

## Preliminary Final Report

Name of the country: fyr Macedonia  
Project number (Atlas): 00076175  
Project name: Social Services for Social Development

DGTF edition (year): 2011  
Implementation period: September 2010 – December 2011

### PROJECT PERFORMANCE

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Outcome areas under UNDP strategic plan 2008-2011 <sup>1</sup>	Purpose and expected output	Activities undertaken	RESULTS ACHIEVED	Reasons if progress below target
Access to information policies support accountability and transparency	<p>The purpose of the project is to support more equitable provision of social services at local level.</p> <p>The project aims to review the prevailing fiscal decentralization policies, and propose models for more effective intergovernmental transfers.</p> <p><b>Output#1:</b> Improved Policy Making and Social Service Delivery - through introduction of a new model of inter-governmental transfers focusing on more equalized distribution of funds</p> <p><b>Output #2:</b> Capacity Development for Research and Monitoring Framework - through design of a sustainable system for data collection and analysis and monitoring of fiscal decentralization policies</p> <p><b>Output #3:</b> Inclusive Participatory Planning - through introduction of participatory planning service delivery practices in target municipalities</p>	<p><b>Output#1:</b> The first Forum that was held in April 2011 resulted in adoption of a Policy Statement on the equalization framework. Second Forum, held in November 2011 was chaired by the Ministry of Finance and attended by officials from nine ministries, members of the Decentralization Working Group and the IMC Commission, mayors and employees of 15 municipalities. It resulted in validation of the municipal expenditure needs and fiscal capacities studies. As a follow up analytical paper with four options for amending the VAT Distribution Decree/Formulae was produced including supplementary simulations. Training on management of a model of inter-governmental transfers that includes equalization factor was delivered to more than 50 officials of the Ministry of Finance, and other relevant national and local institutions. 'On the job' training was delivered to the members of the technical Working Group within the Ministry of Finance.</p> <p><b>Output #2:</b> Two studies were finalized: (1) Expenditure Norms Study that provides expenditure needs in municipal competencies and policy options within the expenditure framework and (2) Local Fiscal Capacity Study that indicates the fiscal gap between local and central sources of revenue, and the ability to finance the provision of social services. First draft of the Capital Grants Assessment Study as a review of capital investment programs and institutional frameworks was also produced.</p> <p><b>Output #3:</b> In-depth assessment of <i>de facto</i> governance in the selected pilot municipalities is underway. Client's satisfaction survey based on representative statistical sample was launched in all four municipalities.</p>	<p>Initial recommendations for a national Policy Statement covering the reform of the transfer system were developed. Medium to long-term changes in the intergovernmental fiscal relations were agreed by the key stakeholders.</p> <p>Analytical studies on topics such as municipal expenditure needs and revenue capacity were finalized for the first time in the country, thus enabling the national and local authorities to use the comparative data and simulations not only for equalization purposes (for example, addition of a revenue capacity factor in the VAT distribution formulae) but also in programming of the respective budgets.</p> <p>Initial draft of the Capital Grants Assessment Study, was produced, for the first time in the country. It addresses the system type of issues such as fiscal disparities/equalization, transparency, programming for inclusive local development and recommends concrete solutions for improvement of the system.</p> <p>Advanced knowledge and skills on management of a model of inter-governmental transfers that includes equalization factor were transferred to more than 50 officials of the Ministry of Finance, and other relevant national and local institutions thus enabling them to continue the fiscal decentralization reform on more informed basis.</p> <p>As a first step, tailor made research tools for in-depth assessment of <i>de facto</i> governance in the selected municipalities were prepared and its application is underway. Municipalities of Jegunovce, Cair, Krusevo and Konce were taken as pilot municipalities for introduction of participatory planning service delivery practices..</p> <p>The project interventions become part of the Government Program 2011 -2015 which shall be considered as a key factor for achieving the planned outcomes and for the sustainability of the results.</p>	

<sup>1</sup> Please state under which of the following nine outcome areas your project falls into:

## CUMULATIVE RESOURCES UTILIZED

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DGTTF resources: USD 129,202,96

Other resources (as applicable; please state sources of funding and amount): UNDP Trac: USD 37,458,48

## PROJECT PERFORMANCE—MAIN CHALLENGES

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Internal factors: N/A

External factors: The main challenge addressed at the startup of the project was the lack of common understanding/clarity among the stakeholders on the exact purpose of equalization grants versus other instruments available for achieving more equitable development. In order to address the challenge, UNDP initiated intensive consultations with main line ministries and ZELS that resulted in establishment of a common platform for definition of the most adequate inter-governmental model. Other risks that were identified including developed mitigation actions were addressed on a continuous basis:

**ORGANIZATIONAL:** Often times the individual disaggregated data on each municipality may not be available, outdated or approximated.

Risk Management: Requests were communicated both by the project and the National institutions partners in order all publicly available data to be collected. The action already resulted in collection of data on the PIT and dwellings per municipalities and additional data collected on the capital grants and transfers distribution.

**POLITICAL/STRATEGIC:** National institutions withdraw the commitment for reforming the intergovernmental transfers

Risk Management: The project interventions have become part of the Government Program 2011 -2015 and the Decentralization Program 2011 – 2014 which shall be considered as a key factor for achieving the planned outcomes and for the sustainability of the results.

**ORGANIZATIONAL:** National institutions partners in this project lacking capacity to provide substantive input and guidance in the process

Risk Management: The already produced policy papers and studies were drafted through joint desk work with the experts from the Ministry of Finance and the other relevant line ministries. This approach served as “learning by doing” exercise for the involved employees of the national institutions. The first training program focused on important concepts, principles and practices to develop skills for adopting and working with the equalization framework was delivered to the senior and middle level technical staff in the state and local government institutions concerned with implementation of fiscal decentralization

**ORGANIZATIONAL:** Short timeframe for implementation of such complex and multifold analysis

Risk Management: Deadlines were kept and effective and efficient cooperation including permanent communication with the national institutions and other partners was maintained during the implementation.

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1. Civil society, including civil society organizations and voluntary associations, and the private sector contribute to the MDGs in support of national planning strategies and policies
  2. Electoral laws, processes and institutions strengthen inclusive participation and professional electoral administration
  3. Access to information policies support accountability and transparency
  4. National, regional and local levels of governance expand their capacities to reduce conflict and manage the equitable delivery of public services
  5. Legislatures, regional elected bodies, and local assemblies have strengthened institutional capacity, enabling them to represent their constituents more effectively
  6. Effective, responsive, accessible and fair justice systems promote the rule of law, including both formal and informal processes, with due consideration on the rights of the poor, women and vulnerable groups.
  7. Strengthened capacities of national human rights institutions
  8. Strengthened national, regional and local level capacity to mainstream gender equality and women's empowerment in government policies and institutions
  9. Strengthened national, regional and local level capacity to implement anti-corruption initiatives

## PROJECT PERFORMANCE—MAIN OPPORTUNITIES

Please list the main opportunities which have been the key enabling factors to support the implementation of the project.

Political commitment of the national institutions, in first place the Ministry of Finance and the Ministry of Local Self-Government as well as the national Association of the Municipalities is the key enabling factor of the project implementation. Commitment of the national institutions was articulated in very concrete terms by translating the project objectives into measures of the Government Programme 2011 – 2015, adopted by the Parliament in August 2011 as well as into measures of the Programme for Implementation of the Decentralization Process and Development of the Local Self-Government 2011 – 2014 adopted by the Government in September 2011. Further on, the adoption of the new decentralization Programme was noted as achievement in the 2011 European Commission Report on the progress of the country.

In meeting EU accession criteria, the country will have to ensure the emergence of fiscally strong local government units, as well as more rational and effective inter-governmental transfer systems. The 2011 European Commission Progress Report besides the progress made in implementation of the decentralization including addressing the fiscal equalization (raised as an issue in the 2010 Report) notes the remaining challenges that relates to the project objectives including: (1) limited mechanisms to address the significant disparities in delivery of public services with regard to the rural and small municipalities that are especially disadvantaged; (2) Ministry of Finance to strengthen its capacity to develop policy on local government budget issues and (3) a lack of transparency and coordination of central funding for municipal projects, particularly for infrastructure projects. Since the recommendations from the progress report serve as a roadmap for (re) shaping national policies it is to be expected that the specific project interventions that aim at broadening of the scope of the fiscal equalization, capacity development of the MoF and improvement of the capital grants programming and distribution, will be reinforced.

The UNDP continuous support for the decentralization process for almost a decade and its interventions that range from high-level policy advice to implementation of direct measures at the local level contributed for permanent improvement of the programming and implementation of the decentralization process and sustainability of its results. The policy products such as the assessments and studies dedicated specifically to the fiscal decentralization shall be considered as the most critical one since the financing of the municipalities is perceived as continuous and most critical challenge.

## RATING ON PROGRESS on PARTNERSHIPS

Please describe the level to which the DGTTF project has contributed to strengthening partnership with different stakeholders and tick the boxes as appropriate:

	Strengthened	Somewhat Strengthened	Unchanged
1. Government	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Donors	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. Civil society:	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
a) Academia	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Unions	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
c) Religious organizations	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
d) NGO/CBOs	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. Private sector	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
5. UN system	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Other Int. organizations (like IMF, ADB, etc)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Other (please specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Comments:

## **WAYS IN WHICH DGTTF FUNDED ACTIVITIES WERE CATALYTIC AND INNOVATIVE**

Please indicate how DGTTF funds helped the CO advanced its agenda in Democratic Governance. How did DGTTF funds allow the CO to explore innovative approaches? Did other donors or the government provide additional funding as a result? Did the DGTTF funds allow UNDP to advance the dialogue or garner a leadership position?

The project interventions contributed for achieving simultaneous positive impact with regard to the fiscal decentralization reform and the social inclusion agenda of the country. Since it didn't exist before, the endorsed policy platform for more equitable distribution of financial resources among municipalities both in terms of expenditure needs and financial capacity could be considered as innovative.

For the first time in the country, expenditure needs and the revenue capacities of all 85 municipalities were calculated by using advanced/top notch methodology. The produced data was also used for simulating/modeling different scenarios with regard to the VAT distribution formulae allowing further utilization with regard to the PIT distribution formulae as well as other grants such as the block and the capital grants.

Furthermore, the produced data can be utilized for complementary macro economic analyses including forecasting and projection of the recurrent local expenditures in terms of both, the expanding of the fiscal decentralization and achieving comparable benchmark level with the EU.

Last but not least, the produced data and the consequent set up of an adequate fiscal monitoring and evaluation framework will increase the level of accuracy of the Public Expenditure and Financial Accountability (PEFA) PFM - Performance Measurement Framework that was tested by the Government/Ministry of Finance as an integrated approach to measure progress in the field of public expenditure, procurement and financial accountability. Out of total 31 PEFA indicators, two directly concern decentralization: PEFA indicator 8 measures the financial flows to sub-national governments and indicator 23 measures the financial flows to the most common front-line service delivery units with a focus on primary schools and health clinics.

By having the opportunity to facilitate the utilization of the DGTTF funds for such an innovative exercise, the UNDP CO in Skopje enriched its democratic governance agenda. The already achieved positive impact manifests the UNDP capability to provide critical support to a very sensitive agenda such as the fiscal decentralization especially in a country characterized by a multi-ethnic society. The effective transfer of knowledge and skills enabled the Ministry of Finance to share and discuss the policy reform proposals with the whole range of stakeholders thus proving its capability for inclusive leadership.

In the on-going efforts to achieve catalytic effects by further utilizing the already developed assessment methodologies on governance issues, UNDP, its Project partners and South East Europe University agreed to add a component into the existing *Strengthening evidence based policy processes – People Centered Analyses Reports* project structure and in that way provide for opportunity the assessment methodologies to be finally tested and applied in the selected four municipalities under the third component of the *Social Services for Social Development and Cohesion* project. In that way, besides ensuring cross-cutting effect of the various interventions, savings in amount of USD 16,000,00 initially allocated for the third component were achieved and replanned under the same component in the 2012 budget.

The governance assessment of the four pilot municipalities will also dig out areas of legal dispensation requiring attention for achieving the overall objectives of social inclusion. The assessment components focusing on *de facto* form of governance will strengthen the ongoing work on expenditure and revenue assignments and equalization framework by adding qualitative information to the assessments, chart out the impact of decentralized fiscal management on service delivery outputs in social service delivery (though largely in education sector) and document areas of policy weaknesses in the sectors. This will altogether establish the base for the establishment of the data collection system and subsequent planning processes.

## LESSONS LEARNED

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Please elaborate on the three most important lessons learned during the project implementation.

- ✦ Setting prerequisites for fiscal autonomy of the local government at conceptual level and translating the concept into legal norm does not automatically guarantee achieving fully functional system for financing of the local government. Primarily, decentralization was perceived in the country as part of the political reforms pursued to improve political cohesiveness and strengthen democratic representative institutions in the country. As local self-governments were gradually taking more responsibilities with the implementation of the reform, the focus of policy discussion moved to the issues of quality and access to public services as well as the overall efficiency of the local institutions. At this stage of reform, an important concern is to ensure adequate revenue capacity in municipalities and realign incentives for efficient fiscal behavior, as the policy emphasis moves to equitable access to public service for all citizens. Coming to this stage of the reform in the country took at least 7 years. Timing of the various UNDP supports in this area culminating in this project has been critical not only for keeping the issue on the policy reform table, but also for ensuring timely action to start addressing more systematically the weaknesses in the design and management of the current fiscal transfer scheme.
- ✦ Lack of disaggregated data on each municipality (unit of local government) could avert production of accurate and scientifically objective analyses and consequently making substantial policy decisions on informed basis. In the case of the country, the availability of data on the collected PIT per municipality and the number of dwellings is to be considered as minimum required data for production of applicable analyses, simulations and modeling. Consistent collection of complementary data on the average household income, share of population (or households) below the poverty line, unemployment level, average wages, consumer price index etc., needs to be adequately and regularly budgeted on both, the national and local level which is not yet a case in the country.
- ✦ Increased ownership and sustainability of the results from implementation of the project requires having in place:
  - (1) a functional and sustainable coordination and consultations system;
  - (2) a comprehensive capacity development program, starting from the basics such as the transfer of knowledge on the most relevant and applicable concepts of inter-governmental transfers, related principles and practices and concluding with transfer of concrete and practical skills for adopting and working with the equalization framework that is considered as the most beneficial for the country.

## SUPPORT FROM HQ/REGIONAL BUREAUS/REGIONAL SERVICE CENTRES

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Please indicate the nature of support requested and received from HQ, Regional Bureaus, Regional Service Centers, DG-net during the course of project implementation.

BRC Regional Programme Specialist on Governance Assessments participated in the consultations on utilization of the already developed assessment methodologies on governance issues in the frame of the *Strengthening evidence based policy processes – People Centered Analyses Reports* Project, for achieving the objectives of the *Social Services for Social Development and Cohesion* project.

## GENDER MAINSTREAMING

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Has your project contributed to gender mainstreaming? If so, please elaborate.

Gender related variables were taken into account when developing the statistical sample for the client satisfaction survey questionnaire (the survey is under implementation in the four pilot municipalities). The used model of disproportionate stratified statistical sample (O'Sullivan, Rassel, Berner,2002) allows more indepth analyses of the perceptions of women and man on the quality of the local service delivery by taking into account the specifics of the municiplaities (urban, rural etc.)

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Date 12-01-2012

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