



**Signature Page**

Country: FYR Macedonia

UNDAF Outcome(s)/Indicator(s): *Models and practices adopted for transparent and accountable provision of decentralized public services shared and established.*

Expected Outcome(s)/Indicator (s): 1.2. The principles of transparency, efficiency accountability and respect for human rights abided by public sector institutions and citizens

Project title: Inter-municipal cooperation for better service provision and EU accession

Implementing partner: NEX- Ministry of Local Self-Government  
Responsible parties: UNDP, Ministry of Local Self Government, ZELS

**Narrative**

The objective of this initiative which is actually designed as a programme, is to contribute to the development of IMC in the country in support of the achievement of one of the main objectives of decentralization i.e. the efficient provision of affordable and quality public services to citizens and to ensure the institutional and professional capacities needed. Ultimately, the programme seeks to establish an effective and sustainable system for supporting IMC which would be adopted and expended by the government through its own policies and resources. The overall strategy is to create the necessary human and institutional capacities for implementation of IMC and develop financial scheme that will enable implementation of IMC on a national scale. More specifically, the programme will focus on activities aimed at:

- 1) building a critical mass of knowledge and capacity for replication of existing IMC practices and implementation of new models of IMC in the areas of municipal competences;
- 2) establishing an effective financial mechanism to support municipalities identify IMC opportunities, initiate and implement IMC activities;
- 3) establishing an IMC knowledge management system that collects, systematize and disseminate information on IMC as a means to raise awareness, knowledge and capacities on an ongoing basis and stimulate the replication of good practices;
- 4) facilitating an ongoing policy dialogue between central government, municipalities, donor communities, financial institutions and private sector for coordinated strategic approach and national policies in support of IMC.

Programme Period: **2005-2009**  
 Programme Component: **Decentralized Governance**  
 Project Title: Inter-municipal cooperation for better service provision and EU accession  
 Project Duration: 2 years  
 Management Arrangement: **NEX**

Total Budget	8,000,000.00 NOK
Allocated resources:	_____
• Government	_____
• Regular	_____
• Other:	
○ Donor	Government of Norway

**Agreed by (UNDP):**

**Maria Luisa Silva Mejias, UNDP Resident Representative**

**Agreed by the Ministry of Local Self-Government:  
Please see attached letter of acceptance**

## **I. Situation analysis**

One of the main objectives of decentralization is to improve public service delivery to better meet the needs of citizens. A major challenge to the achievement of this objective in the country is the great diversity and disparities among municipalities to perform specific functions.

“The different population sizes of the municipalities continue to pose some important dilemmas. While one fifth of municipalities are too small even to efficiently provide the most basic municipal services, at the other end there is another one fifth that are well above the “minimum efficient scale” for public services commonly provided by local governments throughout the world. Assigning a single scope of functions to all municipalities thus risks substandard provision of decentralized functions in some localities while failing to utilizing capacity existing in some other municipalities. Cooperative arrangements, for example through inter-municipal cooperation (IMC), among smaller municipalities could mitigate these disparities in administrative capacity. However, so far cooperation has been partial and mostly limited to urban planning, communal services and infrastructure and, financial management. The lack of cooperation in the areas of key social services, such as education and social protection, could be partly explained by a rigid system of earmarked financing that leaves under-capacitated municipalities completely out not even allowing them to purchase these services from municipalities that have those facilities let alone establishing joint facilities with other municipalities. This is an important distortion in the system that leads to serious inefficiencies in service provision.”<sup>1</sup>

The development of inter-municipal cooperation agreements among local governments could provide a solution to the service delivery problems. The Law on Local Self-government stipulates that in the performance of their competencies the municipalities may cooperate among themselves. They may “join funds and establish shared public services” and may “establish shared administrative bodies in certain areas”<sup>2</sup>.

In addition, the Law on Equitable Regional Development stipulated clearly the essential development role of IMC and defines the Planning Region Development Councils and Planning Region Development Centres to promote and support IMC and cooperation between different local stakeholders/partners. EU integration process and the Instruments for Pre Accession (IPA) financial resources would also encourage IMC, having in mind that partnership and large scale projects are preferred for funding thus small municipalities need to cooperate.

In 2007, the Government decided to prepare a Law on IMC as a means to promote and facilitate the development of IMC in the country. A draft Law on IMC was prepared with the support of UNDP. The new Government is expected to resume the process of discussion of the Law and to demonstrate a political will for policy dialogue on financial incentives for IMC in the areas of municipal competences.

In this context, inter-municipal cooperation is also identified as one of the main areas for UNDP Country Office support in assisting the country to align with EU standards and requirements.

UNDP has been working on IMC programs for three years now and has been recognised as a centre of excellence for the national and international stakeholders. The previous UNDP projects on IMC have already brought about tangible benefits for local administrations and citizens not only in terms of enriched and improved IT-based services and better administrative organization, but also for cost-effectiveness and client-orientation purposes. The positive experience from the pilot phases and the

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<sup>1</sup> Fiscal Decentralization in FYR Macedonia: An Assessment - Nicoletta Feruglio, Jorge Martinez-Vazquez and Andrey Timofeev

<sup>2</sup> Law on Local Self-government, Article 14

developments in the legislation opened excellent opportunity for further promotion and multiplication of the effects from IMC on larger scale, broadening the areas of cooperation and fostering policy change at national level for better legislative and financial environment for IMC.

### **Problem to be addressed**

Based on the assessment conducted by the Ministry of Local Self Government, with support of the CARDS Programme “Technical Assistance for Coordination and Implementation of Decentralization Process” (November 2006 – January 2007), one of the main challenges shared by the municipalities for IMC is the lack of financial resources for IMC initiation and implementation. Despite the fact the existing IMC practices are acknowledged and considered by a large number of small rural municipalities as a solution for proper discharge of competences and meeting the criteria for the second phase of the fiscal decentralization, the weak capacities of the central and local level entities constrain a nation-wide replication of successful IMC practices. The OSCE SMMS annual decentralization surveys also show that the lack of technical knowledge is another challenge to be addressed in terms of upgrading the IMC arrangements. There is common agreement that greater IMC awareness raising, knowledge and capacities complemented by follow up technical support are needed to introduce establish IMC as a common practice of Macedonian municipalities. In order to provide solid institutional framework and enduring effects, a continuous policy dialogue with the central Government, donor community, financial institutions and private sector would be essential. This would provide coordinated actions in support of IMC through financial incentives and provision of easy access to financial recourses for practical implementation of joint initiatives. The line ministries need to develop policies to stimulate IMC and partnership initiatives.

Inter-municipal cooperation may be an instrument for local governments to increase effectiveness and efficiency in the delivery of services, to assist communities to capture economies of scale, benefit from the latest technology and equipment that they (if acting on their own) would otherwise be unable to afford, eliminate duplicate efforts and achieve significant cost savings. The pilot phases have demonstrated that the return of the initial investment (mainly from savings of optimization of management structures and staff, operational and maintenance costs reduction, increased tax collection rate, better management, better utilization of equipment and expertise) may already be experienced after an initial two year period. Not less significant is the fact that the improved quality of services or enlarging the scope of services is not necessarily measured with financial resources, but with citizens’ satisfaction, including the benefits for the vulnerable groups.

It is important to note that in the Macedonian case the IMC is not only an instrument that provides improvement of services, but enables basic provision of services, considering that many of the municipalities are very small and with weak financial capacities. Moreover, the IMC arrangements are sometimes the sole tool that enables municipalities to qualify for the next phases phase of fiscal decentralization.

IMC has its relevance also in the building of the democracy and cohesion at local level, due to its principle of “equal access to services for all citizens”. Oftentimes, ethnically diverse municipalities enter into inter-municipal cooperation.<sup>3</sup> In most cases, IMC encourages inter-ethnic relations while discussing and delivering services to all citizens irrespective of their ethnicity.

In that context, the experiences of the past and ongoing UNDP projects have proven the cost-benefits of the IMC arrangements in the country. Following a thorough functional analysis and organizational

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<sup>3</sup> Implementation of the Ohrid Framework Agreement, which stipulates equitable representation of the country’s ethnic communities in the public administration and aims at transferring responsibilities to local self-government units. UNDP is already implementing with Norwegian funding an IMC project with 5 municipalities in Kicevo area, where the one of the main objectives besides efficiency of services is actually inter-ethnic cohesion

restructuring of the municipalities, in Novo Selo-Vasilevo- Bosilovo five tax officers administer local taxes and fees for the three municipalities. If this competency was to be implemented by each municipality separately, fifteen employees would be required. Another example is the case of Veles-Caska, where Veles acts as a service provider for financial matters to Caska (which has in total 6 employees). According to the legal requirements, Caska would have had to employ minimum three financial officers which would have cost them 1/3 of the annual municipal budget. In the process, trainings and other capacity building activities have been provided along with relevant software and hardware.

Having in mind the moderate tradition and experience in the country in this field, sharing of international experience and support of innovative IMC approaches in different areas of municipal competences and in different forms is required to expose municipalities to possible options for better and effective service provision. Fostering the cooperation among municipalities would facilitate the EU accession process and better utilization of EU funds for development and cohesion.

## **II. Project strategy**

The overall strategy is to provide a comprehensive and multi-faceted approach to promoting and supporting Inter-municipal cooperation on a national scale, which would include activities aimed at:

- 1) building a critical mass of knowledge and capacity for replication of existing IMC practices and implementation of new models of IMC in the areas of municipal competences;
- 2) establishing an effective financial mechanism to support municipalities identify IMC opportunities, initiate and implement IMC activities;
- 3) establishing an IMC knowledge management system that collects, systematises and disseminates information on IMC as a means to raise awareness, knowledge and capacities on an ongoing basis and stimulate the replication of good practices;
- 4) facilitating an ongoing policy dialogue between central government, municipalities, donor communities, financial institutions and private sector for coordinated strategic approach and national policies in support of IMC.

### **1) Building a critical mass of IMC knowledge and capacity**

The increase of awareness about IMC and building technical and institutional capacity for implementation of IMC initiatives will be provided through design and implementation of a comprehensive **training programme** and creation of an **Innovative IMC practices team**.

The Training programme will contribute to: proper understanding of IMC as a tool for better and efficient service provision, fostering economy of scale and optimizing the use of the financial and human resources between central and local governments as well as among local governments; capacity building of the local administration for implementation of IMC in different areas of municipal competencies, generation and promotion of new models for IMC and elaboration of inter-municipal projects.

The programme will be designed to address IMC issues at policy and expert (technical) level. Given that IMC concerns a wide range of municipal competencies, which are not all relevant to a given municipality at a given moment, the training programme will include a generic (policy) module and specialized modules dealing with the different (sectoral) areas of IMC. This will give the possibility

to tailor the training activities to the priority needs of municipalities and will ensure the flexibility required to respond to changing needs and priorities.

- **Generic (policy) training** will be delivered to all local authorities (*Mayors, municipal secretaries and Presidents of Municipal Councils*) immediately after the elections (spring 2009) to increase the understanding about IMC (benefits, models, procedures, existing practices, international experience, etc.) The timing is very appropriate, having in mind that the newly elected officials will be on board for four years and the time after elections is the most appropriate to mobilize the new municipal leaders to implement the new policies and/or management approaches. A prerequisite for successful IMC is the political will and commitment of the elected officials and therefore this training component is fully justified and needed. Similar training would be delivered *to representatives of line Ministries as well* (Ministry of Local Self-government, Ministry of Finance, Ministry of Education, Ministry of Labour and Social Policy, Ministry of Culture, etc), with the aim to improve their understanding of IMC and to stimulate policy change and coordination in support of IMC.
- **Specialized (topical) training modules** will be developed addressing different types/sectoral areas of IMC and focusing on the role and contribution of the elected officials and municipal experts, step by step implementation of the IMC (initiation, implementation, maintenance, financial and legal aspects, human resources, interaction with central government, management and sustainability, mechanisms of monitoring and control, transparency and accountability, savings and benefits for the municipality and citizens). The participants in these trainings will be *Mayors, Presidents of Municipal Councils, legal advisors and respective municipal experts*. When appropriate the topical training would be accompanied with visits to the locations, where the concrete type of IMC has been already implemented for exchange of practical insights and experience. The delivery of these modules would be *demand driven* – either based on request of a group of municipalities or based on demand identified by the implementing partners.
- **A specialized training module for journalists and PR experts of respective line ministries** will be prepared to increase their understanding and knowledge about IMC benefits for citizens and local authorities. The proper coverage of successful IMC practices enable promotion of this instrument and information for the citizens as beneficiaries of the process, in regard to substance and the costs and benefits of the respective arrangements. This would stimulate better replication of already existing experience and would build public support for utilizing IMC as a tool for better and more inclusive service provision. The bottom line of this exercise is to create a group of professionals who have regular public communication on relevant topics, to able to share realistic, relevant and useful information which will then create better informed citizens and organizations who can take informed decision and even make public pressure.

Summing up and codifying the experience and preparation of manuals, handbooks and training materials will precede the training activities. All training materials will be part of the knowledge management and the information system, to be established in the frame of the programme. The training programme will be active throughout the duration of the programme, and will be constantly updated. The group of trainers will be used for delivering trainings and technical advice in the frame of the realization of initiatives through the IMC TA financial scheme.

The **pool of trainers/experts** (up to 10 experts) will be selected based on their competence in the different areas (sectors) of IMC, and will be recruited mainly from the leading municipalities in the respective areas, line ministries, representatives of academic and non-governmental institutions. The trainers/experts will be trained in advance in order to acquire the necessary methodical and didactical skills for designing and delivering of the programme, advising and coaching (training of trainers).

The innovative IMC practices team will be created in order to develop the procedures and know-how for establishing IMC in new areas beyond already tested sectors such as the: urban planning, tax collection, inspections, internal audit. This instrument would enable that the programme supports innovations (in new areas and new forms of IMC such as social services, education, culture, tourism, LED, communal enterprises, which constitute the next wave of issues to be addressed with the decentralization process). The Innovative IMC practice team will consist of up to 10 practitioners from the municipalities and line ministries. Its main role would be to develop possible “scenarios” for IMC in new priority areas. (For example: establishment of a daily centre for disabled children covering the territory of two or three rural municipalities or joint promotion of cultural heritage as a factor for development).

There will be close inter-link and synergy between the trainers’ team and the Innovative IMC practices team. While the first one will consist of experts with strong training and coaching skills, the second one will be the centre of excellence of the entire IMC programme widely applying international experiences. At the same time, line ministries’ experts involved in the team will be the focal points for the programme in the ministries and will advocate for the Ministry support.

The new areas of IMC would be defined on the basis of a “bottom up” assessment of municipal priority needs for IMC partnerships based on a survey and/or on the basis of a “top down” prioritization in consultation with central Government.

As an outcome, the training programme will provide the necessary critical mass of understanding of IMC by the municipalities and prepare the ground to identify IMC initiatives and seek, if necessary, access to the IMC technical assistance financing scheme described below. The implementation of the training programme will also be an opportunity to publicize the IMC technical assistance financing scheme and the IMC knowledge management system.

*(For more details on this component please refer to output 1)*

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## **2) Establishing an IMC assistance financing scheme**

To address one of the main obstacles for development of IMC initiatives on a higher scale - the lack of financial resources for IMC initiation and implementation, an IMC financial scheme will be designed in the frame of the programme (hereinafter referred as ***“the IMC financing scheme”***).

The financing scheme will be designed based on the experience with the implementation of the previous IMC programmes. IMC financing scheme will be designed by experts of the programme and the special working group, and will have to encompass clearly defined priority areas, selection procedures and criteria, monitoring mechanisms, and other standard elements. The procedures for selection of initiatives to be financed will be transparent and competitive. This component will also have the objective to demonstrate to the Government that a thoroughly designed financial mechanism for implementation of IMC initiatives can be an effective means to promote IMC in the country, but also for more efficient implementation of Government’s policies. Therefore, at the same time the fourth program component “Policy dialogue” will focus on elaboration of possible financial resources to support the capital investments needed for implementation of IMC initiatives.

The IMC financing scheme will consist of two Technical Assistance (TA) grant components and a supporting component on a revolving fund<sup>4</sup>

- 1) Component for ***Technical assistance for replication*** of existing IMC practices (financial management and audit, tax collection, urban planning, inspection, economic development, tourism promotion, etc.), for which detailed step-by-step implementation manuals will be designed.
- 2) Component for ***Technical assistance for support of innovations*** (new areas and new forms of IMC). Part of this component will be reserved for testing of “scenarios”, developed by the *IMC Innovative practices team* in areas of municipal competences, linked with a respective national Government priority and provided there is a commitment from the respective ministry/ies to support the capital costs for IMC implementation (pilot new models of IMC).

The technical assistance financed by the IMC TA financing scheme will be provided mainly by the trainers/experts trained by the programme for the implementation of the national training programme mentioned above, the members of the Innovative IMC practices team or other identified experts

The pool of funds will be designed in such a manner that the Ministry of Local Self-government and respective line ministries will be able to co-finance initiatives after the first year of operation of the IMC TA financing scheme.

The IMC TA financing scheme will be open to all municipalities through calls for proposals on a competitive base, though possible emphasis would be given to priority groups of municipalities (Example.: rural municipalities, municipalities which have to meet the conditions for the 2<sup>nd</sup> phase of fiscal decentralization, etc.)

The programme will design the detailed mechanisms and parameters of the financial scheme, including:

***Conditions for accessing the funds:***

- Signed agreement between two or more municipalities to explore areas of IMC and/or implement an already identified area (s) of IMC
- Detailed description of the areas of IMC to be explored and/or the IMC project idea (if such already exists)
- Signed commitment by each of the participating municipalities to contribute not less than 20% of the cost of the technical assistance which will be provided by the fund. The level of municipal financial contributions will be correlated to municipal size and population.

***The kind of technical assistance activities funded:***

- Support to municipalities to identify cooperation opportunities and feasible processes, to conduct feasibility studies (cost/benefit) and baseline analysis, to provide advice on best suited contractual/institutional arrangements and management, to identify potential interested stakeholders and facilitate negotiations, to provide guidance and necessary tools to maintain fiscal capacities, improve service delivery and enhance efficiency and sustainability, coaching in the implementation process, etc.
- Whenever needed, additional organizational support and capacity building for the implementation of municipal competencies in the respective areas of IMC will be provided to municipalities to enable the success of the IMC initiative.

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<sup>4</sup> The feasibility of operationalization of this component will be explored in the first phase of the programme and depending on the findings of the feasibility research, the scheme will be redesigned if needed in the course of the implementation of the project.

***The selection criteria for the proposals and the mechanism of selection:***

- The selection criteria will be published in the call for proposals. In case a number of municipalities fully meet the criteria, the “first come first served” rule could apply.
- Composition of the Selection Committee (MoLSG, relevant line ministries, UNDP, other donors contributing to the scheme, one representative of the training/expert team and the IMC Innovative practices team, etc.). Representative of ZELS will be invited as an observer.

The design of the criteria for accessing the IMC TA financing scheme will combine two methodological approaches: the “bottom up” approach which will rely on a survey of municipal priorities and the “top down approach” which will be based on the central authorities’ priorities with respect to resolving public service delivery issues related to the decentralization process, the programming of IPA funds and their readiness to allocate funds in support of practical implementation of IMC initiatives.

The ***Revolving Fund*** component will be designed to fill in where a major bottleneck for the implementation of IMC will be the lack of resources to finance equipment, renovation costs or the initial operating costs of a joint structure, including staff costs. The Working Group, which will design the IMC TA financing scheme, would need to explore the possibility of advancing refundable over a period of time resources to the municipalities to finance such costs. A detailed mechanism of operation of the Revolving fund will be specified, including schedule of repayment of funds and recovery of the funds in case of default. The savings generated by IMC will be one of the sources for the repayment of the funds advanced after the first year of full operation of the IMC. Such an approach will contribute to the sustainability of the programme over time and will allow more municipalities to benefit from the IMC financial support. As noted before, the programme will first of all perform a feasibility research and adjust the revolving fund concept accordingly.

It is expected that the relevant line ministries would be interested in testing models of IMC (supported by the “TA for support of innovations“) and in contributing to the IMC Financing scheme in support of the capital costs of the IMC initiatives in their respective areas or directly to finance them.

The process of design the IMC financing scheme will involve all concerned parties, including financial and legal experts. Therefore the indicative composition of the Working Group would be: Ministry of Local Self-government, Ministry of Finance, ZELS, UNDP and experts from selected line ministries.

**Sequencing of the implementation of the IMC financing scheme:**

*The first year* of operations of the IMC TA financing scheme will be “learning by doing” for all the parties involved and will focus mainly on replication of existing practices, which have proved their efficiency. In parallel several new IMC models will be tested. The strategy of the programme is to gradually expand the size of the IMC TA financing scheme as the experience in running such a scheme is accumulated. After one year of operations the IMC TA financing scheme will showcase its successes and document the savings/improvements in public service delivery resulting from the established IMCs, including by using the IMC knowledge management system established by the programme as further described below.

*The second year* of operation of the IMC TA financing scheme will be dedicated to further scaling up with additional resources from donors and/or from the Government, including the line ministries. The IMC TA financing scheme will be reviewed on the basis of lessons learned from the first year of



activities. During the second year of the implementation of the Financial Scheme instruments for support of more complex IMC initiatives and required capital investments will be available.

Through the policy dialogue component of the programme other donors and local and international financial institutions will be mobilized to contribute to the Financial Scheme or to fund the implementation of the IMC initiative designed with the support of the IMC TA financing scheme.<sup>5</sup>

*(For more details on this component please refer to output 2)*

### **3) Establishing an IMC knowledge management system**

In order to speed up the process of replication of IMC practices and stimulate the exchange of knowledge and experience the programme will establish an IMC knowledge management system which will:

- Make widely available any manuals, handbooks, training programme materials and other Macedonian or European documents/publications related to IMC
- Collect from the Macedonian municipalities information on their IMC cooperation practices (in a standard format and arranged by areas of implementation), including those resulting from the programme's IMC TA financing scheme
- Establish a register/data base of Macedonian inter-municipal cooperation practices (with sufficiently detailed information as well as contact information)
- Collect and make widely available information on inter-municipal cooperation good practices from European countries
- Establish a data base of national trainers/experts (including those trained by the programme) and international experts on IMC as well as of qualified lawyers to support the preparation of inter-municipal cooperation agreements/statutes
- Facilitate a discussion forum to enable the interaction between institutions/experts interested and involved in IMC (peer-to-peer exchange and support)
- Prepare and disseminate each six months a newsletter on IMC in national and in Europe
- Introduce and coordinate an Annual inauguration of established IMCs and organization of promotional events
- Organize an international conference on IMC during the second year of programme implementation

One of the main tasks of the IMC knowledge management system will be *dissemination of the good practices* resulting from the operation of the IMC TA financing scheme, as they emerge. The cornerstone of the system will be an IMC web site, which will be accessible through the Ministry of Local Self-government, ZELS (through the existing LOGIN data base) and UNDP CO site. The web site will provide room for a professional discussion forum for exchange of know-how and experience between experts and institutions. Regular topical workshops will be organized to assure horizontal *transfer of know how* and to stimulate peer learning and replication of good practices. An important task of the system will also be to provide space for *liaising with European organizations* which are active in the area of IMC (including academic institutions, regional governments, associations of municipalities etc.) and for organization of exchanges of experience/expertise with Macedonian municipalities through expert visits and/or study tours.

The institutional set-up and the sustainability of this component will be conceptualized from the very onset of the programme. In this respect it is important to note that ZELS is the national institution

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<sup>5</sup> A revolving fund has been established in Bulgaria with the financial support of USAID mainly for development of infrastructure projects, LED initiatives and introduction of "one stop shop approach". The municipalities in the East and South-East planning regions have registered a foundation to manage a revolving fund in support of SMEs from the two regions.

whose mandate is to provide knowledge management services to its members, and it already has some successful experience in this respect. Another potential “host” of the knowledge management system is the Joint Commission for IMC, established as a result of the Memorandum of cooperation for the IMC, between Ministry of Local Self-government (MLSG) and ZELS, operationally supported by the IMC unit within the MLSG. UNDP will take the necessary steps to gradually transfer this function after the first year of operations of the programme. The knowledge management system, including the web-site will be an integral part of the institutional set-up and operated by the host institution with technical assistance for the design and training provided by a UNDP expert in the course of the duration of the program. In the meantime ZELS/ MLSG staff nominated for management of this component will be coached to maintain and update the system.

*(For more details on this component please refer to output 3)*

#### **4) Facilitating an ongoing policy dialogue**

As already mentioned, the main challenge for efficient implementation of IMC initiatives are the insufficient financial resources of municipalities. With the ongoing process of Fiscal decentralization, the Law on Public Debt and the by-law for borrowing procedure for municipalities and public enterprises, further development of the credit market, IPA funds availability and growing private sector, new opportunities for financial sources and capital investments in support of IMC could emerge. However, potential to use the available funds requires continuous and well structured policy dialogue among the central Government, municipalities, donor community, financial institutions and private sector, for coordinated strategic approach, as well as national policies in support of IMC. This component is designed to complement the second programme component - “Establishing an IMC TA financing scheme”.

UNDP is in a position to facilitate this process as the only international institution directly supporting IMC. The main focus of this component will be to foster *dialogue with the central Government* - attaining the political commitment for the support of IMC as a tool for better service provision and implementation of municipal competences by all municipalities. Possible options for financial support and creating incentives for IMC will be explored with respective line ministries, and proposal for incorporating the criteria and financial incentives in the respective policies. In the frame of this set-up, the IMC TA financing scheme will support a pilot case of IMC process through its IMC TA financing scheme, while the implementation and operational costs would be supported financially from the respective line ministry. The whole procedure once successfully implemented would be institutionalized as a ministry policy and become replicable, provided that there is a political will of the Government.

Other focus areas in the frame of this component would be the following:

- Optimization of the *usage of the pre-accession funds (IPA)*, by incorporating IMC initiatives in reference to joint projects in priority areas (water supply and sewage, water treatment plants, land fields and solid waste management, nature protection, etc.)
- Providing better *donor coordination* in order to incorporate IMC in programs in support of local development and especially in grant or loan schemes for capital investments (criteria for project funding, provision of technical support, equipment).
- Working with financial institutions to develop appropriate incentives IMC initiatives. The basis for this lies in the fact that with the *development of capital market* new opportunities for municipalities would be available, but the smaller ones could benefit only if they enter into cooperation arrangements.

- Review of the legal framework and potentially its upgrade in terms of providing solid basis for small municipalities to be able to cooperate and negotiate jointly with the private sector in terms of possible *outsourcing of services and public-private partnerships*. (For more details on this component please refer to output 4)

### **III. Objectives/Outputs/Activities**

The objective of the programme is to contribute to the development of IMC in support of the achievement of one of the main objectives of decentralization i.e. the efficient provision of affordable and quality public services to citizens and to ensure the necessary institutional and professional capacities. Ultimately, the programme seeks to establish an effective system for supporting IMC which would be adopted and expanded by the Government through its own policies and resources.

#### **Output 1: Critical mass of IMC knowledge and capacity at the municipal level built**

##### *Indicators:*

- Number of trained elected officials, municipal experts, ministries' representatives, journalists (at least 60 % of the municipalities participated in the training program till the end of the second year)
- Number of manuals disseminated to appropriate target groups (at least 5 manuals for different types of IMC disseminated to more than 100 recipients each)
- Number of experts trained (at least 10)
- Number of active members of the Innovative IMC practices team (at least 10)
- Number of new models for IMC developed (at least 5 till the end of the second year)
- % of municipalities participated in IMC initiatives/projects (at least 50% till the end of the second year)
- % of supported IMC initiatives covered by national media (at least 75% till the end of the second year)

##### **Key Activities of Output 1**

*Activity 1.1:* Capitalization of the existing country experience in IMC

*Activity 1.2:* Preparation of manuals and training materials – generic (policy) and specialized (topical)

*Activity 1.3:* delivery of ToT for a pool of trainers/experts with different sectoral experience

*Activity 1.4:* Training programme delivery to different target groups (elected officials, representatives of line ministries, municipal experts and journalists), accompanied with field trips, when appropriate

*Activity 1.5:* Facilitation of the Innovative IMC practices team for development of possible scenarios for IMC in new areas of need

*Activity 1.6:* Organization of appropriate ongoing promotion and media coverage of IMC initiatives

#### **Output 2: IMC Technical assistance (TA) financing scheme established and operational**

##### *Indicators:*

- % of applicants satisfied with the criteria and the procedures of the IMC TA financing scheme (at least 80%)
- Number of supported IMC projects (at least 6 first year and at least 4 second year)
- Number of supported innovations (at least 3 first year and at least 2 second year)

- Number of IMC supported by the Financial Scheme (ex. revolving fund) (at least 2 groups of municipalities second year)
- % of increase of the funds in the financial scheme based on fund raising (at least 20% at the end of the second year)

### Key Activities of Output 2

*Activity 2.1:* Development of criteria and procedures for management and monitoring of the IMC TA financing scheme (for replication and for support of innovations)

*Activity 2.2:* Organization of the selection process for TA for replication – calls for proposals, evaluation of applications, decision making and contracting

*Activity 2.3:* Provision of TA to the selected groups of municipalities

*Activity 2.4:* Selection of possible cases for TA for support of innovations

*Activity 2.5:* Facilitation and TA for the selected IMC innovative initiatives

*Activity 2.6:* Capitalization of the experience to be used for training and replication

*Activity 2.7:* Development of criteria and procedures for management and monitoring of the

*Activity 2.8:* Management of the Financial Scheme (ex.revolving fund) – promotion, selection process, contracting, monitoring, evaluation and fund raising

### **Output 3: IMC knowledge management system established and operational**

*Indicators:*

- Number of local and international practices collected and disseminated (at least 20 local and 25 international per year)
- % of increase of professional forum participants (at least 10% monthly)
- % of satisfaction with the quality of the IMC newsletter (at least 70%)
- Number of study tours organized (at least 3 in the country and one abroad per year)
- Number of IMC practices initiated after the study tours (at least 2 after each study tour)
- Number of municipalities participated in the Annual competition for the most efficient IMC (at least 10 first year and at least 20 second year)

### Key Activities of Output 3

*Activity 3.1:* Organization of annual national survey on the IMC practices in the country and main demands and constrains

*Activity 3.2:* Establishment of thematically organized data base on national IMC practices and in other countries

*Activity 3.3:* Establishment of data base of national and international trainers/experts and networking with organizations/institutions active in the area of IMC

*Activity 3.4:* Establishment and maintenance of website with a professional discussion forum for exchange of know-how and experience between experts and institutions

*Activity 3.5:* Publication and dissemination of a newsletter on IMC nationally and in Europe

*Activity 3.6:* Organization of international conference

*Activity 3.7:* Organization of study visits within the country and abroad

*Activity 3.8:* Introduction and coordination of an Annual competition for the most efficient IMC in the country

#### **Output 4: Improved legal environment, stimulating national policies and diverse financial mechanisms for IMC**

##### *Indicators:*

- Number of policy forums organized (at least 3 till the end of the second year)
- Number of line ministries which developed financial incentives for IMC (at least 2 till the end of the second year)
- % of the funds transferred to municipalities (block grants of the Ministry of education and science, Ministry of labor and social policy and Ministry of culture as well as Funds for encouraging even regional development) for IMC projects Number of donors incorporated IMC in their programs (at least 3 till the end of the second year)
- Number of cases for joint access (more than one municipality) to capital market (at least 2 till the end of the second year)
- Number of supported cases for outsourcing of services to NGOs or private companies (at least 3 till the end of the second year)

##### *Key Activities of Output 4*

*Activity 4.1:* Facilitation of ongoing dialogue with central government for policy change and financial incentives in support of IMC. Organization of policy forums for discussion, consultation and promotion of new policies

*Activity 4.2:* Provision of expert support to relevant ministries to cope with EU requirements and programming of IPA fund in support of IMC

*Activity 4.3:* Further donor coordination for incorporation of IMC in all possible programs in support of local development and service provision

*Activity 4.4:* Coordination with financial institutions for possible incentives for credits in support of IMC possible outsourcing of services and public-private partnerships

#### **IV. Intended beneficiaries**

The central Government, local authorities and local administration are the strategic counterparts and beneficiaries of the programme. Through training and exchange of experience and technical and financial assistance municipalities will acquire knowledge and skills to identify and implement IMC initiatives for optimization of administrative procedures and management structures for joint provision of services to citizens.

Central Government will be supported to develop policies and to define financial incentives to stimulate the process of IMC in the country.

In general, local communities and citizens at large will benefit from the programme having equal access and receiving improved and more efficient services delivered closer to them. Particular attention will be paid to incorporate the gender perspective in the programme activities and ensure equal contribution and benefits for both genders.

## **V. Management structure**

For articulation of the strategic path of the programme/project and supervision over the implementation of the programme/project activities a **Project Board** will be established involving UNDP and the main counterparts. The Project Board will also be expected: to facilitate and support the institutional arrangements that are necessary for effective implementation; to provide policy guidance and recommendation regarding strategy and objectives; to promote the programme and mobilize resources to expand activities, etc.

The Project Board will endorse the institutional composition of the special **working group** which will be engaged in the elaboration of the financial scheme together with the programme experts and the **Selection committee** which will decide on the allocation of the funds from the IMC financing scheme. The committee would have the following tentative structure: representatives of MoLSG, relevant line ministries, UNDP, other donors contributing to the scheme, one representative of the training/expert team and the IMC Innovative practices team, etc. Representative of ZELS will be invited as an observer.

**Special IMC team** will be responsible for the implementation of the programme activities and delivery of the outputs. (*please see Annex 1, indicative management structure*)

## **VI. Monitoring and evaluation**

In accordance with the programming policies and procedures, the project will be monitored through the following monitoring and evaluation tools:

- On a quarterly basis, a quality assessment shall record progress towards the completion of key results, based on the quality criteria and methods captured in the Quality Management table;
- An issue log shall be activated in ATLAS and updated by the Project manager to facilitate tracking and resolution of potential problems or requests for change;
- Based on the initial risk analysis, a risk log shall be activated on ATLAS and regularly updated by reviewing the external environment that may affect the project implementation;
- Based on the above information recorded in ATLAS, a Quarterly Progress Report (QPR) shall be submitted by the Project Manager to the Project Board through Project Assurance, using the standard report format available in the Executive Snapshot;
- A Project lesson-learned log shall be activated and regularly updated to ensure on-going learning and adaptation within the organization, and to facilitate the preparation of the Lesson-learned Report, at the end of the project.
- A monitoring Schedule Plan shall be activated in ATLAS and updated to track key management actions/events

On annual basis:

- An Annual Review Report (ARR) shall be prepared by the Project Manager and shared with the project Board. As minimum requirement, the Annual Review Report shall consist of the ATLAS standard format for the QPR covering the whole year with updated information for each above elements of the QPR as well as a summary of results achieved against pre-defined annual targets at the output level.
- Based on the ARR, and annual project review shall be conducted during the fourth quarter of the year or soon after, to assess the performance of the project and appraise the Annual Work Plan (AWP) for the following year. In the last year, the review will be a final assessment. This review is driven by the Project Board and may involve other stakeholders as required. It shall focus on the extent to which progress is being made towards the envisaged outputs and that these remain aligned to appropriate outcomes.

## **VI. Legal context**

This project document shall be the instrument referred to as such in Article 1 of the Standard Basic Assistance Agreement between the Government of the Former Yugoslav Republic of Macedonia and the United Nations Development Programme, signed by the parties on 30 October 1995.

Consistent with the Standard Basic Assistance Agreement, the responsibility for the safety and security of the executing agency and its personnel and property, and of UNDP's property in the executing agency's custody, rests with the implementing partner.

The following type of revisions may be made to this project document with the signature of the Resident Representative only, provided that he/she is assured that the signatories of the project document have no objections to the proposed changes:

1. Revisions in or additions of, any of the annexes of the project document.
  
2. Revisions, which do not involve significant changes in the immediate objectives, outputs or activities of the project, but are caused by the rearrangement of inputs already agreed to or by cost increase due to inflation.

Mandatory annual revisions, which re-phase the delivery of agreed project inputs or increased expert or other costs.







**ANNEX 1: Indicative Management Structure of the IMC Programme for Better Service Provision and EU Accession**  
**Ovaa organizacija treba da ja prodiskutirame I eventualno revidirame vo matrix management struktura**

