

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.*

(Link to UNDAF outcome., If no UNDAF, leave blank)

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: **Equitable services for all citizens**

Implementing partner: NEX- Ministry of Finance, Implemented by UNDP

Responsible parties: UNDP, Ministry of Finance, Ministry of Local Self Government, ZELS

Narrative

The main objective of the project is to assist the Government in re-defining the model for financing decentralized social services, towards a model that incorporates national and local disparities and differing capacities relative to the real expenditure needs. The proposed model will make efforts to equalize or reduce the gap between the rich and the poor. Process will entail individualized fiscal capacity assessment of municipalities; detailed assessment of the expenditure needs for local provision of social sector competencies; and developing a model/formula for allocation of inter-governmental transfers, which should ultimately reduce the gap between urban and in rural communities.

In parallel, the project envisages a capacity-building component for central and local government officials for strengthening their analytical capacities on these issues. The emphasis is on the estimating expenditure needs of local government units, primarily for delivery of social services; assessment of fiscal capacities of local government units,

The main output will be a policy proposal of the model of financing decentralized social services

Programme Period: **2005-2009**
Programme Component: **Decentralized Governance**
Project Title: Equitable services for all citizens
Project ID: _____
Project Duration: **11 months**
Management Arrangement: **NEX**

Total Budget	\$200,000
Allocated resources:	_____
• Government	_____
• Regular	_____
• Other:	_____
○ Donor	DGTF
○ Donor	_____
○ Donor	_____
• In kind contributions	_____
Unfunded budget:	_____

Agreed by (UNDP): _____

Agreed by the Ministry of Finance _____

Part I. Situation analysis

FYR Macedonia is involved in comprehensive decentralization reform. Being intrinsically embedded in the Ohrid Framework (Peace) Agreement, at the initial stage, decentralization process was primarily perceived as part of the political reforms pursued to improve political cohesiveness and strengthen democratic representative institutions in the country. Nonetheless, with the progress of the reform, the issue of quality and access to public services as well as the overall efficiency of the local institutions is being considered as equally important features for developing the decentralized system of governance.

The reformed legal framework provides a solid basis for building the local governance system in Macedonia. The Law on Local Self Governments offers a comprehensive set of functional responsibilities for local government units, which encompass both economic and social services, while the Law on Financing of Local Government Units for the first time provides for distinctive revenue authority to LGUs. On the normative aspect of the reform, there is a general perception that the process has been moving in the right direction. Still, there are a handful of important issues, which the country has to address in order to create efficient and financially viable local governance system able to deliver quality public services for all citizens regardless of their place of residence.

There is common agreement that the existing model of fiscal decentralization in Macedonia does not ensure an equitable level of public service provision for all citizens across the country. The model of financing is effectively regressive, especially toward the rural areas, widening significantly the gap between rural and urban, since the current formula for transfer funds the facilities rather than potential needs of communities. Education and social services – childcare, care for the elderly, have been significantly unfunded in rural municipalities, as no or few such facilities exist on the territory of rural municipalities. Also, the existing model is not considerate of the higher costs for provision of services in rural areas. In this way, it does not allow for any flexibility in seeking innovative solutions to occurring problems. A fairer system of financing, responsive and mindful of the citizens' needs, effectively equalizing, transparent and predictable is direly needed.

The fiscal decentralization process, which started in July 2005, was designed to be implemented in two phases. Having in mind the weak revenue raising capacities of local government units, the current system of financing municipal services heavily relies on inter-governmental transfers. In this respect, the evolution of the models of intergovernmental fiscal transfers was designed to follow this phased approach. In the first phase, the process envisaged establishing of four earmarked grants i.e. for education, social policy, culture and fire-fighting. Those earmarked grants, for municipalities that met the established criteria for moving into second phase, were transformed into block grants.

The earmarked grants have been considered as a transitional form of financing local services, as they faced certain constraints in the implementation.

First, they were considered as quite inflexible mechanism of financing municipal functions as once approved by the respective line ministries, could have not been altered by municipalities.

Second, the initial financial allocation for the earmarked funds was set up based on the historic costs borne by the responsible line ministries in the previous years, departing from the assumption that provision of the local services by local authorities should cost less than if that service would be provided by the central level institutions. Nonetheless, some of the surveys conducted by the Decentralisation Working Group revealed that around 40 percent of municipalities felt that the earmarked grant for primary education covered only between 41 and 60 percent of the actual needs in 2005-2006. Perception was similar with regards the adequacy of the earmarked grant for secondary education and social services. With the recent revisions, the allocation formulas for the earmarked and lately for the block grants several objective variables were included in the allocation criteria such as population density, number of students, number of accommodations, routes length etc., which significantly improved the costs estimates.

Nevertheless, the above described system reinforces the impression that so far the decentralization process has been primarily focused on the transfer of facilities and personnel to local government units and corresponding revenues for operations and maintenance of those facilities, which to a great extent has diverted the attention of authorities from the essential issues. In practice, this approach implied a situation that municipalities without public service facilities on their territories continued to be deprived or unfunded for performing the assigned services. Namely, taking into account that the existing allocation formula of the sectoral grants in many cases just takes into consideration the existence of a physical facility and not the actual needs of citizens on the specific territory, most of the rural municipalities in Macedonia have not been receiving earmarked or lately block grants for any of the assigned functions except for primary education. Such methodology for computation of the inter-governmental transfers which heavily relies on the existence of facility as principal funding criteria, if not changed will continue depriving the rural and less developed areas and will be counterproductive to government efforts and proclaimed policy goals for promoting equitable socio-economic growth across the country.

There is also serious urban/rural issue when it comes to the capacities of municipalities to locally generate revenues. The current design of tax revenue structure faces the constraint of different fiscal capacity base between rural and urban municipalities. Namely, prior to recent reforms, local government units had

almost no authority in tax collection. Most revenues were collected by regional branches of the Public Revenue Office of the Ministry of Finance and deposited in the national treasury account and then the funds were distributed back to the municipalities in accordance to defined criteria. Starting with the first phase of the fiscal decentralization in July 2005, the collection of revenues from municipal revenue instruments was assigned directly to the municipal administrations.

Though, the authority for collecting local tax and non tax revenues was transferred to municipalities, due to administration difficulties, outdated tax payers databases, low rates and underestimated values of real estate etc, local revenue sources are still underperforming and further reinforce the horizontal disparities in fiscal capacities. For example, on average the own revenues cover about 70 percent of local expenditures of municipalities. However, in some rural municipalities it is as low as 6 percent, while in Skopje, the capital of the country, fiscal sufficiency reaches 88 percent of total local expenditures.

Disparities in the economic base and hence fiscal capacity of local jurisdictions impose a limit of how much the fiscal system can rely on local tax and non tax incomes. This is where the system of inter-governmental transfers with strong equalization features should intervene and play a corrective role.

However, the existing model for allocation of intergovernmental transfers is still in transition and lacks explicit equalization features that would lead to gradual convergence of local financing capacities and thus create more equitable conditions for provision of local public services across the country. In the case of Macedonia, the Value Added Tax (VAT), as the most resourceful revenue source is being used as pool of funds for allocation of unconditional intergovernmental transfers. Since the start of the fiscal decentralization process in July 2005, a share of the VAT has been allocated to the municipalities as an unconditional general purpose grant. The amount shared with municipalities was set at 3 percent of the VAT revenues collected in the previous fiscal year, aside of Skopje, where 4 percent of the total VAT revenues go the City of Skopje and 6 percent for the municipalities of within the City of Skopje. The remaining 90 percent of the total pool have been distributed across the other municipalities according to agreed formula. The formula has not been well defined in the law, yet. The general parameters that allocation criteria should follow are the number of population, the surface area of the municipality, and number of settlements within the municipality.

Though, in theory, VAT was supposed to perform the equalization function, the current model, has often created tensions between different jurisdictions i.e. primarily between Skopje, the capital of the country and other municipalities, without succeeding to offer criteria for allocation, which would take into account disparities in the revenue-raising capacity and different revenue requirements of municipalities for delivering public services for the local population. This weakness in the transfers system has triggered intensive discussions between representatives from central and local governments. Local government

units through various channels have been lobbying for sharp reforms of the fiscal decentralization model, advocating for a system that will be more considering of the actual fiscal capacities and needs of local jurisdictions.

Part II. Project Objective

The project will contribute to developing a system of intergovernmental transfers, which shall allow for introducing a bigger predictability of available funds for local government units, while simultaneously promoting a strong equalization feature. The re-defined model for financing decentralized social services will incorporate national and local disparities and differing capacities relative to the real expenditure needs.

More specifically, project will support development of several fiscal scenarios and a distribution formula based on the analysis and estimated revenue gaps of local authorities. The proposed model will make efforts to equalize or reduce the gap between the rich and the poor. Process will entail individualized fiscal capacity assessment of municipalities; detailed assessment of the expenditure needs for local provision of social sector competencies; and developing a model/formula for allocation of inter-governmental transfers, which should ultimately reduce the gap between urban and in rural communities.

In parallel, the project envisages a capacity-building component for central and local government officials for strengthening their analytical capacities on these issues. The emphasis will be on estimating expenditure needs of local government units, primarily for delivery of social services; assessment of fiscal capacities of local government units, etc.

Part III. Project Strategy

Restructuring of a system of inter-governmental transfers is a complex and sensitive issue which if not carried in a technically credible and transparent manner could cause political tensions and trigger reactions by representatives of local authorities and citizens across the country. Therefore, the process will encompass several consecutive steps in a form of experts' assessments, simulation of the potential fiscal implications, regular consultations in a form of technical level dialogue, workshops and forums. At the end of the process, several policy scenarios will be developed for consideration and endorsement by the Ministry of Finance .

The **first step** in the process will be to review, clarify and delineate the assignment of the competency responsibilities between the central and local authorities. Reaching common understanding and

consensus of “which level of the government is responsible for what” will be essential for strengthening accountability of the respective government jurisdiction for the provision of each public service. Moreover, having a clear picture of the actual functional responsibilities of local government units will serve as a basis for calculating the revenues requirements for provision of the respective local services. This review will result in preparation of a detailed matrix of distributed competencies between the central and local governments.

Once a consensus is being reached on distribution of responsibilities, the **second step** will be to compute expenditure needs that are associated with the decentralized competencies. The expenditure needs assessment will allow to define the funding necessary to cover all expenditure responsibilities assigned to the jurisdiction at a standard level of service provision. Depending on the assessment of the data availability, the most applicable methodological approach will be selected and pursued. The best option would be that the expenditure needs be measured from the bottom, up, by costing the current expenditure obligations of local governments or costing a standardized basket of local government services. However, this approach could be quite demanding as it is based on robust data-disaggregated quantitative analysis, and very explicit and detailed understanding of the administrative processes and procedures used by local-level institutions. Based on the preliminary analysis of the data availability, project will consult and propose alternative methodologies that will be applied and will come up with sufficiently accurate proxy indicators that may serve the purpose.

The **third element** of the analysis will be to determine the level of fiscal capacity, i.e., the ability of each jurisdiction to collect own source revenues. Ideally, tax capacity should be measured by the size of tax basis, that is available to municipalities, or the revenue that these tax bases would yield under the standard tax rates. However, as in the case of expenditure needs, and having in mind the scarcity of local level data, this analytical component may also require proxy indicators and modified methodologies for estimating fiscal capacity of municipalities to be used. An important aspect or objective that has to be embedded in the analysis is that is that when measuring the fiscal capacity of municipalities creating negative incentives for local jurisdictions to revenue mobilization has to be avoid, or in other words analysis of the fiscal capacities, should take due consideration to socio-economic potentials for raising revenues at local level, and not only the current tax and non-tax collection levels. In this regard, the project will also provide policy advice and specific measures of how municipalities could influence and better utilize their potential fiscal capacities.

The project will also revisit the tax instruments and other sources that that could be assigned to local governments. In this context, one of the outputs of the project will be the development of a contextualized methodology for assessing municipalities’ fiscal capacities. In addition project will

develop curricula and provide training to local authorities for improving capacities in forecasting fiscal capacities and developing fiscal scenarios for collecting local revenues.

The **forth element of the study** will be the assessment of the fiscal gap for each municipality. i.e. a financial difference between expenditure needs and the potentially available resources from own fiscal capacity, shared revenues and other transfers. For calculation of the level of equalization transfers that will be apportioned to each municipality, it will be important to also define the “relative fiscal imbalance” for each municipality and define the proportion of fiscal imbalance that the equalization transfer will compensate. The later issue perhaps would be the most crucial or politically sensitive issue, as this will determine the level of equalization between rich and poor municipalities that the government would be committed to attain.

In principle, the process of restructuring the equalization system will entail several fundamental steps and policy decisions such as:

- the level of equalization, in other words a decision if the fiscal gaps will be closed fully or should the system encourage revenue mobilization and keep some additional resources in faster growing localities;
- that the equalization transfers will be unconditional grants, unlike conditional grants, which will be used to pursue defined objectives of the central government, such as financing minimum levels of local services, for example in the area of education or social care;
- funding mechanism for conditional grants and equalization transfers i.e. should the current tax structure remains as it is, including the utilization of VAT for the unconditional grants/equalization purposes or there is a need for alternative local revenues structure;
- introduction of objective and transparent rules for determination of the conditional grants and the equalization pool;
- development of a simple, transparent unbiased formulas for apportioning the equalization funds among local governments, which will provide more resources to local governments with lower tax capacity and greater fiscal needs, and yet create incentives for revenue mobilization by local governments;

The above systematic approach will increase the transparency and predictability of the system of equalization transfers.

In parallel, the project envisages a capacity-building component for central and local government officials for strengthening their analytical capacities on these issues. The emphasis is on the estimating

expenditure needs of local government units, primarily for delivery of social services and assessment of fiscal capacities of local government units.

Project will be implemented in close partnership with national authorities and in that respect it will pursue a significant on-the job training. However, the project also envisages a significant capacity building component for strengthening analytical capacities of the Ministry of Finance and local financial officers on fiscal decentralization issues.

In that respect:

- **Capacity assessment** will be carried out to identify capacity development needs in fiscal decentralization issues of the staff in the Ministry of Finance, Ministry of Local Self Government and municipalities, through desk review of the available documentation; analysis of the similar training organized;
- **Targeted capacity development** activities, including development of training curricula, training materials; specialized training; evaluation both for the central and local level officials etc.
- Providing **technical advice for strengthening statistical platform** and access to disaggregated socio-economic and financial data.

Project will make effort at the end of the process to summarize the lessons learned and key issues and propose a **follow up strategy** to support the implementation of reformed model of inter-governmental transfers

Part IV. Partnerships and related programs and other donor activities

This project will closely collaborate and build on the work and documented assessments conducted through previous and ongoing relevant interventions. Moreover this will be important having in mind the scarcity of data and limited estimations/costing of the transferred services. In this respect, project will closely partner with the recently initiated **EU CARDS** funded project for providing technical assistance to the Ministry of Finance/Commission for Monitoring the Process of Implementation of the Fiscal Decentralization Process. Through the project, technical assistance will be provided to analyse the costing of the services, which is a precondition for assessing the efficiency of the transfer systems and formulas used of the central government to municipalities.

Additionally, the project will build developed practices for financial management, reporting and accounting practices and use and results of the financial management information system developed through the earlier EU CARDS funded project.

OSCE -Organisation for Security and Co-operation in Europe helps strengthen local self-government units through training and technical expertise in public finance management, participatory planning activities and leadership skills. Furthermore, in accordance with its monitoring mandate, OSCE publishes yearly surveys on the progress of the decentralisation process, which shall be used as important information source in the analysis of the status and emerging issues from the decentralization process.

The British Embassy project, which is aimed to support municipalities that didn't pass the first phase of the fiscal decentralization process and increase the number of municipalities entered in the second fiscal phase through targeted capacity building programme.

USAID is implementing a comprehensive and complementary technical assistance programme for supporting the Ministry of Finance for improving the policy framework (secondary legislation, regulation) for further implementation of the decentralization process. Project also provides technical assistance and training to build the analytical capacity of key Ministry of Finance and/or line ministry staff on issues related with the costing of certain social services such as the education, now under competencies of municipalities, design and implementation of the intergovernmental transfers etc..

Other UNDP project, such as the sub-regional project for Strengthening Decentralized Service delivery, aimed to review the current status of public service delivery in countries of the Western Balkans region and identify the key issues, impediments of the process, assess the capacity gaps. In particular develop a response strategy for addressing them.

Besides these programmes, project will consult with projects supported by the Netherlands and Swiss Development Cooperation focused on strengthening capacities of ZELS to become a service provider to municipalities.

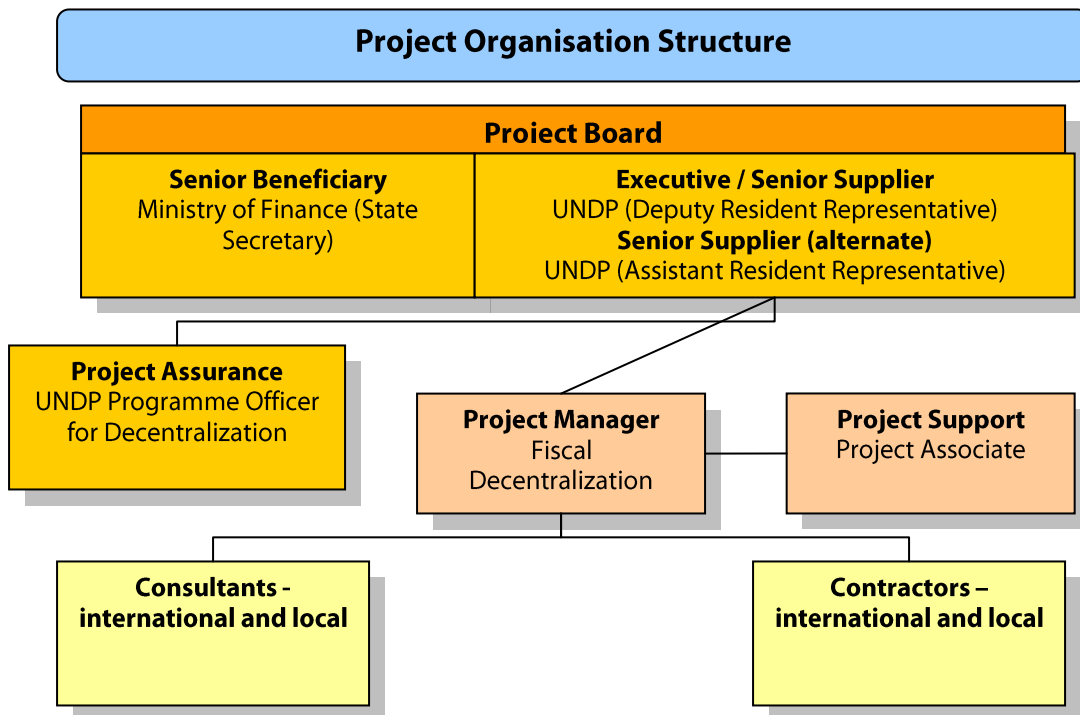
Part III. Management Arrangements

The project will be implemented under National Execution modality (NEX). The main implementing partners will be the Ministry of Finance and the Ministry of Local Self Government. The PRINCE2 methodology will be used to ensure accountability for programming activities, use of resources and ownership by the beneficiaries. The result based management will provide the management framework for project's activities.

The following management structure will be established:

- The Project Board¹ will be composed of representatives from relevant structures, institutions and ministries (Ministry of Finance, Ministry of Local Self Government, UNDP, ZELS etc.) and will work closely with UNDP Senior Management. They will be responsible for defining, assessing, monitoring of project achievements and ensuring that the plan of the programme includes necessary aspects required to deliver the expected outcomes. The Project Board will be responsible also for making executive management decisions for the project based on annual and mid-term reviews, including approval of substantive project revisions as well as for decisions when project tolerances have been exceeded. Project Quality Assurance will be performed on an ongoing basis by designated UNDP Programme Officer from the Decentralization Practice, with a view to carry out objective and independent project oversight and monitoring functions. The Programme Officer will also exercise approval authority for transactions up to the levels of delegated authority.

UNDP Skopje office will establish a project team to monitor the implementation of project activities on daily basis. The project team will report to the Project manager and designated project focal point from the Ministry of Finance and prepare brief monthly reports. The Project manager will prepare annual progress report and final implementation report as prescribed by the DGTF guidelines.



¹ an Executive to chair the group, a Senior Supplier to provide guidance regarding the technical feasibility of the project, and a Senior Beneficiary to ensure the realization of project benefits from the perspective of project beneficiaries

Inputs to be provided by the partners

The Ministry of Finance will appear as a principal partner in the implementation of the project. Nevertheless, other national and local stakeholders such as the Ministry of Local Self Government, the Association of local Government Units, various commissions established for monitoring the process of fiscal decentralization will be involved and or consulted throughout the process.

- The Project team will be responsible for the overall management of the project and organization of planned activities. However, UNDP will emphasize the importance and tailor project activities to ensure that the analytical process and consultations produce tangible improvement of the capacity of the institutions involved.
- Building on the international and local expertise that will be brought to the project, the UNDP Country Office will provide additional technical support to ensure that national institutions fully capitalize from the various methodologies and analytical approaches used. Efforts will be made to consolidate and codify the methodology applied and develop tools or policy papers to be further utilized by national institutions on this matter.
- Ministry of Finance and other national and local level institutions will have essential role, both in providing technical expertise for the project activities, but also by sharing with experts the available policy analysis and other relevant documentation and local level data.
- UNDP Bratislava Regional Centre will provide technical backstopping for the project.

The partners shall ensure that project activities and outputs are gender sensitive.

Part IV. 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 below;
- 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 (see annex 1), 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.

Quality Management for Project Activity Results

OUTPUT : The system of intergovernmental transfers improved to ensure larger predictability and equity of available funds for local government units.		
Activity Result 1 (Atlas Activity ID)	Assessment of the data availability and selection of analytical approach	Start Date: 01/03/2008 End Date: 30/04/2008
Purpose	In order to develop detailed Terms of reference for the selection of the team of experts that will provide technical assistance to the process, an in-depth assessment of the available data and processes will be carried out	
Description	UNDP and national stakeholders will partner in identification of the sources of data, assess the data availability/constraints, share information and results from complementary studies that have been carried out in the past and come up with joint understanding of the most feasible and suitable methodological approach to be followed by the technical experts	
Quality Criteria	Quality Method	Date of Assessment
Overview of available data prepared	Desk review, consultations with national institutions	March 2008
Comparative analysis of relevant documents, policy papers, complementary analysis carried out	Detailed analysis of the relevant policy documentation and consultations with complementary projects, sharing lessons learned	April 2008
Terms of reference with detailed explanation of the process and approach developed and agreed among project partners	Consultation and collection of feedback from national and international partners	April 2008

OUTPUT : The system of intergovernmental transfers improved to ensure larger predictability and equity of available funds for local government units		
Activity Result 2 (Atlas Activity ID)	A feasibility study with developed scenarios for revision of the system of inter-governmental transfers	Start Date: June 2008 End Date: November 2008
Purpose	Development of customized methodology and study containing a range of policy options/scenarios for the revision of the current system of intergovernmental transfers.	
Description	Carrying out in-depth technical analysis of the existing competency assignments of local government units, fiscal capacities, financial gaps and equalization formulas for inter-governmental transfers. Desk review of documentation and data concerning fiscal decentralization issues, organizing consultative processes, workshops and national forum on fiscal decentralization;	
Quality Criteria	Quality Method	Date of Assessment
Quality of the draft overview of the designated functional competencies between central and local authorities Documents produced should contain clear indication of the legislative and policy shortcomings and proposal for realignment of responsibilities for	Consultations and incorporation of the feedback received from national counterparts i.e. Ministry of Finance and line ministries, ZELS, municipalities	July 2008

delivery/provision of the public services		
Quality of the draft assessment of the expenditure needs of local government units	Consultations and incorporation of inputs, results from analysis and feedback received from the Ministry of Finance, complementary international projects, including the UNDP BRC implemented project for assessing the quality of public services delivery	July 2008
Quality of the draft study of the fiscal capacities of local government units	Consultations with relevant national and local stakeholders; feedback from workshop participants.	September 2008
A draft proposed model of revised system of intergovernmental transfers with clear indication of the methodology used, offering a range fiscal scenarios and methods for further application	Consultation with the Ministry of Finance, Ministry of Local Self Government and other line ministries and ZELS; consultations and feedback from the fiscal decentralization forum; experts comments from other internationally funded projects;	November 2008
Endorsement of the policy proposal by the Government.	Feedback on the proposed model from the Ministry of Finance	December 2008

OUTPUT : The system of intergovernmental transfers improved to ensure larger predictability and equity of available funds for local government units

Activity Result 3 (Atlas Activity ID)	Strengthening analytical capacities of the Ministry of Finance on fiscal decentralization issues	Start Date: May 2008 End Date: December 2008
Purpose	Ensure sustainability and internalization of developed methodologies and practices; Codify the lessons learned and standardize the methodology for measuring fiscal capacities, expenditure needs and equitable system of inter-governmental transfers	
Description	UNDP Country Office will facilitate the consultations between different stakeholders for reaching consensus on the methodology and criteria used for improving the current system of intergovernmental transfers; Training on these issues will be provided for central and local officials on the policy and technical issues that will emerge from conducting the study; A standardized set of data requirements will be developed to be regularly collected and monitored by the relevant institutions;	
Quality Criteria	Quality Method	Date of Assessment
Quality methodology prepared	Regular consultations with national partners and incorporation of comments and feedback;	November 2008
A number of qualified civil servants trained on issues related to inter-governmental transfers	High-level expertise provided in both development of the curricula and training delivery	November 2008
Statistical platform strengthened to ensure more easily available access to disaggregated socio-economic and	Desk review of data availability and identification of the best proxy indicators that can be used for the	September 2008

financial data.	periodic review/revision of the criteria and monitoring of the impact of proposed model of inter-governmental transfers	
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The Annual Work Plan (AWP) Monitoring Tool

Year: 2008

EXPECTED OUTPUTS <i>And baseline, indicators including annual targets</i>	PLANNED ACTIVITIES <i>List activity results and associated actions</i>	TIMEFRAME				RESPONSIBLE PARTY
		Q1	Q2	Q3	Q4	
<p>Output: The system of intergovernmental transfers improved to ensure larger predictability and equity of available funds for local government units.</p> <p>Baseline: Existing model of fiscal decentralization in FYR Macedonia does not ensure an equitable level of public service provision for all citizens across the country. The existing model of inter-governmental transfers is effectively regressive, especially toward rural areas, widening significantly the gap between rural and urban municipalities. Social services, such as the child care, elderly care, education etc. have been significantly under-funded in rural municipalities. The current model finances facilities, rather than real expenditures needs and hence perpetuates and enlarges inequalities in public service delivery;</p> <p>Indicators: methodologies developed; number of national and local staff trained; number of consultative events organized</p> <p>Targets 2008:</p> <ul style="list-style-type: none"> - A proposed model of inter-governmental transfers developed; - Study for assessing municipal fiscal capacities prepared; - calculation of expenditure needs of municipalities for performance of designated competencies finalized; - criteria for equalization transfers proposed; - capacities of fiscal decentralization analysis in the Ministry of Finance and Local Self Government and financial officers at local level strengthened; 	<p>1. Assessment of the data availability and selection of analytical approach</p>	X				UNDP COs
	<p>2. A feasibility study with developed scenarios for revision of the system of inter-governmental transfers developed;</p> <ul style="list-style-type: none"> - drafting Terms of reference; - hiring international/local experts; - data collection; and desk review; - consultative workshops 		X	X	X	UNDP COs
	<p>3. Strengthening analytical capacities of the Ministry of Finance and local financial officers on fiscal decentralization issues</p> <ul style="list-style-type: none"> - capacity needs assessment; - developing training curricula; - delivery of specialized training - methodologies for fiscal decentralization analysis customized 			X	X	X
TOTAL						

Part V. 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.

PROJECT RESULTS AND RESOURCES FRAMEWORK

Intended Outcome as stated in the Country Programme Results and Resource Framework: <i>Models and practices adopted for transparent and accountable provision of decentralized public services shared and established.</i>				
1.2. The principles of transparency, efficiency accountability and respect for human rights abided by public sector institutions and citizens				
Outcome indicators as stated in the Country Programme Results and Resources Framework, including baseline and targets: Comprehensive, multisectoral analysis and capacity building programme for government officials in place;				
Applicable MYFF Service Line: SL 2.4: Decentralization, local governance and urban/rural development				
Partnership Strategy: The project will be implemented in close partnership with the Ministry of Finance, Ministry of Local Self Government and ZELS. UNDP BRC will provide technical backstopping. Particular attention will be paid to ensure complementarity, coherence and cross-fertilization with earlier or the ongoing similar initiatives undertaken by other international organizations such as USAID, EC, OSCE etc..				
Project title and ID (ATLAS Award ID): Equitable service for all citizens				
INTENDED OUTPUT	OUTPUT TARGETS FOR (YEARS)	INDICATIVE ACTIVITIES	RESPONSIBLE PARTIES	INPUTS (2008-2010)
<p>Output: The system of intergovernmental transfers improved to ensure larger predictability and equity of available funds for local government units.</p> <p>Baseline: Existing model of fiscal decentralization in FYR Macedonia does not ensure and equitable level of public service provision for all citizens across the country. The existing model of inter-governmental transfers is effectively regressive, especially toward rural areas, widening significantly the gap between rural and urban municipalities. Social services, such as the child care, elderly care, education etc. have been significantly under-funded in rural municipalities. The current model finances facilities, rather than real</p>	<p>Targets 2008:</p> <ul style="list-style-type: none"> - A proposed model of inter-governmental transfers developed; - Study for assessing municipal fiscal capacities prepared; - calculation of expenditure needs of municipalities for performance of designated competencies finalized; - criteria for equalization transfers proposed; - capacities of fiscal decentralization analysis 	<ul style="list-style-type: none"> • Assessment of the data availability and selection of analytical approach Desk review, consultations with national institutions, collection of available data, policy documents, analytical studies, development of proxy indicators <ul style="list-style-type: none"> ▪ A feasibility study with developed scenarios for revision of the system of inter-governmental transfers Carrying out in-depth technical analysis of the existing competency assignments of local government units, fiscal capacities, financial gaps and equalization formulas for inter-governmental transfers. Desk review of documentation and data concerning fiscal decentralization issues, organizing consultative processes, workshops and national forum on fiscal decentralization; - Technical assistance provided to review the distribution of competencies between central and local authorities; - Technical assistance provided to assess the individual fiscal capacities of local government 	<p>UNDP COs and the Project Team</p> <p>UNDP COs and the Project Team, international local experts</p>	<p>15,000 USD (project staff)</p> <p>125,000 USD (consultancy; travel, workshop logistics,)</p>

<p>expenditures needs and hence perpetuates and enlarges inequalities in public service delivery;</p> <p><u>Indicators:</u> methodologies developed; number of national and local staff trained; number of consultative events organized</p>	<p>in the Ministry of Finance and Local Self Government and financial officers at local level strengthened;</p>	<p>units;</p> <ul style="list-style-type: none"> - Technical assistance provided to assess the expenditure needs of municipalities for provision of decentralized public services; - Technical assistance provided to develop scenarios of intergovernmental transfers that will ensure equitable financial conditions in all municipalities in the country; - Two workshops for reviewing the draft documents organized and a national forum for reaching consensus on the proposed model organized <ul style="list-style-type: none"> ▪ Strengthening analytical capacities of the Ministry of Finance and local financial officers on fiscal decentralization issues <ul style="list-style-type: none"> - Capacity assessment to identify capacity development needs in fiscal decentralization issues of the staff in the Ministry of Finance, Ministry of Local Self Government and municipalities carried out Desk review of documentation; preparation of report as input for development of training curricula. ▪ Targeted capacity development activities, including development of training curricula, training materials; specialized training; evaluation etc. ▪ Providing technical advice for strengthening statistical platform and access to disaggregated socio-economic and financial data. ▪ Development of a follow up strategy to support the implementation of reformed model of inter-governmental transfers 	<p>UNDP COs and the Project Team, international local experts</p>	<p>70,000 USD (consultancy; travel, workshop logistics,)</p>
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Annex 1: RISK LOG



Project Title:	Award ID:	Date:
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#	Description	Date Identified	Type	Impact & Probability	Countermeasures / Mngt response	Owner	Submitted, updated by	Last Update	Status
1	Often times the individual disaggregated data on each jurisdiction may not be available. Even if available, it may not be desirable to use because the pattern of past expenditures by local governments may reflect institutions that are no longer valid or exist. For example, the patterns of local expenditures before decentralization process may not be reflective and relevant for the new roles and responsibilities of local authorities for delivery of public services	2007	Organizational	The occurrence of the risk would limit dramatically the quality of the output and the impact of the project.	During the phase of assessment of data availability to identify relevant proxy indicators that might be used in the analysis and to extent possible adjust the methodology to be less dependable of lacking data	UNDP Decentralization Programme Officer	Project Manager	February 2008	
2.	National institutions partners in this project lacking capacity to provide substantive input and guidance in the process	2007	Organizational Strategic	The occurrence of this risk will significantly impact the pace of the project implementation and quality of the project results	Ministry of Finance will make commitment to designate officials from the fiscal decentralization department that will receive on the job and specialized formal training; Project envisages a substantial capacity building component, training and codification of developed methodologies that will contribute to sustainability of the project outcomes	UNDP Decentralization Programme Officer	Project Manager	February 2008	
3.	National institutions withdraw the commitment for reforming the intergovernmental transfers system		Political Strategic	If this risk occurs, the project will fail to achieve its results and envisaged impact	Throughout the process project team and UNDP Country Office will make all efforts to ensure full ownership on the process. Various opportunities, including through formal workshops and conferences will be provided to national counterpart for providing inputs, comments and feedback on products developed by the experts.	UNDP Decentralization Programme Officer	Project Manager	February 2008	
4.	Individuals participating in the project activities, consultative		Organizational Political	The occurrence of the risk would reduce the long	During implementation of project activities, the importance of	UNDP Decentr	Project Manager	February 2008	

	dialogues will not be able to advocate proposed changes due to potential turnover and upcoming local elections			term impact of the project	establishing long term cooperation and retention of staff will be persistently promoted.	alization Program Officer			
5	The decreasing value of the dollar may cause financial constraints for implementing all envisaged activities;	February 2008	Financial	The occurrence of the risk will force the downscaling of the activities	Slight over-budgeting of key activities to ensure a contingency provision	UNDP Decentralization Program Officer	Project Manager	February 2008	
6.	Short timeframe for implementation of such complex and multifolded analysis	February 2008	Organizational	The occurrence of the risk will force the downscaling of the activities	A well elaborated and precise terms of reference and work plan which shall enable for timely and fast recruitment of the necessary technical expertise	UNDP Decentralization Program Officer	Project Manager	February 2008	
7.	Limited number of qualified experts with required level of technical knowledge, that could be available within tight timeframe, which may require flexibility in the hiring processes	February 2008	Organizational	The occurrence of the risk will impact negatively on the quality provided services and the overall impact of the project and increase workload on programme and project staff	Terms of reference will be timely prepared and potential experts notified well in advance to secure interest and availability.	UNDP Decentralization Program Officer	Project Manager	February 2008	