

Project Fiche – IPA National programmes / Component I

1 IDENTIFICATION

Project Title	Support to the consolidation of the local self-government system
CRIS Decision number	2013/024-109
Project no.	2
MIPD Sector Code	1. Public Administration Reform
ELARG Statistical code	01-34
DAC Sector code	15112
Total cost	2013: EUR 2,352,941
EU contribution	2013: EUR 2,000,000
Management mode	Decentralised
<i>Centralised mngmt:</i> EU Delegation in charge <i>Decentralised mngmt:</i> Responsible Unit or National Authority/Implementing Agency	The Central Financing and Contracting Department (CFCD) The Head of CFCD will act as the Programme Authorising Officer (PAO) of the project. <u>Contact:</u> Mrs. Radica Koceva (PAO) Central Finance and Contracts Department Tel: +389 2 3231 219 Fax: +389 2 3106 612 E-mail: radica.koceva@finance.gov.mk
Implementation management	<u>Implementing Agency:</u> UNDP CO Skopje <u>Key Beneficiaries incl. details on SPO:</u> <i>Ministry of Local Self-Government (leading institution)</i> Ms. Mjellma Mehmeti Petersen, SPO Tel.+389 2 3253 932 Fax+389 2 3253 920 e-mail: Mjellma.mehmeti@mls.gov.mk <i>Ministry of Finance</i> Mr. Andrija Aleksoski, SPO Tel: + 389 2 3255 412 Fax: +389 2 3255 724 e-mail: Andrija.Aleksoski@finance.gov.mk <u>Other beneficiaries:</u> - Ministry of Environment and Physical Planning; - Ministry of Transport and Communication; - Other ministries/agencies; - Municipalities.
Implementing modality	Stand-alone project
Project implementation type	Direct grant
Zone benefiting from the action(s)	Nationwide

2 RATIONALE

2.1 PROJECT CONTEXT: ISSUES TO BE TACKLED AND NEEDS ADDRESSED

Decentralisation is indispensable for sustaining democracy of the country and for sustainable, inclusive local and regional development. The 2011 – 2014 Programme for Implementation of the Decentralization Process and Local Self Government Development (adopted by the Government in September 2011) concludes that at this stage of the process there are a number of achievements that need to be consolidated, many challenges to overcome, and most importantly the menu of policy areas has expanded. As the process moves forward, five dimensions are considered key:

- Legal framework for transferring competencies and resources;
- Fiscal decentralization;
- Service delivery and institutional capacity of Local Self-Government Units (LSGUs);
- Local democratic practice and citizen participation; and
- Coordination, communication and monitoring.

Addressing each of these dimensions, in a coherent way through this IPA supported project, will contribute not only to further consolidation of the local self-government and the balanced regional development system, but also to creation of an investment climate and preconditions for accelerated and sustainable local and regional development.

2.2 LINK WITH MIPD AND NATIONAL SECTOR STRATEGIES

The reform of the local government system including the decentralisation supports the local economic and social development, improvement of the local good governance, reduction of corruption and ensuring non-discrimination and respect of human rights at local level. As such, it complements the three priorities for IPA support over the period covered by **Multi-annual Indicative Planning Document (MIPD) 2011-2013**.

In accordance with the **National Programme for Adoption of the Acquis (NPAA) 2012** the decentralization process will be focused on securing sustainable local development, further development of the municipal financing system, decrease of the fiscal disparities, promotion of mechanisms for participative management at local level, as well as improvement of the service delivery and strengthening of the institutional and administrative capacity of the local self-government units. For that purpose an Action Plan to the PIDP will be adopted for the period 2012 – 2014. The Decentralization Working Group where ZELS participates will remain the key coordination mechanism of the process. The Ministry of Finance will continue its activities aiming at improvement of the administrative and financial capacities of the LSGUs with a focus on the improvement of the collection of the LSGUs' own revenues. With regard to the balanced regional development analyses are in process aiming at amending the Law on Balanced Regional Development (BRD) and the priority measures of the 2010 – 2012 Action Plan to the 2009 – 2019 Regional Development Strategy and the 5 years Planning Region Development Programmes adopted in 2009 are under implementation.

The local self-government reform is also relevant for achieving the strategic objectives of the **Government Programme for the period 2011-2015** including the increase of the economic growth and employment, the integration of the country in EU, the fight against the corruption and efficient law enforcement through deeper reforms of public administration and the maintenance of good inter-ethnic relations based on the principles of mutual tolerance and

respect and implementation of the Ohrid Framework Agreement. With regard to the regional development the Government will make every effort to promote the development of all regions in the country and help in creation of equal opportunities for them. With regard to the decentralization process, the Government will improve the conditions in social protection, local economic development, culture, health, sports and housing. Fiscal decentralization will continue in the next four-year period. The Government will pursue the goal of achieving higher degree of equalization. The **2011-2014 Programme for Implementation of the Decentralization Process and Local Self Government Development** identifies the stability of the local self-government system, the competencies and fiscal decentralization as a dominant objective of the decentralization. It also notes that there are a number of opportunities for programming to focus more on consolidation of the existing and introduction of new practices and tools for good governance along with strengthened emphasis on integrated/inclusive local development issues.

2.3 LINK WITH ACCESSION PARTNERSHIP (AP)/EUROPEAN PARTNERSHIP (EP)/STABILISATION AND ASSOCIATION AGREEMENT (SAA)/ANNUAL PROGRESS REPORT

The project addresses the following mid-term priorities listed in the **2008 Accession Partnership**: complete the decentralisation process; raise the quality of public spending, further develop and implement the EU's public internal financial control model; strengthen at central level and develop at regional and local level the administrative capacity. The **European Commission's 2011 Country Progress Report** addresses particular issues tackled by this PF such as the municipal financial management capacity, mechanisms to address the disparities in delivery of public services especially with regard to the rural and small municipalities, strengthening the capacity of the Ministry of Local Self Government (MoLSG) and the Ministry of Finance, increase of the transparency and coordination of central funding for municipal projects, particularly for infrastructure projects; exchange of data between the national and local institutions and the need for development of a unified data-base system, strengthening of the administrative capacity of the municipalities and making the financial framework for local service delivery more transparent and equitable. This project will also contribute for achieving the national targets with regard to the **Europe 2020** objectives on employment, innovation, education, social inclusion and climate/energy - to be reached by 2020. More specifically, stronger decentralization will contribute for more effective and efficient transposition and implementation of the EU acquis and creation of vibrant local development.

2.4 PROBLEM ANALYSIS

The most of the identified challenges and priorities in the 2008 Accession Partnership and the 2011 Country Progress Report are adequately addressed by the relevant national policies. However, additional efforts and resources are needed to translate the policy measures into concrete and result oriented actions, outputs and outcomes. As the Mid-term Decentralization Review (completed in the first half of 2011) and the new Decentralization Programme point out, the stability of the local government system (consolidation and effective implementation of the transferred competencies), the transfer of the remaining and the new competencies, the continuation of the fiscal decentralization and bolstering the balanced regional development are likely to remain a dominant objective on short and medium term. New priorities are also beginning to appear in other areas such as local democratic governance, transparency and accountability, quality of the local service delivery and performance indicators. The period of the implementation of the project coincides with the new programming cycle of the

decentralization process which requires assessing the key parameters of the process and providing accurate input for programming of the next stage.

The balanced regional development policy and legal framework were derived as a segment of the overall decentralization policy. The period of the implementation of this project overlaps with the new programming cycle of the planning regions and therefore strategic analysis and assessments of the implementation of the national and local strategies and programmes for balanced regional development as well as preparation of the new Programmes for development of all eight planning region, harmonized with the EU standards and policies (including EUROPE 2020) will represent one of the crucial challenges ahead.

The legal framework for transferring competencies and resources at least requires further upgrade of the existing local outsourcing framework (inter-municipal cooperation, issuing concessions, deinstitutionalization and public private partnerships) and encouragement of innovative and diversified models of service delivery. The competencies in the area of social protection/care remain to be transferred in the next two years and creation of local inclusive development framework that ensures comprehensive view on the specific vulnerabilities will represent a challenge on midterm. The range of the local competencies that have measurable impact on the growth of the country including jobs creation is still very limited and needs to expand. The potential of tools such as the Inter-municipal cooperation for increasing local capacities for absorption and implementation of domestic, pre-accession and other available funds for capital projects are still underutilized. Strengthening of the role of the National and Local Councils and the Centres of the planning regions with regard to the coordination and channelling of the investments at planning region level shall be considered. Last but not least, the local authorities shall optimize their capacity for transparent and objective management of the local public expenditures and innovate as well as dedicate more services to the private sector such as promotion, efficient local one stop shops, business incubators, outsourcing of services etc. Boosting SME's cannot be achieved without having in place sustainable framework for local institutional support.

With regard to the **Fiscal Decentralization** besides moving forward in a number of areas, the LSGUs still require more intense support to collect and administer local taxes and fees. Achieving higher level of fiscal autonomy remains imperative. The Municipal Expenditure Needs Study (recently finalized by MoF with technical assistance provided by UNDP) presents a comparison between the country at this stage of decentralization and the other EU countries and concludes that the comparable benchmark level is 4.5% of GDP. As of 2010, the level of recurrent expenditures by the LSGUs stands at 5.53% % of GDP. However, the LSGUs still vary in the fiscal capacity not only to absorb new financial responsibilities or to capture new financial opportunities, but most importantly to do so in a way that is transparent and accountable.

With regard to the **Service Delivery and Institutional Capacity of LSGUs**, the current local service delivery platform is mostly supply driven. Therefore, the lack of integrated institutional framework to deal with the demand side of capacity needs represents one of the key challenges of the decentralization process. In order to achieve sufficiently focused and productive social dialogue besides the local official's efforts shall be invested in building of capacities of women, youth and other vulnerable groups in LSGUs to engage in local governance and decisions structures.

Any political system including the local self-government system could not be sustainable and owned by people without observing the principles of **transparency, accountability and integrity**. New skills, tools and practices in both LSGU and citizen arenas are required. National e-governance interventions and the lessons learned shall be translated into local action. The fight against corruption is also aided by local processes and systems that are more transparent and efficient due to the utilisation of information technology for e-services. Functional and consistent institutional mechanisms for all-inclusive CSOs' participation are yet to be established. Therefore, strengthening of the capacities of civil society organisations in networking and development of partnerships with local governments represents additional challenge

With regard to the **Coordination, Communication and Monitoring** there is need to start thinking of new ways to articulate and strengthen vertical (Central-LSGUs) and horizontal (between LSGUs) coordination that places on LSGUs more responsibilities for human and economic development. Lack of baseline indicators (qualitative and quantitative), to follow the performance create difficulties to obtain a coherent picture of the functioning of the LSGUs.

2.5 LINKED ACTIVITIES AND DONOR COORDINATION

This project is designed in a way to ensure consistency with and complementarity of the results achieved by the most relevant and implemented decentralization projects. Since 1999, both the PHARE and CARDS EU funded programmes combined support to capacity building at central level with municipal pilot components, In the designing of the project, as well as in the implementation, the results and lessons learned from the previous main projects will be taken under consideration, such as: the 36-month Local Self-Government Development Programme (under PHARE), the Technical Assistance Project for the Implementation and Coordination of the Decentralisation Process – Phase I and II (under CARDS), the Technical Assistance Project for the Fiscal Decentralisation (under CARDS) and the other relevant projects. This 2012 IPA supported project also foresees activities that supplement the activities and results of the Component 1 of the IPA 2009 project fiche titled as Building effective and democratic local government (CRIS Number: 2009/021-665):

Besides the continuity, the implementing agency will also ensure complementarity with the current and planned initiatives of other actors through existing institutional mechanisms (such as the current: Decentralization Working Group and the special working group on Local Self-Government and Decentralization in the frame of the Programme Based Approach). In fact this fiche is being designed to add value to the coordination process by providing a hub for coordinating the sector of local self-government and creating **improved programming and aid coordination** effects on medium term. Having UNDP as international organization on board will ensure that the project benefits also from the donor specific coordination for and from the coordination bodies within the other projects that are implemented at local level.

All coordination mechanisms and bodies relevant at the time of implementation of the interventions programmed under this PIF will be used for systematic and regular exchange of information and provision of guidance.

2.6 Lessons learned

Underachieved impact on the quality and productivity of the inter-institutional dialogue and effectiveness of the coordination of the decentralization process as well as the limited

capacities of the key stakeholders has been the weakness of the projects that provided TA for the decentralization process in the past. Related challenge has sometimes been the substantive involvement of the local level. Since the decentralization still remains a process of a quite complex policy and political nature this PF has been designed to overcome it by selecting approach that will result in solid inter-institutional dialogue and coordination as well as in development of the most critical capacities of all relevant stakeholders. This complexity requires also a very carefully designed implementation that will enable continuity in the interventions, solid institutional memory and good networking not only among the national institutions, but also with the civil society and other social partners.

3 DESCRIPTION

3.1 OVERALL OBJECTIVE OF THE PROJECT

The overall objective of the project is to support the consolidation of the local self-government system in its capacities to ensure inclusive governance and growth.

3.2 SPECIFIC OBJECTIVE(S) OF THE PROJECT

The Project aims at consolidation of the local self-government system through ensuring a firm link between the decentralization and inclusive local sustainable development processes with the two supporting processes, the fiscal decentralization and the balanced regional development. It also aims at ensuring that the policy focus will shift on providing equitable access to better local services for all citizens through creation of enabling legal and institutional environment.

3.3 RESULTS

This project is designed to build on the results achieved and impact made through implementation of the decentralization and balanced regional development activities that are programmed by the Government and the line ministries for the period until end of 2013.

In this regard some activities for the next two years are already projected such as the transfer of the remaining competencies (social care and housing, construction land under forests and pastures, health care in rural areas, etc). This will lead to almost full implementation of the original concept of local competencies thus enabling comprehensive stocktaking to take place. The focus of the balanced regional development policy within these two years will be on implementing the existing programmes of the regions. Since they expire in 2014 a comprehensive assessment of the balanced regional development policies and legislation and adjustment of the policy and programmatic framework will be required.

The capacity development focus in the next two years will remain on the absorption of the transferred competencies and will need to gradually shift to creation of capacities for better and more equitable local service delivery. Last but not least, it is expected that the fundamentals of the decentralization M&E system will be established in this period and that the IPA support through this project will be required for strengthening the M&E capacities, undertaking concrete measurements and underpinning the selected performance benchmarks with interventions in the legal framework.

With regard to the fiscal decentralization the coming period will be focused on upgrading of capacities on the two critical topics, the collection of local tax revenues and the stable financial management. The system for issuing municipal bonds was introduced recently and there will be a need for its consolidation and optimization of the effects within the next mid-

term perspective. Therefore this project will continue and upgrade the fiscal capacities and related policies.

Finally, since the implementation of the project will overlap with the programming and beginning of the implementation of the next phase of the decentralization process, this project will come up with innovative measures and activities that will address the quality of the local service delivery or more specifically the features of the outsourcing framework, the capital investments absorption capacities, inclusiveness and community based development, integrated knowledge platforms, etc.

The results listed below are following the proposed objectives and the priority needs and challenges described in the problem analyses chapter and are relevant for the period from 2014 onward. They also present a concrete response to the specific needs and challenges identified and further prioritized by the key stakeholders during the preparation of this PF.

Results and measurable indicators in relation with Measure 1 - Consolidation and effective implementation of the transferred competencies and resources

Results:

- Strategic assessment of the application of the principle of subsidiarity in the distribution of powers between the central government and municipalities as basis for programming further process of decentralisation
- Coordination mechanisms provided with research tools, specific data bases, local and international expert support to play a leading role in promoting policy dialogue, producing strategic analysis and advancing ideas;
- Capacities of the key stakeholders for coordination, monitoring and evaluation of the decentralization policies and the local service delivery enhanced;

- Existing performance indicators assessed, upgraded and replicated in all LSGUs as well as reinforced with interventions in the primary and secondary legislation as per existing identified indicators;
- M&E units in representative number of LSGUs established and strengthened with effective reporting mechanisms as per the existing mechanisms;
- Best practices for innovative and improved service delivery identified and replicated ;
- E-governance tools such as citizens logs and clients satisfaction surveying tools as well as advanced IT solutions for local administrative procedures created and replicated in all LSGUs;
- Relevant ISO and CAF standards as well as standards for obtaining international credit rating introduced in representative number of LSGUs;
- Publicly accessible electronic portal with a data base of all adopted local regulations and all national and local development planning documents created and posted on the MoLSG Web;
- Consolidated institutional mechanisms for all-inclusive public participation of CSOs in local policy creation and decision making and further developed capacities of civil society organisations as per existing mechanisms;
- Networking of CSOs for monitoring of the implementation of the decentralization process supported;
- Existing partnerships of the CSOs with local government strengthened and new partnerships created .

Measurable indicators:

- Number of shared competencies transformed into entirely devolved competencies
- Number and type of functional means (research tools, data bases, local and international expert support) provided to the most relevant coordination mechanisms and bodies;
- Number of prepared and delivered tailor made training programmes to the line ministries;
- Advanced knowledge and skills transferred;
- Number of prepared and delivered tailor made training programmes;
- All LSGUs measure local service delivery performance in accordance with the legally established set of quantitative and qualitative indicators;
- Number of LSGUs with established M&E units;
- Number of best practices identified;
- Number of LSGUS with replicated best practices;
- Number and type of new e-governance tools established;
- Number of assessed LSGUS
- Number of ISO/CAF certified LSGUs
- Data base established and Web access secured
- Number of consolidated participatory bodies
- Number of supported CSOs networks
- Number of strengthened partnerships between CSOs and institutions
- Number of new partnerships between CSOs and institutions

Results and measurable indicators in relation with Measure 2 - Facilitation of the transfer of the additional competencies and resources aimed at ensuring smart, comprehensive and sustainable local development

Results:

- Local outsourcing framework (inter-municipal cooperation, issuing concessions, deinstitutionalization and public private partnerships) assessed and upgraded in line with the EU standards and through interventions in the primary and secondary legislation;
- Inter-municipal cooperation further regulated and utilized as a tool for inclusive local service delivery and increasing local capacities for absorption and implementation of domestic, pre-accession and other available funds for capital investments;
- Advanced applicable mechanisms and tools for inclusive local governance, planning and development identified, tested through demonstration activities and regulated in the respective legislation;
- Local and regional integrated planning approach for LSGUs in accordance with the EU practices including reinventing the existing role of the neighbourhood units;
- Legal framework for local institutional support for SME's development assessed and upgraded in line with the EU standards, through interventions in the respective legislation;
- All generated advanced knowledge, skills, best practices and demonstration activities integrated in a **Platform for Local Integrated Knowledge** – (*click the*) **PLIK** (accessible through a portal hosted on the MoLSG Web).

Measurable indicators:

- Number of amendments and addenda in the respective primary and secondary legislation prepared and adopted;
- Number of IMC forms established;

- Number of identified and tested innovative mechanisms and tools for local service delivery;
- Number of Integrated Approach Plans developed as per existing module
- Platform for Local Integrated Knowledge developed and accessible through a portal hosted on the MoLSG Web.

Results and measurable indicators in relation with Measure 3 - Improving the financing of local government units

Results:

- LSGUs enabled to make informed decisions when choosing best means for financing of capital projects;
- Increased capacity of local authorities for efficient collection of local tax revenues;
- Strengthened capacity for stable financial management and internal financial control in all LSGUs as per experience from the previous implemented actions.

Measurable indicators:

- Number and type of research tools, data bases, local and international expert support provided;
- Number and type of analytical reports prepared;
- A percentage of public revenue generated by local self-government compared to the 2014 baseline;
- Comprehensive capacity development programme prepared and delivered to all 81 LSGUs;
- Decreased number of LSGUs that face debts including LSGUs with blocked accounts compared to the situation at the end of 2014.

Results and measurable indicators in relation with Measure 4 - Ensuring balanced regional development of the country

Results:

- Increased capacity of the MoLSG for facilitation of the work of the national Council for balanced regional development in the light of increased transparency and coordination of central funding for municipal projects, particularly for capital projects and their distribution in accordance with the regional development ratio;
- Council members provided with research tools, data bases, local and international expert support to play a leading role in coordination of the utilization of resources of all sector programs for the regions/municipalities;
- Strengthened capacity of the Centres of the planning regions to influence the competitiveness of the regions, incubate businesses and channel the financial and technical assistance/grants;
Mid-term assessment of the implementation of the national and local strategies and programmes for balanced regional development.
- Elaboration of the regional development programmes through action plans in all 8 planning regions and harmonization with the integrated municipal development plans
- Increased project preparation and absorption capacity to utilise the potential future funding, and increase capacity to service provision and fund raising for Centres for Regional Development;
- Effective and efficient forms of inter-municipal cooperation for economic development established.

Measurable indicators:

- Number and type of functional means (research tools, data bases, local and international expert support) provided to all relevant balanced regional development stakeholders;
- Number of initiatives specifically focused on business support, regional development and competitiveness;
- 8 Mid –term reviews/evalutaions of RDPs;
- 8 annual action plans of the 5-year RD Programmes and number of harmonized integrated municipal development plans;
- Number of regional projects/applications prepared, number of trainings and coaching of the RDC for service provision and fund raising ;
- Number of IMC forms established, scaled up and replicated.

3.4 MAIN ACTIVITIES

Technical assistance will be provided for the following components and related activities:

Measure 1: Consolidation and effective implementation of the transferred competencies and resources

- Strategic assessment of the application of the principle of subsidiarity in the distribution of powers between the central government and municipalities;
- Provision of research tools, specific data bases, local and international expert support to the coordination mechanisms;
- Development of capacities of the key stakeholders for coordination, monitoring and evaluation of the decentralization policies and the local service delivery;
- Assessment of the performance indicators, upgrade and replication in all 81 LSGUs as well as reinforcement with interventions in the primary and secondary legislation;
- Establishment of M&E units in representative number of LSGUs and strengthening with effective reporting mechanisms;
- Identification and replication of best practices for innovative and improved service delivery identified and replicated in municipalities;
- Creation and replication of e-governance tools such as citizens logs and clients satisfaction surveying tools as well as advanced IT solutions for local administrative procedures in all LSGUs;
- Introduction of relevant ISO and CAF standards as well as standards for obtaining international credit rating in representative number of LSGUs;
- Creation of publicly accessible electronic portal with a data base of all adopted local regulations and all national and local development planning documents;
- Consolidated institutional mechanisms for all-inclusive public participation of CSOs in local policy creation and decision making and further developed capacities of civil society organisations;
- Provision of support for networking of CSOs for monitoring of the implementation of the decentralization process,
- Strengthening of the existing partnerships of the CSOs with local government and creation of new partnership.

Measure 2: Facilitation the transfer of the additional competencies and resources

- Preparation of Assessment Report and further upgrade of the existing local outsourcing framework (inter-municipal cooperation, issuing concessions, deinstitutionalization and public private partnerships) through interventions in the respective legislation;

- Further regulation of the Inter-municipal cooperation as a tool for increasing local capacities for absorption and implementation of domestic, pre-accession and other available funds for capital investments, through interventions in the respective legislation;
- Preparation of Assessment Report and establishment of local and regional inclusive development framework that ensures comprehensive view on the specific vulnerabilities including setting practical mechanisms and tools for inclusive local governance, planning and development in the respective legislation;
- Preparation of Assessment Report and reinforcement of the local and regional framework for community based initiatives through interventions in the respective legislation including reinventing the existing role of the neighbourhood units;
- Creation of sustainable legal framework for local institutional support for SME's development;
- Integration of all generated advanced knowledge, skills, best practices and demonstration activities in a Platform for Local Integrated Knowledge - PLIK (accessible through a portal hosted on the MoLSG Web).

Measure 3: Improving the financing of local government units

- Enabling Ministry of Finance and interested/selected LSGUs to promote the process of issuing municipal bonds aimed at financing of capital projects;
- Preparation and delivery of a comprehensive capacity development programme for efficient collection of local tax revenues to all 81 LSGUs;
- Preparation and delivery of a comprehensive capacity development programme for stable financial management and internal financial control to all 81 LSGUs.

Measure 4: Ensuring balanced regional development of the country

- Development of capacity of the MoLSG for facilitation of the work of the national Council for balanced regional development in the light of increased transparency and coordination of central funding for municipal projects, particularly for capital projects and their distribution in accordance with the regional development ratio;
- Provision of research tools, data bases, local and international expert support to the National Council members;
- Strengthening the capacity of the Centres of the planning regions for supporting the increase of the planning regions competitiveness, incubating businesses and channelling financial and technical support via projects;
- Preparation of strategic assessment/review of the implementation of the national and local strategies and programmes for balanced regional development and further elaboration of the regional development programmes through action plans and mid-term evaluations in 8 planning regions and harmonization with the integrated municipal development plans ;
- Realization of the following activities with nation-wide replication potential in eight planning regions:
 - o Increased project preparation and absorption capacity for potential funding
 - o Number of regional projects/applications prepared, number of trainings and coaching of the RDC for service provision and fund raising
 - o Effective and efficient forms of inter-municipal cooperation for economic development established.

3.5 ASSESSMENT OF PROJECT IMPACT, CATALYTIC EFFECT AND CROSS BORDER IMPACT (WHERE APPLICABLE)

If the objectives 1 - 4 (further on translated into project components and activities) are met the IPA support will contribute for: (1) increased quality of the local service delivery (due to shifted focus on the local performance and its evaluation on the basis of accurate benchmarks that enable corrective actions); (2) fulfilment of capacity gaps especially of the small and rural municipalities (due the improved local outsourcing framework and the area based development interventions); and (3) increased local inclusive governance, programming and development (due to the focus on the specific vulnerabilities). Creation of sustainable partnerships for inclusive local development between the local authorities and various social actors including the associations of citizens and the private sector will make the local communities more resilient to the challenges such as economic downfalls and climate change. The consequent and gradual increase of the recurrent local public expenditures will bring the local self-government system of the country closer to the desirable levels prior the entrance of the country into full membership in the EU. The revenue capacity disparities between the LSGUs will decrease. It is also to be assumed that the average level of fiscal stability of the LSGUs will increase thus preventing major issues related to their debts. Achieving higher degree of equalization and balanced regional development will contribute for achieving economic effects, strengthened social/inter-ethnic cohesion and political stability of the country.

3.6 SUSTAINABILITY

The key factor of sustainability will be to translate in participatory and inclusive manner the envisaged interventions into a legal norm and standards to be set in the primary and secondary legislation as well as in the internal acts of the targeted institutions. Achievement of the envisaged results will contribute for more sustainable and enabling normative and institutional set up of the local self-government including a sustainable system of financing of the municipalities. The project interventions complement the decentralization and balanced regional development measures and activities of the Government Programme 2011-2015 and the Decentralization Programme 2011 – 2014, and this shall be considered as very important factor of sustainability of the IPA assistance and expected results, since both documents serve as basis for preparation of the annual state Budget for this sectors. A widely shared national goal of accession to the European Union guides national policies and strategies including those that relates to the implementation of the Ohrid Framework Agreement and the decentralization process as its integral part including the balanced regional development and the fiscal decentralization.

3.7 ASSUMPTIONS AND PRE-CONDITIONS

Assumptions:

Lack of in-depth understanding about the decentralization process among the key stakeholders, and less than full commitment among sector ministries will be mitigated by comprehensively organised consultations and coordination of the implementation of the project activities. Both, the Ministry of Local Self-Governance and the Ministry of Finance are inadequately resourced and targeted/tailor made assistance for strengthening of their capacities will be provided. Especially the designated focal points in the line ministries and the members of the relevant coordination bodies will receive sufficient support to play a leadership role.

Preconditions:

- Appointment of counterpart personnel by the beneficiaries before contract signatory;
- Allocation of working space and facilities within the premises of the beneficiaries before contract signatory;

- Organisation, selection, appointment and participation of members of working groups, steering and coordination committees, seminars by the beneficiaries/stakeholders as per work plan of the project;
- Appointing the relevant staff by the beneficiaries to participate in training activities as per work plan;
- Sufficient managerial, technical and human resources allocated to the relevant Departments.
- The trainings under the individual activities will be, planned and carried out in the national training premises (for ex. EU/IPA Training and Support Facility) in coordination with the management of the training facility;
- In areas where there is evident expertise with the final beneficiary, the trainings will be delivered by the civil servants (trainers or experts), as part of their job description, without any compensation by the project (or any EU funding) and/or with the assistance of key/short term experts;

4 IMPLEMENTATION ISSUES

The Contracting arrangements will be arranged as the following: **Direct Award/Contribution Agreement (under the 2012 FA) with the United Nations Development Programme. The agreement will be governed by the European Commission's–UN Financial and Administrative Framework Agreement (FAFA).**

The FAFA sets out a framework for the United Nations and the Commission to enhance their cooperation including programmatic partnership. It can be downloaded from the link bellow: http://ec.europa.eu/europeaid/work/procedures/financing/international_organisations/other_documents_related_united_nations/document/un_ec_fw_en.pdf

The FAQ on the FAFA implementation are posted on the European Commission DG Europeaid website: http://ec.europa.eu/europeaid/work/procedures/faq/international_organisations_en.htm

The Direct Award/Contribution Agreement will be concluded with UNDP in accordance with the Art. 168 (1) point (f) of the Implementing Regulation and the PRAG chapter 6 /6.9.1:Grants to international organisations:

<http://ec.europa.eu/europeaid/prag/document.do?chapterId=6.9.1.&id=141&id=141>

The above project entails a very specific set of technical and political elements. The process of decentralization is one of the critical processes related to democratization and development of the country. Such complexity requires a very specific arrangement for the project implementation that will ensure highly specialized technical knowledge, but even more-continuity in addressing the relevant issues and high political sensitiveness and understanding. The requirement for such complex set of technical competencies, high degree of specialization and administrative capacities, makes UNDP a unique partner in the country context. Additionally, besides the long term in-country experience, UNDP brings on board extensive global and Western Balkan comparative experience in the area.

Among other complexities, the implementation of this project will coincide with the 10th anniversary of the transfer of competencies in the framework of the decentralization process, which is one of the key pillars of the country's governance system and is at the core of the Ohrid Framework Agreement (OFA). During that period, it will be necessary to take stock of the progress achieved and to outline the future of the decentralization process, in particularly shifting the paradigm from stabilization of inter-ethnic relations to a platform for development

Furthermore, the government is looking at consolidating the components of the decentralization process into an overall development platform, ensuring that municipalities will be capacitated not only to provide basic local services, but also be active players in the national growth and mitigating more global phenomena, such as effects of the economic turmoil's, climate challenges and specific social vulnerabilities. UNDP, as a globally recognized development agency, can provide substantial guidance in this regard.

Any serious assessment and further driving of the decentralization process in the above context, will require a seasoned and honest broker, able to ensure continuity and consistency of policy solutions, as well as demonstrate strong institutional networking capacities. The UNDP Country Office Skopje has established itself as an experienced and reliable partner in this regard.

UNDP has been our key partner in the area of programming and implementing the complex decentralization reforms since 2001 and retrospectively has the biggest continuum in supporting the process up to date. The longstanding support and excellent cooperation at all levels has helped ensure continuity in successfully addressing the numerous challenges that the decentralization process brought along as well as consistency when it came to adopting and implementing viable policy solutions.

Its interventions range from high-level policy advice to implementation of direct measures at the local level. Some of its policy products have been critical for planning the implementation of the process: these include assessments of the status of the process and studies dedicated specifically to the issue of fiscal decentralization. The strong network at local level has been developed over a number of years of supporting local and regional development activities, from development planning to service delivery support and development projects.

This positive impact manifests the UNDP capability to complement the strengths of the Ministry of Local Self - Government and assist the Ministry in developing the most critical capacities necessary for shaping a very sensitive process such as the decentralization.

The UNDP Office works not only with the institutions, but also with the civil society, through participatory planning processes, Local Action Groups and small grants for NGOs. Specific UNDP interventions also include mapping of vulnerabilities and securing access of vulnerable groups to services at central and local level.

UNDP has a large and efficient local network in place. It has been working side-by-side with a number of national institutions, ZELS and every single municipality in the country, supporting the implementation of a wide variety of projects in the areas of good governance, social inclusion and energy and environment - with the overall objective to ensure better and sustainable futures for all our citizens. For example, thanks to the UNDP Inter-Municipal Cooperation Programme, implemented over the past five years in partnership with the Ministry of Local Self Government, areas such as urban planning, tax collection, local economic development, social services and environmental protection were tackled. All 85 local self-government units were involved in this programme, which successfully reached out to more than 800,000 people and 200,000 households throughout the country – many of whom previously had very limited access to basic services.

In its latest support phase, UNDP was the critical provider of assistance for decentralization, initiating a stock-taking and a new programming cycle through a Mid-term Decentralisation Review and the new Decentralization Programme 2011-2014, as well as the on-going reform for the equalization of the fiscal transfers (in cooperation with the Ministry of Finance). In the

course of the implementation of its projects, UNDP also provides continuous support to the national and local authorities in the establishment of functional models of inter-municipal cooperation (with involvement of the MoSLG and the IMC Commission), inter-ethnic dialogue and cooperation (in coordination with the OFA Secretariat, MLSG, Agency for Small Communities, Institutes, the Parliament, ethnic, religious and other civil society leaders...) as well as in reducing opportunities for corruption in the local government by working directly with the State Anti-Corruption Commission, other agencies and municipalities. At the national level, the Office has also strong partnerships with most of the line ministries and agencies involved in the decentralization process.

Last but not least, UNDP brings strong administrative and financial management experience including internationally-recognized standards for programming and operations (including accounting standards), backstopping capacity at country, regional and global level, and a global network of expertise.

Further justification based on achieved results of UNDP is presented in the Annex VI

4.1 INDICATIVE BUDGET

Indicative Project budget (amounts in EUR)

PROJECT TITLE			SOURCES OF FUNDING										
			TOTAL EXPENDITURE	TOTAL PUBLIC EXPENDITURE	IPA CONTRIBUTION		NATIONAL PUBLIC CONTRIBUTION						PRIVATE CONTRIBUTION
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 1.1 – D.6													
Direct Award/Contribution Agreement under the 2012 FA	X	–	2,352,941.17	2,352,941.17	2,000,000	85	352,941.17	15	252,941.17		100,000	–	
TOTAL IB			2,352,941.17										
TOTAL INV													
TOTAL PROJECT			2,352,941.17	2,352,941.17	2,000,000	85	352,941.17	15	252,941.17		100,000		

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

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))

4.2 INDICATIVE IMPLEMENTATION SCHEDULE (PERIODS BROKEN DOWN BY QUARTER)

Contracts	Start of Tendering/ Call for proposals	Signature of contract	Project Completion
Direct Award/Contribution Agreement (under the 2012 FA) with the United Nations Development Programme. A Standard Contribution Agreement governed by the EC – UN Financial and Administrative Framework Agreement will be concluded with the UNDP.	N/A	Q1 2014	Q1 2016

Contracting arrangements: **Direct Award/Contribution Agreement (under the 2012 FA) with the United Nations Development Programme. The agreement will be governed by the EC – UN Financial and Administrative Framework Agreement.**

No external preparatory studies or expertise is needed. The direct award dossier will be ready on time so that the Contribution Agreement with UNDP can be concluded as soon as the FA is concluded for IPA 2012 (at the end of 2013, at latest).

4.3 CROSS CUTTING ISSUES

4.3.1 Equal Opportunities and non-discrimination

Gender mainstreaming will be effectively implemented in all aspects of the preparation and implementation of the project including: development of the Terms of Reference of the Project; project implementation and management; general operations and financial management and public information activities as well as the stakeholder coordination.

4.3.2 Environment and climate change

The project anticipates implementation of activities that among other aim at strengthening the local services with regard to protection of environment such as waste and water management, ambient air quality, impact of the local development on the local environment, protection of biodiversity, climate change adaptation and mitigation etc.

4.3.3 Minorities and vulnerable groups

In all activities during implementation of the project, steps will be taken to ensure that the rights of minorities and other vulnerable groups are taken into account. This aspect will be considered in particular in coordination of activities relating to social, socio-economic sectors and human development on both, national and local level.

4.3.4 Civil Society/Stakeholders involvement

The project suggests additional roles for the civil society such as increased participation in the local service delivery in the sectors of social and child care, protection of environment, education, culture, sport and recreation and voluntary fire-fighting. Last but not least, civil society will play crucial role in the coordination of the implementation of the project as well as in development of the integral M&E system. This system will be in line with the IPA Regulations, but also will be more directly defined in the respective guidelines.

ANNEXES

- 1. Log frame**
- 2. Description of Institutional Framework**
- 3. Reference list of relevant laws and regulations only where relevant**
- 4. Details per EU funded contract(*) where applicable:**
- 5. Project visibility activities**

ANNEX 1: Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX FOR Project Fiche		Project title and number	Supporting consolidation of the local self-government system in its capacities to ensure inclusive governance and growth
		Contracting period expires: Two years following the date of the conclusion of the Financing Agreement	Execution period expires: Two years since conclusion of the contract
		Total budget: EUR 2,352,941	
		IPA budget: EUR 2,000,000	
Overall objective	Objectively verifiable indicators (OVI)	Sources of Verification	
To support the consolidation of the local self-government system in its capacities to ensure inclusive governance and growth.	<p>Municipalities are vibrant and active actors in the overall growth of the country, creating environment for new jobs and dealing with environmental issues.</p> <p>Increased level of local economic and social development</p> <p>Improved local good governance and reduced local corruption as well as ensured non-discrimination and respect of human rights at local level.</p>	<p>Reporting mechanism of the Government on the implementation of the Government Programme 2011 – 2015</p> <p>Reporting Mechanism of the MoLSG on the implementation of the PIDP 2011-2014 including related Action Plans as well as the Action Plans of the Regional Development Strategy</p> <p>Information for the Government prepared by the Ministry of Finance on the semi-annual and annual financing of the municipalities</p> <p>Contribution (Report of the Government) to the Commission's Annual Progress Report</p> <p>Commission Annual Progress Reports</p> <p>Related Project Implementation Reports</p>	
Specific objective	Objectively verifiable indicators (OVI)	Sources of Verification	Assumptions
<p>Consolidation and effective implementation of the transferred competencies and resources</p> <p>Facilitation the transfer of the additional competencies and resources aimed at ensuring smart, comprehensive and sustainable local development</p> <p>Continuation of the fiscal decentralization</p> <p>Ensuring balanced regional development of the country</p>	<p>Extent of allocation of public competences between central and local government compared to the baseline as of end of 2011</p> <p>A percentage of public revenue generated by local government compared to the 2011 baseline</p> <p>% of the local recurrent expenditures of GDP compared to the 5.53% of GDP as of end of 2010</p> <p>Degree of adequacy of financial and human resources in local self-governments for implementing the transferred competences compared to the baseline as of end of 2011 (to be set)</p> <p>Degree of transparency in decision making and access to information compared to the baseline as of end of 2011(to be set)</p>	<p>Information for the Government prepared by the Ministry of Finance on the semi-annual and annual financing of the municipalities</p> <p>Reports of the Ministry of Finance and other line ministries responsible for the economic and social development and the organs of the state administration responsible for enforcement of the good governance, anti-corruption , non-discrimination and human rights protection legislation</p> <p>Contribution (Report of the Government) to the Commission's Annual Progress Report</p> <p>Commission Annual Progress Reports</p> <p>Related Project Implementation Reports</p>	<p>Lack of in-depth understanding about the decentralization process among the key stakeholders, and less than full commitment among sector ministries will be mitigated by comprehensively organised consultations and coordination of the implementation of the project activities.</p> <p>Both, the Ministry of Local Self-Governance and the Ministry of Finance are inadequately resourced and targeted/tailor made assistance for strengthening of their capacities will be provided. Especially the designated focal points in the line ministries and the members of the relevant coordination bodies will receive sufficient support to play a leadership role.</p>

	Degree of citizens' participation in the decision-making at local level compared to the baseline as of end of 2011 (to be set)		
	% of decreased disparities (limited baselines set in 2004) and increased competitiveness of the planning regions (to be set)		
Results	Objectively verifiable indicators (OVI)	Sources of Verification	Assumptions
<p>Consolidation and effective implementation of the transferred competencies and resources</p> <p>Strategic assessment of the application of the principle of subsidiarity in the distribution of powers between the central government and municipalities produced</p> <p>Coordination mechanisms provided with research tools, specific data bases, local and international expert support to play a leading role in promoting policy dialogue, producing strategic analysis and advancing ideas;</p> <p>Capacities of the key stakeholders for coordination, monitoring and evaluation of the decentralization policies and the local service delivery enhanced;</p> <p>Existing performance indicators assessed, upgraded and replicated in all 81 LSGUs as well as reinforced with interventions in the primary and secondary legislation;</p> <p>M&E units in representative number of LSGUs established and strengthened with effective reporting mechanisms;</p> <p>Best practices for innovative and improved service delivery identified and replicated across LSGUs identified and replicated in 10 pilot municipalities;</p> <p>E-governance tools such as citizens logs and clients satisfaction surveying tools as well as advanced IT solutions for local administrative procedures created and replicated in all 81 LSGUs;</p> <p>Relevant ISO and CAF standards as well as standards for obtaining international credit rating introduced in representative number of LSGUs;</p> <p>Publicly accessible electronic portal with a data base of all adopted local regulations and all national and local development planning documents created and posted on the MoLSG Web;</p> <p>Consolidated institutional mechanisms for all-inclusive public</p>	<p>Number of shared competencies transformed into entirely devolved competencies</p> <p>Number and type of functional means (research tools, data bases, local and international expert support) provided to the most relevant coordination mechanisms and bodies</p> <p>Number of prepared and delivered tailor made training programmes to the line ministries.</p> <p>Advanced knowledge and skills transferred</p> <p>Number of prepared and delivered tailor made training programmes</p> <p>All 81 LSGUs measure local service delivery performance in accordance with the legally established set of quantitative and qualitative indicators</p> <p>Number of LSGUs with established M&E units</p> <p>Number of best practices identified</p> <p>Number of LSGUS with replicated best practices</p> <p>Number and type of new e-governance tools established</p> <p>Number of assessed LSGUS</p> <p>Number of certified LSGUS</p> <p>Data base established and Web access secured</p> <p>Number of consolidated participatory bodies</p>	<p>Reporting mechanism of the Government on the implementation of the Government Programme 2011 – 2015</p> <p>Reporting Mechanism of the MoLSG on the implementation of the PIDP 2011-2014 and the annual Action Plans as well as the Regional Development Strategy</p> <p>Information for the Government prepared by the Ministry of Finance on the semi-annual and annual financing of the municipalities</p> <p>Reports of the Ministry of Finance and other line ministries responsible for the economic and social development and the organs of the state administration responsible for enforcement of the good governance, anti-corruption, non-discrimination and human rights protection legislation</p> <p>Monthly Progress Briefs of the SEA</p> <p>Published amendments and addenda in the respective primary and secondary legislation</p> <p>Policy papers and feasibility studies</p> <p>Rulings of systematization of jobs</p> <p>Contribution (Report of the Government) to the Commission's Annual Progress Report</p> <p>Commission Annual Progress Reports</p> <p>Related Project Implementation Reports</p>	<p>ORGANIZATIONAL: Individual disaggregated data on each municipality may not be available, outdated or approximated.</p> <p>Risk Management: All sources of data and information to be visited, requests communicated both by the project and the national/local institutions and all publicly available data to be collected.</p> <p>STRATEGIC: National and local institutions lacking capacity to provide substantive input and guidance in the process and translate the recommendations into policy results</p> <p>Risk Management: The key experts from the national and local institutions to be interviewed and strategic input papers to be drafted through joint desk work. This approach to serve as "learning by doing" exercise for the involved employees of the national and local institutions.</p> <p>POLITICAL/STRATEGIC/ORGANIZATIONAL: LSGUs are not accepting and /or cannot absorb/implement the transferred competencies that are not adequately matched with transfer of financial and human resources</p> <p>Risk Management: The transfer of the remaining competencies to be followed by adequate transfer of financial and human resources</p> <p>POLITICAL/STRATEGIC: National institutions withdraw the commitment for further reforming the intergovernmental transfers system</p> <p>Risk Management: The project interventions to become part of the relevant national and local policies</p> <p>ORGANIZATIONAL: National/local institutions in this project lacking capacity to provide substantive input and guidance in the process</p>

<p>participation of CSOs in local policy creation and decision making and further developed capacities of civil society organisations in 10 pilot municipalities;</p> <p>Networking of CSOs for monitoring of the implementation of the decentralization process supported,</p> <p>Existing partnerships of the CSOs with local government strengthened and new partnerships created in 10 pilot municipalities;</p> <p>Facilitation of the transfer of the additional competencies and resources aimed at ensuring smart, comprehensive and sustainable local development</p> <p>Local outsourcing framework (inter-municipal cooperation, issuing concessions, deinstitutionalization and public private partnerships) assessed and upgraded in line with the EU standards and through interventions in the primary and secondary legislation;</p> <p>Inter-municipal cooperation further regulated and utilized as a tool for inclusive local service delivery and increasing local capacities for absorption and implementation of domestic, pre-accession and other available funds for capital investments;</p> <p>Advanced applicable mechanisms and tools for inclusive local governance, planning and development identified, tested through demonstration activities and regulated in the respective legislation;</p> <p>Local and regional community based development framework established in accordance with the EU standards including reinventing the existing role of the neighbourhood units;</p> <p>Legal framework for local institutional support for SME's development assessed and upgraded in line with the EU standards, through interventions in the respective legislation;</p> <p>All generated advanced knowledge, skills, best practices and demonstration activities integrated in a Platform for Local Integrated Knowledge – (click the) PLIK (accessible through a portal hosted on the MoLSG Web)</p> <p>Improving the financing of local government units</p> <p>LSGUs enabled to make informed decisions when choosing best means for financing of capital projects;</p> <p>Increased capacity of local authorities for efficient collection of local tax revenues;</p> <p>Strengthened capacity for stable financial management and internal financial control in all LSGUs as per experience from the previous implemented actions.</p>	<p>Number of prepared and delivered tailor made training programmes</p> <p>Number of supported CSOs networks</p> <p>Number of strengthened partnerships Number of new partnerships</p> <p>Number of amendments and addenda in the respective primary and secondary legislation prepared and adopted</p> <p>Number of amendments and addenda in the respective primary and secondary legislation prepared and adopted Number of IMC forms established</p> <p>Number of innovated mechanisms and tools Number of amendments and addenda in the respective primary and secondary legislation prepared and adopted Number of amendments and addenda in the respective primary and secondary legislation prepared and adopted</p> <p>Number of amendments and addenda in the respective primary and secondary legislation prepared and adopted</p> <p>Platform for Local Integrated Knowledge developed and accessible through a portal hosted on the MoLSG Web</p> <p>Number and type of research tools, data bases, local and international expert support provided; Number and type of analytical reports prepared; A percentage of public revenue generated by local self-government compared to the</p>		<p><u>Risk Management:</u> The policy papers and studies will be drafted through joint desk work with the experts from the MoLSG, the Ministry of Finance and the other relevant line ministries and local institutions. This approach will also serve as “learning by doing” exercise for the involved employees of the national/local institutions. The training programs to be focused on important concepts, principles and practices to develop skills and delivered to the senior and middle level technical staff in the state and local government institutions concerned with implementation of decentralization</p>
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<p>Ensuring balanced regional development of the country</p> <p>Increased capacity of the MoLSG for facilitation of the work of the national Council for balanced regional development in the light of increased transparency and coordination of central funding for municipal projects, particularly for capital projects and their distribution in accordance with the regional development ratio;</p> <p>Council members provided with research tools, data bases, local and international expert support to play a leading role in coordination of the utilization of resources of all sector programs for the regions/municipalities;</p> <p>Strengthened capacity of the Centres of the planning regions to influence the competitiveness of the regions, incubate businesses and channel the financial and technical assistance/grants;</p> <p>Strategic assessment of the implementation of the national and local strategies and programmes for balanced regional development and further elaboration of the regional development programmes through action plans in all 8 planning regions and harmonization with the integrated municipal development plans in minimum 10 municipalities;</p> <p>Increased project preparation and absorption capacity to apply for and efficiently utilize the available financing instruments of EU (Instrument for Pre-accession Assistance – IPA) and other donors in the country as well as the capital grants provided by the central government for development of regional infrastructure;</p> <p>Effective and efficient forms of inter-municipal cooperation for economic development established.</p>	<p>2014 baseline; Comprehensive capacity development programme prepared and delivered to all 81 LSGUs; Decreased number of LSGUs that face debts including LSGUs with blocked accounts compared to the situation at the end of 2014.</p> <p>Number of prepared and delivered tailor made training programmes</p> <p>Number and type of functional means (research tools, data bases, local and international expert support) provided to all relevant balanced regional development stakeholders</p> <p>Number of prepared and delivered tailor made training programmes</p> <p>Review of the balanced regional development policy produced</p> <p>Number of annual action plans of the 5-year RD Programmes and number of harmonized integrated municipal development plans</p> <p>Number of regional projects/applications prepared</p> <p>Number of IMC forms established, scaled up and replicated</p>		
<p>Activities to achieve results</p>	<p>Means / contracts</p>	<p>Costs</p>	<p>Assumptions</p>
<p>A: Consolidation and effective implementation of the transferred competencies and resources</p> <p>A.1: Strategic assessment of the application of the principle of subsidiarity in the distribution of powers between the central government and municipalities;</p> <p>A.2: Provision of research tools, specific data bases, local and international expert support to the coordination mechanisms;</p> <p>A.3: Development of capacities of the key stakeholders for coordination, monitoring and evaluation of the decentralization policies</p>	<p>Direct Award/Contribution Agreement with the United Nations Development Programme. The agreement will be governed by the EC – UN Financial and Administrative Framework Agreement</p>	<p>EUR 2,352,941</p>	<p>POLITICAL/STRATEGIC: National institutions withdraw the commitment for further reforming the local self-government system</p> <p><u>Risk Management:</u> The project interventions to become part of the relevant national and local policies</p>

and the local service delivery;

A.4: Assessment of the performance indicators, upgrade and replication in all 85 LSGUs as well as reinforcement with interventions in the primary and secondary legislation;

A.5: Establishment of M&E units in representative number of LSGUs and strengthening with effective reporting mechanisms;

A.6: Identification and replication of best practices for innovative and improved service delivery across LSGUs identified and replicated in 10 pilot municipalities;

A.7: Creation and replication of e-governance tools such as citizens logs and clients satisfaction surveying tools as well as advanced IT solutions for local administrative procedures in all 85 LSGUs;

A.8: Introduction of relevant ISO and CAF standards as well as standards for obtaining international credit rating in representative number of LSGUs;

A.9: Creation of publicly accessible electronic portal with a data base of all adopted local regulations and all national and local development planning documents;

A.10: Consolidated institutional mechanisms for all-inclusive public participation of CSOs in local policy creation and decision making and further developed capacities of civil society organisations in 10 pilot municipalities;

A.11: Provision of support for networking of CSOs for monitoring of the implementation of the decentralization process,

A.12: Strengthening of the existing partnerships of the CSOs with local government and creation of new partnerships in 10 pilot municipalities;

;

B: Facilitation the transfer of the additional competencies and Resources

B.1: Preparation of Assessment Report and further upgrade of the existing local outsourcing framework (inter-municipal cooperation, issuing concessions, deinstitutionalization and public private partnerships) through interventions in the respective legislation;

B.2: Further regulation of the Inter-municipal cooperation as a tool for increasing local capacities for absorption and implementation of domestic, pre-accession and other available funds for capital investments, through interventions in the respective legislation;

B.3: Preparation of Assessment Report and establishment of local and regional inclusive development framework that ensures comprehensive view on the specific vulnerabilities including setting practical mechanisms and tools for inclusive local governance, planning and development in the respective legislation;

B.4: Preparation of Assessment Report and reinforcement of the local and regional framework for community based initiatives through interventions in the respective legislation including reinventing the existing role of the neighbourhood units;

B.5: Creation of sustainable legal framework for local institutional support for SME's development;

B.6: Integration of all generated advanced knowledge, skills, best

practices and demonstration activities in a Platform for Local Integrated Knowledge - PLIK (accessible through a portal hosted on the MoLSG Web)

Component C: Improving the financing of local government units

C.1: Enabling Ministry of Finance and interested/selected LSGUs to promote the process of issuing municipal bonds aimed at financing of capital projects;

C.2: Preparation and delivery of a comprehensive capacity development programme for efficient collection of local tax revenues to all 81 LSGUs;

C.3: Preparation and delivery of a comprehensive capacity development programme for stable financial management and internal financial control to all 81 LSGUs.

Component D: Ensuring balanced regional development of the country

D.1: Development of capacity of the MoLSG for facilitation of the work of the national Council for balanced regional development in the light of increased transparency and coordination of central funding for municipal projects, particularly for capital projects and their distribution in accordance with the regional development ratio;

D.2: Provision of research tools, data bases, local and international expert support to the National Council members;

D.3: Strengthening the capacity of the Centres of the planning regions for supporting the increase of the planning regions competitiveness, incubating businesses and channelling financial and technical support via projects;

D.4: Preparation of strategic assessment/review of the implementation of the national and local strategies and programmes for balanced regional development and further elaboration of the regional development programmes through action plans in all 8 planning regions and harmonization with the integrated municipal development plans in minimum 10 municipalities;

D.5: Realization of the following activities with nation-wide replication potential in eight planning regions:

Increased project preparation and absorption capacity to apply for and efficiently utilize the available financing instruments of EU

(Instrument for Pre-accession Assistance – IPA) and other donors in the country as well as the capital grants provided by the central government for development of regional infrastructure;

Effective and efficient forms of inter-municipal cooperation for economic development established.

ANNEX 2: Description of Institutional Framework

The decentralisation was a subject of systematic and institutional coordination since the launching of the reform. A Decentralisation Working Group (DWG) consisted of representatives from the line ministries and ZELS is the long term national coordination mechanism of the process of decentralisation. The fiscal and financial aspects of the decentralisation are coordinated by the Commission for Monitoring the Progress in the Fiscal Decentralisation System where besides the Ministry of Finance and Ministry of Local Self-Government, the ZELS is represented with 5 mayors.

As part of the internal structure of the ZELS, 13 commissions are established covering all relevant areas of the transferred competencies. The progress in implementation of the project activities could be presented and discussed during their meetings.

With regard to the balanced regional development the institutional setting is consisted of two levels: the national level, including the National Regional Development Council, the MoLSG and the Bureau for Regional Development; and the planning regions level including the Councils and the Centers of the eight planning regions.

Another complementary mechanism is the special working group on Local Self-Government and Decentralisation in the frame of the Programme Based Approach initiative. In fact the programme subject of this fiche is being designed to add value by initiating the operationalisation of the PBA approach for the sector of local self-government and create effects already in a short to medium term period. It is important that ZELS and members of the international organisations supporting decentralisation and local development also sit in this forum. The EU supports a project directly dedicated to the support of PBA which is another opportunity to enhance the coordination.

The input received from the coordination bodies will supplement the recommendations for management interventions which are to be made by the project Steering Committee as a group responsible for making management decisions on a consensus basis. Project assurance reviews by this group will be made at designated decision points during the running of the project, or as necessary when raised by the Project Manager/Team Leader and/or the SC member(s). The MoLSG as a leading partner will chair the SC thus representing the project ownership. The Ministry of Finance and ZELS will also have a sit in the SC. Three (3) Sector Working Groups will be created: Decentralisation, Fiscal Decentralisation and Balanced Regional Development. Other line ministries/state agencies that will be involved in implementation of concrete measures and activities under this PF as well as relevant associations of citizens and representatives of the private sector will be represented in the Sector Working Groups to ensure the realisation of project benefits from the perspective of project beneficiaries. Representatives of other stakeholders will be invited to participate in the SC/observe the SC sessions as appropriate.

ANNEX 3: Reference list of relevant laws and regulations only where relevant

Key laws, regulations and policies in local self-government area:

- Law on Local Self - Government, 2002;
- Law on Financing of the Local Self-Government Units 2004;
- Law on the Territorial Organisation, 2004;
- Government Programme 2011 – 2015;
- NPAA 2012;
- Programme on implementation of decentralisation process and local self-government development, 2011-2014;
- 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.

PROGRAMME OF THE GOVERNMENT 2011-2015: DECENTRALISATION AND REGIONAL DEVELOPMENT CHAPTER

The Government will make every effort to promote the development of all regions in the country. Having balanced regional development should help in creation of equal opportunities in various regions in the country, in order for them to integrate in the economy, and therefore to improve its infrastructure. In the following four-year period, the main strategic objectives and priorities of the Government considering this strategy are:

- Competitive planned regions - dynamic and sustainable development according to the example of European regions /municipalities.
- Demographic, economic, social and spatial alignment between and within the framework of the planned regions. Balanced economic growth among the regions that will be accomplished by using appropriate fiscal system and investments in infrastructure, schools, hospitals, and other.

To ensure balanced regional development, the role of the Council for balanced regional development will be continuously strengthened. The utilisation of resources of all sector programs for the regions/municipalities will be coordinated within the Council. In the year 2011-2015, the following projects for ensuring balanced regional development will be implemented:

- Project "Business incubators", which will encourage the development and operation of the business incubators within the centres for regional development (2013);
- Project "Local regulatory guillotine", which will simplify administrative procedures by the municipalities for services within their jurisdiction (2012);

- Project "Database", which will include: all development planning documents that are adopted at national and regional level and all persons responsible for planning the development of institutions at national and regional level (2012-2015);
- Project "Ask the competent" which will provide contact broadcast shows for debates on issues regarding local self-government (2012);
- Project "Geographic Information System (GIS)", which will provide all urban and spatial data in one place, in digital form (2011-2015);
- Project "Cleaning of electrical and electronic waste" (2013);
- Project "Replacement of mercury lightning with energy-efficient bulbs in street lighting," which will encourage the replacement of lamps in public lighting networks with new ones that are very economical (2014);
- Project "Job fairs". The aim of this project, conducted in cooperation with the Employment Agency is to unite the interests of employers and job seekers twice a year, (2013).

The Government will be committed to complete the process of decentralisation, through:

- Improving the condition in social protection, local economic development, culture, health, sports and housing;
- Transfer of jurisdiction of the local government in the field of social housing, and construction and maintenance of social housing buildings.

In the next period, transfer of the remaining institutions that are of local importance from central to local level will be carried out as planned and phased. Also, the forms through which municipalities can use unfledged construction land, that belong under forests and pastures, in economic purposes, will be determined and there will be created legal opportunities for establishment of municipal health institutions in rural areas for whom access to services from primary care is difficult. The following projects are planned to be realised in the year 2011-2015 year for ensuring the decentralisation of power:

- Project: "Municipalities manage the unfledged state construction land"- after meeting certain conditions, the unfledged state construction land will be transferred to the municipalities in the function of local economic development (2011);
- Project: "Favorable loans to municipalities", which will provide attractive and affordable loans to municipalities through the implementation of the Second project for improving municipal services (2014);
- Project "Municipal bonds". By this project the municipalities will be provided with funds for capital projects (2011-continuing).

Fiscal decentralisation is a principle derived by the Ohrid peace agreement, and will continue in the next four-year period. In order to support the balanced regional development, we will stimulate a system for financing the local self-government that will provide budgetary autonomy of the units of local self-government in the area of their powers. It will also provide transfer of a part of the collected taxes on the central level to the units of the local self-government that correspondent to the functions of the local self-government, and will also encourage responsibility in collecting revenues from taxes in their area within their legal powers. The increase of the capacity of local authorities will be supported by:

- Continuous strengthening of the capacities of municipal revenues through more efficient collection of tax revenues and with the introduction of new revenue instruments;

- Implementation of the Methodology for determining the market value of real-estate property, adopted in March 2011 by the Government, which will result in improved collection of property taxes;
- Support of the other 6 municipalities to enhance the administrative and fiscal capacity and access to block grants that are not in the second stage of the process of fiscal decentralisation;
- Project "Social services in support of social development and cohesion", which will support the preparation of multiple models for the allocation of grants from VAT with a higher degree of equalisation;
- Project "Support to fiscal decentralisation process by strengthening the capacity for stable financial management and internal financial control at local and central level," which includes 40 municipalities;
- Change of the allocations of the fee that is charged by the issued concession for the use of water resources for production of electricity in the following ratio: 50% for the central budget and 50% for local governments.

ANNEX 4: Details per EU funded contract(*) where applicable:

Total budget: EUR 2,352,941.17, out of which EUR 2,000,000 from IPA, EUR 252,941.17 Central Government contribution and EUR 100,000 UNDP contribution.

Contracting arrangements:

Direct Award/Contribution Agreement (under the 2012 FA) with the United Nations Development Programme. The agreement will be governed by the European Commission's– UN Financial and Administrative Framework Agreement.

ANNEX V - Project visibility activities

All requirements to ensure the visibility of EU financing will be fulfilled in accordance with the Commission Regulation (EC) No. 718/2007 of 12 June 2007 Implementing the Council Regulation (EC) No 1085/2006 Establishing an Instrument for Pre-accession Assistance (IPA IR).

During the implementation of the Project the necessary measures will be taken to ensure the visibility of the EU financing or co-financing. Such measures must be in accordance with the applicable rules on the visibility of external action laid down and published by the Commission. The Project must observe the latest Communication and Visibility Manual for EU External Actions concerning acknowledgement of EU financing of the project (see http://ec.europa.eu/europeaid/work/visibility/index_en.htm). Particular attention should be given to ensuring the sustainability and dissemination of project results. The visibility issues must be addressed in all types of communications, written correspondence and preparation of deliverables (brochures, posters, new letters pamphlets and other type of promotion material). All the deliverables to be published / issued will respect and comply with visibility guidelines.

Joint Visibility Guidelines for European Commission-UN Actions in the Field is a corporately agreed document applicable to European Commission-UN partnership.

(http://ec.europa.eu/europeaid/work/procedures/financing/international_organisations/other_documents_related_united_nations/index_en.htm)

Visibility & communication will be provided in line with the standard provisions included in the FAFA (Art. 11) and the General Conditions (Art. 6), the latter constituting Annex 2 of the future EU-UNDP agreement and as set out in the aforementioned Joint Guidelines.

ANNEX VI: Some of the most relevant results achieved by UNDP relevant to this project

UNDP has been present in the country since 1998, with an average delivery of 10 million USD per year, partnering with governments, donors, the United Nations system, international financial institutions, bilateral agencies, municipalities, the private sector, foundations, civil society and the media. This strategic relevance of having UNDP as a leading agency in implementation of this project can also be illustrated with some milestones/examples of UNDP's contributions up to date:

2001-2004

In the period 2001-2004, when the process was in its initial phase, UNDP had provided substantial contributions for setting the basis for operationalization of the newly established LSG system. Some of the critical inputs for the implementation were drawn from the in-depth assessments of the national and local capacities and needs, the transfer of advanced knowledge, skills and international best practice.

Thanks to a series of studies and manuals prepared by UNDP's expert teams, the fundamentals of the current municipal financing system, including the internal organization of the municipal administration and the local human resources management were set. UNDP's 2004 National Human Development Report underlined the opportunities and potential pitfalls of decentralisation, presenting a set of policy options that helped the government to successfully address the main challenges of decentralization and mitigate risks.

In this period UNDP also developed a so called "model municipality" that served for benchmarking purposes. This exercise has established the base for monitoring of the features of the diverse municipalities, which UNDP is developing in continuum up to date and incorporates it in its programmatic work.

2004 – 2007

It was the period when the 2002 LSG Law was further elaborated through the local government framework legislation) and more than 40 specific laws as well as numerous by-laws. It was also a period when the actual transfer of competencies and resources was programmed and started to be implemented. UNDP accompanied the government in addressing the critical issues at that period, working both at policy and implementation level, such as:

Mapping of the socio-economic disparities in municipalities in 2004 which provided the initial input and boosted the preparation and adoption of the balanced regional development policy, which led to the drafting and adoption of the Balanced Regional Development Law in May 2007. This was the first ever assessment report that contained a complete set of core indicators crucial to tracking human development on municipal level and measuring GDP per capita on local level. Later on UNDP provided inputs for the National Regional Development Strategy. At this period UNDP also started its work at regional level.

UNDP assisted the implementation of the newly established competencies. The national institutions used the UNDP published first comprehensive "Guide through the municipal competencies" and in that way provided the municipal officials with concrete and

accurate guidance for implementation of the new and very extensive legislation, which was essential in the first local mandate with the new competencies.

In this period the training of the new municipal staff was a basic precondition for kicking off the operation of the new system. In order to tackle this challenge, the Government partnered with UNDP in establishment of the Trilateral Committee, comprised of representatives of the Ministry of Local Self-Government, the Agency for Civil Servants and the Association of Local Self Government Units (ZELS). The Committee served as a key coordination body of the capacity development activities and secured efficiency and effectiveness in building critical local capacities for absorption and implementation of the transferred competencies and resources. A Training Support Facility (TSF) as a subsidiary body of the Committee was created thanks to UNDP's support, playing a key role in the planning and implementation of important generic and specialized training packages for municipal civil servants. Numerous capacity development events were held and attended by more than 1,000 municipal employees.

In this period UNDP had already developed strong network at local level, supporting a number of municipalities throughout the country in development of capacities for local development planning and service delivery, and making them familiar with alternative local service delivery mechanisms. For an example, intensive LED activities were implemented to assist municipalities to create basic capacities for this, at the time, new competency. More than 20 municipalities were involved in local development planning exercises, LED offices were established in two micro-regions, and concrete projects (covering range of issues, from communal affairs, to tourism and rural development), were implemented.

At this time UNDP triggered the utilization IMC as a tool for alternative service provision. The initial pilot intervention resulted in approximately 40% of increase of the municipal tax base and 12% savings of the municipal budgets in the participating municipalities. This best practice prompted establishment of more than 20 IMC partnerships in the following period (with participation of around 60% of the municipalities).

The experience gained in this period created preconditions for implementation of the municipal competencies. Besides the critically needed transfer of knowledge for service provision, the locally planted activities resulted in providing the basis for further implementation of the local and regional development policies. It also provided insight for the needs to open a new chapter in the fiscal decentralization policy.

2008 – 2010

This period was marked by the consolidation of the decentralized local self-government system and shifting of the priorities towards the quality and scope of the delivery of the local services. Consequently, the focus of the UNDP interventions shifted on the financing of the provision of the local services, qualitative aspects of the local services including utilization of alternative methods such as the inter-municipal cooperation, regional development and securing optimal level of local good governance.

In this period UNDP consolidated its support to the fiscal decentralization by enacting development of a more equitable intergovernmental transfer system in the country. In 2009, UNDP in partnership with the Ministry of Finance and consultation of all main

stakeholders developed a Feasibility Study outlining the necessary short and long term reform steps for improving the system of financing equitable service delivery for all citizens. This Study became a reference document in the area of fiscal decentralization and a number of its recommendations have become integral part of the 2011 – 2015 Government Programme. Also, UNDP assisted the mobilization of the relevant stakeholders, in order to familiarize them with the intergovernmental fiscal transfer design options and challenges. The wider impact of this UNDP intervention was triggering new course of the fiscal decentralization while also improving the technical knowledge and skills of all stakeholders involved in the process.

In parallel UNDP developed the chapter of transparency and accountability at local level. It initiated application of standardized and sustainable solutions for quality service provision and supported several municipalities in developing capacities and obtaining ISO 9001:2008; At this time, UNDP in partnership with ZELS managed to achieve that a Code of Ethics for Local Officials was adopted by 84 municipal councils; This intervention provides crucial for creating municipalities who can successfully deliver services, but also mobilize and manage funds in accountable manner.

UNDP worked with the Ministry of LSG and the Bureau for RD on implementation of the BRD Strategy, and in particularly assisted two Regional Development Centres to become operational and start implementing their mandate. In the first two years of support only, they managed to mobilize more than 2million EUR in grants (in the areas of environment, tourism development, rural development and other). The mapping of potential social partners in both regions brought the private and civic sectors on board.

It was a UNDP expert team that facilitated the drafting of the Law on Inter Municipal Cooperation, officially enacted in 2009. While the work at municipal level continued heavily with UNDP support, the Government's Committee on Inter Municipal Cooperation was established the same year and the necessary additional by-laws and several case-studies were also developed, again with the support of UNDP. The country experiences in this area are now being replicated in several countries, in the neighbourhood and beyond. A number of municipalities in the country have also expanded the cooperation and are looking forward to partnering in new areas of competencies (such as social services, LED and environment). The European Parliament Resolution on the 2011 progress report on the country (2011/2887(RSP) contains reference to this initiative whereas the EP commends the successful cooperation programme between municipalities, assisted by the UNDP, and calls for the EU to step up its support for this practice.

In this period UNDP started to more articulately implement more complex concepts related to decentralised local governance, such as advancing interethnic dialogue and community based inclusive local development concepts and activities. Among other, these participating municipalities were assisted to develop the first ever local development strategies developed through the lenses of advancing inter-ethnic dialogue. Other sets of activities, such as work with the local Committees for Inter-Community Relations and the municipal bodies, local community leaders, CSOs, media and community leaders also have triggered a whole new approach to local governance that needs to be further imbedded while developing the system.

In 2010, seen as the most competent and neutral actor, UNDP was asked to initiate a stock-taking exercise - the Mid-Term Decentralization Review. This Review's findings and results served as the most important basis for developing the new Programme for Implementation of the Decentralization and Development of the Local -Government 2011 – 2014, adopted by the Government in September 2011.

2011 – 2012

While maintaining and expanding its field activities, partnering with municipalities, CSOs, community leaders and business sector, in the last period UNDP also appeared crucial for assisting in moving the decentralization policy forward.

For an example, the Mid-Term Decentralization Review's findings and results served as the most important basis for developing the new Programme for Implementation of the Decentralization and Development of the Local -Government 2011 – 2014, adopted by the Government in September 2011. The strategic priorities of the process are followed by concrete actions as part of the 2012-2014 Action Plan of the new Decentralization Programme. UNDP provided substantial support so far and remains as a partner in supporting the implementation of these documents.

Optimal preconditions for knowledge based dialogue between the line ministries, ZELS and the municipalities on the future avenues of the fiscal decentralization reform are being created in this period. A policy follow-up of the initiated work for improving the system of financing equitable service delivery was enforced, by looking at the municipal expenditure needs and revenue capacities. With its support to the national authorities in this area, UNDP among other provided:

- Comparative data, not only for fiscal equalization purposes, such as potential addition of a revenue capacity factor in the Value Added Tax distribution formulae, but also for the local programming and local budget planning processes.
- The first ever detailed analyses of the municipal revenues and expenditures per local budget programmes were developed for the year 2011.

In early 2012, a draft Capital Grants Assessment Study was prepared by UNDP addressing systemic issues, such as fiscal disparities, transparency and inclusive local development planning. This intervention, upon which a stakeholder discussion was already initiated, opens a whole new chapter for innovation for more sustainable local, regional and national development and is expected to take stronger pace in the course of the next mid-term period.

Beyond these examples, UNDP continues its wider support to the development of the local level, along three axis: decentralization and local integrated development, transparency and accountability and social cohesion. In the framework of this set-up, there are ongoing interventions for local development, anti-corruption and development of integrity systems at local level, enhancement of inter-ethnic relations.

Based on the successful results in the past period across UNDP programs and the interest expressed by the municipalities, UNDP currently supports various interventions in almost half of the municipalities. In this context, measures that combine local governance, rural development, social inclusion and environmental protection are more

and more in practice, thus contributing to further develop the platform for sustainable development, which is also the ultimate objective of this EU project.