

# PROJECT INFO

United Nations Development Programme



Photo by: Igor Banskoliev, Zoja Naskova

## CHALLENGE

The analysis of the fiscal decentralization process, which started in July 2005, resulted into broad agreement that the existing model of fiscal decentralization in this country prevents equitable level of public service provision for all citizens across the country. Namely, the current model of financing is still effectively regressive, especially towards the rural areas, thus further widens the development disparities between rural and urban areas. More specifically, education and social services – childcare, care for the elderly - have been receiving insufficient funding in rural municipalities, as no or few such facilities exist on their territory. Also, the existing model is not considerate of the higher costs for provision of services in rural areas. In this way, it does not allow for any flexibility in seeking innovative solutions to the pressing problems.

Under those circumstances, a need for restructuring of the system of inter-governmental transfers (from central to local level) has been identified. This restructuring would allow for establishment of a fairer, more efficient and predictable allocation of public resources at the local level.

## PROJECT OBJECTIVES

The purpose of the project is to support more equitable provision of social services at local level. The project aims to review the prevailing fiscal decentralization policies, and to propose models for more effective intergovernmental transfers.

More specifically, the project aims to support the development of several fiscal scenarios based on the analysis and estimated revenue gaps, addressing also the need for greater accountability and responsiveness to poverty and social inequalities. The proposed model would make efforts to equalize and reduce the gap between the rich and the poor municipalities. Therefore, the project conducted assessment of the fiscal capacity of municipalities, along with a detailed assessment of the expenditure needs for local provision of social services.

The next step was developing a model/formula for allocation of inter-governmental transfers, which should ultimately create more equitable opportunities for accessing social services, both in urban and rural communities. In parallel, the project has also focused on strengthening the analytical capacities of the central and local government officials on these issues.

## RESULTS

As a result of this project, a Feasibility Study was prepared in cooperation with an international team of experts from the Georgia State University – Andrew Young School of Policy Studies, outlining a set of options and specific policy recommendations for the development of new intergovernmental transfer system in the country. Taking into account the revenues variations between municipalities, this study aimed to assist the Government in introducing higher fis-

cal predictability for local government units, through providing several optional scenarios on how funds can be allocated from central to local governments. The proposed fiscal policy options ensure better integration of gender perspective into local fiscal policies, and will contribute to poverty alleviation in peri-urban areas populated with vulnerable groups prone to poverty, such as Roma.

Initial recommendations were developed for a national Policy Statement on reforming the fiscal transfers system.

The first ever national analytical studies on topics such as municipal expenditure needs and revenue capacity were finalized, enabling the national and local authorities to use comparative data and simulations not only for equalization purposes but also for budget programming.

An initial draft of the first ever national Capital Grants Assessment Study was produced, providing concrete recommendations on fiscal disparities, equalization, transparency and programming for inclusive local development.

More than 50 officials from the Ministry of Finance and other institutions were trained in advanced management of inter-governmental transfers models, which will be a great asset in their further work on fiscal decentralization reforms.

Tailor made research tools for in-depth assessment of governance were prepared for four municipalities (Jegunovce, Cair, Krusevo and Konce), and soon, participatory planning service delivery practices will be introduced.

All project interventions are now part of the Government's Programme 2011 -2015. The project interventions have had a positive impact on the country's fiscal decentralization reform and the social inclusion agenda.

UNDP will continue to support the Government in the future steps of implementation of the fiscal decentralization reform, keeping special focus on the delivery of quality social services on local level.

**PROJECT TITLE:** Social services for social development

**PARTNERS:** Ministry of Finance, Association of Local Self-government Units (ZELS) and municipalities.

**FINANCED BY:** UNDP

**BUDGET:** US\$ 320,000

**IMPLEMENTING PERIOD:** 2007 - 2012

### CONTACT INFORMATION:

Mihaela Stojkoska, Head of Good Governance Unit  
Tel/Fax: +389 2 3249533; +3893249505  
Email: mihaela.stojkoska@undp.org  
Web site: www.undp.org.mk