

PROJECT DOCUMENT**Macedonia****Project Title: *Building municipal capacity for project implementation*****Project Number:****Implementing Partner:****Start Date: January 2019****End Date: July 2021****PAC Meeting date:****Brief Description**

Local government institutions continue to struggle to improve the quality of life enjoyed by their citizens. To extract tangible benefits from funds available for municipalities from the central government, the European Union (EU) and international financial institutions and other donors, municipalities need to strengthen their capacity to prioritize, formulate and implement development projects. Although EU membership may seem a distant prospect, they also need to start preparing now for participation in the more generous—but also more complex—funds for cohesion and rural development that will become available upon EU membership.

At present, the country faces three main difficulties in capitalizing on local development opportunities:

- There is a lack of reliable and comparable municipal-level statistical data that could be used to plan and prioritize the distribution of development funds and measure progress in local-level service delivery;
- Municipal administrations are often ill-equipped and inadequately structured to plan, design and implement development policies and maximize the impact of the limited funds at their disposal; and
- Many municipalities are ill-prepared to seize development opportunities owing to a lack of up-to-date urban plans and technical documentation. Those most in need of funding are also least prepared to act.

To address these challenges, UNDP will undertake three key complementary activities:

- Create a **municipal “sustainable development index”** in partnership with the Ministry of Local Self-Government (MLSG) and the Association of Units of Local Self-Government (ZELS). Aligned with the Sustainable Development Goals (SDGs), this index will serve as an instrument of local development policy by helping authorities at all levels plan and distribute development funds to promote balanced socio-economic growth and facilitate the monitoring of development progress. The index will also contribute to an enrichment of **regional development policy**, by helping to refine the current methodology for measuring regional disparities in development and to understand and address disparities between and within the country’s eight planning regions;
- Design and perform a **simple functional analysis** of the local governance system, with a focus on its ability to deliver development progress at the local level. To take a systemic approach, this analysis will include the responsibilities, procedures and practices of MLSG, the Bureau for Regional Development and the eight regional development centres, as well as the units of local self-government. This analysis will pinpoint structural changes that could help municipalities to do better job on local development initiatives and capture the new opportunities that will arise during the EU accession process; and
- Design, establish and manage a **technical documentation fund** that would provide the financial resources that less-developed municipalities need to undertake necessary preparatory work (including urbanization plans) for development projects that are eligible for EU, state or donor funding, either through direct grants or low-interest loans. This fund would focus its efforts on the municipalities that are least equipped to perform these functions on their own, with support provided through all phases: project design, prioritization, application and implementation.

<p>Contributing Outcome (UNDAF): <i>By 2020, national and local institutions are better able to design and deliver high-quality services for all users, in a transparent, cost-effective, non-discriminatory and gender-sensitive manner</i></p> <p>Indicative Output(s) with gender marker: <i>Output 2.1: Local governance institutions strengthened to deliver services efficiently and equitably (GEN2)</i></p>	Total resources required:	USD 1,549,967.95	
	Total resources allocated:	UNDP TRAC:	/
		Donor:	1,549,967.95
		Government:	/
		In-Kind:	/
Unfunded:			

Agreed by (signatures):

Government	UNDP	Implementing Partner
Print Name:	Print Name:	Print Name:
Date:	Date:	Date:

I. DEVELOPMENT CHALLENGE

1. Making up for lost time

More than two decades after the country committed to the decentralization of many core public services, Macedonia's municipalities are struggling to deliver on the promise of local governance. Some steps have been made towards strengthening the role of local self-government units in planning and delivering their own development projects. However, as is the case across the Balkans, the delegation of responsibilities has not been matched with the delegation of sufficient finances, nor with an optimal local administrative structure to prepare and implement development initiatives.

The country's adoption of a decentralized system of governance reflects a broader commitment to local democracy and the principle of "subsidiarity": ensuring that decisions with a direct impact on people's lives are taken as close to the affected individuals and communities as is possible. As a core component of the Ohrid Framework Agreement signed in 2001, decentralization also plays an important role in sustaining inter-ethnic cohesion by ensuring a strong local say in decisions.

However, the reality of decentralization in the country has not kept pace with the theory. Municipalities have found themselves burdened with a range of important responsibilities for which they lack both financial and human capacity. The result has been the persistence of deep disparities in the quality of life for citizens, both within and between the country's eight main regions.

Many municipalities are now striving to improve conditions for their citizens, and overcome development deficits as compared with more advanced countries and regions, by undertaking local development projects. These include improving infrastructure (paving roads, regulating riverbeds), filling public service gaps (providing elder and preschool care and socialization opportunities for persons with disabilities), organizing cultural and sporting events, providing business support to local entrepreneurs, and supporting gender-responsive initiatives to improve women's and men's lives.

Municipalities have long complained that too few funds are available for these initiatives. Some municipalities are struggling even to cover basic costs, such as heating schools and providing school pupils with bus transportation. A legacy of debt cripples many municipalities, both large and small.

Recognizing this situation, the Government formed in May 2017 pledged a dramatic increase in the resources available for both local and regional development. There are also substantial funds available from outside sources, including the European Union, the World Bank, and other multilateral and bilateral donors. But many municipalities will need outside assistance to seize these opportunities, particularly in designing and preparing top-quality projects for funding from competitive calls. This project will address that challenge by filling several key gaps in the system.

2. The local context

Though compact in surface area, Macedonia is a country of dramatic contrasts. Perhaps the most pronounced is that between the capital, Skopje, where nearly 700,000 people, or more than one-third the country's population, are estimated to live, and the rest of the country. Skopje is by far the country's best-endowed region: with an annual GDP per head of MKD 366,482, it is three times wealthier than the majority-Albanian Polog region, which has a GDP per head of just MKD 117,284. (For comparison, the national average GDP per head was MKD 255,206 in 2014.)¹ Skopje generates 43 percent of the country's GDP and 38 percent of its total municipal income.

Life in Skopje is far from perfect. However, a wide chasm separates Skopje from the rest of the country, in terms of living conditions, economic opportunities and access to modern comforts. For this reason, the capital continues to draw a steady stream of economic migrants from the country's other towns and villages.

There are also major disparities between regions, and within regions between different municipalities. For example, unemployment is lowest in the southern Pelagonija region, at just 14.1 percent in 2016, against 42.2 percent for the Northeast. (The national average is 23.7 percent.) The share of preschool age children attending kindergarten was only 7.7 percent in the Northeast in 2016, against 33.9 percent for Skopje. (The national average was 23.6 percent.) Some deficiencies apply almost everywhere outside of the major urban centres. Take the disposal of wastewater, for

¹All data come from State Statistical Office, *The Regions of the Republic of Macedonia, 2017* (<http://www.stat.gov.mk/Publikacii/RegioniteVoRM2017.pdf>).

instance. Deputy Prime Minister Koco Angusev often cites the figure of 18 percent for the share of the country that has access to sewerage systems.² Access is even partial in the Skopje suburbs.

The need to address disparities in the quality of life at local level has long been recognized, most prominently in a commitment made in national legislation adopted in 2007 to devote at least 1 percent of GDP each year to regional development. This funding was meant to be allocated to the regional development centres created to serve the country's eight planning regions (these are statistical units that group 6-17 municipalities each, though without administrative functions).

However, the actual outlays have consistently fallen far short of this target. In the best year, 2016, just 0.04 percent of GDP was channelled to regional development. In most years past, the budget was even stingier, at just 0.01 percent of GDP. Taken together, the sum total of EUR 8.5 million devoted to regional development in the period between 2013 and 2016 looks almost negligible given the development challenges that many regions face.

Municipalities themselves have devoted far larger amounts of their own funding for public-sector investments – in all, EUR 283 million in the four years from 2013-2016, or on average EUR 884,375 per municipality per year.³

Local communities have also benefited from capital investments made by line ministries, which in 2016 alone totalled EUR 276 million.

The problem here, however, is that there is almost no tracking or mapping of these investments, and also no mechanism for planning or directing them in a way that addresses deficiencies in quality of life at the local level. Indeed, sector boundaries are so high that different entities sometimes spend public funds in the same area for different ventures with conflicting aims and without factoring in the needs of different social and vulnerable groups in the municipalities.

Moreover, of the EUR 276 million invested by line ministries, a full EUR 100 million was invested in Skopje. The two poorest regions – Northeast and Polog – spent only EUR 20 million each over the four years from 2013-2016. These marginal amounts reflect the extremely uneven financial resources and capacity among municipalities.

3. The EU context

Financial resources available as part of the EU accession process offer an obvious lifeline for cash-strapped municipalities, and also for central authorities striving to reduce regional disparities. This was already the case even before the country became a credible candidate for membership. Institutional relations with the EU were first forged in 2004, when the Stabilisation and Association Agreement (SAA) entered into force; however, the country has been using EU financial instruments to support its regional development policies since 1996, through the PHARE program.

Since the recognition of the country's candidate status for EU membership in 2005, and adoption of the European Partnership in 2006 (evolving into the Accession Partnership in 2008), EU support to the country evolved from pure development assistance to pre-accession assistance aimed at building the country's ability to assume the obligations of EU membership and develop sufficient capacities to implement common EU policies. Most important here are Cohesion Policy and Regional Development Policy, but Rural Development Policy also brings important benefits.

In this context, the country has been benefitting from the Instrument for Pre-Accession (IPA) through two programming periods: 2007-2013 (IPA I) and, still ongoing, 2014-2020 (IPA II). Through these two programs, EUR 614.9 million were available for IPA I and EUR 664.2 million for IPA II.

The ability to absorb these funds serves as one of the indicators of the country's readiness to assume the obligations of EU membership. Performance in this respect has been less than stellar: by the end of the regular programming period for IPA I in 2013, the country had used only 37 percent of available funds.⁴ In this the country does not differ markedly from other Western Balkans countries undergoing the same process, including Croatia, which became a member state in 2013.

Absorption of funds for regional and local development has been particularly disappointing. An analysis from 2013 that disaggregates the absorption data by IPA components shows that the worst

²<http://vesti.mk/read/news/14107496/4868741/angjushev-samo-18-od-teritorijata-ima-kanalizacija-a-skopje-ima-spomenici-od-milion-evra>

³ UNDP, "Public Capital Investment and Regional Development," unpublished paper, 2018.

⁴<https://www.mia.mk/en/Inside/RenderSingleNews/76/132162695>

performance was noted for Component 3: Regional Development: only 28 percent of available funds had been committed (contracted) and only 1 percent had been actually paid (completed projects). The figures concerning Component 5: Rural Development, also important in the context of this project proposal, were not promising either: only 7 percent contracted, and 7 percent actually paid. When it comes to distribution of IPA funds by type of beneficiary, Macedonian municipalities have used only 7 percent of the total of absorbed IPA funds.⁵ Most of this funding (61 percent) has been earmarked for cross-border cooperation programmes in which Macedonian municipalities do not normally assume a lead partner role. This is to say that these limited funds are failing to significantly contribute to building local capacities to identify, formulate, finance and implement local development projects.

The absorption figures have improved since 2013, but in large part because of the flexible response to the specific new challenges (for example, the 2015 floods and the resolution of the political crisis in 2017) that allowed the reallocation of funds previously earmarked to individual IPA I components. While there is no reliable disaggregated data available for the IPA II absorption so far, the EC 2018 report on Macedonia is indicative: by the end of 2017 only 26.5 percent of the available funds for the 2014-2020 period had been contracted. As for future prospects in this area, the Report states: “The country is *moderately prepared* regarding regional policy and coordination of structural instruments. *Some progress* was made on establishing an institutional framework for managing EU pre-accession assistance (IPA) and on the further implementation of sector-based programming. In the coming year, the country should in particular: → further strengthen the administrative and financial capacity needed for procuring and implementing EU funds properly and in a timely fashion.”⁶ The Rural Development chapter of the report reaches almost the same conclusions.

Translated from the polite code of EC progress reports, the message here is that there is still a lot to be done in order to absorb the available funds in such a way that development projects are implemented efficiently in Macedonia’s regions and rural areas, and in a way that benefits citizens. These shortcomings are meant to be addressed at national level through IPA II (and bilateral and other multilateral assistance), which will help to strengthen planning, managerial and financial capacities at the central state level. However, the data for Macedonia, as well as the experience from other countries that pass through this stage of the accession process, show that only a small proportion of this assistance reaches sub-regional or local level, where local authorities are expected to have prepared a pipeline of “mature” development projects, in line with national priorities and EU agenda, that are ready for (immediate) implementation. Failure to meet this expectation results in overall weak performance when it comes to absorption of EU and other funds allocated to regional and rural development, and overall to the country’s readiness to implement respective EU policies. Efforts to improve the use of available funding for local development projects thus pursue twin aims: improving the quality of life for local citizens and improving national readiness for EU membership.

4. Defining the challenges

To address these challenges and support municipal capacity to design and implement local development projects, UNDP has identified three significant shortcomings that need to be remedied:

I. A lack of comparable development data at municipal level

Macedonia’s 80 municipalities are a very diverse group, ranging in size from Vevcani with 2,433 people to Kumanovo with 105,484 people. GDP per head figures are not available at the municipal level, but it is clear here that the range is even wider than that between the wealthiest and the least-wealthy planning region. A graphic example for this need is the Skopje Planning Region, which enjoys the highest development index (see Table 1, below), but where drastic differences in socio-economic prospects, infrastructure and overall quality of living divide its 17 municipalities.

The country established a regional development index in 2018. This ranks the eight planning regions against a combined index with eight indicators and provides a mathematical formula for the

⁵ http://www.epi.org.mk/docs/analysis_on_the_use_of_ipa_funds.pdf

⁶ <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-the-former-yugoslav-republic-of-macedonia-report.pdf>

distribution of central budget funds allocated for regional development.⁷ The most recent ranking was established by law in 2013 and was valid until June 2018. A new ranking is currently under discussion by the Government and is due for adoption in the course of 2018.

The 2013-2018 ranking is presented in Table 1:

Table 1: Development index of planning regions, 2013-2017

Ranking	Planning region	Development index relative to the country average	Proportion of state aid for regional development (in percent)
1	Skopje	151.0	7.2
2	Southeast	97.1	11.1
3	East	96.1	11.3
4	Pelagonija	91.2	11.9
5	Polog	82.4	13.2
6	Southwest	81.4	13.3
7	Vardar	73.5	14.7
8	Northeast	62.7	17.3

Source: Government decision from 16 June 2013.

However, the country does not have a similar ranking system for its 80 municipalities.

There are some standardized measures for municipal performance, including a regular citizen satisfaction survey (on “quality of life”) that helps to assess the delivery of services across a range of indicators. Through its work on decentralization, UNDP is now updating and refining these measures, in partnership with the Ministry for Local Self-Government. At the moment, statistical data on economic activity, social services and benefits, health care, education and demographics at the local level are regularly collected and assessed. However, this system does not translate easily into an assessment that compares the development level of one municipality with another.

Why is this important? In order to achieve compatibility with and synergy effects between EU cohesion policy, national development strategies, regional development programmes and priority lists, on the one hand, and local development and citizen needs, on the other, policymakers need comparable data from all levels. This is because regional development policy strives not only to contribute to the socio-economic development of the most underdeveloped parts of the territory, but also to achieve balanced development nationwide. With limited financial and other resources at their disposal, both national and local authorities need a tool to help them distribute assistance according to clear and simple criteria, and to track progress in achieving development goals over time.

II. Structural weaknesses that limit municipal capacity to pursue local development

Municipalities come to the challenge of local development with very different endowments. Staffing structures are not standardized. To cite just one example, the Municipality of Aerodrom, with a population of 80,000 people, has 180 staff, whereas the Municipality of Karpos, with 60,000, has over 400. Day-to-day management often takes precedence over long-term planning. Some staffing is politicized. Many new mayors elected in 2017 are still struggling to assemble effective teams from the administrations they inherited, often finding an abundance of staff but a deficit of desired skills.

At the same time, there is no direct correlation between the size of the municipal administration and municipal success in funding and implementing development projects. Some larger municipalities – Prilep, for instance – have set up entire project design offices within the municipal administration. But others lack staff capacity to plan and implement development projects, or rely on one or two beleaguered people who are already juggling many other functions. Small and rural municipalities tend to lag furthest behind. However, there are exceptions, such as Zrnovci, which with a population of just over 3,000 and a staff of nine people has managed to secure outside funding for more than a dozen large-scale development projects, including a new kindergarten set to open in mid-2018.

⁷ Government decision of 25 December 2008.

The EC 2018 progress report for the country⁸ recognizes the need to strengthen local self-government units' administrative capacity and presents a number of broad recommendations:

- improve communication to citizens;
- provide extensive training to local government administrations and raise public awareness to ensure implementation of the Law on General Administrative Procedures;
- strengthen links between foreign investors and the local economy; and
- strengthen local administrative capacity to implement horizontal legislation in the field of environment and climate change.

A recent study⁹ has analysed municipal performance in three municipalities again a number of criteria, including expenditure, property management, inter-municipal cooperation, spatial and urban planning. The authors conclude that *“Macedonian local government is based on the traditional approach and therefore there is a need of reorganization or reengineering of the whole business. [...] [T]he conclusion is that the successful functioning of the local government is possible only with a solid functioning of the managerial teams, good cooperation with the employees, existence of new standards of rewarding and penalties, clear orders and precise instructions of the employees.”*

To undertake such a “reengineering” of municipal structures, a functional analysis is a prerequisite. No such analysis of municipal responsibilities, structures and human and financial resources, which together determine their ability to pursue local development, has yet been undertaken. Any functional analysis should include all of the institutions that make up the country's system of local governance, so in addition to the municipalities, the MLSG, the Bureau for Regional Development and the eight Centers for Development of the Planning Regions that bring municipalities together to cooperate on larger-scale development projects and, more broadly, to address regional disparities.

The context for such an analysis is propitious. The Government's recently adopted Public Administration Reform Strategy 2018-2022, aims to establish a depoliticized, efficient, effective and accountable public administration that provides quality and easily accessible services to citizens and the business community across the country. The Ministry for Information Society and Administration (MISA) has been tasked with implementing this ambitious reform over the coming five years.

To help MISA start this process, UNDP has completed a preliminary functional analysis of public administration and a mapping of public institutions. The analysis generated 11 key conclusions and 28 recommendations for the overall framework of public administration, in terms of hierarchical structure, division of functions between different administrative bodies, and efficient use of human resources. Recommendations were compiled into an Action Plan with a provisional timeframe suggesting short- to medium-term activities with deadlines of three months to six years. The methodology applied in this initial study can easily be applied to the local governance system.

The MLSG is itself keen to undertake an internal functional analysis. As the key institution at central level responsible for local governance policies, the MLSG has a central role to play in delivering on the Government's pledge to translate the promise of decentralization into reality. The MLSG is charged with leading policy reforms to improve local governance, and also with stimulating and assessing progress in overcoming regional disparities. To shoulder these new burdens successfully, the MLSG needs to develop new capacities and revisit its internal organizational structure.

The Bureau for Regional Development and the eight regional development centres are tasked specifically with regional development, as distinct from local development. However, the lines between these two areas are blurred, and the centres spearhead many projects with local impact. In 2016, for example, the eight centres implemented 115 projects, or on average 14 each. Given the limited capacities of many municipalities, they serve as a valuable tool for cooperation around development efforts. But here their impact is constrained by funding shortfalls and legal limitations.

A simple functional analysis of how the different institutions that together comprise the local self-government system address development challenges should point the way to improved structures.

⁸<https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-the-former-yugoslav-republic-of-macedonia-report.pdf>

⁹ “The need for local government reform in the Republic of Macedonia,” *International Journal of Information, Business and Management*, Vol. 9, No.2, 2017: http://eprints.ugd.edu.mk/17134/1/1_percent20IJIBM_Vol9No2_May2017.split-and-merged_percent281_percent29.split-and-merged.pdf

III. Lack of preparatory materials needed to secure funding for development projects

As part of a reform programme dedicated to reinforcing democracy at all levels, the Government that took office on 31 May 2017 announced a radical departure in local development, promising both bigger and more equitable funding for municipalities and larger resources for regional development. “All citizens, whether living in a city or village, have the right to quality education and health care, clean water, a healthy environment, a safe and peaceful life,”¹⁰ proclaims the Government program.

The Government took office with an explicit commitment to provide more funding to smaller and poorer municipalities, which have continuously struggled to collect local taxes and address basic infrastructural needs, such as water supply. Some ambitious targets were set, including increasing the reach of sewage systems from 18 percent to 40 percent of the population. At the same time, the Government vowed to support local governments in their efforts to secure their own funding, for example by allowing them to sell state property, and to help deepen the skills of municipal staff.

The Government’s first annual budget, for 2018, follows through on this commitment, with a 6.4 percent increase in funding for local government units and a 42 percent boost in funding for balanced regional development.¹¹ Substantial resources are also available for municipal projects under the European Union’s IPA programme and other initiatives such as the World Bank’s municipal infrastructure program. Numerous donors, including the Swiss Agency for Development and Cooperation (SDC), the Japanese Embassy, the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the US Agency for International Development (USAID), offer small grants for which municipalities can compete.

However, as the country’s extremely low rate of IPA absorption confirms, access to development funding does not translate readily or necessarily into successful expenditure of that funding for development projects. It is much harder to spend money – especially wisely – than most people imagine. In order to secure funding from external sources, including national-level Government funds, development projects need, as justification, to demonstrate alignment with strategic and programmatic documents and clear benefits for the targeted population or objective.

Furthermore, they need to be technically well prepared, with sound cost estimates and instructions for bidders in the procurement processes. Necessary preparatory technical documentation can cost up to 20 percent of the individual project value. Technical documentation is particularly important for projects aiming at infrastructure, environmental protection and climate change mitigation, as these require analyses of multiple options and calculations and need to be based on an “engineering approach.” For many municipalities, urbanization plans are another prerequisite for any project.

The paradox here is that those municipalities with biggest needs at the same time tend to have the weakest capacity to conceive, design, secure funding for and implement them. Currently, the project pipelines presented by the less developed municipalities are often little more than “wish lists”: compilations of nice ideas lacking further elaboration. Unfortunately, this is a pattern that has only solidified over time, as the distance between successful and struggling municipalities has widened.

Many of the Mayors who took office after the October 2017 local elections had to opt out of calls for proposals for both Government and international funding owing to a lack of proper technical documentation to support their applications. This was a gap that Prime Minister Zoran Zaev – himself a three-term Mayor of Strumica – flagged in his address to the Mayors’ Forum organized by UNDP on 30 November-1 December 2017. Zaev underlined the importance of technical documentation as a necessary precondition for the development projects that all municipalities should be undertaking to deliver on the promise of a better life for citizens. At the same event, the Prime Minister pledged to locate funding for every new initiative supported by suitable documentation.

II. STRATEGY

To address these three key needs, UNDP will work with the Ministry of Local Self-Government (MLSG), the Association of Units of Local Self-Government (ZELS), the Ministry of Information Society and Administration (MISA) and municipalities in a project with three main components:

1. Creation of a clear and simple index of municipal development aligned with the SDGs;

¹⁰ http://vlada.mk/sites/default/files/programa/2017-2020/Programa_Vlada_2017-2020_ENG.pdf.

¹¹ Total funding for balanced regional development was MKD 161,729,272 in 2017 and MKD 279,333,631 in 2018.

2. Completion of a simple functional analysis of the local governance system (including the MLSG, the Bureau for Regional Development, the eight regional development centres and the 80 municipalities and the City of Skopje), with the aim of identifying structural changes that will enhance the capacity of local self-governance units to drive development progress; and
3. Establishment of a “technical documentation fund” for local development projects.

1. Creation of a clear and simple index of municipal development

Municipalities are the key point of delivery and development and, as such, they are central to the success of sustainable development. However, as explained above, at the moment there is no reliable tool to determine the exact level of socio-economic development in Macedonia's municipalities, to compare them among themselves or to consistently measure the progress made in service delivery at the municipal level, in order to efficiently channel support to those most needy.

To fill this gap, UNDP proposes to work closely with the Ministry of Local Self-Government and the State Statistical Office to draw on a range of simple, objective and easily available indicators to create an index to rank and compare municipalities by the level of their development.

This index would draw for inspiration upon the targets established in the Sustainable Development Goals (SDGs). In essence the SDGs are global but their targets are directly related to the responsibilities of local governments, particularly to their role in delivering basic services. In other words, the achievement of SDGs will depend on each country's ability to make them a reality at sub-national levels: in this country's case, at the level of municipalities and planning regions.

While all activities will be viewed through the broad SDG lens, the project will mostly speak to SDG 11, “Sustainable cities and communities,” and SDG 16, “Peace, justice and strong institutions,” as well as SDGs 4, 5 and 8. In the true spirit of the SDGs, the main goal of developing the sustainable municipal development index would be to “leave no one behind.”

In addition, the index will take into consideration the EU gender equality index as well as the UNDP developed methodology for preparation of Quality of Life reports. The former will be used to support the development and implementation of evidence-based gender equality policies at a regional and local level and increase awareness of progress and challenges in implementing those policies among decision-makers and the general public.

The Quality of Life methodology on the other hand, is part of UNDP efforts (in cooperation with MLSG as part of an EU-funded project, “Improving Municipal Governance”) to establish reliable collection of data on local service delivery, by establishing a national monitoring and evaluation system designed for local self-government units. The system is expected to increase the transparency, accessibility, and quality of service delivery at municipal level by establishing a limited number of indicators that can easily be measured and monitored. The methodology is adaptable and would provide an excellent starting point for developing the municipal development index.

The index would be validated by drawing on UNDP's two decades of experience at the local level and in-depth familiarity with conditions in each of the municipalities. It is expected that the index will highlight development gaps and demonstrate the need for harmonised, comparable and reliable data collection to support informed decision making and policy creation. The expected policy recommendations that will derive from the use of the municipal development index will suggest more equitable distribution of regional development funds and possibly suggestions for legal amendments, especially to the Law on Balanced Regional Development.

Reliable territorial data is key to policies aimed at balanced socio-economic development. Experiences from other European countries show this data needs to be organised in a simple way in order to ensure transparency and comparability between the sub-national units, in the form of a rank-list based on a single index number. Over time, municipalities will move along the list, and the central Government, EU and donors can use the index as a point of reference for their allocations.

To ensure credibility, the calculation of the index needs to rely solely on objective data which are simple, understandable and readily available over time. The index should also allow enough flexibility to change or add new indicators if the formulate is seen as needing refinement. But, as the Croatia experience shows,¹² the number of indicators used to calculate the index should be limited.

¹² In 2010 Croatia has abandoned its previous system of classifying self-government units by granting some of them a special status as Areas of Special State Concern (ASSC). One of the reasons for abandoning this model was the large number of indicators that were taken into consideration. For example, towns and municipalities had to fulfil 11 different

Poorly constructed or misinterpreted ratings may lead to wrong policy implementation, which is why it is crucial to draw on the experience of other countries in creating the new index. However, the composition of the development index, the weight assigned to each indicator, and the number and structure of indicators and the formula need to be tailored to specific needs of each country.

Although national legislation already stipulates a clear process for allocating the modest funding amounts now earmarked for regional development, the index could also be used for improving the policies that govern balanced regional development, particularly by applying the index (at first voluntarily) to make a more equitable distribution of funds within the planning regions.

Properly created, the new index would fill an important gap by providing a helpful orientation for both government institutions and international organizations seeking to monitor municipal performance and priorities and validate funding allocations. Furthermore, it would help local authorities to set their development priorities in exercising their rights according to the subsidiarity principle. As is the case with other rankings worldwide, it would also help to inspire a spirit of competition among municipalities to demonstrate improvement in their development performance.

2. Functional analysis of the local governance system to enhance development capacity

The second component of the project would focus on the capacity of the local governance system to promote development at the local level. An examination of how all of the actors – the MLSG, the Bureau for Regional Development, the regional development centres and the municipalities -- work together as a system will provide recommendations for refinements to improve the prospect for positive development outcomes.

To achieve this output, UNDP will conduct a functional analysis of the municipal administration system to identify structural inefficiencies and propose cost-effective solutions. This would give the new Mayors and the Government a non-partisan tool by which to measure the management efficiency of the municipality and to make informed decisions on fine-tuning the administration. Once the recommendations are clear, UNDP will prepare a policy paper that will be used as a base for institutionalisation of the recommendations from the FA.

This work will dovetail with the proposed creation of index of municipal development that is set to establish clearly defined and measurable performance indicators for municipalities, and it will be conducted in close cooperation with the Ministry of Local Self-Government and the Ministry of Information Society and Administration, which holds responsibility across the Government for the structure of the public administration system. Other institutions will be involved as relevant.

The analysis will propose specific options for addressing local development gaps, for example by looking at different ways that municipalities could work together to satisfy their need for technical documentation (by considering, for example, the creation of a public enterprise for documentation).

To ensure proper support from the national level, the functional analysis will encompass the MLSG, as the lead institution for local government policies, the Bureau for Regional Development and the

conditions in order to be classified as third category ASSC, and thus qualify for maximum assistance from the state budget.

In 2009 a new Index was designed with aim to create unified methodology for measuring development of local (LAU 2) and regional (NUTS 3) self-government units. It is composed of the following indicators: 1. unemployment rate; 2. income per capita; 3. income of local/regional budget per capita; 4. population change; 5. rate of education; and 6. ageing index.

Originally, the Index was supposed to be calculated every three years, and municipalities were divided into five groups; and counties into four groups, according to their development index relative to the national average (100 percent).

Later amendments have prolonged the period between two calculations to five years, and widened the distribution of towns and municipalities into 8 groups. Certain changes also had to be made because of the alignment of national statistical methods to those of Eurostat.

Since 2017 the whole system is under evaluation, and an improved Index will be introduced soon. Data used for calculation of Development index are publicly available and therefore tables with calculation present a useful source of statistical data at regional and local level.

The practical use of the Index, besides in policy planning, is in special measures – territorial development interventions for those belonging to less-developed areas, co-financed from the European Structural and Investment Funds. Furthermore, in certain calls for proposals for entrepreneurs (SMEs), CSOs or other beneficiaries from non-public sector, extra points in the evaluation can be obtained if investment is planned in less-developed areas according to the Index. Finally, municipalities and, possibly regions, applying for EU Structural and Investment Funds for their projects can benefit from the Government's *Fund for co-financing EU projects at regional and local level*, where the percentage of co-financing depends on their categorisation in the Index.

A similar Index has been developed in Serbia, which was done on an annual basis from 2011-2015, with 34 indicators included into calculation.

eight regional development centres, which serve as the country's main instrument to promote inter-municipal cooperation. The functional analysis will also build upon the findings of the ongoing projects "Empowering municipal councils" and "Improving municipal governance", and their already established networks, so there will be no need to analyse municipalities at large. The focus will be placed on the framework of the local governance system, division of its functions and responsibilities in line with the decentralisation process and the human resources needed to support it.

To deliver on its leadership role, the MLSG needs to resolve gaps in its organizational structure, strengthen capacities and improve coordination mechanisms with other ministries, agencies and municipalities. A bottleneck analysis carried out by USAID will be used as a baseline for a full functional analysis. In the process, UNDP expertise and experience gained from carrying out a mapping and functional analysis of public-sector institutions for the MISA will be contextualized and applied. This is crucial to guarantee harmonization of the MLSG restructuring efforts with the planned public administration reform process. Based on the findings and recommendations of the analysis, the MLSG will be assisted in adjusting and improving its organizational structure.

Finally, the functional analysis will also look at how the work of the Bureau for Regional Development and the eight regional development centres could be fine-tuned to achieve greater development impact, whether through improved funding, professionalized staffing or enhanced legal authority.

3. Establishment of a "technical documentation fund" for local development projects

As explained above, the availability of funds does not automatically translate into implemented local development projects, especially ones that tangibly improve the quality of citizens' lives.

Drawing from the experience of UNDP and other development organisations in the Western Balkans region, in a typical project cycle¹³ in regional and rural development, one of the biggest problems is encountered at the "formulation" stage. Projects selected as priorities by local authorities often require complex preparation in order to obtain financing, especially those projects that bring long-term benefits and impact (beyond the average political mandate of a Mayor). Project documents such as business plans, feasibility studies, environmental impact assessments, construction projects (including with multiple books: engineering, electricity, heating and plumbing), architectural and urban/rural plans and planning studies, bills of quantities and the like employ significant resources. They also do not provide many opportunities for "political" visibility. This is why the local authorities tend to put off investing in project development, and instead spend their funds on simpler projects with immediate ("visible") results, thus missing the opportunity for greater development impact. This means that assistance at the formulation stage for credible development projects can trigger disproportionately greater positive development impact once they are implemented.

A technical documentation fund can help fill this gap. This is a need that UNDP has addressed elsewhere in Southeast Europe. In Croatia, UNDP operated a Joint Fund for Technical Documentation to support projects aimed at rural development in three Dalmatian counties (Zadar, Sibenik-Knin and Lika-Senj) that suffered heavy damage in the 1991-95 war. In 2013-14, in partnership with the Ministry for Regional Development and EU Funds (MRDEUF), UNDP expanded its implementation of a more elaborate technical documentation fund to an additional two counties. A recent analysis (published on 14 May 2018) reveals that the five counties in which UNDP Croatia implemented these "pilot" technical documentation funds, together with other capacity building activities, take five of the top seven places in a ranking of EU funds absorption per capita.¹⁴

Now, building on the experiences from these two "pilot" projects implemented by UNDP, the Croatian Government is operating a "Programme for preparation of local development projects eligible for financing from EU funds." Project proposals in need of technical documentation are selected and evaluated by the regional (county) development agencies, and funds are disbursed directly by the Government, through the MRDEUF. Again, as with the *Fund for co-financing EU projects at regional and local level* mentioned above, the percentage of co-financing depends on the municipalities' categorisation in a development index, while the two most developed types of regions are excluded.

¹³ A "typical" EC project cycle consists of six phases in a circular structure: Programming→Identification→Formulation→Financing→Implementation→Evaluation→

¹⁴ <http://www.ijf.hr/hr/publikacije/serijske-publikacije/12/newsletter/110/pomoci-europske-unije-zupanijama-gradovima-i-opcinama-2015-i-2016/1370/> (figures calculated from attached data-sheet).

Similar activities on a smaller scale have already been implemented in the country by UNDP as part of a project managed in partnership with the Ministry of Local Self-Government: “Innovative Solutions for Improved Access to Services at Local Level.” A special fund has been available for the last three years for the least-developed municipalities in each planning region to help develop technical documentation for the advancement of rural tourism. So far, infrastructure designs, main designs and feasibility studies have been prepared for eight rural municipalities. Four have already been used to apply for funding from international institutions, and one has already been funded.

Building on these precedents, the heart of the project would be the creation of a technical documentation fund that would channel support specifically to those municipalities that are struggling the most in terms of local development. Through the project, UNDP would provide assistance to less-developed municipalities in identifying priority projects; commissioning and funding technical documentation; and assisting in the application process for larger-scale funds available from the Government, EU IPA, the World Bank and other national and international donors.

In addition, UNDP will support regional development through direct cooperation with the Centres for regional development in identifying priority projects with meaningful and measurable impact in the least-developed regions in the country. The “programmed” priorities and available funds, primarily those coming from the EU, would serve as selection criteria for the project ideas that will be developed into full-fledged project proposals containing all the necessary project documents.

The areas eligible for support would align with the SDGs to help municipalities and communities transform the 2030 Agenda targets into concrete and efficient actions. Through these actions based on the index scoring and tailored to particular local contexts, local communities will also understand better how local action contributes to overall progress on the SDGs. Preparatory work is expected to focus on economic, environmental and social inclusion infrastructure. To increase efficiency, repurposing existing assets will generally be given preference over building all-new facilities.

UNDP’s involvement would help ensure the prioritization of projects delivering the greatest development impact for local residents and the transparent and cost-effective commissioning of technical documentation while helping municipal administration remain abreast of funding opportunities and application modalities. Furthermore, social and gender analysis and impact assessments will be conducted to comply with international gender and social equality standards.

Full transparency of all selection procedures and communication of criteria in advance of the actual process, as well as objective municipal development index values and participation of UNDP project staff in all procurement processes will be applied as prevention strategy to cope with the risk of eventual political conflicts or favouritism stemming from the selection process. Furthermore, as part of the same strategy, project proposals coming from inter-municipal cooperation and those clearly aiming to achieve wider regional impacts will be rewarded in the selection process, thus clearly promoting culture of co-operation instead of competition. UNDP has vast experience in managing and implementing grant schemes at a local level and a long-standing good relationship with local authorities throughout the country that has proven to be vital in alleviating possible sensitive issues before they can pose a threat to the project implementation.

With an estimated average cost of USD 20,000 per technical documentation package, the proposed starting budget for the fund of USD 1 million is expected cover the preparation costs for 50 projects.

Once the fund is in operation and demonstrating impact, UNDP will work to secure additional finance from other sources to ensure it becomes a robust and sustainable instrument. Preliminary discussions have already been undertaken with the World Bank and the European Investment Bank (EIB) about using such a UNDP-managed fund as a bridge between municipal needs and the low-interest loans to be provided under a potential national umbrella program for local development. Other donors will be sought to provide support in the form of direct grants. And the Government will be encouraged from the outset to channel its own development resources through the fund.

UNDP understands that this type of resource mobilization is a comprehensive process involving strategic planning, advocacy, communication and negotiation with donors/policy. During the fund structure-setting phase of the project a strategic action plan for resource mobilisation will be clearly articulated based on the identified priority areas. The areas of interventions will derive from a particular initiative of mapping the municipal infrastructure in the country (including its condition and maintenance needs) that is being designed in-house, which will allow long-term prioritisation and planning of infrastructure projects. This will secure the relevance of the Fund for any potential donor or agency that seeks comprehensive and sustainable development plan on which to base their financing.

The mapping and the created data base of the local infrastructure will be indispensable tool for planning the Government capital investments and the expected increase of EU interest in local infrastructure. Thus, consensus and partnership building will be an ongoing part of the Fund workplan to secure continuing political support while well-developed timeline/implementation plan for consistent and strategic data-driven outreach will strengthen the credibility of the Fund and ensures both sustainability and enhanced coordination among development partners.

In order to secure local ownership and extend the number of end-users, the technical documentation fund will provide only co-financing, with the proportion of the costs to be covered by the beneficiaries (municipalities) to be based upon their development status. In the first phase, this co-financing rate will of necessity be the same for all potential beneficiaries. Upon introduction of the municipal development index, this proportion will depend on a municipality's placement on the list.

However, since only co-financing of the costs of developing project (technical) documentation would not ensure capacity for project implementation in the future, regardless of the source of funding, the project team will provide technical assistance to the end-users on all aspects of the project cycle. Working in co-ordination with other two ongoing UNDP Macedonia projects ("Empowering municipal councils" and "Improving municipal governance"), the project will aim to link the process of developing project proposals with other (ongoing and future) UNDP activities of defining national, regional and local development strategies and related lists of priorities.

The main capacity-building aspect of the project is the understanding of the importance of informed decision making and strategic thinking and prioritisation when it comes to local infrastructure. This will be achieved through the population of the municipal development index and its incorporation in local strategic documents and budget plans. Furthermore, activities and deliverables (training, analysis, mapping of local infrastructure) from other UNDP projects will be used to reinforce the knowledge and skills of local officials. However, wherever necessary, assistance will be provided in formulating project proposals in appropriate formats. The foreseen structure of the Project team includes a short-term technical documentation expert that will be engaged on a case-by-case basis to assist the municipal administration staff in formulating project proposals, draft technical specifications and ToRs for the purpose of resource mobilisation.

Sample costs by the beneficiary that might be recognized as co-financing contributions include: Administrative fees, charges and taxes; local community taxes; local connections to public networks (electricity, water and sewage); geodetic plans; geo-mechanical surveys; and project audits. UNDP will consider allowing retroactive recognition of investments already made by beneficiaries, especially in cases where the parts of project documentation have been already prepared.

As in the Croatian case, the final objective will be to hand over a working model to the Government, with resources and established procedures, partnerships and lessons learned. This is the key to sustainability; the fund will, in effect, be established as a partnership with the MLSG.

Building synergies

The project will benefit from synergies with other UNDP projects already at work at the local level.

UNDP is already a day-to-day partner of almost every municipality as part of a suite of programs and projects funded by different donors but all focused on improving the quality of governance and living conditions at the local level. Many of these programs involve small grants for priority projects addressing social exclusion or other priority needs. Besides cooperating directly with individual municipalities, UNDP supports a collaborative approach through the instrument of inter-municipal cooperation. This puts UNDP in an ideal position to identify prospects for technical documentation.

Linkages with other initiatives and projects in the UNDP democratic governance portfolio will be applied to shape and enrich this project. The portfolio includes: Improving Municipal Governance (decentralization and local development), which oversees a grant scheme aimed at the country's eight planning regions and 30 small and rural municipalities; Empowering Municipal Councils (local democracy), which over three years will provide grants to 24 municipalities; and RELOAD (transparency and cooperation with CSO), which is currently helping five municipalities award grants to civil society organizations. Coordination among these projects will help achieve systemic impact.

III. RESULTS AND PARTNERSHIPS

Expected Results

The expected results of the project are in line with the Sustainable Development Goals, the Partnership for Sustainable Development: United Nations Strategy (2016-2020), the UNDP Strategic Plan (2018-2021) and the UNDP Country Programme Document (2016-2020).

They are also aligned with national strategic documents such as the Work Programme of the Government of the Republic of Macedonia for 2017-2020, the Programme for Sustainable Local Development and Decentralization in the Republic of Macedonia 2015-2020, the Strategy for Regional Development of the Republic of Macedonia 2009-2019, and the Public Administration Reform Strategy 2018-2022.

The project has three main outputs:

1. Creation of a clear and simple index of municipal development

The Municipal Development Index will be calculated for all Macedonia's municipalities in line with a simple but robust methodology, and publicly available in both published and online formats.

Indicative activities:

- Design of the Index, including determination of key and non-key indicators; weight attribution; and formula calculation
- Research and assessment on data availability and plans to collect new/missing data
- Consultations with peers, partners and the public
- Data collection, processing and calculation of the Index
- Public presentation of the Index
- Preparation of policy recommendations based on the Index, especially for balanced regional development

2. Functional analysis of the local governance system to enhance development capacity

Functional analysis carried out; findings and recommendations presented to national, regional and local partners; and support provided with implementation.

Specific activities for municipalities and regional development centres would include:

- Agreement on functional analysis methodology aligned with MISA approach
- Data collection and processing, quantitative and qualitative analysis
- Preliminary findings presented and consulted with the partners and other interested parties
- Finalization of the study, presentation of the findings and recommendations to the public
- Work with pilot municipalities/regional development centres to implement recommendations

Specific activities for the Bureau for Regional Development (BRD) and the MLSG would include:

- Conducting a functional analysis aimed at reaching a clear understanding of BRD and MLSG functions, identifying gaps and overlaps, and recommending internal structural changes;
- Supporting the BRD and MLSG in adapting their internal organizations according to the recommendations from the functional analysis; and
- Supporting the BRD and MLSG in improving the operational flow of work processes, aiming at higher efficiency in creating policies and monitoring their implementation in coordination with an array of other government bodies.

3. Establishment of a “technical documentation fund” for local development projects

“Technical documentation fund” established through formal decisions as a UNDP managed fund. Internal procedures and documents designed and approved by the Project board.

Indicative activities:

- Research and analysis of the (potential) sources of funding for local development projects requiring technical documentation
- Assignment of the Fund management responsibilities
- Transfer of knowledge and experience on sustainable urban/rural planning and development (drawing, if and where relevant, from the experience of the Swedish International Centre for Local Democracy and other good practices) to municipal/regional counterparts
- Snapshot review of the existing local development strategies, programmes and priority lists, in order to identify priority development projects and classify them according to maturity, and eligibility for Government’s and other sources of funding
- Design and approval of Fund’s statutes, documents and forms: eligibility of applicants and types of documentation to be co-financed; evaluation criteria; co-financing rates; calls for applications and application forms, methods of communication; grant agreements; reporting procedures and forms; and other requirements
- Communication to the potential beneficiaries – national and local public presentation events
- Launch of a call for applications (for individual municipalities or for a group of municipalities through inter-municipal cooperation)
- Tendering and preparation of technical (and other) documentation
- Mobilization of resources to ensure sustainability of the Fund
- Compilation and sharing of lessons learned and good practices

Resources Required to Achieve the Expected Results

1. Creation of a clear and simple index of municipal development

The work on such development indices requires specific set of expertise in the fields of economics, social sciences and statistics, combined with professional experience in wider socio-economic development context. For this reason, services of an adequate institute, think-tank or similar type of outsourced consultancy will be sought. The project team will develop detailed Terms of reference and other procurement documents; provide regular monitoring and backstopping (incl. introduction to national and local partners, office space, in-land travel, etc.) to the selected team of consultants; and perform final evaluation and public presentation of the results.

2. Functional analysis of the local governance system to enhance development capacity

As in Result 1, achieving this result will require specific set of expertise and experiences. On top of above mentioned fields, expertise in public administration (reform) and public finance, combined with specific experience in carrying out reforms of local/regional self-government, administrative procedures and capacity building for local authorities will be sought. The project team, in collaboration with project partners, will develop detailed Terms of reference and other procurement documents; and carry out the procurement procedure. The project team will also provide regular monitoring and backstopping (incl. introduction to national and local partners, office space, in-land travel, etc.) to the selected team of consultants; and perform final evaluation and public presentation of the results.

3. Establishment of a “technical documentation fund” for local development projects

UNDP programme and project team will assume full responsibility to carry out all activities foreseen to achieve this result, in regular consultations with project partners at national and local level.

Partnerships

The key implementation partner in the Project implementation will be the Ministry of Local Self-Government. Its representative will be invited to participate in the work of the Project board. The role of this key partner would be to provide guidance and necessary support at each stage of the Project, along with other members of the Project board, and to serve as facilitator of a two-way communication with the Government and the end-beneficiaries - local authorities.

Other partners that will be invited to participate will be the State Statistical Office, the Ministry of Information Society and Administration, and the ZELS. These partners will, each from their own

respective areas of responsibility, participate in providing information and consultations in each of the three major Project components.

Risks and Assumptions

Risk analysis is presented in Table 2:

Table 2: Project risk analysis

RISK (with relevance to each of the Project components)	PROBABILITY OF APPEARANCE low/medium/high	IMPACT low/medium/high	EVASION OR MITIGATION MEASURES
Political instability, causing decision delays and/or lack of commitment to the Project objectives (components 1,2 and 3)	low	medium	Project activities have been designed to assist the civil servants at national and local level in their regular work, and do not require any extra effort. Once the initial political support is secured, through signature of support letters and establishment of a project board, this risk has been minimized.
Lack of socio-economic and other data from local level necessary for establishment of development indicators (component 1)	low	high	The purpose of the component 1 is not only to design the Development Index based on existing data, but to introduce new sets of data and assist in their collection and processing. All new proposed data and methodology will have to be in line with Eurostat methodology, and that should secure interest for cooperation.
Political and administration reluctance to provide qualitative information for Project activities (component 2)	medium	low	Most of this activity will be based on „desk review“ of the existing and available legal and other documents regulating the system of local self-government and their managerial responsibilities. Practical evidence of functional deficiencies can be collected on a limited number of cases, and does not have to cover all units.
Lack of sensible project applications meeting the requirements to benefit from the technical documentation fund (component 3)	medium	medium	In order to mitigate this risk, the Project team will undertake a snapshot review of the existing project pipelines at local level, and adjust the criteria accordingly. Depending on the findings, there is enough space in Project budget and timeline to assist those municipalities that need assistance in further developing project ideas, through engagement of local consultants for „project clinics“ or similar short-term technical assistance.

Sustainability of the project output after the project ends (component 1,2, and 3)	low	low	In order to mitigate the risk, the project is designed to allow for upscaling and wider application of practices and models created within it. In addition, the project team will develop visibility and communication plan that will secure communication of the project and get involved in awareness raising and stakeholders' involvement activities to create sense of ownership.
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Stakeholder Engagement

Key stakeholders in this project, as the target group, are the local government units. Their engagement will be both direct – through component 3 of the project, and indirect – through ZELS in its membership of the project board. The project team will maintain regular communication with all (potential) stakeholders through public information events, direct contact and other means.

By their very nature, the project activities will help to introduce more transparency into any planning or formulation of development projects at local level with regards to their environmental or social impacts, for the benefit of the overall population. They will change the wider local governance dynamics by introducing evidence-based decision making and reducing local officials' discretion when prioritising infrastructure spending. This, coupled with expected increase in municipal administration efficiency can have an unintended, but welcomed, effect of reducing corruption.

South-South and Triangular Cooperation (SSC/TrC)

Through all three of its components, the project aims to strengthen capacity of the local units to seize the opportunities and prepare for the responsibilities stemming from the EU accession process. This fact guarantees that the examples of good practice and other publicly available expertise will be sought in the peer countries participating in the same process, or those that have successfully finished it in wider Eastern and South-Eastern Europe. The rationale for cooperation with Bulgaria, Croatia, Romania and other Balkan countries is particularly strong given the similar histories, administrative and legislative traditions, and, in some cases, linguistic affinities.

Knowledge, Sustainability and Scaling Up

The project will produce three major knowledge products that will be available for future use, with periodical updates, and thus create preconditions for sustainability:

- a full system of classification of local self-government units – municipalities according to their level of development, with adherent procedures, methodology, description of the processes and data-bases;
- an analysis of the existing capacity of local units to seize the development opportunities and cope with anticipated responsibilities for local development in the near future, with recommendations for change, useful for the end-beneficiaries – local authorities, national authorities, IFIs and donor community; and
- a full model for support to less developed municipalities, applicable to other types of support, with its adherent procedures, objectively verifiable criteria and templates.

In ensuring the sustainability of the results, the project will draw on UNDP's experience in Croatia. There, two UNDP knowledge products: two "pilot" projects to run technical documentation funds for underdeveloped counties and municipalities; and a "Regional Competitiveness Index" that was used by the Government to build an "Index of development of regional and local self-government units", now serve as key instruments in determining Croatia's current regional development policy.

Gender awareness and gender mainstreaming

All project components, assessments and mapping exercises will include gender aspects and disaggregated data so as to identify different needs and priorities for men and women. Within the first component, the index will include gender-related indicators in line with the EU Gender Equality index, as well as the already existing methodology for preparation of Quality of Life reports.

Second, while conducting the functional analysis of municipalities, the project will closely rely on the requirements prescribed with the Law on Equal Opportunities between Men and Women and the Law on Local Self Government Units, thus enhancing gender equality at the local level.

Finally, in order to ensure that the technical documentation fund operates in a gender-sensitive fashion, the project will devote special attention to ensure that gender sensitive pre-assessment, impact assessment and monitoring and evaluation instruments are put into place.

Gender mainstreaming will be effectively considered in all aspects of the implementation of the project including the development of the specific Terms of Reference for each of the foreseen services; implementation and management of particular activities; general operations and financial management; public information activities; and stakeholder coordination.

Environment and Climate change concerns

The overall context of the foreseen actions, the increased capacity to assume the obligations of the prospective EU membership at local level, includes addressing the capacity of local governance units to implement the EU legislation in the fields of environmental protection and climate change. In fact, this legislation represents the biggest proportion of the *acquis communautaire* and, consequently, the most “investment heavy” policies to implement. For example, almost 30% of the IPA II allocation for Macedonia is dedicated to environmental protection and climate change related measures¹⁵. The packages of EU legislation regulating waste disposal and treatment; as well as “circular economy”, will be addressed throughout the three project components:

- The index of municipal development will be determined in such a way to include environmental and climate concerns as impediments, but also opportunities for socio-economic development;
- The functional analysis of the local governance system will analyse the environmental and climate related legislation and the procedures with impact (administrative and financial burden) to local governance units; and develop recommendations for systemic changes where necessary.
- The “technical documentation fund” for local development projects will be designed in such a way to reward (in the process of evaluation) those project ideas (studies, action plans and concrete investment projects) contributing to implementation of the above mentioned environmental and climate related legislation and policies.

In implementing its programmes and projects, the UNDP Macedonia Country Office applies the principles of “Green office initiative”, by managing resources in such a way to rationalize use of energy and vehicles and promote alternative transport; reduce, sort and recycle waste wherever possible; educate and sensitize its staff on environmental concerns and actively promote environmentally- and climate – friendly solutions.

¹⁵ https://ec.europa.eu/neighbourhood-enlargement/instruments/funding-by-country/former-yugoslav-republic-of-macedonia_en

IV. RESULTS FRAMEWORK

EXPECTED OUTPUTS	OUTPUT INDICATORS	DATA SOURCE	BASELINE					DATA COLLECTION METHODS
			Value	Year	Year 1	Year 2	Year 3	FINAL
Output 1 <i>Creation of a clear and simple index of municipal development</i>	<i>1.1 MDI methodology developed</i>	<i>State Statistical Office, Agency for Employment, Relevant Ministries, SDGs global index</i>	<i>TBD</i>	<i>2018</i>	<i>Expert team engaged, comparative experiences gathered</i>	<i>Methodology designed, validated and put in use</i>	<i>Methodology codified and institutionalised</i>	<i>Desk analysis of available sources of data</i>
	<i>1.2 Baseline of MD established</i>	<i>Index of MD</i>	<i>TBD</i>	<i>2018</i>	<i>data availability assessment conducted</i>	<i>Methodology implemented in all municipalities to establish baseline development index</i>	<i>Municipal Development Index annual progress assessed</i>	<i>Validation of the baseline data from the MD for comparative analysis</i>
	<i>1.3 Monitoring framework including municipal development targets created</i>	<i>Index of MD, local & national strategic documents</i>	<i>TBD</i>	<i>2018</i>	<i>Assessment of comparative experiences conducted</i>	<i>Municipal development targets defined and institutional monitoring mechanism established</i>	<i>Monitoring mechanism produces annual report against established targets including recommendation for targeted interventions</i>	<i>Qualitative analysis of MD local and national strategic documents, and quantifying the findings based on the MD index</i>
	<i>1.4 Policy discussions initiated for balanced and equitable municipal development</i>	<i>MD index, UNDP projects</i>	<i>TBD</i>	<i>2018</i>	<i>National and municipal stakeholders that will serve as a core policy group identified</i>	<i>Policy debates organised around main findings of the Municipal Development Index and ways forward</i>	<i>Policy recommendation produced for more balanced and equitable municipal development</i>	<i>Qualitative analysis of policy discussions and how they translate into equitable municipal development</i>

Output 2 2. Functional analysis of the local governance system to enhance development capacity	2.1 Functional analysis conducted	National legislation, local administration officials, MD index	TBD	2018	Functional Analysis Methodology developed	Functional analysis carried-out in BRD, MLSG and municipalities and regional development centres; Comprehensive report on FA developed including recommendations for addressing identified shortcomings	FA methodology tested and made available for use to the municipalities through ZELS	Qualitative analysis of the national legislation, semi-structured interviews and review of the results from methodology deployment
	2.2 Policy paper developed	FA report and consequent analysis, national & local institutions	TBD	2018	Consultations with stakeholders on FA recommendations carried-out	Policy paper for institutionalisation of recommendations from FA developed		Desk research and comparative analysis between FA report & analysis and national & strategic documents and conclusions from the consultative events
	2.3 Most urgent development capacity gaps addressed	MD index, FA report, the policy paper	TBD	2020	/	/	Recommendations from FA considered for implementation in BRD, MLSG, selected municipalities and regional development centres	Comparative analysis of municipalities' performance compared with baseline data and between each other
Output 3 Establishment of a "technical documentation fund" for local development projects	3.1 Technical documentation fund designed and fully functional	TDF and supporting documents	TBD	2018	Fund management structure established, and responsibilities assigned	Transfer of knowledge and expertise completed; Priority development areas for funding outlined; Application procedures and criteria defined	Technical documentation fund fully operational; Commitment for additional funding secured	Analysis of various TDF-related documents
	3.2 Number of applications received	TDF, application records	TBD	2019	/	At least 40 applications received	At least 30 applications received	Analysis of received applications

	<i>3.3 Number of separate technical documentations prepared</i>	<i>TDF, records of approved technical documentations</i>	<i>TBD</i>	<i>2019</i>	<i>/</i>	<i>At least 25 separate technical documentations prepared</i>	<i>At least 15 separate technical documentations prepared</i>	<i>Analysis of approved applications and completed designs</i>
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V. MONITORING AND EVALUATION

In accordance with the programming policies and procedures outlined in the UNDP User Guide, the project will be monitored through the following:

Monitoring:

- On a quarterly basis, a quality assessment shall record progress towards the completion of key results, based on quality criteria and methods captured in the Quality Management table below.
- An Issue Log shall be activated in Atlas and updated by the Programme Analyst to facilitate tracking and resolution of potential problems or requests for change.
- Based on the initial risk analysis submitted (see annex 1), a risk log shall be activated in Atlas and regularly updated by reviewing the external environment that may affect the project implementation.
- Based on the above information recorded in Atlas, a Project Progress Reports (PPR) shall be submitted by the Project manager to the Project Board through Project Assurance, using the standard report format available in the Executive Snapshot.
- Project Lesson-learned log shall be activated and regularly updated to ensure ongoing learning and adaptation within the organization, and to facilitate the preparation of the Lessons-learned Report at the end of the project
- Monitoring Schedule Plan shall be activated in Atlas and updated to track key management actions/events

Reporting:

- An Annual Review Report shall be prepared by the Project Manager and shared with the Project Board. As minimum requirement, the Annual Review Report shall consist of the Atlas standard format for the QPR covering the whole year with updated information for each above element of the QPR as well as a summary of results achieved against pre-defined annual targets at the output level.
- Based on the above report, an annual project review shall be conducted during the fourth quarter of the year or soon after, to assess the performance of the project and appraise the Annual Work Plan (AWP) for the following year. In the last year, this review will be a final assessment. This review is driven by the Project Board and may involve other stakeholders as required. It shall focus on the extent to which progress is being made towards outputs, and that these remain aligned to appropriate outcomes.

Based on the findings established in the inception phase and the subsequent governance assessment, a comprehensive monitoring and evaluation matrix will be developed, at output and outcome level.

Evaluation

- Project Evaluation will be undertaken following donor's requirements and procedures.

VI. MULTI-YEAR WORK PLAN ¹⁶¹⁷

All anticipated programmatic and operational costs to support the project, including development effectiveness and implementation support arrangements, need to be identified, estimated and fully costed in the project budget under the relevant output(s). This includes activities that directly support the project, such as communication, human resources, procurement, finance, audit, policy advisory, quality assurance, reporting, management, etc. All services which are directly related to the project need to be disclosed transparently in the project document.

EXPECTED OUTPUTS	PLANNED ACTIVITIES	Planned Budget by Year (USD)			RESPONSIBLE PARTY	PLANNED BUDGET (USD)		
		Y1	Y2	Y3		Funding Source	Budget Description	Amount (USD)
Project initiation phase	Assembly of the Project team, appointment of the Project board	/	/	/	UNDP	SIDA		/
Output 1: <i>Creation of a clear and simple index of municipal development</i> <i>Gender marker: 2</i>	1.1. design of the Index e.g. determination of key and non-key indicators; weight attribution; formula calculation; etc.	16,274	/	/	UNDP	SIDA		16,274
	1.2. data collection, processing and calculation of the Index for each municipality	18,977	/	/	UNDP	SIDA		18,977
	1.3. web application & public presentation of the Index	/	18,500	4,694	UNDP	SIDA		23,193
	Sub-Total for Output 1							58,445.18
Output 2: <i>Functional analysis of municipalities and the MLSG to make them "fit for purpose" for development</i>	2.1. functional analysis of the MLSG	32,418	19,500	2,500	UNDP	SIDA		54,418
	2.2. functional analysis of the municipalities	21,500	43,000	19,102	UNDP	SIDA		83,602

¹⁶ Cost definitions and classifications for programme and development effectiveness costs to be charged to the project are defined in the Executive Board decision DP/2010/32

¹⁷ Changes to a project budget affecting the scope (outputs), completion date, or total estimated project costs require a formal budget revision that must be signed by the project board. In other cases, the UNDP programme manager alone may sign the revision provided the other signatories have no objection. This procedure may be applied for example when the purpose of the revision is only to re-phase activities among years.

<i>Gender marker: 2</i>	Sub-Total for Output 2							138,020.25
Output 3: <i>Establishment of a “technical documentation fund” for local development projects</i>	3.1 setting-up the TDF structure and promotion	52,644	/	/	UNDP	SIDA		52,644
	3.2. development of technical documentation & disbursement of funds	100,000	672,075	333,393	UNDP	SIDA		1,105,468.41
<i>Gender marker: 2</i>	Sub-Total for Output 3							1,158,112.52
Project Management		82,548	75,228	37,614	UNDP	SIDA		195,390.00
TOTAL		324,361	828,303	397,303				1,549,967.95

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VII. LEGAL CONTEXT AND MANAGEMENT ARRANGEMENTS

The Project shall be implemented through Direct Implementation Modality (DIM), whereby UNDP takes on the role of Implementing Partner. In his modality UNDP assumes overall management responsibility and accountability for project implementation.

This project document shall be the instrument referred to as such in Article 1 of the Standard Basic Assistance Agreement between the Government of Macedonia and UNDP, signed on (date). All references in the SBAA to “Executing Agency” shall be deemed to refer to “Implementing Partner.”

Project implementation will be governed also by the Agreement which will be signed between the donor organization and the UNDP Country Office in Skopje, and will be in line with UNDP’s financial rules and regulations, as well as Programme and Operations Policies and Procedures.

The MLSG shall be the main partner. In the course of project implementation, UNDP will also maintain close collaboration and coordination with the ZELS and involved local governments; with the State Statistical Office and the Ministry of Information Society and Administration.

A Project Board (PB) will be established as the main body responsible for providing overall direction and guidance to the project. It will consist of representatives from the Ministry of Local Self-Government, the SIDA, the ZELS, Ministry of Information Society and Administration and the UNDP Country Office. The Project Board is the group responsible for making management decisions by consensus when guidance is required by the Project Manager, including approval of project work plans and revisions. In order to ensure UNDP’s ultimate accountability, Project Board decisions are made in accordance with standards that ensure management for development results, best value for money, fairness, integrity, transparency and effective competition. In case a consensus cannot be reached within the Board, the final decision shall rest with the UNDP Resident Representative. The Project Board endorses the Annual Work Plans (AWP). It also reviews and endorses quarterly project plans when required, and authorizes any major deviation from the agreed quarterly plans.

In the course of project implementation Project Board assumes the following specific duties:

- Overall guidance and direction to the project;
- Review of each stage and endorsement of progress to the next; and
- Review and endorsement of work-plans and any exception plan.

At the end of the project, the PB will:

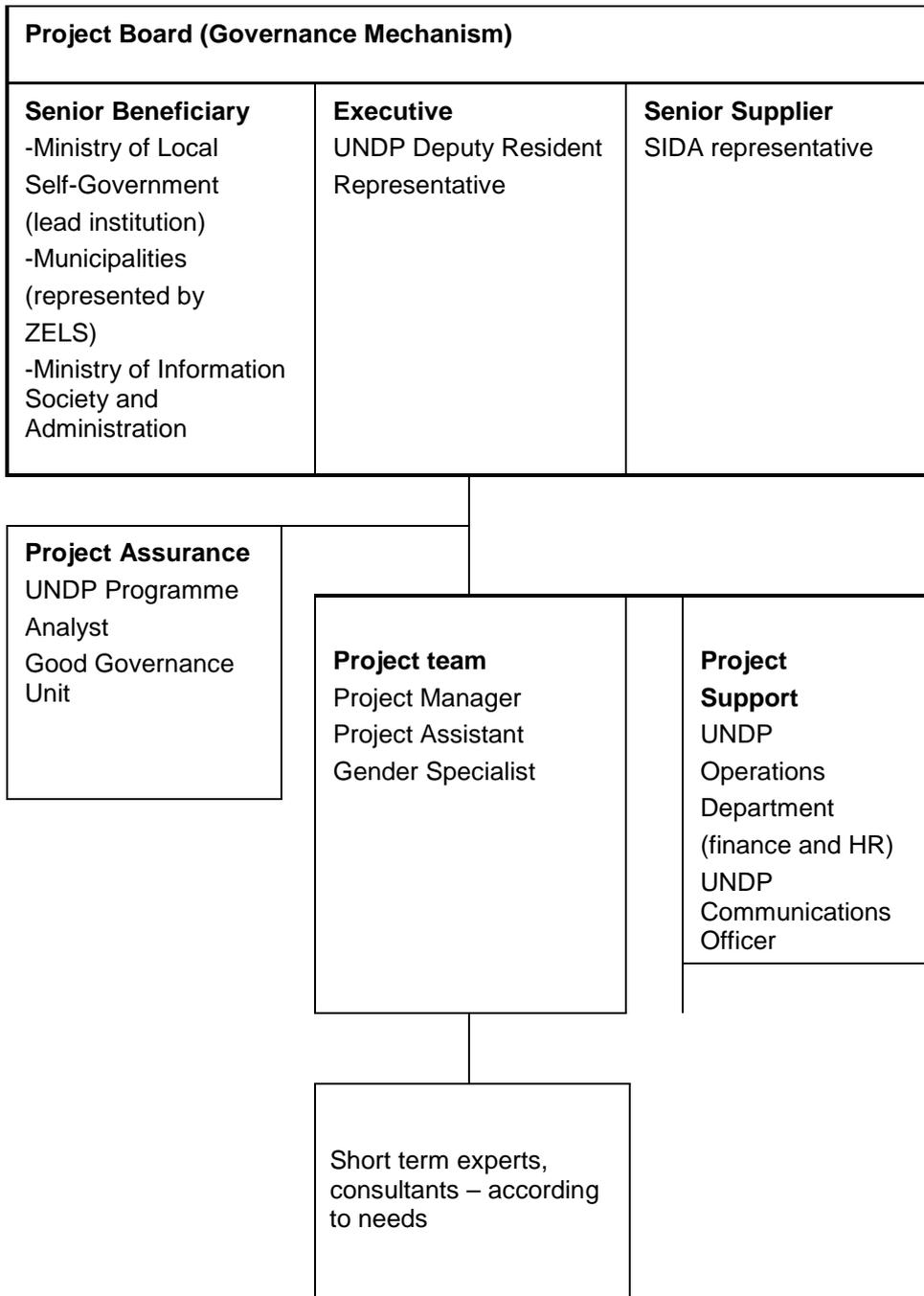
- Assure that all expected outputs have been delivered in a satisfactory manner;
- Endorse the Final Project Report; and
- Endorse the Lessons Learned Report.

The representatives of the Beneficiaries in the Project Board represent the interests of those who will ultimately benefit from the project. Their primary function within the Board is to ensure the realization of project results from the perspective of project beneficiaries.

Project Assurance: Project Assurance is the responsibility of each Project Board member; however, the role can be delegated. The project assurance role supports the Project Board by carrying out objective and independent project oversight and monitoring functions. This role ensures that project management milestones are met. Project Assurance has to be independent of the Project Manager; therefore, the Project Board cannot delegate any of its assurance responsibilities to the Project Manager. A UNDP Programme Analyst holds the Project Assurance role on behalf of UNDP. She/he ensures that funds are made available to the project and are managed efficiently and in line with their stated purpose; ensures that the project makes progress towards intended outputs; and performs regular monitoring activities, such as periodic monitoring visits and “spot checks.”

The role of UNDP Deputy Resident Representative is to ensure that: resources entrusted to UNDP are utilized appropriately; the project makes progress towards intended outputs; and national ownership, ongoing stakeholder engagement and sustainability are addressed appropriately.

Project Organisation Structure



Day-to-day project implementation will be carried out by the Project Team composed of a Project Manager, and a Project Assistant, supported by the programme and operation teams.

The Project Manager is responsible for:

- Managing the overall conduct of the project;
- Implementing activities by mobilizing goods and services
- Checking on progress and plan deviations;
- Ensuring that changes are controlled and problems addressed;
- Monitoring progress and risks;
- Reporting on progress including measures to address challenges and opportunities.

UNDP's direct staff costs will be charged, as outlined in the project document and budget, for the time directly attributable in the implementation of action. Financial transactions and financial statements shall be subject to the internal and external auditing procedures laid down in the Regulations and Rules of UNDP.

The UNDP Gender Specialist will be responsible to ensure due attention has been paid to gender cross-cutting issues throughout the project activities.

The UNDP Communication Officer, working together with the Project Manager, will ensure proper visibility of the action.

Additional support shall be provided by the individual consultants (key and the non-key experts) who will be hired to additionally strengthen project implementation capacities of UNDP on a needs basis.

Ownership of equipment, supplies and other properties financed from the contribution shall rest with UNDP. Matters relating to the transfer of ownership by UNDP to the national partners shall be determined in accordance with the relevant policies and procedures of UNDP.

The project will be implemented in the period of 30 months which is considered as optimal for completion of all project activities.

VIII. RISK MANAGEMENT

- UNDP as the Implementing Partner will comply with the policies, procedures and practices of the United Nations Security Management System (UNSMS).
- UNDP as the Implementing Partner will undertake all reasonable efforts to ensure that none of the project funds are used to provide support to individuals or entities associated with terrorism and that the recipients of any amounts provided by UNDP hereunder do not appear on the list maintained by the Security Council Committee established pursuant to resolution 1267 (1999). The list can be accessed via http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml. This provision must be included in all sub-contracts or sub-agreements entered into under this Project Document.
- Social and environmental sustainability will be enhanced through application of the UNDP Social and Environmental Standards (<http://www.undp.org/ses>) and related Accountability Mechanism (<http://www.undp.org/secu-srm>).
- UNDP as the Implementing Partner will: (a) conduct project and programme-related activities in a manner consistent with the UNDP Social and Environmental Standards, (b) implement any management or mitigation plan prepared for the project or programme to comply with such standards, and (c) engage in a constructive and timely manner to address any concerns and complaints raised through the Accountability Mechanism. UNDP will seek to ensure that communities and other project stakeholders are informed of and have access to the Accountability Mechanism.
- All signatories to the Project Document shall cooperate in good faith with any exercise to evaluate any programme or project-related commitments or compliance with the UNDP Social and Environmental Standards. This includes providing access to project sites, relevant personnel, information, and documentation.
- UNDP as the Implementing Partner will ensure that the following obligations are binding on each responsible party, subcontractor and sub-recipient:
- Consistent with the Article III of the SBAA [or the Supplemental Provisions to the Project Document], the responsibility for the safety and security of each responsible party, subcontractor and sub-recipient and its personnel and property, and of UNDP's property in such responsible party, subcontractor's and sub-recipient's custody, rests with such responsible party, subcontractor and sub-recipient. To this end, each responsible party, subcontractor and sub-recipient shall:
 - i. put in place an appropriate security plan and maintain the security plan, taking into account the security situation in the country where the project is being carried;
 - ii. assume all risks and liabilities related to such responsible party, subcontractor's and sub-recipient's security, and the full implementation of the security plan.
- UNDP reserves the right to verify whether such a plan is in place, and to suggest modifications to the plan when necessary. Failure to maintain and implement an appropriate security plan as required hereunder shall be deemed a breach of the responsible party, subcontractor's and sub-recipient's obligations under this Project Document.
- Each responsible party, subcontractor and sub-recipient will take appropriate steps to prevent misuse of funds, fraud or corruption, by its officials, consultants, subcontractors and sub-recipients in implementing the project or programme or using

the UNDP funds. It will ensure that its financial management, anti-corruption and anti-fraud policies are in place and enforced for all funding received from or through UNDP.

- The requirements of the following documents, then in force at the time of signature of the Project Document, apply to each responsible party, subcontractor and sub-recipient: (a) UNDP Policy on Fraud and other Corrupt Practices and (b) UNDP Office of Audit and Investigations Investigation Guidelines. Each responsible party, subcontractor and sub-recipient agrees to the requirements of the above documents, which are an integral part of this Project Document and are available online at www.undp.org.
- In the event that an investigation is required, UNDP will conduct investigations relating to any aspect of UNDP programmes and projects. Each responsible party, subcontractor and sub-recipient will provide its full cooperation, including making available personnel, relevant documentation, and granting access to its (and its consultants', subcontractors' and sub-recipients') premises, for such purposes at reasonable times and on reasonable conditions as may be required for the purpose of an investigation. Should there be a limitation in meeting this obligation, UNDP shall consult with it to find a solution.
- Each responsible party, subcontractor and sub-recipient will promptly inform UNDP as the Implementing Partner in case of any incidence of inappropriate use of funds, or credible allegation of fraud or corruption with due confidentiality.
 - i. Where it becomes aware that a UNDP project or activity, in whole or in part, is the focus of investigation for alleged fraud/corruption, each responsible party, subcontractor and sub-recipient will inform the UNDP Resident Representative/Head of Office, who will promptly inform UNDP's Office of Audit and Investigations (OAI). It will provide regular updates to the head of UNDP in the country and OAI of the status of, and actions relating to, such investigation.
 - ii. UNDP will be entitled to a refund from the responsible party, subcontractor or sub-recipient of any funds provided that have been used inappropriately, including through fraud or corruption, or otherwise paid other than in accordance with the terms and conditions of this Project Document. Such amount may be deducted by UNDP from any payment due to the responsible party, subcontractor or sub-recipient under this or any other agreement. Recovery of such amount by UNDP shall not diminish or curtail any responsible party, subcontractor's or sub-recipient's obligations under this Project Document.
 - iii. Where such funds have not been refunded to UNDP, the responsible party, subcontractor or sub-recipient agrees that donors to UNDP (including the Government) whose funding is the source, in whole or in part, of the funds for the activities under this Project Document, may seek recourse to such responsible party, subcontractor or sub-recipient for the recovery of any funds determined by UNDP to have been used inappropriately, including through fraud or corruption, or otherwise paid other than in accordance with the terms and conditions of the Project Document.
- Each contract issued by the responsible party, subcontractor or sub-recipient in connection with this Project Document shall include a provision representing that no fees, gratuities, rebates, gifts, commissions or other payments, other than those shown in the proposal, have been given, received, or promised in connection with the selection process or in contract execution, and that the recipient of funds from it shall cooperate with any and all investigations and post-payment audits.

- Should UNDP refer to the relevant national authorities for appropriate legal action any alleged wrongdoing relating to the project or programme, the Government will ensure that the relevant national authorities shall actively investigate the same and take appropriate legal action against all individuals found to have participated in the wrongdoing, recover and return any recovered funds to UNDP.
 - Each responsible party, subcontractor and sub-recipient shall ensure that all of its obligations set forth under this section entitled “Risk Management” are passed on to its subcontractors and sub-recipients and that all the clauses under this section entitled “Risk Management Standard Clauses” are adequately reflected, mutatis mutandis, in all its sub-contracts or sub-agreements entered into further to this Project Document
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