

Center for Research and Policy Making

Policy Study

**PROPERTY DEVOLUTION IN
MACEDONIA ISSUES AND
CHALLENGES AHEAD**

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I. INTRODUCTION AND OVERVIEW OF THE DECENTRALIZATION PROCESS IN MACEDONIA

This a study of the decentralization process in Macedonia. It analyses and evaluates a particular aspect of the local governance in the country related to property devolution. The study considers issue such as property taxation, evaluation of property, illegal construction and relations between the central and the local government. Citizens' attitudes have also been surveyed and taken into account. An analysis of the laws and government acts related to property devolution is also made. Specific recommendations are offered to improve policies in this field too.

The paper is organized as follows. Section I gives a broad overview of the decentralization effort in Macedonia. It describes all stages of this process from a historical point of view. In the following section an explanation of the research methodology is presented. Sections IV and V describes the area of property tax, together with all relevant aspects such as methodology for valuation, system of appeals, and so on. The empirical results are presented in Section VI. Specific issues are presented in Section VII. Finally, in Section VIII concluding remarks are drawn, and recommendations are given concerning possible directions for further improvement of the current situation.

Composed of 34 local government units since 1976, Macedonia before the collapse of communism had a reasonably well developed system of local self-government with the municipalities responsible for a wide variety of public services enjoying a substantial

budgetary autonomy, and significant revenue raising powers.¹ In independent Macedonia, the legal basis for local self-government was established in 1991 when the first democratic Constitution was adopted. This legal act defined the municipalities as the basic unit of local government, and established the general principles for the organization, functions, and financing of the local governments, with the details to be elaborated in subsequent legislation. Such legislation was passed in 1995 with the adoption of the Law on Local Self-Government.

Although the 1995 Law established an impressive range of competencies of the local government, before the latest reforms and for a variety of reasons including poor statutory drafting, apparent lack of central government resolve, and the regime of fiscal austerity to which the overall public sector has been subject since 1994, Macedonia's local governments actually exercised few of these competencies. In September 1996, a new Law on Territorial Organization divided the 34 jurisdictions inherited from the past into 124 municipalities, the government aiming to ensure the development of smaller settlements. Many of the new jurisdictions were however too small to effectively provide the services they had been assigned.

In 1997 Macedonia ratified the European Charter of Local Self-Government working to develop a local self-government system where for each function the society deems appropriate to be performed by the public sector is to be carried out by the lowest level of

¹ See Tony Levitas, "Background Paper on Macedonian Intergovernmental Finance" for *South-east European Regional Ministerial Conference on Effective Democratic Governance at Local and Regional Level*, August 2004.

government capable of performing it effectively.² It justifies a need of efficient allocation of administrative functions among various management levels, the basic criterion of its efficiency being a maximum possible satisfaction of the population demand, and a clear-cut allocation of liability areas among the authorities.³

One year after the signing of the European Charter, the Ministry of Local Self-Government was established to carry out activities such as: monitoring of the development and recommendation of measures for improvement of the local self-government; monitoring over the territorial division situation and development of standards for the size, population and needs of the local self-government; development of system, policy, measures and instruments for performance of more equalized regional development and provision of stimulations for economic development of the lagging areas; and performance of other activities in accordance to the Law.⁴

With the formation of the Ministry of Local Self-Government, the decentralization reform in Macedonia effectively began. The importance of this process was/is two folded: to strengthen the local democratic institutions and representatives and to develop more efficient public administration while bringing the government closer to the people. However, the wide-ranging decentralization process gained on momentum with the reforms agreed with the Ohrid Framework Agreement in 2001 which has ended the war crisis between government security forces and ethnic Albanian rebels. Following the

² Rafuse, Robert W. Jr. (2000) "*Why fiscal decentralization in Macedonia?*", United States Agency for International Development (USAID-Macedonia) Local Government Reform Project.

³ Public Policy Research Center. (2002) "*Concept of Local Self-Government: Formation and Development in the Republic of Kazakhstan*", United Nations Public Administration Network.

⁴ Ministry of Local Self-Government, available at <http://www.mls.gov.mk/default.aspx?id=2&sm=2> (accessed 11.10.2007).

Ohrid Agreement, Macedonia engaged in a thorough decentralization effort through comprehensive reforms of the legal and political system. The Agreement set out a strategic agenda concerning equal representation of different ethnic groups in public life and local self-government, and the devolution of powers from the central government to the municipalities (hence decentralization). In particular, it called for developing decentralized government and legal (constitution, laws and by-laws) changes mainly in three systematic areas:

- *Devolution of competences* – Revised Law on Local Self-Government which will reinforce the powers of elected local officials and enlarges substantially their competencies [...] Enhanced competencies will relate principally to the areas of public services, urban and rural planning, environmental protection, local economic development, culture, local finances, education, social welfare, and health care.⁵
- *Territorial Division* – Boundaries of municipalities will be revised within one year of the completion of a new census, which will be conducted under international supervision by the end of 2001. The revision of the municipal boundaries will be effectuated by the local and national authorities with international participation.⁶
- *Municipal funding* – Law on financing of local self-government will be adopted to ensure an adequate system of financing to enable local governments to fulfill all of their responsibilities.⁷

⁵ See the Ohrid Framework Agreement. (2001) Available at http://faq.macedonia.org/politics/framework_agreement.pdf

⁶ Ibid.

⁷ Ibid

As it was envisaged in the Framework Agreement, a revised law on Local Self-Government was adopted in January 2002. It defines the competencies of the municipality; the organization and the work of the public institutions of the municipality [...] mechanisms of cooperation between the municipalities and the Macedonian Government; neighborhood self-government; the protection of local self-government; determining of official languages in the municipalities; and other issues of importance to the local self-government.⁸ Moreover, for the implementation of the abovementioned Law, a population census was carried out during 2002, which presented reliable base on which revision of the municipal boundaries was made. Following the census, a new Law on territorial organization of the local government⁹ was introduced. The number of municipalities decreased, from 123 to 84 including the capital Skopje and its 10 municipalities. Yet, the 50 municipalities that did not hold municipal status and functions before the decentralization reforms are particularly weak as compared to the 34 that have served as regional or major urban centers for some time.

Figure 1: The map of Macedonia with the 85 municipalities.

⁸ See the Law on Local Self-Government. (2002) Official Gazette of the Republic of Macedonia, No 5/2002. Available at <http://www.lgforum.org.mk/?jzik=2&id=02>

⁹ Law on Territorial Organization of the Local Self-Government. (2004) Official Gazette of the Republic of Macedonia, No 55/2004



Source: Macedonian Ministry of Local Self-Government

With the new territorial division, the newly conceptualized municipalities have to be more efficient, responsible in terms of revenues, sustainable and prove to be ever closer to the people.

Moreover, and in accordance to the Ohrid Agreement, the Law on Financing of the Units of Local Self Government was passed in 2004.¹⁰

The decentralization reform was, from a legislative point of view, finalized through the adoption of all the laws providing for changes in the system of local governance and financing transferring responsibilities to local self-government in terms of collecting taxes and reallocation of funds for financing public services on local level. Thereby, the following laws were adopted: the Law on Financing the Units of Local Self-Government; the Law on Property Tax; the Law on Utility Fees; and the Law on the City of Skopje, the Law on Financing of Local Self Government (September 2004).¹¹ The November 2004, Law on Territorial Organization reorganized Macedonia into 84 local government units, in most cases, the new municipalities equal to one or several of the old ones, except Butel that split from Čair and Aerodrom municipality from Kisela Voda.

¹⁰ Law on Financing of the Units of Local Self Government, (2004) Official Gazette of the Republic of Macedonia

¹¹ Several other laws concerning functions under the responsibility of municipal government, such as those On Construction Land, On Spatial and Urban Planning, On Public Enterprises, On Communal Activities, On Water Supply and Urban Waste Waters, and On Waste Management, were also approved in 2004 or 2005.

A number of special laws pertaining to the transfer of competencies to the municipalities were also passed by the legislature. In addition to the completion of the general legislative framework for decentralization, the government adopted a series of measures to enhance this key aspect of its reforms. These measures include the adoption of operational programs, the establishment of coordination bodies between ministries, the planning of decentralization activities in the medium and long term, and the signing of agreements with the Civil Servants Agency (CSA) and the Association of Local Self Government (ZELS).

The list of functions in charge of the local government units includes very significant social sector responsibilities such as the management and financing of primary and secondary education, nursing homes, orphanages, pre-schools and ambulatory health care. However, there is an explicit recognition that full responsibility for these social sector functions will be phased in over a number of years, with the local government unit first assuming responsibility for the operation and maintenance of infrastructure, and only later for personnel.¹² As envisaged by the Law on financing the local self-government units the process of decentralization is to evolve in two phases, the first initiated in July 2005. The second phase was to start upon the fulfillment of certain conditions. Only when a given Municipality:

¹² The wide range of municipal responsibilities are listed in the provisions of Article 22 of the Law for Local Self-Government including: urban planning and zoning arrangements; environmental and nature protection; local economic development; communal activities; cultural development, in accordance with the national programme for culture; sports and recreation; social care and child protection; foundations of education institutions, financing and managing primary and secondary schools in cooperation with the central government; organization of transport and food supplement for students and housing in student's homes; health care - managing the system of public health organizations and primary health care; undertaking measures for protection and rescue of citizens and material goods in case of destruction in war, natural disasters and other accidents; fire protection provided by local fire units; and, supervision over activities that come from the municipality's responsibilities and other matters determined by law.

- possesses an adequate staff capacity for financial management;
- shows good financial results in the work for at least 24 months
- informs in a timely fashion to the Ministry of Finance the good results and, those results are confirmed by the Ministry of Finance
- has no arrears to suppliers or any other creditors exceeding those ordinary terms of payments, block transfers for the salaries of the personnel of kindergartens and homes for the elderly, schools, museums and other cultural institutions, and primary health care institutions, will start being distributed.¹³

The major principle of this phased approach is to follow gradual devolution of responsibilities in line with greater demonstrated capacity of local self government to undertake those responsibilities, and an equitable and adequate transfer of funds for an efficient and incessant execution of transferred competencies. Thus for example, in the first phase of the decentralization earmarked grants are generally distributed to the municipalities based on the historical costs of the affected local institutions (schools, culture institutions, homes for the elderly) though objective criteria are also applied (per child-basis for kindergartens). In the second phase the earmarked grants are/will be transformed into block grants.¹⁴ Using these grants increases the spending discretion of the local government within, but not between sectors. The formula for allocating the sectoral block grants is made by the responsible ministry.¹⁵

¹³ See Article 46 of the Law on Local Government Finance. It seems that a case-by-case approach is envisioned.

¹⁴ See article 46 of the Law on the Financing of the Local Self-Government Units (Official Gazette n. 61/2004).

¹⁵ The municipalities should pay the salaries and the compensations in the primary and secondary education, local cultural institutions, kindergartens and the homes for elderly people, from the municipal

With the two phased approach to decentralization the government aimed at correcting the deficiencies in the functioning of municipalities and enhancing their capacity to create sustainable local economic development by using own revenues. Thus, the decentralization also implies transferring responsibilities to local self-government in terms of collecting taxes and reallocation of funds for financing public services on local level. With the reform the municipalities are to be financed from own revenue sources, government grants and other sources of revenues and by borrowing. The property, inheritance and gift and the sales tax on real estate and rights; and communal fees will become own sources of revenue of local governments.

Moreover, the municipalities will now be responsible for setting the rates on these taxes, as well as for communal fees and charges like the hotel charge and the sign fee, with maximum and minimum limits specified by the Law on Property Taxes. Other revenues of the municipalities will include the 3 percent share of the personal income tax paid by people living in the given municipalities (Law on Craftsmanship, Official Gazette No. 62/2004).¹⁶ In addition to the own revenues, the Law on Financing the Local Self-Government Units envisages a number of grants provided from the central Budget as additional revenues for the municipalities: revenues from value added tax (general grants), block grants, earmarked grants, capital grants, grants for delegated competencies. In addition, the new Law on financing the Local Self Government Units (LSG) of 2004 introduces certain mandatory requirements for the LSG administration:

budgets. The law foresees the block grants for financing the municipal activities in four sectors: education, social policy and child protection, culture and health.

¹⁶ More precisely, 3% of the personal income tax on the salaries of employed people, collected in the municipality in which they are registered as having permanent place of residence, and 100% of the personal income tax from individuals dealing with craftsmanship, registered on the territory of the municipality in which they are registered to perform activity.

1. At least two financial officers responsible for financial management, budget preparation and execution and accounting.
2. A chief accountant (appointed by the mayor and having economic training and five years of experience in finance).
3. Procedures and system for internal audit. (Internal auditors appointed by the LSG council upon the recommendation of the Mayor). The internal auditor should have training in economics or law and two years of experience in finance. The auditor is independent (as stipulated in the law) and accountable directly to the mayor and the LSG council.
4. At least three employees responsible for tax assessment and collection.

In total 76 municipalities applied to the Ministry of Finance (MoF) to enter the second phase of the decentralization process. The following 42 were given the authorization to do so from 1st of September 2007: Gjorče Petrov, Valandovo, Kratovo, Veles, Štip, Strumica, Konče, Ilinden, Gradsko, Kumanovo, Aerodrom, Negotino, Dojran, Kočani, Bogdanci, Jegunovce, Bosilovo, Sveti Nikole, Karbinci, Tetovo, Gevgelija, Berovo, Bitola, Dolneni, Kisela Voda, Karpoš, Čučer – Sandevo, Bogovinje, Kruševo, Butel, Centar, Zrnovci, Radoviš, Tearce, Prilep, Novo Selo, Debar, Brvenica, Makedonski Brod, Mavrovo – Rostuše, Čair and Mogila.¹⁷

¹⁷ Subsequently on 26th of November the government decided that ten other municipalities enter the second phase: Resen, Struga, Gazi Baba, Gostivar, Shuto Orizari, Staro Nagorichane, Debarca, Lipkovo and Novaci.

II. RESEARCH METHODOLOGY

A successful implementation of the decentralization process is an imperative of the Macedonian Government. It is one of the most important political criteria that Macedonia has to fulfill for making progress in the process of Euro-Atlantic integration. In this context, the research focuses on fiscal decentralization in Macedonia through analysis of property tax. Moreover, it identifies the problematic issues within the process of property devolution in Macedonia while prescribing policy solutions for further improvements in this area.

Doing so, the Centre for Research and Policy Making (CRPM) conducted analytical and empirical research. The team in the period of five months (July-November) collected various statistical data that were available and reviewed a number of reports and papers by domestic and foreign institutions and individuals. The theoretical research is in great extent combined with field research of the real-life problems in Macedonia. In addition, data was collected through in-depth interviews, tailor-made questionnaires for the municipal officials and citizens randomly chosen in the municipalities that were surveyed.

Table 1: List of municipalities surveyed.

<i>Structure</i>	<i>Size¹⁸</i>	<i>Ethnic Composition</i>	<i>Name</i>	<i>II-ph.</i>
Urban	Large	Homogenous MK	Bitola	Yes
Urban	Large	Homogeneous MK	Strumica	Yes
Urban	Large	Mixed (ALB dominant; minorities>20%)	Cair	Yes

¹⁸ Large municipalities are those with more than 50.000 people, medium size between 25.000 and 50.000, small between 10.000 and 25.000, and very small with less than 10.000 people.

Urban	Large	Homogeneous MK	Veles	Yes
Urban	Medium	Homogenous AL	Tearce	Yes
Urban	Medium	Mixed (ALB dominant; minorities>20%)	Brvenica	Yes
Urban	Medium	Homogenous AL	Saraj	No
Urban	Medium	Homogeneous MK	Gevgelija	Yes
Urban/Rural	Small	Mixed (MK dominant; minorities>20%)	Chashka	No
Urban/Rural	Small	Homogeneous MK	Delcevo	No
Rural	Small	Homogenous MK	Kratovo	No
Urban/Rural	Small	Homogenous AL	Oslomej	No
Rural	Very Small	Homogenous MK	St.Nagorichane	No
Rural	Very Small	Homogeneous TR	Centar Zhupa/Plasnica	No
Rural	Very Small	Mixed (MK dominant minorities>20%)	Krushevo	Yes
Rural	Very Small	Homogenous MK	M. Kamenica	No

As the table shows, the research was carried taking in consideration the following parameters: equitable number of urban and rural municipalities, population size and ethnic composition. Besides this, the proportion of municipalities that passed the first phase of the decentralization process was used as additional indicator when making the survey sample.

III. PROPERTY TAX

According to the Law on Property Taxes the municipalities in Macedonia are fully responsible for collection of the property tax, property transfer tax and the inheritance and gift tax. They are responsible for property identification, property valuation, preparing and issuing of tax bills, collection, accounting, enforcement and the initial review of appeals. The property tax is an important own source of revenues for the municipalities. According to World Bank data¹⁹ in 2003 and 2004, 14.8% and 13.9% of the municipal revenues were revenues from the property tax.²⁰ The percentage of the property tax in the municipal revenues for 2006 is 15.8. In absolute numbers the property tax revenues have risen considerably.

Table 2: Property tax revenues

Year	Revenues (in 000 MKD)
2003	651,546
2004	688,810
2006	1,268,245

Source: ZELS

Within the property tax the most important revenue is the property transfer tax. Set at a rate between 2 and 4% this tax²¹ was estimated at 812,979,000 Macedonian Denars in 2006 by the World Bank, i.e. about 64% of the property tax. A vast majority of 87% of

¹⁹ See the November 2006, *Former Yugoslav Republic of Macedonia Issues in Urban and Municipal Development a Policy Note*, p.17.

²⁰ Property tax, property transfer tax and the inheritance and gift tax

²¹ See Article 22 of the Law on Property Tax.

the local jurisdictions have opted to use the 3% rate for this tax.²² The tax base is the same fiscal valuation of property as for the property tax (i.e., the annual assessment). Moreover, within 15 days from signing the contract for the transfer of the property, a tax return has to be filed by the seller (or the buyer if stipulated in the sale contract) with the municipality; at this time, the municipality assesses the property value and issues a tax bill. The tax payment has to take place before the notary can “validate” a real estate transaction, which is then followed up by the cadastral registration.

The Law on Property Taxes gives discretion to the municipalities to set the property tax rate between a minimum of 0.10 percent and a maximum of 0.20 percent of the “market” value. According to the survey of ZELS, the most common rate is 0.10 percent but there is some variation in the application of rates with many municipalities applying a rate of 0.15 percent. Several taxable properties are recognized by the ‘Methodology for establishing the market value of real estates’ which is developed by the Ministry of Finance. These are:

- Buildings (residential, commercial, administrative and recreational)
- Land (agricultural, construction, forest, pasture)
- Other construction objects (garages and other buildings)

Legal persons and individuals who own taxable property are liable to property tax. A tax deduction (article 9) of up to 50% is available for taxpayers who own the building or the apartment in which they live with their family. In addition, the tax rates are established

²² See the ZELS study on the level of payment of the property tax, *Studija za Merenje na Nivoto na Naplata na Danocite od Imot*, Skopje 2007 August.

by the municipalities within limits prescribed by the law. The Mayor decides for the amount of the tax within 30 days from the date when the taxpayer presents the application to the municipal authorities. The tax rate on sale of real estate is 3% of the market value of the property estimated by the same methodology that is being used for property tax per se.²³

In 2008 the local government units will be able to rely on additional resources related to property taxes. As the executive manager of ZELS Dushica Perishic underlined with the amendments to the Law on Property Tax, to be implemented from 2008, residential houses and commercial buildings which are located in the municipalities in the mountainous areas will not longer be exempt from paying property tax. This can be considered as an important additional source of revenue for the municipalities.

In addition, amendments to the Law on Property Tax that come in force from 1st of January 2008 specify that for companies the property tax will be paid on the value of the entire real estate owned. In the past, commercial property other than those used for administrative purposes were exempted from the Law on Property Tax. This legal stipulation disfavored the local government units and allowed private entrepreneurs to pay small property taxes even if they used large property for doing business. For example, the international chain of hotels Holiday-Inn located in the Skopje centre with 163 rooms and 15 suites on 9 floors, restaurants with overall capacity of over 260

²³ Public Administration Reform Department (2007) “*Survey on decentralization*”, OSCE Spillover Monitor Mission to Skopje

persons, conference hall with total capacity of 800 persons, aperitif bar with capacity of 52 persons and a casino was paying property tax only for four (4) administrative office.²⁴

The property tax is an important element of the municipal budget. With the decentralization reform the municipalities are supposed to keep the register of the real estate properties subjected to annual taxation. The data bases of the property have been transferred to the municipalities from the Public Revenue Office (PRO) starting from the second half of 2005. There were significant problems during the transfer the most prominent being the tremendous delay and the lack of software to read the data. Moreover, the data inherited from PRO is based on self-declaration by owners made in 1994. However, some municipalities are updating their property tax data base through various means, field surveys and by using secondary information sources on properties.

Although there are problems with collection of the tax and evaluation of property in each municipality the share of the property tax in the local budget is significant. According to data obtained from the budgets of the local governments for 2006 the share of property tax in the local budget ranges from 1% in the municipality of Oslomej to 21% in the municipality of Chair. On the national level, the revenues from all property related taxes in absolute terms almost doubled in the period 2004 and 2006 reaching approximately 0.42% of GDP in 2006 (compared with 0.26% from GDP in 2004).²⁵

²⁴ CRPM Interview with Ms. Dusica Perisic, Executive Director of ZELS, 8th November, 2007.

²⁵ Feruglio N., J. Matinez-Vazques and Timofeev A., (2007) “*Fiscal Decentralization in Macedonia: An Assesment*”, UNDP draft report.

IV. VARIOUS ISSUES; THE NEW METHODOLOGY FOR DETERMINING THE MARKET VALUE OF REAL ESTATE

The using of the new methodology for determining the market value of real estate by the local government units is a relatively complex process. This methodology was prepared by the Ministry of Finance in July 2005. The process of estimation involves several steps in which certain points are awarded for each property according to its distinctive characteristics. The first step is determining the useful space of the property evaluated (expressed in square meters). Furthermore, the evaluation according to the government methodology also takes into account several other factors (such as: type of construction, installations, elevators, what type of floor, etc.) in order to determine the quality of construction materials that have been used. The initial indication for the market value is then calculated by adding up all points awarded according to each specific characteristic.

However, this amount is being further adjusted by the amortization²⁶ and by a second group of factors. Those factors are the number of floors, micro-location²⁷, macro-location (or the city district) and the ‘attractiveness’²⁸ of the location. After the final adjustments, the amount of points is then multiplied by a coefficient (currently set at 1 Euro). This eventually is to give the local government unit the market value of the real estate. It is

²⁶ Up to 10 years the amortization is 0%, 0.5% is awarded for each year after this period, and it can go up to 30% of the market value.

²⁷ It refers to proximity of medical and educational centers, schools, kinder gardens, parking space, playgrounds, as well as sport centers. For each category the proximity is defined as a precise distance (expressed in meters) from the property (for more detailed information please see Article 7 from the Methodology for Establishing the Market Value of Real Estates).

²⁸ According to the methodology, the attractiveness is defined as increased interest for certain type of location.

worth pointing out that same the methodology is being used for residential (apartments and houses) as well as commercial real estate. According to the Law on Property Tax (article 6) the municipalities have the right to set the property tax rate between 0.1% and 0.2% of the estimated market value.

From the description above it can be easily concluded that this procedure requires a substantial amount of information in order to be implemented. The data inherited was however, insufficient. Once the decentralization process was agreed upon and the competencies in the field of property taxation were transferred to local government units the question was how would the municipal authorities gather data on the number of the local residents' dwellings and their market value. The Public Revenue Office (PRO) was in charge of collecting the property tax and evaluating the value of the local property before the decentralization process transferred this competence to the municipalities. The PRO was to transfer all the data bases on municipal property to the local government units. The transfer of data bases was very slow only to be completed by 2007. Still, the data collected in the data bases was on the one hand, insufficient and on the other hand outdated, leaving the local government units with a task to update the information on the existing municipal property.

Data from other institutions such as the National Cadastre or the Central Registry is hard to get around and is costly. Local government units rarely rely on national institutions to reevaluate the municipal property. Thus, the results of the survey we have conducted among sixteen local government units confirms a complete lack of cooperation between public institutions such as the Public Revenue Office, the Cadastre and the Central Registry, as well as the Ministry of Transport and Communication, with the local

government units. More importantly, the Cadastre and the Central Registry do not freely share data with the local government units. Both the Cadastre and the Central Registry charge the local government units fees for each information delivered treating them as regular clients that have to pay for such data.

As of 2007 all the municipalities can obtain data from the Central Registry for subsidized prices. The situation before was the following: accessing the data for a single individual (or legal entity) the municipalities have to pay approximately 8 Euros. However, now they can rely on ZELS and look for the data through this organization for less than 1 Euro. In addition, there is an option for delaying payment up to 1 year. Since it is a costly operation the local government units have decided not to purchase such data but to gather information on the number of dwellings and estimate the value on their own. In other countries there are independent property evaluators. However, those services are offered on a market basis. While some Macedonian municipalities would be willing to pay for such services, given the general reluctance to pay for data from Central Registry the assumption is that most of them would not be interested.

Although almost all local government units have begun the process of re-valuation of the property in their municipality using the ‘new’ methodology proscribed by the Government in 2005 a small percentage of dwellings have been reevaluated and it applies mainly to newly constructed buildings. This can be easily observed from the following table:

Table 4: New methodology for valuation

<i>Municipality</i>	<i>Applied since</i>	<i>Revalued property (%)</i>
Veles	N/a	22,9%

Gevgelija	N/a	31,8%
Cair	Not implemented	0,0%
Tearce	January 2006	20,0%
Brvenica	August 2006	1,0%
Strumica	January 2007	70,0%
Caska	July 2005	10,0%
Staro Nagoricane	January 2007	70,0%
Delcevo	October 2005	80,0%
Kamenica	October 2005	30,0%
Krusevo	January 2007	N/a
Prilep	July 2005	0,8%
Oslomej	N/a	0,0%
Plasnica	N/a	0,0%
Saraj	Not implemented	0,0%
Kratovo	July 2005	7,3%‡

N/A Not available

‡ This refers only for newly developed real estate

Our survey reveals that the local government units lack the capacity to quickly update the property data base. This can be mainly explained by the lack of human recourses (or employed personnel) that is directly engaged in conducting the revaluation. Data from our survey also shows that almost all municipalities (approximately +90%) answered that the biggest problem they face regarding property evaluation is the lack of human resources and/or cooperation with other institutions.

Without having revaluated the whole property in the municipality local government units have this year made approximations when collecting the property tax. Quite a few of the newly issued forms to pay property tax have been poorly approximated. The results of this practice were reported by the local media:

- a. A great number of citizens have been complaining about the amount they have to pay for the property tax²⁹

²⁹ <http://www.vecer.com.mk/?ItemID=0E0B03A6244E8E4D9C3C13441584A5D4;>
<http://www.vecer.com.mk/?ItemID=27C3AB629D207146903537A32DDB2481>

- b. A number of evaluations charging unreasonable amounts have been reported. Thus citizens that reside in the same building in a flat of the same or similar size have been charged to pay drastically different property taxes. For example, two apartments in one building, one with 75 square meters and the other 50 square meters, were to pay the same amount of property tax although there were no differences in the characteristics of the flats (such as floor, interior, etc.) or by the micro location.³⁰ Another example is when two exactly the same apartments in one building, one floor above the other, were to pay vastly different amounts of property tax although the flats too did not have vast differences in terms of specific characteristics of the flats or by their micro location.

There were frequent complaints of the citizens throughout Macedonia on the property bills they had to pay. Citizen objections in some cases were made due to the poor evaluations being done by the local government units. However, in other cases the reactions were simply a reflected of the property tax burden for 2007, which in some jurisdictions increased substantially. For example, in Veles, Strumica, and Prilep the increase has been 250%. Other municipalities have also witnessed an increase in the property tax burden for 2007.

Table 5: Property tax burden

	<i>Municipality</i>	<i>Increase*</i>
	Veles	250%
	Gevgelija	25%
	Cair	200%
	Tearce	20%
	Brvenica	20%

³⁰ <http://www.utrinski.com.mk/?ItemID=0F6C41CE2BC80E4F961034FFB5FC61B4>

Strumica	250%
Caska	200%
Staro Nagoricane	150%
Delcevo	100%
Kamenica	100%
Krusevo	20%
Prilep	250%
Oslomej	N/a
Plasnica	N/a
Saraj	N/a
Kratovo	N/a
Average	132,1%

‡ These numbers are approximation of the actual increase of the tax burden to the citizens in the surveyed municipalities

In addition, it should be noted that the amount of the property tax citizens have to pay is in the range of 1 to 6% of the current average Macedonian national salary.

Table 6: Property tax as a share of average salary

Municipality	Average property tax bill‡	% of monthly salary†
Veles	430,1	2,9%
Gevgelija	540,5	3,6%
Cair	500,0	3,3%
Tearce	589,7	3,9%
Brvenica	N/a	N/a
Strumica	730,4	4,9%
Caska	176,9	1,2%
Staro Nagoricane	555,6	3,7%
Delcevo	N/a	N/a
Kamenica	178,2	1,2%
Krusevo	510,6	3,4%
Prilep	887,1	5,9%
Oslomej	312,8	2,1%
Plasnica	590,3	3,9%
Saraj	666,7	4,4%
Kratovo	400,3	2,7%

‡ Average property tax bill for 2007 expressed in MKD as projected by the local government units. The data was collected from the CRPM field work.

† The national average of monthly salary

Other issues remain withstanding. The city of Skopje, the biggest and the wealthiest Macedonian municipality, plans to submit suggestions to the Government for modifications of the methodology for the evaluation of property. Their primary concern

is with the evaluation of the location of the property as an additional independent factor (regardless of the micro-location). Appropriate example is one building in Skopje's central park. The apartments situated on the north side of the building have magnificent view of the Vardar River, whereas the south side view is blocked just 50 meters in front by one of the stands of the city stadium. Moreover, they are evaluated at the same price. According to the city of Skopje this should be a key factor in the evaluation because in reality it has the highest weight on the market value. This is a serious challenge because in practice it will be extremely difficult to quantify this type of variable. On the contrary, with the current situation the useful space and the quality of construction materials are the main factors. However, when we use the current methodology for estimating the market value of two houses with similar specifications and located in the same city district³¹ then it is highly possible to obtain very similar market values. On the other hand, a substantial difference can be noticed simply by observing the actual market values.

An important issue is that the methodology itself is difficult to obtain and consult. It was published in the *Official Gazette* (Sluzhben Vesnik) N. 50/2005. Usually the methodology is not available in the offices of local self-government units. However, the citizens can obtain a copy upon request. Additionally, our survey shows that they are hardly familiar with the new methodology used for property valuation, except for the municipalities of Prilep, Krushevo and Oslomej.

Table 7: Are you familiar with the methodology for property evaluation?

³¹ For example, several cases were noticed in the district of Kapištec i Vodno. The actual market value was compared with several real estate agencies such as Astoria, Renesans and Zhikol (see <http://www.org.mk/dir/dir.aspx?cat=f1> their websites here)

<i>Municipality</i>	<i>Yes</i>	<i>No</i>
Prilep	50,0%	50,0%
Strumica	8,3%	91,7%
Čair	12,5%	87,5%
Veles	4,2%	95,8%
Tearce	12,5%	87,5%
Brvenica	20,8%	79,2%
Saraj	8,3%	91,7%
Gevgelija	4,2%	95,8%
Čaška	0,0%	100,0%
Delčevo	8,3%	91,7%
Kratovo	0,0%	100,0%
Oslomej	45,8%	54,2%
Staro Nagoričane	0,0%	100,0%
Plasnica	20,8%	79,2%
Kruševo	62,5%	37,5%
M. Kamenica	12,5%	87,5%
Total	16,9%	83,1%

Furthermore, there is a technical problem with the new methodology for property taxation that has been drafted. Not only by now the methodology cannot be considered as ‘new’ but also there is a problem with its substance. The methodology uses a standardized system of points that are awarded to each individual property according to its characteristics. Then the points are multiplied by a coefficient which is currently set at 1 Euro. A big question is which institution will be responsible and how often it will reevaluate this coefficient.

If the value of the coefficient depends on the ‘current’ market conditions, and one assumes that it should since property value in Macedonia like in other countries in the region rises year by year, then using a coefficient (which is set in 2005) that will serve to evaluate property today is clearly inappropriate. This gives an indication that overall methodology would work only if the coefficient is being frequently reassessed. However, if this is not the case than the new methodology will only ensure similar property

valuation across municipalities rather than accurately estimating the real market value of each individual property.

There is a huge difference among the local government units in the rate of collected taxes as in some municipalities only 10% of the citizens have paid the tax while in other the percentage goes up to 77%. It is unclear why there is such a discrepancy when distribution methods for the property tax bills are quite similar. The puzzle is even bigger when we know that the citizen survey shows that all citizens regularly get the property tax bill.

Table 8: Do you regularly get a bill for the property tax?

	<i>Municipality</i>	<i>Yes</i>	<i>No</i>
	Prilep	100,0%	0,0%
	Strumica	100,0%	0,0%
	Čair	100,0%	0,0%
	Veles	95,8%	4,2%
	Tearce	87,5%	12,5%
	Brvenica	75,0%	25,0%
	Saraj	87,5%	12,5%
	Gevgelija	79,2%	20,8%
	Čaška	91,7%	8,3%
	Delčevo	87,5%	12,5%
	Kratovo	50,0%	50,0%
	Oslomej	70,8%	29,2%
	Staro Nagoričane	95,8%	4,2%
	Plasnica	70,8%	29,2%
	Kruševo	100,0%	0,0%
	M. Kamenica	91,7%	8,3%
Total		86,5%	13,5%

From the data gathered it is not possible to explain why some distribution methods used were more effective in the tax collection than others. Some methods that worked well in one municipality (personal delivery in Strumica, Delchevo, Veles, Kratovo) did poorly in other jurisdictions (Krushevo, Kamenica, and particularly bad in Oslomej, Plasnica). While Oslomej and Plasnica are small ethnic minority municipalities, Kamenica is Macedonian absolute majority, so the ethnicity cannot be specified as a factor. Neither

can size of the jurisdiction be as while personal delivery had poor results in Kamenica and Krushevo which are small in size it had excellent results in Delchevo which is about the same size. Delivery through post office and/or using the services of other public enterprises also resulted in inconclusive evidence as to which methods should local governments units prefer in distributing tax bills.

Table 9: Collection of property tax

<i>Municipality</i>	<i>% of collection[‡]</i>	<i>Distribution method</i>
Veles	70%	Personal delivery
Gevgelija	60%	Post office
Cair	70%	Post office
Tearce	35%	Other public enterprise
Brvenica	25%	Other public enterprise
Strumica	70%	Personal delivery
Caska	64%	Post office
Staro Nagoricane	50%	Post office
Delcevo	75%	Personal delivery
Kamenica	57%	Personal delivery
Krusevo	45%	Personal delivery
Prilep	77%	Other public enterprise
Oslomej	21%	Personal delivery
Plasnica	30%	Personal delivery
Saraj	10%	Post office
Kratovo	70%	Personal delivery

[‡]The percentage might be overestimated due to the fact that the new software dos not recognize whether certain payment is for the current fiscal year or payment accumulated debt from the past; i.e. in 2007 a citizen might pay his property tax bill for that year and also to pay for his accumulated debt for 2005 and 2006. All this payments will be registered as property tax revenues for 2007.

Clearly there is a problem what to do with citizens and companies that do not pay the property tax. While the local government can easily force payment of firms and other legal entities since it can by court order blocking their accounts until the payment is made the procedure for forcing citizens to pay back their taxes is more complicated. In some cases the amount is so small that the local government is hardly interested to take the citizen to court but in other instances especially in the capital the amounts are higher and

it is a question if the courts will be efficient in these cases. Local government units can seize property for non-payment (Article 57 of the law) but in reality refrain from such practice. Debt older than five years cannot be forcefully collected by the local government unit. (Article 85)

V. CITIZEN PERCEPTIONS

The inclusion of citizens' opinions regarding the process of decentralization is an additional aspect of this research. It provides insight about how well the citizens are informed about the entire process. According to the basic principles, the decentralization is a process of bringing the government closer to the people. The first phase of the decentralization process focused mainly on establishing a legal framework and transferring competencies from the central to local level. The on-going second phase focuses on improving competencies and increasing municipalities' financial capacities. Consequently, an analysis of the perceptions of the citizens, as the main 'beneficiaries in the process of decentralization, will help us evaluate the performance of the municipalities.

The study is on a specific problem concerning the property tax charged this year. It concerns the citizens' reaction to the new value of tax they have to be paid. This process has been thoroughly covered by the local press as well. The problem is that the system of appeals is poorly envisioned by the law and does not stimulate citizens to appeal to the valuations of the local government units on the property tax they have to pay. Namely if a citizen is not satisfied with the local government unit's valuation regarding his/her property and of the amount of the tax he/she has to pay the procedure is such that he/she has to lodge a formal complaint in the local government unit paying a fee of 250 Macedonian Denars (approximately 4.5 Euros) In the first stage, the appeal is reviewed by the Committee within the municipality.

If the appeal is rejected then the citizens have the possibility to submit appeal to the central government standing Committee within the Ministry of Finance. However, it is not clear why should a central government committee decide on an issue pertinent to the local authorities. It is very unlikely that the government committee will be in a position to check the facts on the ground, if for example a citizen claims that his house is overvaluated by the local government unit.

In a situation when the municipality respects the concerns of the citizens as well as taking in consideration the complaint procedure if the municipality is wrong, and when the law does envisage pragmatic and practical solutions the municipalities take action on their own hand. Some of them send evaluation Committee to see what the real situation is. If the citizen is right and this is also confirmed by the Committee, the municipality will re-evaluate his property and change the tax bill.

So, both sides do not have to go to the court and will avoid complex bureaucratic procedures. Although very pragmatic practice by the municipality still it is not seen in the Law, mining as a procedure is not legal. In a number of municipalities, mainly rural and small, the local authorities have explained that when there is a factual mistake³² or when there is a mistake which can be easily corrected, the concerned citizen does not have to make a formal appeal but his/her oral complaint can also be taken into account. However, if he/she is still not satisfied with the sum that needs to be paid for the owned property then he/she needs to go through a formal appeal procedure.

In all the municipalities surveyed citizens are not sufficiently informed about the possibilities in the law that they can use to pay the property tax in a number of

³² For example: an abandoned house is estimated as a house where one lives, or when a land which is not used for agriculture is considered as such, or when the size of the house is wrongly calculated, etc.

installments or that they need to pay a lower amount if a house is shared by family members (Article 9 from the Law for Property Tax). According to the Law the property tax bill will be reduced by 50% if the tax payer lives on the same address with his family members. However, when the tax payer has more than one real estate (i.e. apartments) then in this case he still pays 50% reduced bill for the one in which he lives with his family and regular bills for the rest of the property. The intension was to stimulate the change of ownership from the older to the younger generation.³³

Table 10: Do you know that there are tax breaks/exemptions

<i>Municipality</i>	<i>Yes</i>	<i>No</i>
Prilep	50,0%	50,0%
Strumica	8,3%	91,7%
Čair	8,3%	91,7%
Veles	8,3%	91,7%
Tearce	4,2%	95,8%
Brvenica	25,0%	75,0%
Saraj	25,0%	75,0%
Gevgelija	4,2%	95,8%
Čaška	0,0%	100,0%
Delčevo	20,8%	79,2%
Kratovo	4,2%	95,8%
Oslomej	45,8%	54,2%
Staro Nagoričane	0,0%	100,0%
Plasnica	16,7%	83,3%
Kruševo	66,7%	33,3%
M. Kamenica	25,0%	75,0%
Total	19,5%	80,5%

It is interesting to note that tax officials in the city of Skopje have admitted to the CRPM team that the rules and regulation defined by the Law for Property Tax are not practiced by the city of Skopje concerning the system of appeals.³⁴ More specifically, according to the Law the tax obligation needs to be paid within certain time frame even in the case the

³³ Interview with Andrijana Manchevska, head of the tax collection unit (including the property tax) in the city of Skopje, 1st November 2007.

³⁴ Ibid.

appeal submitted by the tax payers is not being decided upon. The city of Skopje plans to ask for modification of the Law regarding this issue because of the complex bureaucratic procedures (time and resources) in case when the appeal is approved. Skopje is a specific case since the city shares the property tax revenues with the municipalities within the city that are separate legal entities. If an appeal is approved, then the procedure is complex as the city of Skopje, has to ask for the return of the money from the city municipalities. This procedure could take months and is best avoided by the city administration which processes about 150 appeals per year.³⁵

Moreover, the citizens are also not very well informed where they can submit appeals on the amount of the property tax they need to pay. On the one hand, this information is responsibility of the citizens to obtain, but the local government units can do more to inform the citizens on the process and the legal framework as well.

Table 11: Do you know where you can lodge an appeal on the amount of property tax?

<i>Municipality</i>	<i>Yes</i>	<i>No</i>
Prilep	50,0%	50,0%
Strumica	20,8%	79,2%
Čair	41,7%	58,3%
Veles	16,7%	83,3%
Tearce	33,3%	66,7%
Brvenica	25,0%	75,0%
Saraj	25,0%	75,0%
Gevgelija	16,7%	83,3%
Čaška	12,5%	87,5%
Delčevo	25,0%	75,0%
Kratovo	45,8%	54,2%
Oslomej	45,8%	54,2%
Staro Nagoričane	4,2%	95,8%
Plasnica	25,0%	75,0%
Kruševo	66,7%	33,3%
M. Kamenica	25,0%	75,0%
Total	29,9%	70,1%

³⁵ Ibid.

VI. CONSTRUCTION LAND DEVELOPMENT FEE AND ADDITIONAL ISSUES

With the decentralization reforms Macedonian municipalities have recently acquired the authority for issuing construction permits, an important means of implementing urban planning and regulation. This key instrument of land policy is important source of revenue for the municipalities, estimated by the World Bank at 21.9% of the total municipal revenues for 2006.³⁶ The majority of those revenues, resulting from a solid construction sector and a gradually emerging real estate market, are collected in Skopje. According to the World Bank 74% of the total national construction permit fees are raised in the capital city alone. Although it is a substantial source of revenue for local government units the construction permit is not very predictable. Highly conditional upon the dynamics of the construction sector it is neither recurrent nor entirely certain when drafting budgets and complicates long term fiscal planning by local government units.

It is worth mentioning that municipalities issue construction permits upon a written request of an investor, who is required to submit all necessary documentation as prescribed by the laws governing construction related matters. The building permit is issued for the entire facility to be constructed, but it is also possible to obtain a permit for the part of the facility which can function as separate entity. Modifications or supplements may be made to the building permit, and it is possible that even the investor

³⁶ See the November 2006, *Former Yugoslav Republic of Macedonia Issues in Urban and Municipal Development a Policy Note*, p.19.

may change in the meantime. Although the building permit is valid for a period of two years, it is possible to obtain an extension to the validity of the permit for an additional two years thereafter.

The issue of program budgeting is important as “connection fees and impact charges are used by municipalities as general budgetary revenue without relation to cost-recovery and market value of the related infrastructure required to service the land.”³⁷ Municipalities in Macedonia charge up-front connection fees at the time of building permit and these are quite high, especially in the major cities. The current system results in non-transparent, inefficient and unfair outcomes since the level of the construction permit fee usually has no connection with the real costs of land development.

Although all the local self-government units prepare financial reports on their work which are available to the interested citizens in the municipalities a big problem for a transparent monitoring of the work of the municipalities is the fact that the local self-government units, with the exception of City of Skopje, do not use program budgeting. Without program budgets citizens cannot use the financial reports on the activities to obtain more detailed information.³⁸ In particular citizens or researchers cannot overview how the municipal income is spent in detail. Thus it is not possible to correlate if an item in the income side of the budget (for example, income from the property tax) is spent on related activity (municipal financing of local infrastructure).

³⁷ See the November 2006, *Former Yugoslav Republic of Macedonia Issues in Urban and Municipal Development a Policy Note*, p.60.

³⁸ See for example the budget of the municipality of Chashka in the appendix.

While it is not entirely clear whether property tax revenues should be “earmarked” to infrastructure expenditures it would be useful to know how much specific programs cost the local tax payers and if the property tax collected is sufficient source of revenue to improve urban planning, infrastructure. If it is sufficient and the city authorities do a poor job, then the citizens would be able to ask why this is so. It should also be added that the financial software used by the municipalities does not allowed them to properly see how much income they have from the property tax from the respectable year e.g. the software does not recognize is the payment by a citizen for the fiscal 2007 or for some obsolescence debt from previous years.

An indicative fact concerning the municipal budgets is that the biggest expenditure item is the salaries of the municipal employees. This situation refers to all the municipalities with the exception of the city of Skopje. This indicates low level of investment of the municipality. Some municipalities have huge debts mainly towards construction companies. For example, the overall municipal debt towards the construction company Granit is remarkable €34 million³⁹ (data from 2003) whereas only the municipality of Ohrid owns to Granit approximately €10 million (and still increasing due to accrued interest). These local self-government units operate their accounts with difficulties, the courts having put caps on their accounts. All the money the municipality obtains above the limit defined as necessary for “*normal functioning*” of the municipality are transferred to the accounts of the companies that are owed money by the municipality. This poses possible practical problems as some municipalities insists on solving the indebtedness problem in cooperation with the central government. These municipalities

³⁹ <http://www.forum.com.mk/Arhiva/forum139/finis/finis.htm>

have minimal operations and can not support construction aimed at providing infrastructure to citizens that have intention to build houses and have paid the land development (construction permit in Macedonian) fees to the local government unit. While some municipalities e.g. the municipality of Gostivar torn down 11 temporary homes from the previous regime to free space for building modern apartment block built by *Granit* as a compensation for the debt that the municipality has towards the company.⁴⁰

Citizens and investors complain that the procedures for issuing construction permits are overly protracted and subject to excessive discretion of municipal authorities. Such a practice leads to problems of construction without proper permitting. An important issue worth observing is that almost all surveyed municipalities have a problem with such construction, or what is known in Macedonia as ‘illegally constructed buildings and homes.’ Illegality refers to dwellings built without obtaining a construction permit issued by the municipality. Constructing illegal buildings is a persistent problem in Macedonia for years. The main problem with illegal constructions is that they cannot be registered and taxed.

At the moment there is no practical solution to this problem because many municipalities have not adopted General and Detailed Urban Plans (GUPs and DUPs)⁴¹ as they are costly to prepare or when there are such plans it is difficult to fit realities on the ground

⁴⁰ <http://a1.com.mk/vesti/default.asp?VestID=50047>

⁴¹ The applicable Urban Plan, prescribes the conditions under which construction may commence. These conditions delineate: the size of the facility to be constructed; its foundations, height, and distance to other nearby facilities and streets; the use of particular construction materials; water supplies and sewage; electricity supplies; telephone installations; and, other imposed limitations on construction.

(including the illegal neighborhoods built) with the urban plans.⁴² According to the World Bank the core municipalities all have GUPs (some only updated to the mid-1990s), the non-core municipalities have not, while the “existing DUPs cover an average of about 45 percent of urban municipal area, with the older urban municipalities having over 70 percent coverage.”⁴³

Table 12: Illegal properties

<i>Municipality</i>	<i>N^o illegal properties[‡]</i>
Veles	No information
Gevgelija	No information
Cair	1.500
Tearce	100
Brvenica	200
Strumica	300
Caska	No information
Staro Nagoricane	No information
Delcevo	45
Kamenica	200
Krusevo	20
Prilep	2.500
Oslomej	ALL [†]
Plasnica	ALL [†]
Saraj	4.000
Kratovo	No information

[‡] The numbers presented in this table are approximation.

[†] Municipalities that do not have General and Detailed Urban Plans

The municipalities are on the other hand reluctant to demolish illegal property as this is costly and politically problematic. For example, the construction inspection of the city of Skopje has annual budget of €50.000. Taking in consideration the big amount of illegally

⁴² Macedonian municipalities have responsibility for preparing and implementing urban plans (mostly through permit and approval instruments). The current urban planning regime in the country requires municipalities to prepare 10-year GUPs, consistent with the 20-year National Spatial Plan, and 5-year Detailed Urban Plans (DUPs) in the major and urban areas.

⁴³ See the November 2006, *Former Yugoslav Republic of Macedonia Issues in Urban and Municipal Development a Policy Note*, p.48.

built houses, even buildings, the inspection has its hands tight.⁴⁴ According to estimates by the Center for Civil Communications in the period od 2001 to 2004 only 17% of the 10,275 illegal buildings that were legally supposed to be demolished were in fact taken apart. Local governments need to solve this problem perhaps through offering incentives for owners of illegal buildings to legalize their property and thus incur property tax liabilities. Clearly, if such individuals have access to basic utilities and occupy their properties for their own use, there is a financial disincentive to legalize their property. A legal framework for dealing with the issue of illegal property on a national level has been discussed but is not yet planned. There are cases of municipalities surveyed which do not have General Urban Plans or have a very old—twenty or more years—plan. In the municipality of Prilep there is one specific neighborhood which because of the lack of money to enlarge the existing General Urban Plans it is considered to be entirely illegal. In general, there is a problem with urban planning in Macedonia as it is “overly bureaucratic, protracted and costly, while producing plans that are reactive and are often driven by investors and developers who contribute to financing of the detailed planning work.”⁴⁵ A recent central government decision to allocate 2 million Macedonian denars to the municipalities to draft urban plans is only a small step forward to solve the problem.⁴⁶

⁴⁴ <http://www.vest.com.mk/default.asp?id=66300&idg=4&idb=951&rubrika=Revija>

⁴⁵ Ibid.

⁴⁶ Sitel interview with Minister for Transport and Communications Mile Janakievski, 7th January 2008.

VII. RECOMMENDATIONS

- A general recommendation is that the citizens should be better informed on the whole decentralization process and in particular in relation to the property devolution issue. They should know how their property is evaluated, what kind of tax breaks they are entitled to, where and how they can appeal to the amount the local government charges them for the property tax and who is responsible for this procedure. The Central Government cannot evaluate these appeals with sufficient information. The right to rule over citizen appeals should be transferred to a committee founded by local government officials and citizens of the municipality
- Apparently the biggest challenge for local government units is the data available on the property owned by the residents of the municipality. Transparency is lacking as well as cooperation between the local government units and central agencies and institutions. Since property tax devolution is a national concern creating ONE unique tax data base which will be at the disposal to the Public Revenue Office, Municipalities, the Cadastre, the Central Registry, Courts, and all other relevant institutions is a recommended course of action. Creating such a data base would greatly improve the tax collection by municipalities.
- The CRPM team also recommends that the current methodology for estimating the market value of the property should be improved. This especially refers to the coefficient used for multiplying the points awarded to each individual property (and how frequently this coefficient should be reassessed) as well as incorporating

the property location as additional independent factor in valuation (regardless of the micro-location).

- CRPM as other stakeholders such as ZELS recommends that the government transfers the responsibility for managing the local construction land to the local government units. Although they might not be given the right to sale this land they could be given the right to lease it to potential investors. Hereby a more serious cooperation between the city of Skopje and the all Skopje municipalities is also needed in order to make a clear distinction of what is construction and agricultural land. There were several cases when construction permits has been issued by the municipality, while the city Committee after the inspection determines that this is agricultural land without basic infrastructure. A draft law on Construction Land is in procedure in the parliament since 16th August 2007. Article 14 of this law stipulates that the proceeds from the sale of a state owned construction land leased for a long time will be divided 60% for the central government and 40% for the municipalities.
- Another important recommendation is to introduce program budgeting in the local government units. This type of budgeting is also a European Union requirement for Macedonian accession process and should be introduced sooner rather than later.

APPENDIX

Tables from the Citizens Survey not Cited in the Text

Since 2005 have you had difficulties filling in the property tax form?

	<i>Municipality</i>	<i>Yes</i>	<i>No</i>
	Prilep	16,7%	83,3%
	Strumica	8,3%	91,7%
	Čair	4,2%	95,8%
	Veles	41,7%	58,3%
	Tearce	45,8%	54,2%
	Brvenica	29,2%	70,8%
	Saraj	45,8%	54,2%
	Gevgelija	8,3%	91,7%
	Čaška	20,8%	79,2%
	Delčevo	20,8%	79,2%
	Kratovo	4,2%	95,8%
	Oslomej	45,8%	54,2%
	Staro Nagoričane	20,8%	79,2%
	Plasnica	20,8%	79,2%
	Kruševo	20,8%	79,2%
	M. Kamenica	50,0%	50,0%
Total		25,3%	74,7%

Do you know that you can lodge an appeal on the amount of the property tax bill?

	<i>Municipality</i>	<i>Yes</i>	<i>No</i>
	Prilep	75,0%	25,0%
	Strumica	29,2%	70,8%
	Čair	66,7%	33,3%
	Veles	41,7%	58,3%
	Tearce	37,5%	62,5%
	Brvenica	41,7%	58,3%
	Saraj	50,0%	50,0%
	Gevgelija	70,8%	29,2%
	Čaška	12,5%	87,5%
	Delčevo	62,5%	37,5%
	Kratovo	75,0%	25,0%
	Oslomej	62,5%	37,5%
	Staro Nagoričane	4,2%	95,8%
	Plasnica	62,5%	37,5%
	Kruševo	79,2%	20,8%
	M. Kamenica	87,5%	12,5%
Total		53,6%	46,4%

Are you generally speaking familiar with the system of property taxation?

	<i>Municipality</i>	<i>Yes</i>	<i>No</i>
	Prilep	62,5%	37,5%
	Strumica	8,3%	91,7%
	Čair	4,2%	95,8%
	Veles	12,5%	87,5%
	Tearce	4,2%	95,8%
	Brvenica	12,5%	87,5%
	Saraj	25,0%	75,0%
	Gevgelija	12,5%	87,5%
	Čaška	4,2%	95,8%
	Delčevo	33,3%	66,7%
	Kratovo	20,8%	79,2%
	Oslomej	25,0%	75,0%
	Staro Nagoričane	0,0%	100,0%
	Plasnica	16,7%	83,3%
	Kruševo	54,2%	45,8%
	M. Kamenica	41,7%	58,3%
Total		21,1%	78,9%