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FYR Macedonia

Local Governance and Decentralization

Project Assessment

The DGTTF Lessons Learned Series

FYR Macedonia

**Local Governance and Decentralization
Project Assessment**

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Abbreviations

DGTF	Democratic Governance Thematic Trust Fund
EC	European Commission
EU	European Union
NUTS	Nomenclature of Units for Territorial Statistics (<i>Nomenclature D'unités Territoriales Statistiques</i>)
UNDP	United Nations Development Programme

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Preface

The Millennium Declaration from the Millennium Summit in 2000 emphasizes the centrality of democratic governance for the achievement of the Millennium Development Goals (MDGs). World leaders agreed that improving the quality of democratic institutions and processes, and managing the changing roles of the state and civil society in an increasingly globalized world, should underpin national efforts to reduce poverty, sustain the environment, and promote human development.

The Democratic Governance Thematic Trust Fund (DGTTF) was created in 2001 to enable UNDP Country Offices to explore innovative and catalytic approaches to supporting democratic governance on the ground. The DGTTF Lessons Learned Series represents a collective effort to capture lessons learned and best practices in a systematic manner, to be shared with all stakeholders, to serve as an input to organizational learning, and to inform future UNDP policy and programming processes.

Executive summary

The findings presented in this report are the result of an assessment conducted by an independent consultant on two DGTTF funded projects in FYR of Macedonia in 2005 and 2007. The projects were part of UNDP's broader efforts to support decentralized governance through assistance to inter-municipal cooperation and to regional development.

The methodology consists of a preliminary literature review of all available project documents and reports, and an analysis of the situation in FYR of Macedonia. It examined the projects' impacts within the context of historical and political processes specifically relating to local governance and regional development.

The assessment focuses on the quality of effectiveness, efficiency, innovation, catalytic effect, and sustainability. The study attempts to provide an understanding of key underlying factors, drivers, and future scenarios. These understandings provide the basis for determining the projects' impact.

The first project, **Support to the Decentralization Reform in the FYR of Macedonia on its Path to EU**, was implemented in 2005 with funding of US\$80,000 from the DGTTF. It aimed to enhance the capacities of the main stakeholders to develop and implement national policies for balanced regional development, and to prepare two pilot regional development plans for Vardar and North-eastern region respectively.

The project achieved the following results:

- ✓ A Policy Paper describing relevant Models for Regional Development was prepared.
- ✓ A Methodology for the Preparation of Regional Development Plans was designed.

- ✓ A Set of Indicators to measure regional development was proposed.

The project's results show that:

- ✓ The project was effectively implemented and all project results were completed. However, efficiency was the most critical element of the project review. Implementation was delayed by political changes and the belated adoption of key national documents (the law on Balanced Regional Development, and the Strategy for Regional Development in Macedonia).
- ✓ The project was innovative insofar as it introduced, for the first time in the country, regional planning in Vardar and Northeast regions. In the absence of regional level governments, the project promoted an innovative approach to bring consensus among municipal leaders, and to ensure a genuine participatory process by bringing together civil society and the business community.
- ✓ The Government of the FYR of Macedonia used the project's results in its production of a rulebook for preparation of plans and programmes for regional development¹. In addition, the results contributed to the preparation of the key national documents for regional development: the law on Balanced Regional Development, and the Strategy for Regional Development in FYR of Macedonia.
- ✓ The project's catalytic nature is reflected by its work to promote regional development – a first for FYR of Macedonia. In parallel, UNDP initiated another project, *Regional Development: Initial Support for Policy and Capacity Building*, with its own resources.

The second project, **Inter-Municipal Cooperation for Efficient Service Delivery**, was implemented in 2007 with US\$75,000 from the DGTTF. This aimed to develop the capacities of municipal employees in tax collection and administration. At the same time, the project strived to improve internal organization and management, including IT and logistical solutions, for effective delivery of services. It also enabled municipalities that had been trained to 'sell' tax administration services to weaker municipalities.

¹ <http://www.brr.gov.mk/ProjectsFiles/LegistativaPDF/pravilnik1.pdf> . Last access: 26 April 2011; "Official Gazette of the Republic of Macedonia", nr.107/2009; page 7.

The project achieved the following results:

- ✓ A methodology for the functional review and capacity needs assessment of tax administration was developed and implemented.
- ✓ A training programme on financial management and tax administration for municipal employees was designed and implemented, reflecting findings from the functional review.
- ✓ An inter-municipal cooperation agreement for 'selling and buying' tax administration services was established between four pilot municipalities.
- ✓ IT networks for unlimited flow of information between partner-municipalities and tax administration client software were established, so ensuring continuous communication between municipalities.
- ✓ Recommendations and inputs for development of a law on Inter-Municipal Cooperation.

The project's results show that:

- ✓ The project was effective and efficient, as it delivered all planned results within a given timeframe. National ownership was ensured through the active participation of municipalities in all project activities (starting from an unbiased self-evaluation of capacities, and active participation in the capacity development programme and in other project activities). This included training and mentoring. The approach ensured the full utilization of knowledge in the municipalities' daily work.
- ✓ The project was highly innovative. The inter-municipal cooperation model of 'selling and buying' services was the first of its kind in the FYR of Macedonia. This model was recognized as an original and advanced solution to remove impediments faced by rural and small municipalities in performing decentralized responsibilities.
- ✓ The project's immediate results served to develop the key national policy document, the law on Inter-Municipal Cooperation. At a more operational level, municipalities have developed their own capacities to perform functions previously provided through the inter-municipal partnership (e.g. municipality of Brvenica), or are still using inter-municipal cooperation (e.g. municipality of Cas-ka). This showed a high level of sustainability of results.

- ✓ The project's positive experience and results were used as a platform to scale up and develop a larger-scale programme, *Inter-Municipal Cooperation for Better Service Provision and EU Accession*². This had a budget of some US\$1.6 million. The programme aimed to create the necessary human and institutional capacities to implement inter-municipal cooperation, and to provide financial schemes to support it.
- ✓ Experiences and results achieved within the project's framework were also shared with other countries in the region. Montenegro and Kosovo, under UNSCR 1244, are using the project's expertise to initiate inter-municipal cooperation among their municipalities.

Key lessons learned from the projects are:

- ✓ Success in regional development planning depends on the broad participation and consensus of key regional stakeholders. It also requires links to be created with the national development agenda.
- ✓ Success in inter-municipal cooperation could be achieved through a balanced combination of persuasion (promotion of successful stories in implementation of inter-municipal cooperation and opportunities), incentives (such as small grants mechanism for inter-municipal cooperation), and legal requirements (e.g. the Macedonian experience in implementing the first phase of fiscal decentralization).
- ✓ Inter-municipal cooperation and capacity development should be interlinked. In parallel with resolving immediate problems through inter-municipal cooperation, it is recommended to start working on organizational development and improvement of individual capacities in municipalities.
- ✓ Support to the initiation of inter-municipal cooperation is essential, as municipalities are aware of problems, but are often reluctant to start partnerships.
- ✓ DGTF commitment to support truly innovative and catalytic activities is crucial to governance reforms. In the FYR of Macedonia, the results of this support had a direct impact on the national governance reform, and on the design of key national regional development and local governance policies (e.g. preparation and adoption of

² <http://www.undp.org.mk/Default.aspx?LCID=7&PID=61> . Last access: 26 April 2011.

the law on Inter-Municipal Cooperation, and the national methodology for regional development planning).

- ✓ To facilitate horizontal learning, improve access, and exchange knowledge developed by the projects, the DGTF may consider establishing a knowledge management system. This will enable UNDP country offices and other governance practitioners to adopt existing tools and materials, and replicate them.
- ✓ Changes in the DGTF implementation framework (extended duration of projects and increased budgets) requires a robust monitoring system. With a project duration of two years, it is recommended that mid-term reviews are conducted after the first year. This could highlight deficiencies in the project implementation and provide recommendations for the remainder of the project.
- ✓ The results from the DGTF reviews illustrated that it is important to conduct a solid political economy analysis in the project design phase. This would help create a better understanding of the programming environment, including the power structures and relationships that may favour change or obstruct the achievement of project objectives.

Introduction

Purpose, Scope and Methodology

The Democratic Governance Thematic Trust Fund (DGTTF) was created in 2001 to provide an opportunity for UNDP country offices to engage in innovative activities that could have a catalytic effect in supporting sustainable democratic governance on the ground.

Within a broader range of UN and UNDP activities in the FYR of Macedonia, the country office undertook two projects in 2005 and 2007, both funded by the DGTTF.

The first, **Support to the Decentralization Reform in FYR Macedonia on its Path to the EU**, received a total contribution of US\$80,000 from DGTTF. It prepared an overview of the mechanisms and instruments for regional development planning, and supported the preparation of regional development plans in two of FYR of Macedonia's planning and development regions³ Vardar and the North-Eastern region.

The second project, **Inter-Municipal Cooperation for Efficient Service Delivery**, received US\$75,000 in support from DGTTF. It promoted models and mechanisms for inter-municipal cooperation as an effective way to improve the efficiency of public service delivery. At the national level, the project helped establish an enabling environment for inter-municipal cooperation through support to preparation of the law on inter-municipal cooperation.

This study was undertaken in October 2010 and its purpose was to assess the project's impact in terms of relevance, effectiveness, efficiency, innovation, catalytic effect, and sustainability, defined according to the following DGTTF guidelines:

- ✓ **Relevance** measures how relevant the project is to the priority needs of the country and if the right strategy was applied within the specific political, economic and social context of the country.

- ✓ **Effectiveness** is a measure of the extent to which an aid activity attains its objectives.

- ✓ **Efficiency** measures the outputs in relation to the inputs. Were activities cost-efficient and were objectives achieved on time?

- ✓ **Innovation** Innovative projects are those that address a recognized critical democratic governance issue and if resolved might lead to substantial improvement in democratic governance. Innovative project, in terms of the problem addressed or the approach taken, have never before been attempted in a given country. At the same time, they will position UNDP as a key player in democratic governance and one that 'pushes the frontier'.

- ✓ **Catalytic effect** A catalytic project has a high likelihood of receiving support from government or other governance institutions (including other donors) for scaling up or following up, if the project is successful.

- ✓ **Sustainability** is concerned with measuring whether the benefits of an activity are likely to continue after donor funding has been withdrawn. Projects need to be environmentally and financially sustainable.

The methodology utilized for this study consists of a preliminary literature review of all available project documents and reports, a political economy analysis of the situation in FRY Macedonia, and a field visit to Skopje and municipalities Veles and Caska.

Structure of the report

The report is structured in four sections, in the following manner:

- ✓ In order to situate the DGTTF projects assessed in this report, the **first section**, Country Context, presents an overview of the socio-economic situation as well as the decentralization process in FYR of Macedonia

- ✓ The **second and third sections** provide an analysis of the impact of the DGTTF projects **Support to the Decentralization Reform in the FYR of Macedonia on its Path to EU** (2005) and **Inter-Municipal Cooperation for Efficient Service Delivery** (2007), following the above-mentioned criteria.

- ✓ Finally, lessons learned and recommendations are presented in the **forth section**.

³In May 2007, the Government of FYR of Macedonia adopted the Law on Equitable Regional Development, which formally regulated establishment of eight planning and development regions in line with the NUTS 3 classification.

Country context

The period after the formal declaration of independence (November 21, 1991) of the Former Yugoslav Republic of Macedonia was marked by a rapid political and socio-economic transformation. It focussed on state building and the establishment of a legal basis for a functioning market economy. The first phase of the structural reforms covered areas such as privatisation, institutional reforms, banking sector reforms, and social policy reforms. The national capacity to cope with the challenges of transition has increased steadily, resulting in a tangible democratization of the FYR of Macedonia.

Heightened political instability in the 1990s resulted in an armed conflict between the Macedonian security forces and the National Liberation Army (Albanians in FYR of Macedonia)⁴. To stop the conflict and “promote the peaceful and harmonious development of civil society while respecting the ethnic identity and the interests of all Macedonian citizens⁵”, the Government of FYR of Macedonia and representatives of the ethnic Albanian community signed the Ohrid Framework Agreement. This remains essential to the democracy and rule of law in the country⁶.

Reform of the governance system in the FYR of Macedonia is progressing. There have been improvements in reform of the parliament, of the police, the judiciary, public administration, anti-corruption, and respect for and protection of minorities⁷. However, further efforts are needed, in reforming the judiciary⁸ and the public administration⁹. There is also a need to increase transparency in public procurement¹⁰, and to enhance general capacities for regional policy development and coordination of structural instruments¹¹. Political dialogue, too, needs to be strengthened further.

European integration has been and remains the main driver of the governmental reforms, and the FYR Macedonia is presently

an EU candidate country. It is implementing all commitments made under the Stabilisation and Association Agreement (ratified in 2004), which is a key priority of the Accession Partnership. The country is currently at the second stage of the Association (as defined in the Article 5 of the Stabilisation and Association Agreement). Since 2007, the FYR of Macedonia has received pre-accession financial assistance under the Instrument for Pre-Accession Assistance. As a candidate country, it is eligible for all five component¹² of the Instrument for Pre-Accession Assistance, as well as for number of other community programmes¹³.

In 2009, the FYR of Macedonia held free and fair presidential and local elections. The ruling Internal Macedonian Revolutionary Organization–Democratic Party for Macedonian National Unity (VMRO–DPMNE) party coalition decisively won both contests¹⁴. In the Albanian block there were no significant changes. Both the ruling Democratic Union for Integration and the opposition Democratic Party of Albanians maintained the same pre-election number of mayors¹⁵.

Socio-Economic Situation

While the FYR of Macedonia has made significant progress in its transition to a functional market economy since independence in 1991, the achievement of equitable and sustainable development remains a challenge. Between 2003 and 2008, macroeconomic trends were characterised by steady, though modest, growth in GDP¹⁶. That trend changed in 2009, though,

⁴“Nations in Transition 2010 - FYR Macedonia”, Freedom House.

⁵ http://faq.macedonia.org/politics/framework_agreement.pdf; - the Preamble of the Ohrid Framework Agreement. Last access: 26 April 2011.

⁶Conclusions on the former Yugoslav Republic of Macedonia (extract from the Communication from the Commission to the Council and the European Parliament: Enlargement Strategy and Main Challenges 2010-2011, COM(2010)660 final.

⁷The Former Yugoslav Republic of Macedonia 2010 Progress Report, Brussels, 9 November 2010, SEC(2010)1332.

⁸The Former Yugoslav Republic of Macedonia 2010 Progress Report, Brussels, 9 November 2010, SEC(2010)1332, page 12, and Chapter 23: Judiciary and fundamental rights, page 56.

⁹The Former Yugoslav Republic of Macedonia 2010 Progress Report, Brussels, 9 November 2010, SEC(2010)1332 pp 9-12.

¹⁰Ibidem- EC Progress Report; Chapter 5: Public procurement, pp 35 -36.

¹¹Ibidem- EC progress report 2010- Chapter 22: Regional policy and coordination of structural instruments; pp 55-56.

¹²Component 1. The Transition Assistance and Institution Building; Component 2. The Cross-Border Cooperation; Component 3. Regional Development, Component 4. Human Resources Development, and Component 5. Rural Development.

¹³‘Entrepreneurship and Innovation specific Programme’ (EIP) of the ‘Competitiveness and Innovation Framework Programme’, ‘Progress’, ‘Culture’, ‘Europe for Citizens’, ‘Fiscalis 2013’ and ‘Customs 2013’.

¹⁴After the 2009 elections, 56 mayors were elected from the VMRO DPMNE and six from the Social Democratic Union (SDSM). Before the election, the VMRO DPMNE had mayors in 21 municipalities, while the SDSM had 37.

¹⁵State Statistical Office of Macedonia (2010): Macedonia in Figures 2010. Skopje, page 56.

¹⁶GDP grew by 3.9 percent in 2006; by 4.9 percent in 2007; and by 5.8 percent in 2008, according to data from the State Statistical Office of FYR of Macedonia.

with a moderate decline in GDP¹⁷, which fell by 1.1 percent according to the government, and by 1.3 percent according to the IMF¹⁸. The crisis brought a reduction in demand for exports and a decline in external financing.

The economic crisis further aggravated unfavourable trends of the labour market. The traditionally high unemployment rate rose to 32.5 percent, with vulnerable and marginalized groups being disproportionately affected. Poverty levels increased significantly and, in 2009, the percentage of poor people in the FYR Macedonia was 31.1 percent according to data from the State Statistical Office.

The fundamental challenge facing economic policy and future reforms is to ensure an acceptable post-crisis level of economic growth and a rise in employment. Structural reforms are also required to promote and establish a business culture, discard corruption and enforce the rule of law.

Decentralisation in FYR of Macedonia

The policy framework for decentralization was established with the adoption of the Strategy for the Reform of the Local Self-Government System (from May 1999). The strategy's main objective was to build local governance based on principles of democracy and decentralization: to have the right and capacity to regulate and manage local public services accountably and in the interests of the local population.

The process of decentralization was further supported with the adoption of the Ohrid Framework Agreement in 2001¹⁹. The Macedonian Parliament then developed and adopted a set of constitutional amendments and laws on decentralization. These new laws transferred a wide range of competences to the local level, including the management of primary and secondary education, increased responsibilities in urban planning, local economic development, social services, and cultural institutions and activities.

These documents, together with the Programme for Implementation of the Process of Decentralization 2008-2010, and the Action Plan for the work of the Decentralization Working Group, are the core documents leading implementation of decentralization reform.

Territorial organization and regional development

After gaining independence, the country inherited a system of 34 municipalities (local self-government units), with their headquarters in urban centres. The 1996 law on Local Self-Government and subsequent territorial reorganization created 124 municipalities. However, the municipalities gained only limited responsibilities, such as urban planning and communal activities.

The signing of the Ohrid Framework Agreement gave the country a new territorial look. The rationale behind the new territorial re-organization was to pull the resources of the erstwhile 124 municipalities into 84, plus the capital, Skopje. No intermediary level of sub-national government was introduced.

The key laws further regulating territorial order are those on Territorial Organization of the Local Self-Government in the Republic of Macedonia²⁰, and the law on Local Self-Government.

Functioning and financing of local self-government

The evolution of the local government framework can be divided into three distinct, but related, phases.

The first phase, from 1991 to 1996, was characterized by the absence of specific legislation on local government, while the Constitution of Macedonia (November 1991) regulated the way municipalities functioned²¹. The second phase (1996–2002) saw the law on Local Self-Government introduced in 1996. This divided municipal competences into 'original'²², 'shared'²³, and 'delegated'²⁴. The third phase (2002 to present) began with the signing of the Ohrid Framework Agreement, and adoption of a new law on Local Self-Government²⁵. This has substantially increased municipal responsibilities, and strengthened the powers of elected local officials. The legal framework for the functioning of local governments was completed with the laws on Financing the Units of Local Self-Government²⁶; on the City of Skopje; on Local Elections; and on Territorial Organization.

The development of the local governance system in FYR of Macedonia continued in 2008 and 2009 with the adoption

¹⁷ This is a moderate decline, particularly when compared with other countries in the region.

¹⁸ International Monetary Fund in the FYR of Macedonia: Staff Report for the 2009 Article IV Consultation

¹⁹ Ohrid Framework Agreement: Development of Decentralized Government. Chapter 3, page 1.

²⁰ "Official Gazette of the Republic of Macedonia", Nr. 55/2004, August 16, 2004.

²¹ Specifically, articles 114, 115, 116 and 117 placed public utilities infrastructure and environmental protection under the jurisdiction of local self-government.

²² The original responsibilities of local governments are implemented independently to address the immediate and common interest to local populations, and reflect the degree of decentralization. Implementation of the original responsibilities had been almost non-existent, because of a lack of further regulations.

²³ Shared responsibilities are implemented jointly by local self-governments and higher level governance structures.

²⁴ Delegated responsibilities were originally those of higher level governance structures entrusted to local (lower level) self-government, due to efficiency, effectiveness, economies of scale, and other reasons.

²⁵ The law on Local Self Government of Macedonia, "Official Gazette of the Republic of Macedonia", 5/2002, from 29 January 2002.

²⁶ Adoption and implementation of the law on Financing the Units of Local Self-Government triggered the first phase of fiscal decentralization, and began officially on July 1, 2005.

of several laws that regulate the responsibilities of local self-government units more closely. The law on Inter-Municipal Cooperation was established to regulate the manner, conditions, and procedures for establishing formal cooperation and partnerships between municipalities. The new law on Social Care (2009) regulated the social care system and social care rights, including financing and execution. Changes in the law on Construction Land provide that 80 percent of the fee paid by the investors is municipal income, and 20 percent goes to the central budget²⁷.

The adoption and implementation of the law on Financing the Units of Local Self-Government then triggered the process of fiscal decentralization. This requires that municipal finances should consist of the municipality's own revenues (local taxes and charges²⁸, local fees²⁹, funds from public borrowings, and all other funds and revenues generated from economic and other municipal activities), and transfers from the national budget³⁰.

It also stipulates that fiscal decentralization should be implemented in two subsequent phases.

In the first phase, municipalities obtained the right to administer revenues coming from their own sources and from the central government grants. New procedures for allocation of central government grants were introduced. These ensured a higher degree of predictability in terms of the overall amount, and the amount per municipality. At the same time, the system's transparency was improved by introducing a new practice of timely reporting on the distribution of funds³¹.

Within this phase, one of the conditions imposed on municipalities was that at least 90% of them covering at least 90% of the population of the country, meets the criteria of 5 employees working in the financial management³².

The transition into the second phase of fiscal decentralization is based on the capacity of each municipality to demonstrate good financial results in the first phase, e.g. all requirements from the first phase of the fiscal decentralization are met, and municipalities possess adequate financial management staff and have sufficient finances³³. This phase gives substantial discretion to local governments in their use of financial resources³⁴.

In January 2007, the government established the Commission for the Monitoring and Assessment of the Municipalities. Its role is to monitor and assess the extent to which a municipality has fulfilled the conditions for entering the second phase of fiscal decentralization. Advancement in the implementation of fiscal decentralization was recognized in the recent EC progress report³⁵.

The law on financing units of local self-government was amended to increase the share of VAT transferred to municipalities from 3 percent to 4.5 percent from 2010 to 2013³⁶ and to introduce more equitable distribution of transfers.

²⁷ This is important, because municipalities would receive more revenues from this source.

²⁸ Such as property taxes, transfer of absolute rights tax; tax on gifts and inheritance; construction land use charge; construction land development charge.

²⁹ Such as local administrative fees; local communal fees; sojourn fees.

³⁰ This includes shared revenues from the Value Added Tax and earmarked grants, capital grants and transfers for delegated authorities.

³¹ The initial step was the approval of the methodology for the distribution of revenues from Value Added Tax and introduction of the capital, earmarked and block grants.

³² This implies at least two employees in budget preparation, implementation, accounting and reporting, and at least three employees qualified in tax identification and collection.

³³ This means positive financial results for at least 24 months without debts or credits exceeding ordinary terms of payment, and the Ministry of Finance's approval of financial reports.

³⁴ In the second phase, the earmarked grants will be replaced by more significant block grants.

³⁵ "Fiscal decentralization in the FYR of Macedonia continued, with further measures to strengthen the fiscal viability of indebted municipalities", EC Progress Report for FYR Macedonia 2010, p27.

³⁶ *Ibid.*, p 8.

Project

Support to the Decentralization Reform in the FYR of Macedonia on its path to the EU (2005)

Project title	Support to the Decentralization Reform in the FYR of Macedonia on its path to the EU
Duration	January – December 2005
Funding	US\$80,000 from DGTTF
Aim	To support the country on its path towards the EU through the successful implementation of decentralization reform, democratization of the country and strengthening of rule of law
Results	<ul style="list-style-type: none">✓ A Policy Paper describing relevant models for regional development✓ A methodology for the preparation of regional development plans✓ A set of indicators to measure regional development✓ Programmes for regional development in two planning regions

The project aimed to enhance stakeholders' capacities to develop and implement national policies for balanced regional development, and to prepare two pilot regional development plans.

Relevance

The project was evaluated against 'design phase' and 'real time' criteria.

The country's fragmentation, which resulted from territorial reorganization and inherited social inequalities, combined with the poor physical and weak public infrastructure of smaller, rural municipalities, brought greater regional disparities. In addition, the process for accession to the EU imposed even greater demands on the country for regional development planning and more balanced and equitable regional development. Planning capacities at the regional and local levels needed to

be strengthened, as did support for the establishment of a legal and policy framework for regional development at the national level. The project addressed these challenges by providing successful models and working on a tailor-made methodology for regional development planning. At the same time, the project tested the proposed approach in two pilot districts.

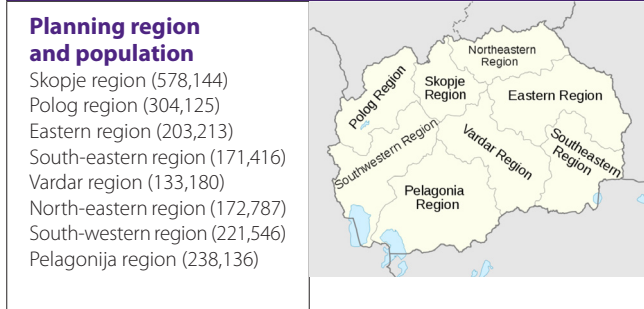
The project remained highly relevant during its implementation, but changing political circumstances and the delayed adoption of regional development policies caused delays in achieving results.

Effectiveness

The assessment of effectiveness, the extent to which the project results were completed, showed that the project was effective in delivering the following results:

- ✓ **A policy paper describing relevant models for regional development**, with a clear definition of the role of regional development policy in promoting balanced development, and proposed models of institutional set up. This emphasized best practices from EU member countries and, in particular, from the EU regional development policy. The document was used by policymakers as a basis for planning and developing the national Strategy for Balanced Regional Development.
- ✓ **A methodology for preparing regional development plans**, which provided several policy options for the methodological approach and interaction between regional, local, and national development planning, and policy actions.
- ✓ **A set of indicators to measure regional development**, which provided a quantitative overview of the regions' socio-economic performance at the NUTS 3 level³⁷, and the means to monitor regional development and inter-municipal cooperation.
- ✓ **Programmes for regional development in Vardarski and Northeast planning regions**, developed with the participation of all key stakeholders.

³⁷ The policy and legal framework defines them as "planning regions".

Figure 1 FYR of Macedonia's Regions

Efficiency

Efficiency is the project reviews' most critical element. Project implementation was delayed by political changes and the belated adoption of key national documents (the law on Balanced Regional Development, and the Strategy for Regional Development in Macedonia). The project achieved its results nevertheless, but after a considerable delay. The project ended in December 2005, but formal endorsement of some outputs, such as the programmes for regional development in Vardarski and the Northeast planning regions did not happen until 2009 and 2010 respectively. This was because of changes in the national legal and policy frameworks, which meant that both documents had to be revised to accommodate those changes.

It is important to note that the background documents – and the project itself – had been aware at the design stage that political changes could occur and consequently affect implementation. However, the design stage failed to provide a sound and realistic risk analysis and appropriate risk mitigation strategy. Therefore, there were no adjustments in the intervention approach, causing the achievement of results to be delayed.

Innovation

Although regional development is well established elsewhere, its application in the FYR Macedonia was new. Prior to this project, development planning and activities took place only at the municipal level. This approach proved insufficient to address the existing differences in economy, infrastructure, employment, income and living standards among the different parts of country. Therefore, the project introduced regional development (both planning and implementation) as a new development paradigm for the FYR Macedonia.

In the absence of regional governments, it demanded an innovative approach to bring consensus among municipal leaders and to ensure a genuinely participatory process. It did this by bringing civil society and the business community into a regional development process. The project piloted regional

planning in the Vardar and Northeast regions. It also introduced established regional planning development methodology for replication in other regions.

Another innovative dimension was found in a sound monitoring framework, with a set of indicators to appraise regional development policies and evaluate the socioeconomic performance of development programmes and measures.

This included broad participation and capacity development and provided a basis for EU pre-accession assistance. It also enabled other international development partners to embark on regional development planning, notably the Swiss Development Cooperation and Germany's GTZ.

Sustainability

The review of sustainability – and, to a large degree, of the impact – was based on the fundamental question of whether beneficiaries can continue to work without the external intervention present through the project.

Overall, the project's results are sustainable. This conclusion is based on the review of each of the project outputs and measuring their levels of sustainability.

Two outputs, the Policy Paper describing relevant models for regional development, and the set of indicators to measure regional development, helped the government to establish legal and policy frameworks, and an institutional structure for regional development. Specifically, this refers to the key national documents for regional development, the law on Balanced Regional Development, and the Strategy for Regional Development. By using the project outputs, national stakeholders were able to conduct an in-depth situation assessment and to choose appropriate models for regional development. The indicators were adopted as the backbone of the system to monitor the strategy's implementation.

The methodology used for the preparation of regional development plans developed a set of activities for regional economic development planning. These are divided into three broad categories: preparation for planning, plan development, and plan implementation. This methodology was specifically tailored to the Macedonian situation. It stipulated the use of inter-municipal cooperation as a tool for regional economic development planning. The government used this to draw up a rulebook for preparation of plans and programmes for regional development³⁸.

³⁸ [Ohttp://www.brr.gov.mk/ProjectsFiles/LegistativaPDF/pravilnik1.pdf](http://www.brr.gov.mk/ProjectsFiles/LegistativaPDF/pravilnik1.pdf); Last access: 26 April 2011. "Official Gazette of the Republic of Macedonia", nr.107/2009; page 7.

Programmes for regional development in the Vardarski and Northeast planning regions were revised to reflect provisions of the National Strategy for Balanced Regional Development. They were formally endorsed by the Council for Development of the two planning regions in 2009 and 2010 respectively. In both regions, centres for regional development planning³⁹ were established, tasked with implementing programmes and mobilizing resources.

Catalytic Nature

The project directly supported the implementation of governance priorities, in line with the Stabilization and Association Agreement. It strengthened regional development cooperation, with the objective of contributing to economic development and reducing regional imbalances. In this way, the project built national capacities to implement the IPA III Regional Development, particularly the regional competitiveness sub-component.⁴⁰

The project served as a platform for scaling up UNDP regional development activities. UNDP then contributed to the operationalization of the new National Strategy for Regional Development. This focussed on capacity building, support to the Bureau for Regional Development in managing policies and allocating funds transparently and accountably.

In parallel, UNDP started the *Regional Development: Initial Support for Policy and Capacity Building* project, with its own resources.⁴¹ The project provided technical assistance to the Ministry of Local Self-Government, the Bureau for Regional Development, and the Centres for Development of the Vardar and the North-East Planning Regions to design policies for balanced regional development, and to define mechanisms for their implementation.

Gender

Gender mainstreaming was difficult to formally validate given the limitation of the project document where gender indicators were not included in the design stage. Therefore, gender mainstreaming was analysed indirectly by reviewing activities, processes and analysing outputs.

Indicators to measure regional development were designed to provide gender-segregated data at the regional level. In addition, the working group for planning the Regional Development of the Vardar and Northeast regions included an equal level of male and female members.

³⁹ See the part on Territorial organization and regional development.

⁴⁰ Two larger scale projects are currently under preparation for the IPA III funding while the total allocation for the period 2007-2013 is around 130 million euros; http://ec.europa.eu/enlargement/candidate-countries/the_former_yugoslav_republic_of_macedonia/financial-assistance/index_en.htm . Last access: 26 April 2011.

⁴¹ UNDP allocated US\$105,000 to the project.

Project

Inter-Municipality Cooperation for Efficient Service Delivery (2007)

Project title	Inter-Municipal Cooperation for Efficient Service Delivery
Duration	January – December 2007
Funding	US\$75,000 from DGTTF (US\$15,000 from UNDP CO)
Aim	To promote models and mechanisms of inter-municipal cooperation as an effective approach to improve the efficiency of delivered public services and consequently to support good governance for development
Results	<ul style="list-style-type: none">✓ Methodology for functional review and capacity needs assessment in tax administration✓ Training programme on financial management and tax administration✓ Inter-municipal cooperation agreement for selling and buying services in the area of tax administration✓ IT networks for unlimited information flow between partners-municipalities and tax administration client software✓ Inter-municipal cooperation mechanism for pilot municipalities (Veles-Caska and Tetovo-Brvenica)

The project aimed to improve the abilities of municipal employees to deliver tax collection and administrative services. It also worked to improve internal organization and management, including IT and logistical solutions. After these municipalities had been trained, the project helped enable them to provide tax administration services to weaker municipalities, using a selling and buying of services model.

Relevance

The project was highly relevant, as it built the capacities of small and rural municipalities to implement decentralized functions. This specifically refers to the establishment of finance

and tax management structures as a precondition for the second stage of fiscal decentralization. The project introduced an inter-municipal cooperation model of selling and buying services. This enabled weaker municipalities to purchase financial management and tax administration services. It was in line with the law on Local Self-Government, which allows municipalities to “join funds and establish shared public services” or “establish shared administrative bodies in certain areas” (Article 14).

The programming process followed a needs analysis conducted by the UNDP team, together with partners from the central and local level. It included an in-depth analysis of national objectives and priorities, as set out in the Ohrid Framework Agreement, and the EU Accession Partnership. The project was designed with a clear, coherent, and consistent set of objectives, in line with the national decentralization agenda.

The ‘real time’ assessment of the project’s relevance showed that it remained highly relevant throughout its implementation. The results and targets defined during the formulation phase, and reflected in the Results and Resources Framework, remained relevant and adjustments were not needed. The results remain relevant to the country’s planning and programming, even though the project was implemented in 2007.

Effectiveness

The project focused primarily on joint provision of tax administration and financial management services. Its immediate results were synchronized and contracts for inter-municipal cooperation in tax administration were signed between the municipalities of Brvenica and Tetovo, and Caska and Veles.

The project started with a functional analysis of the four participating municipalities, and a capacity assessment of their finance management departments. These findings helped shape the training modules for municipal administrations.

In parallel, the project analysed IT infrastructure and the IT training needs of selected municipal staff. That report was the basis for the IT network. This provided an unlimited information flow between partner municipalities (Brvenica and Tetovo, and Caska and Veles), which was complemented further by the tax administration client software.

National ownership was ensured by the active participation of municipalities in all project activities. Their contribution was recognized through a self-evaluation of the capacities, and their active participation in the capacity development programme. This included training and mentoring. The approach ensured full utilization of knowledge in the municipalities’ daily work.

Efficiency

The project was implemented using the Direct Execution Modality. The main implementing partners were the Ministry of Local Self Government and representatives of local authorities from the pilot municipalities. The project implementation structure was optimal for the delivery of activities. The project team, led by a Project Manager, was established for day-to-day management, while policy and strategic guidance were provided through a high-level Project Board.

The project was implemented efficiently, within the given timeframe and according to the work plans.

Innovation

Municipalities in the EU have increasingly started to use inter-municipal cooperation in response to rising scales of production and mobility, and to growing market pressures. This cooperation takes a wide variety of forms, from single purpose to multipurpose, from mutual consultation to joint operation of inter-municipal agencies, involving small and large numbers of municipalities and including different territorial scales, sometimes even involving private sector organisations and upper level government (e.g. national or regional)⁴².

Unlike EU countries, however, the FYR of Macedonia had little experience with inter-municipal cooperation. Although its legal framework provided a basis for cooperation and association between local authorities “within the framework of law, to implement goals of common interest”, in reality there was rather limited progress. The **Inter-municipal Cooperation for Efficient Service Delivery** project has played pivotal role in improving inter-municipal cooperation in FYR of Macedonia⁴³.

The project introduced the inter-municipal cooperation model of selling and buying of services for the first time in the FYR of Macedonia. This innovative approach began with a functional review and capacity needs assessment. That was the basis for the programme’s specific, tailor-made design, and its implementation in the participating municipalities.

At the same time, this model was recognized as an original and advanced solution to remove impediments that rural and small municipalities face in performing decentralized competencies.

Sustainability

The level of sustainability is reflected by the extent to which beneficiaries can continue to work without the project’s external intervention. The project review took place nearly three years after its completion. This has provided solid ground for the assessment of sustainability and, to a large extent, the impact of the project.

Inter-municipal cooperation is an appropriate mechanism to improve the capacities of local governments to deliver public services. However, it can also be controversial, especially among small and rural municipalities who fear that by establishing joint departments they will be absorbed by bigger municipalities and will thus lose their identity. The results of the project proved that this is not the case.

Established inter-municipal cooperation between the Caska and Veles municipalities in the tax management continues to function. The municipality of Caska, with the project’s support, has registered around 2,700 taxpayers, resulting in tenfold increase of tax income. Furthermore, municipalities are currently exploring opportunities for cooperation in areas, such as fire fighting, social services, and others.

Political changes in the aftermath of local elections in Tetovo and Brvenica municipalities had a negative impact on inter-municipal cooperation. However, during the previous legislative period, the municipality of Brvenica established and worked intensively on strengthening the municipal finance department. This is now fully operational. Progress in this relationship proved that results achieved and capacities developed through inter-municipal cooperation remained sustainable. Currently, the municipality of Brvenica has more than 3,700 registered taxpayers, while the tax collection rate is almost 100 percent, according to the municipal sources.

The project also contributed to preparation of the Law on Inter-municipal Cooperation. The Law is in force as of 2009 and represents an exceptionally strong example of genuine impact of the project on the national policies.

Catalytic Nature

The Inter-municipal Cooperation for Efficient Service Delivery project had a two-fold catalytic impact. It supported the process of decentralization, while programmes in the area of inter-municipal cooperation, decentralization and local governance were also expanded.

At the national policy level, the project supported the implementation of the Ohrid Framework Agreement and contributed to the achievement of governance priorities, exemplified by the Stabilization and Association Agreement and the European Partnership for FYR of Macedonia. Results

⁴² Rudie Hulst and Andre van Montfortand (2007). Inter-municipal cooperation in Europe. Springer, The Netherlands.

⁴³ This project was implemented in parallel with another UNDP project that supported establishment of joint administration in three municipalities (Novo Selo, Vasilevo and Bosilevo).

from the project were used in developing the law on Inter-Municipal Cooperation, which was adopted in 2009.

The project directly supported the process of fiscal decentralization. It provided a tested model to establish finance and tax management departments through inter-municipal cooperation. This enabled small and rural municipalities to meet one of the key criteria from the first phase of fiscal decentralization.

In addition, the project provided set of practical tools to initiate inter-municipal cooperation (e.g. a model contract for inter-municipal cooperation, guidebooks, and instructions on how to administer local taxes and fees).

The project's positive experience and results were used as a platform for developing the large-scale Inter-Municipal Cooperation for Better Service Provision and EU Accession programme⁴⁴. This had a budget of some US\$1.6 million. It aimed to create the necessary human and institutional capacities to implement inter-municipal cooperation, and provide financial schemes to make it function.

Experiences and results achieved within the project's framework were also shared with other countries in the region. Montenegro and Kosovo, under UNSCR 1244, are using the expertise developed by the project to initiate inter-municipal cooperation in their respective municipalities.

Gender

The project document provided a rather general statement that "the project will pay attention to the gender balance during the training courses and spread a culture of gender equality". However, gender indicators were not included at the design stage. Therefore, gender mainstreaming within this project was analyzed indirectly, by reviewing activities, processes, and outputs.

The project team and the municipal leadership from the partnering municipalities have taken into consideration the equal gender representation in the implementation of the project activities. Two of four project focal points in the respective municipalities were women.

The project's training aimed for equal representation of women and men. Therefore, in every training event there was equal participation of women and men.

For the purpose of taxpayer registration in Brvenica and Caska municipalities, there was a need to engage external registration

staff. 30 percent of contacted persons (8 of 24) were women from these municipalities, with different levels of education.

⁴⁴<http://www.undp.org.mk/Default.aspx?LCID=7&PID=61> Last access: 26 April 2011.

Lessons learned and recommendations

Success in regional development planning requires broad participation and links with the national development agenda

The DGTTF intervention in the FYR of Macedonia showed that regional development planning relies on the broad participation and consensus of key regional stakeholders. This is becoming even more important in the absence of elected regional structures (mid-tier governance structure).

At the same time, experience from the FYR of Macedonia proved that regional development planning can underpin local democracy when citizens' needs and perceptions are reflected in regional strategic plans.

Inter-municipal cooperation needs to be focused and specific

The challenges imposed on the FYR of Macedonia by the current territorial organization and continuing decentralization emphasized the importance of inter-municipal cooperation. Experience from the DGTTF project re-confirmed this, showing that inter-municipal cooperation, when implemented properly, can improve service delivery and significantly increase resources generated at the municipal level.

Analysis and discussion of other options for inter-municipal cooperation is continuing. Options range from joint operation of inter-municipal agencies to the involvement of the private sector and upper level government (national and/or regional). A successful new phase of inter-municipal cooperation could be achieved through a balanced combination of persuasion (promotion of successful stories in implementation of inter-municipal cooperation and opportunities), incentives (such as the small grants mechanism for inter-municipal cooperation partnerships), and legal requirements (e.g. experience from

FYR of Macedonia with implementation of the first phase of fiscal decentralization)⁴⁵.

Inter-municipal cooperation and development of capacities should be linked

The project focused specifically on inter-municipal cooperation in tax administration and management of municipal finances. It applied the 'selling and buying of services' model. This helped to compensate for the lack of capacity in smaller municipalities to perform functions related to tax administration and management. The same approach could readily be applied in the provision of other public services (e.g. administrative, communal or social services).

However, inter-municipal partnerships are sensitive to political change. It would be important to carry out a political analysis as part of a project's design as a risk mitigation mechanism.

It is recommended that work begins on organizational development. This could start with a functional analysis, re-organization of the existing functions and establishment of new departments. It is also recommended that individual capacities be improved by training and mentoring. This should include improving individual abilities to implement new responsibilities, such as tax administration, urban planning and licensing, social services.

The experience from the Brvenica municipality can serve as an example. While concentrating on problems in the management of local finances through inter-municipal cooperation (buying services from Tetovo), the municipality of Brvenica established and worked intensively on strengthening its own finance department. This effort paid off, resulting in a fully capacitated and operational finance unit in Brvenica.

Helping set up inter-municipal cooperation

Even when cooperation between municipalities is recognized as a viable solution to address problems related to the delivery of public services in smaller and less developed municipalities, a certain level of external support may be necessary. The review of experiences from the FYR of Macedonia showed that municipalities were aware of their problems as well as of the potential for inter-municipal cooperation to address them. Yet municipalities were slow to set up inter-municipal cooperation, which made the project's advocacy and incentives crucial.

These lessons were clearly articulated in the larger follow-up Inter-Municipal Cooperation for Better Service Provision

⁴⁵ Norton, A. (1994). International handbook of local and regional government: A comparative analysis of advanced democracies. Aldershot: Edgar Elgar.

and EU Accession programme. The programme showed that well-balanced external incentives and grants to promote inter-municipal cooperation, were key conditions for success.

Truly innovative and catalytic activities are crucial to governance reforms

The basic principle of DGTTF, to support 'truly innovative and catalytic' activities, remains highly relevant for all countries, including those in the process of accession to the EU. By using DGTTF as a flexible funding mechanism, UNDP in FYR Macedonia initiated innovative regional development and inter-municipal cooperation projects. The results of this support had a direct impact on the national governance reform and design of policies in the FYR of Macedonia, such as preparation and adoption of the law on Inter-Municipal Cooperation, and the national Methodology for Regional Development Planning.

Political economy analysis is required during the programming phase

The results of the DGTTF review in the FYR of Macedonia illustrated that the projects would have benefitted from a political economy analysis and an in-depth sector assessment. This could have facilitated a better understanding of the programming environment, including the power structures and relationships that may favour change or obstruct the achievement of project objectives. At the same time, it is important to define realistic project objectives, results and activities, taking political risk and changes into account.

Annex I: Brief description of the law on Inter-Municipal Cooperation

On 17 June 2009, the Parliament of the Republic of Macedonia adopted the law on Inter-Municipal Cooperation.

This law regulates the manner, conditions and procedures for establishing inter-municipal cooperation, and forms of accomplishing it, financing, record-keeping and supervision and other matters of importance for inter-municipal-cooperation.

Article 9 stipulates the forms of the inter-municipal cooperation as follows:

- ✓ Creation of bodies for inter-municipal cooperation: shared working body and commission, and shared administrative body;
- ✓ Establishment of shared public services: shared public enterprise and public institution;
- ✓ Concluding agreements for: joining financial, material and other means and performing certain tasks by one municipality for one or more other municipalities.

The forms of inter-municipal cooperation are regulated in more detail between Articles 10 and 30. Article 31 stipulates the following instruments for stimulating inter-municipal cooperation: a) Non-returnable grants; b) Financing and co-financing of the preparation of analysis and studies in the fields which are of greater importance and interest for performing the activities in those fields, and c) Other instruments in accordance with the law.

Article 32 determines that the Government of the Republic of Macedonia may financially stimulate and support inter-municipal cooperation of two or more municipalities in areas of greater importance and interest for performing the activities, and that the Government of the Republic of Macedonia, upon a proposal of the Ministry of Local Self-Government, shall define by act the activities of greater importance and interest and for which it shall allocate financial means for stimulating the inter-municipal cooperation. In Article 32, the following basic criteria for support of inter-municipal cooperation are stipulated: i) administrative and financial capacity of the municipalities for performing the legally determined

competences; ii) expected benefits from the inter-municipal cooperation; iii) number of the municipalities participating in the inter-municipal cooperation and iv) means previously provided from other sources.

The more specific criteria for stimulating and supporting inter-municipal cooperation are determined by act of the Government of the Republic of Macedonia, upon a proposal of the Ministry of Local Self-Government. In accordance with Article 33, the Government of the Republic of Macedonia should establish a committee for stimulating and following inter-municipal cooperation. The committee is composed of two representatives from the Ministry of Local Self-Government and one representative each from the Ministry of Transport and Communications, the Ministry of Environment and Physical Planning, the Ministry of Education and Science, the Ministry of Labour and Social Policy, the Ministry of Culture, the Ministry of Finance, and the Directorate for Protection and Rescue. One representative is also nominated by each of the councils for development of planning regions, and by the association of local self-government units of the Republic of Macedonia. The committee president is a representative of the Ministry of Local Self-Government.

The key tasks of the Committee are to: i) follow the established forms of inter-municipal cooperation; ii) review and give opinion on the annual report for the accomplishment of inter-municipal cooperation; iii) initiate changes and amendments to the legislation affecting inter-municipal cooperation; iv) give opinion on the proposals of the acts from Article 32; and v) publicize the best examples of inter-municipal cooperation and review other matters of importance to inter-municipal cooperation.

To provide direct incentives for inter-municipal cooperation in the FYR Macedonia, the government has, with UNDP and international development partners, established a fund to support inter-municipal cooperation.

Annex II: Codification of tools and instruments used

- ✓ Policy Paper describing relevant Models for Regional Development
- ✓ Methodology for Preparation Regional Development Plans
- ✓ Training curricula and learning materials for regional development planning
- ✓ A Set of Indicators to measure regional development, monitor regional development and inter-municipal cooperation in the country.
- ✓ Methodology for functional analysis of municipal departments for financial management
- ✓ Methodology for assessment of IT infrastructure (including manuals for strengthening of the IT capacities - MS Windows, Word, Excel, Power Point, Internet, and LAN network operation)
- ✓ Training Needs Assessment methodology (including questionnaires)
- ✓ Training curricula and learning materials for inter-municipal cooperation
- ✓ Contracts for inter-municipal cooperation in the area of tax administration for municipalities
- ✓ Manual for administration of local taxes and fees in the local self-government units
- ✓ Methodology for collection of data from the taxpayers and calculation of the market value of the real estate;
- ✓ Law on inter-municipal cooperation, FYR of Macedonia

Annex III: List of Persons Interviewed

Afrodita Shalja Plavjanska, Democracy and Local Governance Office, USAID FYR of Macedonia

Aleksandar Buzalkov, Head of the Centre for Regional Development of Vardar Region

Andriana Stojkovska, State Secretary (Chair of the Commission for IMC), Ministry of Local Self-Government

Ann-Marie Ali, UNDP Deputy Resident Representative

Biljana Zagar, State Advisor, Civil Servants Agency

Boran Ivanoski, IMC Component Leader, UNDP

Darko Dukovski, IMC IT Officer, UNDP

Dejan Gjorsovski, Task Manager, Delegation of the European Commission

Deidre Boyd, UNDP Resident Representative

Dushica Perishic, Executive Director Association of Local Self-Government Units ZELS

Dusko Minovski, State Adviser, Ministry of Labour and Social Policy

Dzelal Ramadani, Former Mayor of the municipality of Brvenica

Enver Pajaziti, Mayor of Brvenica

Goran Petrov, Mayor of Municipality of Veles

Gorancho Panovski, Mayor of Municipality of Chaska

Gordana Milosevic-Jurukovska, Former Project Manager of IMC 2

Ibrahim Ajdari, Focal point for IMC2 Project

Local Governance and Decentralization

Ibrahim Mehmeti, National Programme Officer, Swiss Agency for Development and Cooperation

Ilmiasan Dauti, IMC Component Leader, UNDP

Jens Adler, Regional Economic Development Project, Team leader, GTZ

Ljupco Andreevski, Head of Tax Department

Maja Anastasovska, Focal point for IMC2 Project

Mihaela Stojkoska, Head of Governance Unit, UNDP

Petranaka Delova, Head of Administration, Austrian Development Agency

Plamen Georgievski, State Advisor (IMC Project Board member), Ministry of Local Self-Government

Rahim Musliu, Former IMC2 Project Board President

Sasko Ristevski, Focal point for IMC2 Project

Slavica Jakimovska, Head of Department for Regional Development, Ministry of Local Self-Government

Sonja Stefanovska-Trojanoska, Programme Analyst, UNDP

Vesna Dzuteska-Bisheva, UNDP Assistant Resident Representative

Viktor Arnaudovski, Head of Legal Department Association of Local Self-Government Units ZELS

Xhemail Elmazi, Director of the Bureau for Regional Development

Zoran Milkov, Responsible for revision of the Strategy for PAR, Department for Public Administration Reform

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