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IMPACT
e-Government Project

Second Quarterly Progress Report
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**SUBMITTED 27 APRIL 2005 TO MR. GEOFFREY MINOTT,
COGNIZANT TECHNICAL OFFICER
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GENERAL INFORMATION

The five-year \$4,950,191 Improved Management of Public Administration through Communication Technology (e-Gov IMPACT Project) was awarded by USAID/Macedonia on 14 September 2004 with the signing of Associate Cooperative Agreement No. 165-A-00-04-00102-00 to Internews Network under the dot-GOV Leader with Associates Award (GDG-A-00-01-00009-00). Impact works closely with the Government of Macedonia, (GOM) and is located in Skopje, the Republic of Macedonia. The key staff of the project are: Mr. R. Jerker Torngren, Chief-of-Party and Mr. Jovce Platinovski, Deputy Chief-of-Party.

Impact is helping increase the efficiency and transparency of public sector management by improving the administrative capacity to implement secure e-government solutions and communication within the GOM and between the GOM and Macedonian businesses and citizens. Impact addresses the USAID-Macedonia SO 1.3 Accelerated Development of the Private Sector and IR 1.3.3 Enabling Environment for Investment Improved.

Introduction

This report reflects activities from 1 January – 31 March 2005. The second quarter was marked by the following highlights.

- Delivery of the Implementation (Work) Plan and Program Monitoring and Evaluation Plan (PMEP).
- Launch of the first software tender for an e-Government application.
- The Chief-of-Party (COP) contributed to a successful adoption of a new law on electronic communications.

I. Executive summary

The Program Description foresees *Impact* to contribute to the following:

1. Build capacity within the Government of Macedonia, GOM, to develop and implement e-government policy.
2. Develop priority IT applications to improve management within GOM and for delivery of e-services by the GOM.

The first year work programme, as approved by USAID focuses on contributions to the ongoing national driven process to define an IT policy for the Republic of Macedonia. *Impact* deemed it necessary to time the capacity building activities with the adoption of the IT policy, which is expected during the first half year of 2005.

Meanwhile several effective pilot activities would be established that could demonstrate the benefits to GOM by using e-government applications.

Global experience has shown that **e-procurement** is one of the most effective e-government applications, providing both significant savings for the procuring entities and reduction of the risk of corruption. Additionally, e-procurement frequently attracts an increased number of potential vendors to bid and can provide new business opportunities especially for companies in remote areas. Consequently *Impact* has concentrated on getting such an application in operation as soon as possible.

e-tax filing of state level taxes will contribute to increased efficiency within the public administration. This activity will also result in significant savings through reduced administrative burden on private entities and, in relevant cases, speeds up the refund of taxes. *Impact* has deemed that this application will also contribute effectively to the objectives of the project. *Impact* has established a close and constructive relation with the Public Revenue Office, PRO, which has the responsibility of collecting and administering the state level taxes.

This quarter was marked by intensive work on these applications, **e-procurement** and **e-tax filing**, as well as the design for a third activity, an **on-line system for the application of jobs within the public sector**. Such a system will contribute to a more efficient state administration by assisting the civil service administration in recruiting the right kind of persons needed for specific jobs. In addition the system will function as a much needed *Government to Citizens* (G2C) application.

A number of additional policy issues must be addressed to make these applications functional, such as introducing identification possibilities for users of the applications. Consequently such issues have been addressed and work started in order to have the planned applications functioning in real time and space for Macedonians.

II. Program Accomplishments

The Implementation (Work) Plan was submitted to USAID on 11 January 2005; the PMEPP was sent to the CTO on 29 January 2005.

A significant amount of time is necessary to design and develop an application. In addition due to formal requirements as much as 45 days have to be given to potential software developers to bid for the e-procurement software to be procured by *Impact*. Any application will consequently take a number of months to develop. It is expected that the first applications be in operation in the fourth quarter.

The *Impact* COP actively contributed in the process leading to the adoption of new electronic communication legislation, which is now written in accordance with international best practices and in particular the existing European Union (EU) legislation. It is important that this legislation be in line with the EU *Aquis Communautaire* as per Macedonia's intent on joining the EU.

The Chair of the Committee of Information Technology has confirmed that the suggestions provided by the COP on the draft Macedonian IT policy have

significantly assisted the successful conclusion of the work done by the Committee in drafting the policy and have had a direct impact on essential parts thereof.

III. Activities

General comments

Impact is concentrating its resources during its first year on three separate issues:

- e-Tax filing, covering the interface between any taxpayer and the Public Revenue Office.
- e-procurement as a pilot activity
- one e-citizen related application.

In addition *Impact* intends to help get digital signatures introduced in the Republic of Macedonia as a prerequisite for any e-government application.

A. e-Tax filing

During discussions with Ms. Petra Miteva, Director General of the Public Revenue Office, PRO, it was concluded that *Impact* support is necessary for PRO to introduce a modern and efficient **e-Tax filing** system. Ms. Miteva informed *Impact* that the Italian Government has undertaken to upgrade the internal IT system within PRO and that this would happen during 2005. The support needed from *Impact* would be to organise the interface between taxpayers and the PRO and should cover all state related taxes, including tax refunds. This task is not being covered by the Italian assistance and is key to usability by citizens of this system.

Although directly considered as a priority task for *Impact*, little progress was initially made on this activity during the quarter. This is because it became quite clear from the outset that the interface, to be developed by *Impact*, would have to be based on the work undertaken by the Italian Government. Consequently no progress could be made before *Impact* received relevant information from Italy.

In the middle of March 2005 *Impact* received some of this needed information and the work commenced. It then became evidently clear that a number of actions could be undertaken by *Impact* before the interface as such needs to be harmonised with the work to be done by the Italian Government. This work is progressing.

Impact has established contact with relevant authorities in Slovenia to benefit from the experience gained there by a similar application that has been in operation successfully for some time, and is recognized as being an effective system. A trip to visit Slovenia to learn more about this system was discussed with the CTO for the second quarter.

B. e-procurement

A comprehensive **e-procurement** system, designed for virtually every public institution and all their procurement activities, takes a few years to implement and can not be done within the budget of *Impact*. However a pilot activity, designed for a specific procuring entity and initially only for a few well-defined commodities, can be done and would serve as an effective demonstration case.

During the first quarter when contacts were established with various public institutions in Macedonia, the City of Skopje emphasised their desire to be assisted by *Impact* to introduce IT in their public procurement activities. This request became a constructive platform for our work to implement an e-procurement pilot activity.

The parameters for the project were identified through close cooperation with the City of Skopje and an agreement was reached early February 2005. Based on these initial meetings and close collaboration with the City of Skopje government an **e-procurement** system description was elaborated.

The Invitation to Bid for the software development, containing the instructions for the bidders was also drafted and the tender was formally published by *Impact* on 29th March. This information was made available to prospective vendors on the Project Impact webpage <http://www.impact.org.mk/tenders.htm>; they were posted there as of 29 March 2005. A link to this site is to be place on the <http://www.internews.org/> on 7 April 2005. Emails with links were sent to at least seven prospective US vendors with links to the <http://www.impact.org.mk/tenders.htm> to ensure free and open competition in the US, as well as in and around Macedonia per the objectives of *Impact* and the geographic codes allowable for the CA.

On 29 March 2005 notification was sent to USAID/OSDBU in fulfillment the requirement set at 22CFR226.44 (b) (2) to notify OSDBU/MRC at USAID/W “to the maximum extent possible” and “at least 45 days prior to placing any order or contract in excess of the small purchase threshold” [currently \$100,000 as set at 41 U.S.C. 403(11)]. It is anticipated that the final contract to be negotiated will exceed \$100,000. These documents were developed with assistance from, and have been reviewed and approved by USAID/Budapest and USAID/Macedonia.

C. *Apply-on-line system for employment within the State Administration of the Republic of Macedonia.*

At a meeting with the General Secretary of the Civil Servants Agency, CSA, in early March 2005, *Impact* discussed the project goals in general and the desire to work on an application that would make it possible to apply for civil service posts on-line. The General Secretary strongly supported our intentions and agreed to appoint persons from the Agency as members of a joint *Impact*/CSA working group for this task.

The objective is to replace the current system paper-based system for recruitment and application for jobs. This system is very time consuming and expensive for the applicant. The new **apply-on-line** system would be transparent, cheap and on-line and available through the Internet, and promoted also at publicly available IT centers

in Macedonia. The local availability and transparency of the new system will make it easier for women and disadvantaged groups to apply for jobs and could attract more of these populations to apply for state jobs.

The **apply-on-line** system would also result in significant savings for the Civil Servants Agency, CSA, and free-up resources within the Agency for the essential work of evaluating the on-line applications.

A public awareness campaign will be organized to inform the public of the opportunity to submit job applications on-line. Training will be organized for the users of the system, i.e. the Civil Servants Agency.

It is anticipated that *Impact* will publish a tender for the necessary software needed for the **apply-on-line** system during the first part of June 2005.

D. Digital Signatures

The **digital signature** is a prerequisite for most e-government applications. Currently, an adequate and transparent system for issuing such signatures does not exist in Macedonia. Some private entities are prepared to issue signatures and claim to have the necessary competence and capacity but lack the legal right to do so.

The EU Directive 1999/93/EC on electronic signatures provides the legal framework for the issuing and use of digital signatures. The Directive, being part of the *Aquis Communautaire*,¹ has however not been properly implemented in Macedonia. This presents a violation with regard to the Macedonian EU commitments and seriously deters the introduction of essential e-Government applications and the use of IT in the local business community.

Impact has identified a set of actions that should be undertaken urgently by all parties concerned with e-government and promotion of the private sector. *Impact* is currently assessing the necessary resources a State Agency would need in order to take on the responsibilities regarding implementation of **digital signatures**. As soon as these resources are defined *Impact* will assist the Macedonian Government in understanding the implications of fulfilling its international obligations to implement a transparent and accessible system for issuance of **digital signatures**. *Impact* will conduct the work in close cooperation with the National Chamber of Commerce and the National Committee of Information Technology on this critical policy issue.

E. e-budgeting

The first year work plan included development of software for on-line budgeting (“**e-budgeting**”) on the Government level. The *Impact* COP decided in mid- March to temporarily postpone the planned project. The reason for this delay is that the responsibility for this initiative is with the Resident Advisor within the Ministry of Finance and any software *Impact* would develop should be based on the budgeting

¹ As a consequence of requesting negotiations regarding a Membership in the EU, Macedonia has the obligation to fully implement the EU *Aquis Communautaire*, i.e. existing EU legislation.

system developed by the Advisor. However, *Impact* has so far not received the necessary information to continue designing this activity. Once this information is made available, work will continue.

F. Electronic Communications Law

Through its project concerning WTO compliance USAID/Macedonia has assisted the Government to draft new legislation on **electronic communications** with the intention of introducing full competition within the market. The *Impact* COP had been temporarily engaged by USAID in September 2004 prior to the start of *Impact* to help make sure that the law was in compliance with the applicable EU legislation. Work on the **electronic communications** law has continued during this quarter.

The COP was directly engaged in analysing several last minute attempts to amend the draft in a way that would have seriously impeded a competitive market and violated the EU commitments undertaken by the Republic of Macedonia. The COP made several suggestions which led to the withdrawal of those amendments and the adoption of the law could be concluded.

During this second quarter of *Impact* implementation, the Ministry of Transport and Communication and USAID/Macedonia requested the COP to participate in and assist the Ministry with a hearing within two committees of the Parliament regarding the draft **electronic communications** law. The COP also presented a comparison of the draft law with the EU Directives at a public hearing.

G. Development of a National IT Policy

The National Committee of Information Technology is developing a National IT Policy, which is expected to be presented to the Government during April 2005. *Impact* has participated in some meetings organised by the Committee during this process. The COP has presented a number of suggestions on the content and with regard to the strategy to get the policy implemented when adopted.

The Chair of the Committee has confirmed that the input given by the COP had significant impact on the development of the strategy.

The IT policy will provide the platform for the capacity building to be undertaken by *Impact* during its second year.

H. Training

Impact was invited by World Learning to submit nominees for English language training. Such training is essential for many staff members within the Telecommunications Regulator. Consequently the COP had a meeting with the Director of the Regulator during which the Director agreed to consider which staff members should be nominated. Following the assistance given by *Impact* to nominate candidates, the English language training has now commenced.

I. Activities During the Next Period

All ongoing activities described above will be continued during next quarter. Bids for developing the **e-procurement** software shall be submitted to *Impact* at the latest 13th May and a contract is foreseen to be signed by *Impact* and the contracted developer two weeks later.

Public awareness activities are scheduled to take place during next quarter, aiming at attracting the business community to go on-line and use the applications that soon will be available.

Impact has not scheduled to take on any new applications during next quarter. Theoretically the necessary information with regard to the **e-budgeting** application could become available for *Impact* during the 3rd quarter. The application is clearly of importance to the Government and should be given priority if this occurs. But *Impact* must also make sure that already started applications will be concluded and must thus carefully assess which resources, if any, can be devoted to **e-budgeting** during next quarter.

IV. Subcontracts

No subcontracts have been signed during this quarter.

V. External Relations and Meetings

A. Meetings with Macedonian Officials.

The Chief of Party had a number of meetings with the Minister of Transport and Communications, Mr. Xhemali Mehazi, in connection with the drafting of the **electronic communications** legislation and also with officials within the Ministry.

The Chief of Party had, at the request of USAID, a meeting with the Deputy Prime Minister, Mr. Xhaferri to introduce him to the EU policy and legislation regarding **electronic communications**. As a preparation for meetings with EU officials he was also provided with information on how the Macedonian law on electronic communications relates to the EU policy and legislation.

Impact staff has had several meetings with Mr. Jani Makraduli, Chair of the IT Commission. The meetings have focused primarily on the on-going work by the Commission to draft a National IT Policy.

At a meeting with the Minister of Finance, Mr Popovski, information was provided on the ongoing *Impact* projects with an emphasis on the **e-procurement** issue and the need for legal changes to make the application functional. The Minister expressed his willingness to assist the work of *Impact* and in particular to cooperate in order to have the necessary legal changes adopted.

The Public Procurement Office (PPO) has been kept informed about the **e-procurement** pilot activity. Within this context, the PPO expressed its strong desire that the pilot activity be expanded to general coverage within the public sector.

Impact stays in close contact with Ms Petra Miteva, the General Manager Public Revenue Office with regard to the **e-Tax filing** activity.

B. Coordination with Other USAID Projects

During the first quarter contacts were established through the help of the CTO with all relevant USAID-funded projects in Macedonia. The contacts have been continued during this quarter with those that are engaged in activities which relate to the applications *Impact* has been working with. Contacts have thus primarily been upheld with:

- The Resident Advisor within the Ministry of Finance with regard to a potential **on-line budgeting** application.
- The WTO Compliance project in the context of the **electronic communications** legislation.

C. Coordination with Other International Donors.

Discussions have taken place with the EU funded project working with reforming the public procurement legislation.

The COP has had a meeting with European Agency for Reconstruction (EAR), to discuss the organisation of the follow-up support to the Ministry of Transport and Communication regarding the **electronic communication** legislation. EAR will play a significant role but they have no telecommunications expert present to guide them through the material. Such discussions had already take place between USAID and EAR but the COP was asked to add more specific information about the EU legislation and how that should affect the continued support.

The COP has had meetings with the EU Special Representative in Macedonia, Ambassador Sahlin, discussing actions related to the adoption of the electronic communication legislation.

Several discussions have taken place with UNDP regarding the drafting of the National IT Strategy.

D. Participation in Conferences

The Macedonian Association for Information Technology, MASIT, organised a Regional Conference for IT associations and companies on 17-18 February. *Impact* sponsored the conference with Euro 5,000 at the suggestion by USAID/Macedonia. The sponsorship was regarded as an indirect support to the Macedonian IT industry. The *Impact* COP and the Deputy COP both gave presentations at the conference. The

COP introduced the *Impact* project and the Deputy COP presented the e-**procurement** pilot activity.

The COP participated in a Round Table discussion with regard to the “Formulation of a National Strategy on Information Society Technologies.” The COP stressed the support of *Impact* and presented suggestions with regard to the implementation of the Strategy.

VI. Administrative and other internal matters

A. General Information

A webpage has been set up: www.impact.org.mk. The project strives to provide clear, transparent information about ongoing and pending *Impact* tasks and activities. The webpage is also used for the official issuing of *Impact* tenders to procure software and for responding interactively to questions and answers related to these tenders. The tender documents can be directly downloaded by potential bidders, resulting in an automatic registration of all entities that download the material.

In accordance with an agreement with the CTO, the local staff salaries are nominated in the local currency, the *denar*, thereby protecting the local staff members from possible currency fluctuations. The amount in denar was based on the budgeted dollar salaries, which then was calculated into the *denar* according the exchange rate between the dollar and the *denar* on the day of the first employment (1 October 2004). The *denar* is tied to the Euro and exchange rate fluctuations between dollar and Euro consequently affects the *denar* in the same way. The dollar has, during this quarter, lost in value compared to the Euro and thus the *denar*. Consequently a higher dollar amount than originally budgeted for must be paid for the salaries. Some savings were initially generated with regard to staff salaries due to a staff vacancy and that social contributions could not be paid for a couple of months before *Impact* and the staff members were properly registered.

With the present value of the dollar in respect to the *denar*, the savings thus accumulated could roughly cover the extra monthly payments during the first year. Depending on how the value of the dollar develops, *Impact* might later have to raise the issue as a potential budget problem.

B. Training of Staff Members

The manager for administrative matters, Ms. Ana Zabevska, participated in a USAID Rules and Regulations training, held at Washington DC. During her visit Internews staff members provided her also with information regarding rules related to sub-granting.

The COP has allocated some money in the budget for individual training of the local staff members in specific areas to increase their skills. A certain amount has been allocated per individual and year and all staff members have been encouraged to

suggest training they would like to participate in. The receptionist/caretaker and the driver have both started taking English language lessons with good result.

Several staff members participate in university studies during evenings and weekends. The COP has agreed that the amount allocated to these persons for studies can be used to partly pay their university fees.

VII. Implementation Issues and Challenges

A. Geographic Codes

The authorised geographical code for procurement of goods and services under the award is 000. The launch of the tender for developing software for the **e-procurement** pilot activity revealed a few problems regarding the applicable country code established for *Impact*. The Mission Director, USAID Macedonia, also executed a waiver for the specific tender to develop software for the **e-procurement** pilot activity.

The software to be developed for all applications must have a strong connection to Macedonia for a number of reasons, such as language, maintenance of the software and warranty obligations, this being only a few but important issues. The software will solely be used by Macedonian entities and their regular contacts with the developer of the software must function smoothly for these entities.

It could also be argued that the country code is in contradiction with the task of *Impact* to procure software from domestic developers. The national software industry has the potential of becoming an important source for export and will in general terms assist to modernize Macedonia. Tasks given to the industry by *Impact* can contribute to its further development.

The COP is looking into this question more in detail and intends to submit a proposal to USAID if deemed relevant for the purpose of the project.

B. Policy Processes

When *Impact* starts to work with some application activities, such as the **e-tax filing**, deficiencies are sometimes revealed in the basic legislation. For the **e-tax filing** we have found some unduly complicated reporting systems which negatively affect the efficiency of the Administration and causes problems for the private sector.

An IT application can only reflect the basic legislation. To some extent the IT application will reduce the negative consequences by the unduly complicated legal system but can not avoid the problems entirely. The *Impact* project can initiate a discussion on modification of legislation but has to follow what is in place. To achieve the objective as such of the project - increased efficiency of the Government – more radical interventions that just introducing an IT application would sometimes be necessary but are outside the mandate of *Impact*.

In limited cases *Impact* can actively argue for legal changes. One example is the task of introducing **digital signatures** in Macedonia. But that is not an application as such. The work is concentrated entirely on achieving specific legal modifications. When that has been done private enterprises will come into place and offer the **digital signatures**.

Impact would be interested in discussing with USAID how some applications could be put into a bigger task of achieving a legal or administrative reform as such.

VIII. Final Notes by the Chief of Party

The lack of understanding regarding the need for IT applications and the reluctance to change working habits in particular related to exchange of information frequently appear as serious stumbling blocks for the introduction of e-government applications. Thus far almost all contacts and discussions *Impact* have had with Macedonian authorities and recipients of the planned applications have been **very constructive and coloured by a strong desire for the applications**. Although it is by far too early to judge for certain, the atmosphere is promising with regard to the sustainability of our work.

The *Impact* budget should be sufficient for introducing a number of relevant pilot activities, fully in line with the Program Description. However, as only one example, a fully fledged **e-procurement** system can not be achieved within the budget. Tentatively the software for such a system would cost around 2.5 million dollars or slightly more than half the total budget for *Impact*. Consequently *Impact* has limited resources for creating more than pilot activities.

The current very positive momentum in Macedonia regarding the development of IT gives the impression that more radical steps could be taken if supported by an increased budget and would create a significant impact on the development of Macedonia.

IX. Supporting Documents

All relevant documents that have been produced by *Impact* during the quarter, such as the Invitation to Bid and System description for the **e-procurement** pilot activity are available on the *Impact* webpage and are thus not attached to this report.