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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

February - April 2005

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Task Order #804

© Development Alternatives Inc.
7250 Woodmont Ave. Suite 200, Bethesda, MD 20814
27 Mart, No.9, 1000 Skopje, Macedonia
Phone +389.2.3113.188; Fax +389.2.3290.122

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EXECUTIVE SUMMARY

This Quarter saw acceleration in the pace of activity in the ministries and among the donor community as the July 1 beginning of decentralization approached. The Government in particular seemed to be attempting to accomplish at the last moment the planning, coordination, training and analysis that should have taken place over the preceding two years. A “Detailed Plan” for implementing decentralization was put forward but was strikingly lacking in detail.

The local elections went forward on March 13 and 27 but with so many problems that, as of this writing, two mayoralties remain unresolved. Over ninety percent of the mayors are new, many with no government experience. The loss of capacity and institutional memory is great; for example, of the fifteen mayors on the ZELS Standing Committee, only three survived to serve on the new Managing Board (and, in fact, only two are so serving).

MDW leadership worked closely with the USAID Mission on finalizing the design and operating procedures of the Municipal Good Governance Fund.

The Policy Team provided assistance of the highest quality to the ministries of Finance (MoF) and Education and Science (MoES) on several vital issues. Unfortunately, external (i.e. Government) decisions diminished the efficacy of most of the team’s exertions. The MoF was offered a carefully crafted and viable equalization formula but chose to make political adjustments that, at least arguably, diminish its prudence. The MoF was also presented with three sound debt workout options that resulted from months of arduous expert analysis but instead adopted a “plan” that is no plan and will leave many municipalities on the edge of insolvency before decentralization even commences. With the MoES Working Group a financing strategy was developed but the Ministry announced a funding scheme that is, ab initio, thirty percent below actual current costs.

The Citizen Participation Team worked closely with numerous organizations including OSCE, the International Republican Institute (IRI), the National Democratic Institute (NDI), the NGO MOST and the Peace Corps on activities supporting MDW initiatives. With NDI a highly acclaimed cross-party pre-election contest was held. The team also conducted various information-gathering activities on behalf of other teams.

The Association Development Team continued its support for ADKOM’s successful start-up and that association signed an historic Memorandum of Cooperation with ZELS. AD assisted ZELS in the difficult and politically-charged navigation of the local election and transition process. The groundwork was laid for new organizational capacity-building

support for ZELS, the implementation of which must await the installation of new members and officers.

Reflecting its lead role in local capacity-building, the Municipal Management Team designed training, coordinated training efforts and began the actual delivery of the critical first program in Organizational Structure and Human Resources. This last was done in an unprecedented partnership with UNDP. The training programs for Finance and Budget, Property Tax Administration and the Local Leaders Institute were finalized and ready to be conducted in the next quarter.

Across the teams, the efforts were intensive and the products of the highest quality; however, the prospects remain dependent upon the political decisions and actions of other entities far outside MDW's control. In this environment it cannot be said that the short- and mid-term prospects for successful decentralization are encouraging.

ADMINISTRATION

In support of the MGGF, three experienced and talented staff members of the USAID Community Self-Help Initiative (CSHI) were recruited for the long-term and engaged part time for the short term. Lidija Damceska, a translator/interpreter who had been working on a temporary basis, joined us as a full-time permanent member of the MDW family. Local staff has increased to twenty-four and will reach at least twenty-seven with the addition of the CSHI veterans.

DAI's TAMIS information system continued to prove to be a very effective tool for information management in an ever-more complex and fast-paced environment. All administrative systems continued to support effectively the program activities of MDW.

SUCCESS STORY



Pre-election
campaign team

2005 Cross-Party Simulation Exercise - THE LOCAL ELECTION CHALLENGE: Members of different political parties gathered together working as a team

All for better for the people (United for the better of Stakata)

“We are very strong, but together we grow much stronger” - a slogan made by one of the teams

The municipality of “Stakata” is a big one; wide spread valleys, big mountains and colorful high hills. It has good infrastructure in its lower parts, which is not the case with the high mountains, where inhabitants mostly live in small villages.

The candidate is in the northern part of the municipality, visiting the furthest parts, talking to the electorate, being as good a mayor as possible. She has no fear being away while the campaign is on, because she has the best team working for her. The last three days of the campaign are on; it is the period of the elections where no mistakes are allowed.

These were the greeting words of Chris Henshaw, the NDI Director, to the gathered competitors, who continued by introducing them to the rules of the game. During the 30 minutes representing one day, the teams were getting different kinds of tasks and problems to solve. The questions were supposed to be answered within the appropriate timing, neither too soon nor too late. They had to pay special attention for each task they had.

The rules of the game were set. Prior to the election campaign start, the teams had three minutes to consolidate their rows. Each Team was supposed to have ten members, and in case there were less, someone had to take care of two or three positions in the team. Those were:

- | | |
|--|---------------------------|
| 1. Campaign Manager | 6. Observers Coordinator |
| 2. General Secretary | 7. Volunteers Coordinator |
| 3. Branch Chairman | 8. Media Manager |
| 4. Women Forum Chairman | 9. Campaign Treasurer |
| 5. Get out and vote activity coordinator | 10. Youth team Chairman |



There was a big need of cooperation among the team members, they had to select the Campaign manager, and choosing the appropriate job for each team member was the very first task for him/her. The time to do this was limited to three minutes. The manager of the campaign had the most important role in the whole process. He had to coordinate the team, delegate tasks and what is most important before the start of the “game”, choose the right people for the job.

People who had never met before started working together, and as the tasks and problems occurred they solved them as if they had been together their whole life. The fact that all of them were representatives of different political parties was very important to the event. The parties these people are members to have never worked together for getting better solutions on political matters. These people, by working together, representing different political parties have done great work towards improved political cooperation.

The Code of ethics for fair and democratic elections was the ground base for the teams to start and build their work, convinced that they were gathered to create better living conditions for the citizens. They had to solve each problem with the same attention regardless of its importance. The simulations were supported with Radio and TV simulators; there were press releases conducted, as well as interviews with the team’s spokesmen.



They all seemed very happy while working; their faces could not hide the enthusiasm. As the days passed by, the excitement grew higher and higher. These people had met for the first time to work together as a team. Nevertheless, although they belong to different political parties, they have done fruitful work. Each team consisted of 8 to 10 members and every one of them had a particular task, and yet if some team had a member less, then someone had two jobs to do. Running around their tables, like bees in their basket, they came up with a solution for each problem they were assigned, and that occurred in the meantime, in their imaginary municipality of Stakata. As the tasks were solved, the teams’ work was measured by the Committee. The Committee members were MDW/DAI staff and their task was to evaluate the work of the Teams, as they submitted the solutions to the tasks.

For the purpose of this cross-party simulation exercise, and in support of NDI activities, MDW developed some thirty tasks/simulations related to decentralization. MDW staff actively participated at the workshops (6 regional and one final), both in terms of logistic support as well as in reviewing the participants’ answers. The six regional simulations took place in: Bitola, Prilep, Kumanovo, Tetovo, Shtip and Skopje. The final of the simulation elections was held in Skopje on February 12, 2005; the two first teams from the previous events in the mentioned cities took part in it.

This event was composed as a competition on the base of the Code of Ethics of the political parties in Macedonia. Although there were only two winners, each and every one of the teams had great benefit from it. This game was invented for them, to learn, to practice, and get the wisdom of working together in a different environment with people they had met for the first time. They learned that being and thinking together is the strength and wisdom of mankind.

Miodrag Miladinovic

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

Summary of Quarterly Accomplishments

- With MDW support, the Ministry of Finance completed the proposal of the Equalization Formula.
- The Ministry of Finance Option for the Municipal Debt Relief Plan finalized.
- Methodology for Distribution of Education Maintenance Grant for Primary and Secondary Education for the period July 1 - December 31, 2005 was adopted by the Government of RM and published in the Official Gazette No. 25/2005. It includes the historical allocations as well as the allocation for the rest of 2005¹ per municipality.
- Representatives of the MoES and MDW PR Team participated at an FDI Conference in Sofia, Bulgaria (21-22 March, 2005) and presented the Education Decentralization Financing in Macedonia.
- The most important regulatory obstacles in the functioning of communal enterprises defined at a Workshop held on April 26 - 27, 2007 in Krushevo and hosted by ADKOM.

Activities' Implementation

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

Equalization Formula

The proposal for the Methodology for Allocation of 3% of VAT proceeds to the municipalities was finalized at a Workshop with the MoF Working group (Jan. 31 -

¹ Although transparent, worrisome is the fact that the allocations in the primary and secondary education are around 30% lower than the historical ones.

Feb. 2, 2005). Participating in this session were two representatives of the Ministry of Finance, Saveska and Pangovska, representatives of the Ministry of Local Self-Government, Jakimovska and Malici, and a representative of ZELS - Mayor of Struga, Dereban.

The analyses and simulations of the local government finance system and fiscal capacities of the newly established municipalities that the MDW prepared over the past months were presented to the working group and various allocation scenarios were discussed.

The conclusion of these discussions was that after deducting three percent of the General Fund for an emergency reserve (c. 24 million MKD) the General Fund will be allocated to all municipalities, with the exception of the City of Skopje and the municipalities within it, on an equal per capita basis. While not ideal, this method of allocating the VAT fund will have a strong equalization effect on the revenues of local governments.

Ideally, the General Fund created by 3% of VAT collected in the previous year (772,680,000 MKD in 2004) would be allocated to local governments 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 current level of information is inadequate for this. So the option is to allocate the money on a per capita basis.

The decision on the allocation of the VAT proceeds provided additional information on the estimates of the municipal revenue, which was important for defining the “ability of municipalities to pay” and further, the proposals for the Municipal Debt Relief Plan.

After the discussions on the Equalization Formula, the MoF had been silent. Due to municipal elections that took place in March, and the constitution of the “new ZELS” that is to appoint its representatives on the Committee for Monitoring the System of Local Government System, the establishment of the Committee has been delayed. It would consist of five ZELS representatives and representatives of the Ministries of Local Self-Government, Finance, Education and Labour and Social Policy. Under the Law on Local Government Finance, this Committee would, among other things, be considering the Methodology for Distribution of VAT Funds proposed by the MoF and approving it.

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

By the end of February, the MDW PR Team compiled a database with the information on the municipal debt from the respondents to the public call of September 2004. Debt was assessed, analyzed and categorized in three basic categories - 1) debt from expropriation, 2) debt to the electrical company, and 3) construction debt.

Assessing each municipality’s “ability to pay” debt in the future required an analysis of the impact of the Law on Local Government Finance and other decentralization reform measures on revenues and expenditures of municipalities. The information available at the moment is not reliable, so MDW PR experts developed estimates of

municipal fiscal capacities through various analyses of the historical revenues of the old municipalities, and projections for the new, the population as per the new territorial organization, and various other measures and projections. The allocation of the VAT revenues on a straight per capita basis was added to the projections.

The debt limitation contained in the Law on Local Government Finance was 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.

Policy options for creating a Municipal Debt Resolution Plan were developed by the MDW PR Team. To support the concrete options for the Municipal Debt Relief Plan, MDW PR Team drafted a policy paper - Municipal Debt Relief Plan Options - which discusses three major options for a Debt Relief Plan. The idea behind all of these options is that the implementation of the chosen plan will not take place for longer than seven years.

These options were accompanied with analyses of the financial implications for various stakeholders. After the initial presentation and discussion of these options with the MoF staff (Kostovska and Pangovska), this document was delivered and presented to the Minister of Finance during the meeting held on February 25, 2005 and the following week to a broader group of the Ministry of Finance employees, mainly from the Department on Debt.

In general - the proposal was that the debt would be repaid by municipalities within seven years the most, and that the GoM would pay off creditors in a single payment financed by a seven year bond issue at 3% interest (and maybe introduce an intercept mechanism for the payments from the municipalities), and the creditors and donors would share the cost of the interest.

The position of MDW experts is that unless this plan assists the municipalities clear out as much as possible of their outstanding arrears in the next few years, it cannot be considered a *relief plan*. Restructuring the debt until it is repaid regardless of the number of years, does not provide any *relief* for the municipalities. (Some time ago, the news published a proposal by the MoF for the debt resolution which stated that the state would only cover the expropriation debt and that the creditors would forgive 50% of interest, the other 50% would be paid by international donors, and the principal will be returned by the municipalities.)

Besides the analyses required to make a decision on an option, contained in the document to further assist the Ministry, is a decision matrix and an outline of the next steps once the decision on the option for debt resolution has been made.

An Action Plan for the finalizing of the Municipal Debt Relief Plan was drafted with MDW and the MoF counterparts from the Departments of Local Government and Debt. The Minister of Finance was made aware of the Action Plan.

The Action Plan stipulated that the Ministry of Finance would by the end of April 2005 choose a concrete option proposed by the MDW PR Team. This option would be negotiated with the creditors and municipalities before it is finalized by the end of May 2005.

As per the Action Plan, the PR Team Finance Expert, Levitas, was in Skopje the last week of April to assist the Department of Debt in choosing an option for the Municipal Debt Relief Plan, and to assist with the preparations for the activities in May 2005. Unfortunately, the Ministry of Finance was unable to provide the necessary cooperation for this mission to be completed successfully.

Meeting with IMF Mission Representative Heikki Hatanpaa, February 24, 2005
(Hatanpaa, IMF; Michael Eddy, USAID; De Angelis, Levitas, Ristovska, Grujevski, MDW)

Prior to the meeting with the Minister of Finance, the PR Team met with the IMF Resident Representative and the IMF Mission Representative, Heikki Hatanpaa and discussed the proposals for the Plan and fiscal implications. The IMF representatives shared their impression of the take of the Minister of the municipal debt issue who views it in terms of the 2006 budget; he also does not want to give the mayors an early signal that their debt problems will be solved so easily.

Meeting with the Minister of Finance, February 25, 2005
(Minister Popovski, Kostovska and Parnadzieva, MoF; Michael Eddy and Afrodita Salja, USAID; Liljana Ristovska, and Michael De Angelis, MDW)

Michael De Angelis' third mission in Macedonia resulted in a proposal of three major options for a Debt Relief Plan. At the meeting with Minister Popovski, these options were presented in general terms, and the Minister was urged to consider them in finalizing the decision of the Government on the Debt Relief Plan.

The Minister informed that what the Government was considering is the covering of the expropriation debt (124 million MKD), but he was interested in exploring the options proposed, and mentioned a possible international donor conference on the issue.

At the same time, considering the sensitivity of this issue during the current election period, he asked that the information on the debt and possible plans for its resolution be kept quiet.

He was very pleased that De Angelis will stay two additional days to work with the Department of Public Debt on the Public Debt Law.

Improve the
Regulatory
Environment for
Public
Communal
Enterprises

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

During this reporting period, namely on March 15, 2005 ZELS and ADKOM signed a Memorandum of Understanding. Thus formalized and strengthened relations between ZELS and ADKOM will provide basis for future joint lobbying before the Government on issues related to improving the regulatory environment for public communal enterprises.

MDW participated at the round table organized by ZELS on the proposed "Decision on the Means and Conditions for Potable Water Supply" which is supposed to serve as a draft proposal to the new municipal councils to regulate the relationships between

the municipality and the providers. MDW suggestions about this Decision were discussed and accepted by the ADKOM's Committee on Legal-Normative Issues.

In April, the Government Decision for Limiting the Prices of Communal Services was discontinued. This decision was an impediment to the enterprises. It limited the prices of services below the level that covered the costs of producing and delivery of the service. MDW had provided comments and recommendation for the abolishing of this Decision previously to ADKOM.

The municipal responses to the MDW questionnaires (out of 84, 55 municipalities replied) were analyzed and used as basis in defining the most problematic obstacles in the regulatory environment of the public communal enterprises.

The GoM has established a working group to deal with communal legislation. ZELS representatives participate in this working group as well. In order to initiate contacts with this newly formed Government Working Group on Communal Legislation², MDW and ADKOM representatives held separate meetings with each member of the Group.

At these meetings, they were informed that the MDW efforts, among others, are focused: 1) to support the communal enterprises to define the most critical regulatory obstacles, and 2) to establish close cooperation among all different stakeholders in the communal sphere (Ministries' representatives, ADKOM, ZELS, Economic Chamber and foreign donors covering this issue).

In general, the Government's Working Group members agreed that it was very useful and necessary to establish coordination among different stakeholders involved in communal works and welcomed the MDW initiative to support ADKOM and the effort to coordinate all different stakeholders.

In the efforts to broaden the coordination among all stakeholders, and donors providing assistance, MDW regularly meets with GTZ on the issue of improving legislation affecting the communal public enterprises.

For the purpose of finalizing the views of ADKOM on the most critical obstacles, and for exchanging practical experiences among its members, a workshop was organized by MDW and ADKOM. The analyses of the survey were presented at the Workshop, and the positions of ADKOM on the most critical regulatory obstacles for the functioning of the communal enterprises were further developed. These positions will be presented to the Government Working Group at a round table scheduled to be held in June, 2005. The expected outcome from the round table is to examine at least three most critical issues, and proposals for their resolution. The proposals would be in line with EU regulations and practical experiences of the public communal enterprises in the Republic of Macedonia. MDW will assist the Policy Working Group draft the amendments to legislation to reflect the proposals for the resolution of the issues defined.

² This Working Group is headed by the MoLSG and it includes representatives of: MoLSG, MoF, MoESP, MoE, MoTC, Secretariat of Legislation, Chamber of Commerce and ZELS

What follows are summaries of separate discussions in the meetings that took place this quarter as well as the Workshop details:

The Ministry of Finance and Secretariat of Legislation, April 5, 2005 - Ms Vera Kazankova (MoF), Ms Elenka Stojanovska (Secretariat of Legislation)

The ambiguity with having a Law on Public Enterprises was discussed. Namely, it is one of the major pieces of legislation regulating the activities of communal enterprises. But some experts feel that such a law is not required any longer. The reason for such a position is that the largest state-owned public enterprises such as ESM, Macedonian Railways, the water supply company - Vodostopanstvo and others, have initiated the transformation process. The result of this is that they will no longer be public enterprises.

Another piece of legislation discussed is the Law on Communal Works. The new Laws on Water Supply and Drainage of Urban Waste Water, Solid Waste Management, Local-Self Government and other regulations, have made the Law on Communal Works redundant, at least in its current form. One possibility is to have a specialized Law on Communal Public Enterprises that will compile the two laws - Law on Public Enterprise and Law on Communal Works.

This idea will be discussed within the ADKOM's Committee for Legal-Normative Issues and with the representatives from the Ministry of Economy.

The Economic Chamber of Macedonia, April 5, 2005 - Mr. Predrag Akimovski

The Economic Chamber representative Mr. Predrag Akimovski expressed his will to work closely with MDW and ZELS regarding the communal sphere issues. He also reiterated that ADKOM should be more involved in the technical aspects of communal sphere, while ZELS and the Economic Chamber of Macedonia should deal more with the legal regulation.

The Ministry of Local-Self Government, April 7, 2005 - Ms Slavica Jakimovska

The idea to include experts from communal enterprises in the drafting of Books of Rules, Methodologies and other bylaws in the communal sphere that should be adopted in the coming period seemed like a good one to the Ministry of Local Self-Government representative.

At the same time, Ms Jakimovska suggested that it would be very useful to provide all stakeholders with the official EU "white paper" on the provision of public services. Also, it was agreed that the Working Group should participate in the efforts for drafting better regulatory environment for communal services according the EU standards.

The Ministry of Environment and Spatial Planning, April 15, 2005 - Ms Lenche Kurcieva

The Ministry of Environment and Spatial Planning has prepared the laws (Law on Solid Waste Management, Law on Nature, Law on Air Quality, Law on Environment and Law on Waters) which are under their jurisdiction and three of them (Law on

Solid Waste Management, Law on Nature, Law on Air Quality) have already been adopted by the Parliament.

The two remaining laws, according to the Government's Detailed Action Plan, are to be adopted by October 31, 2005.

Ms Kurcieva informed that 46 by-laws and regulations are to be drafted in the period ahead, as an obligation arising from the laws. The first such regulation is the "Rulebook on the Form and Content of the Record Book", as well as the "Form, Content and Manner of Handling the Reporting Forms" that is to be adopted by the end of September 2005. This is a very important Rulebook and MDW has been asked for assistance in organizing a round table discussion with the entities involved in its implementation (local governments, communal enterprises, inspectorates etc). As soon as the final version of the proposed "Rulebook" is drafted, a copy will be sent to ADKOM and MDW. MDW will consider the possibility to support organizing such a round table in the month of May or June.

Also, MDW PR Team was informed of a very important study paper that has been drafted by the Ministry in cooperation with the European Agency for Reconstruction (EAR). The study - "The National Plan for Solid Waste Management" is to be finalized by the end of June 2005. It will guide all further steps that need to be implemented by the state, municipalities and entities dealing with solid waste.

The Ministry of Economy, April 21, 2005 - Ms Snezana Petkovska

The proposed Law on Amendments to the Law on Public Enterprises has been drafted, and the Ministry is communicating with other stakeholders and institutions. ADKOM was also provided with the draft copy and it was discussed during the Workshop in Krusevo.

Workshop on Legislative Framework in the Republic of Macedonia that Covers Communal Works - Positive Aspects, Obstacles, Experiences, Needs for Amendments of Legislation - Krusevo, April 26-27, 2005

A two-day Workshop (April 26-27, 2005) on Legislative Framework in the Republic of Macedonia that Covers Communal Works - Positive Aspects, Obstacles, Experiences, Needs for Amendments of Legislation was held in Krusevo. Twenty five participants - members of ADKOM Management Board, ADKOM staff, members of the Committee on Legal-Normative Issues, Presidents of other ADKOM's committees and MDW staff attended the Workshop that was chaired by Mr. Jordan Milkov, President of the Management Board of ADKOM.

The purpose of the Workshop was to define the most critical regulatory obstacles for the functioning of the communal enterprises as direct providers of communal services. Many constructive discussions took place during the Workshop. Also, the Government's Action Plan on Implementation of Decentralization for the period April 1 - October 31, 2005 was presented to the participants.

Besides the fact that the participants exchanged very practical information about implementation of the legislation in communal sphere, they have reviewed several crucial laws and conclusions were pointed out. It was agreed that besides defining/developing and adopting the necessary decisions by city councils, there is

also a need for better cooperation between CPEs and the municipalities. Local government support is essential in regulating certain issues in the communal sphere. For that purpose, close cooperation among ADKOM's and ZELS's Committees is necessary to be established.

The following laws were reviewed and discussed in detail and specific conclusions were agreed on:

- Law on Water Supply and Disposal of Urban Waste Water
- Law on Local Self-Government
- Law on VAT
- Law on Obligations
- Law on Social Protection
- Law on Public Procurement
- Proposal Law on Changes and Amendments to the Law on Public Enterprises
- Proposal Law on Execution (of Legal Obligations).

Support for Education Decentralization

Sub-activity: Develop Implementing Regulations That Transfer Responsibilities

Assisting the MoES to Adopt an Objective Formula for the Allocation of Education Funds

The process of Decentralization will begin on July 1, 2005. The main task of the MoES for this reporting period became the allocation of the categorical grants for primary and secondary education for the second half of 2005.

For this purpose, a proportional formula for the allocation was developed by MDW and the Analytical Unit in March. The formula distributes the funds among 84 municipalities and the City of Skopje in proportion to the historical costs for maintenance and student transport for the schools. The historical costs were calculated by the Financial Department of the MoES, so we can state that this was a comprehensive exercise for the Ministry, encouraging mutual cooperation of several relatively independent sectors.

The proportional formula for the allocation of maintenance funds for primary and secondary schools was intended as a temporary measure - for the second half of 2005, and replaces the per student formula prescribed by the Laws on Primary and Secondary Education. The reason behind this is that the per student formula must take into account the serious seasonal fluctuations of the maintenance costs around the whole year and was not appropriate for a period of only six months.

The Government of RM adopted the Ordinance on the Methodology for Allocation of the Earmarked Grant for Primary and the Ordinance on the Methodology for Allocation of the Earmarked Grant for Secondary Education by Municipalities, for the period July-December 2005, on April 11, 2005. This was the first such ordinance on the allocation of targeted grants to the municipalities in the process of decentralization.

The question of reaching an internal consensus among the MoES staff regarding their recognition of the system of per student allocation of earmarked grants was also addressed during this quarter. The inclusion of a greater number of people in this is

very important. MDW initiated and organized an internal workshop on the matter, tailored for the Financial Department of the MoES employees. It took place on February 28, 2005 in Skopje, and from this time distance, we can conclude that it was an event which succeeded in strengthening the internal cooperation in the Financial Department of the Ministry.

Assisting the MoES to Adopt Clear and Transparent Budgeting Procedures for Schools

As previously reported, the Working Group on Education Decentralization established a sub-group tasked with developing budgeting procedures for schools where members from the Ministry of Finance were included as well.

In February, after a meeting of the sub-group with representatives from the Ministry of Finance - Mende Micevski, Head of the Treasury Department, Aleksandar Petrevski, Treasury Department and Vukica Saveska, Department of Local Government - we were informed that the Treasury Department of the MoF has already produced an initial draft of the budget execution system in the first phase of the fiscal decentralization. With this proposed solution, the accounts of the municipalities would definitely go under the Treasury System, and the schools would have an additional account for revenues from the municipalities. This, very much coincided with MDW's experts' position on this issue.

By the end of the month, after the draft procedures were approved within the Ministry of Finance, the MoES sub-group was invited for consultations and feedback, and during March the members of this sub-group worked on developing budget execution procedures jointly with the MoF's Treasury Department. A paper defining the draft procedures (called "The Fiscal Decentralization in Education") was produced by the sub-group and was then commented by MDW. Although an outcome of a joint work (MoES-MoF), the document was submitted for approval to the Minister of Education and represents an official document of the MoES.

The next very important task for the MoES in this field was defining the principles and procedures for financial monitoring and analysis of the spending of the categorical grants by municipalities and schools. As the decentralization process takes off, this will be the main role of the Ministry of Education and Science.

During April, the MDW PR Team focused on initiating discussions with both the MoF and the MoES for the purpose of adjusting the access of the MoES to the treasury data, to correspond to its new role in the decentralization process. The MoF (Treasury Department) informed that the procedures for budget execution on the local level will not be completed before the end of May. Once the treasury finalizes the procedures, the two ministries will need to meet again and discuss the mechanism for monitoring and the technical options for its implementation.

It is also worth mentioning that the MoES is at this point still in the process of defining what exactly they want to monitor and the way they want to do it. During May, the MoES will need to define the main principles of the financial monitoring which could be then developed as procedures and operations.

Assisting the MoES in Designing Procedures for Transfer of School Property Ownership to Municipalities

MDW initiated a meeting of the sub-group working on the issue of transfer of school properties in early February. A presentation of the database that MDW compiled on the school property was delivered to the members, and they were made aware of its present condition, i.e. some basic reports were derived, discussed and next steps defined.

The sub-group concluded that the problems in this area were very diverse and guidelines for dealing with the property transfer need to be developed for municipalities for the purpose of assisting them in resolving many different property transfer situations. A meeting was initiated and held with the National Geodesic Institute (the Cadastre), where the urgency of solving the many cases of unresolved ownership status was laid out.

This flow of the activities was directed by the MoES intention to resolve the property transfer issues by their own efforts and in cooperation with the National Institute for Geodesic Works and the municipalities, with the support of the MDW. This approach was developed in the middle of 2004, in the absence of clear national instructions of dealing with this issue.

As part of the GoM activities on decentralization, the Ministry of Local Self-Government (MoLSG) took the coordinating role in dealing with the transfer of the state property on the municipal level, and that is for all line ministries which transfer real property.

Aware of the problems with the evidence of property in all sectors, the MoLSG sent a table to all line ministries with instruction of how to classify the property of the Government of Macedonia, the user of which was each line ministry, and the ownership of which is to be transferred to the municipalities. The classification contains: a) property with a clear status and ownership, b) property with no records, or one where the ownership is being disputed, and c) property under construction.

The first would be devolved by a decision of the Government, the second category will be priority with the Cadastre, and until their status is resolved, there will be contracts with the municipality and state for the use of the property. The property under construction will be identified per municipality.

During the reporting period, MDW assisted the MoES in submitting two of the lists of schools, as required by the MoLSG. Those were used for the purposes of developing the Government's Detailed Action Plan for Transfer of Competencies and Resources for the period April-October, 2005.

The development of the events directed that we wrap up the activities in this area by handing on the school property database to the Ministry, for future use and development. The MoES will continue the work on the database immediately by putting in cadastre details, as requested by the MoLSG.

The PR Team met with the members of the Analytical Unit charged with maintaining the database. They were updated about the questionnaire, the process of gathering and entering data, and also instructed regarding the documents from the Cadastre:

Property List, its structure and elements etc. all resulting with their greater comfort with the task.

Assisting the MoES to Define Standards to be Maintained by Municipalities to Ensure the Continuity and Safety of the Education Process

The MoES is responsible for developing regulations regarding two categories of standards in schools: space and equipment. The sub-group tasked with developing these regulations met once during February. The group has been strengthened by two new members from the Bureau for Education Development. The general dilemma before the group is whether setting strong norms and permitting an extended grace period for their adoption is the right choice or setting norms on as minimal level as possible. Another thing that must be defined in these regulations is the precise legal responsibilities of the municipalities.

In the following months, the Bureau for Education Development took over the leading role in drafting the norms. The level of detail is still under a question, and two streamlines regarding this developed in the MoES. The first one is on the opinion that the norms should be developed to a substantive level of detail, so that the “rules of the game” are clear for the municipalities and for the other stakeholders. The second stream suggests more general and realistic norms, avoiding the risk of large number of schools failing to meet the norms even now, when they are under the central control.

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

Assisting the MoES to Strengthen the Capacities of the Analytical Unit to Perform Data Analysis, Simulations and Prognosis

As two additional members of the Analytical Unit were added to the team, MDW provided them with the necessary IT and office interior supply. MDW also funded a basic Microsoft Excel training for the new members of the unit, and in the next period they will be supported by the on-site training by MDW experts and the senior members of the Analytical Unit.

Looking for a proper training for the senior members of the Analytical Unit, MDW was organizing training in econometric and quantitative researches, by asking the cooperation of the Economic Faculty in Skopje. It is necessary to point out here, that the offer MDW received from the Faculty was too costly and not acceptable. Therefore, an alternative solution would be to use the LOE of MDW consultants for the econometric trainings, and use the funds for an Advanced Access and Advanced Word Courses instead.

Meanwhile, the core members of the Analytical Unit have been engaged in two key areas of the current activities for education decentralization: 1) allocation of the categorical grant for primary and secondary education for 2006, as well as in 2) transferring the school properties to local governments. They were also used internally by the Ministry for producing reports and analysis used for: defining the new school network in primary education, analysis of the student dormitories, analysis of the equipment in schools etc.

Study Tour on Management of Decentralization of Primary and Secondary Education

A study tour on Decentralization [of] and ICT Integration [in] Primary and Secondary Education for the MoES is taking place this spring, in cooperation with the World Learning.

The purpose of the proposed study tour is to take up to 13 key employees of MOES and one from the MoLSG on a Study Tour of Education Ministries in successful transition countries, which have conducted a thorough decentralization of their education systems. This would allow the Macedonian team to see how the decentralization affected the roles, functioning and organizational structure of the Ministries. The visits would also increase the capacities of the MoES in managing the process of education decentralization in Macedonia.

The participants will be divided into two groups, each visiting different country (Hungary and The Czech Republic), having opportunity to learn about the relevant aspects of the education decentralization and exchange gained experience on return. The two visits will take place in May.

FDI Conference on Education Financing in CEE

The Fiscal Decentralization Initiative (FDI) managed by the Local Government and Public Service Reform Initiative (LGI) of the Open Society Institute Budapest (OSI) and the USAID local government reform offices hosted a policy development forum on financing education in the former Yugoslav Republics, as well as Albania, Bulgaria, Moldova and Romania. The Forum took place in Sofia, Bulgaria on March 21-22, 2005.

The purpose of the Forum was to provide an opportunity for the SEE countries to share knowledge and experience respecting best practices in intergovernmental fiscal reform, with particular emphasis on financing education.

Experts in financing education from each of the SEE countries had prepared papers describing and analysing their systems of finance of education and planned reforms and delivered presentations on specific aspects of financing education in their respective countries.

The Policy Reform Team is especially proud that the two senior members of the Analytical Unit together with MDW STTA Jan Herczynski were accepted as authors of the Macedonian national paper for this event.

Other PR Team Activities

Assisting the MoLSG in Preparation of the Detailed Action Plan for the Transfer of the Competencies from the State to the Units of Local Government

The MDW PR Team was asked by the Ministry of Local Self-Government to comment on the Document for the Transfer of Competencies from the State to the Local Governments.

The document is actually a compilation of the responses of all line ministries to the request of the Minister of Local Self-Government, on the regulations they are to issue, so that effective transfer of competencies can take place.

In addition, the PR Team coordinated filling in a table of MDW outputs by different activities related to functions to be developed, such as local economic development, education, financing of municipalities and similar to be accomplished by the end of MDW Project Year 1. Similar outputs tables are to be filled in by other donors working in the area of decentralization. The idea of the MoLSG is to annex this information to the final version of the Action Plan.

Main concerns of MDW regarding the Draft Detailed Action Plan for Implementation of Decentralization (April-October 2005)

Financing of transferred institutions

For many functions - kindergartens, old age homes, fire protection, cultural institutions – it is extremely unclear on what basis money will be transferred to local governments. In most cases, however, the intention seems to be to give local governments the sum of the historical budgets of the institutions located in their jurisdictions.

Financing the administration

For many functions, local governments will assume responsibility for paying the salaries of state employees who will retain their status as civil servants. NO PROVISIONS are foreseen for the support of severance costs should local governments want to reduce employment. It is very unclear when responsibility for the wages of certain groups of employees will be transferred to local governments

Unfunded mandates?

For many functions local governments are being given ownership of facilities, and responsibility for the payment of employees, but there is no indication that they will receive any of the funding beyond these costs that the state spent on these functions prior to their devolution.

Deadlines for the property databases

There are very few hard deadlines given for the inventorying of the property that will be transferred to local governments.

Debt of institutions

There is no mention made anywhere about who is to assume liability for any debts the transferred institutions may have.

No mention of the transfer of competencies in the urban sphere

One of the main services that the local governments are to provide to citizens is in the area of urban planning - issuance of building permits. During the last couple of years, with the assistance of LGRP/USAID, pilot projects have been established in a number of municipalities for their preparation for the performance of this activity. The Action Plan however, does not mention this area of extreme importance to the performance of local government functions. Apparently, the Ministry of Transport and Communication has not submitted any input to the Ministry of Local Government,

Participation on a Seminar on “Planning and Financing Cities in Transition” organized by LGI - Budapest

The two-week course (January 22- 29, 2005 and March 5-12, 2005) organized by LGI contained various modules through which participants from the ex-YU states, Romania, the Czech Republic and Bulgaria exchanged their experiences and learned of various models of strategic approach in local economic development, types of local government revenues, with a special focus on borrowing and other sources of funds for urban investments, capital investment planning - its phases and their sequencing, budget analyses and investment decision procedures.

Most relevant experience for the Macedonian team was the Capital Investment Planning module which showed the short- and long-term effects of capital investment projects in municipalities. The tool could be useful for Macedonian municipalities which under the new system will be responsible for predicting, collecting and planning their expenditures and making a difference with the money spent in their municipality.

Meeting with Mr. William Dillinger, WB (April 21, 2005)

This was one of the three meetings with the WB representatives in the preparation of another arrangement with the GoM, and setting the conditionality for it. This meeting preceded the one Mr. Dillinger had scheduled with the MoF State Secretary and the Local Government Unit staff.

Based on the previous discussions with MDW, Mr. Dillinger had already drafted a recommendation for the design of a debt resolution plan on time, i.e. before July 1, 2005.

During this meeting, the activities on the design of the Debt Relief Plan were discussed. Namely, Mr. Dillinger was informed about the schedule that was agreed with the MoF on the activities for the design of the Plan. He raised concerns of the possibility of prolongation of these activities, and it was agreed that the WB will insist the MoF make sure the Municipal Debt Relief Plan is in place on time (as per the Law on Local Government Finance).

Another issue discussed was the recently published Methodology for Allocation of Education Maintenance Moneys to municipalities for the second half of 2005. The concerns with the Methodology are that it allocates an amount which is 30% less than the historic allocation. The fact that even with the historic allocations, the schools permanently ran debts which they would cover the first three months of the year, proves that the maintenance function was under funded even when it was performed by the state. With the cut on spending on the devolved functions that were under funded anyway, decentralization will certainly not be viewed as a success. Also, this issue signals the possible repetition in other sectors.

The third issue discussed was the covering of the salaries for administrative staff transferred to the local government from the regional offices of central government entities. In the section of the Draft Government Action Plan for Decentralization dealing with the firefighters it is clear that salaries will be covered by targeted grants for salaries. This statement contradicts the Law on Local Government Finance

(Art. 45 - targeted grants without the money for salaries...will be transferred to the municipalities...). The salaries for the rest of the administrative staff to be transferred to the local governments, as the Action Plan stipulates, will be financed by municipal own sources.

The concern here is that aside from financing the outstanding debt, the municipalities will be expected to finance the new employees, employees from the consolidated municipalities and other, from own source revenues, which they will be collecting for the first time.

Next Quarter Activities

- Assistance to the MoF in finalizing preparations for the Debt Relief Plan and in the process of negotiating the Plan with creditors and municipalities as well as assistance in finalizing the Debt Relief Plan with feedback from negotiations with creditors and municipalities.
- Assistance to the MoF and ZELS to finalize the Methodology for Allocation of VAT Funds to municipalities. (ZELS has the majority on the Committee on Monitoring the System of Local Government Finance, which is to approve the Methodology).
- Study tours on Decentralization (of) and ICT Integration (in) Primary and Secondary Education to Hungary (May 16 - 22, 2005) and the Czech Republic (May 22 - 28, 2005) will take place in May.
- The proposal on the education maintenance grant for 2006 will be finalized.
- The PR Team will work with the MoES on defining the basis for the system of monitoring of education targeted grants.
- The most critical regulatory obstacles in the communal sphere that were defined during the Workshop held in Krusevo in April will be sent to all communal enterprise in the Republic of Macedonia.
- ADKOM Management Board will discuss and agree on the strategy of how and when to request the changes and amendments on some regulatory issues.
- A round table will be organized gathering together the members of Policy Working Group (PWG) and Government Working Group (GWG) where ADKOM positions on legislation will be presented.
- PR Team will work on developing Year 2 Work Plan.

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

Summary of Quarterly Accomplishments

- MDW staff members actively participated at a series of workshops (six regional and one final), organized jointly by NDI, MDW and the citizens' association MOST, for members from all political parties. After having developed some of the questions for the events, MDW provided both logistical and professional assistance in terms of evaluating the participants' answers.
- Preparation activities related to development of budget hearing brochure for citizens as well as conducting a BID survey have begun and initial steps were defined.
- Five interviewers were trained on how to conduct the shopkeepers' and shoppers' surveys in the chosen BID (Business Improvement District) municipality.
- An information packet that will be distributed to the newly elected mayors has been prepared. It contains a congratulations letter, one-page information on MDW, including the MGGF, a briefer on USAID in Macedonia, a summary on ZELS and other relevant information.
- Out of the 84 municipalities, 56 have replied to the MDW questionnaire on the citizens' involvement in decision-making. The analysis of the questionnaires was finalized during this quarter.
- MDW Citizen Participation Team had several coordinative meetings with donor and other organizations, including the Peace Corps Volunteers, OSCE and IRI and discussed possible future cooperation in the area of citizen participation.

Activities' Implementation

Freestanding CP
Activities

Sub-activity: Expand and Enhance the CIC Network

At the last CIC Network meeting, which was held in January, it was agreed for the next meeting to take place after the local elections, presumably some time late April. In the meantime, the CICs were planning to continue with the implementation of their CIC Outreach Plans, and the CP Team continued to maintain contacts with the CIC staff and provide assistance as necessary. We have also had several meetings and discussed cooperation in the citizen involvement area (especially CICs) with representatives from donor and other organizations.

As expected, there were some delays and hindrance in the implementation of the activities of the CICs, due to the pre-election/campaign period, as well as some time after the elections. For the purpose of scanning the situation, the CP Team contacted the majority of the CICs by telephone, and after gathering information on what the situation was in the respective municipalities, it became obvious that the CIC Network meeting should be postponed for May.

Namely, out of the 17 municipalities with CICs, in only four have the mayors been re-elected. The remaining 13 municipalities now have a new mayor and the staff had either not met the mayor yet, or had not had the opportunity to present and discuss the CIC.

In support of the promotion of the CICs with the newly elected mayors, Natasha Vrteska from ZELS has agreed to use all occasions at which she will see the new mayors to lobby.

Below is a short summary of the situation in some of the CICs (not all could be reached by phone), as of April 25, 2005:

Karposh

The Center has been incorporated into the municipal structure as a Department for Communication, Contacts with Citizens and Protocol within the Mayor's Cabinet. The three old staff members work there and it is anticipated that several new people will be hired in the coming months.

Bitola

The staff has not established formal contacts with the new Mayor yet. The same staff members work in the CIC, and hope they will have support from the new Mayor.

Centar

Only one of the old staff works in the Center. Others are reallocated on different positions within the municipality. The staff suggested that MDW has a meeting with Mayor Alarova and discuss further with her about the necessity of having regular maintenance of IT in the CIC and keeping track of citizens served.

Debar

Same two staff members work in the Center, but one of them is on a year long studies abroad.

Gostivar

They already had the formal contact with the new Mayor and presented him the short overview of the CIC operation.

Kavadarci

Same staff works in the CIC and they expect to engage several new persons new next month on a temporary basis.

Kriva Palanka

They already had a formal meeting with the new Mayor and he expressed his support to the CIC. One of the old staff members has been allocate to other office in the municipality, while the other will continue to work in the CIC.

Kumanovo

All three staff members still work in the CIC, but they have not yet met the new Mayor. They do expect changes with the new job systematization, but the changes will not have big (or negative) impact to the CIC. Also, they maintain communication and collect data from other CICs in Orashac, Lipkovo and Goce Delcev (established by the assistance of WB Community Development Project).

Stip

Staff keeps regular evidence of services delivered. All staff received new job positions and will be replaced. The CIC will continue to operate.

Prilep

The new Mayor has not visited or contacted yet anyone from the CIC, so nobody knows what will happen with the center.

Sveti Nikole

Regular services continue, even though the staff has not yet discussed the CIC and its work with the Mayor. For the time being, there is one person working in the CIC (she has been there from the beginning) and the Peace Corps Volunteer is helping out. She presumes that the CIC will continue working as usual, but she asked for our assistance and support in presenting the CIC concept to the new Mayor.

Krusevo

The staff is no longer in the CIC (as they were hired by the previous Mayor on a temporary basis), and they no longer work in the municipality. Currently the office is closed.

Cooperation with Peace Corps Volunteers

As a continuation of previous contacts and cooperation with the Peace Corps Volunteers (PCVs) in Macedonia, USAID's Michael Eddy, MDW COP and CP Team Leader attended the Peace Corps Volunteers retreat in Strumica. During the session, an introductory presentation was made about citizen participation activities that MDW is engaged in. The ensuing discussion was mainly focused on the work of the Citizen Information Centers and the experiences that the PCVs have had from their contacts and work with them. Some of the PCVs are placed in municipalities where USAID/LGRP has provided assistance in opening CICs, while others work in municipalities where other donors (mainly EU Phare) have supported similar projects. At the meeting, the PCVs shared their experiences on how these centers work and how well they are known in the communities, and the general impression was that there are significant differences from municipality to municipality. The observations of the volunteers can be very valuable as their perspective

could be considered as "independent", given that they are not directly "attached" to the local governments. At the same time, the information that MDW receive about the work of the centers is from those CIC representatives that regularly attend the CIC Network meetings, whereas the status and situation with the rest of the CICs and the ones that have been opened with other donors' assistance remains unclear.

During the reporting period, and as a result of the discussion at the retreat, the PCVs have conducted a survey and compiled information about the status and the functioning of the CICs and have sent it to MDW. They have covered a total of 18 municipalities, both LGRP/USAID ones and others, opened with other donors' assistance.

In the forthcoming period, especially once MDW's MGGF (Municipal Good Governance Fund) is established and running, we will provide information to the PCVs on the mechanisms and criteria for obtaining funding, so that they could serve as advocates in the local communities.

Cooperation with OSCE

A couple of meetings were held with OSCE representative, Claire Sneed, and Lirim Dalipi, on possible cooperation between MDW and OSCE, and especially in the area of citizen participation. During the meetings, the CP Team presented the CICs (what they are, how they were opened, how they function at present), as well the work that MDW is currently doing in this area. Since OSCE activities relate to opening similar offices, they were interested in hearing more about the process of establishing and supporting these offices. In order for them to get additional insight and information from the CICs, it was agreed to have them attend the next CIC Network meeting, at which they would present their activities, as well. Namely, the idea is to connect the CICs to the gender commissions that OSCE has helped establish in ten municipalities and stimulate their cooperation.

The second part of the meeting was dedicated to discussing the work done in the area of building the capacity of neighborhood units. The OSCE has had extensive experience in this area, which could be useful in MDW's activity. Generally, they would be ready to cooperate with us in this area and provide training to selected neighborhood unit groups.

Similarly, another international project has approached MDW CP Team for information on CICs and possible cooperation. Namely, Jeremy Groome, the Team Leader of the Macedonian Agricultural Advisory Support Programme (MAASP) funded by SIDA and working with the Ministry of Agriculture, Forestry and Water Economy wanted to find out more about the Citizen Information Centers. Their project is particularly interested in supporting the development of an agricultural advisory service in the country, and in this context, they want to improve the access to information and build on current initiatives. Initial information on the CICs was sent to them and further contacts are expected.

Sub-activity: Public Hearings on Municipal Budget

The CP Team held a couple of internal meetings with MDW's Financial Management Coordinator in order to discuss the development of a budget brochure for the citizens. The idea of the brochure is to demonstrate the accountability and transparency of the local authorities in the way they spend public money, as well as provide guidelines for the citizens on how to take part in the creation of the municipal budget. The steps for producing the brochure were defined and its general outline was agreed on: it would contain information on what the budget is; its structure (revenues and expenditures); the competencies of the local government; who the participants in the budget preparation are (both internal and external); a description of the budget process; and a part dedicated to how budget public hearings are initiated. It was also agreed that the brochure should be written in a "simple" language, understandable to everyone and the information presented in a reader-friendly manner.

The next steps include preparing a draft document of the brochure. Once the text is prepared by Josifov, the CP Team will provide input in terms of citizen-oriented approach. Internal consultations between the two teams continue.

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

On March 17, 2005, MDW/USAID and Foundation Open Society Institute - Macedonia (FOSIM) signed a Memorandum of Cooperation for implementation of the e-Local Government Project. The project will last for two years and at least 20 Macedonian municipalities will be included. The Project objective is creating a better public policy, greater trust in government, stronger democracy and enhanced quality of service by using information and communication technologies. The Foundation Metamorphosis will implement the project on behalf of FOSIM.

The signing of the Memorandum of Cooperation opened the process of implementation of CP cross-cutting activity -- Analysis of Citizens' Priorities for e-Local Government Services. For that purpose, a meeting was held among responsible representatives from Metamorphosis and MDW. The initial specific steps to start up the project implementation were discussed.

These are the highlights of the meeting:

- A survey will be conducted in ten target municipalities. After defining the criteria (geographical coverage, multiethnic composition, size of the municipality, and balance in municipal leadership political orientation) the following municipalities have been chosen: Karposh, Gostivar, Debar, Kavadarci, Prilep, Veles, Strumica, Zrnovci, Cucer Sandevo and Krivogastani.
- The survey sample will be composed of 850 respondents (100 respondents from each of the 7 big municipalities and 50 respondents from each of the 3 small size municipalities).
- There will be one unified questionnaire for all respondents. The main purpose will be to give the respondent an opportunity to prioritize e-services that will be stated in the questionnaire.

MDW will participate with a sum of US\$ 5,000 and Metamorphosis will contribute with an appropriate amount of US\$ 3,000 - 4,000.

After Metamorphosis had developed the questionnaire and submitted it for revision to MDW, a follow-up meeting was held. It was an opportunity to exchange views and ideas, as well as to finalize the questionnaire. Metamorphosis has incorporated all the recommendations and submitted the final version to MDW. The distribution of the questionnaire to the selected municipalities, i.e. the survey, is scheduled to take place in May.

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

MDW Property Tax Collection Advisor, Richard L. Sanderson, developed a recommended model of organizational structure for Municipal Revenue Units (MRU) in Macedonia (assessment dated March 8, 2005).

Mr. Sanderson's observations and recommendations regarding Tax and Fee Administration refer to two types of activities that should be performed by the municipal administration: 1) general administrative tasks and 2) specific activities for tax and fee administration. Within the second category of tasks, the administration should "*establish and maintain positive public relation*". The following actions should be considered and performed by the administration:

- Promoting a positive attitude among the local population regarding the taxes and fees administered by the MRU.
- Promoting the reasons why taxpayers should welcome increases in the tax rate and fee collection percentage.
- Informing the public about the present tax and fee regulations, their rights concerning the appeal process, and obligations of tax and fee payers to pay their taxes and fees in a timely manner.
- Promotion of the benefits that the citizens receive from the taxes and fees collected by the MRU in the form of local services and public improvements.
- Distribution of public relations information and answering questions from the taxpayers related to taxes and fees.
- Informing the public about important issues, including the amount of taxes and fees actually collected, their purpose, usage, and percentage of collection in the municipality.

These recommendations correspond to the overall CP Team consideration regarding cross-cutting support that will be provided to the MDW Municipal Finance Team. Once the Municipal Revenue Units are established in the Macedonian municipalities, the CP Team will start with implementation of this activity.

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

Preparatory activities regarding the BID survey took place prior to the visit of BID specialist Nora Maderkova in April. These included planning and scheduling the training of interviewers who will do the survey. A meeting with Maderkova took place as soon as she arrived in the country, but the next steps could not be concretely defined, because of the local elections that had not been over yet at that time. Even though the municipality in

which the BID activity would be implemented had not been selected yet, it was decided to conduct the training of the interviewers who would carry out the surveys.

The introductory training was delivered to five BID survey interviewers. Five experienced interviewers were introduced to the concept of Business Improvement District (BID), and both surveys -- Business Attitude Survey (for the Shopkeepers) and the Shoppers' Survey were presented to them. A discussion ensued, during which the interviewers asked questions and also gave constructive suggestions as to how to improve the questionnaires.

By training the interviewers, the preparatory phase for conducting the survey has been carried out, and once the implementation process starts, the interviewers will be ready to step in. The survey (both parts - the shopkeepers' and the shoppers') is scheduled to take place some time during the next quarter.

Other CP Team activities

NDI cooperation

In the beginning of February 2005, a series of six regional (February 4 - 9, 2005) and one final (February 12, 2005) cross-party simulation events took place, organized jointly by the National Democratic Institute (NDI), MDW and the citizens' association for election monitoring MOST.

The events were designed as pre-election simulations, during which activists from different political parties were teamed up and had to compete with other teams, also composed of multi-party representatives. During the course of an hour and a half, which represented three days of the campaign, the participants had to assume different roles in an imaginary party headquarters during local elections campaign in an imaginary municipality. Different tasks were given to the participants, which they had to solve by a certain deadline, and a significant part of the tasks were related to local government issues. These covered solving communal problems, dealing with inter-municipal issues, handling matters that come with the newly devolved competencies, and similar. The purpose of the exercise, apart from giving people from different parties a chance to get to know each other and cooperate, was to give them an idea of what they are likely to face if and once they are elected for local office. It was also an exercise to see what their understanding of local issues was.

The average attendance of the events was between 60 and 90 participants, and the final one in Skopje, at which the two winning teams from the previous rounds took part, had more than 120 participants, as well as supporters.

MDW participated as a partner organization in the implementation of this activity, providing significant input, which ranged from developing questions/problems for the participants to logistical and professional support. Namely, for this purpose, MDW team developed more than thirty simulations, including possible answers to the problems. In addition, MDW staff attended all regional events, as well as the Skopje final and assisted in terms of logistics and in terms of evaluating the participants' answers.

A general overview of the participants' answers showed that their knowledge varied drastically. Some of the solutions they provided were well thought-out and a product of cooperation of the team members. On the other hand, some of the answers showed significant lack of knowledge about local issues and how to handle them. In general, the teams that took part in the Skopje regional competition were better informed and better skilled than the ones that participated in the previous rounds in other parts of the country. Their answers could also be used as an indication of the level of knowledge that citizens in general have about local government competencies and could help in designing future activities in raising awareness among the population.

Municipal Questionnaires

During this quarter the municipal responses to the questionnaire on citizen participation in decision-making that we have received were finalized.

Following are the findings:

A total of 56 municipalities have replied and returned the filled out questionnaire, which represents more than 66% of the total number of municipalities in the country (84).

The questionnaire was composed of eight questions focusing on different aspects of informing and involving the citizens (and the community as a whole) in the governing process. For example, the municipalities were asked to provide information on whether they have a Citizen Information Center (CIC) or a similar office and if they have opened it themselves or with donor assistance. Also, they were asked whether they had a person responsible for informing the citizens and whether they reach out to distant areas, such as far-away villages. A part of the questions referred to the feed-back mechanisms that the municipalities use to receive input from the citizens, such as surveys, town hall meetings, public hearings, etc. Through the questionnaire, MDW also tried to find out how many Citizen Advisory Boards there are in the country, and whether they are standing or ad hoc. As a final comment, the municipalities were asked to inform us of any additional efforts and tools that they apply to motivate and encourage citizens to take active part in the local decision-making.

The rating of the answers was done according to a rating system designed along with the questionnaire and the maximum number of points that a single municipality could receive was 10. Only two municipalities achieved this maximum - Prilep and Karposh. Both municipalities have CICs that operate and serve citizens successfully, but they also use a variety of CP mechanisms (the ones that are mentioned in the questionnaire, as well as creative ones).

The number of municipalities that scored 5 and above adds up to 33, which represents some 39% of the total number of Macedonian municipalities. This means that these municipalities use an assortment of tools through which they engage citizens in decision-making. The remaining 23 municipalities that replied (27%), scored between 1 and 4 points. These municipalities use some of the CP mechanisms mentioned in the questionnaire, and almost none among them use creative solutions to motivate citizens to provide input.

As for the answers to the individual questions, the situation is the following:

Out of the 56 municipalities that responded, 29 have reported to have a Citizen Information Center. Seventeen (17) of them were opened with LGRP/USAID's assistance, and the rest (12) were opened with other donors' assistance (EU Phare, UNDP, World Bank, etc.).

Thirty-seven (37) municipalities said that they have a responsible person on staff for informing the citizens, and 35 of them reported having outreach activities to rural and other far away areas.

When asked about the feedback mechanisms, most of the municipalities reported using town hall and neighborhood unit meetings as the most frequent tool for exchanging information with the citizens. They also use public hearings, and they conduct surveys. Some of them use ready-made forms that the citizens fill out in CICs or other municipal offices. Under the option *other*, we received replies such as: e-mail, citizen gatherings, automatic answering system, web-site, local radio station, etc.

Standing Citizen Advisory Boards were reported by 15 municipalities, while 35 of them said that they have ad hoc CABs. Only one municipality (Ohrid) reported that they allocate funds for the functioning of their board. The boards that are established, both standing and ad hoc, give opinions and voice citizens' needs mainly regarding the construction of road or water networks, the detailed urban plans (DUPs), the annual programs of the municipality, etc.

Twenty-six (26) of the 56 municipalities reported holding public hearings on the budget. Some of them conduct the public hearings once a year, other 4-5 times a year, and yet others conduct them 15-20 times a year.

Other CP mechanisms that the municipalities reported utilizing include surveys, outreach through the mass media (including local), forums, cooperation with NGOs on projects of mutual interest to the community, municipal newsletter with a feedback form, establishment of boards and commissions that provide opinions, involvement of neighborhood units in decisions regarding infrastructure, cooperation with satellite CIC offices in neighborhood units, encouraging the business sector to become partner to the municipality in joint projects, educating the civil servants, educating the citizens for participating, direct communication with citizens, public gatherings, presentations, establishment of working groups and commissions, maintaining regular contacts with the neighborhood units through the office for neighborhood units, establishing bodies that follow the work of the public enterprises, establishing consumer protection board, fighting against addictions, etc.

Citizen Advisory Boards

The Citizen Advisory Board from Kocani, one of the five that were established under USAID/LGRP has contacted the CP Team for assistance. Namely, some of the original members of the board are no longer members, and at the same time, some new ones have decided to join. Given that the CAB has continued its activities (and still maintains the office within the Public Communal Enterprise in Kocani) even after we have ceased providing assistance, they feel the need to receive some more training, especially for the new members. At the same time, they asked for support in

preparing plans for their future work. Given that MDW's Year 1 Work Plan does not contain an activity specifically related to CABs, the CP Team will make efforts to assist them by keeping communication open and sharing information on how and where they could find support for their activities.

Information Packet for New Mayors

After the local elections were completed, the newly elected officials have started approaching both USAID and MDW, looking for information on what kind of assistance we are able to provide. For this purpose, MDW have prepared an Information Packet for New Mayors, which contains several documents offering initial information and guidelines for the assistance that USAID is providing through MDW.

The materials include a one-page summary of MDW activities, with brief information on what each team is focusing on, as well as contact details. There is information on the MGGF and an outline of ZELS structure and functions. The packet will also contain a congratulations letter to the new mayors, and a briefer on USAID in Macedonia. The USAID/LGRP Legacy CD will be a part of the packet, providing mayors with set of useful tool.

Given that the idea is to have every one of the 84 mayors receive such a packet, the distribution will most probably take place at an event where everybody will be present, such as the General Assembly of ZELS.

Next Quarter Activities

- The distribution of the info packet to the newly elected mayors will take place.
- The regular CIC Network meeting will take place, which OSCE representatives will attend.
- The survey on the citizens' priorities for e-local government services will be conducted.
- The BID survey will be conducted.
- CP Team will work on developing Year 2 Work Plan.

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

Summary of Quarterly Accomplishments

- ZELS Training Office was staffed with one more member.
- ZELS and ADKOM signed a Memorandum of Cooperation.
- The AD Team provided technical assistance to ZELS in several important areas of organizational development.
- ZELS Nominating Committee started a process for the selection of the new leadership. The five-member committee developed criteria and composed a list of possible candidates for the 15 positions on the Governing Board.
- A Workshop on the Roles of ADKOM Policy Committees to develop the framework for committees’ activity was conducted.
- A two-day Workshop that addressed the most critical regulatory obstacles for public communal enterprises was held with ADKOM Management Board, Committee on Legal-Normative Issues and other Committees’ Chairpersons was held on April 26-27, 2005 in Krusevo.

Activities’ Implementation

Strengthen ZELS Training Capacity and Organization

Sub-activity: Create Training Infrastructure

The ZELS Municipal Training Coordination Office recruited one more training coordinator to reinforce this office’s operations. The two-member team has been responsible for leading the activities related to the Local Leaders Institute Training Program. Together with the MDW and World Learning staff they have organized and conducted recruiting and training of 20 trainers that will provide training on leadership skills and in various technical areas to mayors and councilors.

Enhance ZELS
Policy
Development
and Advocacy

Sub-activity: Strengthen Policy Committee Structure

The AD Team helped ZELS in the process of hiring the new position of a Policy Development Officer. This included drafting the job description, reviewing the applications and interviewing the selected candidates. A group of ten of the most promising applicants was interviewed. However, the best candidates happened to have very profound political partisan background. For instance, the best candidate happened to be the ex Parliament Secretary who is a top level DA activist. After consulting some of mayors, it was decided for this post to remain open until another more convenient candidate has been identified. A more proactive approach will be applied such as posting an ad to some institutions such as the Pittsburgh Center, consult some of the best technical committee members, etc.

Realign ZELS
Financial and
Management
Structure

Sub-activity: Strengthen ZELS Financial Management Capacity

ZELS Overhead Account

This activity has been MDW priority for more than a year. The ZELS Budget and Audit Committee approved the proposal in the spring of 2004. This activity has been viewed by MDW as important because MDW, in its grant, is bearing all the overhead costs for the association while the other donors do not bear a fair share.

For the purpose of exploring the options for developing an overhead account, the ZELS Finance Officer and AD Team representatives met with EDUSOFT, the company that developed the accounting software for ZELS. It was concluded that no major changes need to be made to the software in order for it to support the over-head account. EDUSOFT will be engaged only in case the necessity arises for the software to provide the option of producing special financial reports for the needs of ZELS and/or its partners/donors. At the meeting that was consequently held with the ZELS Executive Director it was agreed that the ZELS Finance Officer is to make some simulations as to how the overhead account system would function as soon as possible, so that eventually this system could become operational. The only concern raised by the ZELS Executive Director was how the different donors would react to the overhead rate that would apply to their donations.

At the beginning of April 2005, the ZELS Finance Officer under the instructions of ZELS Executive Director developed a simulation of the overhead rate that is to be eventually applied and concluded that it ranges from 15% to 18%; consequently a new budget with the overhead rate applied was prepared and sent to EU project. The reaction of EU is expected in order to plan the further steps with regard to this activity.

Other AD Team
Activities with
ZELS

The AD Team provided technical assistance to ZELS in several important areas of organizational development:

a) To facilitate the post local elections organization of ZELS activities the AD Team helped ZELS develop a list of proposed activities that ZELS should consider during a period of transition after the municipal elections, for the period of April to June

2005. This paper was presented to the Executive Director of ZELS. In addition, a calendar and timetable for ZELS priority activities over the next twelve months to guide the Association and its staff in organizing and implementing its major activities was prepared.

b) One of the activities was to help them *define a concept, relationships and roles of possible collaboration with other municipal professional associations.*

During the past four years ZELS has entered into Memoranda of Understanding with two professional associations: 1) AFO (municipal finance officers) and 2) ADKOM (communal services or public works officials). These relationships have initially focused on linking the professional officials with the elected policy officials to achieve the most effective outcomes in the governmental decentralization process.

As the decentralization process is now at the implementation stage, it is important to more fully identify the range of the relationships between ZELS and the existing and emerging professional groups that will result from this decentralization process. It is critical from the standpoint of ZELS that it has a close working partnership with the municipal professional groups and networks. The new responsibilities for directly providing services to the public demand a highly trained and professional cadre of public servants to assure effective and professional administration. Mayors and council members are ultimately responsible to the citizens of their municipality. ZELS needs the expertise of the professionals in discharging their policy responsibilities.

MDW AD Team offered three different Modules of Relationship to the Executive Director for review.

1. ZELS as a Secretariat for Professional Associations and Groups

In this relationship ZELS can provide a valuable service to professional groups by serving as a secretariat. Groups requiring this service are generally those that do not have the financial resources to sustain a professional staff and office.

Depending on the development of the professional group, they may need a range of professional services from very minimal to more advanced. A list of possible services that constitute a platform of association services that organizations desiring these services could request from ZELS depending on their organizational status was developed. Beginning associations may only need one or two of these services. As organizations grow, they may need more until they reach their own critical mass and financial capability. The new organizations may be able to cover the costs of one or more of these services. An annual Memorandum of Understanding enables each party to make adjustments as their needs change.

2. ZELS Policy Relationships

In this relationship ZELS enters into a Memorandum of Understanding with municipal professional associations or groups for the purpose of mutually beneficial relationships related to public policy issues. The foundation of excellence in municipal governance is having the proper legal and management authority to execute responsibilities, both in policy settings for elected officials and in policy execution by professional managers. ZELS serves as the policy advocate arm for municipalities and needs the professional advice of professional managers to assure

that the legal and management tools are in place for effective and efficient governance.

The core components of this relationship include:

- Professional representation on the appropriate technical policy committees of ZELS to assure compatibility of policy positions.
- Joint participation at media events where technical and policy positions are advanced.
- Notification and participation at ZELS Standing Committee meetings where technical and policy positions are discussed.
- Joint participation in developing policy priorities.
- Provision of expert witnesses in meetings with executive and legislative branches of central government.
- Preparation of technical research, surveys, and other policy related materials.
- Provision of training expertise.
- Regular staff communication and coordination.

3. ZELS Partnership

In this relationship ZELS partners with other associations or professional groups for specific and limited purposes. Partnerships may be entered into with other municipal professional groups, non-profit organizations or commercial ventures. The extent of the partnership would be spelled out in a Memorandum of Understanding, with a specific time period, and renewed periodically on an annual basis.

The arrangement could include a variety of activities, such as:

- Sponsorship of events (Standing Committee lunches, etc.)
- Sponsorship of products or services
- Sponsorship of research and studies (e.g. NDI)
- Sales of membership lists or mailing labels.

These options for establishing future relationships with professional organizations will also be provided for review and/or approval to the new leadership of ZELS.

c) Another activity that needed immediate AD Team attention was ***helping ZELS develop process and procedures for nomination of ZELS new governing board*** (current Standing Committee).

For that purpose a list of four possible scenarios (***available upon request***) that could be utilized to elect the new leadership was designed. This list was presented to the ZELS Nominating Committee members at their first meeting that took place immediately after the completion of the local elections' process. The members were generally agreed that they have the responsibility to ensure the process of selection of the new governing board runs smoothly and that the General Assembly meeting becomes a solemn event and does not turn into a political parties fight.

They all concluded that the scenario MDW proposed to be applied in the selection process could not work as they feared it would create problems so they decided to define criteria for the nomination. These include:

- one third of old members of the Standing Committee (as determined by the By-laws),

- balance the number position and oppositions municipalities,
- geographic (including urban and rural),
- ethnic,
- gender and
- strong, competent and interested candidates.

MDW suggested that the Committee members themselves compose a list of nominees and propose it to their respective parties/coalitions rather than let the head of the parties give their own lists with possibly poor candidates that they will want to control.

They concurred to split the Board between the position and opposition, nine for the former and six for the latter based on the election results. They even came up with a list of municipalities they thought have good mayors and gave each other the task to lobby for it with their respective parties.

The next meeting was agreed to be held immediately after they all had some results from the discussions with the parties.

d) To assist ZELS in their efforts to establish relationships with their members, on April 28, 2005 the AD Team and ZELS Executive Director, Ms Dusica Perisic had a meeting with the mayors of Strumica and three surrounding municipalities Novo Selo, Vasilevo, Bosilovo to learn what their expectations of ZELS.

This meeting was the first one in a series that we encouraged ZELS and the Executive Director to organize with the new mayors to introduce herself as the leader of ZELS professional team and promote ZELS as their natural organization. The AD Team accompanied Ms Perisic as a support and used the opportunity to inform the mayors about MDW work with the associations as well as with the program in general.

Other meetings will follow during next quarter.

**Reorganize AFO
Governing and
Financial
Management
Structure**

Sub-activity: Strengthen AFO Governance Process

AFO Executive Board Meeting

The AD Team attended the AFO Executive Board meeting which took place on April 1, 2005 in Veles. The comments that the AD Team gave with regard to the new version of the AFO By-laws after the January 29, 2005 meeting were partially incorporated in the draft By-laws. Shortly before the meeting of the Executive Board, the AD Team, the two AFO presidents and the staff met to discuss the inclusion of the recommendations that had not been incorporated in the draft text and consequently the necessary changes were made. Among these recommendations one of the most important was the one distinguishing between the two different classes of members (1) primary members - finance officers working in the units of local self-government, the public enterprises and the budgetary beneficiaries which are under the competency of the municipality - with right to vote, and 2) secondary membership - all the other finance officers - without right to vote). The members of the AFO Executive Board unanimously adopted the draft by-law. Accordingly, it is

going to be proposed for adoption before the General Assembly which is scheduled for May 21, 2005 in Veles.

Another issue discussed was the selection process for new Executive Board members. The AD Team briefly outlined a possible scenario for this process (establishing a Nomination Committee that would be commissioned to create a slate of candidates that are to be confirmed or contested at the General Assembly meeting). After this brief presentation the Chairman of the Executive Board discussed the procedure that they have already considered, which is that the nine members of the Executive Board would commission the regional coordinators from their regions to propose good professionals who would be eligible candidates for serving at the Executive Board. It was agreed at the end that the AD Team would provide them with a policy paper depicting a possible scenario on how this procedure of selection should be carried out.

Sub-activity: Strengthen AFO Financial Capacity

AFO Audit

After having selected Ernst&Young to be the company to perform the audit of the AFO financial operations, a contract was signed outlining the time schedule of the audit and the final product that is to be delivered by the Auditor. The AD Team member and Ms Jasna Dukovska (authorized auditor from Ernst&Young commissioned to undertake the audit) paid an initial visit to AFO on April 22, 2005. The auditor discussed the proposed schedule and procedure for undertaking the audit with the AFO Executive Director. Furthermore, the auditor was provided with the documentation necessary for preparation for the actual audit. The draft audit report, as regulated by the Contract, is due by mid-May.

**Build ADKOM
Capacity to
Provide Member
Services**

Sub-activity: Develop New ADKOM Member Services

The AD Team supported ADKOM in defining initial outreach activities that will help attract additional membership and make the Association known to the public. On a meeting AD Team had with the ADKOM staff during this quarter it was concluded that they should start publishing a newsletter and that the first one should be distributed soon. It was agreed that the purpose of this first issue of the newsletter would be to promote the Association and provide the members with important up-to-date information. The possible design of the newsletter was discussed. MDW provided ADKOM with samples newsletters of some international water associations.

An outline of the newsletter's contents was developed as well. It will include basic information about the Association, its vision and mission, organizational structure, the names of the volunteers serving on the board, the names of the policy committees' members and contact information, and highlights of the most important events. The newsletter will also include a message related to couple of most pressing issues that need to be addressed concerning the legal obstacles that public communal enterprises (PCEs) face. These issues will be selected from the list that the ADKOM committees will produce and MDW will help articulate them.

The target group for the newsletter will be all PCEs, local governments, Parliament, central government, international community, etc.

Training on Project Cycle Management for PCE Staff

In the efforts to assist ADKOM in developing new revenue generating services to members, the AD team proposed to start organizing various trainings.

A series of meetings were held between MCIC, ADKOM and MDW staff to determine points of collaboration. MCIC agreed to support ADKOM in delivering training on Project Cycle Management for the PCEs' staff. ADKOM communicated this opportunity to all PCEs and the interest for such training was extremely high. Thirty two (32) PCEs' representatives applied. Based on MCIC standards to work with not more than 16 trainees at a time, it was decided that two rounds of trainings would be organized. The costs for the training will be divided between MCIC, ADKOM and MDW. In addition, the participants will pay 10% tuition fee to provide modest revenues for the ADKOM budget and develop a practice to pay for service. Non-member PCEs will have to pay a higher tuition fee - 20% from the training real costs. This activity will introduce fees for services, which although symbolic, is an important opportunity to diversify ADKOM revenue streams.

Develop ADKOM Policy Process

Sub-activity: Create ADKOM Policy Committee Structure

Developing Procedures for Committees Activity

Following the support to the ADKOM policy development process, the AD team organized one-day Workshop on the very important topic: "The Roles of the ADKOM Policy Committees". Twenty nine participants from HOW MANY different communal enterprises attended the workshop.

As the functioning of ADKOM Committees is an essential part of how ADKOM will operate in the future, it was important to organize this workshop at the very beginning of establishment and operation of the ten policy committees.

The goal of the Workshop was to deliver training on policy development process within the ADKOM policy committees. The Workshop was led by AD STTA Alan Beals and included the following topics:

1. Presentation: What is a model policy development process?
2. The ADKOM Policy Committees: leadership, structure.
3. What are the appropriate roles of the PCE technical staff, PCE directors, and the ADKOM staff?
4. Exercise: (Case study: VAT), a) Problem statement, b) Defining policy alternatives.
5. ADKOM Committees Mission Statement and Scope of Work.
6. Policy Committees Work Plans - setting priorities.

The expected workshop objectives were achieved and the following recommendations were proposed by the participants: 1) similar workshops should be organized in the future, 2) the existing legislation should be reviewed and ADKOM should participate in preparing the secondary legislation in communal sphere, 3) each ADKOM committee should meet on regular monthly basis, and 4) the members

of the ADKOM Governing Board and the Committee for Legal-Normative Issues should define and agree on the most problematic regulatory obstacles in the regulatory environment of the public communal enterprises in a meeting or workshop that would be supported by MDW.

From February 7 - 15, 2005 all ten ADKOM committees held separate meetings. Each of them nominated a chair and their deputies. The members of each ADKOM policy committee received a certificate indicating that they were assigned to be members in an ADKOM committee. The certificates were signed by the President of the Management Board of ADKOM. Draft versions of the committees' scope of work were developed and will be officially validated at the first next meeting of each of the committees.

Schedule for the ADKOM Policy Process

MDW committed STTA time to develop a schedule for the ADKOM Policy Committees activity. Several meetings were held with Alan Beals and the ADKOM staff to develop action steps. It was decided that the ADKOM President would send a letter to all committees' chairs to give them some guidelines and responsibilities. Committees will have to get organized to develop a list of problems and prioritize them by end of May. These committees' reports will include proposed action steps for each of the priority problem statements. The schedule further outlines the actions of the ADKOM Governing Board which would integrate all this information from the committees and develop formal list of policy issues, positions and actions. The period from July to December will be for taking actions with the aligned ministries to solve some of the policy problems if necessary.

During the month of April, the last two remaining ADKOM committees that did not elect their chairmen during the first meetings held in February (Committee on Environmental Protection and Committee on Funeral Services), had meetings and the Presidents and Deputies were nominated.

MDW supported ADKOM in organizing a two-day Workshop in Krusevo (April 26 - 27, 2005) on Legislative Framework in the Republic of Macedonia that Covers Communal Works - Positive Aspects, Obstacles, Experiences, Needs For Amendments of Legislation. Organization, logistics and materials were prepared on time. Twenty five (25) participants, members of ADKOM Management Board, ADKOM staff, members of the Committee on Legal-Normative Issues, presidents of other ADKOM committees and MDW staff attended the Workshop and discussed the critical obstacles in the regulatory environment covering the work of communal enterprises. Mr. Jordan Milkov, President of ADKOM Management Board chaired the Workshop. Almost all participants actively participated in the discussions and helped define the final workshop conclusions.

The participants also agreed that an ADKOM working group (5 - 7 members) from ADKOM committees' members needed to be appointed to represent ADKOM in the contacts with the Government's Working Group on Communal Issues. The specific tasks, scope and timeline for the activities of this ADKOM group will be defined and proposed for the next meeting of the ADKOM Management Board.

The participants expressed their satisfaction with ADKOM's work since it had been established and they gave strong support for continuing the good work. Their

satisfaction can be illustrated by words said by Mr. Zoran Manevski (member of ADKOM Committee on Finance and Economy) - "From now on, I will always have these materials (the package provided for the Workshop) on the desk in my office". If ADKOM continues like this, its voice will definitely be heard and listened to."

Sub-activity: Link ADKOM with ZELS

The AD Team efforts have been also directed towards assisting the two associations to formalize their cooperation through signing a Memorandum of Understanding. For this purpose, a meeting was held on February 2, 2005 when the leadership of the two Associations discussed and determined the need of signing a MoU. Both Associations' Presidents, Goran Angelov and Jordan Milkov, expressed the necessity for the two Associations to start cooperating, especially in their advocating and lobbying efforts before the central government.

After they agreed on the content, the initial draft of which was provided to them by MDW/AD Team, the MoU document was presented to both Associations' Governing Bodies for approval.

The official ceremony of signing took place on March 15, when representatives from the ZELS and ADKOM governing bodies convened a joint press-conference and officially signed the MoU. Representatives of the national media fully covered the event. The MoU was signed by the Presidents of two Associations, ZELS and ADKOM, Mr. Goran Angelov and Mr. Jordan Milkov respectively. After signing the MoU they both addressed the attendees by explaining that the purpose of this MoU was to make the cooperation between ADKOM and ZELS official so that they can approach towards developing and delivering joint efforts in lobbying before the central government officials and agencies, especially during this exceptionally significant period of decentralization.

Other AD Team Activities with ADKOM

ADKOM Meetings with Donors

As the ADKOM members could not commit a lot of their time for the association activities because of the local elections, MDW took the opportunity to develop relations between ADKOM and other donors that can potentially support ADKOM in the future. ADKOM met representatives of GTZ, Swiss Development Agency, Macedonian Center for International Cooperation and the Austrian Embassy. During these meetings ADKOM presented their 2005 annual program and discussed several specific activities that might be points of cooperation with each of them. One of the conclusions was that ADKOM needed to create a database that would embrace all relevant technical information about all public communal enterprises in Macedonia.

For this purpose, MDW prepared a questionnaire which will be sent to all ADKOM members (also to other communal enterprises in the Republic of Macedonia which are not ADKOM members yet). The questionnaire is tailored to gather information on the basic technical, financial and operational issues from the communal enterprises. It will help ADKOM build a quality database and serve as an initial center for all domestic and/or foreign companies or associations in need of information on communal sphere in the Republic of Macedonia.

Also, ADKOM had a meeting with Mr. Stefan Kravutske from an Austrian company BDL Consulting Engineers, which is specialized in environmental issues, particularly in waste water treatment. ADKOM will provide the BDL with necessary information and help them submit a proposal to the Austrian Government for financing a permanent educational center in the Republic of Macedonia for the waste water management.

ADKOM Member Survey

MDW supported ADKOM draft questionnaire to conduct a member comprehensive survey. Two separate questionnaires were designed: 1) one to collect thorough data about the current situation of the PCEs and 2) the other one to consult members about the ADKOM service portfolio they wish to be developed. ADKOM staff mailed the survey forms to all PCEs in Macedonia and sent a cover letter announcing site visits of ADKOM staff to directly communicate with PCE directors and fulfill questionnaire forms through an interview. The information collected during the survey will be organized in an appropriate form: database, publication, etc. The data will also serve ADKOM committees to identify policy issues.

First Grant Support to ADKOM

The first grant to ADKOM was negotiated with the ADKOM staff and the Board. The general purpose of the grant is to build ADKOM capacity to provide member services. This support is particularly needed to fill a financial gap which occurred mainly due to the leadership turnover after the 2005 local elections. Many new PCE directors are being appointed by the new mayors and in the meantime the dues are not being paid. The same is the situation of the three biggest PCEs and supporters of ADKOM - the Skopje PCEs. The directors were fired on April 25 and interim directors were appointed the following day by Mr. Trifun Kostovski, the new City of Skopje Mayor. This event seriously threatened the ADKOM financial stability. It will take ADKOM administrative office at least three months to establish regular relationship with the newly appointed PCE leaders and consolidate the revenue streams.

ADKOM Board Meeting

ADKOM had a brief Board Meeting on April 26 in Krusevo. The decision was made to open a new bank account to be potentially used for MDW grant support. The activities of the potential first MDW grant to ADKOM were discussed. The Board also extended the contracts with the ADKOM staff which had successfully completed the six months probation period.

Next Quarter Activities

- ZELS will have a reconstitution meeting of the General Assembly and elect the new Governing Board and President.
- A Workshop on Association Governance for the new ZELS Governing Board will be conducted.
- In cooperation with MDW and MCIC, ADKOM will organize training on Project Cycle Management for the professional staff and general membership.
- ADKOM will publish their first promotional newsletter and distribute it to the members and other stakeholders.

- ADKOM Committee on Legal-Normative Issues will review the Proposed Law on Execution (of Legal Obligations) and the Proposed Law on Changes and Amendments to the Law on Public Enterprises and will give comments on the proposed Laws.
- ADKOM Management Board will discuss and agree on the strategy of how and when to request the changes and amendments on some regulatory issues that were discussed and agreed on at the Workshop in Krusevo.
- The AFO General Assembly, during which the new by-laws will be adopted and new Executive Board and President will be elected, will be organized.
- AD Team will work on developing Year 2 Work Plan.

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

Summary of Quarterly Accomplishments

- Municipal Financial Management and Budget Training schedule, material, modules and curricula finalized and adopted by the Trilateral Commission and the first ToT was conducted.
- Citizen Budget Brochure was designed.
- Six (6) Local Leader Institute (LLI) TOTs for ZELS core trainers have been delivered.
- Training curriculum and agendas for LLI June regional workshops have been translated and distributed to all ZELS trainers.
- Technical Trainings for OS/HRD trainers were delivered.
- Two (2) out of six (6) regional OS/HRD trainings for all 84 municipalities have been delivered.
- Property Tax Manual was completed and edited.
- Documentations and Recommendations for implementation of property tax administration activities have been developed as well as an action plan for delivering of property tax administration basic training has been developed.
- Methodology for Determining Real Estate Market Value has been developed, updated and tested in nine (9) municipalities (including the City of Skopje).
- Organizational structure of the future municipal urbanism department developed and suggested to the municipal authorities.
- Local Government Permitting System Administrator support training delivered in the Municipality of Tetovo.
- Draft Memorandum for Cooperation between MDW and Train (an EU funded urban planning project) was developed and delivered for revision to USAID and EAR.
- A document integrating and describing the Urban Planning training modules (UP Training Syllabus) was developed.

- Candidate municipalities for implementation of the Land Tenure activity were visited and assessed.
- Cooperation on LED program in Prilep has been established between Swiss Development Agency (SDC) and MDW.
- Five (5) municipalities were visited and assessed as BID pilot candidates.
- Purchase Order for upgrading financial management system software was awarded.
- MDW received three proposals for integrated property tax software on the basis of issued RFP.
- Municipal needs and capacity assessment in MDW areas of assistance was completed and results tabulated.

Activities' Implementation

MUNICIPAL FINANCE

Sub-activity: Enhance Financial Management

Provide Training to 84 Municipalities in Financial Management

The Technical Working Group for Financial Management and Budgeting was expanded to include representatives from the EAR Fiscal Decentralization Project and from the UNDP/STS (Support to Training System for Local Government Administration) program to better coordinate municipal finance training, municipal financial systems, municipal debt issues and technical assistance to the MoF.

During this reporting period the following activities were completed:

- With the assistance of the MoF, trainees for the ToT program and participants for the training program have been identified. The number of the municipal finance and budget officials and personnel from line Ministry of Finance identified to attend the training is 158. Additionally, all 84 Mayors will be invited to participate.
- Local Consultant Company - BASME K&T has been selected, by The World Bank/CDP, as the training provider.
- With the assistance of OSCE, the first ToT for finance and budget officers was delivered.
- Training materials, manuals, modules and curricula have been finalized by MDW and OSCE and presented to the expanded Technical Working Group and Trilateral Commission.
- Eleven (11) training modules were developed.
- The Finance Training Plan - April thru June 2005 - was developed and adopted by the Trilateral Commission. The training plan will be implemented through eight (8) five-day training sessions during the period May 16 through June 24, 2005.
- The role of each donor in financial management training programs and technical assistance was established -- VNG International will organize a two-day general workshop on "Financial Management for Successful Mayor".

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

Attendees will include all mayors and heads of finance departments. EAR will provide technical assistance to the MoF for Fiscal Decentralization. The Trilateral Commission and UNDP/STS will coordinate donor efforts relating to delivery of training programs for Local Governments, tailored to their specific needs.

- Logistics for the upcoming training cycle was established.

Equip Selected Municipal Finance and Budget Departments with Necessary IT and Training

A Purchase Order for updating the Integrated Financial Management System Software was signed with EDUSOFT. The updated integrated system will build on the currently installed Financial Management System in 19 municipalities. The order includes installation, customization and training, system maintenance, help desk and support to each selected municipality.

MDW Finance Team met Ms Ilona Castro - Resident Advisor in the MoF Department of the Treasury and Peter Jensen, representative from CIPFA EU funded project for Technical Assistance to the MoF for Fiscal Decentralization and discussed local government account integration into the Treasury Single Account, upgrading of Municipal Finance Software and the coordination of developing a consistent chart of accounts.

Preparation of Citizen Budget Brochures

The Financial Management Team, in cooperation with the CP Team, designed a Citizen Budget Brochure. In preparation for public budget hearings, likely to begin in September 2005, selected municipalities will be given assistance in the preparation of Citizen Budget Brochures. The Brochure is designed to provide information on the following: (1) the Budget of the local self government it includes, (2) the functions of the local self government that are financed from the budget, (3) the individual sections of the local budget, (4) the sources of revenues for the Budget of the Municipality, and (5) expenditure allocations of the local budget.

Assessment of Municipal Responses

A municipal needs and capacity assessment was completed and results tabulated. Responses to the municipal questionnaires related to financial management and budgeting have been analyzed and will be used as basis for future implementation of activities and selection of partner municipalities.

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

During the reporting period, two technical OS/HRD TOT workshops were completed and OS/HRD Manuals were finalized. Additionally, two out of six regional workshops were conducted. The remaining four will be conducted during May. The coordinated approach in the delivery of the OS/HRD training program by MDW, UNDP, CSA and MLS was approved by the Trilateral Commission and, as a result, all eighty-four (84) municipalities will benefit from this training. The goal of the training is to prepare

municipalities to design appropriate organizational structure, systematization of job positions and to develop a municipal human resource policy manual.

All the training sessions were conducted by MDW trainers. Also, representatives from MLS and CSA attended and participated in the training.

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

An intensive, seven-session ToT Program, to prepare twenty (20) core ZELS trainers for deliver of the LLI Mayor and Councilor training program was completed during this quarter.

Eight (8) out of twenty (20) trainees, have been identified as lead trainers (two per hub) responsible for Mayor’s training. Four (4) trainees have been appointed as Project Managers (one per hub) and they received additional training as Project Managers. Other core trainers have been assigned to the Councilor training program.

The Table below is a summary of all the TOT sessions delivered in the period February-April 2005. It also includes disaggregated participants data.

No.	Date	Location	Training Title	Total No. of Participants	Disaggregated participants data
1.	February 25-27, 2005	Skopje, Hotel Kontinental	Effective Training Process and Adult Learning	19	Female 9, male 10, Mac. 15, Alb.4
2.	March 2-3, 2005	Skopje, SEMOS	Microsoft Project Management Software	4	Female 1, male 3, Mac. 3, Alb. 1
3.	March 11-12, 2005	Skopje, Hotel Kontinental	Training Needs Assessment	19	Female 9, male 10, Mac. 15, Alb. 4
4.	March 18-20, 2005	Skopje, MDW	Project Cycle Management	4	Female 1, male 3, Mac. 3, Alb. 1
5.	March 24-26, 2005	Veles	Training Program Objectives and Design	19	Female 8, male 11, Mac. 15, Alb.4
6.	April 7-10, 2005	Gostivar, Hotel Balkan	Preparing Training Materials and Conducting Training Sessions	19	Female 9, male 10, Mac. 15, Alb. 4
7.	April 22-24, 2005	Kocani, Hotel Sliv	Enhanced Presentation Skills and Training Evaluation	20	Female 9, male 11, Mac.16, Alb.4

Tax Administration

Sub-activity: Enhanced Tax Administration

To advance activity design for the implementation of municipal tax administration competencies, Mr. Richard Sanderson completed a STTA assignment designed to lay the foundation for the design of a local tax administration function and the training of associated staff. Additionally, Mr. Sanderson participated and provided feedback during a review discussion of the draft Property Tax Manual. The following documents and recommendations were developed as a result of this assignment:

- (1) Model of Organizational Structure for Municipal Revenue Units (MRUs). This study includes a list of specific activities that need to be accomplished by a typical municipal revenue unit (MRU), staffing structure, and a flow chart that outlines the organization structure of a MRU.

(2) Training Plan and Modules for Capacity Building for administration of a local government property tax unit. This study includes (a) draft training plan and training modules for capacity-building; and (b) a supplement that suggests the basic training order to be followed.

(3) Study and Recommendations for a Model Joint Administration of Property Taxes and Utility Fees in Macedonia. The document includes three different scenarios for the joint administration of a MRU: (a) a municipality joins with a larger municipality; (b) a larger municipality invites others to become part of a shared MRU; and (c) several smaller municipalities join to form a shared MRU.

(4) Suggested Criteria for the Selection of Target Municipalities. The memorandum describes the essential components of an effective MRU and gives examples for measuring the possibility of success of any given municipality. Possible obstacles to success are also identified. MDW staff will need to consider the probability of success for each of the 84 municipalities and select the top 56 that have the greatest likelihood of achieving success by applying the criteria outlined in the memorandum.

During the reporting period, an action plan for successful implementation of the property tax activities has been developed. Property tax basic training workshops for all 84 municipalities have been scheduled for July 2005. The detailed calendar has been submitted to the Trilateral Commission for coordination with other donors.

The OS/HR training program included the following material related to the organization of a municipal tax administration unit: (1) Recommendations for the model of organizational structure of municipal revenue units and (2) Recommendation for the joint Property Tax Administration Model for a group of municipalities. That material on organizational and functional analysis for a model municipal revenue unit was originally developed by DFID and subsequently edited and completed by Mr. Richard Sanderson (MDW consultant). The documents were accepted as a good foundation and will be used for the new design of organizational structure and human resources development for municipal revenue unit.

Sub-activity: Install IT Hardware and Software

An RFP for integrated Tax Administration Software was announced and published in national daily papers. Application submission deadline was March 31, 2005. Forty (40) interested persons and/or firms downloaded the RFP from our web site (<http://www.dai.com.mk/tax/downloads.asp>).

MDW received three offers from Ultra DOO, NEOCOM and Infinite Solutions. The offers were opened by MDW review team (Zoran Gligorov and Bardhyl Marku, MDW representatives), and a CSHI representative (Nebojsa Mojsoski). MDW CoP, William Althaus, and Municipal Management Advisor, James Gordon observed the opening. The review team concluded that each offer included the required submission information, including the required proposal CD. The CDs were copied and sent to DAI home office in Bethesda for their review and recommendations as to next steps in the process.

Sub-activity: Real Estate Valuation

Real Estate Valuation Methodology

The draft Methodology for Real Estate Valuation (prepared with MDW support) was presented to Mr. Nikola Popovski, Minister of Finance, who accepted the draft as very good material and directed that it be tested in all thirty-four (34) municipalities. The Ministry working group effort is continuing, but very slow. Testing has only been completed in nine (9) municipalities; Veles, Kratovo, Kriva Palanka, Probistip, Gostivar and Bitola and Pehcevo and city of Skopje and Cair. We understand, the testing generally produced good results, but in some municipalities, difficulties were encountered in applying the criteria uniformly for defining the lowest level of market value of real estate across all Macedonia municipalities.

Property Tax Manual

Reviewing and editing the Property Tax Administration Manual was completed during this reporting period. The final version of the Manual incorporates all recommendations and suggestions submitted by the MoF, Mr. Richard Sanderson, and MDW. Additionally, FINKO (the local consulting firm hired for reviewing and editing of property tax manual) delivered a presentation of the Manual to the MoF representative, Ms Tanja Pangovska, and the MDW municipal management staff. After several attempts and a one month delay, we finally received suggestions for revision from Ms Svetlana Janevska, State Counselor in the Ministry of Finance. As previously mentioned, the MoF comments and suggestions where included in the final document.

Constrains which may seriously affect implementation of the property tax activity:

- Delay in transfer of employees from the PRO
- New mayors unwilling to accept selected employees transferred from the PRO.

MUNICIPAL SERVICES

Sub-activity: Establish Municipal Urbanism Departments (MUDs)

The Law on Spatial and Urban Planning and the Law on Construction entered the final stage of adoption procedure. MDW supported the public hearings on the two laws by preparing detailed and extensive comments and recommendations for improvements. The comments, previously approved by USAID, were submitted to the Ministry of Transport and Communications, the Ministry of Local Self-Government, and the Ministry of Environment and Spatial Planning. MDW was informed that these comments, together with the comments from other institutions involved in the public hearing process, will be presented to the Government of Macedonia in the form of summary report. The adoption of these laws is anticipated for late May or early June.

A draft model of the future Municipal Urbanism Sector/Department incorporating urban planning, permitting, local economic development, communal affairs, and

Improve Urban
Planning
Capacity

environment protection, was developed. Additionally, the functions within urban planning, permitting and communal issues departments were identified. The model was presented to the trainers of the OS/HRD training program so that the model would be available to all eighty-four (84) municipalities. The proposed organizational structure of the urbanism sector/department will serve as the foundation for designing the future municipal urbanism units.

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

The process of identifying potential municipalities for establishing OSPCs is on-going. Selection criteria includes: current level of constructions, economic potential for construction, urban density of the municipality, and municipal willingness to support the implementation and operation of an OSPC. Based on survey results approximately forty (40) municipalities can be considered appropriate for implementing the permitting activity. Eight municipalities ranked highest, were proposed for field-surveying.

The Municipality of Tetovo requested training for their System Administrator. MDW delivered that training during this reporting period.

A schedule of the hardware and software specifications, required for establishing OSPCs was developed.

Discussions with officials from the Ministry of Transport and Communications to establish a working group for adjusting the current permitting software platform according to the proposed new Laws on Urban and Spatial Planning and Construction are ongoing. It is recommended that the working group includes representatives from MDW, municipalities and the Ministry.

A schedule for visiting established OSPCs was developed. The purpose of the visits is to identify possible obstacles in the operations of the OSPCs and to design solutions for overcoming the obstacles. The first OSPC visited was in the Municipality of Prilep. Short meetings were organized with the System Administrator, the Main City Architect, the Head of the Regional Unit of the Ministry of Transport and Communications, OSPC Officer and Permitting Officers. As a result of that review, it was concluded that the OSPC in Prilep is experiencing very few operational problems. Since its establishment, in December 2004, the OSPC in Prilep has served 745 clients.

Two meetings were held with the TRAIN team, an EAR funded urban planning project, resulting in an agreement for further cooperation in implementing MDW and TRAIN activities. The agreed information exchange, to be formalized in a MoU, will define cooperation in the following areas:

- a) Coordinating the technical specification of the IT equipment and software;
- b) Detail information on the quantity of equipment and software donated to municipalities;
- c) Coordinating trainings and related material on Contemporary Urban Planning Techniques;

- d) Sharing projects survey results related to current local level urbanism resources;
- e) Coordinating the process of training delivery;
- f) Coordinating the process of urban plans digitization;
- g) Sharing information on the municipal staff trained by each project, etc.

Sub-activity: Introduce Rational UP/Zoning Techniques

A document integrating and describing in detail the planned Urban Planning Training Modules (UP Training Modules Syllabus) was prepared. The planned training is designed to develop an enhanced local staff capacity for contemporary urban planning techniques in Macedonia. The document consists of the following modules:

- 1) **Policy Planning**, including city vision, the processes of and the evaluation of planning, urban economic development, and research methods and analysis. This training module will present market-based urban planning theories to our local planners.
- 2) **Land Use and Zoning**. This training module will develop the capacity of local planners to propose zoning improvements to existing urban plans and evaluate existing communal fee formula.
- 3) **Technical Support to Planning**, including introduction to GIS, principles of GIS, application of GIS in the Urban Planning, and GIS software training. This training will result in developing the basic/essential municipal GIS layers that will serve and significantly improve the local urban planning process.

Sub-activity: Land Tenure Security

Following the development of the Land Tenure Strategy, site visits were made by the USAID, Mission Director and MDW representatives to Prilep and the Trizla neighborhood, dominantly populated with Romas. The meeting between the Mayor of Prilep and MDW representative was held in the Municipality of Prilep. Overall impression from both meetings was highly positive. The Mayor of Prilep welcomed the idea for implementation of such project and obligated himself to make all municipal resources required for implementing the future activities available to USAID/MDW.

The need for implementing a land tenure related activity in Trizla neighborhood was evident and supported by all meeting attendees. The Trizla local NGO staff demonstrated in-depth knowledge of the major community problems and a strong dedication and willingness to participate in the implementation of a land tenure related project in their community.

**Institutionalize
Local Economic
Development**

Sub-activity: Expand the Number of LED Municipalities

LED Municipal Questionnaire - Analysis and Findings

A questionnaire on local economic development was sent to all municipalities in December 2004 as part of an integrated capacity survey that included urbanism, tax administration, financial management, human resource development, citizen

participation and communal enterprises. The ratio of responses (replies vs total) was 70%. In general, most all bigger (urban) municipalities responded on the questionnaire. Each municipality was ranked by the capacity they have developed in two categories: 1) municipal capacity on LED infrastructure (pre-conditions for LED implementation) and 2) Implementation of LED activities. Other finding demonstrates that LGRP/LED municipalities are ranked among top 25 municipalities. Moreover, the analysis demonstrates that municipalities have different level of skills in both categories. Figure 1, below, graphically presents the correlation between both categories and final result in percentage.

The analysis indicates that capacity building needs to take place simultaneously in both categorie to achieve tangible results in the LED process. Many of the LGRP pilot municipalities have equally developed skills both in 1) providing LED infrastructure and 2) LED implementation. Other municipalities, not included in the LGRP program, have developed skills in at least one of the LED categories. It's obvious that municipalities that have advanced activities in both categories produce higher scores.

In conclusion, donors supporting Local Economic Development process should direct their activities in providing support for 1) LED infrastructure and 2) LED implementation.

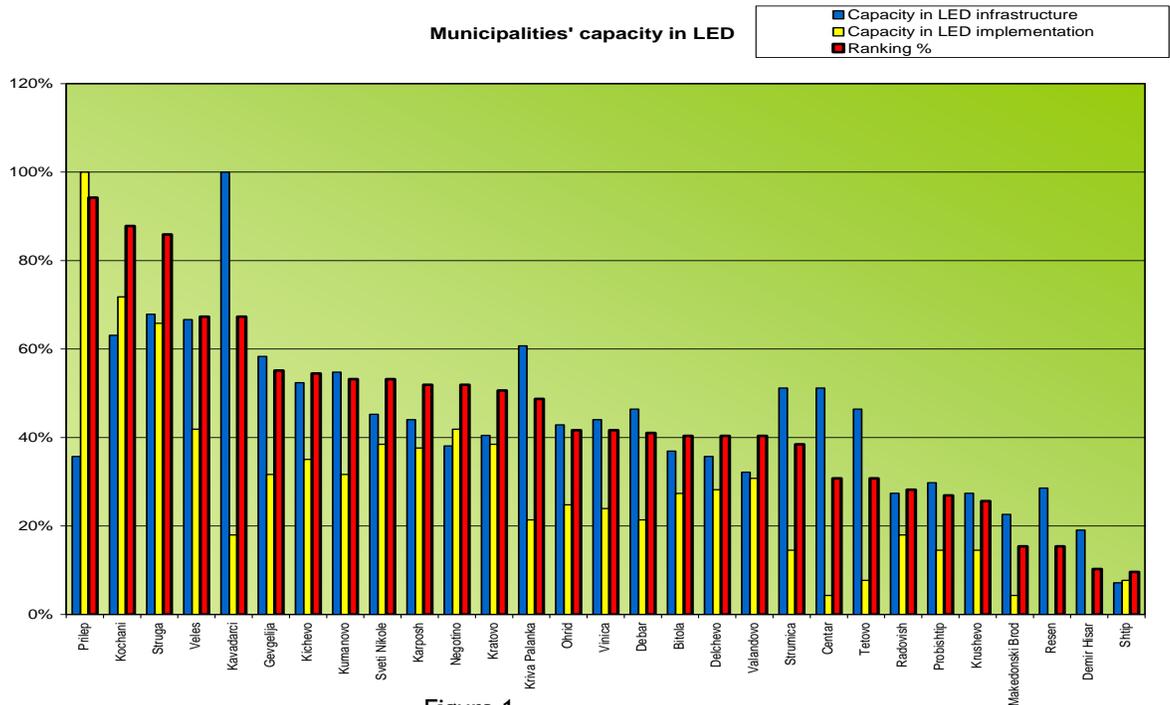


Figure 1.

Establishing Cooperation between Swiss Development Agency (SDC) and MDW in Prilep

MDW and the Swiss Cooperation Office (SCD) in Macedonia, funded by the Embassy of Switzerland, have agreed to cooperate and implement jointly LED program activities in Prilep.

BACKGROUND

The SCD has established and supported for couple of years Prileps' Regional Enterprise Development Agency (PREDA), which covers the Prilep region - Prilep, Krusevo, Kriviogastani and other neighboring municipalities. The main aim of PREDA is support and TA to the SMEs in the region. The past cooperation of PREDA with local government in Prilep was very weak, which was a result of the Agency's work plan. The Embassy of Switzerland revised PREDA's work plan. However, they were still seriously concerned and interested in finding a way to overcome the existing gap. The proposal, adopted by the Embassy, was to find a strategic partner who would work closely with the municipality in implementing LED program.

The results of MDW's LED capacity survey in Prilep demonstrated that this municipality has a very good understanding of the LED process and has implemented several LED activities, but still improvement in community LED conditions are below the satisfactory level.

HOW MDW IS SEEING BENEFITS FROM THIS COOPERATION

Revision of the SCD proposal for cooperation is recognized as an opportunity to develop Prilep as a Model LED Municipality. The unique opportunity to work with public sector-local government and to have a donor to work with business sector will definitely result in enhanced LED performance. Supporting both sides in public-private partnership will result in overall improvement in LED quality. Furthermore, under USAID/LGRP, the LED staff experienced enormous efforts to gain and to keep attention of the business community. Therefore, this cooperation will advance LED program activities as a comprehensive process.

To date, MDW has met twice with Mr. Romain Darbellay and Mr. Kalin Babusku and one field visit to Prilep Municipality was made - meeting with new Mayor Marjan Risteski and PREDA Director Willy Parlmayer. Possible cooperation between two donors and Municipality on terms of LED in Prilep was discussed. All participants recognized the advantages that this collaboration could bring in terms of program effectiveness in public-private partnership (PPP). PPP will be supported (public side-local government by MDW and private-business side by SDC). This unique cooperation can result in model municipality on LED.

The Mayor and his staff welcomed this idea and are looking forward to start implementation of the program.

Sub-activity: Implement Strategic Plans in LGRP Pilot Municipalities

Providing TA on Tourism Development to Struga Municipality

Tourism development is included in Struga's LED Strategic Plan as a high priority activity. The next step in their action plan is to develop a strategy on tourism development and to start the process of marketing and promoting lake tourism. To date, Struga LED Coordinator has been in contact with representatives of four large hotels and they have agreed to meet in May, before the beginning of the tourist season. The meeting will be attended by the mayor, public enterprise, airport, custom, inspections, hotel managers and media from Struga and Skopje. The goal of this meeting is to send a

message of positive energy for the attraction of tourists during the 2005 summer season. Struga focus group on tourism will also prepare new materials for tourism promotion such as maps, posters and similar. The biggest target group of tourists are from Albania (app. 70% of all tourists in Struga).

To advance this tourism development effort, STTA, Alan Beals, developed a short questionnaire to gather current data on tourist visits. During May, Struga LED Coordinator will organize a workshop for representatives of hotels, tour operators and travel agencies, business and others interested in tourism. Mr. Beals will guide them through the beginning steps of organizing a tourism marketing and development program.

Sub-activity: Create Business Improvement District (BIDs)

From March 28 until April 7, 2005, Nora Maderkova was in Skopje on an STTA assignment associated with the BID program. She accompanied the MDW/LED Specialists on field trips to selected municipalities in order to rank potential BID pilots. During this assignment, Ms Maderkova provided training for interviewers on situation analysis.

To form basis for selecting potential BID municipalities, two assessments were conducted to determine LED priority municipalities with sufficient capacity to undertake activities in a pilot BID project. The first study conducted in the fall of 2004 by Alan Beals and Carlos Beale was an LED assessment in 13 USAID/LGRP LED pilot municipalities. The purpose of this assessment was to evaluate the stage of implementation of the LGRP/LED Strategies. The second LED assessment was part of MDW's Municipal Services Questionnaire relating capacity across all municipality competencies. The purpose of this survey was to evaluate the implementation of the LED initiatives and to determine municipal LED capacity for organizing and planning LED activities.

Two different methodologies were used to evaluate all findings from both surveys. The conclusion of both surveys recommended five top municipalities which were considered as potential candidates for the implementation of pilot BID project in first year.

Potential candidate municipalities are:

- Bitola
- Karpos
- Kocani
- Struga
- Kavardarci

Field trips were made to all municipalities. The purpose of the trips was to discuss with the local governments and private sector representatives their willingness and capacity to participate in MDW's/Pilot BID Program and to identify an appropriate BID zone/street in each municipality.

Conclusion and Recommendations:

Based on the capacity assessments and findings during field visits, the following municipalities should receive further consideration:

1. Kavardaci

2. Kocani
3. Karpos.

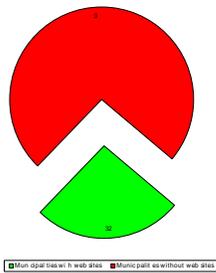
LED Donor Coordination Meeting with OSCE

Donor coordination meeting was held on March 2, 2005 with OSCE representative, Claire Sneed, on gender equality committees and cooperation with LED Offices. Data was exchanged on possible areas of cooperation. Gender equality committees are established by OSCE in ten municipalities -- they have office space, staffed with an office manager and full office equipment. These resources could become available for LED activities in the future.

Provide
Supporting
Information
Technology

Sub-activity: Conduct IT Needs Assessment

During this period, all 49 received municipal responses to IT questionnaire have been put into a database and a scoring methodology was developed to rank the municipalities by capacity. All municipalities that answered the IT questionnaire were then ranked on the basis of their ICT capacity with scores between 0 and 10.

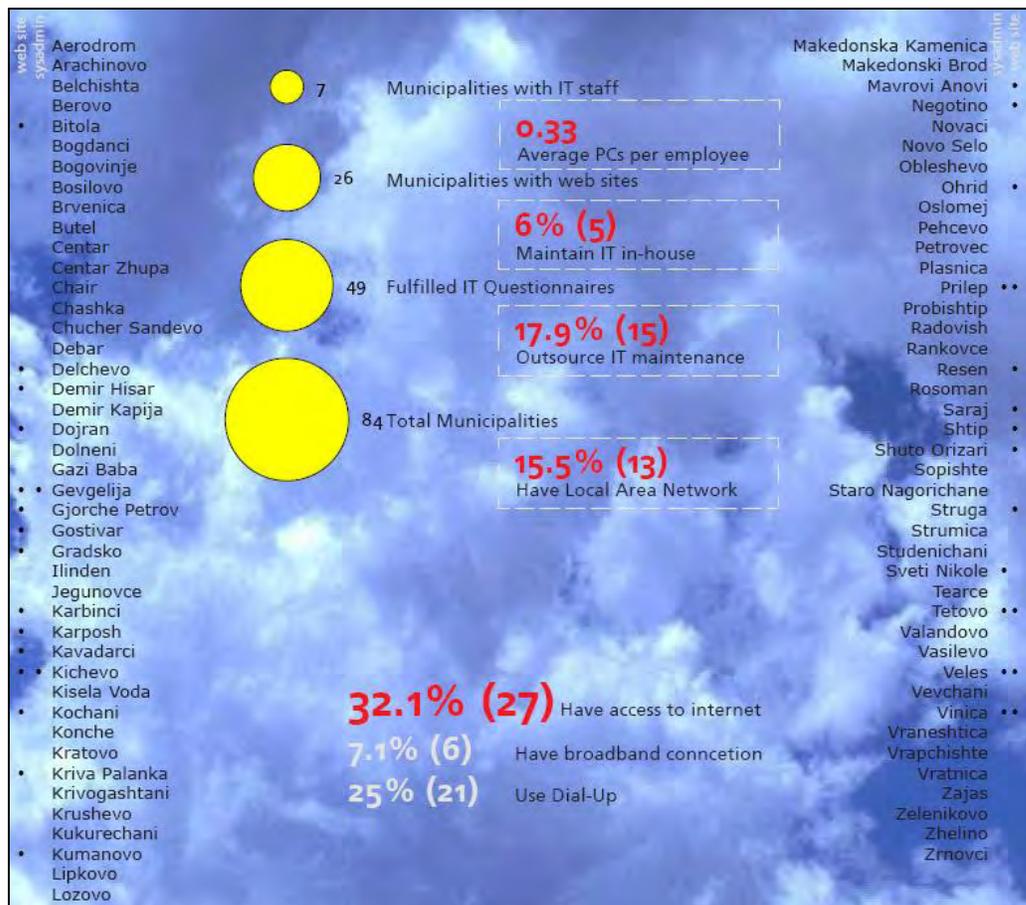


During the old territorial organization, the web presence of the Macedonian municipalities looked like this:

Only 32 Macedonian municipalities have established some sort of internet presence. This presence varies from well developed and maintained web sites to web sites that are rarely or never updated.

All other municipalities do not have any internet presence.

With the changes in the territorial organization, the number of municipalities present on the internet decreases to 26. Below are some additional findings from the answered questionnaires.



Sub-activity: Upgrade IT Equipment, Communication Technology and Basic Office Software

During this quarter, a Memorandum of Cooperation was signed with the Foundation Open Society Macedonia for joint project cooperation for implementing e-Local Government in Macedonia.

The objective of this cooperation is to improve the quality of services provided by local self government units in Macedonia through use of ICT, more specifically: provide Internet-Based Municipal Management Information System, develop e-Government Solutions for Citizen Service and upgrade IT Equipment, communication technology and basic office software for municipalities.

On April 1, 2005 the National Strategy and Action Plan for the Development of an Information Society was accepted by the National Task Force for Development of an Information Society. MDW contributed to the development of the Strategy and plays a significant role in e-Citizen and e-Governance activities.

The preparation of the Strategy and Action Plan, by the Republic of Macedonia, took into considered the following reports:

- Declaration approved by the Member States of Southeastern Europe Stability Pact, signed off in Ljubljana dated 4 June 2002,
- Agenda for information society development of the Southeast European States approved in Belgrade on October 20, 2002,
- Conclusions by Electronic Administration Ministerial Conference Athens 2003,
- Declaration adopted by Macedonian General Meeting "e-Declaration 2002, Recommendations on accelerated development of information society and Macedonian Digital Economy as national priority",
- 2003-2007 IT Commission Action Plan,
- Action Plan and Declaration by World Summit on Information Society, Geneva, 2003,
- E-Government Concept adopted by the Macedonian Government 2004.

Documents and Strategies of European Union that have been used during the Strategy preparation process:

- Europe Council, Lisbon Summit March 2000 established the basic segments of e-Europe, a concept being not only EU Member states liability but also the States candidates for EU membership;
- European Commission Action Plan eEurope+2003 and
- European Commission Action Plan eEurope2005.

The organizational structure of each municipality will influence the specific ICT networking model. The ongoing Organizational Structure and Human Resource Trainings will deliver models for organizational structures of the municipalities and will also contribute in defining the Back Office and Front Office structuring of the equipment and services.

A list for ICT equipment needed in a typical municipality was developed on the basis of a proposed organizational structure. Although this list is not final, it gives an overall picture of the amount of equipment that is to be transferred.

Sub-activity: Provide Assistance in Developing an Internet-Based Municipal Management Information System

The first joint activity, since signing the Memorandum of Cooperation with the Foundation Open Society Institute Macedonia, was related to an Analysis of Citizens' Priorities for e-Local Government. A questionnaire for Analysis of Citizens' Priorities for e-Local Government Services was developed and accepted (part of MDW Citizen Participation activities). It will be conducted in 10 municipalities (Karposh, Gostivar, Debar, Kavadarci, Prilep, Veles, Strumica, Zrnovci, Cucer Sandevo and Krivogastani).

Focusing only on what municipalities can offer MDW will use this analysis to learn what services will have immediate impact if automated and made available online. The analysis will provide information on public awareness, trust and accessibility about e-government services. The analysis with models and case studies from the surrounding countries will then be used to contribute to e-Governance activities with the central government.

Next Quarter Activities

- Municipal Budget and Finance Training will be completed.
- MM Team will work with selected partner municipalities on installation of upgraded integrated financial management software and provide assistance on budget planning, preparation and execution during the next quarter.
- Citizen Budget Brochure will be completed and distributed to the municipalities.
- Local Leader Institute training program for Mayors and Councilors will be completed.
- ZELS core trainers will complete their TOT and receive certificates.
- Municipal Organization Structure and Human Resource Development training will be completed.
- According to municipal capacity assessment and rating of the municipalities, MDW Finance Team will visit several potential partner municipalities.
- Final report on OS/HRD and LLI Training will be developed.
- Opportunity to use MDW OS/HRD, LLI and Budget/Finance trainers as consultants during year-two technical assistance activities will be investigated.
- Action plan for implementation of the property tax activities will be developed.
- The firm for developing the integrated property tax software will be selected, contract signed and software developed.
- Property Tax Administration Manual will be translated, printed (in Macedonian and Albanian language) and distributed.
- Testing of the Methodology for Determining Real Estate Market Value in 34 core municipalities is expected to be completed.
- Technical training will be delivered to the cadre of ZELS trainers to upgrade their property tax knowledge for preparing and delivering basic property tax workshops.
- Basic property tax training will be delivered for all 84 municipalities using existing hub system.
- Permitting system administrator support UP training will be delivered to the Municipality of Kavadarci.
- Visits to the OSPCs established under USAID/LGRP will continue.
- Assessment of the candidate municipalities for implementing the permitting activity will be conducted.
- A working group for adjusting the existing Local Government Permitting Software (LGPS) according to the provisions of the new laws on Construction and on Urban & Spatial Planning will be established.
- Trainer/s for delivering the contemporary urban planning techniques will be identified.
- Assessment of the second candidate for implementing the Land Tenure activity will be done.
- MDW will continue cooperation with TRAIN (an EU funded urban planning project).
- MDW, SDC, PREDA, the Municipality of Prilep and other stakeholders in the LED process will have a planning session on May 19, 2005 in Prilep discuss and draft the guidelines for cooperation in LED process.

- BID municipality MoU will be signed. Program will be presented to the stakeholders, leaders from private and public sectors will be identified and Steering Committee will be established. The precise area for the BID will be specified with the boundaries, Steering Committee will decide on BID membership (business owners, property owners, local government representatives, state institutions) including financial contributions for capital improvements, organizational help and political support. Situational analysis will be done, based on two surveys: 1) Shoppers Survey (to find out what are the shoppers missing, why they visit other shopping areas) and 2) Merchants Survey (basic information about current situation and explain the BID concept, learn about merchants' attitudes and plans). SWOT analysis will summarize and generalize information collected during the surveying period.
- A detailed IT needs assessment will be conducted and contribution will be negotiated with a number of potential MDW partner municipalities.
- IT support will be provided to the municipalities that will receive Financial Management, Budgeting and Tax Administration software packages and trainings.
- MM Team will work on developing Year 2 Work Plan.

Municipal Good Governance Fund (MGGF)

Summary of Quarterly Accomplishments

- Preparatory activities on defining, launching and promoting MGGF were initialized.
- Set of necessary draft documents were developed, including MGGF one-page briefer, MGGF Operation Manual, Concept Paper template, and Monitoring & Evaluation (M&E) Manual.

Activities' Implementation

During this quarter, a draft MGGF Operation Manual was prepared by MDW and submitted to USAID for review. During a subsequent meeting, MDW received feedback on that review from Mr. Michael Eddy, Director/DLG, Ms Afrodita Salja, CTO/MDW, Ms Donna Gray, DLG and Ms Sladjana Srbinoska, CTO/CSHI. After review by DAI Home Office, a revised draft, incorporating many of the review comments, will be submitted to USAID at the beginning of next quarter, together with realigned budgets.

MDW concluded arrangement to retain three CSHI employees -- Nebojsa Mojsoski, Natasa Stankovic and Dragana Conik--on a part-time basis until such time as they are available to begin full-time employment with MDW/MGGF. During this period, the CSHI specialists, together with assigned MDW specialists, were engaged in preparing the above mentioned draft documents.

Next Quarter Activities

- MGGF one-page briefer will be distributed to all the mayors at ZELS Annual General Assembly scheduled for May 18, 2005.
- MGGF roll-out campaign will be designed; Concept Paper Toolkit and other necessary templates will be developed and MGGF will be presented as part of LLI training program for mayors beginning of June.
- MGGF M&E Manual will be finalized.

Program Performance Monitoring and Evaluation

Summary of Quarterly Accomplishments

- MDW program teams projected MMCI annual program target scores.
- MDW PMP was reviewed and amended as per DAI Home Office comments/suggestions and sent to USAID for review and approval.

Activities' Implementation

MDW MMCI Annual Program Target Scores

At USAID request and for the purposes of both providing input for finalization of the Mission's draft PMP for IR 2.3 More Effective, Responsive and Accountable Government and MDW program management, MDW program teams defined the minimum target scores against the MMCI for each of the five indicators sets to be achieved in MDW participating municipalities.

Chart 1 below shows the projected progress of the total average MMCI score on annual basis that is expected to increase from 25.00 points in 2005, 44.00 in 2006 to 60.00 points in 2007.

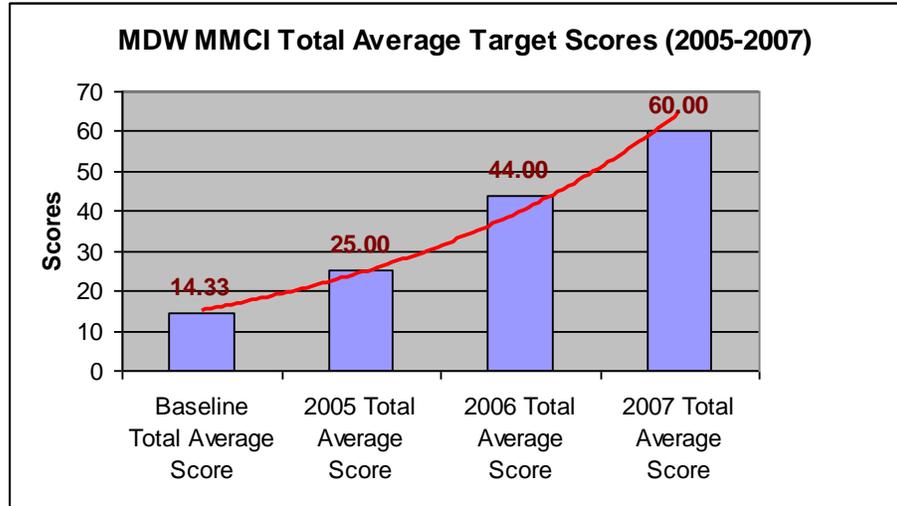


Chart 1: MDW MMCI Total Average Target Scores (2005-2007)

The first annual MMCI progress survey and data collection will be conducted at the end of Project Year 1 (July 2005) in all 84 municipalities. This data will be analyzed and compared to the average baseline data collected November 2004.

Performance Monitoring Plan

During this reporting period, Ms Judy Hansen from DAI Home Office as well as MDW CoP, Mr. William Althaus provided constructive comments and suggestions on all PMP indicators and their definitions, baseline data and project annual targets which were discussed and agreed on during subsequent teams' discussions.

The PMP March 2005 version that was amended as per DAI/Home Office and CoP's suggestions, was sent on April 20, 2005 to USAID for review and approval. The final USAID approval is expected in May 2005.

Next Quarter Activities

- Annual MMCI progress survey and data collection will be conducted in all 84 municipalities by an independent survey company.
- The MDW PMP will be approved by USAID.
- Specific activities' outputs will be compiled for each PMP indicator separately and annual PMP progress data will be collected.