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MACEDONIA DECENTRALIZATION PROJECT

FINAL REPORT



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MACEDONIA DECENTRALIZATION

FINAL REPORT

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EXECUTIVE SUMMARY

The Macedonia Make Decentralization Work Project commenced operations July 27, 2004 and ended its tenure July 26, 2007. By USAID mandate in 2005, the project became known informally as the Decentralization Project; it is referred to herein by both its contractual name and the designated informal name. The areas of activity were (1) policy assistance to the Central Government on fiscal and education decentralization; (2) policy and institutional support to the association of municipalities [ZELS] and the association of communal enterprises [ADKOM]; (3) capacity-building of municipalities in the areas of finance/budget, tax administration, urban planning/permitting, local economic development and citizen participation; and (4) the implementation of a small projects sub-contract fund, the Municipal Good Governance Fund (MGGF) [generally but erroneously referred to as a ‘grants fund’].

By every Task Order, Work Plan or Performance Measurement Plan target, the project exceeded all goals and all expectations. Instead of the target of fifty-six municipalities, over seventy were effectively served and demonstrated significant growth in capacity. The target for the ambitious urban planning component was twenty-five municipalities; in the end, twenty-seven modern urban planning systems were instituted. All MGGF funds were expended on fifty-three worthwhile, successful projects with no significant errors and no improprieties.

The report that follows describes a remarkable achievement in municipal capacity building. It also describes some of the innovative tools that made the results possible. These include the Local Consultants Network that allowed far more close technical assistance, done by locals, than traditional models and the Integrated Technical Assistance system that helped municipalities buy in to the process and keep it going after the end of the project.

Make Decentralization Work began in an environment where the Government and the municipalities were all unprepared for decentralization and closed three years later having brought the great majority of local governments up to unexpectedly high standards and having helped the data management and capacity of the always-reluctant Central Government. In all this, Macedonians completed almost all of the technical work. The amount of meaningful assistance provided with extremely limited funds set a standard that will be hard to match.

CHAPTER ONE: INTRODUCTION

A. PROJECT IDENTIFICATION

On July 26, 2007, USAID awarded to DAI the USAID Decentralization Project, initially titled the Make Decentralization Work (MDW) Project, under the Local Government Assistance Initiative IQC EEU-I-00-99-00012-00, task order 804 in the amount of \$9,478,829. The Contracting Officer of this project was Clement Bucher, the DG officer was Michael Eddy and the Cognizant Technical Officer was Afrodita Salja. The Decentralization Project was based in Skopje, Macedonia and was led by two expatriates—Chief of Party William Althaus and Municipal Management Advisor James Gordon. DAI employed approximately twenty local staff at the time of award. In June 2005, USAID added an additional \$2 million to the task order for the Municipal Good Governance Fund (MGGF), bringing the total contract values to \$11,478,829. DAI hired an expatriate procurement manager, Patrick Keirnan, as well as six additional local staff, to manage the fund. In 2006, Nathaniel Bowditch and Elizabeth Holt replaced James Gordon and Patrick Keirnan, respectively. DAI also hired an expatriate Information Officer, Michael Bogdan, at this time.

USAID fully obligated the contract in December 2006, with \$50,000 withheld for the Energy Efficiency project to be implemented by the Mission. The project began staff demobilization in January 2006 and closed its Skopje office in June 2006. The formal end date for the Decentralization Project was July 26, 2007.

B. PROJECT CONTEXT

The process of decentralization in Macedonia began, at least in words, in 1998 with the adoption of the National Strategy for Decentralization. However little was done by any political party until the small ethnic war of 2001. One of the key demands of the Albanian insurgents was greater local autonomy and this was incorporated into the Ohrid Framework Agreement, a cease-fire document ending the hostilities. Since then, with prompting by the EU and the US, each government and every party have given at least lip service to the process. The required Law on Local Self-Government was passed in January 2002 but it contained almost no implementing provisions.

After the Parliamentary elections of 2002, the incoming government began to approach decentralization a little more seriously. Other key laws were passed including the critical Law on Local Finance. The target date for the beginning of the process was 2004. However another of the provisions of the Ohrid Agreement, the requirement that municipal boundaries be realigned to increase the number of majority-Albanian municipalities, intervened. The Government adopted, with no public participation, a reorganization plan that proved to be immensely unpopular with Slavic Macedonians. A referendum to overturn the plan was defeated solely because the ruling coalition's supporters declined to vote and turnout was below the requisite 50 percent. This whole procedure necessitated the postponement of local elections and pushed the start date for decentralization to July

1, 2005. Thus decentralization began with (1) a Government that was reluctant at best; (2) a suspicious population; and (3) 70 percent of local mayors being completely new to the job.

Into this environment came MDW with a mandate to make the process successful, with highly ambitious targets for performance.

C. PROJECT OBJECTIVES AND APPROACH

The MDW Task Order included the following objectives:

- Local governments have financial management and tax administration capability [critical]
 - Build municipal management skills
 - Develop comprehensive finance and tax administration system
 - Use E-government to increase citizen participation, transparency and service level
- Citizen participation is incorporated in decision-making [important]
 - Use tools previously developed
 - Hearings
 - Referenda
 - Task forces
 - Citizen Advisory Boards
 - Seek to have CP tools made legally binding
 - Public education campaign to inform citizens of their rights
 - CP tools are to be linked to the MGGF
 - Urban Planning capacity [important]
 - Land use planning
 - Zoning
 - Customer service
 - Local economic development
 - Land tenure security
 - Local Economic Development [important]
 - Take LED to the next level
 - Use other skills to improve development climate
 - Zoning
 - Tax authority

- Customer outreach
- Urban planning
- Utilities management
- IT solutions where possible
- Municipal associations [critical]
 - ZELS: seek innovative ways to use other MDW activities to strengthen ZELS
 - AFO: targeted assistance
 - MAKKOM (ADKOM): targeted assistance

The project approach was to raise capacity without reliance on ineffective mass trainings. This required maximizing the use of Macedonian expertise so that scarce resources would not be depleted by expensive ex-patriate experts. Technical assistance was delivered locally or regionally, usually by Macedonians to small groups. A Local Consultants Network (LCN) was created to provide the available experts to deliver the assistance. To help local officials become part of the design and to enable them to continue to improve after the end of MDW, the Integrated Technical Assistance (ITA) system was created. Both these innovations are described within.

D. PROJECT MANAGEMENT

The MDW team included the following sub-contractors:

- Mendez England & Associates
- Local Government Initiative Development
- Sveko Smilevski
- Jan Herczynski
- Nora Maderkova

Key staff members:

- William J. Althaus – Chief of Party
- James Gordon – Municipal Management Advisor
- Nathaniel Bowditch – Municipal Management Advisor (after Gordon)
- Elizabeth Holt – Procurement Manager
- Liljana Ristovska – Policy Group Manager
- Mevlija Grbovic – Program Analyst
- Nada Vucinich – Association Development Team Leader
- Jane Vrteski – Municipal Management Team Leader

- Bardhyl Marku – Tax Administration Team Leader
- Georgi Hristov – Municipal Services Team Leader
- Dragana Conik – MGGF Team Leader

Principal counterparts:

- Government of the Republic of Macedonia
- ZELS (Municipal Association)
- ADKOM (communal enterprise association)
- Mayors
- Local finance officers
- Local tax administrators
- Local economic development officers

USAID support:

USAID, through the Cognizant Technical Officer, Afrodita Salja, and the Director of the Office of Democracy and Governance, Michael Eddy, were continuously involved in all aspects of the project. They provided support when high-level ministry cooperation was lacking and participated in many training programs. At their request from time to time, the project performed tasks and services outside the scope of the Task Order.

Generally, support from the USAD Mission was excellent, providing the authority needed to obtain Macedonian cooperation. The local partners were usually extremely enthusiastic and helpful. In most cases, the Government cooperated only reluctantly and only when prompted by higher international officials.

CHAPTER TWO: OBJECTIVES, ACTIVITIES, RESULTS, IMPACT AND SUSTAINABILITY

This chapter outlines DP's summary of activities and results broken out according to program component.

In addition to addressing the activities and results of the DP's program components, this chapter also focuses on the impact and sustainability of program activities. Concerning the impact of activities, we describe the program's effects and to what extent DP goals were attained. With regard to sustainability, we describe how with the close of the DP ends, the benefits and results achieved through the program will be maintained and enhanced by the ultimate end-users and their community, based on their own commitment and resources.

Furthermore, within each program component section we detail the lessons learned by DP program staff in implementing program activities showing how the knowledge derived from program implementation can be used to identify strengths and weaknesses of program design and implementation and will be helpful in modifying and improving program design in the future. Finally, we highlight the DP Best Practices that are program initiatives and activities considered leading edge, innovative or exceptional models for others to follow.

T.O. 1: MACEDONIA'S MUNICIPALITIES HAVE THE FINANCIAL MANAGEMENT AND TAX ADMINISTRATION CAPACITIES TO ASSUME NEW COMPETENCIES UNDER DECENTRALIZATION

Summary Overview	
OBJECTIVES	<ul style="list-style-type: none"> • Increase municipal financial resource management capability and enhanced revenue generation ability • Increase compliance of property and associated local taxes
ACTIVITIES	<ul style="list-style-type: none"> • Provide financial budgeting and tax software packages • Comprehensive training programs and follow-up technical assistance • Establish uniform and best practice methodology through utilization of core manuals and applied training • Facilitate new sector-specific adoption of government regulations
RESULTS	<ul style="list-style-type: none"> • Enhanced budgeting; municipality accurately assessing and collecting taxes • Established capital improvement planning & enhanced credit worthiness • Increased cooperation and congruent systems between revenue units • Quantifiable increases in efficiency
IMPACT	<ul style="list-style-type: none"> • E-government activities created measurable efficiencies; cutting costs & waste • DP success in e-government implementation leveraged additional donor support • DP financial software and training enabled 60 municipalities to assume decentralized financial competencies • DP tax administration software and training enabled 67 municipalities to assume decentralized tax administration and communal fees competencies • 35 municipalities capable of engaging in capital improvement planning using DP Capital Improvement Tool • Property tax collection rose by 15% • Communal fee collection rose by 20% • Measurable reduction in tax administration bureaucracy • Nascent credit rating for pilot municipalities
RESOURCES AND TOOLS	<ul style="list-style-type: none"> • Laws and methodologies • Law on Property Tax • Law on Communal fees • Methodology for determining of real estate market value • Tools • Manual for application of the property tax law (in English, Macedonian and Albanian languages) • Tax Administration Regional Training materials

Summary Overview

RESOURCES AND TOOLS (con't)

- Tax Administration Public outreach brochure for municipal administration (in Macedonian and Albanian languages)
- Tax Administration Public outreach brochure for tax payers (in Macedonian and Albanian languages)
- Tax Administration Public Outreach Poster (in Macedonian and Albanian language)
- Capital Improvement Planning
- Preparations for Capital Improvement Planning.PPT
- Capital Improvement Planning Modules 1,2,7,8 - English.ppt
- Capital Improvement Planning modules 3,4,5,6 goals, stages, activities - English.ppt
- Application Form - English.doc
- Calendar of activities CIP.doc
- Capital Budget - English.xls
- Cost Benefit Analysis - English.xls
- Decision for Policy for capital Improvement - English.doc
- Evaluation of Funding Options - English.doc
- Feasibility Study - English.doc
- Preparatory steps CIP.doc
- Schedule of Activities - English.doc
- Finance Manuals
- Manual for Budget execution ENG.pdf
- Manual for preparing the municipal budgets - operational and capital ENG.pdf
- Manual for the Legal framework for financing the LG Units of RM ENG.pdf
- Accounting.pdf
- Financial Management Software
- Fixed Assets.pdf
- Fixture and Fittings.pdf
- Payroll and Human Resources.pdf
- Catalog_Accounting.pdf
- Catalog_Assets.pdf
- Catalog_CashBook.pdf
- Catalog_FixtureFittings.pdf
- Catalog_HumanResources.pdf

Summary Overview

RESOURCES AND TOOLS (con't)

- Catalog_Payroll.pdf
- Fiscal Capacity Measurement Model
- Workshop_Bitola_Regression_Analysis_WG2_Fiscal_Capacity_2005.xls
- Workshop_Bitola_Revenue_Collection_WG1_fiscal_capacity_2005.xls
- Workshop_Bitola_Revenue_Collection_WG1_Fiscal_Capacity_2006.xls
- Workshop_Strumica_Revenue_Collection_WG1_Fiscal_Capacity_2005.xls
- MEASUR~1.PPT
- MEASUR~2.PPT

FINANCIAL MANAGEMENT

The main objective of Financial Management assistance was to improve municipal fiscal powers that support exceptional budgeting, accurately assess and raise taxes, conduct capital improvement planning, and enhance credit worthiness. Therefore, the DP activities consisted of both technical and human resource assistance. The technical aspect centered on a financial management software package and relevant hardware upgrades. The result is enhanced municipal technical ability in budget creation. The human resource activity trained employees in financial management methods and procedures especially relevant to the new technology. The result is more effective municipal employee knowledge and capability.

The DP financial management system is the most instrumental and practical tool available to finance officers and designed specifically to meet the needs of Macedonia's municipal governments. The partner municipalities now utilize accurate, uniform, and timely financial information. They have the ability to effectively allocate resources across sectors and programs. Efficiency and exceptional financial control are essential elements of a more transparent budget process.

THE BUDGET

Budgeting and detailed financial management procedures are essential for quality representation of public policy and allocation of resources among sectors and programs. The financial system provided by DP focused on efficiency and compliance with the Law on Local Government Finance. The activities include budgeting, accounting, reporting, treasury & debt management, plus internal control. The result is a far more extensive financial management cycle. A critical distinction between operational and capital components is integrated into the overall budgeting and planning process. This result is the budget expands into a management tool in addition to arranging and controlling financial transactions.

The new system results include the ability to manage municipal debts, conduct internal control, and deliver financial reports. All lead to improved municipal accountability. Our municipal partners are also able to better plan local revenue collection and distribution across efforts and over time. Central to the DP municipal finance and budgeting activity was the development of three core manuals.

FINANCIAL MANAGEMENT CAPACITY BUILDING

This training activity implemented three core knowledge area manuals for budget generation. All were developed in compliance with finance legislation and were officially endorsed by the Ministry of Finance. The result is enhanced municipal ability to independently create and implement a comprehensive budget plan in compliance of the new regulatory environment. The guidelines cover areas such as budgeting, recording revenue and expenses both internally and externally based on cost per beneficiary, clarifying the obligation and expertise in collecting and spending local capital, and reporting on budget implementation

The DP training on municipal financial management and budgeting resulted on the support and assistance of municipalities to assume and manage the new financial competencies in addition to familiarization with the system of laws and legislation that will support the new structure. This training program is an excellent example of donor and host government cooperation as multi-level international and national organizations all supported this activity.

The two-hundred trained municipal employees acquired a better understanding of elements of an integrated financial management system, the function of each component and their interaction within this system. These skills assist in overcoming the challenges of fiscal decentralization, the new financing and budgeting responsibilities, and a better understanding of new municipal tasks dictated by the new legislation. The DP also had to focus on building municipal capacity in the capital budgeting process and to effectively manage capital improvements.

CAPITAL IMPROVEMENT PLANNING

As a result of this training, thirty-five local governments developed a plan to improve services, developed revenue forecasting techniques, and developed mid-term budget planning policies incorporating annual service requirements. This led to developing capital improvement plans that include matching priorities with funding needs and sources, capital project timeframes, and detailed project financing plans.

This activity resulted in municipal ability to assess the mid and long-term financial implications of current and proposed policies and programs. This enhanced knowledge has many positive results on forecasting and a proactive ability to handle mid-term decisions and corrective actions. The result of these trainings saw explosive growth in the technical ability of domestic municipalities but next a method to measure fiscal capacity was required.

FISCAL CAPACITY AND CREDIT RATING MODEL

This activity aimed at exploring the current financial standing of Macedonian municipalities. The DP utilized internationally accepted standards while emphasizing the importance of developing an optimal fiscal capacity measurement model. It also focused on initiating empirical examination and study of fiscal decentralization. The program's goal was to provide the participants with an understanding of the concepts of fiscal capacity. These concepts are fundamental to the development of a system of intergovernmental transfers and equalization grants to be implemented under decentralization.

This resulted in fifteen partner municipalities ability to identify and determine the optimal model for fiscal capacity measurement and improved skills in model design based on empirical work and studies on fiscal decentralization in Macedonia.

Impact: DP's interventions in the area of municipal financial management had three measurable impacts. First, by combining the introduction of new financial management systems and extensive financial management training, the DP enabled 60 municipalities to improve the management of their financial resources and increase own source revenues; comply with the Law on Local Government Finance; assume decentralized financial competencies and plan for longer term capital improvements. The financial management software introduced by the DP now provides more accurate financial data and increases internal financial controls. Importantly, it has also influenced the degree to which accurate financial information reaches the public leading to greater transparency and a more informed and engaged citizenry.

Second, in collaboration with the USAID Business Environment Activity Project, DP developed a Municipal Credit Rating Model for four pilot municipalities: Veles, Strumica, Bitola and Struga, which improved the local business environment, municipal creditworthiness and financial standing by preparing these municipalities to enter the credit market as of July 2007.

Third, DP results have had the effect of leveraging donor support and increasing donor coordination between USAID, the World Bank, OSCE and the RM Ministry of Finance, particularly in the design of training programs for municipal finance and budget officers of 84 municipalities.

Sustainability: The DP Financial Management software packages and associated training was designed around the Law on Local Government Finance ensuring these will be used by municipal officers on a daily basis into the future. The DP Local Consultants Network ensures that Macedonian trainers can successfully replicate best practices in all partner municipalities.

TAX ADMINISTRATION

Property tax and communal fees have always been important local municipal revenue sources. Decentralization dictates tax administration is a central local government responsibility. Therefore, the goal of the DP was to assist municipalities in developing their managerial and administrative capacity to successfully assume the new tax collection responsibility. Specifically, the mandate was to assist collection and compliance of property and associated local taxes as dictated by central government standards.

The DP activities to support the municipal undertaking of local tax administration focused on collection of property tax, gift and inheritance taxes, tax on real estate transfer, and communal fees. This support consisted of complete IT equipment (hardware and software), on-the-job training on software use, and other direct technical assistance aimed at improving the overall municipal tax administration function. In addition to work at the local level, our Project continued activities at the national policy level started by LRGP. This policy work assisted the Ministry of Finance in the development of the Law on Property Tax, Law on Communal Fees and Methodology for Determining Real Estate Market Value. The result of these vital laws and methods is the practical foundation for local level implementation of tax collection efforts.

PROPERTY TAX MANUAL

The Law on Property Tax provides legislative authority for these important sources of municipal revenue. The DP developed a comprehensive Manual for the Application of the Law on Property Tax to achieve the result of equitable implementation of regulations. The manual resulted in both training and as a day-to-day operations reference for revenue units. The manual was developed in Macedonian, Albanian and English and distributed in special 2005 workshops for newly elected municipal officials and in 2005/2006 to participants of regional tax administration seminars.

REGIONAL TAX ADMINISTRATION TRAINING PROGRAM AND TECHNICAL ASSISTANCE TO PARTNER MUNICIPALITIES

The Project's property tax administration activities focused on delivering training to municipal staff. The training and technical assistance program focused on two concept models created by the Project: Model of Organizational Structure for revenue units and Models for the Joint Administration of Property Taxes and Utility Fees. Regional training activities also focused on the new Law on Property Tax and the Methodology for Determining Real Estate Market Value.

The result of these practical, hands-on, workshops and training events is increased cooperation between revenue units and valuation committees, applied understanding of valuation techniques, and shared issues, concerns, and best practices. The DP implemented seventeen workshops encompassing three-hundred and twenty seven employees.

The DP also collaborated with the Units of Local Self Government (ZELS) and its core trainers and consultants to provide direct technical assistance to partner municipalities in several areas. This activity establishes sustainability through local partner implementation. The results include establishing operational municipal revenue units, establishing municipal valuation commissions, assisting rural municipalities to establish joint property tax administration offices, implementing the Methodology for Determining Real Estate Market Value through regional workshops and direct technical assistance to selected municipalities, continuing daily consultancy as needed.

THE LOCAL TAX ADMINISTRATION SOFTWARE

This software was crucial for implementation of the new Local Tax Administration. This DP activity developed a new application to aid local tax administration efforts. The result is an integrated and comprehensive solution for successful management and administration of property taxes and communal fees. It is tailored especially for Macedonian local government needs and based on the new decentralization legislative requirements. Its usability is enhanced by incorporating several features of the previous tax administration software used by the PRO employees. The software further results in user satisfaction by being designed in Macedonian and Albanian and containing a language translation tool for several other languages.

The integrated software modules generate a variety of required reports based on specific formats such as time adjusted, by tax payer, by property, or based on a region or municipality. This critical software solution is designed in a fully compatible modern IT platform that is connectable to all relevant institutions. Congruent systems such as the treasury system, the central register, cadastre information, the Ministry of Interior, plus many others are ready to be linked as needed or when enabled by a legal mandate. The software is integrated with the Finance Management Software rolled

out to municipal structures. The municipal staff is able to produce revenue reports related to any kind of property tax and for any period. The software also incorporates the Methodology for Determining Real Estate Market Value that creates instant market values after data input. The result is immediate increased and quantifiable tax collection ability.

ON-THE-JOB TRAINING ON USE OF THE LOCAL TAX ADMINISTRATION SOFTWARE

The on-the-job tax administration software training goal was to improve the tax administration capacity of our partner municipalities. The aim of this activity was to use everyday work examples to illustrate the appropriate and precise use of the software while also as a medium of exchanging mutual experiences. The activity focused on finance and tax administration officers utilizing the new system and its methods while in their work environment. The result is not only minimal logistical and training issues regarding new technology but effective utilization of said technology. Over three-hundred municipal employees benefited from this training method. A majority of Macedonian municipalities have increase in collection rates and efficiency across the board.

ON-THE-JOB TRAINING ON PROPERTY TAX PUBLIC OUTREACH

The final component of the Project's tax administration technical assistance to partner municipalities is applied training on designing and organizing property tax public outreach programs. This activity focused on raising citizen awareness on how collecting local property taxes and communal fees are essential for community wellbeing. The result is enhanced municipal ability in performing outreach campaigns and positive public awareness.

Impact: The single most important measurable impact in the area of DP tax administration interventions has been the significant increase in property tax registration, property tax collection and communal fees in partner municipalities. Property tax collection rates for Y2 municipalities increased by more than 15 percent over Y1. Similarly, there was an increase of communal fees collection rates of 20 percent during the DP period. A second impact has been the significant reduction in time needed to generate and print tax bills. Prior to DP's intervention installing new tax administration systems, a municipality with around 20,000 inhabitants spent about two weeks generating and about one week printing tax bills. Now municipalities spend fewer than 15 minutes generating tax bills and printing takes no more than two days.

Municipalities	2006 Property Tax Collection Rate (%)	2006 Communal Fee Collection Rate (%)
Kochani	101.00	73.00
Sveti Nikole	92.50	82.60
Gostivar	87.32	67.98
Debar	86.00	23.00
Bitola	83.64	64.66
Bogovinje	83.15	76.00
Veles	81.78	106.25
Kumanovo	80.26	25.97
Struga	80.00	34.00
Demir Hisar	80.00	80.00
Delchevo	73.90	69.60
Prilep	71.40	55.00
Gevgelija	68.64	49.25
Strumica	67.31	60.91
Shtip	67.00	80.00
Skopje	62.37	29.45
Negotino	60.00	32.00
Kratovo	60.00	73.00
Ohrid	59.00	13.00
Resen	57.70	20.80
Tetovo	48.00	25.00
Krushevo	47.84	23.00
Vrapchishte	40.00	35.00
Brvenica	35.00	23.43
Kavadarci	30.00	40.00
Demir Kapija	30.00	40.00
Novo Selo	28.00	5.00
Kichevo	26.00	21.00
Centar Zhupa	24.00	17.00
Radovish	20.00	23.00
Vasilevo	10.00	12.00
Lipkovo	10.00	10.00
Bosilovo	8.00	11.00
OVERALL	56.36	42.48

Sustainability: The DP Local Consultants network includes property tax local consultants trained to support municipal staff on the implementation of new tax administration system and activities.

E-GOVERNMENT

E-Government solutions are vital to increased transparency, efficiency, and expanding service ability. To design assistance enabling local E-Government, DP collaborated with the Foundation Metamorphosis to conduct a study of Local Government Electronic Services preferred by the citizens of the Republic of Macedonia. A number of additional analyses took place to design a proper ICT system. All Macedonian municipalities were contacted to measure their IT capacities. Previous

studies, reports, and recommendations were considered. Furthermore, the National Strategy for Development of Information Society established standards and priorities and assisted in a more global framework perspective.

ACTIVITIES BASED ON NEEDS

Based on this local needs approach, the activity provided over sixty municipalities with equipment to support the core Information Technology needs for financial management, tax administration, and urban planning at the local level. The donated equipment also enabled the Project's partner municipalities to provide varied e-Government solutions aimed at encouraging greater efficiency and transparency.

The information technology activity was divided into four modules. Each module included hardware, appropriate software, services, and training to improve IT capacity in specific departments and enable reforms in established processes and procedures. All modules are interconnected. This enables essential departmental communication such as real-time data sharing. Each module included appropriate custom software applications. The DP helped the development of three software packages: first for financial management, second for tax administration, and the third for permitting. Several smaller software applications were also developed or modified to automate tasks, to provide new services, or upgrade current service delivery.

Implementation of enhanced e-Government services was also pursued. A landmark urban construction permitting application system was created and distributed to all Macedonian municipalities. To monitor effective service methods, a system for tracking citizen interaction was developed and installed in sixteen Citizen Information Centers.

CONCRETE RESULTS TO BROADER OBJECTIVES

This was a cross-cutting activity that complemented many of the other DP vital efforts. All modules contributed in reaching concrete results. These include development of a proper municipal infrastructure, complete wiring and networking, modern computer equipment, and complete installation. The activity also provided capacity building of municipal employees in the form of essential system administrator training, end-user basic office software training, on-the-job training and continuing help provided by e-Riders. Facilitating the human and physical capital enhancement, the activity provided custom software solutions in finance, tax administration, and E-Governance services.

Training in office software, intermediate system administration, and IT package use were provided to all partner municipalities. This training program established essential leadership relationships between municipal officials and IT professionals. Additionally, municipal system administrators were trained and certified for Microsoft Windows 2003 Server and low IT capacity employees from Macedonian municipalities were trained on the use of Open Office and other open source utilities.

This IT assistance plays a central role in fulfilling decentralization's broader objectives. It enables many of Macedonia's municipalities to have sufficient financial management and tax administration capacity mandated by the decentralization. At least two-thirds of Macedonian municipalities now successfully manage the package of property and related local taxes and significantly increased the rate and level of collection in the process. In addition, sixty municipalities use our financial

management software, which greatly enhances their fiscal capabilities. Finally, many municipalities have increased their urban planning and permitting capacity, facilitating improved zoning, customer service, economic activity, and land tenure security. All are significant, quantifiable, and concrete results of this activity.

RESULTS LEVERAGED BY COORDINATION

Furthermore, this activity had the added result of donor coordinated efforts and actions. A significant coordination was with the Open Society Institute Macedonia. The shared goal of E-Government led the Parties into a Memorandum of Cooperation for joint project work in implementing e-Local Government in the Republic of Macedonia. Through its implementing partner Metamorphosis, Open Society provided, and continues to provide, value-added IT services worth approximately \$300,000. Other donors extended their efforts to include e-services for their partner municipalities. Projects and donors such as USAID E-Gov and UNDP benefit by interconnecting several municipalities, enabling exchange of information and services.

Impact: A common feature of all DP e-government interventions has been to create measurable efficiencies in municipal services delivery by streamlining administrative procedures to reduce costs, waste and processing time. For example, in the Kumanovo municipality, the new e-government software enables staff to process the monthly payroll in the same amount of time it took to process the salary of only one employee using the previous paper based system. In addition, e-government systems have increased transparency and accountability of local government with increased citizen participation.

A significant impact of the DP e-government interventions has been the degree to which it has leveraged additional donor funding from the OSI, UNDP and other donors. For example, FOSIM contributed \$300,000 for training and e-services in 25 partner municipalities. In addition, UNDP built on DP activities in Vasilevo, Bosilovo and Novo Selo to create an inter-municipal infrastructure for improved efficiencies and services delivery.

Sustainability: DP e-government training activities significantly increase the sustainability of program investments by having trained and qualified System Administrators trained on Windows Server 2003 and providing back-up support services at www.adminlg.org.mk. In addition, DP's approach to modular design allows simple upgrades to existing services and the open architecture enables future system integration with new software applications.

T.O. 2: MACEDONIA’S MUNICIPALITIES INCORPORATE CITIZEN PARTICIPATION IN THE PUBLIC DECISION-MAKING PROCESS

Summary Overview	
OBJECTIVES	<ul style="list-style-type: none"> • Establish free-standing citizen participation mechanisms • Enhance awareness in local population of process of decentralization through civic education
ACTIVITIES	<ul style="list-style-type: none"> • Facilitation of interaction between civil society and public institutions • Training in problem analysis, recognition, and solution development • Training in public awareness campaigns
RESULTS	<ul style="list-style-type: none"> • Citizen-identified local issues are prioritized and addressed • Information transparency and access given from municipality to community
IMPACT	<ul style="list-style-type: none"> • DP established 6 Citizen Advisory Boards reflecting community diversity • CABs integrated and complemented DP activities • Increased local understanding of government activities
RESOURCES AND TOOLS	<ul style="list-style-type: none"> • Cross-cutting activity

CITIZEN PARTICIPATION

The DP supported citizen participation in local government through both, free-standing activities focused on establishing citizen participation mechanisms in our partner municipalities, and cross-cutting activities that complemented the Project’s work in other areas of municipal management.

CITIZEN ADVISORY BOARDS

DP concentrated its activity on free-standing organizations through the establishment of Citizen Advisory Boards (CABs) as a vital method in institutionalizing dialogue between local governments and citizens. The DP helped create CABs in six municipalities. The DP activity provided the newly established boards with applied training in how to analyze community problems, and to develop solutions that could be proposed to the municipal council. The activity focused on diverse community representation. A municipal member served as primary contact and assuring municipal buy-in of the CAB’s proposals. Other members included parties from the NGO sector, the business community, schools, media and the communal public enterprise. Each group explored relevant issues and identified a priority community problem after consulting with their respective constituent groups. Local experts with knowledge in the chosen problem area were invited to join the CAB to help craft a solution.

ISSUES LOCALLY IDENTIFIED AND ADDRESSED

The community issues identified by each municipal CAB were varied and ranged from stemming drug abuse and gun violence to increasing tourism capacity and educational opportunities. Municipal councils heard the proposals and voted on a resolution based on the board’s suggestions. After the

CABs reached the goal of getting their proposal accepted by the council, the DP shifted its assistance to helping the CAB identify ways to implement its proposal. This area of applied assistance strived to find local solutions to local problems wherever possible, but also included facilitation of linkages to outside agencies that could provide resources to help. The result is increased citizen understanding of municipal functions through applied participation in policy and local issue management.

CROSS-CUTTING ACTIVITIES AND CITIZEN PARTICIPATION

The broad scope of the DP enabled cross-cutting application of citizen participation methods. The new tax collection and distribution system is a perfect example. The Project designed training on how to best conduct a property tax awareness campaign to inform how local taxes collected will remain in the community. The training covered strategies on organizing the campaign and how to tailor the campaign to citizens. The result was increasing citizen understanding of how money is collected, explaining how a municipal budget is made, and what areas of local government it finances. These informational materials were provided to all DP partner municipalities to help initiate the process of conducting public budget hearings. The results of cross cutting participation efforts ensure that municipalities not only received technical assistance in municipal management, but also in how informing the public of the governing process can increase citizen satisfaction.

Impact: The DP established citizen participation mechanisms in partner municipalities that complemented the Project's work in other areas of municipal management. The mechanism with the greatest degree of impact is the Citizen Advisory Boards established in six municipalities with a diverse and representative membership.

Second, the impact of Citizen Participation interventions was also seen in the areas of Financial Management, Tax Administration, Construction Permitting, and MGGF Activities. For example, DP staff delivered training to LCN tax specialists on how to best conduct a property tax awareness campaign. LCN specialists then worked with municipal tax departments to plan campaigns that increase citizen understanding of tax collection and how these revenues are spent and allocated.

T.O. 3: MUNICIPALITIES HAVE INCREASED URBAN PLANNING CAPACITY, FACILITATING IMPROVED ZONING, CUSTOMER SERVICE, ECONOMIC ACTIVITY AND LAND TENURE SECURITY

Summary Overview	
OBJECTIVES	<ul style="list-style-type: none"> • Increase efficiency in government services through modernization • Compile, unify, and arrange all Urban Planning data into a logical framework • Apply Urban Planning to land tenure issues • Increase citizen access to information
ACTIVITIES	<ul style="list-style-type: none"> • Reorganization of permitting offices • Installation of computers and specialized software • Establish standardized guidelines through digital & physical templates & manuals • Develop a Detailed Urban Plan for Trizla informal settlement
RESULTS	<ul style="list-style-type: none"> • Increased efficiency in municipal permitting centers • Central local location for permit information, procedures, and documents • Closely tied Permitting to Urban Planning • Trizla urban plan created through public input and transparency
IMPACT	<ul style="list-style-type: none"> • Time needed to issue construction permits reduced by 50% • Urban Plans from 25 municipalities digitized; Permitting Web Portal established • Increased quality of life for a marginalized community • Model for utilizing Urban Planning to handle land tenure issues
RESOURCES AND TOOLS	<ul style="list-style-type: none"> • UP Permitting Manuals • Administrator.psd • Archive administrator. [Updated].psd • Officer [Updated].psd • Associate.psd • Oversight Manager.psd • Manager [Updated].psd • Vodic [mk].psd • Land Tenure • Legal Opinion for Privatization of Land in Macedonia and Land Property Rights.doc • Macedonia Land Tenure Strategy USAID.doc

URBAN PLANNING

The application of private sector efficiency to public sector management increases all aspects of democratic and effective governance. The objective of the DP was to enhance municipal service delivery through modernization of both the permitting and urban planning sectors. This was approached by both technological and systemic organizational improvements. Another objective is facing the challenge of including informal settlements into municipal jurisdictions and mainstream society. The application of modern planning and permitting systems, combined with citizen participation, can offer the best solution to this effort.

PERMITTING: THE ONE-STOP SHOP CONCEPT

The DP activity focused on a reorganization of permitting offices into one-stop office locations. This system, in conjunction with a simple change in operations in the permitting sector, provides the client with all the construction procedures information in a single location. This results in a leap in permitting department efficiency and significantly reduces the permitting process time. The DP reorganized the front office to perform numerous front-end, customer-specific, permit operations and details. This results in increases confidence and satisfaction. The DP activity then focused on the back office to for completion of the construction permit issuing procedures and include the management team.

MODERNIZATION AND CUSTOM SOFTWARE SOLUTIONS

The aforementioned DP activity served as the base for installing the modern permitting system. This includes all the hardware and driven by a specialized permitting software. This unique software is based on standardized permitting procedures developed by a working group consisted of representatives from USAID, the Ministry of Transport and Communications, and the Association of the Units of Local Self-Government, ZELS. The result of this DP software development are versions in Macedonian and bilingual (Macedonian/Albanian), six software manuals for different software clients, and a Guidebook of the standardized permitting procedures. During 2007, the permitting software was installed in twenty-seven municipalities throughout the country.

The activity then focused on developing a package that will share the results with all municipalities. The assembled multi-lingual permitting package included the following items: Two information posters, eight information flyers, a permitting procedures guidebook, and a Multimedia CD and CD Manual. The CD includes the following: Electronic forms of fifty standardized permitting templates, electronic forms of more than seventy document templates used by the site inspecting office, permitting fee calculator and Eruloks software application.

The Eruloks application is designed to introduce the concept of digital archiving and stimulate digitizing of permitting applications and urban plans. Therefore, by creating a vital electronic database, the application allows innovative and intricate analysis of the permitting processes. Furthermore, the sophisticated transcription tool in Eruloks allows for the essential multi-language interface. The result of these activities is a tailor-made and modern permitting program resulting in national standardization of procedures and guidelines with physical and digital templates and manuals available to all municipalities.

MODERN URBAN PLANNING

The DP Urban Planning activity was designed to enhance previous urban planning efforts by delivering knowledge and tools to local beneficiaries in a clear and precise fashion. Thus, the objective was to compile all the essential data relating to urban planning and arrange this information into a logical framework. The activity was based on a concept characterized by integration of local needs and attributes to tailor the process and satisfy the requirements of specific communities. To accomplish this aim, the activity focused on returning the function of urban planning to local governments, introducing and advocating the steps of comprehensive, participatory and specialized local urban planning, and introducing and instructing the guidelines for developing a municipal GIS system called, CityGIS MK.

The activity was based on a newly developed model called Urban Planning Guidelines that includes twelve planning steps that lead to a comprehensive strategic planning document. The DP performed a total of twenty-one training days per municipality involving a hundred urban planners from the municipalities. Approximately 60 percent of the training was computer-based modules that aimed to stimulate the use of computers and specialized software in daily local planning efforts. The result is enhanced knowledge and skill of local Urban Planners.

The DP activity then focused on guidelines for creating a GIS system in Macedonian municipalities. The result is CityGIS MK guidelines developed in collaboration with number of local experts, officials, and partners. They contain information related to cadastre mapping, geo-spatial data, urban planning, land use issues, economic development information, demographic information, and various statistical analyses. The CityGIS MK model consists of fifteen subgroups and incorporates a total of 107 different layers while also containing an effective systematic guide that explains how to build the system. A further result of this activity is the synergistic sharing between departments that greatly improves resource management.

URBAN PLANNING AND LAND TENURE

In 2005, the DP began an assessment of informal Roma settlements to gather information about their status, to access the potential for legal designation, and to implement programs to normalize these into municipal boundaries. The assessment findings determined that residents of the Trizla settlement lack the right to access and use of the property they occupy. By definition, the residents of the Roma informal settlement Trizla do not have land tenure security.

The Republic of Macedonia Action Plan for the Decade of Roma Inclusion concentrates on the adoption of Detailed Urban Plans (DUPs). Therefore, this DP activity saw the opportunity to create a Trizla Detailed Urban Plan (DUP) and it to become the conceptual framework for the sustainable development strategy and overall generator of social development. The activities included a situational analysis provided the vital baseline awareness of the situation, data was analysed, and a private contractor created the DUP that was ultimately ratified by the Prilep City Council through significant input of Trizla inhabitants.

The result from this activity is providing for the future of Trizla's residents by providing accurate information regarding their land tenure rights, and a developed DUP for the first time. This formal urban plan and its integration into the municipal structure allows the public administration to help improve the conditions and quality of life in their community. The successful creation of a Trizla

DUP paves the way for future efforts in addressing land tenure issues through expanding urban planning methodology.

Impact: DP’s Urban Planning interventions have had an impact on a number of fronts. First, the introduction of one-stop permitting system reorganized front and back office permitting procedures providing clients with one point of access to process all permitting needs, significantly increasing the efficiency of the permitting department employees and reducing the time required to issue permits. Urban planning interventions have reduced the time needed to issue permits **by more than 50 percent**. This increased efficiency results in increased investor confidence, which in turn stimulates local economic development; an increase in the number of new building requests, which in turn expands job and business opportunities for local building contractors and merchants; and a decrease in illegally constructed buildings which helps boost municipal revenues.

Second, is the impact seen following the digitization of twenty-five (25) municipal urban plans and the development of the Permitting Web Portal? The portal provides real time access to all information relating to the permitting process including an electronic update method to check the status of the client’s application in Macedonian, English, Albanian, Turkish, Roma and Serbian. The impact can be seen in the nationwide standardization of permitting procedures; improved monitoring and quality control of the permitting process; increased speed and quality of permitting services; real-time monitoring, reporting and analysis of the permitting process, including a comprehensive document tracking system.

Third, DP developed Urban Planning Guidelines and training programs building the capacity of municipalities to prepare comprehensive strategic urban plans in-house thus enhancing urban planning expertise and significantly reducing costs of preparing urban plans.

Fourth, the DP coordinated urban planning interventions and leveraged relationships with the Ministry of Transport and Communications, EAR, the Train Project, OSCE, UNDP, among others.

T.O. 4: MUNICIPALITIES ARE EMPOWERED TO HELP GENERATE LOCAL ECONOMIC DEVELOPMENT

Summary Overview	
OBJECTIVES	<ul style="list-style-type: none"> Establish the foundation for positive local economic development Utilize a unique approach including effective capacity building, gender, asset management, gender, and entrepreneurial
ACTIVITIES	<ul style="list-style-type: none"> Assist in developing dynamic LED plans and support implementation Introduce and implement concept of the Business Improvement District Assist in regional economic development in Osogovo Facility cost-benefit and legal analysis for military base reuse Focus on women’s entrepreneurship and start-up businesses

Summary Overview	
RESULTS	<ul style="list-style-type: none"> • Diverse LED community planning leading to great buy-in • Accurate local LED assessment and developed fluid community visions, strategies, and action plans • Rejuvenation of 3 downtown areas & creation of sustainable business associations • Developed case studies, plus economic and legal practicality of military base reuse, and supported ZELS in developing policy recommendations to GoM • Osogovo Regional Development Agency established and a regional approach to LED in tourism and resource management created • Application of decentralization to gender empowerment and business development
IMPACT	<ul style="list-style-type: none"> • 21 new LED offices have been institutionalized in municipal structures • IOM supported revolving fund \$ 30,000 targeting vulnerable groups in Kocani as a result of DP support in LED planning • Krivaplanka attracted EAR funding through an active LED office and LED strategic plan successfully competing for 170,000 euros for cross border cooperation • Kumanovo received a UNDP local economic sustainability grant worth 100.000 euros based on solid LED planning • Struga received a UNDP grant to fund construction of a tourism information bureau, also as a result of DP LED interventions
RESOURCES AND TOOLS	<ul style="list-style-type: none"> • BID_manual.doc • BID_presentation.ppt • Business Attitude Survey.ppt • FDI_Macedonia.doc • FDI_presentation.ppt • Foreign Direct Investments in Macedonia.ppt • LED Management .ppt • LED_Office.doc • Tourism_Development .ppt • Tourismdevelopment-guide.doc • Final TRAINING Report LED Coordinators.doc • BID manual ENG.doc • Municipality of Bitola.pdf (sample LED Brochure) • BAS_Report_Macedonia-Report on business climate, April 2007.pdf • Military Land Zone Reuse • Debar Military Base LED Use FS Report Final.pdf • Finalen Izvestaj-MDW 15-03-07_eng.doc • FS Kumanovo Kargo Aerodrom Final Report.pdf

LOCAL ECONOMIC DEVELOPMENT

The purpose of local economic development (LED) is to build the economic capacity of a local area to improve its economic future and the quality of life for all. The goal of the DP was taking an unrestrained approach to LED efforts and includes dynamic planning, gender-specific efforts, support to entrepreneurs, quality asset management, and regional development efforts.

COMMUNITY-BASED STRATEGIC PLANNING

The DP activities upgraded and improved the LED programs in thirteen municipalities to establish a foundation for a positive local economic development climate. The DP activity consisted of technical assistance and capacity building delivered through seminars and workshops plus municipal reorganization that established LED departments with development coordinators. After the LED departments were established, the DP activity assisted the municipality to identify people, public institutions, businesses, community organizations, and other groups with interest in the local economy and to establish a LED community planning team. This input assisted in the vital resource audit that includes the identification of financial, human, and other capital resources that contribute to the development strategy. The established Community Planning Team and Thematic Working Groups ensured that both the formal and informal structures were in place to support strategy development and implementation.

LOCAL ECONOMY ASSESSMENT AND DEVELOPING THE LED STRATEGY

The DP's next activity was assisting in a local economy assessment that included economic structure, human resource capacity to carry out economic development, and how conducive the local government investment climate is to economic and business activity. The DP activity utilized a SWOT analysis to support municipal efforts and to create a community economic profile to highlight their comparative and competitive advantages. Data was gathered from official sources and through primary collection. The DP activity then facilitated the creation of a shared community development vision that included objectives, programs, projects and action plans incorporated into LED goals. The developed action plan and the strategy incorporate local authority efforts and budgetary programs plus stakeholders such as business associations, utilities, educational institutions, and others.

ONE STEP AHEAD

The result of the DP LED activity is comprehensive planning is implemented in many municipalities and taking root throughout the local levels through various sub-programs in additional locations. The program allows for frequent adaptation and re-evaluation to serve the needs of the municipalities but still to remain relevant and sensible to the LED effort. Since 2002, many donors have provided economic development assistance and the additional result is an informal LED donors' network established in 2003. These DP activities have significant results such as developed communities vision and mission, local economies analysis, and strategic areas identification all through diverse input.

BUSINESS IMPROVEMENT DISTRICT (BID)

The DP implemented an activity to improve the business climate and economic vitality of downtown areas. This model represents a partnership between property owners and shopkeepers on one hand and the municipality on the other. This BID activity supplements public services to improve specific retail and commercial areas. Central to this concept are BID associations. Organizational sustainability of these associations is achieved through self-taxing finance mechanisms authorized by the municipality's legislative body. The activity consisted of technical assistance and capacity building in both public-private partnership and co-financing the reconstruction of BID zones.

The technical assistance activity was delivered over a two-year period with seminars and workshops plus coordination meetings with local government representatives and stakeholders. The details agreed upon include architectural design, building facades, alternative traffic solutions, landscaping, urban equipment, and many others. The DP capacity building activity then assisted business representatives in association building. This included establishing effective lobbying, negotiating, and a common cooperative platform. The DP activity demonstrated positive examples from associations in neighboring countries and built the capacity for establishing and promoting an association in Macedonia. Working closely with local urban planning departments, the associations designed a new BID zone appearance and helped the municipalities to define the designated area in an architectural study.

TRANSFERRED MILITARY ZONES - OPPORTUNITY FOR LOCAL ECONOMIC DEVELOPMENT

It was determined that essential help is needed in the preparation of economic zone feasibility studies in a few pilot municipalities. The activity concluded a unique opportunity exists in a military base-LED reuse feasibility & management planning activity. This focused on the bases turned over by the Ministry of Defense in nine municipalities. All the mayors actively participated in developing the policy positions and the study findings were shared with ZELS. These findings can serve as a case study for national-level policy to raise LED issues related to military base reuse and to construction land development in general.

The Military Base-LED Reuse & Management activity was split into two parts. Part one determined if there was a sound economic and business basis upon which to redevelop these military facilities. Part 2 catalogued the transferred military bases, prepared a report on outstanding policy and regulatory issues, and organized a ZELS Working Group to discuss recommendations with the government. This was the first initiative of its kind and used an economic benefit-cost analysis (BCA) employing several interconnected steps to identify the net economic benefits of alternative approaches to use. The BCA for this project includes an integrated cost/benefit tool based on a multiple spreadsheet format. This dynamic format allows for separate variable input and revision that enable different municipalities to construct a model unique to their location. This program flexibility supports the whole LED effort by providing various analysis sensitivity based on different assumptions that represent various risk factors.

The limited legal context of this project was characterized as an inflexible approach for development of land use policies related to LED programs. A separate report called, "Legal Issues Associated with Transforming the Military Bases into LED Zones", was created to undertake an assessment of the legal and regulatory real estate reuse issues at national and local levels. This overall DP activity

results in the economic and legal analyses and strategy recommendations for efficient use of military zones in local economic development efforts. This study shows a successful outcome of this initiative will establish a base for economic development, reduce unemployment, and create overall municipal growth in Macedonia.

OSOGOVO REGION INITIATIVE

In 2005, Regional Osogovo mayors came together to focus on joint infrastructure needs and shared economic development opportunities in tourism, mining, and agriculture. Eventually, they sought the assistance of the international community to help transform the concept into reality. The DP activity committed to supporting the initiative through several meetings and workshops to set the foundation for officially registering the Osogovo Regional Development Agency. During these meetings, the Project guided the mayors and municipal associates through the process of defining the organization mission and vision and assisted in drafting the adopted by-laws. Furthermore, the Project facilitated the election of the governing bodies and structure and prepared all the necessary documentation for the final court registration of the Osogovo Association.

This activity also presented possible ideas and formulas for membership dues and the member municipal councils approved this as a 2007 budget line item. Therefore, the Association's first-year financial support was guaranteed. This resulted in transforming the enthusiasm and inspiration of the seven mayors into a concrete and realistic venture. The next step was the physical foundation of the organization. The Project assisted in recruiting an executive officer plus establishing and equipping an association office. The final result of the activity is an association home and a leader to direct future operations.

WOMEN'S SUSTAINABLE ENTREPRENEURSHIP

The DP determined a LED critical need was local departments must strengthen their capacity in developing women entrepreneurs. This created an activity towards women entrepreneurship support as a cornerstone of the LED activities. This concept is complemented by the USAID requirement to provide gender integrated technical assistance in addition to other efforts.

The DP activity approached the thirteen LED municipalities to propose the plan. The Project provided training and the municipalities established mechanisms for providing interest-free loans, with various repayment schedules, to the potential women entrepreneurs. Municipal LED staff members were tasked to select potential project participants. The training programs were completed during November and December of 2006 in the partner municipalities.

Following the trainings, the potential women entrepreneurs were given time to work on the development of their own business ideas and plans. During January and February of 2007, the NGO ESA Tetovo assisted the potential program participants in transforming their initial draft versions into final business plans. The DP activity then trained LED coordinators from the respective municipalities to facilitate the business plan review and evaluation procedures. The overall economic situation of the municipalities and the challenge of finding appropriate projects with thorough business plans determined only the municipality of Bitola was able to allocate funds to two women entrepreneurs by the end of the DP program. However, this is only the beginning of this exciting concept.

Impact: DP has institutionalized LED capacities in 21 municipalities achieving specific impacts in Kratovo, Probistip, Prilep, Ohrid, Chair, and Delchevo municipalities which now have LED strategic plans; in Kavadarci, Struga, and Karposh which have implemented Business Improvement Districts; and in the seven Osogovo region municipalities of Kochani, Probistip, Kriva Palanka, Rankovce, Kamenica, Chesinovo-Obleshevo, and Kratovo which have combined efforts to establish the Osogovo Regional Development Agency to design and implement tourism projects. Finally, DP interventions supported women entrepreneurs in six municipalities who have allocated funds for women start-up businesses.

Sustainability: A key sustainability factor is the 21 new LED offices that have been institutionalized in municipal structures as a result of DP intervention. DP’s LED resources and products enhance sustainability, including Municipal Profiles, web pages, and investor guides.

T.O. 5: MUNICIPAL ASSOCIATIONS ASSURE THE CONTINUED IMPLEMENTATION OF DECENTRALIZATION, AND PREPARE THEIR MEMBERS TO ASSUME NEW COMPETENCIES

Summary Overview	
OBJECTIVES	<ul style="list-style-type: none"> • Create viable and effective municipal associations • Ensure associations’ financial sustainability and leadership continuity
ACTIVITIES	<ul style="list-style-type: none"> • ZELS training on policy development, advocacy and lobbying operations • ZELS capacity building in management, internal structures, and outreach • ADKOM reorganization & nurturing key outside relationships • Assist in AFO by-law generation
RESULTS	<ul style="list-style-type: none"> • Increase in ZELS active membership and policy committees • ZELS adopted Policy & Procedures manual • ADKOM administrative office consolidated and new committee structure developed • ADKOM enhanced capacity for training delivery that improves the knowledge and skill of the public communal enterprise staff. • AFO increased ability to serve members
IMPACT	<ul style="list-style-type: none"> • ZELS membership fees increased by 20% • DP organizational development support leads to 1 million euros SDC investment in ZELS • ADKOM International Conference on Water Loss Management • Associations have maintained continuity & sustainability during leadership change

Summary Overview

RESOURCES AND TOOLS

- Policy papers
- Policy Paper on ZELS Role in Training
- Tools
- Policy and Procedures Manual and Human Resource Manual
- Training Materials for Policy Development
- Training Materials for Lobbying Techniques
- ZELS Communication Strategy
- ADKOM Communication Strategy

STRENGTHENING OF MUNICIPAL ASSOCIATIONS

The DP devoted considerable energy and resources to helping the national Association of the Units of Local Self-Governments in the Republic of Macedonia (ZELS), the Association of Public Communal Enterprises (ADKOM), and the Association of Finance Officers (AFO) strengthen every aspect of their institutional development. These municipal associations are vital to the development of both sound national decentralization policy and effective local government.

This activity focused on ensuring the viability of operations beyond the Project lifecycle. This included an intensive support to strengthen their overall internal management capacity, develop the associations' sustainability strategies, and strengthen their service delivery systems. Furthermore, the Project believed membership confidence was also essential to future association feasibility. Therefore, the support for the associations' advocacy role was an important activity to strengthen the membership support by demonstrating the utilities and benefits their associations bring in improving the policy environment for implementation of decentralization.

ELEVATING ZELS AS A LEADER OF DECENTRALIZATION IMPLEMENTATION

The DP activities made sure the new ZELS leadership was equipped with the necessary tools to expand on the policy committee structure responsible for ensuring proper representation of municipal views to the central government. The trainings focused on consolidation of the committee structure, revision of committee membership criteria and selection process, as well as the roles and responsibilities of committee members and ZELS staff. As a result of DP training programs, ZELS has formalized the use of press conferences and media relations programs to communicate its policy positions to the larger citizenry of Macedonia. To ensure continuity in times of turnover, a new board member renewal procedure was developed to ensure former members were included in the new structure.

The results of this activity include an improved ZELS operating structure to provide for a greater number of now active policy committees that feed member thinking and suggestions for action to the Governing Board. It has increased the number of active members and also increased income from membership dues. It has enhanced its effectiveness as an advocate of local government interests with the central government. The DP activity also assisted in the assessment of the ZELS organizational

capacity that resulted in the comprehensive Organizational Review Report containing recommendations for strengthening the ZELS organizational structure and sustainability.

This activity also trained ZELS leaders in association governance, policy development, human resources and financial management policies culminating in an adopted Policy and Procedures Manual for the organization. We also facilitated and guided the ZELS leadership in the creation of a new ZELS 2006-2011 Strategic Plan and the development of a new five-year implementation plan.

ASSOCIATION OF PUBLIC COMMUNAL ENTERPRISES

The DP activity focused on refreshing and strengthening these key areas of representation, advocacy, and a strong internal policy development process. Committees had to be opened up to wider membership so more public communal enterprise employees had the opportunity to serve. This resulted in members clearly seeing the value of their association and deepened their commitment.

The DP provided training for newly elected board and committee members on lobbying techniques, the policy development process, and how to work within this process. Their policy priorities outlined in their Policy Action Plan were addressed and achieved. The tangible results include establishing a database with national communal enterprise information, a broadened and strengthened committee structure allowing for successful deliberation of imperative communal policy issues, improved communication through the creation of an ADKOM web-site, e-mail system, and Newsletter, and enhanced capacity building through training delivery that improves the knowledge and skill of the public communal enterprise staff.

This DP activity also assisted ZELS and ADKOM to further deepen and formalize their cooperation. They entered into a second memorandum of cooperation that ZELS entered with a professional association, building on the first agreement previously made with the Association of Finance Officers (AFO). These relationships have initially focused on linking the professional officials with the elected policy officials to achieve the most effective outcomes in the decentralization process.

GRANT SUPPORT

The DP activity provided ZELS and ADKOM financial assistance in the form of \$225,000 worth of grants distributed over the three-year project cycle. These focused on sustaining the association's efforts to affect the decentralization process as well as strengthen their institutional structures. This resulted in the associations' ability to develop their own management and resource allocation capacity, develop and implement transparent hiring, purchasing, accounting, and budgeting systems, and put in place internationally accepted and recognized financial administrative procedures.

ASSOCIATION OF FINANCE OFFICERS

The DP worked with the AFO's executive board to adopt new by-laws that ensure a more democratic decision-making structure within the association as it responds to changes brought about by organizational evolution. The by-laws present the basis for further organization and leadership improvements. AFO has since been able to perform a range of additional services to members and sustain its operations with their own resources. This sustainability proves this has been another successful USAID project.

Impact: The impact achieved through building capacity of ZELS, ADKOM and to a lesser extent, AFO has been to improve their lobbying effectiveness and ability to serve their members. ZELS has made organizational reforms to provide for a greater number of policy committees that are more responsive to member needs. Resources and tools developed by DP including the ZELS Policy and Procedures Manual and the 2006-2011 Strategic Plan enhanced organizational effectiveness as an advocate of local government interests with membership fees increased on average 20 percent. Successful DP technical assistance intervention strengthened ZELS organizational and management capacity to attract additional donor funding – most importantly a 1.5 million euro donation from the SDC.

Sustainability: ZELS: sustainability has been enhanced by upgrading staff skills, diversify funding sources, creating strategic partnerships, and introducing new services. For example, in 2005 the ZELS Office for Municipal Training Coordination successfully led its first training program for newly elected mayors and council members focused on their role as municipal leaders.

ADKOM: The impact of DP technical support enhanced the administrative-managerial capabilities of the association and improved the potential for financial sustainability and effective outreach with a focus on attracting new members and stabilizing revenue structure by creating a climate of paying dues and developing additional services. Support focused on nurturing essential relationships with key players such as government institutions and international donors and agencies. A perfect illustration of ADKOM's great organizational capacity, as well as professionalism, is the organization of their first International Conference on Water Loss Management. The conference was attended by more than two hundred (200) water experts and managers from all over the world. The international specialists and presenters represented countries such as the United Kingdom, Malta, Cyprus, Brazil, Italy and others plus members of International Water Association Water Loss Task Force. More information on this event can be found at: <http://www.adkom.org.mk/conference/en/>. The book titled, *Water Loss Management, Telemetry and SCADA in Water Distribution Systems*, compiles all the papers presented during the conference.

T.O. 6: SECONDARY LEGISLATION AND REGULATIONS THAT ARE CRITICAL TO THE DECENTRALIZATION PROCESS ARE PREPARED, PASSED AND IMPLEMENTED ON TIME

Summary Overview	
OBJECTIVES	<ul style="list-style-type: none"> • Assist the Ministries of Finance plus Education & Science during decentralization • Enhance ZELS dialogue with central government
ACTIVITIES	<ul style="list-style-type: none"> • Determine scope of municipal debt and formulate debt-relief plan • Develop and utilize VAT distribution and Categorical grant simulators • Prepare the Ministry of Education for II phase of education decentralization • Organize association and inter-ministerial cooperation • Inventory school property and ownership issues • Training for ZELS in advisory role and ability • Develop policy reform positions • Build the analytical capacity of the Ministry of Education & Science
RESULTS	<ul style="list-style-type: none"> • Greatly improved ministerial analytical capacity • Implemented policy recommendations and changes • Solidified ZELS and central government dialogue & successful lobbying efforts • School Property Database
IMPACT	<ul style="list-style-type: none"> • DP VAT distribution formula increases equity, transparency and predictability • DP interventions lead to creation of Municipal Debt Relief Plan in July 2005 • DP support to MOES creates grants formula leading to greater equity, transparency and efficiency • DP interventions set new standards in school design (norms for space and equipment)
RESOURCES AND TOOLS	<p>POLICY PAPERS/PP PRESENTATIONS</p> <p>Finance:</p> <ul style="list-style-type: none"> • Intergovernmental Finance in Macedonia Midstream: Where we have come from and where we might be going – ppt • Development of municipal Debt Resolution Plan – Dec. 2004 • Proposed Structure of a Municipal Debt Relief Plan • Development of a Municipal Debt Plan for RM- ppt • Options for Municipal Debt Relief – tables- exe • Municipal Insolvency Note • Justification for the methodology for VAT Distribution

Summary Overview

RESOURCES AND TOOLS (con't)

- Issues for Development of an Equalization Formula 2005-6- ppt
- A Note on the Simulator for the Allocation of VAT Funds in 2007
- Issues that could impede the process of decentralization in RM
- Revisiting the Law on Local Government Finance

Education:

- Draft Allocation of Maintenance Funds – Preliminary Proposal and Discussion Materials
- Categorical Grants for School Maintenance for 2006: Proposal for an Allocation Formula
- Draft Criteria, Procedures and Schedules of Activities for Developing of Formulas for Allocation of Education Categorical Grants in 2007
- On the Current Situation with Allocation Formula for 2007
- Preparing for Budget Negotiations for 2006
- Regulating Conditions for Macedonian Schools
- Report Regarding the Visit to Five Primary Schools in the Republic of Macedonia
- Situational Report on the Basis of the Draft Norms for Space, Equipment and Teaching Aids in Three Secondary Schools in the Republic of Macedonia
- Draft Norms on Teaching Premises, Equipment, Teaching Aids on Individual Subjects in Primary Schools
- Challenges of the II Phase of Education Decentralization
- Towards the Formula for Block Grants in Macedonian Education
- Per student financing formulas: structure, coefficients, buffers – ppt
- Allocation of maintenance funds in Republic of Macedonia: transition period and per student formula – ppt
- Law On Financing The Units of Local Governments And Planning The Funds In Education – ppt
- Allocation of Categorical Grants for Education – ppt
- Monitoring Decentralized Education System – ppt
- Challenges of the Phase II of Education Decentralization – ppt
- Formula for Block Grants in Macedonian Education Preliminary Discussion – ppt

TOOLS

- VAT Simulator
- Simulator for Categorical Grant for Primary Education
- Simulator for Categorical Grants for Secondary Education
- School Property Database

POLICY REFORM

The challenges to national policy issues lay in the area of helping the national government prepare regulations for the implementation of laws, improving its capacity to administer the structure of the new system, and strengthening ZELS ability to constructively participate in the process. The DP focused its policy assistance activity on the Ministries of Finance (MoF) and Education and Science (MoES) in an effort to build their analytical capacities, design regulations for policy implementation, resolve outstanding issues, and intensify the dialogue with ZELS, and other relevant stakeholders. The DP's activity enabled the design of a municipal debt relief plan and the developments of a formula to allocate the grant funds created by three percent of the VAT, as well as the categorical and block grants for education.

MUNICIPAL DEBT RELIEF

The DP activity took the lead in assessing the scope of outstanding municipal debts. The Project financed the public call issued by the Minister of Finance in the daily papers, collected all responses from creditors, and verified them with the municipalities. The outstanding municipal debt was assessed, and categorized by type, year, interest and principal. The DP also projected the municipal financial capacities of the new 84 municipalities. The forecasted financial capacities of the new jurisdictions were then compared to each jurisdictions payment arrears.

Options for municipal debt resolution were prepared and presented to the technical staff and principal members of the Ministry. These options were also presented to the Finance Committee and other essential members of ZELS. At the core of the proposed options, the Ministry is required to take the lead in a seven-year implementation plan that would facilitate the restructuring and repayment of the municipal debt at relatively little cost to the national government.

THE VAT DISTRIBUTION METHODOLOGY

The revenue forecasts of the eighty-four jurisdictions showed significant disparity in per capita revenue between fiscally strong and fiscally weak municipalities. These projections were presented and discussed with both the Ministry of Finance and ZELS in the context of designing the first year VAT distribution formula. Equity was a large concern. The DP activity utilized special and per-capita methods to ensure that the equalization purpose of the VAT funds was being served in accordance with the Law on Local Government Finance. The DP designed and presented to ZELS and the Ministry the VAT Simulator that focused on improving the method of VAT funds allocation over time. The simulator forecasts the effect of various VAT distribution scenarios on local government revenues.

FINANCING DECENTRALIZED EDUCATION

The DP provided the Ministry of Science and Education with a number of policy papers, consultations, and discussions that led to a proposal of a formula-based allocation concept based on basic criteria and mechanisms for categorical grant distribution among municipalities. Next, the DP provided the Ministry with a Categorical Grants simulator. The DP activity also advised the Ministry in developing the formula through structured, regular consultations with ZELS, the Ministry of Finance, and the Ministry of Local Self-Government, leading to enhanced inter-ministerial

coordination. The DP activity assisted communication by organizing a presentation on the formula-based allocation. The presentation was delivered by representatives of the Ministry to the ZELS committee members and explained the new system and addressed the questions, and concerns of the mayors. DP also assisted the Ministry of Education and Science in preparations for the II phase of education decentralization and allocation of block grants for education.

EDUCATION IMPLEMENTATION REGULATION

The DP provided technical assistance in the development of Procedures for Financial Monitoring over the Local Spending of Education Funds. The DP guided the development of the draft on Financial Monitoring Procedures by providing the task force with relevant process principles and policy papers. The DP also focused on establishing an effective inter-ministry communication between Finance and Education and Science. The DP assisted the Ministry of Education and Science in revising and redefining the previous normative on education materials to suit modern standards of teaching. The initial DP contribution was a comprehensive policy paper that stressed the importance of the school environment and equipment needs in a decentralized system. The Project created a benchmark assessment of the present conditions based on the old regulations. This gave the Ministry working group a starting point in the redefinition of the norms, and a sense of how flexible the new norms will become. The DP continued to supply guidance throughout this initial evaluation to the completion of a final normative draft.

CAPACITY BUILDING OF THE MINISTRY OF EDUCATION AND SCIENCE

In continuation to its predecessor, DP actively drew forward the Ministry of Education and Science's capacity to analyze the financial elements of the decentralized education system and make policy choices based on those analyses. The combination of the Analytical Unit's experienced staff and the newly acquired knowledge of education statistics uniquely provides the Ministry with an advantage in implementing both the first and second phases of education decentralization. The DP assisted the Analytical Unit by analysis and simulation assistance in the introduction of the new formula-based system of allocation of education funds, vital help in producing the formula, communicating the formula with internal and external stakeholders, and monitoring the effects of its implementation. The Project also assisted the Ministry's Analytical Unit through new computer and office equipment, and they are now well prepared for the design and implementation of a future Education Management Information System (EMIS).

ASSISTANCE TO ZELS

The Project organized three discussions on the new municipal finance system to stimulate the policy activities within the new structure of ZELS. Mayors had the opportunity to learn the technical intentions of the Law on Local Government Finance directly from our expert who was the principal advisor to the Ministry of Finance Working Group in drafting the Law. These roundtable events also provided a forum to discuss issues and uncertainties observed from their first six months in office. The DP continued to provide policy support to ZELS through workshops, discussions, policy papers, and day-to-day communication through over the project's life. The result of these workshops and subsequent ZELS lobby to the government is the agreed structure of the formula for education funding and the established position to the central government on the proposed Municipal Debt

Options based on the Project conclusions. In addition, the Finance Committee used the Simulator as the basis from which they developed and discussed a new allocation scenario within ZELS. ZELS also intensified the communication with the Government of R. Macedonia on the exemption in the Law on Property Taxes of the property tax on business premises.

Impact: DP policy reform efforts significantly impacted the intergovernmental finance system and how the national government prepares regulations and secondary enabling legislation. For example, DP was instrumental in establishing a VAT distribution formula that introduced for the first time equity, transparency and predictability. A second consequential impact concerned the DP intervention to assess municipal debt allowing for debt relief options to be devised. The improved allocation scenarios for the three percent (3 percent) of VAT will assist municipalities, especially poorer ones, to improve their services to the citizens and service their large outstanding debts. A Municipal Debt Relief Plan will help the municipalities clear their debts and prepare for the future, especially for the “absorption” of the EU IPA funds as these become available.

Impact of Designing a Municipal Debt Relief Plan: The outstanding municipal debt was assessed, and categorized by type, year, interest and principal; options for municipal debt resolution were prepared and a policy paper delivered to the Ministry on the possibility and effect of introducing a Municipal Debt Restructuring/Municipal Insolvency Law. A Municipal Debt Relief Plan was adopted in July 2005.

Impact of Designing the VAT Distribution Methodology ensured that the equalization purpose of the VAT funds was being served in accordance with the Law on Local Government Finance. The DP VAT Simulator allowed stakeholders to simulate the effect of various VAT distribution scenarios on local government revenues. This tool has become invaluable for stakeholder dialogue and scenario generating methods.

Impact on the Ministry of Education and Science: DP developed a formula for allocating education funds to municipalities that incorporates the principles of equity, stability, and transparency. DP then provided the Ministry with a simulator for the allocation of Categorical Grants similar to the VAT simulator allowing the Ministry to find the optimal allocation to suit most municipalities. This resulted in the Ministry formulating the first set of Ordinances on the Methodology for Allocation of Categorical Grants for Education. DP also prepared a policy paper on school environment and equipment needs creating a benchmark assessment of the present conditions and providing the Ministry the guidance to draft the new Normative on School Space and Equipment. DP also created the first School Property Database enabling the Ministry to know the number of facilities to transfer to municipalities and the most common property status problems.

Sustainability: The Analytical Unit within the Ministry of Education and Science has the capacity to improve the allocation of education grants and to propose policies for the design of the block grant distribution.

T.O. 7: AN IMPROVED REGULATORY ENVIRONMENT FOR PUBLIC COMMUNAL ENTERPRISES LEADS TO IMPROVED PROVISION OF MUNICIPAL SERVICES

Summary Overview	
OBJECTIVES	<ul style="list-style-type: none"> • Improve sector regulatory environment & implement quality management
ACTIVITIES	<ul style="list-style-type: none"> • Partnered with GTZ on project for CPE efficiency Assessed CPEs for baseline information • Organized work groups and applied sector analysis • Organized donor/key institution roundtable events • Provided capacity building training in transparency & customer service • Facilitated analysis or water loss problem and solution
RESULTS	<ul style="list-style-type: none"> • ADKOM defined obstacles, adopted policy positions, implemented a comprehensive action plan, and integrated stakeholders • Produced vital documents & regulatory books • Enhanced internal management and self-monitoring abilities
IMPACT	<ul style="list-style-type: none"> • Water Management Conference 2006 • Legislative and Policy efforts through ADKOM including: • Adjusting the VAT law and VAT rate on waste water and sewage to 5% • <i>Methodology for Determination of the Price of Drinking Water and Waste Water</i> • <i>Model-Decisions on the Conditions and the Manner of Drinking Water Supply and Outflow of Urban Waste Waters</i> • <i>Model-Contract (Agreement) for Water Supply, Drainage, Treatment and Outflow of Waste Water</i>
RESOURCES AND TOOLS	<ul style="list-style-type: none"> • Action Plan_eng.doc • Calculation methodology_eng.xls • Conclusions Krusevo_eng.ppt • Draft model-Contract_ADKOM_eng.doc • Initiative to the Constitutional Court_eng.doc • Methodology for determining the price of water supply_final_eng.doc • Model Decision on water supply and outflow_eng.doc • Book of Rules final ENG.doc • Slides Agenda Lobbying Workshop 5-6 Oct 2005.ppt • Proposals for the Parliament • Proposal Law on Obligatory issues.doc • Proposal Law on Social Welfare.doc • Proposal Law on VAT.doc

PUBLIC COMMUNAL ENTERPRISES

The DP objective in the communal public service sector (CPE) was to improve the regulatory environment and introduce professional management techniques. The DP activity focused on supporting ADKOM with a sound policy development process to improve the regulatory environment of communal enterprises and advocating for superior legislation. We worked closely with the Project on Increasing Economic Efficiency for Communal Public Enterprises implemented by the German Technical Support (GTZ). This relationship was perfect to both leverage resources and maximize the impact of our activities.

REGULATORY FRAMEWORK

The initial activity was an assessment of more than forty CPEs to gain an understanding of the organizations and to identify obstacles to efficient delivery of communal services. The assessment pointed to the existing regulatory framework. A Policy Working Group was established to attack this problem. The workshop resulted in agreement on sixteen policy positions and the definition of ten most critical regulatory obstacles. The defined positions and obstacles were then shared with all CPEs and presented to other key stakeholders such as relevant ministries, associations, and the private and donor sectors.

The DP activity assisted ADKOM in developing a comprehensive Action Plan for the preparation and submission of amendments. This plan was adopted by ADKOM's Governing Board in September of 2005. It included the detailed ADKOM policy positions on regulatory obstacles and a timeframe and lobbying strategy for the development of specific initiatives and their submission to relevant authorities. The strategy for lobbying governmental bodies included meetings with journalists, publication of press releases, media statements, and meeting with the members of Parliament and ministerial officials. Additional results include two important books of regulations that were prepared by a newly formed working group assisted by the lead of the DP and GTZ to provide important local government tools in improving the management, protection, and enhancement of the environment.

PROFESSIONAL MANAGEMENT

The DP activity performed capacity building training program aimed at improving professional technical and managerial skills of CPEs employees. The Project designed a program focused on providing exceptional communal services based on transparency in work operations and improving the customer-oriented services. The training sessions were delivered to more than a hundred employees and focused on effective management of the administration, quality human resource management, and public relations. Most trainees occupied mid-level manager positions in CPEs and attended this type of professional development for the first time in their careers. The result is an enhanced atmosphere of professionalism and quality.

The DP activity provided training and technical assistance to increase the internal organizational capacity of ADKOM. This sustainability is exemplified by the many successful roundtable and seminar events. Professional management is not only essential for efficiency but also for continuous self-evaluation and the means to address known and unknown issues. An example of this enhanced management ability is the comprehensive approach applied to the problem of water loss. The internal assessment and situational analysis of major delivery systems graphically demonstrates to scope of this problem and assists in developing a solution-based action plan. The International Conference for

Reducing Water Loss was a milestone achievement in addressing resource issues with a multi-national approach.

To address water waste, the DP activity cooperated with the Water Development Institute (WDI) of the Republic of Macedonia to provide technical assistance to CPEs in urban municipal locations. The technical assistance included introducing water loss management techniques that focus on principal efficiency indicators. The technical assistance provided training on the latest approach in water supply system management utilizing sophisticated IT technology and equipment. Additionally, the WDI's software package, VODSIM, was delivered free of charge to the participating CPEs as part of the cooperation between the Project and the Institute. The result brings this urgent matter to the policy forefront while increasing the sector's ability to address the problem.

The result from DP activities is the association determined current regulatory obstacles through essential member participation but also with key ministries, committees, and private organizations. These efforts led to solid changes such as adoption of new laws, published policy papers on crucial topics and incorporating these into new regulations, plus the creation of a comprehensive action plan. Most importantly, the Association now has the ability to improve internal management to provide increased professional service delivery and to effectively organize crucial lobbying efforts.

Impact: Working through ADKOM, DP achieved significant impact to improve the regulatory environment for Public Communal Enterprises. ADKOM has emerged as an organization with solid legitimacy among communal enterprises and donors because of its ability to take a comprehensive approach to improving the regulatory environment through advocacy and introducing quality managerial and professional standards. DP interventions in the area of Professional Management of CPEs had a significant impact on improving water supply system management. ADKOM developed comprehensive action plans for the preparation and submission of policy position statements and legislative amendments including:

- *Methodology for Determination of the Price of Drinking Water and Waste Water:* This provides the legal foundation for local governments to determine the recovery cost of water supply and sewage expenses
- *Model-Decisions on the Conditions and the Manner of Drinking Water Supply and Outflow of Urban Waste Waters:* This represents a standardized document to be adopted by municipal councils
- *Model-Contract (Agreement) for Water Supply, Drainage, Treatment and Outflow of Waste Water:* This is a standardized document that regulates the roles and responsibilities of service providers and users.
- Other successful initiatives include defining the VAT rate on waste water and sewage precisely to 5 percent resulting in an adjustment to the VAT law.

Sustainability: ADKOM's achievements ensure a strong foundation to continue reforms in the communal services sector with the capacity and experience to continue with a comprehensive participatory approach to develop member-based solutions. Evidence of this is the upcoming International Conference on Solid Waste Management (2007)

T.O. 8: MUNICIPAL GOOD GOVERNANCE FUND (MGGF)

Summary Overview	
OBJECTIVES	<ul style="list-style-type: none"> • Assist local governments apply good governance principals and practices • Deepen community-administration interaction
ACTIVITIES	<ul style="list-style-type: none"> • Small scale improvement projects • Distribute IT equipment and software • Training on Good Governance Fund and citizen participation concepts • Association support grants
RESULTS	<ul style="list-style-type: none"> • Implemented fifty-three projects across nine categories in forty-seven municipalities • Increased cooperation between community groups and municipalities • Project locally chosen, prioritized, and submitted
IMPACT	<p>Results of Baseline Impact Survey:</p> <ul style="list-style-type: none"> • 141 respondents were aware of process of decentralization • 105 people felt that the level of municipal services (infrastructure; water supply; irrigation; education, etc.) are "<i>much better</i>" since decentralization; • 179 people were aware of existence of the MGGF project in their municipality. • Amount of funds leveraged - \$342 395 • Increased awareness of decentralization process • Empowered Citizens in the work of local self government, • Citizens participated in resolving the most critical issue for the community (in the case of prioritizing local problems/projects in improved communication between the local government and deepen community-administration interaction);
RESOURCES AND TOOLS	<p>Tools:</p> <ul style="list-style-type: none"> • Tool Kit for Completing the Concept Paper • Tool Kit for Completing the Application <p>Resources:</p> <ul style="list-style-type: none"> • Baseline Impact Assessment Survey--(Power Point) • Citizen Participation in the Project Implementation Process Report

MGGF

The DP activity of MGGF was designed to assist local governments in implementing the principles and practices of decentralized good governance while complementing and leveraging other DP activities. This provided funds for projects that were identified by municipalities with input from their citizens, neighborhood associations NGOs, and the business community. The program activity supported small scale community improvement projects that provided citizens with visible signs of progress and deepen municipal administration-community interaction in providing solutions for local needs.

The MGGF activity implemented three separate and distinct sub-activities of small scale community improvement projects, purchase and distribute to selected municipalities needed IT equipment, technology, specialized software, and training, and award operating grants to support the municipal associations.

THE GRANT PROCESS

The DP organized an informative campaign where participants were acquainted with the MGGF availability and application criteria. All were trained on the project process and community participation ideas. After the rollout campaign, 155 Concept Papers were submitted by 78 out of 84 municipalities. All were reviewed and evaluated by the Panel Review Committee that was staffed by the Project specialists and USAID representatives. The municipalities whose project ideas were accepted by the Committee were invited to submit formal applications. All formal Application Packages were managed by the Project and submitted with supporting documentation to USAID for final approval. Following approval, mayors were officially notified about the next steps such as signing a Memorandum of Understanding and starting the implementation phase.

The process culminated in approval for forty-seven municipalities that successfully developed and implemented fifty-three small-scale community projects grouped into nine categories. The DP measured each proposal by how the initiative is closely and/or directly aligned toward the success of decentralization, how this capacity building accompanies the effort to rehabilitate the image and the public understanding of decentralization, how much citizen participation occurred, and how much gender integration plays a part.

PROJECT AREAS

The project areas demonstrate the need as determined by the local community. The Education Facilities helped local governments successfully take over school building maintenance in the first phase of the decentralization. Thirteen municipalities implemented projects for proper and standardized conditions, improved working and learning areas for all the stakeholders, and decreasing the heating costs. A similar category, Energy Improvements, greatly eased budgetary pressure in three municipalities due to a reduction in energy costs such as oil, electricity, and wood plus slashing maintenance costs due to obsolete installations and equipment. These projects ensure long-term benefits of reduced fuel consumption, increased financial efficiency, and environmental friendly solutions.

Another group of categories improved the quality of life through community improvements. First, Local Roads paved more than 5 km of roads and provided better central town connectivity. This significantly enhanced citizen living conditions, improved municipal communal services, and assists these locations for further economic development. A related category, Safety Issues, responded to local population concern for street safety and concern for accidents by constructing sidewalks, pedestrian crossings, and installing street lights. Furthermore, the Outside Improvements category also improved quality of life by park renovation, landscaping, lightning of pedestrian zones, and equipping playgrounds. Lastly, Water Management addressed the urgent need of a lack or quality of potable water for roughly 16000 people in five municipalities. The municipality of Dojran was assisted in connecting numerous houses to the waste water system improving local sanitary conditions as well as protecting the Dojran Lake ecosystem.

The final group of projects focuses on less quantifiable progress in economic development, capacity building and freedom of information. The first, Business Improvement Districts is a cross-cutting activity connecting public and private entities to improve the business climate in two large municipalities. Citizens now receive better service, greater diversity in cultural events, and improved locations to spend their free time. The next, Public Communal Enterprises Capacity Building funded three municipal vehicles to decrease the number of mini dumps around containers and decontaminate prominent areas in requested communities. In Struga, this DP activity provided capital to build a market for wholesale agriculture products and reinvest income into new market facilities and quality improvements. The final, Municipal/ NGO Centers, aim to secure the accurate storage and compilation of information and available services. They believe freedom and improved access to information directly advances democracy through transparency, expands economic activity, and increases cooperation with the business and NGO sector.

ADDITIONAL DONATIONS

The DP cooperated with the Office of Defense and Cooperation (ODC) to provide four utility vehicles and one fire-pump from the Humanitarian Assistance Program. This activity also assisted in the project provision of school equipment, books, shelves, and other items to eleven primary schools. This results in leveraging resources to help municipalities improve citizen services and student learning environments.

The result of these locally-based projects is a vast number of positively affected people living in Macedonia. Approximately two-thirds of Macedonia's municipalities and their citizens now have enhanced capacity in planning, implementation, and ensuring sustainability of small scale projects. These community-based projects have the most direct benefit to their citizens. More importantly, this activity demonstrates that cooperation between local officials and community groups in small scale projects and expanding local public services can improve the community's quality of life.

Impact: In addition to the successful completion 53 projects impacting positively the lives of over 615,663 beneficiaries, another significant impact of MGGF activities has been the introduction of transparent citizen participation procedures in determining criteria and selection of MGGF projects. This was measured in June 2006 when the MGGF team conducted a "Baseline Impact Assessment Survey" which confirmed the degree to which citizens were aware of MGGF project implementation in their municipalities. The survey reflected the short and mid-term benefits of the project over the municipalities and beneficiaries USAID/DP MGGF was dealing with. 194 people were interviewed coming from 19 municipalities. The following four areas were focus of interest of this survey – The Local Government and the citizens; Impacts/benefits of the project; Cooperation with USAID's Decentralization Project, and the Outcomes.

TABLE 1: LIST OF IMPLEMENTED MUNICIPAL PROJECTS

No.	Municipality	Project Title	Total project value in \$US	USAID contribution	Municipal contribution
1	Berovo	Renovation of Old High School	\$92,062	\$58,998	\$33,064
2	Bitola	Fencing of City Grass Areas	\$59,570	\$41,117	\$18,453
3	Bogdanci	Providing Backhoe Loader	\$78,671	\$59,000	\$19,671
4	Bosilovo	Reconstruct School Interior	\$65,138	\$58,993	\$6,145
5	Butel	Construction of Pedestrian Track to School	\$65,584	\$58,995	\$6,589
6	Centar	Landscape planning and retaining walls	\$78,481	\$58,893	\$19,588
7	Chair	Reparation of Streets in Old Bazaar	\$248,957	\$118,000	\$130,957
8	Chashka	Install Bathrooms at School	\$72,390	\$59,000	\$13,390
9	Debar	Asphalting streets in settlement "Keranica" Debar	\$129,552	\$58,976	\$70,576
10	Debarca	Reconstruct and Install Sanitation of Primary School	\$68,326	\$49,000	\$19,326
11	Demir Hisar	Construct Water Supply System in Village Pribilci.	\$117,410	\$62,540	\$54,870
12	Dojran	Street Fecal Sewerage Project	\$70,052	\$50,740	\$19,312
13	Dolneni	Reconstruction of Primary School, "Mirche Acev"	\$73,632	\$59,000	\$14,632
14	Gevgelija	Providing Garbage Disposal Vehicle	\$84,960	\$59,000	\$25,960
15	Gjorche Petrov	Park Renovation in Gjorche Petrov	\$87,631	\$58,995	\$28,636
16	Gostivar	Reconstruction of Roof in P.S."Bratstvo" Gostivar	\$87,138	\$59,000	\$28,138
17	Gradsko	Construction of Potable Water Reservoir	\$67,125	\$56,549	\$10,576
18	Ilinden	Culvert Reconstruction and Revitalization of the Drain Canal	\$49,102	\$41,728	\$7,374
19	Karposh	Install Elevators on Pedestrian Bridge "Vlajko"	\$87,566	\$58,103	\$29,463
20	Karposh	BID Karposh	\$183,677	\$59,000	\$124,677
21	Kavadarci	BID Project	\$204,888	\$58,976	\$145,912
22	Kichevo	Energy Efficiency Project	\$52,717	\$49,649	\$3,068
23	Kichevo	Beautify of the Quay of Susica river	\$66,148	\$58,882	\$7,266
24	Kochani	Asphalting Streets	\$108,779	\$58,941	\$49,838

No.	Municipality	Project Title	Total project value in \$US	USAID contribution	Municipal contribution
25	Kratovo	Reconstruction and extension of the water filter station of Kratovo	\$80,169	\$62,380	\$17,789
26	Kriva Palanka	Reconstruction of floors in Primary School " Joakim Krchovski"	\$40,864	\$36,380	\$4,484
27	Kriva Palanka	Providing Fire- pump / High pressure	\$7,321	\$7,163	\$158
28	Krivogashtani	Asphalting Round road construction near to livestock market in Krivogashtani	\$65,739	\$58,991	\$6,748
29	Lipkovo	Purchasing and Instalation of windows and doors in P.S. "Faik Konica" in Village Slupchane	\$44,616	\$43,436	\$1,180
30	Lozovo	Purchasing of the vehicle	\$12,813	\$11,813	\$1,000
31	Makedonski Brod	Providing Vehicle for maintenance the street lights	\$22,000	\$20,000	\$2,000
32	Mogila	Central Heating System for P.S."Kocho Racin" in Mogila	\$53,560	\$48,262	\$5,298
33	Negotino	Urban Equipment and Informative Boards/Maps	\$54,540	\$48,404	\$6,136
34	Novo Selo	Build Supply Pipeline to the Filter Station in Kolesino	\$86,565	\$59,000	\$27,565
35	Pehchevo	Providing Backhoe Loader	\$78,671	\$59,000	\$19,671
36	Petrovec	Sidewalks Construction in Rzanichino village	\$29,780	\$22,405	\$7,375
37	Prilep	Renovate NGO Support Center	\$48,680	\$36,747	\$11,933
38	Resen	Establishment of Municipal Center for Sustainable Development	\$38,026	\$32,280	\$5,746
39	Saraj	Energy Efficiency Project	\$25,224	\$22,156	\$3,068
40	Saraj	Construct Water Supply System for Krushopek Village	\$180,085	\$98,625	\$81,460
41	Shtip	Reconstruction of Public Toilets and Park	\$57,136	\$47,200	\$9,936
42	Sopishte	Reconstruction of "Draga Stojanovska" Primary School in village of Ciflik	\$62,068	\$51,920	\$10,148
43	Staro Nagorichane	Construction of the Sidewalks and Installation of the Street Lights	\$65,354	\$55,442	\$9,912
44	Struga	Build up of wholesale Market for agriculture products	\$127,356	\$59,000	\$68,356

No.	Municipality	Project Title	Total project value in \$US	USAID contribution	Municipal contribution
45	Strumica	Providing Garbage disposal vehicle	\$64,188	\$63,140	\$1,048
46	Tearce	Renovation of the Primary School	\$52,207	\$44,202	\$8,005
47	Vasilevo	Asphalting Local Road	\$58,938	\$52,094	\$6,844
48	Veles	Energy Efficiency Project	\$47,135	\$44,067	\$3,068
49	Veles	Foundation of One Stop Shop	\$34,184	\$30,078	\$4,106
50	Vevchani	Kindergarten Roof and Central Heating System Renovation	\$41,819	\$37,673	\$4,146
51	Vevchani	Providing truck for communal services	\$10,600	\$10,000	\$600
52	Vinica	Completion (Providing Ventilation and Heating System) of City Sport Hall	\$178,593	\$59,000	\$119,593
53	Vraneshtica	Playground equipping	\$58,303	\$37,299	\$21,004

TABLE 2: LIST OF DONORS THAT PARTICIPATED IN MGGF PROJECTS AND ACTIVITIES

Donor	Description	Amount (in \$US)
US Army (located Germany)	School Equipment and Books*	\$20,279
US Army (located Germany)	Pick up Truck, Lozovo municipality	\$11,813
US Army (located Germany)	Refuse Truck, Strumica municipality	\$63,140
US Army (located Germany)	Pump, Fire High Pressure, Kriva Palanka municipality	\$7,163
US Army (located Germany)	Platform Truck, Makedonski Brod municipality	\$20,000
US Army (located Germany)	Cargo Truck, Vevchani municipality	\$10,000
SOROS (Foundation Open Society)	Renovation of NGO Support Center, Prilep municipality	\$30,000
MCIC (Macedonian Center for International Cooperation)	Construction of WSS for village of Krushopek, Saraj municipality	\$80,000
US Embassy Defense Office	Primary Education Projects	\$ 100,000

These school equipment and books were delivered in eleven (11) schools/municipalities in Macedonia (municipalities: Demir Kapija, Valandovo, Aerodrom, Tetovo, Zrnovci, Debra, Gazi Baba, Oslomej, Radovish, Zelino, Rankovce).

Sustainability: The DP MGGF team focused heavily on sustainability issues, not just regarding MGGF project sustainability. Municipalities now have significant capacity for project planning, design and implementation through MGGF Advisory Boards and DP products and resources including the MGGF toolkit described in Annex II.

CHAPTER THREE: BEST PRACTICES AND LESSONS LEARNED

BEST PRACTICES

MUNICIPAL CAPACITY INDEX (MCI)

MCI is an innovative evaluation tool for measuring municipal capacities. Piloted in a USAID local government reform project in Serbia (SLGRP) by DAI, MCI proved to be a comprehensive, objective measurement of municipal capacity improvements. Following Serbia's example, MCI has been used in other USAID local government projects in the region including Macedonia, Romania and Bosnia, as well as in USAID's/DAI's Vietnam Competitiveness Project.

What Is MCI?

The Municipal Capacity Index (MCI) is a weighted index that measures the changes in institutional capacity and performance of municipal governments in major areas of Project assistance. It is an M&E tool developed by the Project that:

- Helps assess impact objectively
- Helps project staff identify municipalities with good performance as potential mentors for other municipalities and
- Assists project staff build capacity within municipalities by helping them identify strengths and weaknesses rapidly.

The MCI attempts to convert a complex set of qualitative data and presents it in a quantitative measurement—a score from 0-100 for each municipality. MCI score changes in project partner municipalities are compared to score changes in non-partner municipalities in order to assess project impact. It was developed after a review of similar indices developed by the World Bank, Transparency International, Price Waterhouse Coopers, Judicial Reform from the American Bar Association's Central and Eastern European Law Initiative, as well as a number of indices created by various public and private organizations.

Why a Capacity Index? - Benefits of the MCI Approach

The Municipal Capacity Index approach has a number of characteristics that make it ideal for program performance monitoring:

- Highlights capacity strengths and weaknesses to tailor and target assistance
- Measure program impact

- May serve as key component of PMP for USAID
- Data easily acquired, objective and precise
- Quantitative scores derived from qualitative data
- Numerous ways to analyze data
- Serves as a tool to identify the need for mid-course activity changes
- Focuses program activities on efforts that achieve mission priorities
- The Municipal Capacity Index approach has a number of characteristics that make it ideal for program performance monitoring:
 - **It does not reinvent the wheel.** Although the index survey is customized for the specific projects, the index components are applicable for a wide audience (see Table 3)

TABLE 3: MCI TIMEFRAME, RESOURCES NEEDED AND DIFFERENT APPROACHES

Macedonia	Serbia
<p>Timeframe: Annually</p> <p>Resources: Outsourced local agency</p> <p>Basis for Data Analysis: Partner versus non-partner municipalities</p> <p>Components:</p> <ul style="list-style-type: none"> • Municipal and financial management • Tax administration • Transparency and citizen participation in decision-making • Public records, urban planning, and regulatory management • Provision of more accessible, convenient, and customer-oriented services 	<p>Timeframe: Semi-annually</p> <p>Resources: Program staff (low cost)</p> <p>Basis for Data Analysis: Program versus control municipalities</p> <p>Components:</p> <ul style="list-style-type: none"> • Financial management • Internal Municipal Operations • Communal enterprises, citizen-municipality interaction through transparency and participation • Citizen-municipal interaction through improved quality of services
Romania	Vietnam
<p>Timeframe: Annually</p> <p>Resources: Outsourced local agency</p> <p>Basis for Data Analysis: Program versus control municipalities</p>	<p>Timeframe: Annually</p> <p>Resources: Outsourced local agency</p> <p>Basis for Data Analysis: Partner versus non-partner municipalities</p>

Macedonia	Serbia
<p>Components:</p> <ul style="list-style-type: none"> • Financial management and operations • Services • Interaction between citizens and local government 	<p>Components:</p> <ul style="list-style-type: none"> • Ease of business registration and licensing • Ease of land acquisition • Transparency of business documentation and the predictability of policy changes • Transaction costs due to government action (inspections, days, customs, fees, bribes, etc.) • Dynamism of provincial leadership

- **Data is readily available.** Data are largely readily available to the advisors/survey agencies and thus expensive attitudinal, efficiency, or economic surveys are avoided. Index elements measure the presence or absence of contributors to strong municipal capacity.
- **MCI provides valuable non-project group information.** The index is applied, and data is gathered, from different and comparable groups of local government units, so that comparisons between the groups can be made. A significant weakness of many performance monitoring programs is the absence of data on non-project/control groups. USAID and its implementing partners have traditionally had trouble in the democracy and governance area with the issue of attribution. Collection of data on the non-project/control groups helps address this problem.
- **MCI can be used to motivate improved municipal performance.** In Macedonia, MCI was used for identifying Potential Improvement Points (PIPs) that helped municipalities improve their capacity in the program areas. In Vietnam, the MCI results will be made public, presented in the press and in academic circles. It is being used to motivate provinces that are not performing to improve their business environment.

Different Ways of Presenting Results

MCI Measures:

- Changes in each individual municipality
- Changes in groups of municipalities (project vs. non-project/control municipalities)
- Changes by program areas and over time
- Geographic distribution
- Economy structure, etc.

MCI Methodology

The MCI attempts to convert a complex set of qualitative data and presents it in a quantitative measurement—a score from 0-100 for each city. It has been developed by the USAID/DP program teams to provide a realistic, objective, comprehensive assessment of the capacity improvements of partner municipalities in key Project areas. The following are the five key MCI areas used in Macedonia:

- Municipal Management and Financial Management Capacity
- Municipal Tax Administration Capacity

- Transparency and Citizen Participation in Decision Making
 - Public Records, Urban Planning and Regulatory Management Capacity, and
 - Provision of More Accessible, Convenient and Customer-Oriented Services.
- Each section consists of four (4) questions with a score range of 0-5 points, amounting to a maximum score of 20 per section, and 100 for the whole MCI index.

Score Range:

- ✓ **0 points** municipality won't comply with minimum law or project requirements
- ✓ **1 point** municipality will comply with minimum law or project requirements
- ✓ **2 to 3 points** (“Program range” or expected average score) - Focus on improvements in municipalities expected as result of the program activities
- ✓ **4 to 5 points** – An advanced municipality that can perform at levels exceeding the training provided through USAID/DP assistance

All the indicators are designed to be direct measures of the impact of program activities. They are objective and precise, eliminating various interpretations and providing an accurate picture of the municipality's capacity.

Finally, the indicators are designed to be easily determined, through a simple and efficient interview process ensuring accurate and timely data collection.

It is important to note that MCI measures the municipal CAPACITY to perform, and not the performance itself.

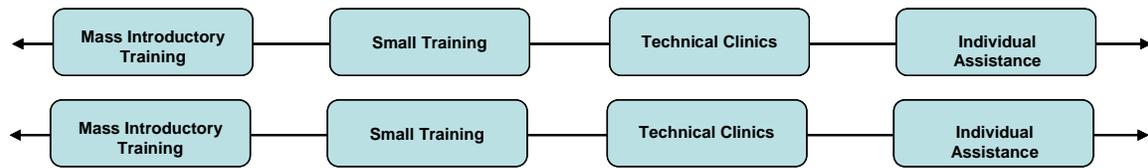
Useful Tips

- Index must be tailored to specific country, program objectives and anticipated results
- Questions must target an individual task or program activity and reflect anticipated TA
- Accurate scoring requires good technical knowledge of subject matter
- Back-up documentation and supporting data is essential
- LGUs must have ownership in the process and have results explained.

THE LOCAL CONSULTANTS NETWORK

The largest part and the real heart of the USAID Decentralization Project (USAID/DP) mandate was rising of the capacity of the municipalities to manage the newly-devolved responsibilities. Capacity-building can be seen as a continuum. At one end is large-group training, which is cost-efficient but very limited in effectiveness. At the other end is one-on-one technical assistance, very expensive and time-consuming but extremely effective.

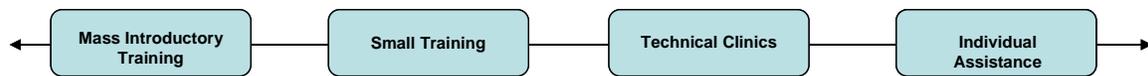
The continuum looks like this:



It has these effectiveness characteristics:



Where the providers have been:



From the inception of the Decentralization Project, it was apparent that the traditional method of capacity-building, i.e. mass trainings, could not possibly achieve the ambitious goals set by USAID. Many people could be “trained” but one of our main objectives was not the number of persons trained but the much higher standard of actual capacity achieved. USAID/DP had neither the time nor the funds to bring in recognized, usually US, experts in sufficient numbers or frequency to conduct even small group training, let alone one-on-one assistance. At the same time there are other weaknesses in capacity-building by international experts. The first is language: even the best translation has a dampening, shallowing effect on discourse. The second is cultural and political understanding: no international trainer can possibly understand all the subtle nuances of Macedonian law, society and practice.

To solve this quandary, the Project invented an entirely new model for technical assistance delivery, the Local Consultants Network (LCN). LCN is exactly what the name says, an affiliated group of local experts recruited and trained by the Project to deliver capacity-building assistance to partner municipalities. The key characteristics and concomitant benefits:

Local

- Macedonians training Macedonians; there are no language barriers, no cultural blind spots
- More of the money USAID expends on behalf of Macedonia stays *in* Macedonia
- Much less expensive than US or third-country experts
- The LCN raises the aggregate intellectual capital of the Republic of Macedonia

Consultants

- LCN experts are not merely trainers – they are consultants
- They have been raised to a level beyond ‘trainers’; under USAID/DP support they have learned how to work with small groups or individuals, analyzing problems and guiding solutions

- LCN interventions are interactive and analytical, not academic

Network

- The LCN is organized in four hubs around the country
- Each hub has a member who has received management training to guide the group
- Technical assistance delivery is local even within the Republic of Macedonia, with the experts usually coming from the same part of the country
- The regional network approach allows very rapid intervention and response to requests for assistance

The numbers bear out the effectiveness of the LCN approach. Using twenty (20) skilled Macedonian consultants, we were able to conduct over 150 small group clinics assisting over 500 local partners. To reach this level of hands-on assistance with project staff or ex-patriate experts would have been logistically impossible and prohibitively expensive.

The Network, currently with about twenty available experts in local economic development, tax administration, urban planning and finance, has made it possible for the Project to deliver the highest quality technical assistance rapidly, effectively and inexpensively.

In short the use of the Local Consultants Network truly is Cheaper, Faster, and Smarter.

INTEGRATED TECHNICAL ASSISTANCE

The creation of the Local Consultants Network (LCN) dramatically increased the Project's capacity to deliver top quality technical assistance in many disciplines and in many municipalities. However, the USAID Decentralization Project (USAID/DP) still faced an important but often overlooked fact: if technical assistance is strictly one-way, it will fail. It must be interactive and it must be institutionalized within the recipient organization. We have always understood our mission to be much more than raising municipal capacity for the moment; we took our goal to be the creation of sustainable systems within the local governments to maintain and continually improve their capabilities long after the last donor has held its last Ohrid mass training. To this end, we developed Integrated Technical Assistance (ITA).

ITA is unique in that it addresses both sides of the assistance equation. It represents a rethinking of how the implementer organizes its delivery system and at the same time requires the partner municipality to abandon business as usual and develop systems that can most effectively use and retain the technical support being offered. As is often true, two or more seemingly separate inventions can complement each other and produce magnified benefits. Thus the LCN became the vehicle that made possible the ambitious agenda of ITA. The third innovative tool is the Municipal Capacity Index (MCI) that is discussed elsewhere in this document. MCI provides an accurate way to identify the municipality's most pressing needs.

ORGANIZING THE USAID DECENTRALIZATION PROJECT TEAM

Just as project implementers preach coordination among donors, within municipal staffs, with NGOs, etc., so too they must practice it within their own walls. This is particularly important with an entity

like the Decentralization Project with the broad scope and complexity of its activities. Both programmatically and logistically we could not meet the challenges of our Task Order without a new, better way to organize ourselves.

The Salient Internal Features of the ITA Approach

- Each of the fifty-six (56) partner municipalities is assigned to a USAID/DP staff member who is the ITA Manager for that municipality
- The ITA manager coordinates the project teams and ensures that both program and logistical approaches are efficient and that each activity team understands its relationship with all others
- The ITA manager, with the activity leaders, determines how and when to use internal expertise and when the LCN is the most effective tool
- The ITA managers received in-house training to prepare for their responsibilities

The Internal Benefits of the ITA approach

- Almost every staff member is given the opportunity to manage one or more municipal partner relationships
 - Each ITA manager learns much more about the overall project
 - ITA managers gain invaluable supervisory and coordinative skills
- Visits and workshops are well-scheduled, multi-subject sessions
- The Project is able to deliver logical, coordinated assistance, not random individual visits
- The logistical burden on project resources is significantly ameliorated

HELPING THE MUNICIPAL PARTNER ORGANIZE

Expert technical assistance can be a wonderful thing, but only if the recipient is positioned to do more than hear it and take notes; the key is applying it. Training finance officers in Ohrid accomplishes little if their colleagues in tax administration, planning and permitting and local economic development are back at their municipal desks, unaware of whatever knowledge is being imparted. No municipal function exists independently of many others. Real improvement requires not just that a staff member learns more but that many staffers understand how their work is inextricably bound together. ITA brings them together not just to hear and learn but to adapt, adopt and apply what they have learned.

The Key Municipal Features of ITA

- Organization of the Municipal Development Team
 - All relevant departments included
 - A strong ITA manager designated
- Inception Workshop with Project and municipal teams
- The USAID assistance package of hardware, software and technical assistance is defined

- A Memorandum of Understanding signed that sets out the responsibilities of each side
- Using the MCI results, the municipal team, with Project guidance, determines a set of Potential Improvement Points (PIPs)
- Inter-departmental Operational Teams are formed to address each PIP, guided by the Municipal ITA Manager and assisted by USAID/DP experts

Benefits to the Municipality

- Vastly improved communication among municipal staff
- Clear knowledge, from MCI, of where to focus efforts
- The ability, again through MCI, to measure results accurately
- Much more effective utilization of donor technical assistance

THE RESULTS

The improved communication among the members of each municipal staff through the Operational Teams, along with excellent coordination by the Project in the delivering technical assistance to the partner municipalities led to another huge accomplishment: municipalities were finally in a position to identify, prioritize and communicate their most pressing needs with regard to trainings that would further strengthen their internal human resource capacity. It was no longer a case of a donor delivering a training that it believed to be suitable for the municipalities, but now the Project started delivering trainings customized for the specific needs of the municipalities. The LCN consultants played a crucial role in this last phase of ITA through delivering numerous, tailor-made, comprehensive trainings for the ITA municipal managers. The previously established structure of Operational Teams within the municipalities made it possible for all municipal employees to get a grasp of the know-how disseminated at these trainings.

The results were most gratifying...: After the first workshop on the one-stop shop concept, nine (9) municipalities started and the first four (4) of them completed the installation of One-stop Shop Systems; after the second workshop on Action Planning, seventeen (17) municipalities promptly developed action plans for their PIPs and five (5) municipalities used the knowledge gained from the Action Planning Workshop to start working on their municipal profile and LED strategy; after the third workshop, seven (7) municipalities made a list of information of public interest and designated a responsible staff member for providing the information.

The Project's municipal partners now have a much more effective internal structure for identifying and correcting weak areas in their operations. They can also, thanks to MCI, track their results and continue on the path of self-generated, sustainable improvement of municipal governance.

FINANCIAL SIMULATOR TOOLS

VAT Simulator

The purpose of the Simulator is to allow policy makers develop and anticipate the financial consequences of a new proposal for the allocation of the transfer funds defined by the Law on Local Government Finance. The simulator allows policy makers to compare the current allocation of VAT

funds to local governments, with the allocation that would result from use of the multiple possibilities contained in the Simulator.

The Simulator uses two of the variables used in the current formula (population, hectares, but not settlements). It also introduces two new variables: a lump sum amount for local governments with lower than a specified population number; and a variable that allocates some of the fund to local governments on the basis of their relative wealth.

The amount of the fund that is allocated according to these four variables can be changed at will, and the different possible allocation outcomes compared with the existing allocation.

The “lump sum” payment variable is designed to give small local governments additional revenues because they may not receive enough money for their basic costs from the other elements of the formula precisely because they have low populations. As can be seen from the simulator, most small local governments do reasonably well if the value of the lump sum payment is set at 1 million denars, and the population cut-off is set at 10,000 inhabitants (32 local governments, which takes 32 million denars of the fund)

By providing small (mostly rural) local governments with additional revenues, the lump sum variable allows for reducing the share of the fund allocated on the basis of hectares, and thus avoids some of the over-funding of large rural areas that are relatively wealthy (e.g. Gevgelija, Resen).

The per capita variable in the formula is different than the use of the per capita variable in the current formula in only one respect: All municipalities, including the municipalities of Skopje would be allocated this share of the fund on an equal per capita basis, as opposed to having only 10 percent of the fund allocated to the municipalities of Skopje.

If 50 percent of the fund is allocated to local governments on a straight per capita basis, the revenues of the Skopje municipalities from the VAT fund increase substantially. However, the more money that is allocated to all local governments on an equal per capita basis, the less money is available for allocation on the basis of either hectares (rurality) or fiscal capacity (relative wealth).

The variable for fiscal equalization actually consists of two elements. The first determines who is entitled to money under this part of the formula and is based on the relationship between the amount of the personal income tax generated in a particular jurisdiction, and the national average. If, for example, the value of the national average is set at 90 percent, this means that all local governments that generate less than 90 percent of the national average in personal income taxes will be entitled to equalization monies under the formula.

The second element of the formula determines the how money is allocated to those eligible. The first option gives all those below what ever cut off point has been set the same amount per capita. This option is not recommended because it means that a local government that is really very poor gets the same amount of equalization money as a local government just under the average.

The second option allocates money proportionally to the square root of the difference between the yield of PIT in a given local government and the national average. The use of the square of the difference provides more money to really poor local governments than to those just below the national average, but less than what would be provide if money was allocated simply in proportion to the difference between the yield of PIT in a given local government and the national average. This is in fact the third option in the simulator.

Finally the fourth option allocates money on the basis of the square of the difference between the yield of PIT in any given local government and the national average. This option provides much more money to the poorest of the poor and much less that those just below the national average and is thus "super" equalizing. We do not recommend its use however because the data on the relative wealth of Macedonian local governments is weak, and while there are clearly differences in the relative wealth of local governments, it is probably unwise to "super charge" the equalization system at this point in time.

A SIMULATOR OF THE ALLOCATION OF CATEGORICAL GRANTS FOR EDUCATION

With the support of the DP, the Analytical Unit of MOES developed a practical tool called a Simulator for Allocation of Categorical Grants. It is, in fact, an Excel file, which contains data collected by the Analytical Unit from different databases used by MOES. There is a calculator for the allocation of the total pool of the categorical grant to the 84 municipalities plus the City of Skopje according to the allocation strategy of the Ministry and the allocation criteria contained in the formula (the lump sum, per student standard, the density variables, and the buffers). The worth of the Simulator is, that besides the pure allocation it also provides some analytical tables, which can reflect the consequences from the possible changes in the allocation parameters (like which are the municipalities with the highest and lowest allocation, what are the differences according to the historical allocation, which are the municipalities that will survive the highest and lowest differences, etc.). The members of the Analytical Unit are trained and able to modify it and extend it, according to the possible new needs of the Ministry.

MGGF TOOLKIT

The MGGF toolkit and supporting documents related to this best practice are included in entirety in Annex II.

LESSONS LEARNED

Program Components	Lessons learned
PROJECT MANAGEMENT AND IMPLEMENTATION	<ul style="list-style-type: none"> • Sign detailed MOUs with municipal beneficiaries and be prepared to enforce them. Have donor backing in order to do so credibly • Where possible, have municipalities compete to be part of any local government program • Cross Border staff exchanges with regional USAID programs led to staff enrichment and helped to replicate best practices
GRANTS PROGRAM	<ul style="list-style-type: none"> • Sign tri-partite agreement between project, beneficiary and implementer • Ensure each project has a Sustainability Plan • Project should be driven by the quality of design not the budget • Funds verification: Matching funds should be deposited prior project implementation

MONITORING & EVALUATION	<ul style="list-style-type: none"> • Conduct internal audit of program satisfaction • Success stories have multiple purposes, including motivational tool for municipalities • Work planning critical to staff ownership and coordination, especially on large projects • Install MCI as the standard measure for municipal performance through ZELS
LOCAL ECONOMIC DEVELOPMENT AND BIDS	<ul style="list-style-type: none"> • Mayoral leadership critical in establishing a successful LED office • Community participation from the outset in developing LED plans essential to implementation • Undertake a survey, if most shopkeepers in the potential BID zone do not own the shops but rent them, their incentive for engagement in the activity will not be as strong • Sign a tripartite MoU with the municipality and business community specifying conditionality for support and appoint a BID supervisory board with representatives from all three parties to monitor implementation • The contract between the association and the municipality (on the percentage of the communal fees transferred at the association's account by the municipality) must be signed together with the MoU thus enhancing sustainability from the very beginning • BID Association members should receive training on association management and governance • Municipalities should compete to establish Business Improvement Districts and meet implementation standards to stay in
ASSOCIATION DEVELOPMENT & POLICY REFORM	<ul style="list-style-type: none"> • Sign an MOU with the municipal association and be prepared to enforce it with the backing of donors • Donor Support should be coordinated and conditional • Associations are donor magnets. Donor coordination is key to avoid donor capture and prevent the association being donor driven • Ensure association activities are aligned with municipal priorities. A demand driven approach ensures a sense of municipal ownership and engaged members • Choose some quick-win policy and legislative reform issues to help motivate stake holders to engage in the reform process
FINANCIAL MANAGEMENT & TAX ADMINISTRATION	<ul style="list-style-type: none"> • Tie financial management training to the budget cycle • Capital Improvement Training Should Be Integrated In The Financial Management Training Curriculum
CITIZEN PARTICIPATION	<ul style="list-style-type: none"> • Provide municipalities a menu of Citizen Participation initiatives tailored to their needs. Success requires a demand driven approach • Include implementation objectives in the MOU signed with the municipality. Implementation requires a detailed MOU that is enforced • Build institutional and legal mechanisms to ensure sustainability of program activities. e.g. Public Budget Hearings should be made mandatory through municipal legislation

<p>COMMUNAL ENTERPRISE MANAGEMENT REFORM</p>	<ul style="list-style-type: none"> • Programs aiding CEs need not only be designed around infrastructure investment. Training in management and administrative efficiencies can yield impressive results • To mitigate effects of leadership change following elections on program implementation, focus on building the capacity of middle management. • Legislative and Policy Reform must be conducted jointly with Communal Enterprise Management
<p>INFORMATION TECHNOLOGY AND E-GOVERNMENT</p>	<ul style="list-style-type: none"> • Contracts with Software service providers must have built-in incentives • Encourage networking and regional cooperation among local IT professionals. Create an IT association or IT support group and an IT Certification Body • Organize on-site training where possible and have trainees work with real time data • Create distant front offices in the smaller municipalities that outsource some or all back office operations. Create front office branches in distant places within a single municipality • Insist on hiring municipal system administrators. Include in MOU • Retain ownership of HW and SW to ensure they are used as intended and avoid abuse • Take a comprehensive approach to designing the ICT component <ul style="list-style-type: none"> – Analyze data and application software needs to ensure it supports municipal business processes – Analyze IT infrastructure, hardware and system software needs – Ensure qualified IT personnel to maintain systems adequately – Employ a qualified IT project manager and ensure access to resources including business analysts, application developers and system administrators – Encourage communication exchanges and regional cooperation among local IT professionals as the best way to learn what really works in a particular environment – Understand procurement procedures time-frames and incorporate into the work plan – Use more then one vendor or service provider when possible – Document every decision and agreement with your local beneficiaries. Governments can change, your local counterparts can change – Include maintenance plans in your contract with vendors—for no less then 3 years (both hardware and software) and negotiate the after warranty conditions

<p>INFORMATION TECHNOLOGY AND E-GOVERNMENT (con't)</p>	<ul style="list-style-type: none"> • Implementation of application software and training <ul style="list-style-type: none"> – Ensure clear requirements when purchasing software that has to be customized. Include clear milestones with completion dates in any contract agreement with a vendor and/or implementer, use corrective measures and penalties for any missed deadlines – Monitor your vendors closely through a regular reporting process: Weekly Help Desk reports, Monthly usage reports and End-user committees – Project beneficiaries should know what type of service they will receive in advance. Have them sign Maintenance Agreements and start reserving funds for maintenance – Organize on-site trainings whenever possible, have the trainees work with real time data and in real life situations – Build transfer clauses in your contracts with vendors (especially in software procurement). If your local beneficiary fails to make full usage of the software/or equipment you should be able to transfer it to another beneficiary without excessive cost to the project – Build performance incentives into the contracts with vendor/service provider/implementer. Align your interests with vendors. Retain enough portions of payments until all work is completed, this provides financial incentives for the vendor to perform well • Sustainability of implemented IT solutions <ul style="list-style-type: none"> – Work on institutionalizing your results through local associations, groups, and local regulatory documents – Educate the decision makers (mayors, ministers, local counterparts) on your ICT initiatives, focusing on the solutions. These are the tools for success and long-term sustainability – Make training in IT management and budget planning for municipal managers' part of the IT objectives
<p>TRAINING AND TOT</p>	<ul style="list-style-type: none"> • Building Local Capacity by reducing STTA over the life of the program and enable local partners to perform the work previously done by consultants • Ensure that training team members have complementary skill sets • Set clear training standards throughout the program • The MDW Local Consultants Network training model consisting of centralized or regional training events helped to standardize training delivery • To help transitioning from expat to indigenous training staff, have them sign detailed mentoring agreements with clear objectives, results and time-line • Develop a training results tracking system to help measure training performance and impact • Being selective when selecting training participants is a critical step to ensuring successful training outcomes

RESOURCES AND TOOLS

Guide books, training materials, manuals, and toolkits are listed in a table for each program area in chapter 2 after each activity and are included in annex II.

CHAPTER FOUR: FINANCIAL SUMMARY

Development Alternatives, Inc.

USAID Local Government IQC-Decentralization Project

Revised Budget July 2007

Line Items	Original Task Order Budget	Total Obligated Amount	Total Expended as of 5/31/2007	Total Projected 06/01/2007 to 07/26/2007	Total Expended and Projected
Labor	1,566,874	1,566,874	\$1,515,543	43,317	\$1,558,860
Fringe	324,605	324,605	\$301,584	6,214	\$307,798
Overhead	863,460	863,460	\$851,259	17,701	\$868,960
Travel, Trans Perdiem	426,709	426,709	\$230,585	15,795	\$246,380
Allowances	344,974	344,974	\$284,683	6,362	\$291,045
Other Direct Costs	2,309,744	2,309,744	\$3,116,820	37,502	\$3,154,322
Subcontractors	996,239	996,239	\$441,208	23,789	\$464,997
G&A	565,740	565,740	\$571,336	12,770	\$584,106
Fixed Fee	480,510	480,510	\$486,559	-6,049	\$480,510
Grants	3,529,386	3,479,386	3,365,133	38,644	\$3,403,776
Grants Mgmt Cost	70,588	70,588	67,303	773	\$68,076
TOTAL	\$ 11,478,829	\$ 11,428,829	\$ 11,232,013	\$ 196,817	\$ 11,428,829

ANNEXES

(ALL ANNEX MATERIAL PROVIDED IN ACCOMPANYING CD)

ANNEX I: METHODOLOGY

Project Monitoring and Evaluation System

Methods Used to Estimate Results or Impact for This Report

PMP

MCI AND RESULTS

ANNEX II: PROJECT DOCUMENTATION

(List all the reports provided to USAID)

Reports Provided to USAID

Supporting Documentation and Information

ANNEX III: COMPANION DOCUMENTS

(PowerPoint summary used for final briefing, special reports, local language version)

ANNEX IV: SUCCESS STORIES