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A Performance Ranking of LGUs in Macedonia

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Introduction

Countries of the Western Balkans in general, and Macedonia in particular, are going through continuous 'reforms' of public administration and local government as well. The main form of the reformed local governments (LG) is shaped through the ongoing process of decentralization, perceived as the best mode of providing more efficient and effective services to citizens. However, often the word reform is seen with great skepticism by the public (citizens) because decentralization among other political promises is not producing the promised outcome for citizens. Political involvement in public administration and local governance and corruption have contributed to such skepticism. Therefore, there is an increased awareness and a further push for increased involvement in the form of social inclusion for the public to exercise their right to accountability of the elected local officials. The public's pressure for greater accountability and transparency should be translated into either comprehensive or specific-service performance evaluation to offer the public some objective performance information about the efficiency and effectiveness of their taxes.

On the other hand, local government is faced with a low level of fiscal decentralization with increased delegated powers by central government. This results in tighter budgets and higher pressure for more qualitative local government services. Caught in this trap, LGs are pressured with efficiency concerns and effectiveness, too. The accountability of LGs is legally exercised through internal and external auditing. However, auditing is not a regular practice for all municipalities in Macedonia. Therefore, this paper is trying to fill the gap of performance information need by the public by providing a financial positioning or ranking of all

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municipalities in Macedonia for the year 2011. Unfortunately, due to the lack of transparency as well as the current political turmoil, the Treasury Department within the Ministry of Finance is a hard door to knock on in order to get data about LG performance. However, the methodology offered can be used once the data are available for later years.

The aim of this paper is to offer a performance ranking though an index of financial (budgetary) indicators of all municipalities in Macedonia. By doing so, the paper will contribute practically by offering tools for assessing LG performance and benchmarking LG to identify best practices. Theoretically, it will add to the existing literature about local government performance in general, and LG financial positions in particular. However, this methodology is narrow, pertaining to the dimensions of the LG index and performance due to the limited nature of the financial data published by the Ministry of Finance. Data are extracted only from the annual accounts. Additional data, such as a balance sheet or debt related data could provide more comprehensive LG financial position.

Some stylized facts about LG in Macedonia

Local government in Macedonia has gone through a slow process of reform and decentralization. Therefore, they both have shaped the nature of LG operations and finances. From the review of the local government operations and finances one can understand the nature of performance and indicators that can used to measure the financial performance of local government in its service provision.

Macedonia as a former Yugoslav country went through a tremendous shift from an extremely decentralized republic (where education, healthcare and urbanism were provided locally), into a very centralized country after its independence in 1991. After the consolidation of the institutions towards an open economy, the country had to go through a rigorous process of centralization. Then, there were pressures internationally and internally for the power to be delegated locally. The main pressing factors to decentralize public services and authority came from the processes of Euro-Atlantic integration (adoption of the European Charter of Local Government) and the internal inter-ethnic conflict that ended with the Ohrid Framework Agreement (OFA) in 2001. OFA gave impetus to a better institutional representation of all ethnic groups in Macedonia (Merkaj et al. 2014).

The Republic of Macedonia is a parliamentary democracy with its own constitution (in 1991). Its legal system is based on the civil law system and a judicial review of legislative acts. The executive government consists of a unicameral assembly, or *Sobranie,* of 123 seats (including Diaspora seats). The country is represented by the President and the head of government is represented by the Prime Minister leading the Ministers Council elected by the assembly through

a voting majority. Traditionally, the country has been ruled by coalitions, whose composition parties are mainly ethnic-based. Since the 2008 parliamentary elections, the country has been ruled by a coalition of the two election winners, the VMRO-DPMNE block (center-right), representing the Macedonian ethnic group, and the DUI (BDI) party, representing the Albanian ethnic group. Opposition is mainly represented by SDSM (Macedonians) and DPA (Albanians). Currently, the country is almost with "no government" in place due to some corruption cases that were made public by opposition parties (SDSM), and the political turmoil associated with many public protests worsened with the president's decision to pardon the main politicians and officials involved in the corruption scandals.

There was a municipality restructuring in August 2004 which was supposed to serve as a mechanism that would allow Albanians and other ethnic groups to have more decentralized power in exercising their duties and rights. In 2013, there was a minor restructuring of the municipalities. Now, the Local Government Units (LGUs) that represent the administrative units of local government consist of 84 first-order administrative units or municipalities, out of which 10 municipalities make up the City of Skopje (Greater Skopje) municipality, which has a distinct status. In addition, the country is composed of eight statistical regions: *Eastern, Northeastern, Pelagonia, Polog, Skopje, Southeastern, Southwestern,* and *Vardar*. With regard to the rurality, LGUs are divided as: 38 rural and 46 urban municipalities. The population of around 2 million people is divided across LGUs in Macedonia forming 16 LGUs with up to 5,000 inhabitants; 16 LGUs with 5,001–10,000 inhabitants; 21 LGUs with 10,001–20,000 inhabitants; 17 LGUs with 20,001–50,000 inhabitants; 13 LGUs with 50,001–100,000 inhabitants; and 1 LGU with more than 100,000 inhabitants (GRM 2003).

Even though pressures for a decentralized local government were external and internal, the specific reasons were identified as: increased accountability towards citizens; ratification of the European Charter of Local Self-Government (in 1997); better management by being closer to the citizens; greater efficiency; and more representative and closer government to all ethnic communities. The drive for decentralization was seen in Public Administration Reform (PAR) Strategies. They aimed at fostering public and democratic values of rule of law, transparency, competency, stability, accountability, responsibility, equal treatment, efficiency and ethics (Analytica 2007). One of the greater outcomes of the PAR as well as the process of decentralization is the consolidation of the local government, especially from the legal point of view (MISA 2010). However, these laws and the current trends of local government development should be translated into more concrete outcomes to a modernized PA that offers local government services with increased efficiency and effectiveness. Hence, issues of financial controls and audit (internal and external), the continuation of decentralization process, increased transparency, and de-politicization of public administration question the adequate performance and efficiency of local government.

With regard to local government consolidation, one of the milestone developments legally included the adoption of the Law on Local Self-Government (2002) and the Law on Financing the Units in Local Self-Government and the City of Skopje (2004). Further, consolidation translated into administrative and fiscal decentralisation (especially after 2005) (OSCE 2011). During this time, other service-specific laws regulated the delegated services to local government management. The new territorial division as part of the decentralization processes was criticized for its ability to be economically sustainable, because most of them lacked the capacity for self-revenue generation. There were five operational programs of decentralization implementation (2003–2014) that contributed to the process of further decentralization in a phased approach, strengthening local government capacity and management, fostering inter-municipal cooperation, and ensuring balanced development.

There were other laws adopted to support fiscal decentralization that regulated the budgetary processes as well as the financing (taxes, fees, intergovernmental transfers, borrowing) of municipalities.

Currently, local government finances consist of their own sources of revenues (local taxes, fees, refunds, etc.), shared revenues with the central government (personal income tax), intergovernmental transfers (earmarked grants, block grants, value-added tax, capital grants, grants for delegated competencies), and revenues from borrowing. This is followed by an equalization scheme to reduce municipalities' disparities.

Budgeting and its process is regulated by laws and policies. According to the budget format, local government expenditure is organized into two form of grouping the expenditure items: expenditure based on programs and on categories. Programs include the Mayor's office, the Municipal Council, Municipal Administration, urban planning, assistance for local economic development (LED), communal services, culture, sports and recreation, development programs, education, protection of the environment, promotion of healthcare, social care and child protection, and fire protection. Categories of expenditure include wages and salaries, reserves, goods and services, current transfers, interest payments, subsidies and transfers, social benefits, capital expenditure, and loan payment.

Considering the nature of the revenues and expenditures that municipalities in Macedonia manage, as well as other exogenous factors that determine the performance and the management of local government, it is expected that, financially, municipalities' performance or, more specifically, financial position, varies. Therefore, this study aims at giving a financial performance snapshot of all municipalities for the latest year limited by the available data (the year 2011). Once the most recent data are made available by the Ministry of Finance, the same methodology can be applied.

The foundation of Indicators Characteristics

This part of the paper follows with some theoretical and practical studies that serve the purpose of identifying the most representative indicators that can measure the performance of local government units. An indicator can be a number, an observation or a signal that gives us a reliable and unbiased understanding about an object, a situation, a phenomenon, an occurrence, a motion, a development process, etc. (UNESCO 2011). On the other hand, indicators are imperfect and vary in validity and reliability (Church & Rogers 2006, p.44). An indicator enables us to perceive the differences, improvements or developments relating to a desired change (output, objective, and goal). The term indicator is compatible with such terms as performance indicator, performance measure, indicator of success, and indicator of change (DME 2015, p. 4).

Indicators may be quantitative or qualitative benchmarks that provide a simple and reliable basis for assessing achievement, change or performance (Church & Rogers 2006, p. 44). They can also be used to measure, monitor, evaluate and improve performance (IOM 2008, p. 8; DME 2015, p. 6; MDF 2005, p. 1).

An indicator is created for a purpose (Martin & Sauvageot 2011). Depending on the availability of the data, the indicators can be direct, meaning they describe the subject that is measured (the number of employees in a municipality) or indirect, requiring a proxy to be choseninstead. Related to the common formula used in management, it is important that our indicators concerned be SMART (specific, measurable, attainable, results-oriented and time-framed). The above SMART components fit into the approaches followed by UNDP (2009), MDF (2005, p. 5), UNICEF (2003), MLE (2013) or Better Evaluation Project (Lennie et al. 2011, pp. 4–5). Another similar formula for defining indicators is SPICED (*Subjective, Participatory, Interpreted, Communicable* and *Empowering, Cross-checked* and *Compared, and Disaggregated and Diverse)* (Lennie et al 2011, pp. 5–6; MDF 2005, p. 5; DME 2015, p. 10). The difference between SMART and SPICED indicators is that the first describes the properties of the indicators themselves, while SPICED relates more to how indicators should be used (DME 2015, p. 4).

Therefore, indicators are essential to establish a performance assessment. Their use is not limited to a particular area, however, they have certain characteristics and contexts of applications which may serve as a guideline to choose one particular indicator over the other.

Methodology

The research question is related to identifying the differences in financial indicators of LGU performance by normalizing a number of revenue and expenditure

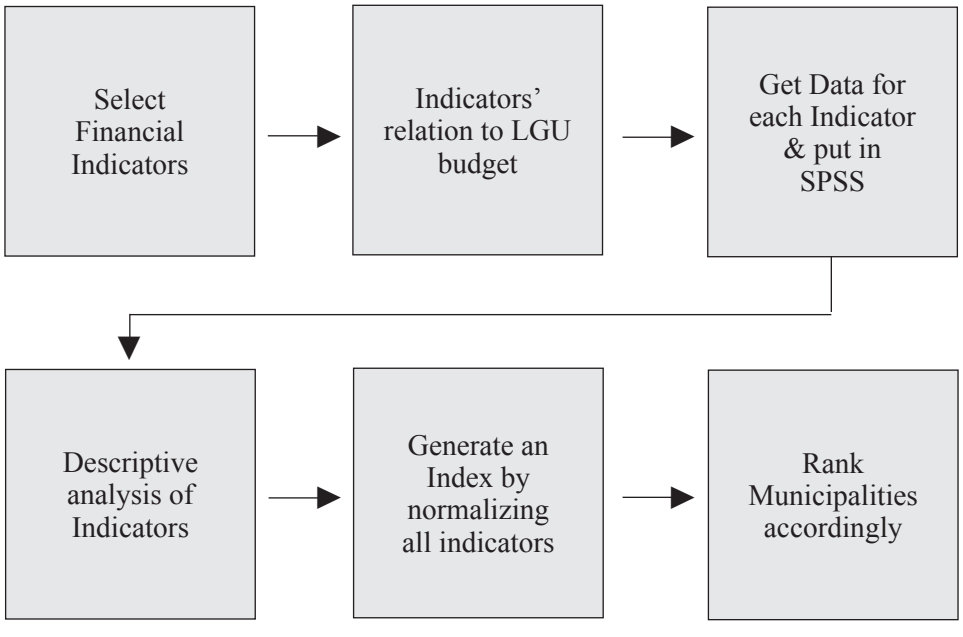
indicators into a local government financial index. This index will allow performance stakeholders to identify the best and worst performers. Herein, one may research further to identify the best practices of LG to be followed and the worst practice to be avoided to increase the performance of LGs in their service provision. The following is the resulting hypothesis:

H1: The financial indicators of LGUs in the Republic of Macedonia are relatively not the same.

The target of analysis includes all 83 local government units or municipalities of Macedonia, except the city of Skopje which has a different status.

The design of this research includes consulting the literature about the selection of indicators. Then, reviewing the nature of LG financial management is done to understand the context of the indicators to be generated. The indicators are selected from the nature of financial data that are available by the Ministry of Finance. In this case, the only data that give a financial snapshot of municipalities is that of the final accounts or consolidated and realized budgetary data. Then the forming of the LG financial index is as given in Figure 1.

Figure 1. Generating a Local Government Financial Index



Source: author's own elaboration.

Results of the Analysis

Following the above steps of the LG index, Table 1 provides the most representative indicators extracted from the local government final accounts. Each indicator belongs to one of the four groups: analytical indicators of revenues, analytical indicators of expenditure (by expenditure category), analytical indicators of expenditure (by expenditure program), and synthetic indicators indicating revenue and expenditure items of the local government budget. As seen from Table 1, each indicator is named, described as put in the budget, shown its indication to municipalities' financial management, and its preferred status. Data were fed into spreadsheets and organized according to LGU size. Considering the population distribution of Macedonia into the territorial space of each municipality LGUs are split into 5 groups: *1–5,000; 5,001–10,000; 10,001–20,000; 20,001–40,000*; and *more than 40,000*.

Description of the Financial Indicators

Tables 2 to 6 show, on average, the difference among LGUs grouped by their size in terms of all financial indicators. Overall, there is no single trend that can be identified for all grouped indicators, even within the same category of indicators. One LGU group may have the highest per capita revenue indicator while being further down the list for another indicator.

Table 2 shows that the *total revenues per capita* vary on average from 9,000 MKD of LGUs with a population of 20,000–40,000, to 12,304 MKD of the largest LGUs with more than 40,000 people. The highest average of *tax revenues* and *non-tax revenues* indicators belong to the largest LGUs. The average of the *tax revenues per capita* for the largest municipalities or LGUs is almost double compared to the rest of the LGUs. Large LGUs have the lowest of the *average capital revenues per capita* (468MKD) compared with the highest value (1,458 MKD) which belongs to the smallest LGUs. Regarding the *average of non-tax revenues per capita*, the highest amount goes to the largest LGUs.

Table 1. Financial Indicators of Local Government

Type of Indicator	Indicator	Indicator Measure (per one budgetary year)	Indication	Preferred Status
Analytic Indicator of Revenues	Intergovernmental Transfers per Capita	Ratio of intergovernmental transfers from central government to population	It indicates the dependency of the LGU on financing its services through intergovernmental transfers.	Higher
	Non-Tax revenues per Capita	Ratio of non-tax revenues to population	It indicates the ability of an LGU to generate its financial resources through its fees and charges	Higher
	Capital Revenues per Capita	Ratio of capital revenues to population	It indicates the ability of an LGU to generate its financial resources through capital transactions	Higher
	Tax Revenues per Capita	Ratio of tax revenues to population	It indicates the ability of an LGU to generate its financial resources through its own or shared taxes.	Higher
Analytic Indicator of Expenditure (by Expenditure Category	Total Wages & Salaries per Capita	Ratio of total Wages & Salaries expenditure to population	It indicates the level of direct labour cost of all local government employees	Lower
	Total Reserves and Undefined Expenditure per Capita	Ratio of total Reserves and Undefined expenditure to population	It indicates the level of unspecified cost used by all local government employees**	Lower
	Total Goods & Services per Capita	Ratio of total Goods & Services expenditure to population	It indicates the level of goods & services cost used by all local government employees	Lower
	Total Subsidies & Transfers per Capita	Ratio of Subsidies & Transfers given to population	It indicates the level of assigning subsidies & transfers to either public enterprise under the LGU management or others (organizations or people)	Lower
	Total Social Benefits per Capita	Ratio of Social Benefits given to population	It indicates the level of assigning social compensation to people in need.	Lower
	Total Capital per Capita	Ratio of total expenditure on capital assets to population	It indicates the cost of purchasing or maintaining capital assets (buildings, automobiles, equipment) used by Administration and Schools	Lower
Analytic Indicator of Expenditure (by Expenditure Program)	Total Expenditure of Municipal Council per Capita	Ratio of total expenditure incurred by Municipal Council to population	It indicates the level of related expenditure incurred by the Municipal Council	Lower
	Total Expenditure of the Mayor per Capita	Ratio of total expenditure incurred by the Mayor to population	It indicates the level of related expenditure incurred by the Mayor's Office	Lower
	Total Expenditure of the Municipal Administration per Capita	Ratio of total expenditure incurred by the Municipal Administration to population	It indicates the level of related expenditure incurred by the Administration working at a municipality	Lower

Synthetic Indicators of Revenues & Expenditure (in %)	Tax Revenues Weight	Ratio of Tax Revenues to Total Revenues	It indicates the weight of levied or shared tax revenues into Total Revenues	Higher
	Non-Tax Revenues Weight	Ratio of Non-Tax Revenues to Total Revenues	It indicates the weight of Revenues collected in the form of fees and charges to the Total Revenues	Higher
	Capital Revenues Weight	Ratio of Capital Revenues to Total Revenues	It indicates the weight of revenues generated from the use and sale of capital assets to the Total Revenues	Higher
	Intergovernmental Transfers Weight	Ratio of Intergovernmental Transfers to Total Revenues	It indicates the weight of revenues delegated by the central government to the Total Revenues	Higher
	Mayor's Expenditure Share	Ratio of Mayor's Expenditure to Total Expenditure	It indicates the share of Mayor's expenditure into the Total Expenditure pie	Lower
	Municipal Council Expenditure Share	Ratio of Municipal Council's Expenditure to Total Expenditure	It indicates the share of Municipal Council's expenditure into the Total Expenditure pie	Lower
	Municipal Administration Expenditure Share	Ratio of Municipal Administration's Expenditure to Total Expenditure	It indicates the share of Municipal Administration's expenditure into the Total Expenditure pie	Lower
	Wages & Salaries Share	Ratio of Expenditure on all employees' Wages & Salaries to Total Expenditure	It indicates the share of all Wages & Salaries expenditure into the Total Expenditure pie	Lower
	Goods & Services Share	Ratio of Goods and Services Expenditure to Total Expenditure	It indicates the share of all Wages & Salaries expenditure into the Total Expenditure pie	Lower
	Capital Expenditure Share	Ratio of Capital Expenditure to Total Expenditure	It indicates the share of Capital expenditure into the Total Expenditure pie	Lower

Source: author's own elaboration.

One may conclude that largest LGUs in Macedonia have more revenue generation power because they have higher self-revenues indicators and lower transfer per capita. Surprisingly, the largest LGUs have the lowest average capital revenues per capita, indicating that their assets might not be productive enough. Smaller LGUs have higher revenue per capita mainly due to their higher dependency on the central government, because they have a higher average of transfers per capita compared to larger LGUs.

Table 2. Analytic Indicators of Revenues (per capita, in MKD)

LGUs according to Population Size	Average of TR	Average of TXR	Average of Transfers	Average of NTXR	Average of Capital Revenues
1 (1–5,000)	11 732	1502	8428	335	1458
2 (5001–10,000)	11 619	1568	8186	350	1461
3 (10,001–20,000)	9159	1359	6759	304	548
4 (20,001–40,000)	9000	1608	6582	291	506
5 (>40,001)	12 304	3200	7736	698	468
Total Average	10 728	1840	7517	396	872

Note: TR – Total Revenues; TXR – Tax Revenues; NTXR - Non-Tax Revenues/Fees & Charges; CR – Capital Revenues; Maximum Values are highlighted.

Source of Data: Annual Accounts of LGUs, Ministry of Finance.

On the other side of the budget, the expenditure side, Table 3 shows that the average amount of *total expenditure per capita* (as with the Total Revenues)ranges from 8,844 MKD for LGUs with population of 20,000–40,000, to 12,042 MKD for the largest LGUs with more than 40,000 people. Regarding the expenditure programs, the smallest LGUs have the highest *average of municipal council per capita* (329 MKD), the highest *average of mayor's expenditure per capita* (555MKD), the highest m*unicipal administration expenditure per capita* (3,055 MKD), and the second highest *average of communal service expenditure per capita* (1,674). This means that one citizen of the smallest LGUs on average 'pays' annually through taxes about 11,444 MKD, out of which only 1,674 MKD (about 15%) goes for direct services through communal services, in addition to 166 MKD for urban planning and services. This shows that citizens are receiving very expensive local government services which would be worth it only if they received best quality services.

The largest LGUs represent the highest *average expenditure per capita,* due to the highest *average of urban planning expenditure per capita* (841 MKD), the highest *average of assistance for LED expenditure per capita*, the second highest *average municipal council expenditure per capita* (271 MKD), and the third largest *average of communal services per capita* (1,617 MKD). One may conclude that largest LGUs spend more on local government services and development activities than municipal council and administration expenditure.

Table 3. Analytic Indicators by Expenditure Program (per capita, in MKD, year 2011)

LGUs according to Population Size	Average of TE	Average of MC	Average of ME	Average of MAE	Average of UPE	Average of ALEDE	Average of CSE
1 (1–5,000)	11 443	329	555	3055	166	96	1674
2 (5001–10,000)	11 345	211	303	2139	166	147	1738
3 (10,001–20,000)	9250	240	180	1200	134	40	1325
4 (20,001–40,000)	8844	148	143	1054	124	28	1429
5 (>40,001)	12 042	271	90	1221	841	236	1617
Total Average	10 564	243	251	1712	287	109	1546

Note: TE – Total Expenditure; MCE – Municipal Council Expenditure; ME – Mayor's Expenditure; MAE – Municipal Administration Expenditure; UPE – Urban Planning Expenditure; ALEDE – Assistance for LED Expenditure; CSE – Communal Service Expenditure; Maximum Values are highlighted.

Source of Data: Annual Accounts of LGUs, Ministry of Finance.

Table 4. Analytic Indicators by Expenditure Category (per capita, in MKD, year 2011)

LGUs according to Population Size	Average of W&CE	Average of R&UE	Average of G&SE	Average of S&TE	Average of SBE	Average of CE
1 (1–5,000)	5762	63	2684	328	66	2524
2 (5001–10,000)	6355	53	2695	257	102	1864
3 (10,001–20,000)	5439	28	2017	206	68	1492
4 (20,001–40,000)	5476	27	1738	214	47	1340
5 (>40,001)	5462	33	2809	280	81	3369
Total Average	5686	40	2387	255	73	2114

Note: W&CE – Wages and Contributions Expenditure; R&UE – Reserves and Undefined Expenses; G&SE – Goods and Services Expenditure; S&TE – Subsidies and Transfers; SBE – Social Benefits Expenditure; CE – Capital Expenses; Maximum Values are highlighted.

Source of Data: Annual Accounts of LGUs, Ministry of Finance.

Regarding the expenditure category represented in Table 4 (as coded in the LG budgets), LGUs with a population of 5,001–10,000 have the highest *average of wages and contribution expenditure per capita* (6,355 MKD), the second highest *average of goods and services expenditure per capita* (2,695 MKD), the highest *average of subsidies and transfers* per capita (328 MKD), and the second highest *average capital expenses per capita* (2,524 MKD). Meanwhile, the largest LGUs have the highest *average of goods and services expenditure per capita* (2,809 MKD) and the highest *average of capital expenditure per capita*. Therefore, the smallest LGUs spend more on wages and salaries, while the largest LGUs spend more on goods and services. In other words, smaller LGUs enjoy more expensive people, while the largest LGUs enjoy expensive goods and services that support their local service provision.

The averages of the *synthetic indicators of revenues* in Table 5 indicate how LGUs generate their finances. On average, local government services are financed considerably by transfers (72.22%) and least by non-tax revenues (or fees and charges) by about 5.95%. Furthermore, it shows that highest share of revenues in the largest LGUs comes from tax revenues (27.26%). Additionally, the same LGUs have the highest share of non-tax revenues to total revenues (6.17%). Smaller LGUs with a population of 5,001-10,000 have the highest share of capital revenues to total revenues (8.47%), while the smallest LGUs have the highest share of transfers to total revenues. Once again this confirms that larger LGUs tend to depend more on tax revenues and non-tax revenues, while smaller LGUs tend to depend more on transfers.

Table 5. Synthetic Indicators of Revenues (in %, year 2011)

LGUs according to Population Size	Average of TXR/TR	Average of NTXR/TR	Average of CR/TR	Average of Transfers/TR	TOTAL
1 (1–5,000)	13.16	2.82	7.76	76.19	100
2 (5001–10,000)	13.99	2.98	8.47	74.11	100
3 (10,001–20,000)	15.39	3.44	5.29	74.59	100
4 (20,001–40,000)	17.94	2.91	4.24	74.79	100
5 (>40,001)	27.26	6.17	4.11	61.67	100
Total Average	17.53	3.70	5.95	72.22	100

TR – Total Revenues; TXR – Tax Revenues; NTXR – Non-Tax Revenues/Fees & Charges; CR – Capital Revenues; Maximum Values are highlighted.

Source of Data: Annual Accounts of LGUs, Ministry of Finance.

The averages of *synthetic indicators of expenditure* in Table 6 represent the indicators in the form of selected (highest in value) indicators' share to both forms of expenditure as ratios to the total expenditures of the budget. More specifically, the three first indicators represent expenditure amounts to total expenditure related to budgetary programs, and similarly, the last three indicators are related to the budget categories. These six indicators were selected because they represent the major amounts of expenditure. Therefore, the elements in each row do not sum to 100%.

The highest percentage share of total average to total expenditure goes to *wages and contributions* (56.65%), followed by *goods and services* (23.28%), *capital expenses* (16.39%), *administration expenses* (15.96%), *mayor's expenditure* (2.61%), and *municipal council expenditure* (2.40%). Within the program expenditure (referring to the first three indicators of Table 6–5) the smallest LGUs incur the highest average share of administration expenses (5.57%), mayor's expenses (2.90%) and municipal council (23.95%). Meanwhile the mayor's and administration expenses of the largest LGUs are almost 6 times (or 0.86%) and 2 times (or 11.31%) lower, respectively, compared to the smallest LGUs.

Within the category expenditure (referring to the last three indicators of Table 6), the highest *wages and contribution, goods and services,* and *capital expenditure* are incurred by the two largest LGUs. More specifically, the highest average of wages and contribution expenditure (61.86%) is incurred by LGUs with 20,001–40,000 inhabitants. The highest average expenditure of goods and services (25.53%) and the highest average capital expenditure (20.82) are incurred by the largest LGUs.

Table 6. Synthetic Indicators of Expenditure (in %, year 2011)

LGUs according to Population Size	Average of ME/TE	Average of MCE/ TE	Average of MAE/ TE	Average of W&CE /TE	Average of G&SE /TE	Average of CE/TE
1 (1–5,000)	5.57	2.90	23.95	53.55	24.11	18.17
2 (5001–10,000)	2.80	1.99	17.95	58.39	23.83	14.10
3 (10,001–20,000)	2.17	2.56	13.91	59.62	22.80	14.26
4 (20,001–40,000)	1.79	2.04	13.25	61.86	19.69	14.80
5 (>40,001)	0.86	2.41	11.31	49.98	25.53	20.82
Total Average	2.61	2.40	15.96	56.65	23.28	16.39

Note: TE – Total Expenditure; ME – Mayor's Expenditure; MCE – Municipal Council Expenditure; MAE – Municipal Administration Expenditure; W&CE – Wages and Contributions Expenditure; G&SE – Goods and Services Expenditure; CE – Capital Expenses; Maximum Values are highlighted.

Source of Data: Annual Accounts of LGUs, Ministry of Finance.

This shows that the mayors of the smallest LGUs incur higher (multiple) expenses compared to the mayors of the largest LGUs. Additionally, the municipal councils and the administration of the smallest LGUs incur higher costs. Meanwhile, the largest LGUs incur the lowest wages and salary costs, but the highest goods and services and capital expenses.

Generating the LG financial index

As explained in the methodology section, the final accounts or budgetary data are inserted into excel. The financial indicators generated are grouped and their values are normalised from 0–1. This allows an index in comparable values of each indicator to be generated. The LG Index values per LGU are calculated on the simple average of all normalised financial indicators.

Pertaining to the importance of the indicators that make upthe financial index, the weight of each indicator is treated equally, since the literature and previous studies allow for such arbitrary treatment of an indicator, even though it has its limitations because it might not reflect the true nature of decision making in the local government sector. However, we prefer such a method, because a weighting scheme that would be based on the real values of revenues or expenditure might favour transfers more because they represent a major source of revenues for local

governments since the level of financial decentralisation is still low in Macedonia. This, in turn, would not represent the real financial performance of LGUs in Macedonia, because it would limit the self-revenue generating ability of LGUs. In other words, the transfers' contribution to the better financial position of LGUs compensates for the increased financial capabilities of LGUs, both of which contribute positively to the financial performance of LGUs.

Referring to Table 1 of the financial indicators,and following the methodology explained in Figure 1, LGUs are indexed and ranked individually. Tables 7 and 8 show only the 10 highest and lowest performers, while a full ranking of all LGUs can be found in Appendix A: *Ranking of LGUs according to LG Finance Index, 2011*. In the full ranking of the LGUs, the range of index scores varies from a minimum of 0.21 of the lowest performer, to a maximum of 0.56 of the highest performer. The average score of all LGUs' individual scores is 0.32. Among all LGUs, 36 of them have a score lower than the average, while the rest of LGUs have index scores of 0.32 and above.

Tables 7 and 8 show the top 10 and the bottom 10 LGUs according to their score on the overall LG Finance Index. According to the ranking, as expected, the municipality of *Centar* is ranked the first LGU (0.56 score) with the best financial positioning. It is an LGU that has had a high budgetary liquidity, as most of the finances for the 'famous' and very expensive project "Skopje 2014" were channelled through its budget. The lowest positioned LGU is one of the smallest LGUs, *Plasnica*, with a score of 0.21. With regard to the LGU population size, the top performers are represented mainly by the 3 largest LGUs and, surprisingly, by some small LGUs (see Table 7), while the bottom performers are represented varied units but without the smallest ones (see Table 8). Additionally, it is noticeable that the top performers are LGUs with the Macedonian ethnic group as majority, while the lowest performers consist mainly (8 out of 10) of LGUs with the Albanian ethnic group as the majority.

Table 7. Top 10 ranked LGUs according to LG Finance Index, 2011

LGU	Population Size Category	LG Finance Index	Ranking on LG Financial Index
Centar	5 (>40,000)	0.56	1
Novaci	1 (1–5,000)	0.51	2
Makedonski Kamenica	2 (5001–10,000)	0.45	3
Ilinden	3 (10,001–20,000)	0.41	4
Dojran	1 (1–5,000)	0.41	5
Karposh	5 (>40,000)	0.40	6
Konche	1 (1–5,000)	0.39	7
Strumica	5 (>40,001)	0.39	8
Kavadarci	4 (20,001–40,000)	0.38	9
Pehchevo	2 (5001–10,000)	0.38	10

Source: author's own elaboration.

Table 8. Bottom 10 ranked LGUs according to LG Finance Index, 2011

LGU	Population Size Category	LG Finance Index	Ranking on LG Financial Index
Zrnovci	1 (1–5,000)	0.27	75
Saraj	4 (20,001–40,000)	0.27	76
Lipkovo	4 (20,001–40,000)	0.27	77
Zajas	3 (10,001–20,000)	0.27	78
Bogovinje	4 (20,001–40,000)	0.26	79
Tearce	4 (20,001–40,000)	0.26	80
Arachinovo	3 (10,001–20,000)	0.25	81
Vraneshtica	1 (1–5,000)	0.24	82
Zhelino	4 (20,001–40,000)	0.22	83
Plasnica	1 (1–5,000)	0.21	84

Source: author'sownelaboration.

Conclusion and Recommendations

Local government in Macedonia has been both consolidating reforms and going through a rather slow process of decentralization. The main triggers were the ratification of the European Charter of Local Governance and the ending of the internal interethnic conflict that ended in the OFA agreement promising closer governance and services to the citizens of all ethnic groups in the country. The process of decentralization formed a one-tier system of local government. Therefore, the country enjoys a territorial division that is simple to manage: 83 local government units plus the City of Skopje, which is a unique formation consisting of 12 LGUs in the region of Skopje. There had been an increase of delegated duties but the challenge of increased fiscal decentralization poses challenges to LGUs to manage their finances prudently and yet provide the qualitative services that taxpayers expect. Furthermore, the political instability due to the alleged corruption of the ruling parties exerts public pressure on local government to prove that they are managing efficiently and effectively local public resources.

From the analysis of local government budgets as the main document that shows the financial information and position of local governments, municipalities in Macedonia need to make public information that is not only related to their final annual accounts, but also in the form of balanced sheets that would provide a greater scope of analyzing the finances of municipalities in the current position and even anticipating their future financial positioning.

From the realized municipal budgets (final accounts) there is a mixed performance or financial indication. From the revenue aspect of the municipal bud-

get, the paper finds that the largest LGUs in Macedonia have more self-generated revenues, while smaller LGUs depend more on intergovernmental transfers, as expected. Surprisingly, the largest LGUs have low capital investment per capita. From the expenditure programs aspect, the smallest LGUs have the highest *average of municipal council per capita*, *average of mayor's expenditure per capita*, *municipal administration expenditure per capita*, and the second highest *average of communal service expenditure per capita*. This shows that citizens are receiving very expensive local government services which would be justifiable only if they received the best quality services. The largest LGUs spend more on local government services and development activities than on the municipal council and administration expenditure. The smallest LGUs spend more on wages and salaries, while the largest LGUs spend more on goods and services. In other words, smaller LGUs enjoy more expensive employees, while the largest LGUs enjoy expensive goods and services that support their local service provision.

The financial index and ranking show that the average score of all LGUs individual scores is 0.32. Among all LGUs, 36 of them have a score lower than the average, while the remainder have index scores of 0.32 and above. The top performers, as expected, are: *Centar* municipality (due to high transfers for Skopje 2014); mainly municipalities whose ethnicity is predominantly Macedonian; and municipalities of all sizes (population based). The lowest performers are mainly municipalities whose ethnicity is predominantly Albanian and mainly municipalities of 20,000–40,000 people. The largest municipalities do not belong on this list.

This study modestly contributes to understanding the performance, especially the financial positioning, of LGUs in Macedonia. Therefore, it provides more information to the right stakeholders, especially to the citizens or taxpayers. Additionally, it may serve for better decision making to the Mayor and municipal administration, as well as municipal councils. Furthermore, it contributes to the central government, to gauge its relationship towards local government.

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Summary

Local government performance within public sector performance is coming back because local government is faced with the problem of increased responsibilities under tighter budgets. Therefore, the issues of managing taxpayers' money more efficiently and effectively still remain a challenge for local government decision makers. In addition, increased social inclusion has created a need for increased accountability and transparency towards local government managers.

This paper aims to facilitate decision makers as well as local government officials to offer a ranking system of local government units (LGUs/municipalities) in Macedonia by analyzing and normalizing some of the main financial indicators that make up the final annual accounts of all LGUs in Macedonia. The output of this work is a local government index showing the best and worst performing

municipalities in the country. The provision of one aspect of LG government performance allows all local government stakeholders to have an overview of the budget spent as well as identify some best practices by comparatively identifying the practices of the best performing LGUs. However, the data availability has narrowed the scope of this performance ranking.

We hope that this study will contribute modestly to the existing literature of the performance in the public sector and specifically in that of the local government sector. There is an increasing interest in studies related to public sector performance. However, this interest has been very little in Balkan Countries.

Keywords: Financial performance, local government performance, local government index

Streszczenie

Ranking wydajności działania jednostek samorządowych w Macedonii

Zagadnienie wydajności działania jednostek samorządowych w ramach sektora publicznego ostatnio cieszy się coraz większą popularnością, ponieważ samorządom powierza się coraz więcej zadań, wprowadzając jednocześnie ograniczenia budżetowe. Zarządzanie pieniędzmi podatników na tym poziomie staje się zatem coraz większym wyzwaniem. Z kolei coraz bardziej świadome społeczeństwo wywiera na samorządowcach presję, domagając się od nich większej odpowiedzialności i transparentności działań.

Celem niniejszego opracowania jest ułatwienie – za pomocą przeanalizowania i znormalizowania wybranych wskaźników finansowych na poziomie lokalnym – władzom samorządowym stworzenia rankingu najbardziej i najmniej efektywnych jednostek samorządowych w Macedonii. Ustanowienie łatwo porównywalnego wskaźnika pozwoli na identyfikację sposobu wydatkowania środków oraz ustalenie, jakie dobre praktyki stosowane są w najbardziej wydajnych jednostkach. Czynnikiem ograniczającym możliwości badania okazała się słaba dostępność danych.

Autorka ma nadzieję, że niniejsze opracowanie przyczyni się do zwiększenia zainteresowania opisywanym zagadnieniem badaczy z regionu bałkańskiego, którzy nie poświęcają mu wystarczajaco dużo uwagi

Słowa kluczowe: wydajność finansowa, wydajność samorządu lokalnego, wskaźnik samorządu lokalnego

JEL: H72, R58

Appendix A. Ranking of LGUs according to LG Finance Index, 2011

LGU	Population Size Category	Final LG Finance Index	Ranking on LG Financial Index
Centar	5	0.56	1
Novaci	1	0.51	2
Makedonski Kamenica	2	0.45	3
Ilinden	3	0.41	4
Dojran	1	0.41	5
Karposh	5	0.40	6
Konche	1	0.39	7
Strumica	5	0.39	8
Kavadarci	4	0.38	9
Pehchevo	2	0.38	10
Gevgelija	4	0.38	11
Petrovec	2	0.38	12
Makedonski Brod	2	0.37	13
Sopishte	2	0.37	14
Aerodrom	5	0.36	15
Negotino	3	0.36	16
Kichevo	4	0.35	17
Bitola	5	0.35	18
Shtip	5	0.35	19
Sveti Nikole	3	0.35	20
Demir Kapija	1	0.35	21
Kisela Voda	5	0.34	22
Prilep	5	0.34	23
Radovish	4	0.34	24
Mavrovo I Rostushe	2	0.34	25
Tetovo	5	0.34	26
Kumanovo	5	0.34	27
Ohrid	5	0.34	28
Krushevo	2	0.34	29
Rankovce	1	0.33	30
Lozovo	1	0.33	31
Chucher-Sandevo	2	0.33	32
Demir Hisar	2	0.33	33
Vevchani	1	0.33	34

Berovo	3	0.33	35
Chashka	2	0.33	36
Veles	5	0.33	37
Probishtip	3	0.33	38
Valandovo	3	0.33	39
Staro Nagorichane	1	0.33	40
Gjorche Petrov	5	0.32	41
Gradsko	1	0.32	42
Kriva Palanka	4	0.32	43
Kochani	4	0.32	44
Karbinci	1	0.32	45
Rosoman	1	0.32	46
Kratovo	3	0.32	47
Struga	5	0.32	48
Gostivar	5	0.31	49
Bogdanci	2	0.31	50
Debar	3	0.31	51
Gazi Baba	5	0.31	52
Resen	3	0.31	53
Drugovo	1	0.30	54
Butel	4	0.30	55
Novo Selo	3	0.30	56
Chair	5	0.29	57
Vinica	3	0.29	58
Debarca	2	0.29	59
Dolneni	3	0.29	60
Vasilevo	3	0.29	61
Oslomej	3	0.29	62
Brvenica	3	0.29	63
Centar Zhupa	2	0.28	64
Cheshinovo-Obleshevo	2	0.28	65
Zelenikovo	1	0.28	66
Delchevo	3	0.28	67
Shuto Orizari	4	0.28	68
Bosilovo	3	0.28	69
Krivogashtani	2	0.28	70
Jegunovce	3	0.28	71
Studenichani	3	0.27	72

Vrapchishte	4	0.27	73
Mogila	2	0.27	74
Zrnovci	1	0.27	75
Saraj	4	0.27	76
Lipkovo	4	0.27	77
Zajas	3	0.27	78
Bogovinje	4	0.26	79
Tearce	4	0.26	80
Arachinovo	3	0.25	81
Vraneshtica	1	0.24	82
Zhelino	4	0.22	83
Plasnica	1	0.21	84
Average		0.32	