

FINAL VERSION

1. Basic information

1.1 CRIS Number: 2009/021-665

1.2 Title: Review of legal, organizational and resource requirements for the National Bank in the process of European Central Bank (ECB) and European System of Central Banks (ESCB) accession.

1.3 ELARG Statistical Code: 2.32

1.4 Location: Skopje, Frankfurt (seat of the European Central Bank) and the offices of the relevant National Central Banks (NCBs).

Implementing arrangements:

1.5 Implementing Agency

The Central Finance and Contracting Department (CFCD) will be the contracting authority and will be responsible for all administrative and procedural aspects of the tendering process, contracting matters and financial management including payment of project activities, upon conferral of management. The Head of CFCD will act as the Programme Authorizing Officer (PAO) of the project.

Mrs. Radica Koceva (PAO)
Central Financing and Contracting Department
Ministry of Finance
Tel: +389-2-3231 219
Fax: +389-2- 3106 612
e-mail: radica.koceva@finance.gov.mk

1.6 Beneficiary (including details of SPO):

*National Bank of the Republic of Macedonia*¹
Senior Programme Officer (SPO)
Aljoša Popovski, *Ph.D.* - Head of International Relations Department
Contact Details:
Tel: 0038923108184
E-mail: popovskia@nbrm.gov.mk

Financing:

1.7 Overall cost (VAT excluded)²: EUR 450 000

¹ The EC recognises the country name as the former Yugoslav Republic of Macedonia, following the UNSCR 817 (1993).

² The total cost of the project should be net of VAT and/or other taxes. Should this not be the case, the amount of VAT and the reasons why it should be considered eligible should be clearly indicated

1.8 EU contribution: EUR 405 000

1.9 Final date for contracting:

Two years from the date of conclusion of the signature of the Financing Agreement

1.10 Final date for execution of contracts:

Two years from the final date of contracting

1.11 Final date for disbursements:

One year from the final date for the execution of contracts

2. Overall Objective and Project Purpose

2.1 Overall Objective:

The overall objective to which this project contributes is to prepare the National Bank of the former Yugoslav Republic of Macedonia (NBRM) for membership in the European System of Central Banks (ESCB) and European Central Bank (ECB) in order to enable the NBRM to conduct monetary policy and maintain price stability, thus supporting the general economic objectives of the country.

2.2 Project purpose:

The project purpose is to strengthen the institutional capacity of the NBRM by reviewing the legal, organizational and resource requirements for alignment with the standard institutional and operational framework of the ESCB and ECB.

2.3 Link with AP/ NPAA /EP/ SAA

2.3.1 Link with AP

The Accession Partnership (AP) 2007 defines the following priorities being in whole or partly under the competence of NBRM:

Short-term priorities:

- Ensure proper implementation of all commitments undertaken in the Stabilisation and Association Agreement (stated above);
- Enhance the general business environment by further improving the rule of law, strengthening the independence of regulatory and supervisory agencies, speeding up legal procedures and continuing registration of property rights.

Chapter 4: Free movement of capital

- Make progress in the removal of remaining restrictions on capital movements.

Medium-term priorities:

Chapter 17: Economic and monetary policy

- Align the legal framework in order to ensure full central bank independence.

Chapter 18: Statistics

- Further develop all areas of statistics, achieve full harmonisation in key areas in terms of frequency, scope, classifications, timeliness and quality and put in place a uniform management and production system.
- Put in place a well coordinated national statistical system.

2.3.2 Link with NPAA

Maintenance of sustainable macroeconomic and financial system stability is one of the main goals of NBRM. The ability to ensure existence of a market economy and a stable macroeconomic framework will allow economic agents to make decisions in a climate of predictability and will significantly improve the business climate. These two elements, maintaining macroeconomic stability and business climate improvement are two corner stones of the Copenhagen economic criteria in the NPAA. Thus, bringing NBRM core functions and activities in line with best international practices will contribute to fulfilment of the Copenhagen criteria. The NPAA also mentions the continuation of the monitoring of the process of harmonisation of the regulations with the obligations undertaken with the SAA and the EU acquis to the end of liberalisation of the capital account. The assessments will help realise these aims.

2.3.3 Link with SAA

The grounds for the project are stipulated in several articles in the Stabilization and Association Agreement (SAA).

The NBRM as a policy maker, in charge of the monetary and exchange rate policy, actively participates in the design and implementation of the economic policy. The role of the NBRM is crucial in the development of the economic policies on the path and especially upon the entry in the European Monetary Union (article 81).

The Central bank is also part of the national statistical system actively participating in collection, processing and disseminating statistical information (article 82).

Finally, NBRM representatives are regularly present on the meetings of the Subcommittee for Economic and Financial Issues and Statistics discussing the issues regarding the Macroeconomic stability (article 108-113).

Article 81- Economic policy

- The Community and the country shall facilitate the process of economic reform by cooperating to improve understanding of the fundamentals of their respective economies and of implementing economic policy in market economies.
- To these ends the Community and the country shall cooperate to: – exchange information on macroeconomic performance and prospects and on strategies for development; – analyse jointly economic issues of mutual interest, including the framing of economic policy and the instruments for implementing it.
- At the request of the authorities of the country, the Community may provide assistance designed to support the efforts of the country towards the introduction of full convertibility of the Denar and the gradual development of its policies towards those of the European Monetary System. Cooperation in this area will include informal exchange of information concerning the principles and the functioning of the European Monetary System and the European System of Central Banks.

Article 82- Statistical cooperation

1. Cooperation in the area of statistics shall aim at the development of an efficient and sustainable statistical system capable of providing in due time reliable, objective and accurate data needed to plan and monitor the process of transition and reform in the country. It shall enable the national statistical system coordinated by the State Statistical Office to meet better the needs of its customers, both public administration and private businesses. The statistical system is to respect the fundamental principles of statistics issued by the United Nations and the stipulations of the European Statistical law and develop towards the *acquis Communautaire* in statistics.

2. To this end the Parties may cooperate in particular:

- to promote the development of an efficient statistical service in the country based on an appropriate institutional framework;
- to develop and maintain national capacity for collecting, processing and disseminating statistical information of high quality using modern technologies in the most efficient way;
- to provide private and public sector economic operators and the research community with the appropriate socio-economic data needed to monitor state reforms;
- to enable the national statistical system to adopt the principles and standards of the European statistical system;
- to ensure the confidentiality of individual data.

3. Cooperation in this field shall include, but not limited to, providing information on methods, participation in selected EUROSTAT working groups and exchange of statistical data.

Article 113

The Stabilisation and Association Committee may create subcommittees.

2.3.4 Link with Progress Report 2008

The 2008 Progress Report in the chapter Economic criteria states that...”The country's fiscal and monetary policy mix remained largely in line with the country's need to accelerate economic activity. However, in view of the recent deterioration in external balances, the importance of maintaining a sound economic policy mix has increased”. Also it states ”... despite important progress in improving the business environment, the still slow speed of judiciary procedures and sometimes insufficient resources of supervisory and regulatory agencies are still impeding the rule of law, contract enforcement and the creation of a level playing field for market participants, which are crucial elements for fully functioning markets”.

2.4 Link with MIPD

This project, being oriented towards institutional building, concentrates its activities on two areas of intervention. On the one hand, it is part of the implementation of reforms in the remit of central-bank functions and its independence as the authority responsible for the maintenance of price stability. Currently, a new Draft Law on NBRM is in government procedure. On the other, it is part of the adoption and implementation of the *acquis communautaire*, since the central bank is also a regulatory body in terms of adopting specific acts and measures. This project will help provide assistance to strengthen and consolidate institutional and administrative capacity of the central bank in the fulfilment of its functions and its operations.

These reforms already have been started by preparing the new Draft Law, but the effective implementation remains an issue. As regards the adoption and implementation of the *acquis communautaire* this project will also be linked to the implementation of the Stabilization and Association Agreement, as the central bank's activities include adopting by-laws on foreign-exchange regime, operations, payment system and etc.

2.5 Link with National Development Plan

n/a

2.6 Link with national/ sectoral investment plans

n/a

3. Description of project

3.1 Background and justification:

The National Bank of the Republic of Macedonia (NBRM) is independent and autonomous in the exercise of its functions as defined by the Constitution and Law and is accountable to the National Assembly of the Republic of Macedonia. The NBRM is in charge of monetary and exchange-rate policy, foreign-reserves management, issuance of banknotes and coins, payment-systems oversight and licensing, supervision and regulation of banks and saving houses. It also holds the government's treasury account and acts as an agent for its transactions abroad. The primary objective of the NBRM is to achieve price stability. Without prejudice to its primary objective, the NBRM supports the pursuance of economic policy of the Government, operating in accordance with the principles of a market economy and maintaining financial stability.

NBRM strongly supports the commitment of the country towards EU Integration. It has been participating in line with its competence in all activities of the coordinating bodies set by the Government. With respect to internal organisation, the EU activities were mainly streamlined from the perspective of the *acquis Communautaire* in the relevant chapters and participation in Economic Criteria part given with the NPAA structure. A significant portion of time and resources were devoted to the preparation of the New Draft Law on the National Bank of the Republic of Macedonia, as a pre-accession precondition that has to be fulfilled in order to assure an independent Central bank. The new Draft Law on the National Bank of the Republic of Macedonia was in February 2009 in a government procedure and should represent a big step forward in meeting appropriate standards. The relevant chapters in the NPAA also present the NBRM's context for *acquis* alignment in the other areas of central banking.

Expert knowledge is now needed not only in the adoption and implementation of laws and relevant by-laws, but also in the operations and best-practices implementation related to the ESCB and ECB functioning. Support from peers (the ECB and national central banks) is needed for the NBRM to prepare for the introduction of a stability-oriented monetary policy strategy upon EMS entrance, to build on its intervention tools in money and foreign exchange markets, to increase the efficiency and security of payment systems, to deepen the capacity to analyse economic and financial developments, to enhance the use of forecasting techniques, to collect and disseminate wider and more accurate series of statistics, to enhance the quality and safety of banknotes and – last but not least – to improve the quality of central bank governance.

In order to achieve this, the NBRM would request from the ECB and the partner national central banks (NCBs) the performance of a series of reviews. They should scan NBRM selected activities, identify existence of gaps and prepare recommendations for achieving the benchmarks set. It will support the efforts of the NBRM to identify the priority areas of the central banking activities, the time frame for their alignment, the financial assets needed, as well as the necessary qualification and training of the staff involved in the EU process. In this way the project will strengthen the institutional capacities, activities and efficiency of the NBRM as one of the partners in the EU process.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact

The project will have an impact on the NBRM by permitting the institution to develop and prepare a Strategy to harmonise its procedures and operations with standard practice of a modal NCB. The project shall have broader impact in terms of overall preparation of the country for EU and Euro zone accession, in that it will help create a culture of compliance with the letter and spirit of EU requirements. The project will also provide the basis for drafting the Terms of Reference for possible follow-up programmes aimed at assisting the NBRM at closing the identified gaps thus providing sustainability of the current project.

Additionally, this project will endeavour to contribute to further development of the NBRM's capacities which will provide for long-term stability of the institution, allowing by it to maintain macroeconomic stability.

It will also help NBRM staff share experiences with colleagues of other central banks. This will have a clear cross-border impact in terms of being able to operate and solve problems more easily through cooperation with other central banks.

Finally, the project will foster a sustainable base for institutional integration in EU structures. It is anticipated that the discussed and agreed Synthesis Report of needs will serve as a trigger to develop further partnerships with counterpart NCBs. It will be used as the basis of future actions in the context of closer alignment with ESCB and ECB operating standards and practices.

3.3 Results and measurable indicators

Results to be achieved under Activity 1

- Adoption of a specific frame of reference for assessment of the selected central banking activities.

The measurable indicators under Activity 1 are:

- Benchmark on Accounting;
- Benchmark on Banknotes issuance;
- Benchmark on Economic analysis and research;
- Benchmark on Human resources;
- Benchmark on Internal audit;
- Benchmark on Monetary and exchange rate policy;
- Benchmark on Payment system;
- Benchmark on Statistics.

Results to be achieved under Activity 2:

- Report of the legal, organizational and resource requirements in the selected central banking activities.

The measurable indicators under Activity 2 are:

- Review on Accounting received;
- Review on Banknotes issuance received;
- Review on Economic analysis and research received;
- Review on Human resources;
- Review on Internal audit received;
- Review on Monetary and exchange rate policy received;
- Review on Payment system received;
- Review on Statistics received.

Results to be achieved under Activity 3:

- Synthesis (Needs Assessment) Report and outline of recommendations.

The measurable indicators under Activity 3 are:

- Delivery approval by the Steering Committee and presentation of the Report.

3.4 Activities

The sequencing of activities will consist of:

Activity 1: Setting benchmarks

Benchmarks will be set in the fields of accounting, banknotes issuance, economic analysis and research, human resources, internal audit, monetary and exchange rate policy, payment system and statistics, in consultation with the ECB and the NCBs. The benchmarking shall be done at the first stage of the programme and will result from discussions among the NBRM, the ECB and the experts from the NCBs. It will be so defined as to take into account the specific requirements the NBRM would consider as adequate for each central-banking activity in order to comply with the best practices and legislation of EU Member States central banks.

Activity 2: Conduct of assessment missions

The conduct of **assessment missions** shall be the core activity of the programme. This below analytical framework shall be the basis of the review:

- EU level “legislation” such as Directives, Regulations and Recommendations and other legislative and written policy instruments;
- Other trans-national rules and statistics;
- Relevant legislation in the Republic of Macedonia;
- Rules and regulations of the NBRM applicable to external parties;
- Internal policies and staff guidelines of the NBRM;
- Best practices and operating procedures of management and staff;
- Material equipment and software available to management and staff;
- Education level and availability for training of management and staff.

Activity 3: Preparation of the Synthesis report

The preparation of the Synthesis (including elements of a Needs Assessment) will be based on benchmarks set and the assessment missions realised which will lead to the identification of

gaps, the time frame of their alignment and the resources needed. The report, by means of comparing the real situation with the situation to be achieved, should point to the efforts still to be undertaken in order for further integration and improvement. At the same time it will help the NBRM to streamline the activities in the creation of follow-up programmes that will aim at assisting the NBRM to close identified gaps.

Management and contracting arrangements

The management structure of the project will oversee the overall implementation of the project and ensure appropriate coordination.

The project will be led by a Programme Steering Committee. The core project team will consist of a Project Manager at the ECB in Frankfurt (team leader), a Resident Project Coordinator in Skopje (resident advisor), an ECB team in Frankfurt and experts from the partner NCBs (short-term experts), and experts from other institutions if required.

A Memorandum of Understanding will be agreed between the Organization (ECB) and the NBRM to govern the cooperation with the relevant institutions in the implementation of this Action, the account taken of mandatory confidentiality issues.

The International Organisation (ECB), the European Commission Delegation and the NBRM (beneficiary) will set up a Programme Steering Committee (PSC) to review action progress and give guidance on the implementation of the Action. The PSC will be chaired by the Governor of the National Bank. The PSC will comprise representatives of the above and the partner NCBs (short-term experts), as well as the International Organisation's Project Manager (team leader) and the long-term expert (resident advisor). The long-term expert (resident advisor) may invite additional experts to attend as observers.

The expected contracting arrangements are as follows:

One direct grant between the ECB and the European Commission, to be concluded through the necessary procedures, for conduct of the needs assessment analysis of the NBRM. The grant in question is based on Article 168.1 (c) of the Implementing Rules to the Financial Regulation, which allows grants to be awarded without a call for proposals to bodies with a de jure or de facto monopoly, duly substantiated in the award decision.

The expected date for implementation to start is the 4th quarter of 2010. The contract will be with duration of 9 months. The amount for this contract is approx. EUR 450 000 out of which IPA contribution will amount to EUR 405 000, while the national component will amount to EUR 45 000.

3.5 Conditionality and sequencing

The project includes the following conditionalities:

- 1) The project is conditioned on sufficient offices which the NBRM shall provide. There shall be one office for the resident advisor only and a common room for the experts. IT and telephone facilities, as well as accessories (paper, notebooks) will be provided;
- 2) Appointing the relevant staff by the beneficiaries to participate in execution of the activities 1 and 2;

- 3) Organisation, selection and appointment of members of the Programme Steering Committee;
- 4) Availability of co-financing;
- 5) Endorsement by all key stakeholders of the Terms of Reference;
- 6) Organisation, selection and appointment of members as per working groups, seminars by the beneficiary as per work plan of the project.

If the conditionalities are not met, suspension or cancellation of projects will be considered.

3.6 Linked activities

Statistics Department

Project No. FWC1/053/FY/Statistics - The project purpose is to contribute in the upgrading of the overall system for the production of quality statistics at the SSO and to further develop the National Statistical System towards a fully sustainable and EU-harmonised statistical system. More specifically, the project will focus on developing a quality system for all processes in the production of statistics; further harmonising national accounts and other economic statistics with EU acquis and improving business and social statistics. NBRM being part of the National Statistical System was engaged in activities of this project mainly linked to the Eurostat statistical requirements. However, the NBRM needs to fulfil the statistical requirements towards the ESCB and ECB in addition to the Eurostat requirements, which are much more complex and specific, addressed in the needs assessment project.

Research Department:

The Research Department has been actively involved in the creation of the economic policy especially in the creation of the monetary and exchange rate policy. The employees of the RD actively participate in the preparation of all strategic documents in the field of the macroeconomic policy, such as the Monetary Policy Section in the Macroeconomic Policy of the RM, Pre-accession Economic Programme and the Economic Criteria section of the NPAA etc. Representatives from the Central Bank are regularly present on the meetings of the Subcommittee for Economic and Financial Issues and Statistics discussing the issues regarding the macroeconomic stability. In order to fulfil these tasks appropriate analytical capacity to discuss domestic economic policy issues in an EU environment are needed, the reason being for the following technical assistance:

- Technical support by the Austrian Central Bank in the field of equilibrium exchange rate modelling, during 2006-2007, financed under TAIEX;
- Technical support by the IMF in the field of modelling inflation and developing capacity for model building and policy analysis system, since 2006 onwards, it will continue in 2009;
- Technical support by the IMF in organizing two seminars on econometrics at the premises of the NBRM, in 2005 and 2007, and the last one expected to take place during the first half of 2009.

However, further efforts have to be made especially in the preparation of the future Convergence and Stability Reports as well as building capacity for the future participation in the EU fora upon eventual entry in the EU.

Banknotes department

In 2008 this department had technical cooperation with experts from De Nederlandsche Bank - Netherlands. Main areas of the cooperation that were discussed and worked on were:

- The new packaging of the banknotes in NBRM. Preparations of criteria, new characteristics of the packaging for the tender set of materials;
- Creation of the National Analytical centre for counterfeits. Activities needed for creation, experience from the DNB, software solution and the way of reporting to relevant institutions- Police, Europol, ESCB and other.

The technical cooperation is ongoing and will continue in the previous mentioned and also in the following two areas of our interest:

- Reform of the present distribution of banknotes and coins. The reform will be in order to have a larger involvement of the banking sector in the processing and redistribution of cash. That will enable increased rationality and efficiency in performing of this function of NBRM and to improve the services offered to banks and clients that operate with cash.
- Business continuity planning.

The **2009 Multi-beneficiary Programme** and its project fiche on the Crisis package which includes a component on Reforming the Banking sector supervision and regulations through training for banking sector supervisors/regulators from 8 Beneficiaries, country tailored assistance in the field of banking supervision and financial stability, according to a modular basis and depending upon availability of resources; build-up the institutional capacity of the supervisors to cooperate across the borders, including with supervisors within the European Union. This project will be implemented by joint management with the ECB.

3.7 Lessons learned

The NBRM does not have a long experience in donor technical assistance projects financed by the EC but it has however cooperated, as noted above, on a number of focused other donor activities.

Experience in two fields, Statistics and Research on exchange rate modelling, has been mainly positive. For example, as a result of cooperation the model for the estimation of the equilibrium exchange rate is regularly maintained and is actively used in the assessment of the exchange rate developments. That was a direct result of assistance and cooperation.

Despite the so far modest work with EC funds (e.g. TAIEX) the main lesson learned is the need for improved streamlining of the central bank's activities and the building of experience in strategy formulation and action planning with a view of eventual EU accession.

The training which will come out of the needs assessment is also an important way to address these above issues.

4. Indicative Budget (amounts in €)

			SOURCES OF FUNDING										
			TOTAL EXP.RE	TOTAL PUBLIC EXP.RE	IPA COMMUNITY CONTRIBUTION		NATIONAL PUBLIC CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(e)	EUR (b)=(c)+(d)	EUR (c)	% (2)	Total EUR (d)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/Local EUR (y)	IFIs EUR (z)	EUR (e)	% (3)
Direct grant (institutional building)	x		450 000	450 000	405 000	90	45 000	10	45 000	-	-	-	-
TOTAL IB			450 000	450 000	405 000	90	45 000	10	45 000	-	-	-	-
TOTAL INV			-	-	-	-	-	-	-	-	-	-	-
TOTAL PROJECT			450 000	450 000	405 000	90	45 000	10	45 000				

NOTE: DO NOT MIX IB AND INV IN THE SAME ACTIVITY ROW. USE SEPARATE ROW

Amounts net of VAT

(1) In the Activity row use "X" to identify whether IB or INV

(2) Expressed in % of the **Public** Expenditure (column (b))

(3) Expressed in % of the **Total** Expenditure (column (a))

In case of local or foreign training the project will fund from incidentals – whenever necessary - the renting of training rooms and equipment, the printing of training material and accessories as well as per diems/allowances for participants in the way and to the level normally financed by the government, but never higher than the per diem rates published by the EU.

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1	Q3 2010	Q4 2010	Q3 2011

6. Cross cutting issues

6.1 Civil Society development and dialogue

Where possible, NBRM will consult with the ECB to investigate where the bank might expand and develop its participatory processes with the wider public.

6.2 Environmental considerations

It is not envisaged that the project will have a direct component addressing environment. Nonetheless due consideration will be taken into consideration of environmental best practice where relevant and appropriate in the project.

6.3 Equal Opportunity and non-discrimination

Equal opportunity will be fostered through the involvement of the NBRM's trade union, as well as through informing civil society about the IPA project. This will also foster transparency. Equal opportunities to participate in the project as well as non discrimination will be guaranteed by the beneficiary.

6.4 Minority and vulnerable groups

The Ohrid Framework Agreement and legislative changes based around on it set the standard for adequate representation of minorities in public bodies in the country. Persons involved in the project should take account of the aim of equal opportunities for members of the 'non-majority communities'. The National Bank of the Republic of Macedonia actively promotes the hiring, promotion and advancement of minorities.

6.5 Good governance, with particular attention to fight against corruption

The bank is committed to the highest standards of good governance in the widest possible sense. NBRM will endeavour to integrate as much as possible these themes into the work and input provided by the ECB as part of this initiative.

ANNEXES

- 1- Log frame in Standard Format
- 2- Amounts contracted and Disbursed per Quarter over the full duration of Programme
- 3- Description of Institutional Framework
- 4 - Reference to laws, regulations and strategic documents:
 - Reference list of relevant laws and regulations
 - Reference to AP /NPAA / EP / SAA
 - Reference to MIPD
 - Reference to National Development Plan
 - Reference to national / sector investment plans
- 5- Details per EU funded contract (*) where applicable:
 - For *TA contracts*: account of tasks expected from the contractor
 - For *twinning covenants*: account of tasks expected from the team leader, resident twinning advisor and short term experts
 - For *grants schemes*: account of components of the schemes
 - For *investment contracts*: reference list of feasibility study as well as technical specifications and cost price schedule + section to be filled in on investment criteria (**)
 - For *works contracts*: reference list of feasibility study for the *constructing works* part of the contract as well as a section on investment criteria (**); account of services to be carried out for the *service part* of the contract

(*) non standard aspects (in case of derogation to PRAG) also to be specified

(**) section on investment criteria (applicable to all infrastructure contracts and constructing works):

- Rate of return
- Co financing
- compliance with state aids provisions
- Ownership of assets (current and after project completion)

ANNEX 1 - Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX FOR THE PROJECT FICHE: Review of legal, organizational and resource requirements for the National Bank in the process of European Central Bank (ECB) and European System of Central Banks (ESCB) accession.		Programme name and number: National Programme for the former Yugoslav Republic of Macedonia under the IPA Transition Assistance and Institution Building Component for 2009		
		CRIS number: 2009/021-665		
		Contracting period expires two years from the date of the conclusion of the Financing Agreement.	Execution period expires two years from the final date for contracting.	Disbursement period expires one year from the final date for execution of contracts.
		Total budget : EUR 450 000		IPA budget: EUR 405 000
Overall objective	Objectively verifiable indicators	Sources of Verification		
The overall objective to which this project contributes is to prepare the National Bank of the former Yugoslav Republic of Macedonia (NBRM) for membership in the European System of Central Banks (ESCB) and European Central Bank (ECB) in order to enable the NBRM to conduct monetary policy and maintain price stability, thus supporting the general economic objectives of the country.				
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions	
The project purpose is to strengthen the institutional capacity of the NBRM by reviewing the legal, organizational and resource requirements for alignment with the standard institutional and operational	Endorsement of the ECB, Commission and the Council that NBRM rules and structures and the legislation in this area are in line with the on-going accession requirements.	Regular reports by the NBRM European Commission's Progress Report Reports from the ECB and feedback from EU Member State national banks.	The NBRM maintains consistent policy and commitment to the accession of the ESCB and the ECB.	

framework of the ESCB and ECB.			
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<u>Result 1:</u> - Adoption of specific frame of reference for assessment of the selected central banking activities. <u>Result 2:</u> - Report of the legal, organizational and resource requirements in the selected central banking activities. <u>Result 3:</u> - Synthesis Report and outline of recommendations.	<u>Measurable indicators regarding result 1</u> - Benchmark on Accounting; - Benchmark on Banknotes issuance; - Benchmark on Economic analysis and research; - Benchmark on Human resources; - Benchmark on Internal audit; - Benchmark on Monetary and exchange rate policy; - Benchmark on Payment system; - Benchmark on Statistics. <u>Measurable indicators regarding result 2</u> - Review on Accounting received; - Review on Banknotes issuance received; - Review on Economic analysis and research received; - Review on Human resources; - Review on Internal audit received; - Review on Monetary and exchange rate policy received - Review on Payment system received; - Review on Statistics received;	- Document with set benchmarks. - Delivered report on facts found from the review on Accounting; Delivered report on facts found from the review on banknotes; - Delivered report on facts found from the review on Economic analysis and research ; - Delivered report on facts found from the review on Human resources; - Delivered report on facts found from the review on Internal audit; - Delivered report on facts found from the review on Monetary and exchange rate policy; - Delivered report on facts found from the review on Payment system; - Delivered report on facts found from the review on Statistics.	Full commitment of the parties involved.

	<u>Measurable indicators regarding result 3</u> - Delivery approval by the Steering Committee and presentation of the Report.		
Activities	Means	Costs	Assumptions
Activity 1: Setting benchmarks. Activity 2: Conduct of assessment missions. Activity 3: Preparation of the Synthesis (Needs Assessment) Report.	Direct grant Contractor's staff	Overall cost EUR 450 000 IPA contribution EUR 405 000 National co-financing EUR 45 000	Full commitment of the parties involved.

Pre-conditions:

1. The project is conditioned on sufficient offices which the NBRM shall provide. There shall be one office for the resident advisor only and a common room for the experts. IT and telephone facilities, as well as accessories (paper, notebooks) will be provided;
2. Appointing the relevant staff by the beneficiaries to participate in execution of the activities 1 and 2;
3. Organisation, selection and appointment of members of the Programme Steering Committee;
4. Availability of co-financing;
5. Endorsement by all key stakeholders of the Terms of Reference
6. Organisation, selection and appointment of members as per working groups, seminars by the beneficiary as per work plan of the project

ANNEX 2 - Amounts (in €) contracted and disbursed by quarter over the full duration of the project (IPA funds only)

	2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Contracted												
Direct grant				405.000								
Cumulated				405.000								
Disbursed												
Direct grant				324.000			81.000					
Cumulated				324.000			405.000					

ANNEX 3 - Description of the Institutional Framework

The National Bank of the Republic of Macedonia is the central bank of the country. The main objective of the National Bank is to maintain the price stability. The National Bank supports the economic policy of the country and its financial stability without jeopardizing the realization of the main objective, and adhering to the principles of the market economy.

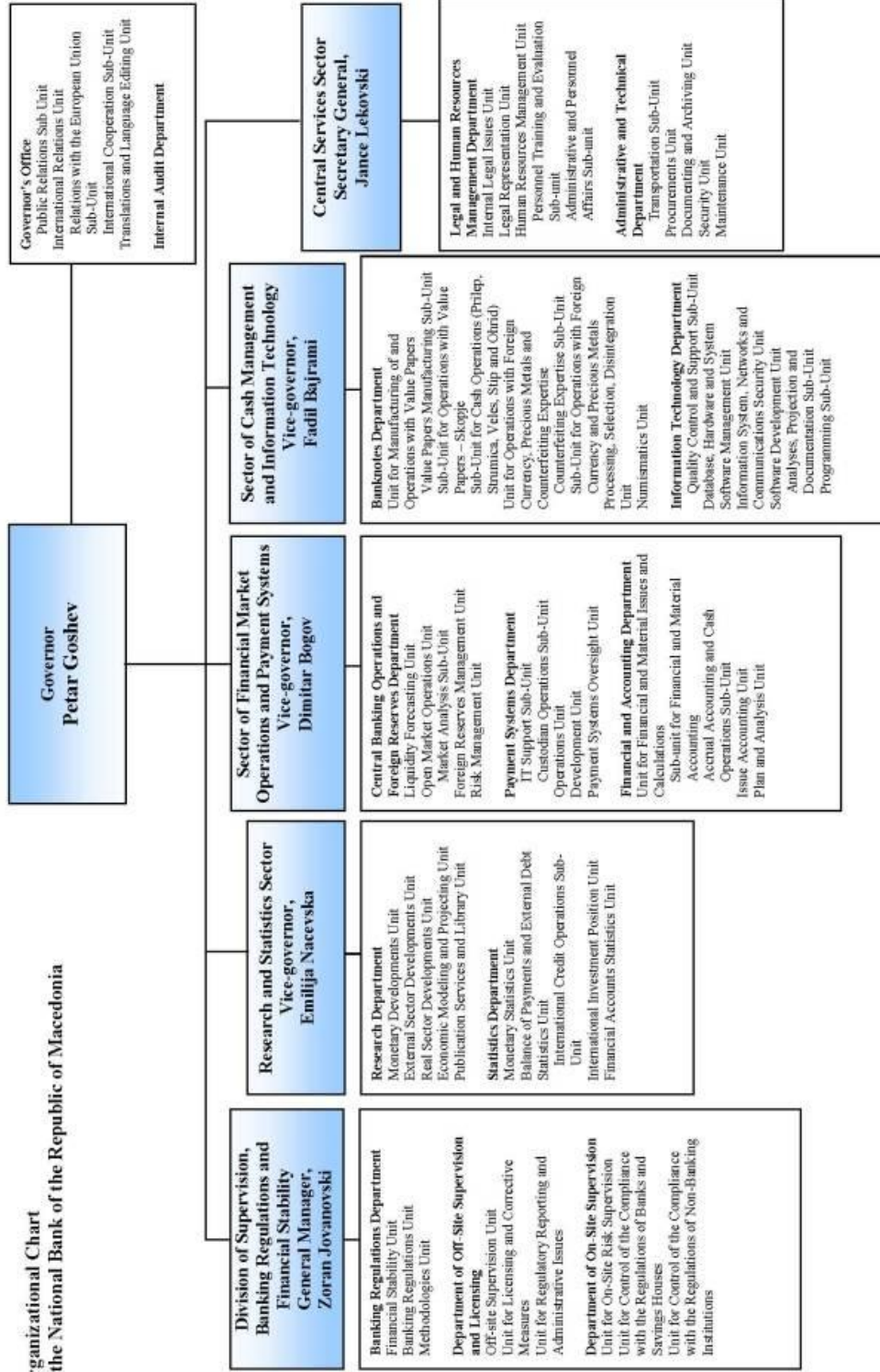
The National Bank is a legal entity in the sole ownership of the state, with financial and administrative independence. It carries out activities that are under its competence granted with the Constitution and the Law on the National Bank of the Republic of Macedonia (Official Gazette 52/91, 01/92, 31/98, 91/2001, 84/2003, 107/2005, 3/2009). The main functions of the National Bank are:

- establish and conduct the monetary policy,
- regulate the liquidity in the international payments,
- establish and conduct the Denar exchange rate policy,
- handle and manage the foreign exchange reserves,
- regulate the payment system,
- grant founding and operating license to a bank and a savings house and supervise the banks and savings houses,
- grant a license for performing services of prompt money transfer and supervise the operations of the entities performing services of prompt money transfer in accordance with a law,
- grant operating license to foreign exchange bureaus and supervise their operations in accordance with a law;
- issue banknotes and coins,
- perform activities for the account of the central government and the government administration bodies.

The total number of employees in the National Bank of the Republic of Macedonia is 433 organized in 4 sectors and 13 departments (a detailed organizational structure is enclosed). The project will engage 4-6 employees from 8 departments (accounting, banknotes issuance, economic analysis and research, human resource, internal audit, monetary and exchange rate policy, payment system and statistics) plus 3 people from the Relation with EU sub-unit, or overall 51 people will be directly included in the project.

Organization chart: Please find below the organizational chart of the NBRM

**Organizational Chart
of the National Bank of the Republic of Macedonia**



ANNEX 4 - Reference to laws, regulations and strategic documents

Reference to national laws and regulations

- Constitution of RM (*Official Gazette 52/91, 01/92, 31/98, 91/2001, 84/2003, 107/2005, 3/2009*)
- Law on the National Bank of the Republic of Macedonia (*Official Gazette 03/02, 51/03, 85/03, 40/04, 61/05 and 129/06*)
- Banking Law (*Official Gazette 67/07*)
- Law on Payment Operations (*Official Gazette 22/08 and 159/08*)
- Law on Foreign Exchange Operations (*Official Gazette 34/01, 49/01, 103/01, 51/03 and 81/08*)
- Law on Securities (*Official Gazette 95/2005, 25/2007 and 07/2008*)
- Law on Public Debt (*Official Gazette 62/2005*)
- Law on Money Transfer (*Official Gazette 77/2003 and 54/2007*)
- Statute of the National Bank of the Republic of Macedonia (2007)
- National Strategy for Payment System Development (2007)
- Rulebook on the Manner and Procedure for Issuance and Payment of Government Securities (*Official Gazette 99/2005, 35/2007 and 132/2007*)
- Strategy For Development of Government Securities Market (2003)
- Macroeconomic Policy of the Republic of Macedonia (2008)
- Pre-accession Economic Programme (2008)

Reference to AP/NPAA /SAA/Progress report

Reference to AP

The Accession Partnership (AP) 2007 defines the following priorities being in whole or partly under the competence of NBRM

Short-term priorities:

- Ensure proper implementation of all commitments undertaken in the Stabilisation and Association Agreement (stated above);
- Enhance the general business environment by further improving the rule of law, strengthening the independence of regulatory and supervisory agencies, speeding up legal procedures and continuing registration of property rights.

Reference to NPAA

Maintenance of sustainable macroeconomic and financial system stability is one of the main goals of NBRM. The ability to ensure existence of a market economy and a stable macroeconomic framework will allow economic agents to make decisions in a climate of predictability and will significantly improve the business climate. These two elements, maintaining macroeconomic stability and business climate improvement are two corner stones of the Copenhagen economic criteria in the NPAA. Thus, bringing NBRM core functions and activities in line with best international practices will contribute to fulfilment of the Copenhagen criteria. The NPAA also mentions the continuation of the monitoring of the process of harmonisation of the regulations with the obligations undertaken with the SAA and the EU acquis to the end of liberalisation of the capital account. The needs assessment project will help realise these aims.

Reference to SAA

The NBRM as a policy maker, in charge of the monetary and exchange rate policy, actively participates in the design and implementation of the economic policy. The role of the NBRM is crucial in the development of the economic policies on the path and especially upon the entry in the European Monetary Union (article 81).

Article 81- Economic policy

1. The Community and the country shall facilitate the process of economic reform by cooperating to improve understanding of the fundamentals of their respective economies and of implementing economic policy in market economies.

2. To these ends the Community and the country shall cooperate to: – exchange information on macroeconomic performance and prospects and on strategies for development; – analyze jointly economic issues of mutual interest, including the framing of economic policy and the instruments for implementing it.

3. At the request of the authorities of the country, the Community may provide assistance designed to support the efforts of the country towards the introduction of full convertibility of the Denar and the gradual development of its policies towards those of the European Monetary System. Cooperation in this area will include informal exchange of information concerning the principles and the functioning of the European Monetary System and the European System of Central Banks.

The Central bank is also part of the national statistical system actively participating in collection, processing and disseminating statistical information (article 82).

Article 82- Statistical cooperation

1. Cooperation in the area of statistics shall aim at the development of an efficient and sustainable statistical system capable of providing in due time reliable, objective and accurate data needed to plan and monitor the process of transition and reform in the country. It shall enable the national statistical system coordinated by the State Statistical Office to meet better the needs of its customers, both public administration and private businesses. The statistical system is to respect the fundamental principles of statistics issued by the United Nations and the stipulations of the European Statistical law and develop towards the acquis Communautaire in statistics.

2. To this end the Parties may cooperate in particular:

- to promote the development of an efficient statistical service in the country based on an appropriate institutional framework,
- to develop and maintain national capacity for collecting, processing and disseminating statistical information of high quality using modern technologies in the most efficient way,
- to provide private and public sector economic operators and the research community with the appropriate socio-economic data needed to monitor state reforms;
- to enable the national statistical system to adopt the principles and standards of the European statistical system,
- to ensure the confidentiality of individual data.

3. Cooperation in this field shall include, but not limited to, providing information on methods, participation in selected EUROSTAT working groups and exchange of statistical data.

NBRM representatives are regularly present on the meetings of the Subcommittee for Economic and Financial Issues and Statistics discussing the issues regarding the Macroeconomic stability (article 108-113).

Article 113

The Stabilisation and Association Committee may create subcommittees.

Chapter 4: Free movement of capital

- Make progress in the removal of remaining restrictions on capital movements.

Medium-term priorities:

Chapter 17: Economic and monetary policy

- Align the legal framework in order to ensure full central bank independence.

Chapter 18: Statistics

- Further develop all areas of statistics, achieve full harmonization in key areas in terms of frequency, scope, classifications, timeliness and quality and put in place a uniform management and production system.
- Put in place a well coordinated national statistical system.

Reference to Progress Report 2008

The 2008 Progress Report in the chapter Economic criteria says that..."The country's fiscal and monetary policy mix remained largely in line with the country's need to accelerate economic activity. However, in view of the recent deterioration in external balances, the importance of maintaining a sound economic policy mix has increased". Also it states "... despite important progress in improving the business environment, the still slow speed of judiciary procedures and sometimes insufficient resources of supervisory and regulatory agencies are still impeding the rule of law, contract enforcement and the creation of a level playing field for market participants, which are crucial elements for fully functioning markets".

Reference to MIPD

This project, being oriented towards institutional building, concentrates its activities on two areas of intervention. On the one hand, it is part of the implementation of reforms in the remit of central-bank functions and its independence as the authority responsible for the maintenance of price stability. Currently, a new Draft Law on NBRM is in government procedure. On the other, it is part of the adoption and implementation of the *acquis Communautaire*, since the central bank is also a regulatory body in terms of adopting specific acts and measures. This project will help provide assistance to strengthen and consolidate institutional and administrative capacity of the central bank in the fulfilment of its functions and its operations. These reforms already have been started by preparing the new Draft Law, but the effective implementation remains an issue. As regards the adoption and implementation of the *acquis Communautaire* this project will also be linked to the implementation of the Stabilization and Association Agreement, as the central bank's activities include adopting by-laws on foreign-exchange regime, operations, payment system and etc.

Reference to National Development Plan: n/a

Reference to national/ sectoral investment plans: n/a

ANNEX 5 - Details per EU funded contract

Management and contracting arrangements

The management structure of the project will oversee the overall implementation of the project and ensure appropriate coordination.

The project will be led by a Programme Steering Committee. The core project team will consist of a Project Manager at the ECB in Frankfurt (team leader), a Resident Project Coordinator in Skopje (resident advisor), an ECB team in Frankfurt and experts from the partner NCBs (short-term experts), and experts from other institutions if required.

A Memorandum of Understanding will be agreed between the Organization (ECB) and the NBRM to govern the cooperation with the relevant institutions in the implementation of this Action, the account taken of mandatory confidentiality issues.

The International Organisation (ECB), the European Commission Delegation and the NBRM (beneficiary) will set up a Programme Steering Committee (PSC) to review action progress and give guidance on the implementation of the Action. The PSC will be chaired by the Governor of the National Bank. The PSC will comprise representatives of the above and the partner NCBs (short-term experts), as well as the International Organisation's Project Manager (team leader) and the long-term expert (resident advisor). The long-term expert (resident advisor) may invite additional experts to attend as observers.

The ECB/NCB will provide short-term experts to meet the objective, scope and activities as laid out in this contract.

A team leader at the ECB shall be project manager and cooperate with the programme manager (SPO) of the NBRM in reviewing the programme process and give guidance throughout the execution of the programme. The team leader and programme manager are expected to coordinate activities, and meet formally several times within the framework of the Programme Steering Committee. The reporting will follow the EU Reporting Guidelines. The cost of the team leader shall be borne by the overhead costs of the experts.

A long-term expert, i.e. resident advisor shall be based in Skopje during the duration of the programme. His/her tasks will be the day-to-day management of the activities and coordinating the team of NCBs experts. He/she will report to the team leader. Specifically, he/she will:

- Ensure information flow within the team of experts and with the NBRM's programme manager;
- Establish relations with various NBRM counterparts and stakeholders;
- Coordinate all missions of the experts to Skopje (also in terms of travel arrangements);
- Ensure timely implementation of the programme;
- Be responsible for the delivery of the report.

The resident advisor will organise the meetings of the PSC and ensure the proper functioning of the Committee, including preparing agendas, writing minutes and communicating relevant information. The NBRM and the Delegation of the European Commission shall be duly consulted on all written documents and the ECB will support the resident advisor in the conduct of these functions, when needed.

The expected contracting arrangements are as follows:

One direct grant between the ECB and the European Commission, to be concluded through the necessary procedures, for conduct of the needs assessment analysis of the NBRM. The grant in question is based on Article 168.1 (c) of the Implementing Rules to the Financial Regulation, which allows grants to be awarded without a call for proposals to bodies with a de jure or de facto monopoly, dully substantiated in the award decision.

The expected date for implementation to start is the 4th quarter of 2010. The contract will be with duration of 9 months. The amount for this contract is approx. EUR 450 000 out of which IPA contribution will amount to EUR 405 000, while the national component will amount to EUR 45 000.