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MAKE DECENTRALIZATION WORK PROJECT

Development Alternatives Inc.

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

Quarterly Report

MACEDONIA MAKE DECENTRALIZATION WORK

Quarterly Report

November 2004 - January 2005

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

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EXECUTIVE SUMMARY

MDW had a busy and productive quarter in all areas. Progress continued on legislative issues and the development of training materials and systems also moved forward. The Macedonian political landscape, always challenging, remained so with the resignation of the Prime Minister. With the installation of the new Prime Minister, Vlado Buckovski, came a change of several key ministers and senior officials.

The looming issue of Territorial Organization, which had both slowed and endangered the decentralization process, was resolved legally by the referendum held November 7, 2004. The voter turnout was well below the fifty percent threshold required for the result to have legal effect. However, this appears to have been accomplished mainly on the basis of party discipline. The fact that an overwhelming majority of those who voted, and indeed of all ethnic Macedonians, opposed the Territorial Organization plan suggests that while the issue is over legally, the acrimony remains and continues to undermine public belief in decentralization.

With MDW assistance, the methodology for distribution of equalization funds from the 3% VAT was drafted by the Working Group of the Ministry of Finance. Policy choices for creating a municipal debt resolution plan were developed and presented to the Local Government Department of the Ministry of Finance and to the Donor Community. A policy issues paper on the regulatory obstacles to the functioning of public communal enterprises was submitted to ADKOM for further revision, before the next stage when it will be vetted by relevant stakeholders. The most successful plan for decentralization of functions and finances, according to Ministry of Local Self-Government, is the one produced by the Ministry of Education produced with intense assistance from MDW. This plan will be shared with the rest of the line ministries to serve as an example.

Citizen engagement work included supporting the Citizen Information Centers in developing public outreach plans; twelve Centers now have such plans. A detailed questionnaire on citizen participation in decision making was developed and distributed to all municipalities. More than 50 municipalities have returned the completed questionnaire which will be used by the CICs to guide their next steps. The CP team worked with the Municipal Management team in preparing the public survey part of the Business Improvement District activity. Implementation must await the conclusion of the local elections in the coming quarter.

For the Association Team, ADKOM continued its startup with thirty-four Enterprises applying for membership, this being over fifty percent of all the enterprises. MDW helped equip the ADKOM office. The Association of Finance Officers (AFO) made some steps toward the reforms MDW considers essential. The By-laws were amended and a complete audit was agreed to and initiated. ZELS designed a new administrative organization structure to meet the ever-growing demands on their time and staff resources.

The Municipal Management Team continued to prepare for its enormous task of delivering training to many municipal officials on a variety of subjects. Manuals and training materials were produced for finance and budget and for property tax administration. The finance materials are being developed in an innovative partnership with the World Bank, OSCE and the Ministry of Finance.

The Team sent municipal capacity questionnaires to all eighty-four (new) municipalities; as of the end of the quarter, the return rate is about sixty percent.

With the expertise of Martin Richard Miller and MDW staff member Igor Kostovski, a strategy for addressing the issue of land tenure security was completed and presented to USAID for review.

ADMINISTRATION

The local staff of MDW reached twenty-three full time members during this quarter, plus one short-term translator. To comply with US Government guidelines, some computers were replaced with new equipment. Much of the retired equipment will be available for distribution to local or association partners, upon approval of USAID. An additional vehicle was received from the Community Self-Help Initiative, now in a wind-down phase. This will reduce the need for hiring outside vehicles and drivers. Also, to save money, one of the TDY apartments was terminated. Needed hotel accommodation has been moved to the Best Western from the Holiday Inn, with a saving per guest-night of approximately thirty dollars.

DAI's management information system, TAMIS, has been effectively implemented, resulting in much improved information management throughout both the program and administrative areas of MDW. All administrative systems continued to work effectively to support the program needs of the project.

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

Summary of Quarterly Accomplishments

- With MDW assistance, the Methodology for Distribution of Equalization Funds from the 3% VAT was drafted by the Working Group of the Ministry of Finance.
- MDW Policy Reform (PR) Team and STTAs developed policy options for creating a Municipal Debt Resolution Plan and presented them to the Local Government Department of the Ministry of Finance and representatives of donor community.
- Policy issues paper on the regulatory obstacles to the functioning of public communal enterprises developed by MDW was submitted to ADKOM for further revision, before the next stage when it will be vetted by relevant stakeholders.
- The most successful plan for decentralization of functions and finances, according to the Ministry of Local Self-Government (MoLSG), is the one produced by the Ministry of Education and Science (MoES) with the assistance of MDW PR Team. This plan will be shared with the other line ministries to serve as an example.

Activities' Implementation

The Ministry of Finance Working Group on the equalization formula met this quarter and with the MDW assistance agreed on a proposal for the equalization formula. The activities for the preparation of the municipal debt resolution plan are on schedule, and the Ministry of Education and Science, with the MDW PR Team assistance, is active in the drafting of the by-laws for the implementation of decentralized functions.

The above actions may also reflect a recent initiative of the Government of Macedonia (GoM) to place activities related to decentralization at the top of its

priorities for the period between January and July 2005, announced at the GoM session held on January 10, 2005.

This in practice means that the ministries are to come up with a plan for decentralization of functions and appropriate funds by the end of January 2005, which the GoM will officially issue by the end of March 2005. On the other hand, the implementing by-laws need to be drafted and issued by the line ministries by the end of March 2005.

In order to offer more guidance in this area, the GoM asked the Ministry of Finance and the Ministry of Local Self-Government to form a team to visit all the line ministries to discuss, clarify and provide assistance with this task.

The above was confirmed and reiterated for MDW at two separate meetings with the new Minister of Local Self-Government (after the reconstitution of the Government early January 2005) Rizvan Sulejmani, and old-new Minister of Finance, Nikola Popovski.

At the first meeting, on January 19, 2005 the USAID and MDW representatives briefed **Minister Sulejmani** of all the activities in the area of local government reform. From the discussion, it was evident that the Minister was already well informed of the activities of USAID in the area of local government reform. He was also very eager to strengthen the communication and work ties between the MoLSG and MDW. Monthly meetings and briefings were suggested.

On January 20, 2005 the USAID and MDW representatives met with **Minister Popovski** to discuss issues related to decentralization. The Minister informed that at the last two sessions of the GoM, decentralization was an issue with highest priority. Issues that were raised with Minister Popovski were:

- The staffing of the Local Self-Government Unit recently established.
- The municipal debt resolution.

MDW informed the Minister that it was going to finalize the activities on the equalization formula with the assistance of the MDW Policy Reform expert, Tony Levitas, the first week of February and asked him to again consider having Skopje excluded from the formula.

During this reporting period the MDW PR Team was also involved in activities that relate to improving donor coordination and cooperation in the area of local government assistance. In this respect, the MDW PR Team Leader Ristovska, joined the USAID CTO for MDW, Dr. Salja, in the Presentation of USAID Local Governance Program at the ECANet Conference organized by the World Bank in Ohrid from November 29 through December 1, 2004.

From January 22 - 29, 2005, the MDW PR Team Leader participated at the first part of the Course on Financing Cities in Transition, organized by the Local Government and Public Service Reform Initiative of the Open Society Institute in Budapest. The second part of this training will take place from March 6-12, 2005. The first part of the course discussed the various options for urban development and strategies, as well as the financing of the urban development.

As requested by USAID, the PR Team was also active in the training of candidates for Mayors for the upcoming elections organized by IRI and NDI. This was an additional task outside of MDW's original scope, but MDW was best placed to provide information on decentralization and associated policy reform. One of the areas of high interest to these people was the financing of the local government as per the new Law on Local Government Finance. Ristovska participated in such a training session on 30 January, by presenting and discussing issues related to the finances of local government.

Support Fiscal Decentralization

Sub-activity: Assist the Ministry of Finance in Developing Secondary Regulations Necessary for the Implementation of the Law on Local Government Finance

Policy proposal for allocating equalization funds was developed during this reporting period. - The pool of equalization moneys, as stipulated by the Law on Local Government Finance, will be comprised of the 3% VAT revenue collected in the previous fiscal year. In numbers, this means that the pool for 2005 would be around 730 million MKD¹. (This amount will be divided in half for 2005 as under the current scenario for 2005, decentralization will begin on July 1, 2005.)

The idea behind distribution of equalization moneys is to compensate poorer jurisdictions for their lack of local fiscal capacity, thus, the ideal distribution of equalization grants to municipalities would be the allocation of these moneys on the basis of an objective measure of their relative per capita fiscal capacity, and in proportion to the relationship of this measure to the national average.

The MDW PR Team collected various sets of data, structured it in a database, and conducted numerous analyses in order to establish an objective measure of relative wealth for each municipality. Data sets of population, electrical energy consumption, employment, property transfer tax, and real estate tax were compared at the level of 34 municipalities and, where possible, for 84 municipalities. This was done for the purpose of finding a statistically significant correlation among these numbers, one which would help us create an objective measure of the relative fiscal capacity of Macedonia's 84 new local governments. Unfortunately, the correlation coefficients found were statistically insignificant and thus, the PR Team was not able to find a proxy measure and create a weighted per capita equalization formula.

The analyses furthermore showed that the City of Skopje and its component municipalities under the new system of financing will be the richest jurisdictions in the country. (In 2003, the per capita income of the City of Skopje was more than 300 percent the average of all other local governments). By excluding Skopje and its municipalities from the system of equalization, and by distributing the funds on a straight per capita basis, the ratio between the richest and poorest jurisdictions would decrease from its current level of about 7 to 1 to about 3 to 1. In this way, the distribution of the funds would have a real equalizing effect on the system.

¹ Under the current system of financing of the local government, the total operating revenue in the sector is about 1.1 bill. MKD. So, the 3% of VAT is in this respect a significant increase of this amount.

The MDW PR Team, at a two-day session (January 31 - February 2, 2005) of the Working Group of the MoF including the representatives from MoLSG and ZELS, presented these findings and:

1. Strongly suggested that Skopje with its municipalities be excluded from the system of distribution of the VAT revenue.
2. Proposed that the distribution of VAT monies be on a straight per capita basis.

The members of the Working Group agreed with the suggestions, and also discussed the possibility of setting aside a reserve of 3% of the fund (c. 24 mil. MKD) to be used to help jurisdictions whose own revenues under the new system are insufficient to allow for their adequate functioning

The Methodology for the Distribution of the Equalization Funds from the VAT revenue was thus drafted to reflect these positions of the working group.

Sub-activity: Support the Development and Implementation of a Debt Work-out Plan for all Local Governments

The Law on Local Government Finance specifies a set of pre-conditions that have to be met in order for local governments to begin to receive general grants from the Budget of the Republic of Macedonia with the implementation of decentralization.

One of these preconditions is that the municipalities that have unpaid liabilities from before December 31, 2001 will not be eligible for general grants from the national government unless they have put in place debt work out plans before the implementation of fiscal decentralization begins (July 1, 2005).

The MDW PR Team, strengthened by senior sub-sovereign debt specialist De Angelis and Gruevski, a local financial analyst, is the principle advisor to the MoF in the activity for municipal debt resolution. MDW compiled a database with the information on the municipal debt from the respondents to the public call of September, 2004. Debt was assessed and analyzed by MDW experts and it was categorized in three basic categories - 1) debt from expropriation, 2) debt to the electrical company, and 3) construction debt.

Once the database was complete, the next step in the development of a Debt Relief Plan was to assess each municipality's "ability to pay" debt in the future. Such an assessment requires an analysis of the impact of the Law on Local Government Finance and other decentralization reform measures on revenues and expenditures of municipalities. Unfortunately, such information at the moment is not reliable.

As a result of the inability to reliably predict a municipal "ability to pay" based on current information, the debt limitation contained in the Law on Local Government Finance has been used as the basis of the debt capacity of a municipality, i.e. debt service in any year shall not exceed 15% of the overall revenues in the current operational budget of the municipality in the preceding fiscal year.

Assessment of municipalities' current operating revenues has been made based on certain assumptions (that may be further refined). Information on the municipal debt was analyzed against the operating revenues, and each municipality's debt payment capacity was assessed. Policy options for creating a Municipal Debt

Resolution Plan were developed by the MDW PR Team and above mentioned experts and presented to the Local Government Department of the Ministry of Finance and representatives of donor community.

**Improve the
Regulatory
Environment for
Public
Communal
Enterprises**

Sub-activity: Define the Most Problematic Regulatory Obstacles to Sound Management and Good Service Provision

A Committee for Legal-Normative Issues is one of ten policy committees that were established within the ADKOM's policy committees' structure (for more on this, please see Chapter 5, under *Develop ADKOM Policy Process*). Initial coordination meeting with the appropriate committees under ZELS and AFO was held with the MDW support.

The draft policy issues paper that was developed by MDW in the previous quarter was sent for review to ADKOM. The paper will be revised so that the final version would include the most important obstacles in the regulatory environment for public communal enterprises. All the relevant stakeholders in Macedonia will be involved in the development of the final version of this paper, including, besides representatives of ADKOM and public communal enterprises, also representatives of ZELS, AFO, GTZ, legal experts, consultants and representatives of the Ministries (MoF, MoESP, MoTC and MoES).

**Support for
Education
Decentralization**

In January 2005, the Ministry of Local Self-Government (MoLSG) tasked the line ministries with producing a Detailed Decentralization Plan by functions which are to be developed with the purpose of proposing a general Decentralization Detailed Plan to be adopted by the GoM. All the line ministries were provided with unified forms in which they were to define what functions that would be devolved, which laws define it, when it would happen, which institution or organ would be in charge of what, which immovable and movable property would be transferred, how many employees would be transferred, and the mechanism for allocation of the finances. The MoES staff, assisted by the MDW PR Team, invested a lot of time and team work in developing the plan, which was then approved by the Minister and submitted to the MoLSG. The plan submitted by the MoES was considered the most successful one by MoLSG (Ms. Elena Petkanovska, a coordinator of the plan development), and will be shared with the other line ministries as an example.

During the reporting period, the Education Decentralization Working Group met several times to discuss the issues raised at the meetings of the Inter-ministerial Coordinative Body for Decentralization of Government, and to organize the work of its four (4) sub-groups on (1) adopting an objective formula for the allocation of education funds, 2) adopting clear and transparent budgeting procedures for schools, 3) designing procedures for transfer of school property ownership to municipalities and 4) defining standards to be maintained by municipalities to ensure the continuity and safety of the education process.

In January, the GoM tasked all line ministries with drafting all secondary regulations necessary for implementation of decentralization and submitting them for approval by March 15, 2005. This implies that the MoES sub-groups tasked with the

development of these acts will have to intensify their activities in the following period.

Under the coordination of the main Working Group, the sub-groups re-organized, refreshed the teams with new members and in the next period will intensively focus on their tasks.

Sub-activity: Develop Implementing Regulations That Transfer Responsibilities

A new **simulator for 84 municipalities** is ready, and the members of the MoES Analytical Unit, guided by the MDW PR Team have been working on the formula for the new municipalities (as the final part of the report on "Key Issues of Per Capita Financing of Education in Phase I" that was started under LGRP/USAID and will probably be finalized by the end of March 2005). It is expected that the final formula will be presented to the MoES leadership in the first half of March 2005.

Sub-group on Adopting Clear and Transparent Budgeting Procedures for Schools

The **sub-group on adopting clear and transparent budgeting procedures for schools** of the Ministry of Education and the MDW PR Team met with the Ministry of Finance in November 2004 to discuss the progress on the developing new budgeting procedures for institutions under the local government as per the new legislation.

At this time, the MoF representatives were unsure of a) whether or not the municipal accounts will go under the treasury system and b) if a new, separate account will be established for the municipal financial transfers to schools (within school accounting system) or both the incomes from the MoES (for salaries) and from the municipalities (for maintenance) will flow into one account.

The MDW PR Team recommended that for the purpose of good monitoring (especially necessary in the first years of decentralization), the municipal transactions ought to be under the umbrella of the national treasury system, and that the schools should have an additional account for the municipal transfers. The MoF welcomed the constructive contribution from the MoES (as one of the largest budget users). It was agreed that the budgeting sub-group will prepare a proposal on this matter and submit it to the Ministry of Finance.

During December 2004, this sub-group met to discuss the new tasks, but most members, mainly from the financial sector of the MoF had not seen the Law on Local Government Finance, so the MDW PR Team explained the main concepts of this Law and supplied them with individual versions. It was concluded that for this work additional people from the MoF (municipal budgeting and treasury departments) need to be engaged. For that purpose, the Head of the Financial Sector of MoES sent an official letter of request for additional support from the MoF. The group was also concerned with the fact that the new Law on Budgets and the Law on Accounting were on the way and decided to wait for their passage (expected for January 2005).

In January 2005 the group membership was refreshed with new members (both from the MoES and MoF) and split into two teams for: a) preparation of financial plans and monitoring of their execution and b) procedures for financial planning execution. The continuation of the work will follow in early February.

Sub-group on Designing Procedures for Transfer of School Property Ownership to Municipalities

MDW compiled the **database of school property** on the basis of the responses to questionnaires received from schools. MDW is in continuous contact with MoES Investment Department receiving filled in questionnaires from schools and updating the department with the list of schools which have not submitted their response. For the purpose of resolving some of the problems that arose with the recording of the school property, the MDW PR Team did a presentation of the database to Mr. Boshko Gjurovski from the MoES Investment Department who has been dealing with these issues during most of his career in the MoES.

In early February 2005, MDW will present to the sub-group the latest update of the database and provide the members with some core reports and categorization of the school properties to be transferred to the municipalities. The rough estimate from the present condition of the database is that 40 to 50% of the school properties will have clear status, but the rest will have problems with compatibility of their files with the deeds issued by the National Institute for Geodetic Works (the Cadastre Office). For the “clean status” properties, the State Secretariat for Legislation will prepare a joint decision for transfer of properties which is to be passed by the GoM.

Sub-group Defining Standards to be Maintained by Municipalities to Ensure the Continuity and Safety of the Education Process

Regarding the **Draft Law on Student Standard**, the MoES once again asked for MDW's assistance. For that purpose, a number of meetings were held with Minister Polozani, the Student Standard Department, and the Finance Sector at the MoES and others, to discuss the main problems of the dormitory accommodation for high-school students. Three dorms were visited, and the Analytical Unit produced a questionnaire, based on which a survey of the general conditions of the dorms will be conducted during the following period.

MDW PR Team recommendations on the Law on Student Standards were submitted to the Working Group in late November 2004, with the main recommendations being:

- delay the decentralization of the dorms for the second phase;
- introduce accommodation in families for secondary education for cases where the dorms are used with very small capacity.

These recommendations were incorporated in the January draft of the Law.

The members of the **sub-group for standards** to be maintained by municipalities to ensure the continuity and safety of the education process revised the existing norms and regulations for normal working conditions in schools, produced by the Bureau for Development of Education. Those norms were produced in the early eighties, but have been updated every year. The Ministry is in charge for the norms on space and equipment in the schools. During January 2005 the sub-group was strengthened with two experts from the national Bureau for Development of Education but the first meeting will take place in early February 2005.

Sub-activity: Improve Capacities for Decentralization Management in the MoES

In January 2005, a decision was made for the Analytical Unit to be doubled in staff and Nuri Lachka (in the previous years trained and funded by LGRP) was assigned as the Head of the Unit. Draft 2005 Work Plan for the Unit was designed by the MDW PR Team and submitted to the Head of the Unit for his input. MDW will continue its support to the Unit by supplying additional IT and office equipment and providing necessary training for the new employees. MDW will also support building the capacities of the “old” members by providing more advanced training for them.

Next Quarter Activities

- MDW PR Team will be assisting the Ministry of Finance in developing the budget circular and budget and year-end reporting standards for local governments.
- With the assistance of MDW, the MoF will work on finalizing the Debt Relief Plan before negotiations with the creditors begin.
- The municipal responses to the MDW questionnaires (out of 84, 54 municipalities replied) will be analyzed and used as basis in defining the most problematic obstacles in the regulatory environment of the public communal enterprises.
- The members of the ADKOM Governing Board and the Committee for Legal-Normative Issues will agree on and define the most problematic regulatory obstacles in the regulatory environment of the public communal enterprises in a meeting or workshop that will be supported by MDW.
- MDW will assist the MoES in finalizing by-laws on property transfer, allocation of finances and standards for schools.
- MDW will fund training of the current and additional staff of the MoES Analytical Unit for using the database.

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

Summary of Quarterly Accomplishments

- Workshop for the staff of Citizen Information Centers and ZELS representatives on CIC public outreach was held.
- Twelve CICs have developed their Community Outreach Plans.
- A regular CIC Network meeting took place, at which the Outreach Plans were presented and their implementation discussed.
- In cooperation with Business Improvement District (BID) STTA, Nora Maderkova, two surveys were developed and adapted to Macedonian circumstances to examine the opinions of both shop-keepers and visitors of BID area.
- A detailed questionnaire on citizen participation in decision making was developed and distributed to all municipalities. More than 50 municipalities have returned the filled-in questionnaire.
- In support of NDI activities, MDW staff developed some thirty simulations related to decentralization for their series of events with political party representatives.

Activities’ Implementation

Freestanding CP Activities

Sub-activity: Expand and Enhance the CIC Network

Workshop on CIC Public Outreach

On November 22-24, 2004, a workshop was held in Mavrovo for the staff of the Citizen Information Centers (CIC) and ZELS representatives. The goals of the workshop were as follows:

- To present to the CIC staff the new MDW project, its goals are and how the cooperation will continue with the CICs,
- To provide basic training for the CIC staff on methods for public outreach, and
- To initiate the preparation of work plans for public outreach, given the role, tasks and obligations of the CICs in each of the respective municipalities.

After giving a presentation about the general goals and plans of MDW for the following three years, the initial session of the training covered the theory of public outreach, as well as the legal and informal grounds for citizen participation. There was a plenary discussion on the experience of the CICs in this area. The following session focused on the introduction of the bases for public outreach and on giving instructions for the course of the work and the elements that comprise the public outreach plan. After the presentation, the participants worked in groups and at the end presented the bases of their plans:

1. The public outreach goal
2. Definition of target groups (audience)
3. Partnership with information sources for receipt and sharing
4. Message definition.

Part of the groups worked on individual projects, and some of the participants defined very thorough plans. The trainers gave their comments and directed the activity towards preparing public outreach plans precisely for the work of the CICs.

The following session was about the methods for public outreach, whereas the last session was dedicated to presentations and discussions. The participants opened issues related to the needs, resources and possibilities for public outreach. The sessions encouraged the participants to consider things in a broader way and to plan activities which not always imply financial means and which are possible if good partnership is established, networking and cooperation with all local partners in the municipality.

The second day of the workshop started with presentations and discussions and the last two sessions were dedicated to the concrete preparation of individual public outreach plans for each of the Citizen Information Centers. The participants at the workshop worked on individual basis and afterwards by drawing of lots, five plans were selected for presentation. These plans were discussed in the plenary session, and the trainers gave their opinion and comments on the presentations.

The evaluation of the workshop showed several findings:

1. Necessity for continuous meetings among CICs;
2. Positive evaluation of the initiative for public outreach plan preparation;
3. Necessity for receiving feedback from the citizens;
4. Selection of target groups and assessment of needs, possibilities and resources;

5. Positive evaluation about the necessity for networking with the target groups in the community for better public outreach;
6. Sharing of ideas and novelties related to the methods for public outreach;
7. Initiating the preparation of a plan for monitoring and evaluation of the public outreach plan.

The participants at the workshop identified the areas for which additional meetings and trainings can be organized:

- Work with clients,
- Preparation of campaigns and actions of public interest,
- Possibilities for engagement of professional marketing agencies,
- The place and role of CIC in the new decentralization,
- Media relations.

A Regular CIC Network Meeting

A regular CIC Network meeting took place on January 25, 2005, and was attended by representatives from seven CICs. Other CIC Network members could not reach Skopje because of road blocks caused by the snow. The meeting agenda included three major focal points: 1) discussion of the CIC Outreach Plans developed as a result of the workshop which was organized by MDW in November 2004; 2) discussion of the CICs' current activities; and 3) a presentation by a NDI representative.

A total of 12 CICs have completed their outreach plans, and they were presented at the meeting. What can be noticed is that the general lack of financial means in the municipalities is reflected in the work of the CICs, especially in the financing of all activities, which are 'outside' their everyday work (but not less important). However, all the outreach plans have a common point - the CIC staff have been really creative in coming up with ideas and initiatives that require very little or no financial support. Their proposed activities include appearances in local media (TV and radio), distribution of already existing promotional material, citizen surveys, update of municipal web-site, organizing town-hall meetings and similar events.

It was agreed that the CICs would report on their Public Outreach Plans implementation on the regular CIC Network meetings.

Aleksandra Cvetkovska from NDI gave a thorough presentation of NDI's activities in Macedonia. She focused especially on the offices that NDI has opened for members of the Macedonian Parliament to enable citizens to have regular contacts with their MPs. They have opened more than 40 such offices and Ms. Cvetkovska distributed a list with names and contact details, so that CIC staff can inform citizens interested in contacting their MPs.

Sub-activity: Capacity Building of Neighborhood Units and Strengthening Relations with Core Municipality

Meetings with representatives from the municipalities of Centar, Karposh and Kumanovo were held, regarding the neighborhood units (NUs) and their work.

What can be concluded from the meetings is that there are discrepancies in the work of the NUs in all three municipalities, which was expected given that some of the NUs are urban and other are rural ones.

The discrepancies refer to a broad range of issues: some NUs have office space, others do not; most of them only have basic office furniture, which is usually old, worn-out municipal property. However, one Kumanovo NU has been equipped with furniture and IT and is operating as a satellite CIC office. Some NUs have *technical secretaries*, in addition to the president and NU boards, others do not; in Karposh, the *technical secretaries* are employees of the municipality (the only such case in the country); some of the rural NUs are very active, especially around infrastructure issues (building of water supply and sewer systems, roads, etc.), and at the same time, some of the urban ones seem to be less active.

During one of the meetings, a suggestion was made that a guidebook, which would promote the existence of NUs, and would contain procedures about the formal establishment of NU Boards, commissions and their work, would be a very useful tool. Yet, some of the municipalities have already produced documents that refer to some aspects of this and these materials could be used as basis for the development of such a tool.

Activities Providing Cross- Cutting Support

Sub-activity: Public Hearings on Municipal Budget

The implementation of this sub-activity is scheduled to begin next quarter.

Sub-activity: Analysis of Citizens' Priorities for E-Local Government Services

A meeting between MDW Citizen Participation (CP) Team members and IT representatives and Bardhyl Jashari from Metamorphosis/FOSIM was held in order to discuss the modules of a joint implementation within this sub-activity. It was agreed that the analysis of citizens' considerations and priorities regarding E-Local Government Services will serve as basis for designing future projects. In order to collect data and start up designing the questionnaires, a field trip to Veles CIC is planned for February. The purpose will be to find out what are the most common questions and requests by the citizens of Veles. Also, questionnaires used in other countries for similar surveys will be collected and taken into consideration.

Sub-activity: Citizen Awareness and Public Outreach on Property Tax and Communal Fees and their Use

The implementation of this sub-activity is scheduled to begin next quarter.

Sub-activity: Raising Public Awareness on OSPC

The implementation of this sub-activity is scheduled to begin in the last quarter of Year 1.

Sub-activity: Raising Public Awareness on Business Improvement District (BID) in the Municipality

A meeting was held between the CP Team members and LED/BID STTA, Nora Maderkova, on the upcoming implementation of the BID activity, especially regarding the survey (CP part of the activity) that needs to be done in the pilot municipality. In fact, two separate surveys will be used, one for the shop keepers in the future BID area and one for the visitors/shoppers. Both surveys were developed and translated into Macedonian and adapted to Macedonian circumstances. However, implementation of the survey will most probably take place once the local elections are over, in order to avoid connecting any MDW activity to the political campaigning.

Other CP Team activities

Municipal Questionnaires

More than 50 municipalities have already replied and sent back their filled out questionnaires regarding the involvement of citizens in decision-making process in their municipalities. For the time-being, the questionnaires are being compiled and their processing will start next quarter.

IRI Cooperation

Recent talks with IRI in Macedonia have resulted in IRI inviting MDW to take part in their activities with Macedonian political parties. Within the training that they provide to political party members (this particular period to VMRO-DPMNE), they have included topics on decentralization and financing of the municipalities under the new legislation, which have been covered by MDW Policy Reform Team Leader.

NDI Cooperation

A similar cooperation took place with NDI. At one of their events (with representatives from SDSM), MDW Policy Reform Team Leader gave presentation regarding the financing of municipalities under the new decentralized system.

At the same time, NDI has been implementing an activity which required a significant input from MDW. Namely, for the purpose of a series of workshops for members from all political parties (candidates for local office and political party members, participants in the upcoming campaigns) MDW was asked to generate some 30 questions/problems from the sphere of local government. These questions would be given to the multi-party teams

during an exercise and they would have to develop team answers. The simulations would test the candidates' knowledge, as well as educate them on decentralization issues. After six regional competitions, the final one is scheduled to take place in Skopje on February 12, 2005.

The MDW team, in a joint brain-storming session, has developed more than 30 questions/problems to be used for simulations, including possible solutions to the problems. During the events, MDW will provide some logistical support, and MDW staff will attend some of the competitions.

Next Quarter Activities

- MDW Financial Management Team, in cooperation with the CP Team, will work on preparation of Budget Brochures for the citizens.
- MDW staff will participate at NDI's series of events with political parties.
- MDW CP Team will continue working on analysis of citizens' priorities for E-local government services.
- Received municipal responses to the questionnaires will be analyzed.

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

Summary of Quarterly Accomplishments

- Thirty four (34) Public Communal Enterprises (PCEs) applied for membership in ADKOM. This makes more than 50% of all of the existing PCEs in Macedonia already claiming membership in the Association which is a remarkable initial interest.
- The ADKOM office has been fully operational as of December 2004. MDW provided office equipment.
- ADKOM created its policy committees structure and established ten policy committees.
- ADKOM developed and approved the 2005 Program and Budget.
- ZELS designed a new administrative organization structure.
- AFO Executive Board amended their by-laws.
- The AFO audit process has begun.

Activities' Implementation

Strengthen ZELS
Training
Capacity and
Organization

Sub-activity: Create Training Infrastructure

MDW Association Development (AD) Team and ZELS started a recruitment process for a new staff member to reinforce the Training Coordination Office. The AD assistance included development of a job description for a training coordinator, placement of an ad in the papers and participation in interviewing a selected group of applicants.

A hiring committee composed of ZELS' Executive Director, second Vice President and the MDW AD team member interviewed ten (10) candidates for the position. A short list of four (4) people was made and the final selection will be made in the next quarter.

Enhance ZELS Policy Development and Advocacy

Sub-activity: Strengthen Policy Committee Structure

The MDW AD Team designed a job profile for the new position of a Policy Development Officer. Discussions kept going with the ZELS leadership to define the role of this supplemental staff in the policy development process, but as well in the management of the office by possibly taking the role of a Deputy Executive Director.

For the purposes of structuring all the information on up-to-date ZELS policy positions into a unified format containing background notes, problem definition, policy alternatives, etc., a ZELS Policy Book was drafted by MDW. The AD STTA reviewed and formatted the pieces of policy positions that were developed within the past couple of years and scattered in different forms of policy committees' reports, letters to Ministries and policy memos. The draft Policy Book was presented to the ZELS leadership and all committee chairs for their review. In the next quarter, follow-up actions will be defined to make this document public.

Realign ZELS Financial and Management Structure

Sub-activity: Strengthen ZELS Financial Management Capacity

ZELS Audit 2003/2004

The ZELS Audit and Budget Committee convened at the beginning of November 2004 to finalize the management's comments that were to be contained in the final version of the Management Letter. Accordingly, these comments were submitted to the Auditor, Ernst & Young which made it possible for them to issue the Final Audit Report and Management Letter in mid-November 2004.

At the end of January 2005 the ZELS Budget and Audit Committee convened as a follow-up of their activity in 2004 to review the Management Letter issued by Ernst & Young and plan the future steps. Apart from the committee members the meeting was also attended by the MDW AD Team representatives who offered technical assistance in drafting a cover letter outlining the entire process of the audit which was to be presented by the Chairman of this committee at the next Standing Committee meeting together with the Final Audit Report. At this meeting, the ZELS Finance Officer gave a short presentation of the implementation of the Auditor's recommendations laid down in the Management Letter. These recommendations are expected to be fully implemented after the report adoption by the Standing Committee. The MDW AD Team committed to provide assistance in the development of the documents proposed by the Auditor i.e. development of separate manuals (*Advances Procedure Manual* and *Public Procurement Procedures*).

After the presentation, the committee members agreed that the Auditor's report was to be presented for approval before the Standing Committee which was scheduled for February 3, 2005. It was further decided that the auditor was to attend this meeting in case some of the Standing Committee members have further questions regarding the Audit Report. Furthermore, it was agreed that the ZELS Budget and Audit Committee is to give a recommendation to the Standing Committee to retain Ernst & Young to undertake the 2004 Audit.

ZELS Over-Head Account

As part of the MDW's efforts to assist ZELS in becoming financially sustainable, the idea of developing an over-head account system emerged. This would allow ZELS to attain additional funds from the donors to cover the expenses for the management and administering of the projects supported by them. For that purpose, the MDW AD Team approached Ernst & Young to further explore the possibility of putting in place the over-head and cost accounting system for ZELS. Ernst & Young indicated that they could not provide consulting services to create such a system under their conflict of interest rules while they were providing audit services. It was decided that the MDW AD Team would examine the ZELS chart of accounts to determine if the necessary technical assistance could be provided to ZELS to create a system without using outside consulting services.

Assistance to ZELS prior to Standing Committee Meeting

The AD Team held a meeting with the ZELS President and Executive Director to discuss the agenda for the last Standing Committee meeting before the local elections and to propose the inclusion of several ZELS business matters. These included the presentation of the 2003 Financial Audit and Management letter, the selection of an auditor for 2004, appointing a transition process or Nominating Committee for Officers and Standing Committee after the elections, approving a Memorandum of Understanding with ADKOM and updating job descriptions for the Executive Director and other key positions. These were all discussed and accepted for the Standing Committee meeting agenda scheduled for February 3, 2005.

Sub-activity: Identify and Develop New Revenue Generating Services for Members

The Committee on Sustainability held a meeting in this quarter to discuss several issues related to ZELS' plans and efforts to initiate activities that would in the future secure continuous generating of revenues for ZELS. One of these efforts was development and distribution of a survey for membership services led by VNG with the MDW AD Team input. The surveying included direct interviews with around 20 municipalities and mailing of questionnaires to a selected number of municipalities. A preliminary survey report was handed over at the meeting to discuss the reporting format. The AD Team recommended that several scales be clarified and a summarized report to be done aggregating all of the data collected, instead of presenting only a breakdown of the data by number of inhabitants. The municipal size categories were originally developed for sampling purposes primarily; hence the final report needed to be clear on what was the overall intent of those interviewed. Although the VNG staff was to finalize the report by early January the results have not been presented as of the end of this quarter.

Another issue on the agenda was a recruitment of a commercialist, a position that would be responsible for pursuing fundraising and new service development activities. There was a discussion about whether this position should be fulfilled immediately, or whether a ZELS for-profit daughter company should be established prior to that. At the last Standing Committee meeting this issue went through the agenda very quickly and was not clear so that it could be resolved then. At that point it was still not clear how much the Standing Committee should be further involved, or how long this procedure would last.

The AD Team advice to the President of ZELS was that there was no legal need to set up a for-profit company for fundraising purposes.

ZELS 2005 Work Plan and Budget

ZELS asked for the MDW technical assistance to develop the 2005 Work Plan and Budget. A one-day workshop was held at the MDW office to draft the Work Plan. Five ZELS staff attended. The ZELS Strategic Plan was the basis for designing 2005 activities. The 2005 draft Budget will be presented at the next ZELS Standing Committee meeting.

Sub-activity: Strengthen AFO Governance Process

During this reporting period, the AD Team assistance to strengthen the AFO governance practices was directed to the process of amending the current Association's By-laws. For that purpose a series of meetings and consultations were conducted between the AD Team and AFO leadership.

The AFO Executive Board held a meeting to further discuss and revise the draft version of the By-laws. After the MDW AD Team provided the recommendations of the legal experts, Ms. Natasha Gaber and Mr. Alan Beals, the Working Group revised the By-laws and produced another version in which they incorporated almost all the recommendations that were suggested by Ms. Gaber and Mr. Beals. The most important issue regarding the term of office of the Executive Board members was positively resolved and consequently the Executive Board will have a two-year term, with a maximum of two terms. The only issues which needed more consideration were:

- How to make a clear cut distinction in terms of who is eligible to be a member of the Association, as well as a clear cut distinction between primary and secondary membership and their rights and duties within the Association.
- Who is eligible to be a member of the General Assembly and what would be the quorum of the General Assembly.

These issues were resolved at the meeting the AFO By-laws Committee had with the AD Team on January 29, 2005. Following discussion, the AFO leadership accepted the presentation of the policy advisor on the following subjects:

- a) AFO is primarily an association of local finance officers. Its mission is to improve the conduct and efficiency of local finance administration, strengthen and advance the professional capabilities of local finance officers (through standards, training and other methods) and advance the interests of its members.

This reflects a shift that narrows the focus of the Association. Earlier the Association was including finance officials from central government, the private sector, NGO's, and neighborhood associations as their field of interest and involvement. Representatives of central government and the private sector were serving on the Board of Directors. Obviously these types of officials can be included in a field of interest, but should not be included in the governance of the association. The clarification is a major improvement.

b) AFO membership is now defined in two categories.

- The **first primary category** is local finance officials who are dues paying members.

These dues paying members are entitled to vote at the General Assembly meetings, serve on governing bodies, policy committees and participate in the governance of the association.

- The **second category** is affiliate or associate members representing finance officials in the central government, the private sector or anyone else with an interest in good financial management and practice, or friends of the association. These officials pay dues, which may be different than members, and fees for services such as publications, registration at training events and the like. They do not have voting rights or the right to serve on governing bodies.

In the course of the discussions two other procedural issues were discussed.

The first issue was determining the conduct of the General Assembly. It was agreed that all dues paying members are:

1. Invited in advance to the General Assembly by due notice, copies of agenda and other material and the right to vote on all business matters before the General Assembly, as spelled out in the by-laws
2. The by-laws would include a new provision stating that a quorum of the dues paying members is 25% of the total paid membership. The current paid membership is approximately 120 members; therefore a quorum to conduct business would be 30 members.
3. The first order of business of the General Assembly would be a Report by a Special Committee (Credentials) of the Board certifying the number of dues paying members on the membership rolls on the last day of the previous AFO fiscal year.

The above language will be incorporated in the By-laws and voted for at the General Assembly meeting scheduled for early March.

Sub-activity: Strengthen AFO Financial Capacity

AFO Audit

**Build ADKOM
Capacity to
Provide Member
Services**

The MDW AD Team representatives attended the AFO Executive Board meeting in late November 2004. Several issues concerning the cooperation with MDW were tackled at the meeting. The Executive Board members were informed that in order for any kind of future cooperation to be planned, the absolute prerequisite is for a comprehensive audit to be performed over the financial working of the Association.

It was agreed that the Executive Director and the President of AFO would meet with the other donors (PHARE/EAR in particular) to inform them about this and attain their consent. At the beginning of December 2004, AFO contacted all the donors informing them about the forthcoming comprehensive audit of their financial working. By the beginning of January 2005 oral consent was received from all the donors. Consequently, with the support of MDW that committed to cover the expenses of the Audit, a RFP was published asking for an Audit House to perform the audit. A total of six offers were received. A Committee consisting of three (3) members of the AFO Executive Board and two (2) members of the MDW AD Team met on January 29, 2005 to review the offers and consequently it opted for Ernst & Young as the most favorable one in terms of price, qualifications, expertise and credentials. The Audit shall be initiated as soon as the Association completes its Annual Financial Report which is due by February 28, 2005.

Sub-activity: Establish an ADKOM Executive Office

ADKOM Executive Office

MDW supported ADKOM establish their new office. Several office space options were considered including one offered by an ADKOM member Skopje Greenery Public Enterprise. The quest resulted with another very attractive offer in a central city area location and a monthly rent of only 230 \$, with utility costs included. MDW and the Macedonian Center for International Cooperation (MCIC) helped ADKOM cover the rental costs for the initial six (6) months period to fulfill the landlord condition of an advance payment: MCIC covered the months of December and January, whereas MDW covered February - May period. As of April 2005, ADKOM will continue to pay the rent from the membership dues money.

This kind of initial external financial support was needed to set up the executive office, back the ADKOM initial activities and attract PCEs join the association and start paying dues.

Besides funding the part of the rent, MDW purchased and delivered computers, furniture and other office equipment and supplies. The ADKOM office has been fully operational since December 2004.

ADKOM Membership

At an ADKOM Board Meeting held on December 17, 2004 the membership terms were set. The Board decided that the membership fee has two portions: a fixed portion of 3,000 MKD per month plus a portion which is calculated based on the number of employees in a Public Communal Enterprise (20 denars per employee per month).

In addition, two categories of members were identified: 1) Public Communal Enterprises and 2) private companies. Private companies that would be interested to become members will have to pay membership fee of 100 Euros per month.

MDW helped ADKOM design a Membership Agreement and Application forms. These documents clearly state the services and benefits that the member will receive in turn for the fee that will be paid.

All PCEs in Macedonia were invited to claim membership and join in the new association.

During the ADKOM Annual Assembly held on January 18, 2005, 34 PCEs expressed interest to become ADKOM members, which makes over 50 % of the total number of PCEs in Macedonia. Some of them signed the agreements immediately, while others did it the following days. Up to date, 24 PCEs have signed agreements, six (6) of them have transferred the dues money totaling 180,000 denars at the ADKOM account available to pursue the activity.

ADKOM 2005 Annual Program and 2005 Budget

With the MDW assistance, the new ADKOM Executive Director drafted an annual program and the 2005 Budget.

The Board approved the Budget and presented it at the Annual Assembly meeting. The approved Budget will serve as an interim one until the membership structure is established. By April 2005, when the revenue streams will be more predictable, a new 2005 budget will be considered.

ADKOM Annual Assembly

MDW assisted ADKOM in preparing for and conducting its first Annual Assembly meeting. Over 80 PCEs' representatives attended the meeting. Attendees covered their own travel expenses. MDW supported the Executive Director prepare PowerPoint presentations and all other logistical preparations.

The Annual Assembly meeting was held on January 18, 2005. The 2005 Program and Budget were approved. After the meeting a ceremony of signing the Membership agreements followed.

Develop ADKOM Policy Process

Sub-activity: Create ADKOM Policy Committee Structure

Activities related to establishing and assisting the ADKOM policy committees started in this quarter.

The initial step was taken at the ADKOM first Governing Board meeting when a decision was made that the committees would be established during the ADKOM Annual Assembly. The original proposal that came from the members was to keep the same number of committees that existed under the old MAKKOM structure.

At their next meeting the Governing Board members decided to make a structure of ten (10) policy committees. It was agreed that the number of members participating

in each committee would depend on the scope of work and necessary expertise in providing quality provision of services to the members.

In the process of staffing the committees criteria related to region, expertise and ethnicity were taken into consideration. The Governing Board welcomed the suggestions provided the by the MDW AD consultant regarding various criteria that should be respected in the process of nominating the committee members.

The following 10 committees were established:

1. Committee for water supply and sewage
2. Committee for legal-normative issues
3. Committee for finance and economy
4. Committee for water treatment and control
5. Committee for environmental protection and improvement
6. Committee for mechanical equipment
7. Committee for funeral services
8. Committee for information and communication
9. Committee for solid waste treatment
10. Committee for waste water treatment.

At the first Annual Assembly of ADKOM, an equal opportunity was given to all the present members to register for participation in committees for which they felt they could contribute most with their expertise and experience. The interest and will to participate in the ADKOM Committees was great.

Taking into consideration that the committees' activities will determine the future of the whole Association, the ADKOM asked MDW to develop the framework for committees' activity including mission statements, scope of work, committees' work plans, action plans and lobbying for developed policy positions.

This support will be provided in the next quarter.

Sub-activity: Link ADKOM with ZELS

The MDW AD Team held a meeting with the President of ZELS who openly stated the awareness of the necessity for ZELS to start close and immediate cooperation with ADKOM especially in their advocating and lobbying efforts before the central government. A draft MoU was developed with the assistance of the MDW AD Team and its content was given for review to the Presidents of both Associations. A meeting between the two Presidents is scheduled for February 2, 2005 in order for them to discuss the further steps that are to be made before scheduling the signing of the MoU.

Next Quarter Activities

- A second training officer, a policy development officer and a full time finance manager will be hired to reinforce the current ZELS professional staff.
- ZELS' over-head account system will be put in place.
- A process for conducting the 2004 audit of ZELS organization will start.
- The Audit of the AFO 2003/4 financial records will be completed.
- The AFO General Assembly will adopt the new By-laws.
- MDW AD Team will provide technical assistance in developing the AFO Policy Manual.
- MDW will support ADKOM in designing and analyzing a membership survey.
- A workshop on the "Roles of Committees in the Policy Development Process" will be conducted for the ADKOM committee members.
- ADKOM committees will start meeting and developing policy positions.
- The AD Team will provide assistance regarding signing of a MoU between ZELS and ADKOM.

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

Summary of Quarterly Accomplishments

- Three municipal finance and budget manuals have been completed and endorsed by the Minister of Finance.
- A financial management training delivery Technical Working Group was organized. Its members include representatives from The World Bank/Community Development Project, OSCE and MDW. A Timeline and Implementation Plan for the delivery of financial management training to eighty-four (84) municipalities have been developed. The scheduled training program is on target for delivery during the period April through June 2005.
- A draft of the Real Estate Valuation Methodology was prepared by the MoF Working Group and presented to the Minister of Finance, Mr. Nikola Popovski. The next step will be to test the methodology in several municipalities.
- The Property Tax Administration Manual was edited and revised and is now ready for discussion.
- In December 2004, a municipal capacity questionnaire was sent to all eighty-four (84) municipalities. The questionnaire included ten (10) individual sections, each dealing with specific municipal competencies. Through the end of this reporting period, approximately sixty percent (60%) of the municipalities have responded.
- A Land Tenure Recommended Strategy and Action Plan were developed.
- Assessment on local urbanism capacities completed.

- Comments on the Draft Law on Urban and Spatial Planning prepared by MDW and will be presented to USAID.
- LED Coordinators Workshop--a program update--was conducted on January 26 - 27, 2005 in Skopje; participants included the 13 LED municipalities from LGRP. Topic highlights focused on “Implementation Tools for LED Strategy”.

Activities’ Implementation

Overview of the Training Activities

- The principal areas of initial local training:
 - Finance and budget
 - Local Leader Certification Program
 - Organization Structure/Human resource development.
- The schedule has been built around the local elections, March 13-27, 2005
 - USAID activity blackout from February 1, 2005
 - Most training must await new administrations.
- The interim has been used to complete design, select trainers, and finalize materials.
- All MDW training is done in partnership with ZELS.
- Unique partnerships have been created:
 - Ministry of Finance
 - World Bank
 - OSCE
 - Swiss Development Agency.

MUNICIPAL FINANCE

During this reporting period significant progress has advanced in developing training programs in Financial Management, Organizational Structure and Human Resource Administration and the Local Leaders Certification program. Each of these training programs require an extensive amount of effort to design training material, identify trainers, conduct Training of Trainer programs and arrange training logistics. Much has been accomplished during this period and the training programs are on schedule to commence once the results of the local elections are known. ZELS is/will be MDW’s implementing partner for each of these planned training activities.

Sub-activity: Enhance Financial Management

MDW Year-one financial management activities are directed mainly towards delivering training program for all eighty-four (84) municipalities to introduce enhanced financial and administration management systems and procedures and to identify local governments for follow-on technical assistance leading to their increased financial and administrative management capacity.

Provide Training to 84 Municipalities in Financial Management

The following was done through January 2005:

Macedonia’s
Municipalities
have Financial,
Organization
Structure and
Human
Resource
Capacities to
Assume their
New
Competencies
under
Decentralization

- Technical Working Group comprised of representatives of WB/CDP, OSCE and MDW met several times during this period and developed a Timeline and an Implementation Plan for training delivery and technical assistance for municipal finance and budget offices.
- During this reporting period, MDW had several coordination meetings with Ernst & Young and the Ministry of Finance representatives regarding the completion of the final version of the Manuals related to the Legal Framework for Financing of the Municipalities, Preparation of the Municipal Budgets - Operational and Capital and Budget Execution. Each manual contains a summary, glossary of the key words and concepts, review questions for each chapter and a reference list of laws and lessons learned related to each chapter. Additionally, the Budget Preparation and the Budget Execution manuals include exercises and case studies.

The Finance and Budget Manuals were endorsed by the Minister of Finance to be used by all local governments in assuming their upcoming finance decentralization roles.

- The three Financial Management Manuals have been printed in Macedonian, Albanian and English.
- The number of regional MoF personnel to be transferred to municipalities has been established. Final selection of individual personnel will be announced by the end of February 2005. Those selected for transfer will attend the training program, together with local finance officials.
- Terms of references and public announcement for a Local Consultant Training Provider completed.
- MoF budget reporting regulations are still in progress.

Provide Assistance to Selected Finance and Budget Offices on Budget Planning, Preparation and Execution

The MDW Team met with the Mayor of Veles, Mr. Kocevski, and Heads and Deputies of Municipal Finance and Tax Department to discuss future technical assistance to enhance financial management. The Team also met with the Kicevo officials to discuss the same issues. During these meetings, MDW documented detailed information on the level of municipal financial management and tax collection. That information will be used for future activity implementation and selection of partner municipalities.

Assessment of the Financial Software Package

The Municipal Financial Management Software assessment and a review of the MoF updating of Book of Regulations of Expenditures were conducted. MDW Municipal Finance Team compared existing software that is currently used in the MoF regional units. The Team met with Mrs. Ilona Castro, US Treasury Resident Advisor for Budget Policy and Management. The new Classification of Expenditures, Treasury Single Account and Municipal connection to Treasury, new Budget and Accounting Laws, Cash Management and the new Budget reporting requirements were discussed.

Sub-activity: Deliver Training and Technical Assistance in Organization Structure and Human Resource Development (OS/HRD) to eighty-four (84) Municipalities

A Municipal Organization and Human Resource Training Strategy, prepared by STTA Prof. Cvetko Smilevski, was accepted by MDW. The revised Strategy eliminates the necessity of conducting a TOT because those selected to deliver the training program will be experienced trainers. Under a new SOW, Prof. Smilevski will provide MDW with a list of trainer candidates with OS/HRD background and experience, he will lead and facilitate a technical training workshop for trainers and prepare training material.

Sub-activity: Local Leader Certification Program (LLCP) for Newly Elected Mayors and Selected Councilors from Eighty-four (84) Municipalities

MDW supported ZELS in preparing and advertising an announcement for potential local trainers and World Learning (WR) issued a RFTP to local and foreign training providers.

In response to the advertisement for local trainers, approximately 230 resumes have been received. Twenty (20) participants for the program will be selected according specific criteria determined by ZELS/MDW/WL. Criteria include demonstrated experience working for or within local government. Those selected will receive an intensive TOT course that will be conducted in the period between the end of February and mid-May, 2005.

The selection process for the training provider that will deliver the TOT is currently ongoing. Of the twenty-eight (28) training providers invited to take part in the solicitation, nine (9) have responded. Three (3) training proposals were from foreign training providers, five (5) are from Macedonian and one (1) is joint proposal between Macedonian and Foreign Partners.

**Tax
Administration**

Sub-activity: Provide Technical Assistance to Selected Municipalities to Organize Operational Tax Collection Departments

Forty-eight (48) municipalities have responded to the municipal needs assessment questionnaire during this period. Tabulation of the results is on-going. The analysis of the results will be used for selecting new municipalities to receive MDW technical assistance in organizing Property Tax Administration Departments.

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

MDW continues to work and cooperate with the MoF Working Group on Real Estate Valuation Methodology², appointed for developing of the Valuation Methodology. During this reporting period, the Working Group had one workshop in Mavrovo (December 2004) and several meetings in the MoF (January 2005).

The outcome of the Mavrovo Workshop was the preparation of the first draft of the Methodology which was later updated several times by including additional topics such as; industrial and administrative buildings, cultural houses, agriculture land and other topics.

² Valuation Methodology was not finished and adopted by the MoF because they decided to test it first in 34 (core) Macedonian municipalities. The process is ongoing.

By the end of January 2005, the Methodology was presented to the Minister of Finance, Mr. Nikola Popovski, who accepted the draft and gave permission to test it in all PRO regional offices (34 core municipalities). The testing process of the Methodology will take place during next reporting period.

Reviewing and Editing of the Property Tax Manual³

A contract between MDW and “Financial Consulting” from Skopje to review and edit the Property Tax Administration Manual (originally drafted under LGRP) was awarded. During the reporting period, the Team had several meetings with the “Financial Consulting” representatives to discuss several sections that needed clarification. A completed draft of the edited Manual was prepared and is ready for discussion. During the next quarter the “Financial Consulting” will present the draft Property Tax Administration Manual to representatives from MoF, USAID and MDW to receive and implement their feedback.

Property Tax Administration Software⁴

The (final) RFP for an integrated Property Tax Administration Software in compliance with Macedonian laws has been submitted for further discussion and approval by USAID.

Several issues need to be addressed:

- The process of transferring staff and database from the PRO to the municipalities is still on hold;
- The need of possibly using the existing DANIS software, at least for the first year--the database would have to stay in PRO--establishing connections between municipalities and regional PRO (the way it was done in the previous LGRP property tax pilots) would be extremely expensive;
- The licenses and likely training for the use of DANIS software will be extremely expensive;
- The central property registry requirements have not been developed (a working group was created on January 2005);
- Last year the Central PRO cancelled their relationship with Ultra because they were dissatisfied with both DANIS and Ultra Company. The Ministry has begun development of new software for its own tax collection needs (only for national taxes).

MUNICIPAL SERVICES

Sub-activity: Establish Municipal Urbanism Departments (MUDs)

In January 2005, The Ministry of Local Self-Government took the lead to plan and organize a public hearing to be held in February on the latest Draft Law on Spatial and Urban Planning. Participants will include: the Minister of Local Self-Government, representatives from the Ministry of Transport and Communications, the Ministry of Environment and Spatial Planning, the academic community, the private sector,

³ This activity has not been completed by the end of January 2005 due to a delay in signing of contract by both parties.

⁴ Regarding the property tax software procurement delay, we did the announcement for procurement of an integrated property tax software, but immediately after the announcements we were advised from USAID to cancel the process and to review and edit RFP in order to meet USAID requirements. Final RFP submitted for review to USAID.

donor agencies working in the field of urban planning, and other interested parties. USAID and MDW will participate. To support the process of improving the proposed draft, MDW developed an analysis of key sections of the draft law for distribution to USAID and relevant ministries.

Sub-activity: Establish One-Stop Permitting Centers (OSPCs)⁵

The urban planning and permitting municipal capacities questionnaire was completed. A total of 55 municipalities (about 65%) have responded to the extensive and detailed questionnaire. The process of analyzing the collected data has been initiated. The expected benefits of the analysis will be two-fold: 1) MDW will have a clear and detailed picture on local urbanism problems and needs, and 2) will be able to develop accurate criteria for selecting the best candidates for implementing the MDW urban planning and permitting activities.

Sub-activity: Introduce Rational UP/Zoning Techniques

A document summarizing details on urban planning training modules was developed. Modules related to urban economics, zoning, land use and GIS will dominate the training curricula in Year 1 of the project. During the process of identifying the training curricula, several meetings with Train, an EU funded project on urban planning, were organized. The main purpose of these meetings was to coordinate the process of training delivery, as well as to avoid the possibility for overlapping the training modules.

Sub-activity: Land Tenure Security

During January 2005, as part of the land tenure assessment efforts, a series of meetings at the central and local levels of government (local, national, business sector, and NGO) were conducted. Based on the assessment findings, MDW has prepared a strategy document related to the land tenure issue in Macedonia. The strategy development was lead by MDW STTA Martin Miller, and supported by the MDW staff. The Strategy, entitled “Urban Land Tenure in Macedonia”, focusing mainly on land tenure issues relating to the Roma community. The proposed strategy offers a detailed elaboration of the current situation with land tenure in Macedonia, suggestions for actions in several fields of interest and the development of two action plans targeting the communities of Trizla (within the Municipality of Prilep) and Topaana (part of the Municipality of Centar). The recommended document was submitted to the USAID for approval.

**Institutionalize
Local Economic
Development**

Sub-activity: Implement Strategic Plans in LGRP Pilot Municipalities

LED Coordinators’ Regular Meeting

On December 21, 2004 a meeting was held with LED Coordinators from 13 LGRP/LED municipalities. At the meeting, a representative from Ministry of Environment and Spatial Planning presented the new decentralized competencies, especially

⁵ The planned inaugurations of the One-Stop Permitting Center were postponed due to the black-out period.

emphasizing the new legislation and procedures for implementation. This information was found very useful by the participants.

TA on Skills and Capacity Building on Implementation of LED Strategic Plans

LED Coordinators Workshop--a program update--was held on January 26 and 27, 2005 in Skopje. Participants were LED coordinators from 13 LGRP LED pilot municipalities plus Kavadarci, a successful, non-LGRP supported LED municipality. The Workshop agenda included an introduction to the new MDW training modules for Business Improvement District (BID), Business Attitude Survey (BAS), Foreign Direct Investment (FDI), Tourism Development and LED office management. STTA Alan Beals conducted a Tourism Development session. STTA Nora Maderkova and the LED Activity Leader delivered training modules on BID, BAS, FDI and LED Office Management.

An expected outcome of this workshop was to build capacities and skills of LED coordinators to implement local strategic plans and introduce new tools for building private-public partnerships in municipalities (BID, analysis of business climate - BAS as a foundation for good SWOT analysis and tool for revision of Strategies). The coordinators were especially interested in FDI and tourism development. These are priorities of LED plans and potential resources for economic growth in several LED municipalities. One of the critical issues mentioned in Alan Beal's LED Report on LGRP LED pilot municipalities, and supported by LED Coordinators, was organizational structure, management and functions of LED office in a municipality. This issue needs special attention because as municipalities are developing a new organizational structure for the municipality, a LED Office or Department should find its place in the structure, to become an institutional part of municipality.

The Workshop participants were very satisfied with the topics covered and actively participated in all topic discussions. Future presentations on BID, BAS, FDI and Tourism development will require a more detailed, separate sessions on each topic. The evaluations by participants reflect that each training topics was a very useful tool for strategy implementation. Another recommendation was that the LED Office Management module needs to be presented to newly elected Mayors and Councilors to stress LED importance as a new decentralized competency.

Sub-activity: Create Business Improvement District (BIDs)

MDW LED Team and STTA Nora Maderkova developed a program for launching the BID activity and established, for review and discussion, selection criteria for selecting a BID pilot municipality. Additionally, two surveys--(one for shopkeepers and the other for shoppers/visitors to the future BID area)--were developed with the participation of MDW CP Team. The survey will be conducted prior to the beginning of other activities.

Sub-activity: Expand the Number of LED Municipalities

LED Municipal Questionnaire

Through the end of this reporting period, a total of 54 municipalities (84% of the total number) returned their responses to the questionnaire which will be analyzed

and used for selection of new municipalities in the MDW/LED training and technical assistance program.

Field Visit to Kichevo

At the request of Mayor V. Korunovski, a field visit was organized to Kichevo to discuss achievements under the UNDP/LED program and to explore possibilities to include Kichevo as one of the new LED municipalities in MDW program. The findings showed that the municipality had a very well organized IT Centre which provided a lot of documents and application online, through the municipal web page.

New Possibilities for Joint Funding of the LED New Training Program with SDC

A meeting was organized with a representative of Swiss Development Cooperation Agency (SDC), Kalin Babusku, to explore possibilities for cooperation related to MDW respective LED programs and possible joint funding of the project activities. The outcome of meeting was positive in terms of donor program requirements and preconditions.

Participation in the LED Donor Coordination Meetings

One of the activities under the LED program during this reporting period was Donor Coordination organized by Policy Support Project (PSP), partner of the Ministry of Economy. Namely, at the meeting that was held on December 8, 2004, it was agreed by all the attendees to develop an inventory list of all donors working on LED in Macedonia, as well as lessons learned, targeted municipalities and activities implemented. Also, the PSP findings on donor approaches, instruments and activities in the field of LED were presented. Next steps will be to involve municipal representative groups on LED and representatives from government agencies. The next Donor Coordination meeting is scheduled for February 7, 2005 when a new coordinator and organizer need to be identified and appointed since the PSP project will end in January 2005.

Provide
Supporting
Information
Technology

Sub-activity: Conduct IT Needs Assessment

A couple of meetings with FOSIM officials took place during this reporting period to discuss details of the joint activities. Due to administrative reasons, signing of a MoU was delayed. Discussions will continue next quarter and will hopefully result in positive resolution of encountered administrative problems.

IT Municipal Questionnaire

Twenty nine (29) municipalities answered the municipal IT questionnaire and returned it electronically; thirteen (13) more returned a paper-copy. This is a small victory for the electronically enabled communication.

Next Quarter Activities

- Municipal Finance and Budget Manuals will be distributed to all 84 municipalities.
- Next MDW steps in the preparation and delivery of training for municipal finance and budget officers will go forward:
 - List of trainees for ToT will be identified with the assistance by MoF;
 - A detailed training materials and training modules will be developed;
 - Trainers and training provider will be selected;
 - ToT will be delivered with assistance by OSCE and CDP Consultant Firm.
 - Logistics for the upcoming ToTs and training delivery;
 - Start of training delivery.
- MDW will work on upgrading and testing the financial management software during the next quarter, according to the newly adopted MoF regulations.⁶
- Responses to the municipal questionnaires related to financial management will be analyzed and used as a base for future implementation of activities and selection of partner municipalities.
- Financial Management Team, in cooperation with Citizen Participation Team, will work on preparation of the Citizen Budget Brochures.
- OS/HRD Manuals (two Manuals) will be developed.
- Material for OS/HRD technical subject matter training will be developed.
- Four-day OS/HRD technical subject matter training to the local trainers will be delivered.
- Training materials including Trainers Manual for delivering OS/HRD training will be developed.
- Pilot OS/HRD training workshop will be delivered.
- Four training HUBs are established.
- TOT Workshops related to LLCP will be delivered (together with ZELS and WL).
- The Valuation Methodology will be finalized, tested and adopted by the MoF.

⁶ This next quarter activity is the same with the one planned in QR1. But, because of request by USAID to make integrated financial software i.e. financial management, property tax and communal tax, we decided to slow down the realization of this activity and wait for final USAID approval on RFP.

- Property Tax Administration Manual will be completed, and printed.
- The procurement process for integrated property tax software will be finished.
- Analysis of the collected questionnaire and candidate municipalities for establishing five new OSPCs will be proposed to the USAID.
- Support training for the LGPS system administrators will be delivered.
- UP/Zoning techniques training materials will be developed.
- A pilot municipality for implementing Business Improvement District (BID) will be selected⁷.
- BID program will be launched: **Process organization:** MoU will be signed with pilot municipality; program will be presented to the stakeholders; leaders from private and public sectors will be identified and a Steering Committee will be created; area for the BID will be identified and the boundaries specified; BID membership will be defined (business owners, property owners, local government representatives, state institutions); support for BID will be determined, including financial contributions for capital improvements, organizational help and political support. **Situational analysis** consists of surveys and information gathering exercises: (1) Shoppers Survey - find out what are the shoppers missing, why they visit other shopping areas; (2) Merchants Survey - basic information about current situation and explain the BID concept, learn about merchants' attitudes and plans. SWOT analysis - to summarize and generalize information collected during the surveying period.
- New municipalities will be selected based on LED municipal questionnaire, and basic training will be delivered. Community profile will be in process of development.
- The municipalities that will receive IT support will be identified.
- A list of equipment needs will be compiled by using the data from the IT questionnaires and direct communication with the selected municipalities.

⁷ Due to the “black out” period for all USAID activities related with public promotion of new programs (public promotion of the BID program and Mayor’s commitment for joint funding of the program), it has been decided to postpone BID selection for March 2005 after local elections.

Program Performance Monitoring and Evaluation

Summary of Quarterly Accomplishments

- The contracted independent evaluator firm, STRATUM Research, and some of the MDW program staff were trained on Municipal Capacity Index (MCI) methodology, data collection and baseline assessment.
- MMCI was reviewed by MDW program teams during the training on MMCI methodology and revised to better reflect the scope of MDW activities.
- MMCI Baseline Assessment was conducted in six (6) representative municipalities and baseline data collected, analyzed and submitted to USAID.
- Additional information on part of MDW PMP indicators such as baseline data, definitions, and revised project annual targets was added.

Activities' Implementation

Municipal Capacity Index

Training on MCI Methodology, Data Collection and Baseline Assessment

For the purposes of preparation for conducting baseline assessment in six (6) representative municipalities, it was necessary to train the independent evaluator firm on the specifics of the MCI as new, innovative and objective M&E tool. So, Mr. Dusan Petrovic, an STTA on MCI, with his unique experience gained at DAI implemented USAID Serbian Local Government Reform Program (SLGRP) where the MCI was first introduced, with the assistance of MDW Program Analyst developed and conducted a two-day in-house training on November 2 and 3, 2004. Besides six (6) members of STRATUM Research, four (4) MDW program staff and three (3) USAID

representatives (Mr. Michael Eddy, Ms. Afrodita Salja and Mr. Ivica Vasev) also attended the first part of the training on MCI Methodology which covered the following subjects:

- MCI as innovative and objective M&E tool
- MCI structure and basic principles
- Purpose of the MCI
- Data collection process and practical tips
- Different ways to present and analyze data
- Correlations between program activities and MCI scores.

The training approach, in general, was to reach participants' understanding on the MCI methodology, to focus on MCI and overall USAID required principles in the area of performance evaluation, to share practical advises from SLGRP experience and to guide both MDW and STRATUM Research staff through the training.

At the same time, it was very important for all the participants in the process to work together and reach overall understanding and consent on the following:

- Final, detailed review of each indicator and fine-tuning of the instrument.
- Criteria to be used in the assessment process.
- Division of responsibilities of MDW program staff.
- Communication lines between STRATUM Research (independent evaluator) and MDW.
- Interviewing techniques while visiting municipalities.
- Format of the STRATUM Research contract deliverables.

The greatest value of this approach was direct involvement of MDW staff in the process of improving the instrument and providing training to the independent evaluator staff on the specific program capacity areas. This resulted with better understanding of the MCI process, but more importantly resulted with a feeling that MDW staff has adopted the indicators related directly to their area of expertise. Although MDW is just at the beginning of implementation, this presents potential advantage for future performance evaluation and project implementation in general.

During the training sessions, each and every of five functional areas, i.e. 20 indicators were discussed, explained in details, and revised to better reflect the scope of MDW activities.

Test Visit to Veles

As part of the MCI training, Veles Municipality was visited on November 4, 2005. The Mayor of Veles, Mr. Ace Kocevski, and his staff were eager to assist. This visit served as a "reality check" of the MCI, but also as the way to provide the STRATUM Research staff an opportunity to practice, as well as recommendations on interviewing techniques for future assessments, such as: how to introduce and clearly present the purpose of this kind of assessment to a municipality, how to ask more specific questions to avoid misinterpretation; how to act with respect and understanding, and similar.

MMCI Baseline Assessment

In consultation with MDW Program Analyst, STRATUM Research developed a schedule for conducting the baseline survey in: Kratovo, Stip, Suto Orizari, Gostivar, Resen and Strumica. The surveys were conducted as on-site interviews with five to six key municipal officials in each of the six selected representative municipalities. STRATUM Research made separate visits to municipalities in the period between 16 and 24 November, 2004.

On the basis of STRATUM Research final report which was submitted to MDW on November 29, 2005, MDW Program Analyst developed a comprehensive report with baseline assessment findings and MMCI baseline data (please see Chart 1 below). It was sent to USAID for review and future reference on December 15, 2005.

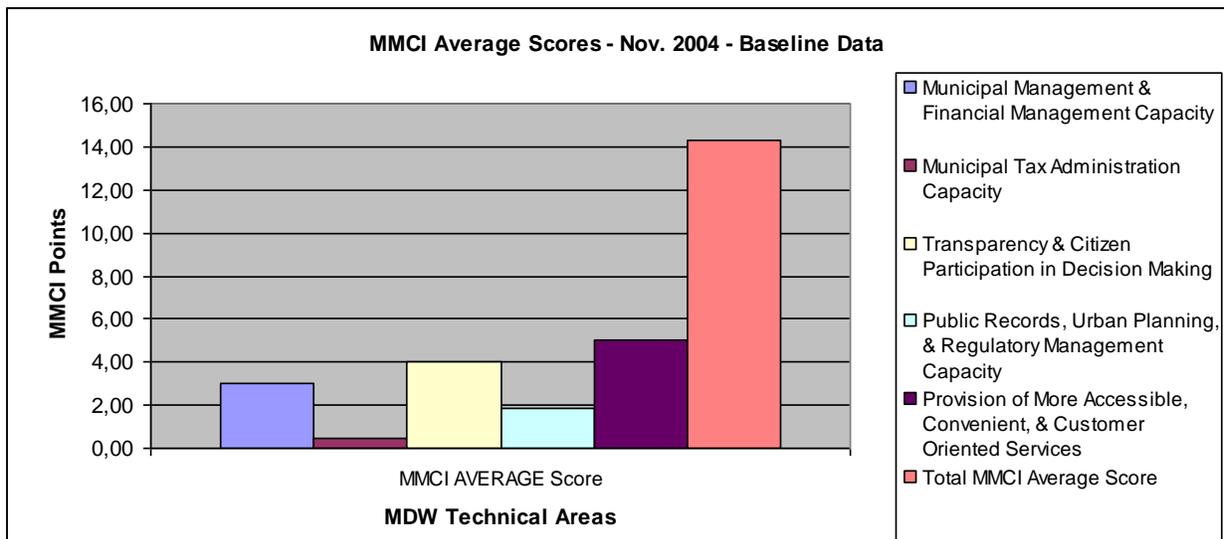


Chart 1: MMCI Baseline Data by MDW Technical Areas

Regarding the MDW five technical areas which were evaluated through 20 MMCI indicators, the highest average score is in the area of Provision of More Accessible, Convenient and Customer-Oriented Services - 5 points and the lowest average score is in the area of Municipal Tax Administration Capacity - 0.50 points. These scores which correspond to the MDW program team projections made for this assessment can be explained by the fact that the provision of more accessible, convenient and customer-oriented services to citizens has been the focus of most of the donor organizations working at the local level, including the assistance provided through USAID/LGRP. On the other hand, tax administration is one of the functions that are to be devolved to the local level and will be affected by comprehensive systemic reforms.

These scores will be used as MDW MMCI baseline data and the program progress data will be compared against them.

Next Quarter Activities

- MDW program teams will define MMCI program target scores and submit them to USAID.
- PMP indicators additional data will be finalized and sent to USAID for review.