

FINAL VERSION

1. Basic information

1.1 CRIS Number: 2009/021-665

1.2 Title: Strengthening the capacity of the Ministry of Finance for macroeconomic analysis and policy formulation in order to improve policy making and meet the criteria for EU accession

1.3 ELARG Statistical code: 2.17

1.4 Location: Skopje

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.

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Financing:

1.7 Overall cost (VAT excluded)¹: EUR 1 300 000

1.8 EU contribution: EUR 1 217 500

1.9 Final date for contracting:

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

1.10 Final date for execution of contracts:

Two years from the final date for contracting

1.11 Final date for disbursements:

One year from the final date for execution of contract

2. Overall Objective and Project Purpose

2.1 Overall Objective:

The overall objective to which this project contributes is the improvement of the quality of information provided to economic policy makers, necessary for effective decision-making processes.

2.2 Project purpose:

The project purpose is to improve economic analysis skills in the Ministry of Finance (MoF), aiming to design a coherent medium and long-term macro-fiscal framework.

2.3 Link with AP/NPAA/EP /SAA

2.3.1 Link with AP

The **Accession Partnership 2007**, identifies as a medium term priority in the area of the Economic criteria to raise the quality of public spending by strengthening the public sector's capacity for medium-term planning and improving the budgetary execution.

2.3.2 Link with NPAA

The link with the **NPAA** is based on the Economic criteria necessary for achieving a functioning market economy status. The economic criteria priorities include:

- Maintaining macroeconomic stability
- Enhancing reforms in the public finances

2.3.3 Link with SSA

n/a

2.3.4 Link with Progress report

¹ 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.

In addition, the **Progress Report 2008**, in the chapter Economic criteria, for the macroeconomic stability concludes that “the quality of public finances continues to be hampered by weaknesses in medium-term budgetary planning and priority setting, leading to a high proportion of discretionary and short-term spending decisions.” Hence, this needs further capacity building of the MoF for economic planning, budget preparation and profound economic analysis.

In its assessment of the former Yugoslav Republic of Macedonia Pre-accession Economic Programmes, the European Commission has repeatedly urged the country to improve its skills with respect to economic analysis and policy formulation.

2.4 Link with MIPD

The MIPD 2008-2010 states that pre-accession assistance shall help the country, above all, to advance along the road to EU integration and support the country's efforts to comply with the Copenhagen criteria. Against this background pre-accession assistance shall help to overcome the deficiencies that have been identified. In doing so, assistance will, among other, focus on: “Supporting economic development and enhancing social cohesion by supporting the implementation of national and regional development plans”.

2.5 Link with National Development Plan

The MoF-Macroeconomic Policy Department prepares the National Development Plan (NDP) of the former Yugoslav Republic of Macedonia. Hence, developing the capacity of the Department will contribute towards better quality NDP.

2.6 Link with national/ sectoral investment plans

The NDP sets the framework for the national/sectoral investment plans and is a base for the preparation of the annual Public Investment Programme, that is prepared by the Budget Department within the MoF.

3. Description of project

3.1 Background and justification

Currently, the Macroeconomic Policy Department is responsible for the creation of the Pre-accession Economic Programme and National Development Plan, analysis of the economic and social development in the country, as well as the compilation of macroeconomic projections.

Only relatively recently the Department started to expand and further develop its activities in the areas of macroeconomic modelling and deeper economic and fiscal analysis. However, much more needs to be done in that respective area, as well as in the area of budget planning, cost-benefit analysis of capital investments and strategies creation. Necessary precondition for achieving these goals is an improvement in data quality, organisation of data (data base and storage), data analysis and projections. In 2005-2006, as the result of technical assistance a consultant created the CGE model (General Equilibrium Economic model). However, in practise, the CGE turned out to be too demanding with respect to data requirements and also for existing computer programming skills. Hence, the actual use of this model is left for a later date when the necessary requirements are in place.

This project will primarily be based on capacity building of the Macroeconomic Policy Department in the MoF as a main beneficiary, as well as the Department of the System of Calculation and Collection of Taxes (Tax Department) and Budget and Funds Department.

The MoF has identified a need for capacity building in the following areas:

Preparation for EU-membership

As a Candidate Country, the former Yugoslav Republic of Macedonia should prepare and submit to the European Commission an annual medium-term macroeconomic and fiscal framework, in which the authorities present their medium-term plans on how to comply with the economic criteria for EU membership. Drafting this programme requires a concise analysis of recent economic developments, the presentation of a medium-term macroeconomic scenario, an advanced fiscal analysis and a presentation of policy priorities and their implementation.

In this regard, the Macroeconomic Policy Department is responsible for creation of a coherent medium and long term macro-fiscal framework. This includes compiling the economic sectors data (Real sector, Fiscal, External, Monetary and Social sector) into a comprehensive macroeconomic framework. The framework is based on inputs provided by the official statistical system of the former Yugoslav Republic of Macedonia, as well as other departments in the MoF, mainly the Tax and the Budget departments, as well as other governmental institutions. Hence the need that, in addition to the Macroeconomic Policy Department, this project seeks to improve the capacity for quality analysis of the Tax and Budget departments.

The Tax Department (in full, Department of the System of Calculation and Collection of Taxes), in consultations with the Macroeconomic Policy Department, is responsible (among others) for the preparation of the tax revenues forecasts which is initial step in presenting the revenues side of the fiscal scenario. This includes several meetings each quarter between the staff of the two departments, exchange of detailed data and information, and analysis.

The Budgets and Funds Department is responsible (amongst other aspects) for the preparation of the fiscal policy and strategy of the country, focusing on government expenditures. The structure of expenditures are based on Government priorities and programmes. Data from the Budget and Funds Department are also necessary for the preparation of the external sector scenario and design of the monetary framework and policy.

Statistics and EU-Accession

In order to have better and more up to date information on economic developments in the country, the current statistical system requires a major upgrade in terms of data coverage and in data quality. The project could contribute to another important requirement for EU accession, aligning the statistic system with the European statistical standard (ESA 95).

Political Decision- Making and the Budget Process in the former Yugoslav Republic of Macedonia

Macroeconomic forecasts are important inputs in the budget process. However, consistency and linkages between forecasting of macroeconomic variables and the budget process need to be improved. In addition, macroeconomic model can help analyse economic effects of policy changes and will increase the quality of policy decisions.

Information of the Political Level and the Private Sector about the Economy

The information to the politicians about the macroeconomic developments in the country should be based on a continuous flow of information. Only in that way the politicians will be able to react to potential shocks to the economy. In addition, private companies would benefit from improved forecasts and information, and accordingly better plan their business operation and investments.

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

The main impact of the project is to improve economic policy decisions of the policy makers. An improved process of strategies creation, and budget planning as well as making better quantitative projections will help not only the MoF to make better decisions based on reliable analysis and forecasts, but also the government in general, the NGO sector, foreign and domestic investors, private sector as well the academia. The likely improvement of the quality of the decisions should contribute to the improvement of the business environment; create conditions for higher and sustainable economic growth and reduction of unemployment. Furthermore, better analysis of data will contribute to more efficient and targeted fiscal policy, including better execution of the budget expenditures, as well as more coherent planning of the budget revenues which is an important requirement for meeting the criteria for EU membership.

Drawing on previous experience, sustainability of the project actions has to be ensured beyond the scope of the project. The fundamental part of this assistance will allow for redefining (where needed) the macroeconomic policy in the context of current global problems. The objectives of the detailed actions later to be developed will have to pay close attention to global issues such as economic stabilization, distributional equity, and broader social goals (e.g. income security, education, and universal health care).

3.3 Results and measurable indicators

The project shall provide advisory support to the Macroeconomic Policy Department of the MoF and will consist of two components.

The first component is aimed at further development of the capacity of the Macroeconomic Policy Department for economic analysis and modelling, cost-benefit analysis and improvement of the process of budget planning in the MoF, skills necessary for the preparation of higher quality, consistent Pre-accession Economic Programme.

The second component is aimed at improving the organisation of data, in particular developing effective data base and data storage in the Macroeconomic Policy Department

Results and indicators in relation with Component 1: Further development of the capacity of the Macroeconomic Policy Department for economic analysis and modelling, cost-benefit analysis and improvement of the process of budget planning in the MoF

The specific results to be achieved are:

1. Improvement of the process of economic policies' proposals and design and assessment

- Developed action plan for introduction of cost benefit analysis;
- Developed capacities for conducting cost benefit analysis;
- Socio-economic cost benefit analysis carried out by the people trained.

2. Improvement of the fiscal framework

- Modern budgetary practices and techniques are used in the budget planning process;
- Prepared manual for the budget planning process;
- Improved quality (and depth) of fiscal analysis.

3. Economic modelling

- An evaluation Report on current economic modelling is prepared with suggestions for improvement;
- A model for economic analysis and forecasting is created and used by the employees;
- Prepared manual for the model, with better projections/forecasts produced by use of the model.

The measurable indicators are:

1.1. Improvement of the process of economic policies' proposals and design and assessment

- Action plan executed and implemented;
- Number of people trained to perform cost benefit analysis;
- Number of cost benefit analysis done by employees.

1.2. Improvement of the fiscal framework

- Number of people trained in analytical skills in the fiscal area;
- Number of people trained in modern budgetary practices and techniques;
- Prepared manual used by MoF;
- Performed budget analysis.

1.3. Economic modelling

- Developed action plan for improvement of economic modelling
- The model is in place and projections are made by using the model
- Manual used by the MoF
- People trained for using the econometric model are able to maintain and upgrade the model.

Results and indicators in relation with Component 2: Improving the organisation of data, in particular developing an effective data base and data storage in the Macroeconomic Policy Department

The specific results to be achieved include:

- Evaluation Report of the current process of data collection, organisation and data storage with an action plan for improvement
- Developed and functional electronic data base for data collection and organisation
- Created manual for data collection, organisation and storage
- Employees trained for working with data base

The measurable indicators are:

- Implementation of the Action plan by the Macroeconomic Policy Department (number of tasks from the Action plan are delivered by the responsible employees in the timeframe set)
- Data base is functional and in use
- Manual used by the Macroeconomic Policy Department
- Employees regularly using the data base

3.4 Activities

Component 1: Further development of the capacity of the Macroeconomic Policy Department for economic analysis and modelling, cost-benefit analysis and improvement of the process of budget planning in the MoF

The main (indicative) activities foreseen to be carried out under this contract include:²

1.1 Improvement of the process of economic policies' proposals and design and assessment

- Introduction of cost benefit analysis for government policies, policy proposals and capital investments
- Provide relevant training to employees on cost-benefit analysis

1.2 Improvement of the fiscal framework

- Providing assistance for improving the budget planning process by using modern budgetary practices and techniques
- Providing relevant training to employees for improving analytical skills in the fiscal area

1.3 Economic modelling

- Evaluation of the current situation and developing proposal for improvement of economic modelling
- Creation of an econometric model
- Creation of a manual for the model
- Providing relevant training to employees for work with the model

Component 2: Improving the organisation of data, in particular developing an effective data base and data storage in the Macroeconomic Policy Department

The activities foreseen under this component include:

- Evaluation of the process of collection, organisation and data storage;
- Developing proposal and suggesting options for better data organisation and storage;
- Development of application on data collection and possible electronic connection of the MoF with the State Statistical Office database;
- Providing relevant training to employees for working with data bases.

Management and contracting arrangements

² Under Twinning activities are of course indicative and are fixed in the Twinning Work-plan phase together with the Twinning partner. This information is purely indicative and relates to what might be implemented in line with the results above. Further developed or other activities may be introduced at the Work-plan phase in line with Twinning norms.

The co-ordination of the activities foreseen to be carried out under the different components is of key importance. Therefore, the management structure will be established so as to oversee the overall implementation of the project and to ensure appropriate coordination between the different activities supported by the project.

For the service contract, the management structure of the project will consist of one project leader responsible for the overall coordination, representation (co-ordination with the EU and other international bodies) and reporting over the implementation of the project and team coordinators/leaders responsible for the realisation of the activities foreseen under each particular contract. The team leaders are responsible for an appropriate management of resources.

The team coordinators/leaders will be appointed from the Macroeconomic Policy Department. Team leaders will be responsible for coordination, management and day-to day monitoring of implementation of the services provided by the experts under the service contracts.

The core project team – consisting of the project leader, team leader and other experts will be placed within the MoF.

Alongside the Project Leader and RTA from the MS institution, the BC Project Leader and the RTA counterpart will be appointed from the Macroeconomic Policy Department. Additional expertise short-term experts, next to a RTA, will assist in key tasks, e.g. in the field of administrative capacity building, procedures and procedural compliance, training, legal development and others. Some of these experts will address cross-cutting issues.

For the Twinning, the Project Steering Committee will be established, responsible for reviewing the project progress and advising on the possible measures to be taken in order to ensure that results will be attained. The Steering Committee will meet once every three months and will include the MS and BC Project Leaders, RTA and RTA counterpart, representatives from the different departments within the MoF.

During the inception phase of the project, a detailed work plan will be developed by the Twinning partners. Reports will be prepared by the MS Project Leader, using the reports provided by the RTA, the former Yugoslav Republic of Macedonia counterparts and any other sources.

The capacity of the Macroeconomic Policy Department currently is relatively good with a total of 14 employees, and favourable age structure. In addition, in February/March 2009, the Macroeconomic Policy Department was in the latter stage of hiring 3 new employees and by 2011 all available posts in the Department should be filled in with qualified staff. During the workplan development phase of the initiative, a detailed deployment plan will be developed.

The detailed project management and implementation structure, with full descriptions of roles and responsibilities will be proposed during ToR and Twinning fiche preparation.

The expected contracting arrangements are:

- Twinning contract for the further development of the capacity of the macroeconomic department for economic analysis and modelling and improvement of the process of budget planning in the MoF. The duration of the Twinning is expected to be 24 months.

The contract value will be approx. EUR 950.000, out of which IPA contribution will amount to EUR 902.500, while national contribution will amount to EUR 47.500.

- Service Contract for improving the organisation of data, in particular developing effective data base and data storage in the Macroeconomic Policy Department. Implementation is expected to start one month after the signature of the contract. It is expected that the services under the contract will be delivered within 12 months. The contract value will be approx. EUR 350.000, out of which IPA contribution will amount to EUR 315.000, while the national contribution will amount to EUR 35.000.

3.5 Conditionality and sequencing

The project includes the following conditions:

1. Endorsement by all key stakeholders of the Terms of Reference, for the individual contracts to be engaged;
2. Appointment of counterpart personnel by the beneficiary before the launch of the tender process;
3. Allocation of working space and facilities by the beneficiary for twinning and technical assistance before the launch of the tender process;
4. Participation by the beneficiary in the tender process in accordance with EU regulations;
5. Organisation, selection and appointment of members as per working groups, seminars by the beneficiary as per work plan of the project;
6. Appointing the relevant staff by the beneficiaries to participate in training activities as per work plan and involvement of key staff in order to ensure sustainability of the project activities.

In the event that conditions are not met, suspension or cancellation of the project will be considered.

3.6 Linked activities

1. In 2001, with USAID financial support the Macroeconomic Policy Department was created. This support also helped to build and strengthen capacities.
2. In 2006, the Macroeconomic Policy Department created a CGE (general equilibrium economic) model with the support of the EC CARDS programme. However, the effective use of this model is planned for the future, once the necessary preconditions in terms of capacity of the staff and data quality and availability is improved.
3. With SIDA support (Swedish International Development Agency) the Macroeconomic Policy Department created a small simple macroeconomic model, which could fit into the forecasting and analytical framework (which should be updated and improved through the proposed project.)
4. The MoF supported (financially) two employees from the Macroeconomic Policy Department to enrol master studies in Statistics from February 2009 in order to reinforce statistical skills in the Ministry

All these projects and initiatives helped/will help to increase the Department's capacities.

3.7 Lessons learned

Experiences within the Ministry with various TA and Twinning financed by the EC through CARDS assistance have been mainly positive.

Assistance provided in 2006 to the Macroeconomic Policy Department helped create the CGE model. However, this turned out to exceed the staff econometric and programming capacity, as well as data quality and availability in the country. Although the overall impact realised through the previous assistance was satisfactory, a number of challenges as documented in progress reviews, monitoring and evaluations reports, remain.

Cooperation with SIDA on developing the forecasting model proved to be effective since staff were allocated to work with the consultants. These consultants provided informal training to the staff, thus helping to ensure sustainability of the outcomes.

Drawing on these experiences, the main mistakes to be avoided and suggestions for improvements are related to providing the conditions and allocation of dedicated administrative staff employed on permanent basis, which will improve staff capacity and provide a sustainability of the project activities. Also, it is underlined that the involvement of high-level decision making structures from the beginning of the project is important and essential for success.

In addition, clear co-operation and communication will have to be established with other related ministries and agencies (especially the State Statistical Office).

4. Indicative Budget (amounts in EUR)

			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)
Activity 1	x		950 000	950 000	902 500	95	47 500	5	47 500				
Activity 2	x		350 000	350 000	315 000	90	35 000	10	35 000				
TOTAL IB			1 300 000	1 300 000	1 217 500		82 500		82 500				
TOTAL INV													
TOTAL PROJECT			1 300 000	1 300 000	1 217 500		82 500		82 500				

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	Q2 2010	Q2 2011	Q2 2013
Contract 2	Q2 2010	Q4 2010	Q4 2011

6. Cross cutting issues

6.1 Civil Society development and dialogue

n/a

6.2 Environmental considerations

The training activities will include a specific component to train beneficiary staff in the different aspects of mainstreaming environment in programme and ongoing activities (eg. socio economic impact of cost benefit analysis on the environment)

6.3 Equal Opportunity and non-discrimination

The Equal Opportunities and non-discrimination will be respected as regarding gender as well as minorities at the programming and implementation stage.

The training activities will include a specific component to train beneficiary staff in the different aspects of mainstreaming gender in programme and project development as well as monitoring the implementation. Equal participation in this project of women and men will be put in place from the beginning of the project. All periodical progress review reports and other interim reports will include a chapter providing explanations on measures and policies taken with respect to this equal opportunity and minorities and will provide measurements of achievement of this goal.

6.4 Minorities and vulnerable groups

The Minority and vulnerable groups' concerns will be reflected in all activities programmed under this project.

Improved forecasting and budget planning should lead to higher efficiency of social spending and assistance and hence improve the socio-economic position of the vulnerable groups. In addition, it is agreed that with the planned introduction of the means-tested social assistance, the Macroeconomic Policy Department will perform some required analysis for the Ministry of Labour and Social Policy.

The labour market analysis that the Department prepares currently include analysis of the economic position of minorities and vulnerable groups. These analyses will be further improved and respective policy recommendations might follow.

6.5 Good governance, with particular attention to fight against corruption

n/a

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: Strengthening the capacity of the MoF-Macroeconomic Policy Department for macroeconomic analysis and policy formulation in order to improve policy making and meet the criteria for EU 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 : 1 300 000		IPA budget: 1 217 500
Overall objective	Objectively verifiable indicators	Sources of Verification		
The overall objective to which this project contributes is the improvement of the quality of information provided to economic policy makers, necessary for effective decision-making processes.	Decision makers receive the reports of the Macro-Economy Department	Mailing list. Number of requests for the reports.		
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions	
The project purpose is to improve economic analysis skills in the MoF, aiming to design a coherent medium and long-term macro-fiscal framework.	Improvement of the accuracy of the projection (% of realization of projections) made by the Macroeconomic Policy Department .	Data from the analysis made by the Macroeconomic Policy Department	Continuing adherence to agreed policy objectives Economic and fiscal stability	
Results	Objectively verifiable indicators	Sources of Verification	Assumptions	
Component 1: 1.1 Improvement of the process of economic policies' proposals and design and assessment - Developed action plan for introduction of cost benefit analysis	The measurable indicators under Component 1 are: 1.1 Improvement of the process of economic policies' proposals and design and assessment	Reports on the realization of the Action plans MoF	Continuing adherence to agreed policy objectives Good and continuous interaction between the stakeholders relevant to the economic sector	

<ul style="list-style-type: none"> - Developed capacities for conducting cost benefit analysis - Socio-economic cost benefit analysis carried out by the people trained <p>1.2 Improvement of the fiscal framework</p> <ul style="list-style-type: none"> - Modern budgetary practices and techniques are used in the budget planning process - Prepared manual for the budget planning process - Improved quality (and depth) of fiscal analysis <p>1.3 Economic modelling</p> <ul style="list-style-type: none"> - An evaluation Report on current economic modelling is prepared with suggestions for improvement - A model for economic analysis and forecasting is created and used by the employees - Prepared manual for the model, with better projections/forecasts produced by use of the model <p>The results under component 2 are:</p> <ul style="list-style-type: none"> - Evaluation Report of the current process of data collection, organisation and data storage with an action plan for improvement - Developed and functional electronic data base for data collection and organisation - Created manual for data collection, organisation and storage - Employees trained for working with data base 	<ul style="list-style-type: none"> - Action plan executed and implemented - Number of people trained to perform cost benefit analysis - Number of cost benefit analysis done by employees <p>1.2 Improvement of the fiscal framework</p> <ul style="list-style-type: none"> - Number of people trained in analytical skills in the fiscal area - Number of people trained in modern budgetary practices and techniques - Prepared manual used by MoF - Performed budget analysis <p>1.3 Economic modelling</p> <ul style="list-style-type: none"> - Developed action plan for improvement of economic modelling - The model is in place and projections are made by using the model - Manual used by the MoF - People trained for using the econometric model are able to maintain and upgrade the model <p>The measurable indicators under Component 2 are:</p> <ul style="list-style-type: none"> - Implementation of the Action plan by the Macroeconomic Policy Department (number of tasks from the Action plan are delivered by the responsible employees in the timeframe set) - Data base is functional and in use - Manual used by the Macroeconomic Policy Department - Employees regularly using the data base 	<p>Report on the realization of the Action plan Archive and web site of MoF MoF Adopted manuals, signed by the Minister of Finance and published on the web-site MoF Information by the Macroeconomic Policy Department IT system, web site</p> <p>Report on the realization of the Action plan</p> <p>Existence of the data base in the IT system of the MoF/Certificate for receipt of the data base application Adopted manual, signed by the Minister of Finance and published on the web-site Operating with data base by the trained people - MoF</p>	
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<ul style="list-style-type: none"> - Developing proposal and suggesting options for better data organisation and storage - Development of application on data collection and possible electronic connection of the MoF with the State Statistical Office database - Providing relevant training to employees for working with data bases 			
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Pre conditions:

- 1) Endorsement by all key stakeholders of the Terms of Reference for the individual contracts to be engaged;
- 2) Appointment of counterpart personnel by the beneficiary before the launch of the tender process;
- 3) Timely allocation of working space and facilities by the beneficiary for twinning and TA before the completion of the tender process;
- 4) Participation by the beneficiary in the tender process in accordance with EU regulations;
- 5) Organisation, selection and appointment of members of working groups, seminars by the beneficiary as per work plan of the project;
- 6) Appointing the relevant staff by the beneficiaries to participate in training activities as per work plan and involvement of keee staff in order to ensure sustainability of the project activities.

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

	2010				2011				2012				2013			
Contracted	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Twinning contract for activity 1						902 500										
Service contract for activity 2				315 000												
Cumulated				315 000		1 217 500										
Disbursed																
Twinning contract for activity 1						361 000				449 500				92 000		
Service contract for activity 2				126 000		157 500		31 500								
Cumulated				126 000		644 500		676 000		1 125 500				1 217.500		

ANNEX 3: Description of Institutional Framework

The Macroeconomic Policy Department is composed of four units.

- Macroeconomic models and projections unit
- Unit for analysis of the financial sector
- Real sector analysis unit,
- Unit for coordination of economic policies and reforms

Macroeconomic models and projections unit. The working tasks of this unit include:

- Using econometrics programmes (E-views, SPSS) for projection of the economic variables (GDP, Inflation, Industrial production, budget revenues and expenditures, public debt etc.),
- Correlation analysis of the economic variables,
- Creation of simple medium term econometrics models which are connecting the different sectors of the economy and makes forecasts of the main econometric variables,
- Ad-hoc analysis of different economic phenomena.

Financial sector analysis unit include:

- Analysis of the financial indicators in the former Yugoslav Republic of Macedonia,
- Analysis of the banking and insurance sector,
- Preparation of reports and information about the fiscal sector and policies, with focus on the tax system,
- Preparation of reports about the financial results of the companies in the former Yugoslav Republic of Macedonia.
- Monetary policy analysis.

Real sector analysis unit. The working tasks of this unit include:

- Preparation of analysis, information and projection of the current macroeconomic developments in the domestic production, foreign policy and social sphere,
- Preparation of the Macroeconomic Policy Document which is presented to the Parliament by the end of the year,
- Productivity and unit labour cost analysis of the former Yugoslav Republic of Macedonia economy,
- Analysis of the labour market in the former Yugoslav Republic of Macedonia,
- Analysis of the external sector.

Unit for coordination of economic policies and reforms. The working tasks of this unit include:

- Preparation of the Pre-accession economic programme – PEP, which the Government is presenting to the European commission.
- Preparation of the National development plan
- Consolidation of different materials of the MoF for preparation of different strategic documents.
- Creation of data base for current and planned structural reforms from all the government institutions.

- Analysis of the different government documents in the field of macroeconomic policy. Currently, the Macroeconomic Policy Department is responsible for the creation of the Pre-accession Economic Programme and National Development Plan, analysis of the economic and social development in the country, as well as the compilation of macroeconomic projections.

Only relatively recently the Department started to expand and further develop its activities in the areas of macroeconomic modelling and deeper economic and fiscal analysis. However, much more needs to be done in that respective area, as well as in the area of budget planning, cost-benefit analysis of capital investments and strategies creation. Necessary precondition for achieving these goals is an improvement in data quality, organisation of data (data base and storage), data analysis and projections. In 2005-2006, as a result of technical assistance a consultant created the CGE model (General Equilibrium Economic model). However, in practise, the CGE turned out to be too demanding with respect to data requirements and also for staff' computer programming skills. It is hoped that that this model could be used at a later date when required skills are in place and data quality and availability is improved.

This project will primarily be based on capacity building in the Macroeconomic Policy Department in the MoF as main beneficiary, as well as the Department of the System of Calculation and Collection of Taxes (Tax Department) and Budget and Funds Department.

The MoF has identified a need for capacity building in the following areas:

Preparation for EU-membership

As a Candidate Country, the former Yugoslav Republic of Macedonia is supposed to present each year a medium-term macroeconomic and fiscal framework, in which the authorities present their medium-term plans on how to comply with the economic criteria for EU membership. Drafting this programme requires a concise analysis of recent economic developments, the presentation of a medium-term macroeconomic scenario, an advanced fiscal analysis and a presentation of policy priorities and their implementation.

Macroeconomic Policy Department is responsible for creation of a coherent medium and long term macrofiscal framework. This includes compiling the economic sectors data (Real sector, Fiscal, External, Monetary and Social sector) in to a comprehensive macroeconomic framework. The framework is based on inputs provided by the official statistical system of the former Yugoslav Republic of Macedonia, as well as other departments in the MoF including the Tax and the Budget department. The MoF also recognizes that along with the Macroeconomic policy department there is a need for improving the capacities of these departments for providing better quality input for the medium and long-term macro-fiscal framework.

The Tax Department (in full, Department of the System of Calculation and Collection of Taxes), in consultations with the Macroeconomic Policy Department, is responsible (among others) for the preparation of the tax revenues forecasts which is initial step in presenting the revenues side of the fiscal scenario. This includes several meetings each quarter between the staff of the two department, exchange of detailed data and information, and analysis.

The Budgets and Funds Department is responsible (amongst other aspects) for the preparation of the fiscal policy and strategy of the country, focusing on government expenditures. The structure of expenditures are based on Government priorities and programmes. Data from the

Budget and Funds Department are also necessary for the preparation of the external sector scenario and design of the monetary framework and policy.

Statistics and EU-Accession

In order to have better and more recent information on economic developments in the country, the current statistical system requires a major upgrade in terms of data coverage and in data quality. The project could contribute to another important requirement for EU accession, namely aligning the statistic system with the European statistical standard (ESA 95).

Political Decision- Making and the Budget Process in the former Yugoslav Republic of Macedonia

Macroeconomic forecasts are important inputs in the budget process. However, consistency and linkages between forecasting of macroeconomic variables and the budget process need to be improved. In addition, macroeconomic model can help analyse economic effects of policy changes and will increase the quality of policy decisions.

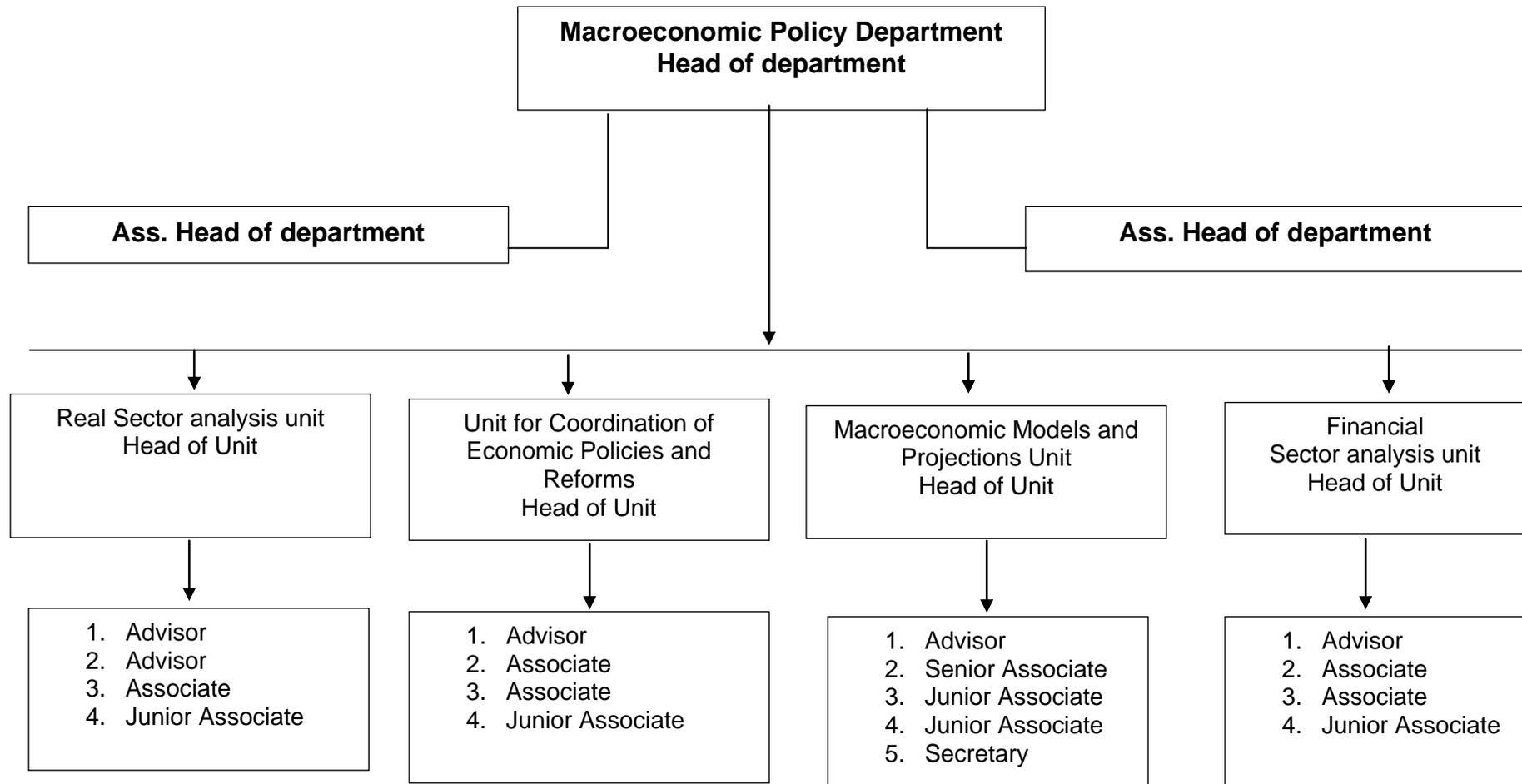
Information of the Political Level and the Private Sector about the Economy

The information to the politicians about the macroeconomic developments in the former Yugoslav Republic of Macedonia should be based on a continuous flow of information. Only in that way the politicians will be able to react to potential shocks to the economy. In addition, private companies would benefit from improved forecasts and information, and accordingly better plan their business operation and investments.

Legislation

n/a

Organisational structure. Please find below the organigrams of the Macroeconomic Policy Department within the MoF and the MoF



ANNEX 4: Reference to Laws, Regulations and Strategic Documents

Reference to Laws, Regulations and Strategic Documents

- Constitution, 1991;
- Law on Rights, Obligations and Responsibilities of the State Administration Bodies, 2002;
- Rules of Procedure for Operation of the Government, 2006;
- Law on Government, 2003;
- Law on Free Access to Public Information, 2006;
- Rulebook for Internal organization of the MoF, 2008
- Law on public servants, 2005
- Law on Budget, 2005
- National Development Plan
- Pre-accession Economic Programme
- Macroeconomic Policy of the former Yugoslav Republic of Macedonia

Reference to AP/NPAA /SAA

Reference to AP

The **Accession Partnership 2007**, identifies as a medium term priority in the area of the Economic criteria to raise the quality of public spending by strengthening the public sector's capacity for medium-term planning and improving the budgetary execution.

Reference to NPAA

The link with the **NPAA** is based on the Economic criteria necessary for achieving a functioning market economy status. The economic criteria priorities include:

- Maintaining macroeconomic stability
- Enhancing reforms in the public finances

Reference to SSA

n/a

Reference to Progress Report

In addition, the **Progress Report 2008**, in the chapter Economic criteria, for the macroeconomic stability says that the quality of public finances continues to be hampered by weaknesses in medium-term budgetary planning and priority setting, leading to a high proportion of discretionary and short-term spending decisions.” Hence, the need for further capacity building of the MoF for economic planning, budget preparation and profound economic analysis.

In its assessment of the former Yugoslav Republic of Macedonia Pre-accession Economic Programmes, the European Commission has repeatedly urged the country to improve its skills with respect to economic analysis and policy formulation.

Reference to MIPD

The MIPD 2008-2010 states that pre-accession assistance shall help the country, above all, to advance along the road to EU integration and support the country's efforts to comply with the

Copenhagen criteria. Against this background pre-accession assistance shall help to overcome the deficiencies that have been identified. In doing so, assistance will, among other, focus on: “Supporting economic development and enhancing social cohesion by supporting the implementation of national and regional development plans”.

Reference to National Development Plan

The MoF-Macroeconomic Policy Department prepares the National Development Plan (NDP) of the former Yugoslav Republic of Macedonia. Hence, developing the capacity of the Department will contribute towards better quality NDP.

Reference to national/ sectoral investment plans

The NDP sets the framework for the national/sectoral investment plans and is a base for the preparation of the annual Public Investment Programme, that is prepared by the Budget Department within the MoF.

ANNEX 5: Details per EU funded contract

The co-ordination of the activities foreseen to be carried out under different components is of key importance. Therefore, the management structure will be established so as to oversee the overall implementation of the project and to ensure appropriate coordination between the different activities supported by the project.

For the service contract, the management structure of the project will consist of one project leader responsible for the overall coordination, representation (co-ordination with the EU and other international bodies) and reporting over the implementation of the project and team coordinators/leaders responsible for the realisation of the activities foreseen under each particular contract. The team leaders are responsible for an appropriate management of resources.

The team coordinators/leaders will be appointed from the Macroeconomic Policy Department. Team leaders will be responsible for coordination, management and day-to day monitoring of implementation of the services provided by the experts under the service contracts.

The core project team – consisting of the project leader, team leader and other experts will be placed within the MoF.

Alongside the Project Leader and RTA from the MS institution, the BC Project Leader and the RTA counterpart will be appointed from the Macroeconomic Policy Department. Additional expertise short-term experts, next to a RTA, will assist in key tasks, e.g. in the field of administrative capacity building, procedures and procedural compliance, training, legal development and others. Some of these experts will address cross-cutting issues.

For the Twinning, the Project Steering Committee will be established, responsible for reviewing the project progress and advising on the possible measures to be taken in order to ensure that results will be attained. The Steering Committee will meet once every three months and will include the MS and BC Project Leaders, RTA and RTA counterpart, representatives from the different departments within the MoF.

During the inception phase of the project, a detailed work plan will be developed by the Twinning partners.

Reports will be prepared by the MS Project Leader, using the reports provided by the RTA, the former Yugoslav Republic of Macedonia counterparts and any other sources.

The capacity of the Macroeconomic Policy Department currently is relatively good with a total of 14 employees, and favourable age structure. In addition, in February/March 2009, the Macroeconomic Policy Department was in the latter stage of hiring 3 new employees and by 2011 all available posts in the Department should be filled in with qualified staff. During the workplan development phase of the initiative, a detailed deployment plan will be developed.

The detailed project management and implementation structure, with full descriptions of roles and responsibilities will be proposed during the preparation of ToRs.

The expected contracting arrangements are:

- One twinning contract for the further development of the capacity of the macroeconomic department for economic analysis and modelling and improvement of the process of budget planning in the MoF. The duration of the Twinning is expected to be 24 months. The contract value will be approx EUR 950 000, out of which IPA contribution will amount to EUR 902 500, while national contribution will amount to EUR 47 500.
- One service Contract for improving the organisation of data, in particular developing an effective data base and data storage in the Macroeconomic Policy Department. Implementation is expected to start one month after the signature of the contract. It is expected that the services under the contract will be delivered within 12 months. The contract value will be approx. EUR 350 000, out of which IPA contribution will amount to EUR 315 000, while the national contribution will amount to EUR 35 000.