

Project Fiche 1.2: Supporting the process of fiscal decentralization through strengthening the capacities for sound financial management and internal financial control on local and central level

1. Basic information

1.1 CRIS Number: 2008/20-311

1.2 Title: Supporting the process of fiscal decentralization through strengthening the capacities for sound financial management and internal financial control on local and central level

1.3 ELARG Statistical code: 1.32

1.4 Location: Skopje

Implementing arrangements

1.5 Contracting Authority (EC)

European Commission, EC Delegation, on behalf of the beneficiary

1.6 Implementing Agency

European Commission, EC Delegation, on behalf of the beneficiary

1.7 Beneficiary (including details of project manager)

The Ministry of Finance, the Ministry of Local Self Government (co-beneficiary) and the municipalities

Contact points:

- Mr. Trajko Spasevski, Head of PIFC Department, Ministry of Finance, Tel.: ++ 389 3106256 e-mail: trajko.spasevski@finance.gov.mk
- Mr. Senat Odzoksi, Deputy Minister of Local Self Government, Tel.: ++ 389, e-mail:
- Ms. Ana Veljanovska, Senior programme officer, Ministry of Finance, Tel.: ++ 389, e-mail: ana.veljanovska@finance.gov.mk
- Lirie Elezi, Senior program officer, Ministry of Local Self Government, Tel.: ++ 389, e-mail: lorie.elezi@mls.gov.mk

1.8 Overall costs (VAT excluded)¹: EUR 1.350.000

1.9 EU contribution: EUR 1.350.000

1.10 Final date for contracting

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

1.11 Final date for execution of contracts

Two years from the final date for contracting.

¹ The total costs 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.

1.12 Final date for disbursements

One year from the final date for execution of contracts.

2. Overall Objective and Project Purpose

2.1 Overall Objective

The overall objective is to contribute to a strengthened central and local administrative capacity to implement the decentralisation process by strengthening sound financial management and control systems.

2.2 Project purpose

The purpose of the project is to assist Ministry of Finance and Ministry of Local Self Government, as well as the municipal administrations to establish, strengthen and monitor internal control systems in local self-government units. This support of the process of decentralization will be tackled through:

- Further enhancement of central capacities for sound financial Management and Control and Internal Audit in compliance with EU's Public Internal Financial Control systems
- Further enhancement of local capacities for sound financial Management and Control and Internal Audit in compliance with EU's Public Internal Financial Control systems

2.3 Link with AP/NPAA/EP/SAA

The programme addresses the objectives of the **Stabilisation and Association Agreement** for “the development of civic society and democratisation, institution-building and public administration reform”. The programme also addresses the SAA Article 83 for “the adoption of a common accounting system compatible with European standards” and Article 101 for strengthening “regional development cooperation, with the objective of contributing to economic development and reducing regional imbalances”.

The **Accession Partnership** focuses on reinforcement of the established institutional structures and strengthening administrative capacity in the areas of programming, project preparation, monitoring, evaluation and financial management and control, particularly at the level of line ministries, to implement EU pre-accession programmes as a preparation for the implementation of the Community's cohesion policy. In line with the project purpose, the **Accession Partnership** focuses on full completion of the decentralization process, and in the area of financial control, it states that there is a need to complete the establishment of internal audit units in central state institutions, create similar units at municipal level where appropriate and ensure adequate staff, training and equipment.

Regarding the capacity to manage of EU funds, having accountable administration able to complete the necessary preparations to implement programmes and create the necessary mechanisms to manage the EU funds is a high priority in the **National Plan for Adoption of Acquis**. For fiscal decentralisation, the **NPAA** envisages full implementation of PIFC in the country and strengthening the administrative capacities of the institutions responsible for financial control and management on central and local level.

2.4 Link with MIPD

In reference to fiscal decentralization, the **Multi-Annual Indicative Planning Document** (MIPD) calls for support to further focus on the subsequent phases of the decentralisation process and to further enhance financial management and financial control procedures. Bearing in mind the fact that the municipalities will have the opportunity to manage EU funds, they have to be familiar with EU regulations regarding the Decentralised System for

Implementation of EU funds (DIS), by establishing a sound PIFC on local level and protecting the financial interest of the EU.

2.5 Link with National Development Plan

With regard to fiscal decentralisation, the **National Development Plan** underlines that a responsible and competent public administration at local level is a crucial precondition for successful implementation of the decentralisation process and for ensuring high quality of public services for the citizens and stresses the need for incorporating a thorough and systematic capacity building at all levels of the public administration.

2.6 Link with national/ sectoral investment plans

The project directly links to the following key strategies and action plans in the sector (see for a more extensive list annex 3):

- Strategy of Reforms of Public Administration, 1999
- Pre-Accession Economic Programme (2008-2010), 2007
- Public Investment Programme (2006-2008), 2006
- Fiscal Strategy for the period 2007-2009, 2007
- Strategy for development of the public internal financial control (PIFC), 2006
- Analysis of the realisation of fiscal decentralisation
- Information for development of the internal audit and strengthening the financial control within the budget users and funds, 2004

3. Description of project

3.1 Background and justification

Implementation of the decentralisation process is one of the key components of the Ohrid Framework Agreement. While decentralisation has important political objectives – bringing the government closer to the people, strengthening the democratisation process – it has a significant impact on the structure and operational modalities of government on central and municipal levels. The scope of the decentralisation in the country is large, ranging from fiscal management to operational responsibilities of public services.

Significant legal developments took place during 2004 and 2005, while the process of decentralisation entered into its critical phase of implementation with the actual transfer of competencies from the central level to the municipalities on 1 July 2005. Local government became responsible for a range of activities, including collecting PIT, VAT and property taxes. In 2007, the second phase started with the transfer of the block grants – e.g. in the field of education.

In the context of the government's 1999 National Strategy for Public Administration Reform and the principles of a PAR strategy issued in March 2005, the government is developing standards for policy development, coordination and implementation planning, strategic planning and budget preparation, budget execution, asset management, human resource management, information technology management, and internal audit.

A key element in transparent and accountable public management is a Public Internal Financial Control (PIFC) system. The successful establishment of such a system is related to the Decentralised Management of EU funds, and is also pivotal in the ongoing decentralisation process and maintaining appropriate insight in the increasingly complex public financial management.

Under the CARDS 2006 programme, two significant support projects were developed. A twinning was developed to support the Ministry of Finance in the field of PIFC. Another project was developed to support the Ministry of Local Self Government with the overall planning of the decentralisation process and the municipalities with acquiring the necessary management skills.

Where previously significant support has been provided to the central and municipal level in general management skills, in the present phase of decentralisation a strengthening of country wide application of a modern internal financial control system is essential not only to safeguard public funds, but also to ensure an appropriate level of transparency and accountability.

Building on previous support to the internal audit units the establishment of a Public Internal Financial Control (PIFC) system on central level as well as the different support projects related to the overall management of the decentralisation process, the present project will focus on the establishment of an internal control system for local self-government units.

With its three key elements of Financial Management Control Systems, Internal Audit, and Central Harmonisation, a PIFC system covers internal control systems as well as government procedures and regulations to manage overall government revenue, expenditures, assets and liabilities.

New legislation related to PIFC entered into force in February 2007 and will be further adjusted in order to be EU proof in the course of 2008. Under the new law in principle all bodies at the level of central administration, and all municipalities, need to establish internal audit units and Financial Management Control (FMC) units. However, the law will provide the criteria regarding which organisations will be required to set-up Internal Audit (IA) Units.

Although the IA units at central level have been established and staffed, relevant staffs still need to be further trained. Municipalities frequently do not have established internal audit units. It is aimed to have established or started to introduce internal audit units in local administrations by the end of 2008.

Financial management and control systems help to mitigate the risks that threaten an organisation and provide reasonable assurance that it will achieve its objectives in a legal, transparent, economic, efficient and effective way. The head of the organisation is responsible for establishing the framework for financial management and control systems, for operating the controls, and also for assuring management that the control systems are working effectively.

An independent internal audit activity will supplement management's decisions and actions by providing objective assurance that the financial management and control systems are operating as required to control risks to an acceptable level. It will also be able to support management by providing consulting services and facilitating management's efforts to improve its internal control systems. There are few small municipalities and they have started the idea of developing joint Financial Management and Control Systems and Internal Audit Units. Being aware of the risk that joint units may affect the operation of the principle of Managerial Accountability, we have to recognize that in relation to small administrations, these solutions can be most pragmatic. However, this project will assist in the development of specific criteria for setting up such joint units that can be examined in a Strategy paper and included in the appropriate legislation.

This project will primarily focus on methodologies for developing internal control systems, with particular emphasis on efforts to strengthen the efficiency of the Internal Audit capability.

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

The main impact the project will have on the administrative capacities is to strengthen the competences of the staff of the institutions involved. This, moreover, includes the practical application of tools, techniques, and skills for the tasks of financial management control (FMC) and internal audit (IA). The approach is via theoretical trainings to make the staff qualified to perform the task according the required international standards and to perform well in the day-to-day job. In parallel at central level support will be given to coordinate continues training in the domains of FMC and IA (such as guaranteeing sustainability via “train the trainer”).

The enhancement of capacities on both central and local level in PIFC implementation will have a positive impact on the capacities to manage EU funds. This project will contribute to the overall financial management capacities and the combined impact of this project and other projects more directly targeting the implementing bodies for EU assistance in order to strengthen the national management structures. Improvements in public finance management and the associated control systems not only will improve the efficiency and effectiveness of both revenue collection and budget execution, it will also improve the transparency and accountability of the public administration. Improving levels of transparency and accountability impact directly on the fight against corruption and subsequently also on the general trust the public will have in the administration.

3.3 Results and measurable indicators²

The project consists of two components:

- Enhancing PIFC capacities on central level
- Enhancing PIFC capacities on local level

Component 1) Enhancing PIFC capacities on central level

The expected results are:

- The development of a strategy - with specific milestones and a timetable for the implementation of Financial Management and Control systems and functionally independent internal audit in the local administrations. The strategy should contain an analysis of the weaknesses of the current system and measures foreseen to address these weaknesses. In addition, the strategy should indicate the scope of competences and tasks of the PIFC Department, the PIFC-related committees as well as the scope of tasks falling under the State Audit Office. Furthermore, the strategy should contain an analysis of potential resistance factors to the implementation of the Financial Management and Control systems and functionally independent Internal Audit in local administrations and include measures to address such issue;

² Please note that some of the indicators have not yet been quantified or been given a benchmark. This will be done during the development of the detailed Terms of Reference.

- The central level PIFC Department is properly equipped to coordinate the process of implementing this strategy (including establishing means of communication and reporting between all levels involved);
- Implementation of the strategy is started; and
- PIFC Department staff is competent to carry out their mandate.

The measurable indicators are:

- A strategy has been developed, endorsed and implementation follows the plan;
- PIFC Department is able to coordinate the process of implementation of the PIFC strategy, measured through agreed reporting to the different stakeholders; and
- The number of staff trained.

Component 2) Enhancing PIFC capacities on local level

The expected results are:

- Clearly defined structure to be charged with establishing and running FMC in each administration and tax administration
- Establishment of documented procedures for financial management and control systems in the institutions on local level for financial management and control.
- Improved financial management and control practices;
- Guidelines on the establishment of functionally independent IA capability;
- Enhanced inter-municipal cooperation in IA;
- Enhanced inter-municipal cooperation in FMC;
- Increased awareness about AFCOS and the need for reporting irregularities;
- Developed curricula for training and awareness-raising issues on FMC and on IA.

The measurable indicators are:

- Agreed upon structure for coordination and clear definition of roles of the different stakeholders;
- A clear strategy to enhance the management of the PIFC concept at local level is developed;
- FMC and IA units established in at least 25% of the municipalities;
- Number of municipalities that have established joint units in the area of IA and FMC;
- Comprehensive training plan developed covering – inter alia awareness raising activities for senior management on the implications of PIFC, tasks related to setting up and running FMC systems, and setting up internal audit units and how internal audit functions
- Irregularities reported within agreed framework; and
- Number of staff trained.

3.4 Activities

Component 1: Enhancing PIFC capacities on central level

Activity 1: Development of a Strategy for development of PIFC (central and local level)

1.2 Support the process of fiscal decentralization

Activity 2: Strengthening the administrative capacities of the institutions responsible for financial control and management on central level

1. Establishing an appropriate institutional framework for cooperation and communication between the central and local level (including the legal embedding in primary or secondary legislation and implementation)
2. Establishing the FMC units in the central government:
 - Training – both basic and advanced - on FMC (the concepts of PIFC) for different audiences on the central level
 - Training for preparing plans for establishing the FMC units in the central government institutions and their staffing

Activity 3: Enhancement of capacities for PIFC in Ministry of Finance

1. Preparation and updating of the Financial Audit Manual (since the scope of PIFC and audit has widened to the local level)
2. Financial Audit Training and training on system-based audits
3. Preparing Performance (Value for Money) Audit Manual
4. Performance (Value for Money) Audit Training
5. Training for Audit of the EU Funds (in cooperation with the national DIS structures)
6. Training for preparing audit reports and communicating the audit findings to the management

Component 2: Enhancing PIFC capacities on local level

Activity 1: Enhancement of organisational capacities for PIFC coordinating unit on the local level:

1. Establishing an appropriate institutional framework for the cooperation and communication between the central and local level (including the legal embedding in primary or secondary legislation and implementation)
2. Establishing the FMC implementation structure and IA Units in the municipalities:
 - a. Training for raising awareness for senior management in the municipalities regarding the establishment of
 - i. IA and FMC units in the local self-government and their staffing
 - ii. Joint IA Units and joint units for financial and economic affairs (FMC)
 - b. Training for preparing plans for establishing
 - i. IA and FMC units in the municipalities and their staffing

ii. Joint IA and joint FMC units in the municipalities and their staffing

Activity 2: Strengthening the administrative capacities of the institutions responsible for financial control and internal audit on local level

1. Training for raising awareness for senior management on local level regarding the Financial Management and Control (FMC)
2. Training – both basic and advanced - on Financial Management and Control on local level for the management (introduction of PIFC) for different audiences
3. Training – both basic and advanced - on Internal Audit for different audiences on the local level.

Management and contracting arrangements

A steering group will be established to oversee the overall implementation of the project and to ensure appropriate coordination between the different institutions involved and the different support programmes that are ongoing, financed by other international agencies.

The project will be implemented through a Twinning arrangement, according to twinning rules and procedures. A Resident Twinning Adviser (RTA) will be supported by additional expertise to assist in key tasks, e.g. in the field of building administrative capacity training, legal development and others. Some of these experts will address the cross-cutting issues.

The core project team – consisting of the RTA and other expertise will be placed within the respective units.

The two project leaders (one from the beneficiary's side and one from the MS side) will be responsible for the overall management, representation (co-ordination with the EU and other international bodies) as well as reporting. The co-ordination with other ongoing projects is significantly important in order to establish a coherent financial framework. The team leaders are responsible for appropriate management of resources. During the work plan development phase of the project, a detailed deployment plan will be developed under the coordination of a Steering Committee in which each co-operating national institution will be represented to ensure appropriate inclusion.

The expected contracting arrangements are:

- 1 Twinning Project will be developed with an appropriate EU MS institution. The twinning fiche will be developed during 2009. The duration of the twinning project will be 12 to 24 months. The successful EU MS institution will prepare the contract and start deployment one month after contract signature, which is expected during the 4th quarter of 2010. The contract value will be approx. EUR 1.35 Million.

3.5 Conditionality and sequencing

The project is subject to the following conditions:

1. Endorsement by all key stakeholders of the twinning fiche;

1.2 Support the process of fiscal decentralization

2. Appointment of beneficiary counterpart personnel before the launch of the selection process;
3. Allocation of working space and facilities by the beneficiary for twinning partner before the launch of the selection process;
4. Participation by the beneficiary in the selection process as per EU regulations;
5. Organisation and appointment of members of working groups, steering and coordination committees, 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;
7. Support of the government at central and local level;
8. Changes of beneficiary participants should be reported to an absolute minimum and should be well justified.

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

3.6 Linked activities

- The assistance of the European Commission to the decentralisation and the public finance sector is substantial and includes:
 - Under IPA 2007, Component 1, support will be provided to the municipalities regarding the management of the newly decentralised competencies in the infrastructure field as well as to the DIS structures in the country;
 - Technical assistance for capacity building to manage EU funds, August 2007- January 2009, CARDS 2005
 - Public finance management support to the municipalities Mar – 08 – Feb 09, CARDS 2005, Budget: EUR 601,200.00;
 - TA to the Ministry of Finance (MoF) for the Estimation of the Costs of the Transferred Competences to the local self-government units (LSGU's) Feb – June '08 €174,375
 - Technical Assistance to support the second phase of the process of fiscal decentralisation (Ministry of Finance/Commission) Oct 07 – May 08 (the end date is tentative) €146.628
 - Leadership benchmarks in local gov't - grant (Council of Europe), May-07 - Nov-08, CARDS 2006, Budget: €399,112
 - Municipal service centres – equipment, Apr-08 - Mar-09, CARDS 2006, Budget: € 700,000
 - Decentralisation support, phase 1 – TA, Jan-05 - May-06, CARDS 2003, Budget: € 991,880
 - Decentralisation support, phase 2 – TA, Mar-06 - Sep-07, CARDS 2005, Budget: € 964,700
 - Decentralisation support, phase 3–TA, May-07 - Dec-08, CARDS 2006, Budget: € 1,793,000
 - Fiscal decentralization assistance to MoF, phase2 – TA, Feb-05 - Mar-06, CARDS 2004, Budget: €999,753
 - Training and capacity-building of local gov't – TA, Aug-04 - Aug-06, CARDS 2003, Budget: €3,006,918
- Building capacities for decentralization of management of 2005 EU-CARDS assistance;
- Support to the fiscal decentralization process - 2005 EU-CARDS;
- Twinning project on Strengthening Public Internal Financial Control Systems (EU CARDS).

- Project for strengthening the debt management department supporting the IMF agreement and conditionality regarding the adoption of a debt strategy and streamlining the debt management function in the country;
- Ongoing cooperation with the EC/OECD SIGMA Programme.

Other main donors that are involved in Public Finance Support and Decentralisation include:

- The World Bank through the Public Sector Management Adjustment Loan (PSMAL – 25 Million USD from 2002 to 2005) followed in 2005 by the three-year Proposed Programmatic Development Policy Loan (PDPL – 30 Million USD)
- The Dutch assistance operating through a trust fund administered by the World Bank in the sector of internal audit – in 2003-2004 and external audit in 2003/2005 and through bilateral assistance (“Ministry of finance internal audit policy and training”), provided technical assistance to the drafting of the Law on Internal Audit in the public sector;
- Twinning of the State Audit Office with the Dutch Court of Auditors started in 2005 and technical assistance to the IMF led tax administration reform project initiated in 2005. Close cooperation with the Dutch assistance has been established with the European Agency for Reconstruction project in Internal Audit;
- USAID implemented a project to strengthen the financial sector until 2004. The comprehensive decentralisation project Make Decentralisation Work (2005/2007) is working closely with EAR-managed projects in the field of the fiscal decentralisation and training of municipalities in financial and budget management practices;
- US Treasury assistance has been provided since 2002 and focused on the establishment of the legal framework for the budget and accounting and provided advisory service to the Treasury Department within the MoF for the development of single treasury account;
- The DFID assistance is supporting the government in the implementation of its Public Administration Reform agenda on a step-by-step basis and has been supported by both the World Bank and the European Commission through close and full cooperation with European Agency for Reconstruction projects. The donors’ co-ordination group on budget management initially launched and led by DFID PAR project was handed over to a joint European Agency for Reconstruction / World Bank / Dutch Embassy coordination in 2005;
- Various UNDP projects to support the decentralisation

Many of these projects occurred in the past. In view of the rather large number of agencies involved and the large number of different projects that will occur in the coming period, it is of paramount importance that a solid coordination mechanism will be developed.

3.7 Lessons learned

From training activities in the past, good experiences have been gained with on-the-job-training and modalities of technical assistance in small teams of experts working on-site if the work is on “law-making”. Weaknesses have been identified in the area of adjusting and transposing existing legislation into a coherent EU-proof legal framework. The quality of human resources available from the country's site has been identified as a bottleneck; the most effective remedy has been proved to be intensive, on-the-job trainings. Sustainability can probably be best achieved by an including element of Training of Trainers (TOT). Awareness on all levels of the core of the reform processes cannot be underlined enough. Therefore, relevant stakeholders need to be involved early on, and to remain involved during implementation. Finally, the dynamics of personnel changes reduces the possible results.

The diverging approaches of assistance delivered can be confusing; aid assistance and projects should be coordinated and should assure and work towards clearly defined final results.

The municipal cooperation does not exist yet and most municipalities are understaffed, both in terms of quality and quantity. Inter-municipal cooperation seems to be an efficient and effective way to overcome lacks of experience in some domains; it also helps to assure the use of standardized ways of working.

When designing the work plan for this project the above-mentioned aspects and lessons learned should explicitly be taken into consideration.

4. Indicative Budget (amounts in million EUR)

			TOTAL EXP.RE	SOURCES OF FUNDING								
				IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	%(2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
Activity 1												
Contract 1 - Twinning	X	-	1.35	1.35	100							-
TOTAL IB			1.35	1.35	100							
TOTAL INV												
TOTAL PROJECT			1.35	1.35	100							

Amounts net of VAT

- (1) In the Activity row use "X" to identify whether IB or INV
- (2) Expressed in % of the **Total** Expenditure (column (a))

5. Indicative Implementation Schedule

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1 - Twinning	Q4 2009	Q4 2010	Q4 2012

6. Cross cutting issues (where applicable)

The cross-cutting issues will be addressed throughout the project. Up to 10% of the budget of the twinning contract may be allocated to assist the different beneficiaries to comply with European standards and best practices, implement relevant existing Government strategies and develop internal measures to ensure each cross-cutting issue is appropriately mainstreamed.

The mainstreaming of the cross cutting issues is regarded on two different levels:

- 1) Ensuring that the internal policies, structure or operating procedures of the beneficiary agency will conform to and promote the relevant principles outlined per section below.
- 2) Ensuring that the products, outputs produced by the beneficiaries (e.g. laws, regulations, policies, and strategies) will conform to and promote the relevant principles outlined per section below.

Throughout the project cycle, in particular when developing project ToR, state actors specifically addressing (one of) the cross cutting issues shall be consulted. Specific attention will be paid to transfer knowledge to trainees on mainstreaming the cross cutting issues into future IPA plans.

The following cross-cutting issues should be addressed:

- Equal opportunities and non-discrimination;
- Support to minority and vulnerable groups;
- Environmental protection;

Equal opportunities and non-discrimination

The training activities will include a specific component to train beneficiary staff in the different aspects of mainstreaming gender.

Support to minority and vulnerable groups

Where the main reference is the Ohrid Framework Agreement, in an EU context, the IPA training activities will include a specific component to train beneficiary staff in the different aspects of mainstreaming minority and vulnerable groups.

Environmental protection

The training activities will include a specific component to train beneficiary staff in the different aspects of mainstreaming environment in programme and ongoing activities.

ANNEXES

- 1 - Log Frame in Standard Format
- 2 - Amounts contracted and Distributed 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/sectoral 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 Grant schemes*: account of components of the scheme
 - *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 construction works):

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

ANNEX 1 - Log Frame in Standard Format

LOGFRAME PLANNING MATRIX FOR Project Fiche	Programme name and number “Supporting the process of decentralization through strengthening the capacities for sound financial management and internal financial control on local and central level”	
	Contracting period) expires: 2 years following the date of conclusion of the Financing Agreement.	Disbursement period expires: One year from the final date for execution of contracts
		Total budget : 1.350.000 EUR IPA budget: 1.350.000 EUR

Overall objective	Objectively verifiable indicators	Sources of Verification
The overall objective is to contribute to a strengthened central and local administrative capacity to appropriately implement the decentralisation process by strengthening sound financial management and control systems	Strategy and Action Plan for Fiscal Decentralization Follow up of Progress Report	EC Progress Report Other documents related to the process of decentralisation

Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions:
The purpose of the project is to assist Ministry of Finance and Ministry of Local Self Government, as well as the municipal administration to establish, strengthen and monitor internal control systems in local self government units. This support of the process of decentralization will be tackled through: <ul style="list-style-type: none"> • Further enhancement of central capacities for sound financial Management and Control and Internal Audit in compliance with EU’s Public Internal Financial Control systems • Further enhancement of local capacities for sound 	Established an effective an efficient working of the institutions on local level on financial management and control. The central level (PIFC) is equipped to coordinate the process in the long run (via establishing means of communication between all levels involved).	<ul style="list-style-type: none"> - Project reports - Monthly reports from different institutions - Government reports - Progress Reports (Commission) 	PIFC Department and municipalities are equipped Legislation (appropriate) is in place Political agreement on the outcomes of the project

1.2 Support the process of fiscal decentralization

financial Management and Control and Internal Audit in compliance with EU's Public Internal Financial Control systems.			
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<p>Component 1) Enhancing PIFC capacities on central level:</p> <p><u>The expected results</u> are:</p> <ul style="list-style-type: none"> The development of a strategy - with specific milestones and timetable for the implementation of Financial Management and Control systems and functionally independent internal audit in the local administrations. The strategy should contain an analysis of the current state of play regarding the weaknesses of the current system and measures foreseen to address these weaknesses. In addition, the strategy should indicate the scope of competences and tasks of the PIFC Department, the PIFC related committees and the scope of tasks falling under the State Audit Office. Furthermore, the strategy should contain an analysis of potential resistance factors to the implementation of the Financial Management and Control systems and functionally independent Internal Audit in local administrations and include measures to address such issue. The central level PIFC Department is properly equipped to coordinate the process of implementing this strategy (including establishing means of communication and reporting between all levels involved). Implementation of the strategy is started; PIFC department staff is competent to ensure implementation of their mandate. 	<p><u>The measurable indicators</u> are:</p> <ul style="list-style-type: none"> A strategy has been developed, endorsed and implementation follows the plan; PIFC Department is able to coordinate the process of implementation of the PIFC strategy, measured through approved reporting to the different stakeholders; The number of staff trained 	<ul style="list-style-type: none"> Project reports Monthly reports from different institutions Government reports Progress Reports (Commission) 	<p>PIFC Department and municipalities are equipped Legislation (appropriate) is in place</p> <p>Political agreement on the outcomes of the project</p>
<p>Component 2) Enhancing PIFC capacities on local level</p> <p><u>The expected results</u> are:</p> <ul style="list-style-type: none"> Clearly defined structure to be charged with establishing and running FMC in each administration and tax administration 	<p><u>The measurable indicators</u> are:</p> <ul style="list-style-type: none"> Agreed upon structure of coordination and clear definition of roles of the different stakeholders; 	<ul style="list-style-type: none"> Project reports Monthly reports from different institutions Government reports Progress Reports 	<p>PIFC Department and municipalities are equipped Legislation (appropriate) is in place</p>

1.2 Support the process of fiscal decentralization

<ul style="list-style-type: none"> • Establishment of documented procedures for financial management and control systems in the institutions on local level on financial management and control • Improved financial management and control practices • Guidelines on the establishment of functionally independent IA capability • Enhanced inter-municipal cooperation in IA • Enhanced inter-municipal cooperation in Financial Management and Control (FMC). • Developed curricula for training and awareness-raising issues on FMC and on IA • Increased awareness about AFCOS and the need for reporting irregularities. 	<ul style="list-style-type: none"> • A clear strategy to enhance the management of the PIFC concept at local level is developed; • FMC and IA units established in at least 25% of the municipalities • Number of municipalities that have established joint units in IA and FMC • Comprehensive training plan developed covering – inter alia - awareness raising activities for senior management on the implications of PIFC, tasks related to setting up and running FMC systems, and setting up internal audit units and how internal audit functions • Irregularities reported with in agreed framework • Number of staff trained. 	(Commission)	Political agreement on the outcomes of the project
---	--	--------------	--

Activities	Means	Costs	Assumptions
<p>Component 1: Enhancing PIFC capacities on central level</p> <p><i>Activity 1: Development of a Strategy for development of PIFC (central and local level)</i></p> <p><i>Activity 2: Strengthening the administrative capacities of the institutions responsible for financial control and management on central level</i></p> <p>3. Establishing an appropriate institutional framework for the cooperation and communication between the central and local level (including the legal embedding</p>	Twinning Arrangement	EUR 1.35 million	<ul style="list-style-type: none"> - Availability of staff for training - Availability of experts - Good cooperation among stakeholders

1.2 Support the process of fiscal decentralization

<p>in primary or secondary legislation)</p> <p>4. Establishing the FMC units in the central government:</p> <ul style="list-style-type: none"> • Training – both basic and advanced - on FMC (the concepts of PIFC) for different audiences on the central level • Training for preparing plans for establishing the FMC units in the central government institutions and their staffing <p><i>Activity 3: Enhancement of capacities for PIFC in Ministry of Finance</i></p> <p>7. Preparation and updating of the Financial Audit Manual (since the scope of PIFC and audit has widened to the local level)</p> <p>8. Financial Audit Training and training on systems based audits</p> <p>9. Preparing Performance (Value for Money) Audit Manual</p> <p>10. Performance (Value for Money) Audit Training</p> <p>11. Training for Audit of the EU Funds</p> <p>12. Training for preparing audit reports and communicating the audit findings to the management</p>			
<p>Component 2: Enhancing PIFC capacities on local level</p> <p><i>Activity 1: Enhancement of organisational capacities for PIFC/ coordinating unit on the local level:</i></p>			-

<p>1. Establishing an appropriate institutional framework for the cooperation and communication between the central and local level (including the legal embedding in primary or secondary legislation)</p> <p>2. Establishing the FMC implementation structure and IA Units in the municipalities:</p> <ul style="list-style-type: none"> a. Training for raising awareness for the top management in the municipalities regarding the establishment of <ul style="list-style-type: none"> i. IA and FMC units in the local self-government and their staffing ii. joint IA Units and joint units for financial and economic affairs (FMC) b. Training for preparing plans for establishing <ul style="list-style-type: none"> i. IA and FMC units in the local self-government and their staffing ii. of joint IA and joint FMC units in the municipalities and their staffing <p><i>Activity 2: Strengthening the administrative capacities of the institutions responsible for financial control and internal audit on local level</i></p> <p>1. Training for raising awareness for the top management on local level regarding the Financial Management and Control (FMC)</p> <p>2. Training – both basic and advanced - on Financial Management and Control on local level for the</p>			
--	--	--	--

management (introduction of PIFC) for different audiences.			
3.Training – both basic and advanced - on Internal Audit for different audiences on the local level			

Pre - conditions

1. Endorsement by all key stakeholders of the Terms of Reference, specifications 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 technical assistance before the launch of the tender process;
4. Arrangement by the beneficiary of all legal procedures to allow construction (e.g. construction permits, urban plan amendments), refurbishment activities before the launch of the tender process;
5. Participation by the beneficiary in the tender process as per EU regulations;
6. Organisation, selection and appointment of members of working groups, steering and coordination committees, seminars by the beneficiary as per work plan of the project; and
7. Appointing the relevant staff by the beneficiaries to participate in training activities as per work plan.

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

ANNEX 2 - Amounts (in million EUR) contracted and Distributed per Quarter over the full duration of Programme (only IPA funds)

Contracted	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Contract 1 Twinning		1.35								
Cumulated		1.35								
Disbursed										
Twining		0.5		0.3		0.2		0.2		0.15
Cumulated		0.5		0.8		1.0		1.2		1.35

ANNEX 3 - Description of Institutional Framework

I. Number of employees: 15

II. MANDATE

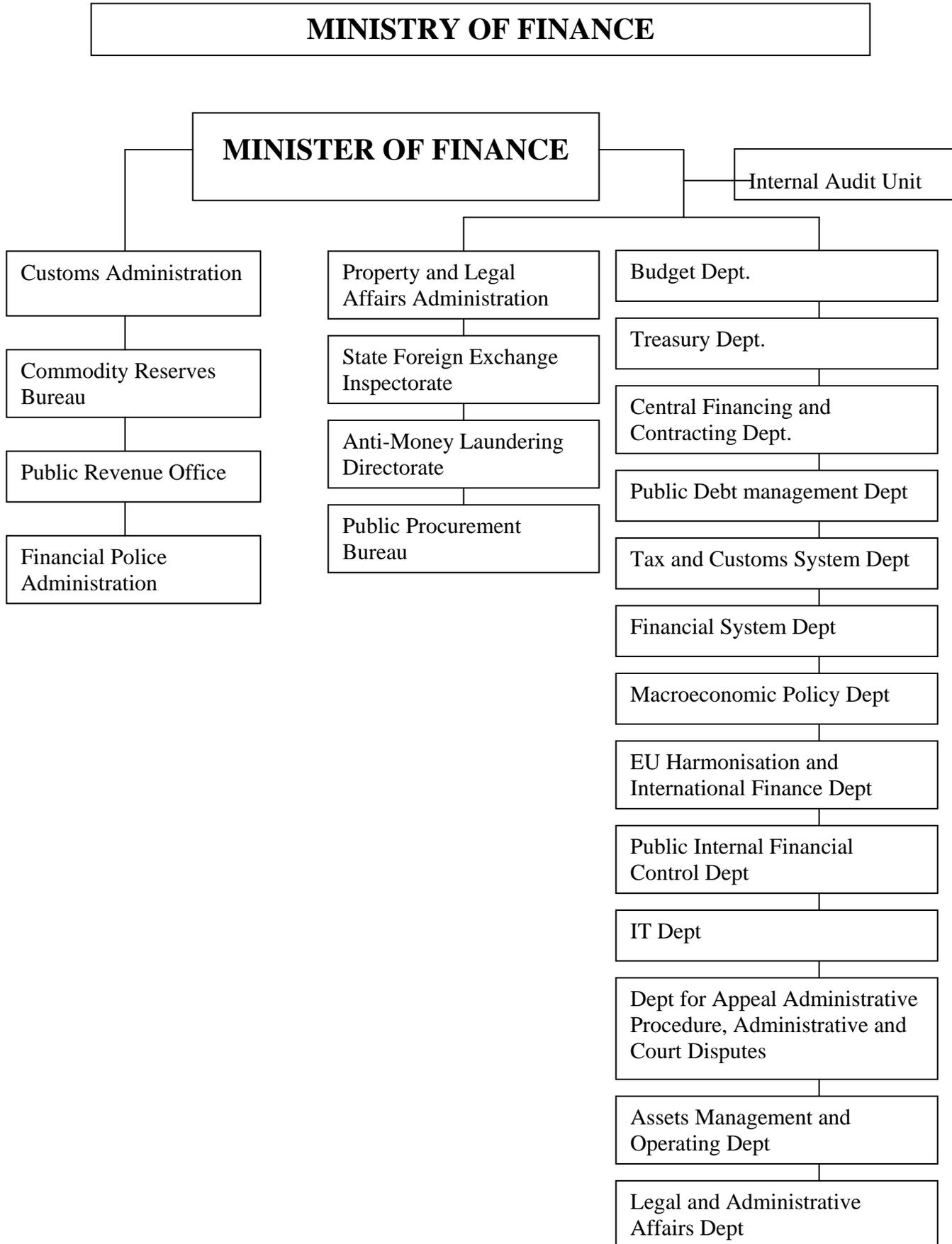
The mandate of Public Internal Financial Control Department was given with the Law on Internal Audit and Law on Financial Control. The Head of the PIFC Department is responsible to the Minister of Finance for the work of the Department.

III. BUDGET for 2008 of the PIFC Department: EUR 210,000.00

IV. BRIEF DESCRIPTION OF THE UNITS WITHIN THE Department

- **Central Harmonization Unit for Financial Management and Control:** main role of the unit is coordination and harmonization of financial and control activities in public sector entities
- **Central Harmonization Unit for Internal Audit:** main role of the unit is coordination and harmonization of internal audit activities in public sector entities
- **Central Internal Audit Unit:** main role of the unit is to carry out internal audit in public sector entities which haven't established internal audit units.

V. ORGANIGRAM



ANNEX 4 -. Reference to laws, regulations and strategic documents

4.a) Reference list of relevant laws and regulations

Key laws and regulations on the sector:

- Constitution, 1991
- Law on Accounting for Budget and Budget Users, 2005
- Law on Budgets, 2005;
- Law on Budget Execution, 2008
- Law on Calculation and Collection of Public Revenues, 2004
- Law on Government, 2003
- Law on Internal Audit in the Public Sector, 2004
- Law on Payment Operations, 2003
- Law on PIFC, 2006
- Law on Prevention of Corruption, 2004
- Law on Public Procurement, 2004
- Law on Rights, Obligations and Responsibilities of the State Administration Bodies, 2002
- Law on State Audit, 2006
- Code of Ethics for Civil Servants, 2004
- Guidelines on the manner of treasury operations, 2006
- Guidelines on the manner of establishing and conducting financial management and control
- Guidelines on the manner of executing orders on decisions for enforced collection that indebted the treasury account, i.e. the account of the debtor within the treasury account, 2005
- Guidelines on the manner of recording, allocation and refund of public revenues, 2006
- Rulebook on the basic elements of the guidelines for the operation, the charter, the annual plan and the programme for internal audit, 2005
- Rulebook on the standards for internal control and the basic elements of financial management and control in the public sector,
- Rulebook on accounting for budgets and budget beneficiaries, 2006
- Rulebook on the manner of conducting internal audit activities, 2003
- Rulebook on organisation and operations of the Ministry of Finance, 2006
- Rules of Procedure for Operation of the Government, 2006
- Rulebook on procedures for the work of the Central Financing and Contracting Unit
- Rulebook on the work of the Unit for EU funds management
- Rulebooks on organisation and systematisation on job positions in the Ministry of Finance
- Rulebook on the procedures for programming, financial management, control, monitoring and evaluation
- Rulebook on obtaining the title of certified auditor and training curriculum
- Manual on the Manner of Acting of the Budget Users and the Spending Units during the Treasury Operations, 2004

- Manual on Internal Audit, 2004
- Manual on the Manner of Opening and Closing the Accounts of the Budget Users and the Spending Units in the Treasury Ledger, 2001
- Manual on the Keeping Records of the Assumed Liabilities by the Budget Users and the Spending Units, 2003
- Manual on Revenue Classification, 2004

4.b) Reference to AP/NPAA/EP/SAA

Reference to **SAA** (2001): The programme addresses the objectives of the SAA for “the development of civic society and democratisation, institution building and public administration reform”. The programme also addresses the SAA Article 83 for “the adoption of a common accounting system compatible with European standards” and Article 101 for strengthening “regional development cooperation, with the objective of contributing to economic development and reducing regional imbalances”.

Reference to **Accession Partnership** (2007-2008): The program will address the following AP priorities for *management of EU funds*: “Develop efficient management, monitoring, control and audit systems necessary for decentralised implementation of programmes under the EU pre-accession instruments”; “Reinforce the establishment of institutional structures and strengthen administrative capacity in the areas of programming, project preparation, monitoring, evaluation and financial management and control, particularly at the lever of line ministries, to implement EU pre-accession programmes as a preparation for the implementation of the Community's cohesion policy”; Strengthen administrative capacity, notably by developing the capacity for strategic planning and policy development as well as enhancing training, and develop a general strategy on training for civil servants”. For *fiscal decentralisation*, the priorities include: “Complete the decentralisation process”; “Sustain implementation of the Ohrid Framework Agreement”; “Strengthen the transparency and accountability of the local administrations. In particular, strengthen internal control and audits”; “Review the public internal financial control (PIFC) policy paper and present laws on PIFC and internal audit, in order to make both the PIFC policies and current legislation comprehensive and consistent, and update the action plan for implementation of the medium-term priorities related to PIFC”; “Further develop and implement the EU’s public internal financial control (PIFC) model (decentralised managerial accountability and functionally independent internal audit) by means of coherent legislation and adequate institutional capacity under the guidance of the Ministry of Financial Affairs”; “Complete the establishment of internal audit units in central state institutions, create similar units at municipal level where appropriate and ensure adequate staff, training and equipment”; “Implement procedures and administrative capacity to ensure effective protection of the EC’s financial interests”; “Strengthen at central level and develop at regional and local level the administrative capacity. Ensure a clear distribution of responsibilities and strengthen capacity of coordination between designated implementing authorities/structures including local authorities”.

Reference to the **Progress Report** (2007): The latest progress report makes the following evaluation for *management of EU funds*: “The EU aims to transfer the management of

IPA Funds to the national authorities under the Decentralised Implementation System (DIS) once the national authorities have developed the necessary capacity to assume this responsibility. Further attention is needed to developing accountable administrations and institutions with appropriate capacity”; “Significant progress was made in building capacity at the level of CFCD National Fund and Ministry of Finance. Adequate administrative capacity needs to be built up, particularly in line ministries. With regard to monitoring and evaluation, appropriate systems and mechanisms for monitoring and evaluating the quality and impact of development programmes have yet to be developed. Preparations in this area are at an early stage. In the area of financial management and control, relevant authorities and procedures for the proper implementation of pre-accession financial assistance have started to be put in place, in particular at the level of CFCD and National Fund. Preparations in this area are at an early stage”. For *fiscal decentralisation*, the progress reports’ assessment includes: “Decentralisation has continued to make progress, notably thanks to a spirit of cooperation between the central authorities and municipalities. The second phase of the fiscal decentralisation process was launched in July with 42 of the 85 municipalities considered ready. The grants currently planned to fund education, welfare, fire and rescue services and cultural institutions will be replaced with block grants. Municipalities will henceforth have to manage funds and decide on priorities themselves. The debts of the municipalities have been substantially reduced. Municipal tax collection has also improved, though it is still far from satisfactory. Internal audit units have been established in some 20 municipalities. However, funding of the tasks decentralised to the municipalities remains insecure. Some municipalities still have sizeable debts and have had their accounts blocked. The qualitative and quantitative capacities of some municipalities are rather low”; “Fiscal decentralisation entered its second phase in July 2007. Measures are being taken to settle the issue of municipal debt arrears, with the overall level reduced from about 1% of GDP in mid-2006 to about 0.5% by mid-2007. However, in some cases the new powers pose significant challenges to the municipalities”; “The PIFC policy paper together with the laws on PIFC and Internal Audit should be reviewed. The administrative capacity of the responsible institutions remains inadequate to meet the obligations arising from the acquis. Preparations in the area of PIFC and external audit are on track; preparations in the areas of the protection of EU financial interests ... have yet to commence”; “In February 2007, a law on Public Internal Financial Control as well as amendments to the existing Internal Audit Law were enacted. The existing Central Internal Audit Department of the Ministry of Finance was transformed in early 2007 into a Public Internal Financial Control Department including a central harmonization unit (CHU) for financial management control systems and a CHU for internal audit. In February, a plan was adopted to establish decentralised internal audit units in 33 central-level budget institutions by the end of 2007. However, the laws on PIFC and on Internal Audit, while laying down some basic principles of public internal financial control (PIFC), are not fully in compliance with PIFC standards. Furthermore, the staffing of the CHUs is so far inadequate. Thus, preparations in this area are at an early stage, but advancing. ... There are limited developments to report as regards the protection of EU financial interests. The financial police, which is a body within the Ministry of Finance, has been appointed as central contact point for the protection of the Community's financial interests in August 2007”.

Reference to **National Plan for Adoption of Acquis** (2007): The Plan has following priorities with regard to financial management capacities in the fields of management of EU funds and fiscal decentralisation: *Management of EU funds*: “In order to determine in more detail the competencies of the two units competent for management of EU funds, a Rulebook on the operating procedures of the Central Financing and Contracting Unit is being drafted, as well as Rulebook on the operating procedures of the Unit for EU Funds Management, referring to the setup of the national structures for decentralised management of EU programmes, in accordance with the EU regulations. ... Within the scope of activities aimed at full harmonisation and development of the financial management system, draft amendments and modifications to the Law on Budgets are planned for adoption. ... Budget reforms, financial management and control must undoubtedly be accompanied by appropriate improvements of the existing information technology system on budget and treasury work. ... It is necessary to develop the required capacity of the newly established units within the Ministry of Finance for management of European Union funds”; “The Law on Public Internal Financial Control will start applying in 2007, pursuant to which the entities using resources from the European Union funds shall be obliged to implement special conditions on the financial management, internal controls and internal audit, set by the European Commission. ... Within the Ministry of Finance – Sector for Public Internal Financial Control, a Unit for certification of the IPA funds management system will be established... This Unit will be capable of preparing an annual Audit Report on the operations of the IPARD Agency and the National Fund, on the basis of which the Head of the Sector for Public Internal Financial Control will issue an Annual Certificate confirming that the overall system of management and control in these institutions is compliant with the system of sound management with EU funds”; “Being granted candidate status for membership of the European Union, the key activities of the Government in the field of regional policy in the forthcoming period are ... providing administrative capacity for funds management”; “The preparation of the full Decentralised system of implementation (DIS) will be executed ... once the remaining phases are completed, subsequent to which the country shall receive full accreditation and DIS shall be operational in the country. After the introduction, the decentralised system of implementation is expected to be upgraded and continuously advanced into a fully independent system. ... The administrative capacity of the country is being upgraded so that EU assistance can be efficiently implemented; capacity building in terms of adequate structure, human resources, systems and procedures is indispensable. ... The intensive DIS training will continue. ... A strategy for training will be prepared, according to which all the necessary training will be projected for the upgrade of the DIS capacity. ... Strengthening of the capacity of the National Fund will continue as well as of the Payment Agencies and organisational structures for implementation, and of the Central Financing and Contracting Unit within the Ministry of Finance. The medium-term priority of the Government, namely until 2010 is to carry out training for the use of the structural and cohesion funds, with which the country, as an EU member could use the opportunities provided by these funds. The development of DIS system shall continue which would build the capacity for transfer of competencies for management of the third and fourth IPA component of the institution for regional development”. *Fiscal decentralisation*: “Following the Constitutional

amendments in November 2001 implementing the Ohrid Framework Agreement, a new system of local self-government has been introduced, strengthening municipality competences and widely extending their competences. So as to ensure an adequate funding system that will enable the local authorities to fulfil their responsibilities, the Law on Financing of Local Self-Government Units was adopted in September 2004. According to the Law on Financing of Local Self-Government Units, self-financing of the local self-government units by their own sources and revenues and additional funds provided from the Budget of the former Yugoslav Republic of Macedonia commenced as of 1 July 2005. The preparations for the implementation of the second phase of fiscal decentralisation, in which the block-grants should be transferred from the Budget of the former Yugoslav Republic of Macedonia to the municipalities for the public institutions operating in the field of – culture, social and child protection, education and health care – under the following conditions: If the municipality has fulfilled the conditions of the first phase meaning staff capacity for financial management; If good financial results of its operation for at least a period of 24 months are demonstrated; If timely and properly informs the Ministry of Finance on its good operational results; If it does not have any outstanding debts towards its suppliers, or any other creditors exceeding the customary conditions of payment. ... For the purpose of commencing the realisation of the second phase, the Ministry of Finance has elaborated an Analysis of the realisation of fiscal decentralisation. ... In short-term the training will in particular focus on enforcement and implementation of the laws related to the EU integration process of the country (environment, social and child protection, primary and secondary education, and etc.), strengthening the municipality capacity in terms of tax collection, municipal property management and local economic development as well as strengthening internal control and audit mechanisms. The Plan on Resolving Debts of the Municipalities adopted by the Government in July 2005 is continuously being implemented, with a general trend of decrease of the debts”; “Harmonisation with the requirements of the acquis regarding financial control implies the necessity of a global approach towards the development of modern systems for internal audit in the public sector, which leads to consistent combination of the managerial responsibility and functionally independent internal audit. Therefore, activities are underway in the Ministry of Finance for implementation of a coherent legislation, to be implemented in the entire sector of internal control, covering all important aspects of managerial responsibility, independent internal audit, central harmonisation of internal audit and financial management and control, as well as prevention of fraud”; “Strengthening of the institutional capacities for development of internal audit in the Ministry of Finance was made by establishing two units within the Sector for Public Internal Financial Control: Unit for Harmonisation of Internal Audit – with 3 executing officers; and Unit for Internal Audit - with 5 auditors. Within the central government institutions, 24 units for internal audit have been established so far, and on local level, auditors have been appointed in 18 municipalities. The initial and advanced training on internal audit was completed by 80 internal auditors. ... Strengthening of the legal framework for internal audit in the public sector will be a permanent task of the Unit for Harmonisation of Internal Audit. As a result of the strengthened independence of internal auditors in the public sector by applying the amendments to the Law on Internal Audit in the Private Sector, the independence of the internal audit units will grow and the status of the internal auditors will improve. Strengthening of the institutional capacities of

internal audit units in public sector will be made by establishing internal audit units in those institutions which lack such units, as well as by additional staffing in the existing internal audit units. Advanced training in systematic audit will be organised, which in addition to the theoretical part, will also include practical part, encompassing pilot audits carried out together with the foreign experts. Also, training in analysis and risk assessment, drafting strategic and annual audit plans, audit techniques, basic and advanced training in IT audit, public procurement audit and prevention of frauds, communication skills, presentation skills and drafting audit reports will be organised for the internal auditors”; “The Law on Internal Audit in the Private Sector will be amended, regulating the certification process of certified public auditors, followed by adoption of a Rulebook on obtaining the title of certified auditor and training curriculum. Additional staffing of the internal audit units on central and local level and the continuous training of internal auditors will continue”; “The protection of EU financial interests is regulated under the Law on Public Internal Financial Control. In order to protect the financial interests of the European Communities, the Ministry of Finance will coordinate the activities for the needs of OLAF and will provide guidelines for the institutions for reporting the irregularities, whereby all information regarding irregularities, disclosed by the entities when using resources from the EU funds or resources obtained from European funds with state co-financing, will be submitted to the Unit for Coordination of Fraud Prevention within the Ministry of Finance. The enforcement of the Law on Public Internal Financial Control ... will ensure that all users of the European Union funds will enable the authorised persons from the Ministry of Finance, the inspectors from the European Commission and the European Court of Auditors free access to the complete documentation, offices, resources and staff. For the purpose of strengthening the administrative capacities of the Unit for Harmonisation of Financial Management and Control, training of the employees will be carried out in order improving their reporting skills (preparation of annual report on the functioning of the financial management and control) and in capacity building for carrying out training in financial management and control in the public sector. On the basis of the training carried out and the guidelines provided by the Ministry of Finance, public sector entities (especially those that will use the EU funds) will develop procedures for the business processes they perform and will establish internal controls on the basis of risk assessment. To this end, training sessions about risk assessment and implementation of the procedures for business processes will be organised for heads of sectors and units in 10 pilot institutions in the public sector”.

4.d) Reference to MIPD

Multi-Annual Indicative Planning Document (2008-2010): The MIPD on *EU funds management* highlights the following: “The national administration must be endowed with the necessary structures as well as the management expertise and capacity to assume full responsibility for the decentralised management of IPA funds. Thus, assistance shall help to develop the capacity of the established DIS structures and to develop accountable administration and institutions, with appropriate level of institutional and administrative capacity, including internal controls and audits”; “The establishment of the management and control system was decided by the Government in December 2006. The National Fund (NF) and the Central Contracting and Financing Department (CFCD) were established and the Programme Authorising Officer (PAO), the Competent Accrediting

Officer (CAO) and the Senior Programme Officers (SPOs) have been nominated. As a first step, in 2005 a gap assessment related to the decentralisation of the management of EU funds was initiated and the results have been presented to the Commission. An update of the gap assessment to comply with the new IPA Implementing Regulation has been prepared in the first half of 2007 and, subsequently, the National Authorities have submitted a Gap assessment report. In a subsequent step, gap plugging has been done during the second half 2007, followed by a compliance assessment. Following the accreditation of the system, the CAO is to submit the application to the Commission for conferral of management”; “As a candidate country, the former Yugoslav Republic of Macedonia will have access to all five IPA components. The funds will be implemented under the decentralised implementation system once the Commission has conferred its management to the national authorities. The national administration must be endowed with the necessary structures as well as the management expertise and capacity to assume full responsibility for the decentralised management of IPA funds. Thus, assistance shall help to further develop the capacity of the established DIS-structures and to develop an accountable administrations and institutions, with appropriate capacity, including internal controls and audits”; “IPA funds will be implemented under the decentralised implementation system once the Commission has conferred its management to the national authorities. To this end, substantial assistance for capacity building across the relevant structures is provided through CARDS and IPA programmes. Nonetheless, it may be necessary to continue this support depending on the country's progress along its "DIS-roadmap"; “During a transition period which should be as short as possible, it is intended to implement components III and IV under a Decentralised Implementation System (DIS), with ex-ante controls on procurement performed by the EC Delegation and utilising the Central Finance and Contracting Department (CFCD) as Operating Structure. However, one of the main purposes of components III and IV is to prepare for future effective delivery of Structural Funds upon accession. Therefore effective steps for putting in place the respective management and control structures are necessary to achieve this goal”; “Pre-accession assistance shall help preparing the country for decentralised management of EU funds”; “The national administration is not yet endowed with the necessary capacity to assume full responsibility for the decentralised management of EU funds”; “In doing so, assistance will focus on: ... capacity building of national administrations to assume full responsibility for the decentralised management of EU funds”. For *fiscal decentralisation*, “Support will continue to the decentralisation process. In order to follow the EU’s Public Internal Financial Control (PIFC) model, it is essential further to enhance financial management and financial control procedures and to establish appropriate monitoring and evaluation systems through coherent legislation and adequate institutional capacity”.

4.e) Reference to National Development Plan

The proposed project has reference in following assessments of the **National Development Plan** (2007): For *management of EU Funds*: “There should be efficient management, monitoring, control and audit systems established in order to properly implement the IPA programmes in the environment of their decentralized implementation. Capacity building of the relevant institutions will also be performed”; “Low level of administrative capacity to effectively design and implement policies; Lack of qualified, motivated and committed public administration”; “To strengthen the capacity of human

resources in the public administration (to be capable for effective market regulation and supervision as well as for design and implementation of complex reforms)”; “Minimum standards for implementation, management and financial control must be met in order to obtain financial support from the pre-accession funds”. For *fiscal decentralisation*, “The decentralisation process which commenced in 2004 allows for the transfer of numerous competences to the local administration. Thus, besides at national level, a responsible and competent public administration at local level is a crucial precondition for successful implementation of the decentralisation process and for ensuring high quality of public services for the citizens. This derives the need for incorporating a thorough and systematic capacity building at all levels of the public administration”.

4.f) Reference to national / sectoral investment plans

The project directly links to the following strategies and action plans in the sector:

- Strategy of Reforms of Public Administration, 1999
- Pre-Accession Economic Programme (2008-2010), 2007
- Public Investment Programme (2006-2008), 2006
- Fiscal Strategy for the period 2007-2009, 2007
- Strategy for development of the public internal financial control (PIFC), 2006
- Analysis of the realisation of fiscal decentralisation
- Information for development of the internal audit and strengthening the financial control within the budget users and funds, 2004

ANNEX 5 - Details per EU funded contract

Project Management and Administration

A steering group will be established to oversee the overall implementation of the project and to ensure appropriate coordination between the different institutions involved and the different support programmes that are ongoing, financed by other international agencies.

The project will be implemented through a Twinning arrangement, according to twinning rules and procedures. Next to a RTA, additional expertise will assist in key tasks, e.g. in the field of administrative capacity building, training, legal development and others. Some of these experts will address the cross-cutting issues.

The core project team – consisting of the RTA and other expertise will be placed within the respective units.

The two project leaders (one from the national side and one from the MS side) will be responsible for the overall management, representation (co-ordination with the EU and other international bodies) as well as reporting. The co-ordination with other ongoing projects is significantly important in order to establish a coherent financial framework. The team leaders are responsible for an appropriate management of resources. During the workplan development phase of the project, a detailed deployment plan will be developed under the coordination of a Steering Committee in which each co-operating national institution will be represented to ensure appropriate inclusion.

The contracting arrangements are as follows:

1 Twinning Project will be developed with an appropriate EU MS institution. The twinning fiche will be developed during 2009. The duration of the twinning project will be 12 to 24 months. The successful EU MS institution will prepare the contract and start deployment one month after contract signature, which is expected during the 4th quarter of 2010. The contract value will be approx. EUR 1.35 Million.