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MAKE DECENTRALIZATION WORK PROJECT

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Development Alternatives Inc.

Contract: EEU-I-00-99-00012-00 Task Order #804

# Quarterly Report



MACEDONIA MAKE DECENTRALIZATION WORK

## Quarterly Report

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August - October 2004

**Contract: EEU-I-00-99-00012-00**  
**Task Order #804**

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## EXECUTIVE SUMMARY

It was an active and challenging quarter, notwithstanding the usual summer respite in Macedonia. This year the fervor over territorial organization meant continued program activities linked to the previous Macedonia Local Government Reform Program, which resulted in a three-month simultaneous closedown of LGRP and start-up of MDW. This created administrative burdens on most of the technical and administrative staff, though closedown and start-up ultimately was achieved in a timely manner.

A draft workplan for year one of the project was formulated and submitted to USAID for review. The priority activities and timeline reflect new assumptions on the current policy and political environment, including the delay in the timing of the nationwide local elections, the uncertainty caused by the impending referendum on territorial reorganization (since resolved) and the effective date of the principal decentralization laws. The process involved substantial input and involvement from the entire staff, key short-term technical experts experienced with LGRP and critical to MDW, as well as Michael Eddy and Afrodita Salja from the USAID mission.

Additionally, the new Municipal Capacity Index (MCI) was prepared under the guidance of the MDW Program Analyst, Meli Grbovic requiring careful consideration by and linkages with each technical team. Parallel to the MCI effort, the staff worked with MDW Program Analyst to design the Performance/Workplan Monitoring and Impact Indicators as part of the overall MDW Performance Monitoring and Evaluation Plan (PMEP).

In the area of Policy Reform, the culmination of years of work occurred with the parliamentary passage of some of the major decentralization laws including the laws on local finance, communal fees, property tax and primary and secondary education. The effective date of these laws was set at January 1, 2005 but the Government has made it clear that the date will be deferred, probably until July 1, 2005.

MDW's municipal debt expert, Michael De Angelis, and the Policy Reform team worked with the Ministry of Finance to design the public call for reporting municipal claims. This is an integral step in the debt workout plan required by the Law on Local Government Finance. The call and the following analytical work are generating the needed data for the plan which the Government must devise.

The Association Development team assisted the newly-constituted association of Public Enterprises, ADKOM, with the process of hiring professional staff and seeking suitable offices. ZELS began implementation of improvements in financial management that will make for a more sound, transparent organization. The audit of ZELS identified a series of practices that should be changed. ZELS leadership responded quickly in agreeing to and

beginning the implementation of those new policies. The team worked with the board of the finance officers association, AFO, toward making their operating practices, notably procurement, more transparent. The compliance of the association leadership remains uncertain.

The Citizen Participation team worked closely with the CIC Network to design and prepare for a major workshop to move to a new level of proactive citizen engagement. The municipality of Karpos launched an innovative interactive information system. Citizens can telephone and receive many types of important municipal information at any hour.

The Municipal Management team continued work on three critical financial manuals for municipalities and conducted, with our partner OSCE, a test training program for trainers. The results have been extremely encouraging as to the methodology and approach. Work went forward on the municipal needs assessment questionnaire. The property tax valuation expert continued to support the Working Group on property tax valuation.

The commencement of training activities, initially planned to begin during the first quarter of the MDW program, was delayed due to the rescheduling of local elections from October 2004 to March 2005 and the uncertainty as to the outcome of the territorial reorganization referendum question. Both obstacles contributed to an inability to identify individuals to be trained and the number of municipalities that will be the beneficiary of MDW activities. Nevertheless, the MM Group used their time efficiently by moving forward preparatory activities for newly elected officials training, for human resource and organization structure training and for financial management training.

## SUCCESS STORY

Miodrag Miladinovic will continue capturing and writing MDW success stories as MDW results and related impact stories emerge.

## ADMINISTRATION

### General Admin & Finance

The administrative staff and systems were greatly challenged by the dual task of closing down the predecessor project, LGRP and simultaneously starting MDW. All tasks were accomplished accurately and on time. By the end of the first quarter of MDW, LGRP details were accomplished and MDW was up and running smoothly.

Previously used custom-made accounting application for project finance, budgeting and accounting purposes was adjusted to account for the budget changes and new MDW program activities.

Regular financial reports for the months of August, September and October 2004 were developed and submitted to DAI, Bethesda. New VAT return procedures have been put in place to account for the change in project name (required by the GoM), as well as new procedure for combined weekly wire transfer for project expenses from DAI home office.

Following USAID regulations for IT equipment, new computers and software licenses were ordered from the DAI home office to fulfill MDW needs for the following 3 years, in coordination with the office of IT of DAI, Bethesda. Wire communications have been updated and improved at no additional marginal cost for the project.

New MDW templates have been made for project use. The transfer of one more vehicle from another USAID project in Macedonia was arranged and it will occur in December 2004. Four new staff members were hired and their DAI employment and registration with the governmental benefits system is in process and will be completed beginning next quarter.

### MDW Year 1 Workplan Retreat

The process of drafting year one workplan involved substantial input and involvement from the entire MDW staff, key short-term technical experts experienced with LGRP and critical to MDW, as well as Michael Eddy and Afrodita Salja from the USAID Mission and Judy Hansen, Carmen Lane and Krista Baptista from DAI Bethesda. MDW CoP Bill Althaus, Judy Hansen and Carmen Lane were facilitating discussions and the work in groups, whereas Krista Baptista did a great job of a retreat facilitator.

The objectives of the three-day retreat that was held in Mavrovo from August 24 to August 26, 2004 were:

- to create a near final Year 1 Workplan focusing on results,
- to develop a unified approach to the project that incorporates cross-cutting activities and recognizes how all activities are interconnected,
- to develop skills in project management tools such as the PMP, the Municipal Capacity Index (MCI), overall monitoring and evaluation and Technical and Administrative Management Information System (TAMIS),
- to establish common procedures and communication mechanisms for reporting activities and results.
- to get to know each other as a team,
- to review and discuss expectations for MDW from USAID, CoP and DAI.

The whole process of developing a draft workplan during the retreat evolved from focusing on results to drafting specific activities with specific outputs. The work on finalizing the draft workplan narrative, developing activity timelines, defining workplan performance/impact indicators and municipal capacity index continued after the retreat and the draft Year One Workplan, along with draft PMP and MCI, were submitted to USAID for review on September 9, 2004.

At a meeting held on September 27, 2004, the MDW CTO at USAID, Afrodita Salja had quite a few comments, questions and remarks regarding the draft Workplan. She presented both general and specific remarks and suggestions for change. It was agreed that MDW will make the necessary changes at the beginning of the next quarter and submit the revised Workplan to USAID as per their suggestions.

#### **Technical and Administrative Management Information System (TAMIS)**

The foundation of both MDW Workplan and Performance Monitoring and Evaluation Plan will be DAI's Technical and Administrative Management Information System (TAMIS). TAMIS is fully functional on a secured Web page allowing MDW and DAI home office staff, as well as USAID/Macedonia, the opportunity to monitor and learn about each activity in an efficient and cost effective manner.

TAMIS will hold technical data related to the implementation of the Macedonia MDW Project activities. The system will include a Workplan Management component and a Project Administration component which will be focused on the activities that make up the annual workplan and administrative functions critical to effective project management. In addition to specifying and tracking timing and resource allocation, the information stored in TAMIS will serve many other project management functions.

At the beginning of October 2004, TAMIS Management Information System Specialist Susan Exo customized TAMIS for MDW and provided initial training to the MDW Project staff in TAMIS use. The TAMIS was customized to reflect current MDW plans and activities, as well as the priorities and information requirements of the CoP, other members of MDW's technical and administrative staff and USAID management. Susan will continue to provide on-line support to the MDW staff as needed in follow-up customization of TAMIS as the project moves into new areas and defines new information needs.

In addition, TAMIS Training Specialist Oana Tudor provided MDW staff with more specific, one-on-one training in TAMIS operation, including: entering data, editing forms and producing reports. As a result, MDW staff gained better understanding of the functions and capabilities of a customized TAMIS.

Miodrag Miladinovich was trained by Susan and will act as a TAMIS Super User who will support the local staff with information flow.

## IR 2.3.1. - “Local Governments Have Increased Responsibility and Financial Resources”

### Summary of Quarterly Accomplishments

- The Laws on Local Government Finance, Communal Fees, Property Taxes, Primary and Secondary Education, among others from the Decentralization package, were adopted by the Parliament of the Republic of Macedonia during this quarter.
- The Ministry of Finance, with MDW assistance, made a public call to creditors to municipalities, thus initiating its engagement and making a commitment in the more concrete activities in the municipal debt resolution.
- The database for school property was structured by MDW, following the work of MDW experts and the Policy Reform team to help the Ministry of Education gather information on all school facilities in the country, for the purpose of inventorying what property is to be devolved in the first phase of decentralization.

## Activities' Implementation

The implementation of the process of decentralization will affect all sectors of the government. USAID provides assistance in advancing many of the reforms contemplated by the GoM. Sharing of accomplishments, knowledge, experience and concerns of the programs working most closely on the implementation of decentralization is thus important. For that reason, MDW Policy Reform team participated in the Partners meeting on education decentralization in August 2004 and on decentralization in general in September 2004.

At the meeting held in August 2004, Jan Herczynski, MDW expert on education, presented how the process of decentralization of education will be paced, the activities that will take place, and discussed the effect these activities may have on other USAID education programs.

William Althaus, MDW CoP and Liljana Ristovska, MDW Policy Reform Team Leader were invited to the Partners meeting in September 2004 to discuss decentralization in general, the activities of LGRP and MDW plans for advancing decentralization process. The upcoming referendum on territorial organization of RM, scheduled for November 7, 2004 was emphasized as a reason for the uncertainty of the schedule of decentralization. The meeting raised great interest among USAID programs and the next meeting on the outcome of the referendum was scheduled for mid-November. MDW Policy Reform team was invited to participate.

Support Fiscal  
Decentralization

The MDW Policy Reform team assisted the Ministry of Finance in making the public call to creditors of municipalities and compiled a database with all municipal debt as reported by the creditors. Most of the debt is to construction companies, less is to the Electrical Company of Macedonia, and for expropriation of property.

The MDW Policy Reform team is assembling a multipurpose database on municipal finances that will eventually be installed in the Ministry of Finance and used, with training and modification, to monitor the financial performance of the sector.

In the immediate future, the database will allow the Ministry to simulate the revenues of local governments, and analyze their ability to repay debt by running different assumptions and policy scenarios.

In particular, the database will allow for the simulation of the distribution of three percent of VAT revenues under different equalization policies, as well as to simulate the property tax revenues that the new local governments are likely to receive once these revenues stop being redistributed at the regional level.

This database, and with it, a proposal for an equalization formula for 2006, and the capacity to estimate the revenues of all local governments under the new system, will be ready by mid-December. The same database will also be used to develop the basic framework for debt work out plan by the end of the year.

Improve the  
Regulatory  
Environment for  
Public  
Communal  
Enterprises

To kick off the activities in this area, the Policy Reform team prepared a policy paper that identified the current situation with the public enterprises (PEs) in general and a particular accent on Communal Public Enterprises (CPEs) in the Republic of Macedonia.

During this reporting period, the MDW Policy Reform team attended meetings of Public Enterprises dealing with waste collections and management. These meetings identified the following problems in the area of waste management:

1. Low collections by the PCEs and the legal obligation of the Enterprise to pay the VAT (18%) on the billed amount. This has been a problem in the past. It is especially grave since the GoM controls the levels of the charges and they have been frozen since 1995.
2. The new Law on Waste Management defines very rigorous standards for waste management. It also prescribes that only those companies that meet those standards (proper equipment etc.) will receive a permit from the Ministry of Environment and Physical Planning for performing the activity. Given that there is very little capital investment by municipalities improving the PCEs, it is anticipated that on the current course they will be unable to meet the requirements when they come into law in two to three years.

The MDW Policy Reform team is also a member of the Donor Coordination Group on public enterprises and in that regard participated in several donor meetings.

Policy paper on the legal obstacles for the functioning of the Public Enterprises was drafted. The main counterpart in the advancing of the reforms in this area will be ADKOM's policy committee which will be established in the period ahead.

Following the questionnaire sent to all primary and secondary schools in the country asking for information on the status of the school property, MDW constructed and initiated the building of a database with this information. We expect the completion of the database by mid-December.

It will be used for assessment and analyses of the school property to be devolved to the municipalities with the first phase of decentralization.

The Minister had reconstituted the Working Group on Education Decentralization, with a specific task to draft the sub-legislative legal acts governing the devolution of responsibilities and finances. MDW is a part of the new Working Group.

The Analytical Unit of the Ministry of Education has prepared a new simulator to analyze the effects of various allocation scenarios, taking into account the new territorial division of Macedonia.

### **Next Quarter Activities**

- A methodology for distribution of equalization monies to municipalities will be developed.
- The MDW Policy Reform team will work on the reconciliation of debt, and will initiate discussions among MoF, creditors and municipalities.
- The MDW Policy Reform team and the MoE's Working Group will work on developing the implementing regulations for education decentralization.
- The establishment of the ADKOM policy committee for the advancing of policy reform and communicating the policy paper within ADKOM.

## IR 2.3.2. - “Effective Relationship between Citizens and Local Government Exists”

### Summary of Quarterly Accomplishments

- Most of the program work was focused on maintaining contacts with Citizen Information Center (CIC) staff in order to obtain up-to-date developments in their activities and needs, as well as the preparation of the forthcoming two-day workshop for the CIC Network, which will involve participation from ZELS representatives. In addition, the Citizen Participation team assessed the past LGRP lessons-learned, contacted potential new partners and coordinated with other donor groups interested in supporting or expanding CICs.

### Activities’ Implementation

Freestanding CP  
Activities

## Expand and Enhance the CIC Network

As it was announced to the CIC Network Coordinative Body members at the meeting held in September together with ZELS, MDW will continue providing technical assistance to the network. In this context, initial steps were taken, as the CP team has started preparations for two-day workshop, which will take place in November.

Staff from all CICs is invited to take part and the agenda of the event will cover several topics:

- A presentation of the overall MDW activities for the upcoming year, especially focusing on the technical assistance to the CIC Network, including the active involvement of ZELS;
- A presentation of the LOGIN system by ZELS;
- Preparation of CIC outreach plans.

Facilitators from CIRA - the Center for Institutional Development - were contracted by MDW and will assist in achieving the goals of the workshop.

Highlights from contacts with the CICs include an expressed necessity from their part to continue with the regular CIC meetings as they find them very useful for exchanging experiences and best practices.

Worth mentioning is the newly introduced automatic interactive information system in the municipality of Karpos, the promotion of which was supported through LGRP. Since its launch on September 1, they have had more than 220 calls, which were registered on the computer and feedback was provided to citizens, especially if their request/problem was related to a regional unit. From the calls received until now, it can be concluded that citizens mostly requested that speed bumps were laid on certain streets and they informed about damaged vehicles to be towed away. If another Skopje municipality is interested (and from what Karpos staff has reported to us, it seems that they are), in cooperation with the company providing the service, they could make the phone number free of charge for the citizens - the municipality would cover the charges. This specific addition to the services provided by the CIC, will be presented to the other CICs through CIC Network meetings.

Other preliminary discussions for possible cooperation have taken place with organizations with which we have already conducted joint activities, such as the local NGO OXO. They were one of our associates during the educational campaign in LGRP's year 5 and have approached MDW with readiness to continue collaboration on issues of ongoing education and guidance of citizens on what to expect from their local governments.

The implementation of the cross-cutting CP activities is scheduled to begin next quarter.

### **Next Quarter Activities**

- Two-day workshop for CIC Network and ZELS representatives on Public Outreach will be held at the end of November.
- Two municipalities with neighborhood unit task forces to be established in will be selected.
- An analysis of the regulatory framework on possible e-local government services will be done.
- A survey on what citizens would like to have in a Business Improvement District (BID) area will be conducted.

## IR 2.3.3. - “Municipal Associations Satisfactorily Serve the Interests of Their Members”

### Summary of Quarterly Accomplishments

- ADKOM Professional Staff was recruited.
- ZELS Financial Management improvements initiated.
- ZELS Staff Retreat conducted.

### Activities' Implementation

Strengthen ZELS  
Training  
Capacity and  
Organization

Enhance ZELS  
Policy  
Development  
and Advocacy

Realign ZELS  
Financial and  
Management  
Structure

The implementation of these activities will begin next quarter.

#### Sub-activity: Strengthen ZELS Financial Management Capacity

##### ZELS AUDIT

As a follow-up of the comprehensive audit of ZELS' financial and management practices that Ernst & Young, Certified Auditors, Ltd. Skopje undertook in the course of July 2004, the MDW staff met with the auditors, the ZELS Finance and Audit

Committee, and ZELS Executive Director, Dusica Perisic to review the findings presented by the auditor in the Draft Management Letter on September 24.

The auditors made eight (8) findings in the Management Letter (non existence of payroll calculations; manual, non-integrated fixed assets register; noncompliance with the rule-book for accounting related to the depreciation rates applied; advances for business trips not cleared timely; improper disclosure of short-term, non-interest bearing loan; lack of written policies and procedures related to procurement; budgeting system deficiencies; and lack of policies and procedures for employment and termination of employment).

Three (3) of these eight (8) are related to the accounting software that is used by ZELS. Immediate actions were taken to correct these shortcomings and the developer of the software has been requested to amend and upgrade the software in order to serve these purposes. For more details please consult the “*Draft Management Letter*” and “*Draft ZELS Audit Report*”. The MDW CoP and Municipal Manager Jim Gordon, who is also a certified public accountant, met with USAID concerning the matter and presented in writing further suggestions for addressing financial irregularities.

In the next quarter, the MDW Association Development (AD) team will further assist the work of the ZELS Finance and Audit Committee in defining the actual steps that are to be undertaken in order to implement the auditor’s recommendations. MDW has made it clear that MDW grant funding for the Association will be conditioned on full implementation of reforms identified by Ernst & Young and/or Gordon, with USAID consultation.

### **ZELS STAFF RETREAT**

As part of the institutional development of ZELS staff, MDW supported a three-day retreat for the ZELS employees. The retreat took place from October 15 - October 17, 2004. The facilitator engaged for this purpose was Mr. Stanislav Petkovski, a renowned professional with wide experience in the sphere of psychology, transactional analysis and developing team-building skills. During the three-day retreat Mr. Petkovski carried out various practical exercises which largely contributed to the strengthening and building of the ZELS team. The participants defined the sessions as extremely constructive and valuable for their future work.

## **Reorganize AFO Governing and Financial Management Structure**

### **Sub-activity: Strengthen AFO Governance Process**

As stated in the MDW workplan, strengthening the governance process of AFO requires two activities that are mutually reinforcing --- reorganizing the executive board and creating new by-laws.

These two objectives of the AD team were presented to the AFO Executive Board at their October meeting. The Board members welcomed and accepted our suggestions in this regard and clearly committed to undertaking the necessary steps to make the changes. It was agreed that AFO would undertake a revision of its by-laws for submission to the next General Assembly of the association to be held in January 2005. The revisions would include the following points:

- Identifying the proper role for a single person to be designated “President” of the association and setting a term for that office at one to two years.
- Establishing two-year overlapping terms for members of the Executive Board and a maximum of two terms.
- Defining the role and responsibilities of the Executive Director of the association.
- Establishing the criteria for “members” of the association and the processes for exercising voting rights for election of Executive Board members and leadership positions, by-law revisions and fiduciary financial responsibilities.

They agreed that the draft revised version would be submitted by November 2004.

**Sub-activity: Strengthen AFO Financial Capacity**

**AFO Executive Board Meeting with MDW Staff**

On September 22, 2004 the MDW staff met with the AFO Executive Board to discuss the future framework of the technical assistance that MDW would provide to AFO. Among the short-term priorities and actions that the AFO Executive Board members committed to undertake was to conduct a comprehensive financial and management audit of its accounts with costs to be borne by MDW. Although it was expected that immediate steps would be taken after this meeting, no action was started within the period of one month. The MDW’s staff maintained regular contacts with the AFO President, Executive Director and staff but due to the internal indecisiveness within the association the entire process was brought to a standstill. It will hopefully be resolved during next quarter.

**Build ADKOM  
Capacity to  
Provide Member  
Services**

**Sub-activity: Establish an ADKOM Executive Office**

**ADKOM Professional Staff Recruited**

MDW provided technical assistance to ADKOM in applying an open and competitive recruitment process to hire the new professional staff. Job descriptions were developed for three vacant positions: Executive Director, Project Manager and Technical Secretary. This facilitated the development of the selection criteria, the formulation of the newspaper add and the interviewing procedures. Over 200 applications were screened by the ADKOM recruitment committee where MDW was represented. Interview questions were drafted by MDW. ADKOM Board held the second session on October 27 and chose the best candidates: Mrs. Lolita Stojanovska was appointed as the new ADKOM Executive Director, Mrs. Lidija Fajdiga will be the Project Manager and Mrs. Fani Karamiha will serve as the ADKOM Technical Secretary. The contracts with the newly appointed staff will be developed and signed during November.

**Office Space**

The office space offered by one of the ADKOM members did not meet the technical requirements, although it was positioned in a good Skopje location. The ADKOM Board Members are still searching for a low-cost space to rent and it is expected that they will find one by the beginning of the next quarter.

### Technical Assistance in fundraising

MDW assisted ADKOM to raise funds for the start-up activities. Several meetings were held with the Macedonian Center for International Cooperation (MCIC) director and program staff. A project proposal that was drafted and submitted to MCIC was approved. This institutional development grant of 310.000 MKD will cover the initial ADKOM operational costs including the salaries for the period November 2004 - January 2005.

### Equipment for ADKOM Office

Offers for ADKOM office equipment were collected. The purchase and delivery is pending on the quest for the office space.

Develop ADKOM  
Policy Process

No activity in this quarter.

### **Next Quarter Activities**

- The MDW AD team will provide technical assistance to ZELS in recruitment process for the new Training Officer.
- The ZELS Finance and Audit Committee will present the final audit report before the ZELS Standing Committee at one of the next quarter sessions.
- MDW will fund the purchase of equipment for the ADKOM office.
- An ADKOM Member Survey to help ADKOM determine what kind of services they expect to receive and those for which they are willing to pay additional fees will be designed.
- MDW AD team will provide technical assistance to ADKOM in developing its Member Outreach Plan.
- ADKOM Policy Committees will be established.
- AFO will be provided assistance in developing its new by-laws.
- A comprehensive audit of AFO financial and management accounts will be conducted.

## IR 2.3.4. - “Local Governments Improve the Management of Municipal Services”

### Summary of Quarterly Accomplishments

- Three draft municipal budget manuals on budget related matters have been completed and given for review to the Ministry of Finance.
- For the purposes of enhancing financial management, the MDW Municipal Management team did an assessment of currently used financial management software that resulted in need to upgrade them in order to meet the new/upcoming MoF standard requirements and reporting formats, new classification of revenues and expenditures and USAID contracting requirements regarding financial management as well.
- The MDW Municipal Management team drafted questionnaires on finance and budget related matters, property tax, urban planning and permitting, local economic development and human resource management that will be a part of the initial MDW needs assessment.

## Activities' Implementation

### MUNICIPAL FINANCE

#### Sub-activity: Enhance Financial Management

During this reporting period, MDW had several coordination meetings with Ernst & Young and the Ministry of Finance representatives regarding the finalization of the first draft of three manuals:

- 1) Legal Framework for Financing of the Units of Local Self-Government,
- 2) Preparation of Municipal Budgets - Operational and Capital, and
- 3) Budget Execution (financial operations) according to the new Law on Local Government Finance.

MDW and the Ministry of Finance representatives provided comments which were incorporated in the draft manuals. Each manual will contain a summary, glossary of the key words and concepts, questions for revision of the chapters' contents and reference list of laws, lessons learned related to appropriate chapter, exercises and case studies for manuals #2 and #3.

In cooperation with OSCE staff, MDW Municipal Management team provided the test-run training on Effective Budget Preparation for finance officers from five Skopje's municipalities - Centar, Karpos, Gorce Petrov, Suto Orizari and Saraj in MDW office in September 2004. By the end of the training, the participants developed budget calendar in compliance with the new MoF required steps and made case study for designing a budget based on real estimation of revenues and expenditures.

#### Assessment of the Financial Software Package

With regard to utilization of LGRP supported financial management software by some municipalities and the new/upcoming MoF requirements, MDW Municipal Finance team did a comparison with other software that is being used in the MoF regional units. The current financial management software, which was installed in 2002 in 19 municipalities, operates well in general but it needs to be upgraded in order to meet the new/upcoming MoF standard requirements and reporting formats, new classification of revenues and expenditures and USAID contracting requirements regarding financial management as well. In cooperation with the local software company, MDW will work on upgrading and testing the financial management software during the next quarter.

#### Municipal Finance Management Coordination

In order to have better coordination of activities related to local government financing and to provide more effective assistance to municipalities, MDW Municipal Management team participated in several coordinative meetings with EAR, World Bank Community Development Project, OSCE Public Administration Reform Department and MoF representatives. The meetings were used for presentation of each organization future plans on the key areas. To avoid overlapping of certain activities, it was agreed to form mutual working groups that would coordinate future steps in the further implementation.

**Sub-activity: Real Estate Valuation, including Real Estate Valuation Methodology**

**MDW Continues the Work with the MoF Working Group on Real Estate Valuation Methodology**

After LGRP’s real estate valuation advisor meetings with the Working Group, when the basic principles and a possible outline for the Real Estate Valuation Methodology were proposed for further discussion, MDW will continue to provide technical assistance to the Working Group on the finalization of the Valuation Methodology.

The Working Group is working actively to reach the deadline for developing a Real Estate Classification which is the end of December 2004 that will serve as a base for further work.

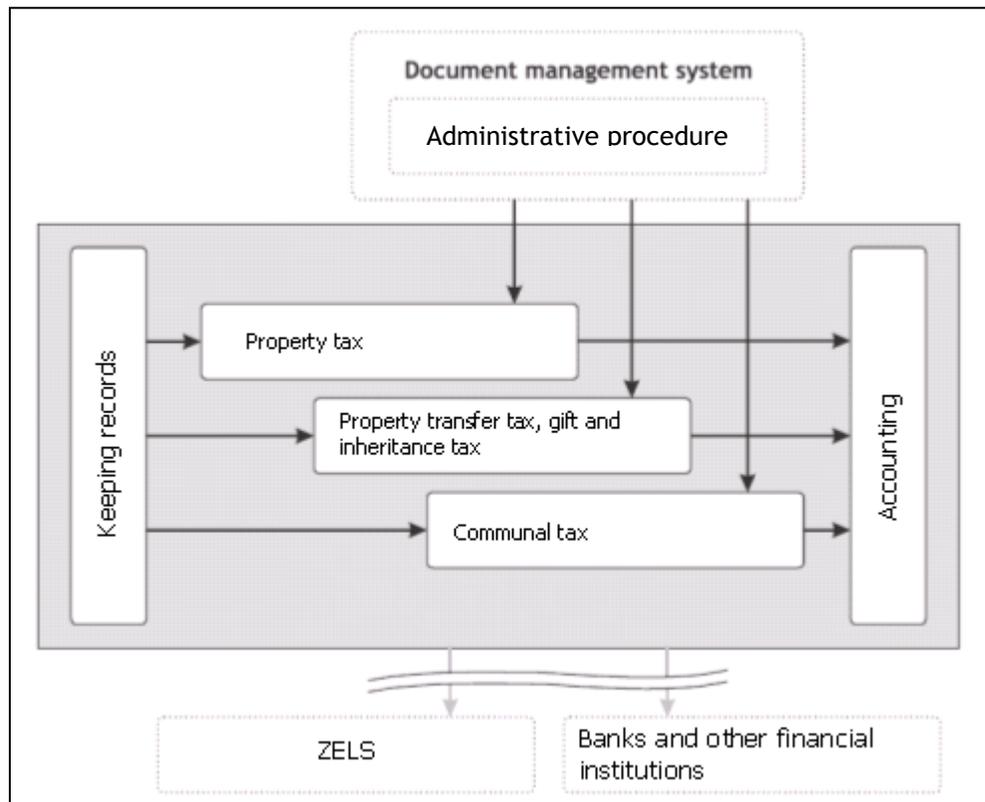
**Sub-activity: Install IT Hardware and Software**

**Property Tax Administration Software**

The MDW project inherited from LGRP one complete software package for communal tax administration and one functional software design for administration of property taxes.

After having established contacts with both tax and IT experts and obtaining relevant feedback from LGRP tax pilot municipalities, MDW published an invitation for bids to develop and integrate one broader municipal tax administration system.

The new integral property tax administration software should consist of the modules on gray background presented below:



## MUNICIPAL SERVICES

### Improve Urban Planning Capacity

During this reporting period, the MDW had several introductory and coordinative meetings with VNG (implementation company of the EAR's Urban Planning project) representatives when MDW presented both the achievements accomplished in this sphere during LGRP and future plans. It was agreed to maintain the cooperation and exchange of information.

The preparations for the inauguration of Gevgelija's Urban Planning/One-Stop Permitting Center (one of the four LGRP Y5 pilot municipalities) has been initiated in late October. It is expected that it will take place beginning of the next quarter.

### Institutionalize Local Economic Development

During this reporting period, the MDW activity manager had several meetings regarding the new project and planned activities related to LED. Mayor of Kavadarci, LED coordinators from Kichevo and Valandovo expressed their interest for the LED program as well as their enthusiasm for the future cooperation. The MDW activity leader on LED also met with UNDP representatives to exchange the experience and lessons learned in the past three years.

Consultative meeting was held with Veles LED Coordinator at his request discussing the development of Strategic Plan of Veles. Some of the previous experiences on Community Planning Board gathering, enforcing the work on strategy development and similar was found as very useful by the coordinator.

### Provide Supporting Information Technology

The implementation of these activities will begin next quarter.

## Next Quarter Activities

- The municipal needs assessment questionnaire will be finalized, municipal feedback obtained and MDW participating municipalities selected.
- The Real Estate Valuation Methodology will be developed and adopted by the MoF by the end of the next quarter.
- First draft of the software package for communal tax administration and property taxes will be ready for testing by the end of next quarter.
- Property Tax Manual will be completed.
- In cooperation with the local software company, MDW will work on upgrading and testing the financial management software during the next quarter.

- Municipal budget manuals will be finalized and distributed to all municipalities.
- Gevgelija Urban Planning/One-Stop Permitting Center will be inaugurated.
- Depending on the agreement with USAID, one or two more Urban Planning/One-Stop Permitting Centers will be inaugurated.
- A pilot municipality for implementing Business Improvement District (BID) will be selected and the implementation of the activity will begin.
- Detailed IT Assessment will be conducted in 12 municipalities selected on the basis of the general municipal needs assessment. This assessment will obtain current information and IT needs for each municipality.

## Program Performance Monitoring and Evaluation

Monitoring and evaluation of performance and impact of MDW activities will be an on-going process. For that purpose, a comprehensive, three-year Performance Monitoring and Evaluation Plan (PMEP) intended to measure both the program outputs and impact was developed at the beginning of this reporting period along with the Year 1 Work plan.

The MDW PMEP has two (2) goals: 1) to provide useful, timely information for results-based management decision making, accountability, and mutual learning experiences; and 2) to increase the plausibility of impact attribution - that is, to substantiate the project's intermediate and long-term impacts to the degree possible.

To achieve these goals, the MDW Monitoring and Evaluation (M&E) staff, in cooperation with USAID/Macedonia, will work with two (2) methods for tracking MDW activities and directly correlating project activities to measurable impacts. These methods are:

- The Macedonia Municipal Capacity Index (MMCI)
- The Performance/Workplan Monitoring and Impact Indicators.

### **Municipal Capacity Index**

The Macedonia Municipal Capacity Index (MMCI) is an innovative monitoring and evaluation tool. It is a weighted index that measures the changes in institutional capacity and performance of municipal governments in the major areas of training and technical assistance. It will serve a variety of purposes, including:

- As a monitoring and evaluation tool that helps to assess impact objectively,
- To help project staff identify municipalities with good performance as potential mentors for other municipalities,

- To assist project staff build capacity within municipalities by helping them identify strengths and weaknesses rapidly.

Twenty municipal performance indicators under five general functional areas of training and technical assistance were defined and included in MMCI. Those are:

1. Municipal Management and Financial Management Capacity

- a. Training to meet GoM standards in major competencies
- b. Improved budgeting practices
- c. Established capital asset planning and debt management
- d. Integrated financial system

2. Municipal Tax Administration Capacity

- a. Incorporation of property tax department into municipal finance office
- b. Development of valid property register
- c. Adoption of revenue forecasting
- d. Improved billing, accounting, and enforcement

3. Transparency and Citizen Participation in Decision Making

- a. Establishment and utilization of citizen advisory or review boards
- b. Adoption of legal requirements for public participation
- c. Use of budget public hearings or meetings
- d. Participation in public-private local economic initiatives

4. Public Records, Urban Planning, and Regulatory Management Capacity

- a. Establishment of e-Governance and IT for citizen use
- b. Establishment of departmental IT integration
- c. Establishment of updated land use records
- d. Improved urban planning and regulations

5. Provision of More Accessible, Convenient and Customer-Oriented Services

- a. Establishment of IT local and regional networks
- b. Enhancement of citizen information about evaluation of public services
- c. Establishment and improvement of citizen information centers
- d. Improved responsiveness and convenience of permitting functions.

***Index Scale and Weighting***

As noted above, the MMCI consists of five categories of four questions each. The MMCI employs a scale of 100 points and weighs all five categories equally (up to a maximum of 20 points each). Each question is graded on a five-point scale. Most of the questions, follow the same scoring progression: zero points—municipality is not in compliance with the law or ideas espoused by the program; one point—municipality is compliant with laws or has reached a minimum standard; two points—some additional steps have been taken to improve; three points—further steps have been taken, or are better integrated, or were taken with a view toward longer term planning; four points—citizen feedback is incorporated into the change and/or more formal and

comprehensive procedures have been adopted; five points—municipality has reached the ideal level, impact is clearly recognized and institutionalization is assured. Scores are progressive. That is, a municipality must meet all the criteria assigned to points 1, 2, and 3 before it can be considered for 4.

#### ***Independent Evaluator for MMCI Data Collection & Selection of Representative Municipalities for Baseline Assessment***

For the purposes of data collection for determining the baseline and the progress data that will be collected and reported on annual basis, MDW sent a Request for Proposals (RFP) and received proposals from four (4) Macedonian qualified survey research firms at the end of October, 2004. On the basis of specific evaluation criteria that were included in the RFP, MDW evaluation committee with the input provided by USAID CTO and Project Development Specialist, selected STRATUM Research and a procurement agreement for conducting baseline assessment during November was signed.

The contracted firm will carry out the baseline assessment in six (6) representative municipalities of Gostivar, Resen, Stip, Suto Orizari, Strumica and Kratovo. The municipalities were selected by a MDW selection committee composed of MDW staff members and on the basis of the following criteria: geographic balance/distribution, population size, ethnic diversity, with/without LGRP assistance, mayor's political affiliation.

#### **Performance/Work Plan Monitoring and Impact Indicators**

The Performance/Work Plan Monitoring and Impact Indicators (PMP) represent an integral part of MDW PMEP. They were developed to track program outputs as well as program impacts on annual basis. In addition, the PMP includes indicators that will help both USAID and MDW staff to determine how successful MDW's implementation is according to the seven anticipated accomplishments and the seven major activities discussed in the task order.

The PMP will complement the MMCI in terms of measuring impact at the municipal level, but also will show the progress made in the areas of policy and regulatory reform as well as municipal association capacity building.

During this reporting period, the proposed PMP that was submitted to USAID along with the Year 1 Work plan for their revision was reviewed and certain changes to it were suggested by USAID CTO at a meeting held on 27 October. In general, all the proposed indicators were approved and the next steps agreed on, including: inserting the PMP indicators in MDW TAMIS, revision and definition of the proposed targets on annual basis, and collecting and inserting baseline data.

#### **Next Quarter Activities**

- The first week of November, MDW with the assistance of Dusan Petrovic, a MCI Advisor will provide training on MMCI methodology, data collection and baseline assessment to the contracted independent evaluator firm, STRATUM Research, and MDW program staff.

- By end of November 2004, baseline assessment in six (6) representative municipalities will be conducted, MMCI baseline data gathered, analyzed and submitted to USAID.
- By end of November 2004, MMCI will be reviewed by program teams during the training on MMCI methodology, data collection and baseline assessment and revisions submitted for USAID final approval.
- By end of November 2004, MDW program teams will define MMCI program target scores.
- By mid December 2004, additional information on PMP indicators that was agreed with USAID in October such as baseline data, definitions, and revised targets will be added and revisions submitted for USAID final approval.