order to have progress.

The Code of Ethics for Civil Servants<sup>vi</sup> from 2001 is directly related with the fight against corruption in the PAS. It aims in assuring the principles of legality, professional integrity, effectiveness and loyalty during the accomplishment of civil servants' official duties.

Macedonia should mainly concentrate on depoliticizing the anticorruption bodies and strengthen the implementation of the Code of Ethics for civil servants and the Law on Preventing Corruption<sup>vii</sup>. This is considered to be a solid legal frame that includes almost all the parameters for dealing with corruption. Without having these objectives accomplished, the country will continuously face a high corruption rate.

### **The equitable representation for a better participative PAS:**

*“The key to effective political representation and meaningful participation in a democracy at work is to engage all citizens, so that they feel they are part of the society and its institutions”. (Christian Strohal, ODIHR Director Ambassador)*

Equal representation is a criterion that arose as a result of the Ohrid Framework Agreement (OFA), signed in 2001. The principle of equitable representation deals with the relation between the ethnic structure of Macedonia on the one side and on the other hand employment in the civil service and the public sector. Its primary goal is to combat the ethnic discrimination in the labor market. The dispositions of equitable representation are integrated in the OFA. The equitable representation has steadily improved since 2001. All political subjects have clearly declared the will to improve the ethnic structure of the civil service system. The position-based system in Macedonia's civil service offered immediate appointment of individuals from different ethnic groups in different positions. Therefore, with contributing positively to the increase of the representation of different groups in the civil service system it is making it more participative. Evidently, the progress on equitable representation should go on, moreover that it has been stated as a criterion from the European Commission (EC) in fulfilling the standards of a citizen oriented PAS.

### **Decentralization in focus**

At the beginning, right after gaining independence in 1991, the authorities adopted a strategy for centralization of the power with the goal of strengthening their control over the whole territory. This strategy was changed after the armed conflict in 2001 and the signing of the Ohrid Framework Agreement. It is very important to analyze the acts from the OFA as they had the biggest influence on how Macedonia's territory is looking and functioning today. In its acts and with the purpose of establishing peaceful cohabitation, a new territorial division was set to be adopted. The proposed reforms lead up to big legislation changes in 2004.

Today Macedonia's territory is divided into 84 municipalities (plus the City of Skopje which consists of 10 municipalities) and 8 regions which have only administrative role. With the

adopted changes they have bigger responsibilities than before in the budgetary matters as well as into the local economic development, the environmental protection, urbanism, cultural and sport's activities, the social and children's protection and the education. The practical implementation of these novelties is still underway, especially when it comes to the fiscal decentralization.

With the reforms in the local self-government it is anticipated that the fiscal, human and political capacity of the municipalities will be strengthened. The goals are:

- Providing effective and qualitative public services on local level;
- Sustainable development of the local economies, creating possibilities for employments and entrepreneurship;
- Development of transparent and responsible administration on local level;
- Providing instruments through which the citizens will be able to influence the decision-making process on local level;
- Making the municipalities partners of the Central Government and preparing them for the EU-integration process on local level.

Every municipality has its mayor and municipal council which are elected on direct elections. They also have their own budgets which are being financed by the personal income tax and from supplements of the national budget.

Crucial precondition for the reforms in the local self-government to succeed are the reforms of the PA, as an important factor in the country's overall development. Also an important part of the whole decentralization process is the fiscal decentralization which proved to be rather difficult task since this whole process started. Macedonia in the moment has a need for capital stimulation that will create new jobs in the municipalities and will push the local development forward especially in the small towns. However the practice showed that the municipalities do not have the possibility to finance the sustainable development of the towns and villages. The problem with the fiscal decentralization comes from the inability of the municipalities to collect enough funds from taxes in order to finance their development. In Macedonia less than 20% are generated from personal sources (lowest percentage in EU has Greece and it is 33%). There are no local taxes in Macedonia; instead they are transferred from the central government. This is the case because the municipalities don't have control over the tax rates. The point of these local taxes is in their height i.e. in the local decisions on how high they can be (some will probably accept smaller and less qualitative services and other will not). This comes from the possibility to use different tax rates, in which case some communities will finance one type of services and others will finance different types. This system also has its disadvantages (the weaker municipalities will lag behind the bigger in their promotion for economic development). For these reasons, the Programmes for equalizing are the basic elements of every fiscal system. The decentralized fiscal system can function properly if the incomes of the local self-government coming from the central government can be predicted. This is doable if the incomes are allocated according to appointed formula which is regulated by law.

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### **The Ohrid Framework Agreement**

Moreover, another regulation coming from the OFA for better allocation of the power between the ethnic communities is that some of the decisions on the municipal lever are brought according to the ‘Badinter Rule’ (named after Robert Badinter, a high-profile political figure in France and Europe). This rule states that in order for a certain issue to pass the voting it has to win the votes of the majority of two groups: the majority of all local councilors and the majority of the councilors that belong to the ethnic minority community in that municipality that represent 20% of the population in that municipality.

Looking at the record so far, Macedonia’s model of decentralization, particularly in those municipalities that have shown success, consists of following main processes. First, size of the municipality and thus economies of scale providing optimal resources for the sound functioning of a municipality matters a lot. Economic viability of a city ensures the sustainability and success of a decentralization process. Second, there is a need for strong central government and donor support to the changes that are undertaken. Third, it is critical to have a qualified leadership with strong backing from the local population. Leaders with clear electoral majorities and strong governmental and donor support provide sustained momentum for change and reform. Fourth, decentralization it is not only about theory but also about the practice, therefore successful decentralization needs successful cases as a model to be followed later by others. Since reforms in transition countries require strong visibility with concrete changes, successful decentralization also needs successful cases as leading champions of the overall project. All of these processes have been the sources of the change seen in number of municipalities around the country.

### **Ending the story**

With the undertaken changes, a new basis has been established that has set new stage in the local governance system of Macedonia. What remains now as a challenge for the country is providing continuous reform environment in order to build upon earlier decentralization successes. There is still work to be done in order to catch up with the needed economic potential at the local level. What is outstanding is adoption of a large number of laws and bylaws in various sectors, particularly in the area of local economic development.

What can be said at this stage, based on the above analysis is that decentralization is a far reaching project of Macedonia where much has been done but also a lot remains to be done in order to complete the process that has been set with the Law on Local Self-Government of 2002. However, with all its advantages and disadvantages, challenges and opportunities, the decentralization project of Macedonia has proven to be a tool for democratization, stabilization and European integration of the country. The right of citizens to participate in the political, economic, social and cultural life of their country can only be fully realized via localization of the decision-making and services. Despite the fact that Macedonia’s municipalities are not yet equipped sufficiently, the overall change in this regard has become a critical ingredient driving democratic consolidation. The initiative has established incentives in turning municipalities into socially just, politically participatory, economically productive, and culturally vibrant towns. The story, while far from finished, illustrates how deliberate state policies promoting the powers of municipalities can become an impetus for democratization in multiethnic societies such as Macedonia.

## Conclusion remarks

- The biggest concern for Macedonia remains the high “politicization of public service” that mainly involves the interference of the political parties that are in power in the organizational structure of the Civil Service and wider into PA.
- The efforts on motivating employees in Macedonia should continue intensively. Particular focus should be given to the increasing of the salaries as well as assuring a more flexible structure for career development in the public sector.
- The performance management and assessment in Macedonia’s PAS is still at its initial stage. The understanding of the performance management and assessment is poor and the state administrative bodies’ capacity to implement this is low. More efficient processes of performance management are needed.
- There are still reforms needed regarding the functioning of the ‘spoils system’ and its replacement with the one that is based on merits. An action of that type seems to be fundamental in awakening the civil service.
- Macedonia should mainly concentrate on depoliticizing the anticorruption bodies and strengthen the implementation of the Code of Ethics for civil servants and the Law on Preventing Corruption.
- The position-based system in Macedonia’s civil service offers immediate appointment of individuals from different ethnic groups in different positions.
- Decentralization is an ongoing process in Macedonia that started in 2004. With the reforms in the local self-government it is anticipated that the fiscal, human and political capacity of the municipalities will be strengthened.
- Also an important part of the whole decentralization process is the fiscal decentralization. However, municipalities still struggle to gather their own income and the state still finance most of them.
- The decentralized fiscal system can function properly if the incomes of the local self-government coming from the central government can be predicted. This is doable if the incomes are allocated according to appointed formula which is regulated by law.
- Important regulation coming from the Ohrid Framework Agreement for better cohabitation of the different ethnic communities in Macedonia is the improved allocation of the power between the ethnic communities. With the adopted changes all the decisions on municipal level (where there are different ethnic communities that present 20% of the population in that municipality) are brought according to the ‘Badinter Rule’.
- Reforms are still needed as this decentralization process is far from over. The authorities need to provide continuous reform environment in order to build upon earlier decentralization successes.



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