



Mandate for Project Implementation

between

**The Swiss Confederation,
represented by the Swiss Federal Department of Foreign Affairs,
acting through the
Swiss Agency for Development and Cooperation (SDC)
Embassy of Switzerland in Macedonia
Maksim Gorki 19
1000 Skopje
Macedonia**

and

**UNDP -Representative office Skopje
str. Jordan Hadzi Konstantinov-Dzinot 23
1000 Skopje
Macedonia**

Concerning the project:

Empowering Municipal Councils Project

Credit Proposal no. 7F-08397.01.01
Contract no. 81044183

* * * *

The Swiss Confederation, represented by the Swiss Federal Department of Foreign Affairs, acting through the Swiss Agency for Development and Cooperation (hereafter referred to as "SDC"), and UNDP -Representative office Skopje (hereafter referred to as "the Contractor") agree to the following:

Article 1: Object of the Contract

Within the framework of international cooperation, SDC shall entrust the Contractor with the implementation of the Empowering Municipal Councils Project (hereafter referred to as "the Project") in accordance with the attached Project Document.

The operational and financial management of the Project is outlined in the Annexes to the present Contract.

The Contractor shall be responsible for the implementation of the Project. For this purpose, the Contractor shall provide the associated services and administer the Project funds in trust.

The Contractor shall safeguard the interests of SDC and guarantee accurate, careful, conscientious, comprehensive and results-driven implementation of the Project in accordance with the scientific and technical standards in force.

Article 2: Budget

- 2.1. The overall budget (attached) shall amount to a maximum of CHF 3,361,427.00 and cover the budget for services (Budget Parts 1-3) and the budget for administered Project funds (Budget Part 4). The budget establishes a cost limit, which covers all the costs, taxes and expenses required for the purpose of implementing the mandate. The budget must be respected. The terms of the update of the annual budget are regulated in Art. 4.1 below.
- 2.2. All changes to the overall budget require the prior written consent of SDC. Requests for changes must be submitted to SDC immediately, but at the latest with the submission of the annual budget in accordance with Art. 4.1.
- 2.3. Changes within the budget for Project funds (Budget Part 4) are permissible, provided the following conditions are fulfilled:
 - the changes are declared in the following financial account;
 - the changes do not cause the total sum of the budget for Project funds of CHF 2,388,300.00 to be exceeded, and
 - the changes amount to no more than 10% per budget item (percentage value) or the sum of CHF 0.01 (absolute value), whichever is lower.

If the envisaged changes fail to respect any of these conditions, the prior written consent of SDC is required in order to amend the budget for administered Project funds.

Article 3: Payments

- 3.1. Payments by SDC shall be made into a specific Project account pursuant to Art. 7.4.1 lit. a) of the General Conditions of Business (GCB).
- 3.2. In principle, payments by SDC are made at average due date (i.e. in the middle of the relevant period). Working capital advances are permitted. The following payments shall be transferred subject to the receipt and approval by SDC of the reports and financial accounts pursuant to Art. 4 and any Annexes.
- 3.3. The payments are scheduled as follows:
 - see annex
- 3.4. SDC may amend the scheduled payments and/or payment dates depending on the progress of the work and the expenses incurred.

- 3.5. If payments are not made at average due dates, any gross interest (interest before deduction of withholding tax, other taxes and expenses) must be indicated in the financial accounts and credited to the next SDC payment or, in case of the final account, transferred to SDC.
- 3.6. Upon approval of the final financial account, SDC shall decide on the appropriation of any balance.

Article 4: Reports and financial accounts

- 4.1. The Contractor undertakes to submit to SDC the following documents annually in English:
- No later than 30 days before the start of each new Project year, the Contractor must submit to SDC an updated annual budget and an annual operational plan.
 - Annual progress reports compliant with the structure stipulated for the "Table of contents for the annual progress report" in the Annex within a maximum of 180 days of the end of the respective year, containing the following reports and subject to the requirements specified below:
 - A signed and dated consolidated and externally reviewed account for the previous year corresponding to the budget structure the review of the last consolidated account must also cover the consolidated final account for the entire Project phase (see next bullet point)
 - A consolidated final account for the entire Project phase containing an overview of the entire Project costs and substantiations of any deviations from the budget, to be submitted within 180 days of the end of the Project phase
 - The financial accounts shall include only the effective costs and expenditure
 - Furthermore, the Contractor shall submit to SDC a copy of the local review report.
 - Brief semi-annual report on the first half of each Project year within a maximum of 90 days of the end of the respective half-year, with the following content:
 - Comprehensive overview of the progress made, based on the monitoring of the key indicators;
 - Comments on any difficulties encountered and the corresponding solutions proposed;
 - Details of any organisational changes made;
 - A non-externally reviewed financial account detailing the status of the funds utilised and any outstanding advances.
 - Additional reports requested by SDC (e.g. on specific aspects of the Project implementation or topics, hourly reports).
- 4.2 The Contractor undertakes to assist in drafting an End of Phase report.
- 4.3 In any case, the Contractor must immediately inform SDC in writing of any exceptional circumstance arising from the implementation of the Project which might jeopardize its completion and/or result in a significant change in its objectives.

Article 5: Transmission of reports, detailed accounts and other information

Documents (Art. 4.1 above) and all other requisite information, must be addressed to the Field Office. If the Office cannot be reached and the transmission shall not be delayed, contact must be made with the SDC Unit in Bern.

Article 6: Integrity clause

The Contractor and SDC undertake to institute any such measures as are required to avoid corruption, ensuring in particular that no payments or other considerations are offered or accepted. If the Contractor disregards the integrity clause, he will be required to pay a contractual penalty to SDC. This amounts to 10 % of the Contract sum, but no less than 3,000 Swiss francs per violation. The Contractor acknowledges that a violation of the integrity clause shall, as a rule, result in revocation of the mandate award and early termination of the Contract by the mandator on important grounds.

The Parties will inform each other in case of any well-founded suspicions of corruption.

Article 7: Right of examination

SDC, any third party appointed by it, and the Swiss Federal Audit Office reserve the right at all times to visit the sites associated with the Project, check on its implementation, obtain information and consult all the related documentation.

Article 8: Annexes, order of precedence

8.1. The following Annexes constitute an integral part of this Contract:

- Project Document;
- Budget, including the presentation of financial accounts;
- General Conditions of Business for project implementation mandates (Version December 2015);
- Special provisions;
- Code of conduct;
- Table of contents for the annual progress report;
- Payment schedule.

- 8.2. With the signature of this Contract, the Contractor confirms receipt of a copy of all the above-mentioned annexes.
- 8.3. The present Contract and any special provisions shall take precedence over any Annex.
- 8.4. By signing this Contract, the Contractor affirms that he has taken note of and agrees to the Annexes, including the General Conditions of Business.

Article 9: Amendments

Amendments to this Contract and its Annexes must be made in writing.

Article 10: Duration

The present Contract covers the Project period from 01.08.2016 to 30.06.2020. It shall come into force upon its signature and shall be terminated as soon as both Parties have fulfilled their contractual obligations, including the obligations remaining pending after the completion of the Project period.

Article 11: Final provisions

The present Contract is subject to the private law in force at the place of the court of jurisdiction. The court of jurisdiction is Skopje.

Signed in Skopje, on 26.7.2016

in Skopje, on 27.7.2016

For the Swiss Confederation,
Swiss Agency for Development and Cooperation,
Embassy of Switzerland in Macedonia

For UNDP -Representative office Skopje



Sybille Suter Tejada
Ambassador



Louisa Vinton
Resident Representative



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development
and Cooperation SDC



Empowered lives.
Resilient nations.

Empowering Municipal Councils

A Project of the Swiss Agency for Development and Cooperation (SDC)

Implemented by the United Nations Development Programme (UNDP)

Skopje

Project Document

Draft (5): 16 May 2016

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1. Context

1.1 Description of the problem

Democratic governance is a particular challenge for the country. Although on the surface institutions generally seem to comply with the standards for democracy and rule of law expected of a country aspiring to accession to the European Union (EU), in fact the past few years has seen a steady “narrowing of the democratic space,” as the United Nations Assistant Secretary General for Human Rights noted during his visit to in May 2015. The boundaries between the ruling parties and national institutions have been blurred; the opposition and civil society have been marginalized; and the media are highly polarized.

In early 2015 the publication by the opposition of dozens of wiretapped conversations exposed possible abuse of power, electoral malfeasance and corruption at the highest levels of political power. These revelations spurred a revival of opposition activism that culminated in EU-mediated political negotiations in June and July 2015. The resulting “Przino Agreement” brought the opposition back into the parliament; forced the resignation of the Prime Minister and the creation of a technical government with the participation of a few representatives of the main opposition party, and the creation of a Special Public Prosecutor’s Office with extraordinary powers to investigate the abuses revealed in the wiretapped conversations.

However, implementation of the agreement was uneven and its terms were contested. Early elections were called for 5 June 2016 and the Parliament was dissolved, but without the agreement of the opposition, which promptly announced an election boycott. The decision by the President on 12 April 2016 to pardon 56 people implicated in the wiretapping scandal exacerbated the country’s political divisions and was criticized for rewarding incriminated officials with impunity.

At present the political outlook remains unclear, and further instability is likely. In these conditions, the terms of the “Przino Agreement”^[1] – and the compilation of “urgent reform priorities”^[2] and the expert report on “systemic rule of law issues”^[3] that accompanied it – offer a clear menu of governance and human rights reforms that the country will need to implement sooner or later to return to the EU path.

Local government institutions are also subject to high degrees of party guidance, but have more independence and are more responsive to citizens’ demands than central institutions. Much depends on the orientation of Mayors and other local elected officials. This means that promoting responsive and accountable democratic institutions is more feasible – though by no means easy – at the local level.

Local government institutions have long struggled to deliver the services expected by their constituencies in a transparent and accountable fashion. The decentralization process initiated with the Ohrid Framework Agreement in 2001 has transferred abundant statutory responsibilities to the municipal level, including primary and secondary education, culture, social and communal services. It also provided a better framework for inter-ethnic relations. However, the country’s 81 units of local

^[1] The agreement consists of three documents:

1) http://ec.europa.eu/enlargement/news_corner/news/news-files/20150619_agreement.pdf;
2) http://ec.europa.eu/enlargement/news_corner/news/news-files/20150619_annex_to_the_agreement.pdf; and
3) http://ec.europa.eu/commission/2014_2019/hahn/announcements/agreement-skopje-overcome-political-crisis_en

^[2] http://ec.europa.eu/enlargement/news_corner/news/news-files/20150619_urgent_reform_priorities.pdf.

^[3] http://ec.europa.eu/enlargement/news_corner/news/news-files/20150619_recommendations_of_the_senior_experts_group.pdf.

self-government still find themselves lacking both sufficient funds and human resources to satisfy the needs of local residents. Shortcomings are particularly pronounced in smaller, rural municipalities.

The funding challenges are clear in the fiscal progress reports that UNDP prepares twice yearly using municipal data from the Ministry of Finance. Municipalities still remain highly dependent upon transfers from the central budget, which account for 61% of municipal spending. A large share of these funds are block grants that must be spent in a highly regulated manner, for example as salaries for teachers. This leaves little room for municipal discretion or investment planning. Revenues generated through local taxes account for just 23% of the total and, though increasing slowly, remain a marginal source of income. Other funds are channelled in an ad hoc fashion through a variety of line ministries, complicating long-term planning. Many infrastructure investments are not consulted at the municipal level. Political considerations are also among the risks related to proper municipal funding allocations.

In this context, financial performance varies dramatically. Some municipalities conduct regular audits and some have already qualified for the ISO 9001:2000 local governance management standards, whereas there are always a handful of municipalities (12 as of December 2015) whose bank accounts are blocked owing to their failure to remain current with outstanding payment obligations. Overall, municipal budgets are overly optimistic and spending oversight is generally lax.

Challenges also persist in democratic accountability. Although municipal residents select both their Mayors and their municipal councils in regular direct elections, there is often little contact or exchange between constituents and their representatives. This gap is particularly pronounced with respect to municipal councils and is reinforced by closed party lists which allow voters to vote only for political party lists, and not select among individual candidates. In addition, the council members have little training, prior knowledge, preparedness or time for the duties they are meant to assume. In this context, policy direction tends to come from the Mayors as the first instance of a hierarchy-driven political party culture. This approach leaves the municipal councils merely to rubber stamp the priorities and policies set by the executive, creating a democracy gap in the triangle of Mayor-council-local administration.

Planning and budgeting thus land by default with the municipal administration, with council members largely bystanders. In this way, spending priorities are set without adequate public input or oversight.

Finally, municipal councils are part of a bigger picture in which government institutions at all levels are falling short in their commitments to equal opportunities for women and men and their role to encourage cohesion in a diverse, multi-ethnic society. Election-list quotas have brought the level of women's representation in local councils to roughly one-third of all membership, yet gender considerations are seldom evident in council debates or municipal spending decisions. Few councils have women presidents, and executive positions are overwhelmingly dominated by men. Spending decisions are likewise often made without considering specific needs of different ethnic communities.

"Empowering Municipal Councils" aims to correct these systemic deficits. The overarching goal of the project is to breathe life back into municipal councils and reinforce their role in the local power triangle by providing an informed and motivated counterbalance to the Mayors and municipal administration. It will do this by empowering municipal council members with the knowledge, confidence and supportive peer network they need to fulfil their constitutional functions of representation, legislation and oversight at the local level. In addition, by creating easier channels of communication between the public and the council, the project aims to enhance the accountability and transparency of local government.

The ultimate aim is to improve the quality of life for citizens by ensuring that municipal decisions reflect their needs and priorities, and that public funds are spent in an accountable, efficient fashion. As a material reflection of this aim, the project will support learning and networking with a small grants program that will bring municipal communities together around shared priority initiatives.

1.2 Description of problem and target group

Baseline assessments

The selection of **municipal councils** as the target group for the project was validated in a comprehensive situation analysis conducted as part of the preparatory phase of the project. This included five baseline assessments¹ that looked at a) the quality of local governance; b) the state of public financial management at the local level; c) quantitative assessments of gender equality, equal opportunities and inter-ethnic relations; d) the potential for innovation in municipal processes and interaction with citizens; and d) transparency, citizen outreach and service orientation as demonstrated in a review of all 81 municipal websites. These assessments drew not only on research and analysis but also on in-depth interviews and direct consultations with councillors and other stakeholders.

[Reports presenting these assessments are provided as attachments in the annexes to this project document, and the results of the preparatory phase are shared in greater detail in Chapter 2.]

The situation analysis pointed to a number of areas where improvement is most needed:

- Municipal financial performance
- Knowledge and motivation of municipal council members
- Citizen interaction and engagement
- Municipal openness and transparency
- Gender equality, equal opportunities and inter-ethnic cohesion

Municipal financial performance

A baseline assessment applying a simplified version of the internationally recognized Public Expenditure and Financial Accountability (PEFA) methodology² in six municipalities showed that most suffer from common shortcomings in financial management practices and abilities.³ These included underperformance in budget execution and revenue collection; weak internal audit capacities (two-thirds of municipalities entirely lack an internal audit function); lack of follow-up by municipal councils to recommendations from both external and internal audits; insufficient discipline in circulating regular budget and other financial reports on time; and a failure by the budget and financing units in the municipal administration to present data and analysis in a fashion understandable

¹ Five baseline assessments:

- Assessment of public financial management practice and capacity needs of the councillors in 6 municipalities: Cair, Ohrid, Strumica, Sveti Nikole, Valandovo, and Veles
- Qualitative Governance Assessment in 6 municipalities: Bogdanci, Kisela Voda, Gradsko, Brvenica, Gevgelija and Gostivar
- Quantitative Governance Assessment in 25 municipalities: Bitola, Brvenica, Centar, Cesinovo-Oblesevo, Demir Hisar, Konce, Gazi Baba, Tetovo, Studenicani, Jegunovce, Kicevo, Kriva Palanka, Krivogastani, Krusevo, Mogila, Prilep, Pehcevo, Petrovec, Radovish, Rosoman, Saraj, Struga, Vlnica, Tearce, Vasilevo, Equal Opportunities Assessment in 7 municipalities: Tetovo, Bogdanci, Kisela Voda, Gradsko, Rankovce, Kumanovo and Lipkovo and Inter-ethnic Relations Assessment in 7 municipalities: Tetovo, Saraj, Butel, Konce, Brvenica, Caska and Karbinci
- Assessment of the web pages of all 80 municipalities and the city of Skopje (access to information and content)
- Municipal innovations assessment in 3 municipalities: Stip, Kumanovo and Ilinden

² The PEFA framework provides the foundation for evidence-based measurement of countries' PFM systems. A PEFA assessment measures the extent to which PFM systems, processes and institutions contribute to the achievement of desirable budget outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. PEFA identifies seven pillars of performance in an open and orderly PFM system that are essential to achieving these objectives and defines 31 specific indicators that focus on key measurable aspects of the PFM system. PEFA uses the results of the individual indicator calculations, which are based on available evidence, to provide an integrated assessment of the PFM system against the seven pillars of PFM performance. It then assesses the likely impact of PFM performance levels on the three desired budgetary outcomes: aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery. For more information visit the PEFA Secretariat web site: www.pefa.org

³ For further information on the PEFA assessment undertaken in the six municipalities, please see Annex 6a: "Assessment of Public Financial Management practice and Capacity Needs of the councilors", attached to this document.

to non-specialists. Oversight is insufficiently vigilant, so preventive actions are rarely undertaken to avoid the financial instability that municipalities chronically face. Blocked accounts are the result.

Major capacity gaps undermine the quality of budget planning and monitoring. Budgets are often prepared without grounding in the real financial possibilities of the municipality, and they sometimes reflect mere wishful thinking about potential revenues. Training is needed so that municipalities are able to set priorities within actual constraints, as this is the core task of budgeting. Compared to the Mayors, municipal councils are much less involved in consulting and aggregating public demands and then shaping a set of priorities. Addressing this gap through the empowerment (and education) of municipal councils is thus core to improving the overall financial performance of municipalities.

Knowledge and motivation of municipal council members

Interviews and focus-group discussions revealed the dual challenges of capability and motivation that explain the largely passive approach of most council members. Virtually all council members have full-time jobs elsewhere, so time for participation in the work of the council is scarce. Few council members have professional training that lends itself well to the core functions of budget review, approval and oversight. Council members are compensated on the basis of attending meetings, with little other incentive for active engagement aside from self-motivation. Party affiliation is key to candidacy and election, and party structures at both local and national level are hierarchical. The standard practice is thus to hew to the party line, rather than take an independent view on issues.

One bright spot is that finance and budget committees are the most active committees in the work of the municipal councils. In formal terms they pursue all necessary legal steps for adopting the budgets and the annual accounts, although in substantive terms the quality is not always good.

But most council members admit to feeling marginalized. Many are only vaguely aware of the legal framework in which they operate, and few have a thorough understanding of their own mandate and responsibilities. Importantly, many are baffled by budgets and other financial information. Only 4% of councillors say they remember budget data. Many council members struggle to understand municipal financial reports, even where they are presented in a timely fashion and with high-quality data. Discussions of more complicated financial issues, such as liabilities and debt, are relatively rare⁴.

The quality and scope of information that municipal councils receive is also a challenge. One-third of the councillors doubt the accuracy of annual revenue estimates and 35% of councillors think they do not receive all the information necessary to assess the performance of municipal functions. Some critical issues are simply not raised by municipal councils: only nine reported ever discussing the fiscal gaps between revenues and expenditures, and only 22 had discussed debt management.

Contributing to perceptions of marginalization, municipal councils are eclipsed by Mayors as the primary political party representatives on the local government scene. Most municipal councillors remain anonymous in the public eye and even within local government circles. The Association of Local Self-Government Units (ZELS) was created as a two-chamber body, but it is the Mayors who now enjoy the exclusive spotlight. Happily, however, the status and influence of the ZELS Committee of Councils are again on the rise, thanks to the proactive attitude of the current Committee leadership and statutory changes that give councillors a larger say in ZELS management and oversight bodies as well as in the ZELS General Assembly.

That said, municipal council members have little contact with their peers outside their own municipalities. The *esprit de corps* is lacking that might support a collective drive for normative or practical reforms to address the systemic deficits and improve the functioning of municipal councils. There is thus a clear need for improved networking, using the ZELS Committee of Councils as an anchor. In addition, municipal councils have largely been overlooked in past capacity development initiatives focused on local government, and training opportunities have been infrequent. For these

⁴ For further information on the findings and conclusions, please see Annex 6c: *Quantitative Governance, Equal Opportunities and Inter-ethnic Relations Assessment*, attached to this document.

reasons, the time is ripe for a comprehensive program of training and knowledge exchange directed at municipal councils. Among the priority needs identified by the councillors themselves were training in how to: 1) read and understand key budget documents and debates; 2) understand key financial and audit reports; and 3) understand the legal framework that councillors must respect when managing municipal funds.

Citizen interaction and engagement

Although directly elected, municipal council members have very little interaction with their constituents. This is a consequence of their being elected through closed party lists, as well as a lack of applicable knowledge and skills. A UNDP survey⁵ of 53 municipalities conducted in 2013 showed that only 20% of the surveyed councils had initiated any citizens' gatherings or public hearings. Fewer than ten councils reported that they discussed their development programmes with their communities. Weaknesses are evident also in how councils treat the issues crucial for local accountability towards citizens. Only one council had approved funding for a programme originating in an inter-ethnic committee; and a similar lack of influence was experienced by committees for consumer protection and gender equality.

Further research showed that only 30% of councillors discuss financial reports with the public and only one-fourth of councillors provide any financial information to their constituents. In part this may stem from weaknesses in their own knowledge, but it is also a consequence of resource limitations. Citizens, for their part, are generally unaware of the functions that municipal councils are meant to fulfil, and thus virtually all pressure for accountability (in addition to praise for success) tends to be directed solely towards the Mayors. Many Mayors are uncomfortable with this situation and would prefer to work with a better informed and more energetic municipal council, in the interest of a more constructive dialogue on local priorities.

Municipal openness and transparency

Even where citizens are eager to participate in local government, their engagement is difficult when information on the work of the municipality is not readily available, or is provided in a format that only a specialist can understand. A good practice in the country is that some municipalities are now using the Budget Forums (created through the SDC-funded Community Forums project) to present the municipal budget to the general public; this experience can be replicated and expanded through the municipal council project. However, overall, municipalities remain opaque to their constituents.

In a dangerous circle, a lack of effective and innovative forms of direct communication with citizens contributes to citizens' passive approach to local government, and vice versa. From a governance perspective, engagement of people in council activities remains a vital resource to be tapped.

An assessment conducted in the preparatory phase of the project looked at the contents and ease of use of municipal websites as a proxy for transparency, openness and ease of access to citizens. The assessment highlighted the need to co-opt citizens in council committee proceedings and extend their active cooperation with civic organizations working on allied objectives. Unfortunately, in many cases, the website is the only tool used by the municipal council to share information. With a few exceptions – Kumanovo offers electronic tax payment services; Karpos, Kavadarci and Strumica have an electronic system for submitting and monitoring requests; Skopje allows the electronic submission of license requests and electronic lodging of complaints – e-services are in a rudimentary state.

Insufficient use is thus being made of information technology and innovative approaches to bridging the gap between municipalities (particularly the councils) and their inhabitants, so this is an area for engagement and participatory experimentation that features prominently in the project design.

⁵<http://www.mls.gov.mk/en/content/?ID=184#.VB8ld7ccTIU>

Gender equality, equal opportunities and inter-ethnic cohesion

As is the case on a national scale, municipal statutes guarantee gender equality but this principle is not translated into everyday municipal practice. The share of women employed in municipalities ranges from 19% to 68% percent; only 15 of 81 municipal councils are headed by women. In the seven municipalities surveyed as part of the preparatory analysis, 34% of council committee chairpersons were women. Few initiatives focus solely on promoting gender equality, although half of the surveyed municipalities cooperated with NGOs representing women. Gender considerations are generally not reflected in budgeting or annual programs. Few councillors reported receiving any training in gender issues. Although all seven municipalities had a coordinator for gender equality, and most municipalities had functioning committees on equal opportunities, only three had developed equal-opportunity action plans (and none was budgeted). Committees met only irregularly and failed to prepare reports.

There is thus ample opportunity to use the project to pursue greater gender equality both in the participation of women in public life, and in ensuring the budget decisions are gender-sensitive. (Here the work of UN Women in training 10 pilot municipalities will be a crucial foundation, see 4.1.1)

Similar failings are evident in the way municipalities approach ethnic diversity and vulnerable groups such as people with disabilities. In the public administration in diverse municipalities, there is often no single sector head belonging to a minority ethnic community. Employment of minority representatives in the municipal administration ranges from 10% to 50%. Few events are organized for minority communities, and there is little active dissemination of information to them.

Although municipalities where more than 20% of the population belongs to a non-majority community are required to form an inter-ethnic committee to promote dialogue between different communities (and another 12 have done so voluntarily), these committees often exist in name only. Meetings are infrequent and no reports are produced. Municipal councillors receive little or no information or training on inter-ethnic collaboration. Often they are unaware of the obligations and mandates of municipalities in this area. Important statistical data are lacking (including for people with disabilities), so that policy making is sometimes conducted in a data vacuum. In the end, the budgeting process tends to treat citizens in a fashion that is blind to ethnic considerations. The politicization of ethnicity through the party system is also an inhibitor to substantive discussion.

In short, adequate institutional structures and policies on gender, inter-ethnic cohesion and inclusion are left lifeless owing to a lack of political commitment, knowledge and energy. The project provides an opening to address all three shortcomings by breathing life into currently moribund structures.

1.3 Drivers and restrainers of change

There are three main drivers of change, though all have only limited force:

- **The quest for alignment with EU norms**, which translates into international pressure and a generally conducive domestic policy framework for improved local governance practices, including better budget oversight, greater citizen engagement and more municipal transparency.
- There is some **citizen demand for better local government**, though in most cases local residents remain passive about the way their municipalities are run. There are exceptions, however, including protests to end pollution and demands for more and cheaper public services.
- **Scarce public finances** are a constant challenges, but a rising awareness of the need for greater efficiency, an awareness of the need for public feedback, and the development of new financing instruments could increase municipal enthusiasm for better local governance practices.

In the current country context, unfortunately there are more restrainers than drivers. They include:

- **Politicization of spending decisions.** Party affiliation has a role in almost every policy decision, and this is as true at the local level as it is at the national level. The closed list election method discourages individual councillors from making decisions at odds with their own party, and puts a premium on party loyalty over direct engagement with their constituents. This tends to leave representative institutions – whether the national parliament or local assemblies – powerless and increasingly irrelevant in the public eye. Parties are in effect the true seat of power.
- **Marginalization of local councils.** Municipal councils currently play a marginal role in municipal life, even where their members belong to the parties in the national Government.
- **Centralization of funding.** Despite a strong constitutional commitment to decentralization, particularly as a formula for inter-ethnic harmony, municipalities in reality control only a small share of their own funding, with a large share coming from the central purse. This means that budget decisions reflect local priorities only to a very limited extent. External and internal pressure to show progress in fiscal decentralization is not insignificant, however.
- **The skills and motivation of municipal council members.** Little training has been provided in the past to councils or council members, and they often lack even the basic knowledge they need to perform their functions. They are also short on time and motivation.

The proposed measures to address the drivers and restrainers of change are presented in section 4.4.

1.4 National, regional and global policy frameworks

The objectives and the expected results of the “Empowering Municipal Councils” project are aligned with the objectives and foreseen measures of the new Programme for Sustainable Local Development and Decentralization 2015-2020, especially under Priority Axis 1: Good governance and development of an institutional framework for integrated local growth and development and Priority Axis 3: Promoting inclusive growth by providing equal access to local services for all citizens.

The new Programme and the accompanying Action Plan were both prepared with technical assistance from UNDP, and this policy work will serve as a bridge between implementation of the project at the municipal level and the further refinement of decentralization policies in the national framework.

“Empowering Municipal Councils” is focused on strengthening the role of municipal councils and their oversight of local budgets. Although it does not aim directly at reforming local-level public financial management or local governance more broadly, an indirect impact on the normative and legislative framework is expected. Through the project, councillors are expected to develop an effective, articulate and visible network that will enable them to advocate with the national Government and the Parliament for improvements in the existing legal and institutional local government system.

The project reflects the priorities of both Swiss⁶ and UNDP⁷ strategies for the country particularly related to the shared objectives for advancing democratic governance at local level.

The project is also fully in line with the country’s efforts to secure European Union (EU) membership, where local government reform has a central role. While registering gradual progress in the broad area of decentralization, the European Commission’s regular progress reports consistently find room for improvement in the work of local government institutions. The 2015 report, for instance, noted that rural municipalities needed increased funding to fulfil their functions and recommended that funds for

⁶ Particularly the objectives and priorities related to the area of democratic governance and decentralization under 5.2 of the Swiss Cooperation Strategy for Macedonia 2013-2016.

⁷ Particularly the priorities and objectives related to the outcome on democratic governance: “By 2020, national and local institutions and officials are better able to design and deliver high-quality services for all residents, in a transparent, cost-effective, non-discriminatory and gender-sensitive manner” of the UNDP Country Programme Document 2016-2020.

capital investment be distributed in a more systematic, transparent fashion. Municipalities were also urged to undertake multi-annual budget planning and improve their collection of statistical data. This project will help address these shortcomings by providing municipal councils with the skills they need to represent citizen needs, design and execute budgets, and exercise better financial oversight.

Finally, the development of capacities of local governments and their communities to ensure the effective and efficient translation of public funds into public benefits is fully in the spirit of the newly adopted Sustainable Development Goals which build on the Millennium Development Goals (MDGs). The new Global Goals, and the broader sustainability agenda, go much further than the MDGs, addressing the root causes of poverty and the universal need for development that works for all people. While the national agenda around the SDGs is only now emerging, the achievement of the project objectives will contribute to many Goals relating to sustainable development and democratic governance, including Goal 5 on gender equality, Goal 10 on reduced inequalities, Goal 11 on Sustainable Cities and Communities and Goal 16 on Peace, Justice and Strong Institutions.

2. Preparatory phase: results and lessons learned

2.1 Summary of results achieved

This section presents the activities completed and the lessons learned in the preparatory phase of the project, which ran from 10 July 2015 to 10 March 2016.

The results of the preparatory phase exceeded expectations and included a comprehensive situation analysis, which drew on five major baseline assessments, and the design of a full-scale project prepared in close consultation with all relevant institutions and stakeholders. This project document is the chief deliverable of the preparatory phase, but the underlying assessments are also notable results *per se*.

The implementation phase of the project is foreseen to start in 2016 and last for four years.

The assessments that served as the foundation for the project design were based on desk reviews, independent analysis and interviews with interlocutors at local and central level, including more than 170 municipal council members. These assessments are attached to this document as annexes:

- Assessment of public financial management practices and capacity needs of the councillors;
- Qualitative governance assessment;
- Quantitative governance, equal opportunities and inter-ethnic relations assessment;
- Assessment of the content and ease of use of websites of all 81 municipalities; and
- Assessment of the potential to apply innovation in municipal public service delivery.

The situation analysis also included over 30 consultative events. More than 700 participants took part in these events, representing all relevant municipal stakeholders and including more than 330 councillors. These events served to validate the findings of the baseline assessments.

The preparatory phase enabled UNDP to test and refine all project concepts in a participatory and transparent manner and allowed space and time to make any needed adjustments.

Importantly, the outreach in the preparatory phase served to present and explain the project to a significant share of municipal council presidents and members, as well as Mayors and municipal administrations. In adapting the design of the project to the needs, preferences and constraints expressed in these inception discussions, considerable enthusiasm was built for participation in the project. This sense of expectation and excitement should enable UNDP to move seamlessly from the project design phase to project implementation, and will help ensure strong participation from the core target group.

Finally, during the preparatory phase, seven modules of the training curriculum for the Capacity Development Programme part of the project were designed, and much of the supporting technology (including the e-knowledge platform and the e-dashboard on municipal financial data) was developed

and tested. The project website (www.opstinskisoveti.org.mk) was designed and tested and launching is envisaged for the beginning of the implementation phase of the project. The curriculum is described in detail in Chapter 4 and the materials are attached here as annexes.

The preparatory phase also allowed for the elaboration of the criteria for selecting the 24 partner municipalities, and further to define the process for the awarding of grants. The assessments themselves are designed to translate directly into performance guidelines that can be used to measure municipal progress towards the project goals of better budget management and oversight by the municipal councils and greater public engagement in budget prioritization and preparation.

The preparatory phase of the project also cemented the key partnerships for the implementation phase. The Association of the Municipalities (ZELS), the Ministry of Finance and the Ministry of Local Self-Government were all involved in project preparations, and their membership in the advisory Project Board⁸ will ensure that project work is anchored in wider policies. This will enhance impact and sustainability.

The preparatory phase drew on the lessons learned from the SDC Community Forums Programme, the UNDP Local Development, Decentralization and Integrity Projects, including the findings from the Fiscal Decentralization, Municipal Councils and Citizens Perceptions Surveys, and the UN Women Project on Gender-Based Budgeting. This approach grounds the current project in past development work at the local level, and will build synergies while avoiding duplication of effort,

Close cooperation was established with UNDP's primary implementing partner for the project: the Association of Finance Officers of the Local Governments and Public Enterprises (AFO). AFO prepared a detailed operational plan for the execution of the delegated tasks and created a pool of 19 national experts to support the situation analysis and preparation of the Capacity Development Programme. Additional expertise was incorporated in the analysis and project design through the participation of two international experts (on public financial management and innovation in governance, respectively) and two national experts (on gender and inter-ethnic relations).

A strong partnership was built with the SDC team in the country, through regular meetings, extensive consultation and the participation of Swiss counterparts in many of the launch activities.

2.2 Important outcomes

The most important outcome achieved from the implemented outreach and consultative activities is **emphatic confirmation that all involved stakeholders find the project very relevant** and are enthusiastic about the prospects for the successful implementation of the full project. They validated the proposed focus on the issues of participatory budgeting and local public finance management as a foundation for expansion to other topics of local relevance, including the annual public policy management cycle in order to achieve integrated and inclusive local development.

By creating a foundation for a **functional partnership with the involved stakeholders** the project achieved one of the anticipated "small wins" and further aims at achieving the next "small win" which would be to transform the involved stakeholders into strong local allies in this endeavour. Managing the complexity of the actors at municipal level; the lack of mutual trust (among councillors and between councils and Mayors) and the politicization of municipal decision-making will be challenging, but early signs are that it will be possible to build a better local *esprit de corps*.⁹

The intensive awareness raising and stakeholders' involvement activities during the design phase, created a **shared sense of ownership** which is crucial for the sustainability of the project results. The outreach and consultative events were helpful for selection of champions: municipal councillors who can be expected to engage enthusiastically in the project and reach out to their municipal constituents.

⁸ On the role of the Project Board, see page 38-39.

⁹ During the workshop held on 17-19 February 2016 in Strumica, the 45 Presidents of Councils that took part at the event unanimously endorsed the proposed networking modalities and the Capacity Development Programme.

In sum, these are the key results of the preparatory phase:

- Nearly all municipalities in the country are aware of the existence and purpose of the project;
- The challenges faced in improving the functioning of municipal councils are clearly understood;
- Project activities reflect the needs of both council members and their municipalities; and
- Councillors are primed to take ownership of project activities, in which they already see a stake.

2.3 Lessons learnt and their implications for full implementation

One major revision was made to the assumptions behind the preliminary project design. Initially, it was assumed that a standardized curriculum could encompass a large number of municipalities, so the original approach was to include 55 in the four-year implementation phase. However, the situation analysis and consultations conducted during the preparatory phase made clear that training and knowledge-sharing would take time and have to start from the basics. In addition, feedback from the councillors and other stakeholders suggested that the process of learning was as important as the substance, and that this would require an extensive exchange of experience and networking.

For this reason, the proposed number of municipalities to be chosen to participate in the implementation phase was reduced from 55 to 24, in agreement with SDC, with the possibility of a second phase, building on lessons learned in the first one, to encompass a second large group of municipalities.

The preparatory phase also demonstrated the usefulness and efficiency of applying a streamlined version of the PEFA analysis (using eight of 31 total performance indicators) in the country context.

Given the unevenness of innovative achievements to date, the review of the climate for innovation in local governance suggested that the best approach would be to test a small set of innovations across 24 municipalities, to learn lessons and then consolidate wins during the following phases of the project.

The situation assessment suggested that the project will face some of its most daunting challenges in addressing the large gap between equal-opportunity frameworks and policies and local everyday practices in gender equality and inter-ethnic cohesion. This means that any gender and ethnic criteria will need to be carefully calibrated, and also that considerable effort will have to be devoted to awareness-raising about the importance and benefits of gender- and cohesion-sensitive policies.

The project will need to seek creative ways to capture the interest of ordinary citizens. There is little understanding that budgets are the format in which taxpayers' money is spent, and therefore little interest in how they are designed, implemented and monitored. Addressing this challenge will require new ways of involving NGOs and individuals in the work of their municipalities. The grants that make up a large share of the project budget are a crucial factor in generating community engagement.

Finally, it is important to note that the Ministry of Finance reconfirmed the relevance of the project and emphasized that improved fiscal capacities of local councillors may result in better and more coherent reporting towards the central institutions. One key takeaway from the preparatory phase is that all relevant institutions agreed that even within the existing policy and legal framework, any improvement in the quality of implementation can be considered a substantive and important reform in itself.

2.4 Funds deployed to date*

Parts	Budget Category	CHF
<i>Part 2</i>	Local Office of Contractor	25.787,28
<i>Part 3a</i>	Long-term experts	29.147,95
<i>Part 3b</i>	Short-term experts - Consultants	78.485,90
<i>Part 3c</i>	Local support	11.519,50

Part 4	Administrated Project funds	222.221,72
Grand TOTAL		367.162,35

*As of March 10, 2016.

Expenditures under Part 2 and Parts 3a, 3b and 3c relate to the services provided by the UNDP core team: the Head of Team, the Transparency and Accountability/Citizen Participation Specialist, the Program Operations Support and Communications Officers, the long-term experts (National Project Manager/Decentralization Specialist and Capacity Development and IMC specialist), the short-term experts and consultants (International expert on PFM standards, International expert on Innovation in Governance, and national Gender and Inter-Ethnic relations experts) as well as the local support of the UNDP office including costs for the project associate, office rent and other office costs and materials and running costs for the vehicles.

The key outputs produced were the overall quality assurance and management of the project, monitoring and reporting, the specialist inputs for preparation of the Capacity Development Program and the Project Document, the Communication and Visibility Plan for the project, the budget realization oversight and reporting, outreach, organization and facilitation of 34 consultative events, facilitation of the preparation of the training courses briefs and manuals, maintenance of the e-registers of project-related documentation and overall functioning of the project office.

The UNDP core team administered project funds for the following service providers:

- AFO (19 advisors, implementation of screening exercise, preparation of the Stakeholders Involvement Plan, inputs for CD program and drafting of seven training courses briefs and manuals, co-facilitation of consultative events and inputs for the Project Document);
- Companies for graphic and audio and video products, photo and video capturing of the process;
- Company for design of project website and concept design for e-knowledge platform and e-Dashboard with municipal fiscal and financial data;
- Events logistics companies from the UNDP vetted roster;
- Companies that provided services and facilities for meetings and events organized by the UNDP core team;
- Companies that provided services for copying/printing of materials for events;
- Specialised company that implemented the integral quantitative and qualitative governance, gender and inter-ethnic assessment, and
- Translation services.

3. Objectives

3.1 Vision, outcomes, objectives, outputs and activities

The **vision** of “Empowering Municipal Councils” is a an accountable and transparent system of local government in which democratically elected representatives work together effectively to define development priorities in line with citizen needs and translate these into public services in a responsible and cost-effective fashion. Councillors are strengthened in performing their democratic duty and their adherence to community priorities rather than the party hierarchy is increased. Citizens receive accurate and reliable information from their elected representatives and make their needs and preferences known in an active and informed fashion.

The **overall objective** of the project is to empower municipal councils to become more effective and autonomous bodies, better able to withstand the executive’s influence, by properly fulfilling their constitutionally assigned roles of legislation, oversight and representation. In turn, these efforts will increase the transparency and accountability of the Mayor towards the council, and the municipality

towards the citizens, and will improve living conditions in the local community through the successful implementation of priority community projects.

The three main **outcomes** and their **related outputs** relate closely to the baselines in Chapter 1:

Outcome 1: Municipal councils empowered to become more knowledgeable, active and effective in fulfilling their constitutional roles of legislation, oversight and representation.

Output 1.1: Capacity Development Programme delivered through classroom trainings to 250-300 councillors (at least one-third of whom are women);

Output 1.2: E-knowledge platform designed and used by one-fourth of all councillors and institutionalized and made available to all 1,327 councillors; and

Output 1.3: Capacities of councillors built for improved transparency, accountability and citizens' participation by adopting at least one innovative measure in 24 municipalities.

Outcome 2: Transparency and accountability of all municipal bodies enhanced and citizens' engagement increased in the definition of local budget priorities.

Output 2.1: Municipal grants scheme implemented that supports priority community projects in each of 24 municipalities.

Output 2.2: At least one mechanism for citizen participation in decision making such as community and budget forums utilized for setting community priorities in each of 24 municipalities.

Outcome 3: Functional and institutionalized network of councillors created that communicate councillors' views to the relevant local and national institutions in ways that can potentially refine the country's legal framework for local government and democracy.

Output 3.1: Off-line and online network created in which one-fourth of all councillors participate; and

Output 3.2: Exposure to regional and global best practices in empowered municipal councils

To achieve the expected outcomes, project activities will be conducted under three separate components. Each component is linked to a specific outcome.

1. **Empowerment through capacity development** based on traditional and innovative methodologies, including:
 - a. Implementation of a Capacity Development Programme through classroom trainings on priority modules in municipal financial management and other core subjects;
 - b. Provision of e-training courses through an e-knowledge platform;
 - c. Creation of an e-Dashboard providing direct access to key financial data;
 - d. Design and development of technical innovations to streamline municipal processes; and
 - e. Conceptualization and implementation of process innovations that strengthen the role and performance of councillors in municipal governance.
2. **Empowerment through financial support** (small grants) for priority activities of the municipalities selected on the basis of public consultations, including:
 - a. Design of a participatory process to forge a community consensus around priority development projects in selected municipalities;
 - b. Assessment of the implementation of the participatory process in the selected municipalities;

- c. Provision of financial support to selected municipalities for implementation of priority investments proposed by the citizens; and
- d. Development of a monitoring mechanism to provide oversight of the use of grants.

3. Empowerment through networking, codification, institutionalization and sustainability

- a. Organization of thematic networking events for the councillors;
- b. Forging of links, cooperation and exchange of information and experience through a moderated user-driven e-knowledge platform;
- c. Provision of learning activities through the e-knowledge platform;
- d. Strengthening of the role of the ZELS Committee of Councillors;
- e. Exposure of the councillors and municipal councils to experiences and lessons learned from neighbouring states, the surrounding region and the global context

The hierarchy of activities, outputs and outcomes is presented in more detail in Annex 1: the Project Logframe. This includes key indicators, data sources, means of verification and assumptions and risks.

3.2 Impact hypothesis

The baseline assessments conducted in the preparatory phase showed that, on the whole, municipal governance suffers from: a) low motivation on the part of councillors, mainly due to undermined mandate by political parties and their reliance on Mayors as the defining “voice” for the party programmes; b) inadequate skills and knowledge to analyse financial data and scant avenues or interest to represent citizen interests in service delivery; c) limited engagement in institutional processes; d) weak oversight of the municipal administration; e) infrequent citizen engagement with councillors or through them with the municipal administration; f) weak mechanisms to give a voice to citizen priorities; and g) the lack of a role for councillors in redressing citizens’ grievances.

In this context, three types of interventions are most appropriate to empower councils in municipal governance, namely, capacity building of councillors; innovative mechanisms to promote greater engagement of councillors in the processes of municipal governance; and networking in order to mobilize the councillors around areas of common interest, including the improvement of the legal and institutional framework within which they function. The logical analysis linking proposed interventions (described in more detail in Chapter 4) with project results is as follows:

1. Through specifically designed trainings and role specification in various modules, councillors gain in knowledge which leads to their empowerment, increased independence from political party interference in local matters, and greater influence overall on the local government scene. The councillors effectively represent the citizens, articulate their needs in the local policies and the municipal budget and more effectively and efficiently play the stewardship role in the implementation of development programmes and the management of public funds.
2. The knowledge provided through trainings reduces the effort required to access and analyse information about the municipality. This yields a greater readiness by councillors to engage in municipal processes and perform roles as envisaged in the law.
3. Innovations in governance focused on service delivery result in improved information available to councillors. Together with the capacity building intervention, this can expand the horizons for engaging in municipal governance at a practical level.
4. Innovative means to redress grievances connect and consolidate citizen needs in real time and ensure they are shared with the councillors, strengthening engagement with municipal governance.
5. Co-designing services and service delivery promote engagement of councillors with citizens, strengthening their representation function.
6. The creation of online tools generates improved analysis of financial information for councillors.

7. E-learning innovations encourage the enhancement of user-driven skills by councillors.
8. The e-knowledge platform gives the reward of recognition to councillors, motivating learning.
9. Councillor network creates an experiential community for learning and sharing practices, supporting acquisition of knowledge as well as increased engagement in governance processes.
10. Higher councillor skills result in improved councillor willingness to engage in municipal processes.
11. Higher councillor preparedness and readiness improve the functioning of council processes.
12. Improved functioning of council processes results in improved governance (better quality of budgetary processes, oversight and accountability, transparency and information availability).

Monitoring and data collection will be organized to collect data at various levels to substantiate the results chain and draw lessons during implementation in order to adapt, refine or change course. An impact evaluation will also be organized (described in Chapter 8) to substantiate the achievement outcomes and establish a causal link between observed outcomes and project inputs and activities.

3.3 The target group and expected changes and benefits

In order to carry out a systematic process of stakeholder consultations, a Stakeholder Involvement Plan/ SIP (attached here as Annex 5) was prepared at the outset. It identified a range of stakeholders and developed a calendar of events to engage them in conceptualizing and designing the project document and its components, including the Capacity Development Programme and the e-knowledge platform.

This participatory approach enabled all stakeholders to contribute to the project results and gave the preparations legitimacy. It also increased awareness of the project's aims. Events bringing together project stakeholders laid the first foundations for effective networking and more harmonized action.

Among the stakeholders, the **core stakeholders** are the **municipal councillors**. The total number of municipal council members in the country is 1,347 in 81 municipalities. The project will focus on 24 selected municipalities, but some activities will encompass the entire population of councillors. Every effort will be made to ensure that participation reflects the principles of gender equality, equal opportunities for different ethnic communities and the full inclusion of marginalized groups. All indicators will be disaggregated for gender, ethnic affiliation and other significant social categories.

The core institution targeted is the **Municipal Council** and its constituent committees, including:

- Committee for Financing, Budget and Local Economic Development;
- Committee for Supervision of Material and Financial Performance;
- Committee for Equal Opportunities of Women and Men;
- Committee for Inter-Ethnic Relations; and
- Other Committees (eg, Public Utilities; Urban Planning; Environmental Protection).

The Law on Local Self-Government stipulates that the **Municipal Council** is a citizens' representative body empowered to make decisions on behalf of the Municipality. This and other laws regulating local government give councils a number of responsibilities, including the adoption of the Municipal Budget and Annual Account and determination of municipalities' own sources of revenue for financing the municipality within the legal framework. The Council has the key stewardship role in overseeing the work of the Mayor, public entities and the municipal administration to ensure that:

- Their work is in line with the objectives of citizens, the business community and civic associations;
- The Mayor and municipal administration design activities and strategies that provide for taxpayer money to be used to achieve the best value for money; and
- There is no misuse of taxpayers' funds.

The **Committee for Financing and Budget** has responsibility for issues pertaining to the budgeting process, financial reporting, supervision of public institutions and public enterprises established by the municipality and other issues. The Committee is meant to facilitating budget deliberations among citizens, the business community, the Mayor, the municipal administration and the municipal council.

The **Committee for Equal Opportunities of Women and Men** works towards identifying ways of incorporating and formalizing the principle of equal opportunities in municipal work. It also makes proposals to the municipal council for special measures to incorporate the principle of equal opportunities for women and men under the Equal Opportunities Law.

Municipalities that have more than 20% population belonging to non-majority ethnic community are required to form a **Committee for Inter-Community Relations**. Each ethnic community living in the Municipality should be represented with a proportionate number of members. The Committee's role is to discuss issues important for inter-ethnic relations and advise the municipality on cohesion.

The project has a range of **secondary stakeholders**, including the municipal executive institutions:

- The Mayors; and
- The Municipal administration employees primarily in finance departments (the Programming and Budget Execution Units), the Internal Audit Units and Coordinators for Equal Opportunities of Women and Men.

Other relevant stakeholders include:

- The Association of Local Government Units (ZELS);
- Regional and municipal Chambers of Commerce and other private-sector associations;
- Planning Region Development Centres;
- Municipal NGOs active in, among others, promoting transparency and accountability; inter-ethnic relations; equal opportunities of women and men; and local services.
- Academic institutions and research centres;
- The media and media organizations; and
- Other professional associations and foundations.

At the national level, the key stakeholders are the state administrative bodies responsible for policies on local government and decentralization (including fiscal decentralization):

- The Ministry of Local Self-Government; and
- The Ministry of Finance.

These stakeholder groups will participate in the project and are potential beneficiaries of the outputs resulting from its implementation. They are structurally related in accordance with their respective missions and responsibilities and the manner in which they can engage in the local governance process including budgeting. The specific mandates and roles of the stakeholders are described in the SIP.

Taken together, the project stakeholders form a **complex matrix** of entities and relationships.

One of the goals of the Project is to consider all possibilities for establishment of efficient and effective networking of municipal councils and improve their relations with other stakeholders. This challenge requires approaching all stakeholders from the very beginning not only as individual entities, but also as a broader network with structural links connecting individual mandates. This complex structure is illustrated with respect to the budget process in the SIP shared as Annex 5.

The complexity of the matrix that the project encompasses demands that all of the proposed project activities – capacity development, networking, innovation and the grants scheme – cannot be implemented solely for the councillors. They do not work in isolation, so neither will the project.

3.4 Project scope

The project will be open to all 81 municipal councils in the country and the design of project components and activities follows that logic. The components on networking as well as the e-knowledge platform are meant to encompass all 1,347 councillors and the stakeholders with which they are structurally connected as potential beneficiaries. The innovation tools will be applied initially in the target 24 municipalities while seeking potentials for scaling up.

However, due to limited time and resources, the classroom training part of the Capacity Development Programme and the municipal grants component will be implemented in **24 municipalities**. It is expected that 250-300 councillors (at least one-third of them women) will take part, with eight municipalities covered annually starting from 2017. The selection method is described in Chapter 4.

The initial target group will include mainly councillors from budget committees as well as members of the gender and inter-ethnic committees. Through the sequencing process UNDP will apply a wide range of tools to assist the councillors to undertake gradually their statutory roles of legislation, oversight and representation; apply financial management according to international standards; and facilitate productive participatory processes where citizens and CSOs undertake social audit through real life participatory exercises and performance monitoring (through the component on innovation).

3.5 Level of intervention

The project will be implemented at the municipal (micro) level, in close consultation and coordination with the relevant local executive authorities and civil society organizations. However, given the number of municipalities involved; the openness of some aspects of the project to all councillors; and the potential, through the network to be created through the project, to influence the local governance framework at the national policy level, the project will have both local and national (macro) impact.

4. Implementation strategy

4.1 Description of the intervention approach / methodology / instruments

Introduction

As mandated by SDC, during the preparatory phase of the project, UNDP focused on comprehensive analysis and extensive consultations with all relevant stakeholders with the aim to validate the initial assumptions and intervention approach and translate it into workable strategies and implementation instruments. The preparatory phase also served to awaken interest in the topic and inspire eagerness to participate in the project among municipal council members and other stakeholders.

As described above (cf. section 2), the proposed approach, methodology and instruments are based on five baseline assessments, 34 consultative events and a number of technical inputs from international and local experts, including in particular the Association of Finance Officers of the Local Governments and Public Enterprises (AFO) as a partner organization of UNDP in this project.¹⁰

With the overarching conclusion that the initial project assumptions, objectives and strategy remain valid, the proposed intervention approach is built around three main components for empowerment of councillors:

1. **Empowerment through capacity development** based on traditional and innovative methodologies
2. **Empowerment through financial support** (grants) for priority activities of the municipalities selected on the basis of public consultations

¹⁰All assessments, reports and training materials prepared during the preparatory phase are presented as annexes to this project document.

3. Empowerment through networking, codification, institutionalization and building sustainability

In implementing these components, *several transversal topics* will be integrated, namely:

- **Gender** will be a crosscutting theme in the project to ensure that the activities contribute to improvement of women's and men's opportunities to exercise their rights equally and gain equal access to, and control over, the benefits of development. Distinct emphasis will be placed on promoting women's participation in public service management and in decision-making processes as well as on the collection of gender disaggregated data (such as number of men/women participating in decision-making on funding of community projects, attending planning sessions and hearings on budget issues in municipalities etc.) which will be used for informed gender equality advocacy.

This emphasis on women's participation will be complemented by efforts to educate men and women alike on the gender implications of municipal spending decisions and other public policy choices and provide training on more gender-sensitive budgeting and oversight.

The specific gender-sensitization efforts will introduce, where applicable, gender analysis tools, and instruments for gender planning and gender-sensitive budgeting. They will focus on fostering the participation of women in the activity planning process and sensitisation of local stakeholders to gender related issues, reviewing and engendering of the participatory mechanisms and adjusting the monitoring system to assess progress made towards advancement of gender equality.

In these efforts, UNDP will rely on the mandate, methodologies and experiences of UN Women representative office in Skopje as the lead UN organization dedicated to gender equality and empowerment of women, including on gender-sensitive budgeting issues. In particular, the project will build on the achievements and ongoing efforts of the regional UN Women project on gender-responsive policies that, with funding from SDC and the Austrian Development Agency (ADA), has worked with a group of 10 target municipalities since 2014.

- The project will mainstream the topic of **good governance** through promoting the principles of **transparency, accountability, citizens' participation, efficiency and non-discrimination**. At the heart of the mandate and among the core competences of UNDP, these principles have already been embedded in the project objectives and have been made explicit during the planning phase and the design of the project contents.

Looking forward, the good governance principles will be systematically addressed in the delivery of all activities, with specific attention to creating conducive space for participatory decision making and for more accessible, responsive and effective institutions at local level. In this process, partner municipalities and councillors specifically will be sensitized about the importance and benefits of the application of the good governance principles in the management of public affairs and the exercise of power and provided with a range of learning and practical contents and tools to that effect.

Specific good governance indicators will be integrated in the assessments of municipal performance as a precondition for selection and allocation of financial resources to municipalities. Among the main reference anchors in these efforts will be the SDC "Community Forums" programme for improvement of participatory community development and good local governance through the use of structured citizens' participation tools as well as UNDP's extensive experience in the application and integration of the good governance principles in its local development work since 2002.

- Efforts for promotion of *social inclusion and inter-ethnic cooperation* will also be systematically embedded in the project and will take several forms: a) considering the effects and benefits of particular initiatives on promoting social inclusion and inter-ethnic cooperation at local level; b) assessing whether initiatives, including those related to budget planning and execution, would require additional measures to be effective among the various socially excluded groups¹¹ and also different ethnic communities; and c) ensuring the relevance of municipal initiatives to the needs of vulnerable and socially excluded groups and specific ethnic groups.

Furthermore, due attention will be paid to local service delivery initiatives that might require particular measures to be made accessible to specific communities and vulnerable groups. In implementing all project activities, UNDP will ensure constructive interaction between multiple actors in building relationships of trust and consensus about shared goals. These efforts will capitalize on the extensive experiences and competences of UNDP in promoting social inclusion and inter-ethnic cooperation at the local level.

These transversal topics will be promoted and reinforced with dedicated activities to demonstrate their value, meaning and practicalities of implementation, including, for example through specific training modules on gender, good governance and inter-ethnic issues.¹²

The overall project strategy will take due account of its potential contribution to the global *Sustainable Development Goals* (SDGs), in particular those specifically relevant to the project, including: achieving gender equality and empowering all women and girls (Goal 5), sustainable cities and communities (Goal 11), promoting peaceful and inclusive societies, promoting justice for all and building effective, accountable and inclusive institutions at all levels (Goal 16). UNDP, as part of the UN family, takes specific interest in advancement of the Sustainable Development Agenda and will make every effort to promote and advocate for the SDGs among local communities.

Sequencing of actions and methodology

In order to achieve the overall goal and the set objectives, the project will follow the sequencing approach proposed in the tender document and will undertake a range of activities grouped into **three major programmatic components** to be implemented over a **period of 48 months**.

In close cooperation with SDC and the Project Board members, UNDP will undertake a **mid-term review** of the project to assess the need for any revisions of the project implementation strategy and adjustments of the exit and sustainability measures.

The project will be implemented in two phases: inception and implementation phase, described below.

• *Inception phase*

The project will start with a **two-month inception period** to allow for the preparation of a detailed activity plan and resource schedule (work plans) and to regulate contractual, staffing and operational matters. The inception period will also see the completion of the recruitment of the full project team and short-term experts and the formalization of the partnership with the Association of the Finance Officers (AFO) and other project partners, such as the Association of Local Self-Government Units (ZELS) and UN Women.

¹¹ Building upon UNDP's programmatic work and analysis on social inclusion issues and socially excluded groups such as Roma, people with disabilities, unemployed youth.

¹² For this purpose, the project has prepared a detailed list of indicators for monitoring progress on the transversal topics which is presented in Annex 10b.

The project team will also use the inception phase to adopt an appropriate visibility strategy for the project. First steps include the official launching of a tri-lingual (Macedonian, Albanian and English) project website (www.opstinskisoveti.mk) that was developed during the preparatory phase.

The advisory Project Board will hold its first meeting in this period to reflect on the findings and lessons learnt from the preparatory phase and advice on strategic issues relevant for the implementation phase.

▪ ***Implementation phase***

The implementation phase of the project will start in the third month of the project and run to the end of the envisaged 48-month duration of the project.

While each project component to be implemented in this phase will have its own objectives and indicators of achievement,¹³ the three project components described below will be implemented in a complementary and mutually reinforcing way so that capacities, tools and products can eventually be synchronized, systematized and institutionalized in sustainable systems and structures.

All three project components will be implemented as a coherent and integrated cycle in all 24 target municipalities as per the criteria and timeline of selection of municipalities and implementation of the envisaged activities.

Component 1: Empowerment through capacity development based on traditional and innovative methodologies (month 3 to month 46)

During the preparatory phase of the project, a comprehensive Capacity Development Programme (CDP) was developed to address key capacity deficits identified through the PEFA and governance baseline assessments.

These capacity gaps are mainly related to councillors' insufficient knowledge and lack of engagement in important matters pertaining to the proper discharge of their mandate, including on budgeting and financial issues. The assessments showed that councillors are not systematically involved in monitoring the efficiency and quality of local service delivery and perceive themselves to be of marginal importance, especially when their role is compared to that of the Mayors. Councillors need tools and training and also fresh incentives to play an active role in running their municipalities. Under current conditions, where internal checks and balances are generally weak, budget execution and revenue collection tend to underperform, and there is little public pressure for accountability, councillors lack independence and rely heavily on the municipal administration for support in their work.

To address the key findings and recommendations from the assessments, the CDP has been designed around eleven (11) priority training modules, as follows:

- M1: The role of Municipal Councils in good governance
- M2: Budget adoption
- M3: Management of liabilities (and incurring debt), procurement and revenues
- M4: Financial reports of the local self-government units and their analysis
- M5: Financial control and audit
- M6: Human resource management in the units of local self-government
- M7: Application of innovative approaches to municipal council operation
- M8: Gender equality issues

¹³ For clarity and easier reading of the document, the detailed list of outcome and output indicators is presented in the log frame appended as annex to this project document.

- M9: Inter-ethnic relations
- M10: Inter-municipal cooperation
- M11: Spatial and urban planning

Training course briefs and manuals have been developed for modules M1 - M7 in the preparatory phase of the project and are integral part of the CDP program, while the briefs and manuals for modules M8 – M11 will be prepared during the first six months of the implementation phase. The pedagogy, the trainer profiles, the sequencing of trainings, the classroom training types and calendar and the training evaluation are described in detail in the CDP.¹⁴

The training calendar envisages three and a half month “classroom” training on PFM-related modules (May to middle of July, and September) and two-month “learning by doing” training with mentorship provided by the trainers during the months of October and November in order to match the period of consultations with the public on the horizontal programmes and the draft and final proposal of the budget and practically demonstrate the gained knowledge and skills. This period will be used for verifying the number of councillors that attended the training sessions and checking if the participatory process for selecting a priority project was run adequately in order to continue with financial support under the second component of the project.

Module M8 on gender issues/gender-based budgeting will be prepared in close cooperation with UN Women. The aim of this cooperation is not only to tap on the core mandate of UN Women and ensure coherence of work, but to build on the agency’s experience in designing and delivery of gender training programmes. The module will be based on the UN Women training and mentoring programme on gender-responsive budgeting for public officials at the local level, which was designed by a team of gender and governance experts taking into account local government legal obligations and the findings of a capacity and needs assessment conducted for this purpose. The training and mentoring programme was developed within the UN Women regional project “Promoting gender responsive policies in South East Europe and the Republic of Moldova,” which was implemented with financial support from SDC. The project aims to strengthen the capacities of civil servants and elected officials in the area of gender-responsive policy making and budgeting with the aim of improving local government’s response to the gender-specific needs of women and men and advance gender equality at the local level. UN Women has already successfully piloted the programme in 10 municipalities in the country.¹⁵

The experts of UN Women, together with the Ministry of Labour and Social Policy, have also developed gender modules for the e-learning system managed by the Ministry of Information Society and Administration, which will also be considered for adaptation to the specific training needs of the councillors. All these efforts and materials represent a very solid point of departure for designing the training on gender in a competent, coherent and institutionalized manner.

As part of the CDP, the project will also provide assistance for updating and publishing of a manual on the competencies of the mayors and councillors developed by the Association of Local Self-Government Units (ZELS).

The CDP will be delivered through two mutually reinforcing channels:

- Classroom training; and
- An e-knowledge platform.

¹⁴The detailed CDP and all the available training materials are presented in Annex 7 to this project document.

¹⁵ Municipalities of Aerodrom, Bitola, Bogovinje, Gjorche Petrov, Mavrovo and Rostushe, Sveti Nikole, Shtip, Strumica, Tetovo and the City of Skopje. Other activities of UN Women include training on gender-sensitive budgeting implemented through ZELS for all municipalities. Reference projects of UN Women also include the project “Women’s Leadership” implemented in municipalities: Kratovo, Sveti Nikole, Tearce, Mavrovo and Rostushe, Radovish, Petrovec, Prilep, Gjevgjeli, Saraj, Aerodrom, Veles, Strumica, Delchevo, Ilinden, Shtip, Kisela Voda, Cheshinovo, Obleshevo, Kumanovo, Berovo, Chashka and Bitola.

The classroom training will be delivered to a total of 24 municipalities, with six municipalities enrolled starting from May 2017 after the local elections, and nine municipalities in each of the following two years. The municipalities will be selected by applying a combined method of direct selection and selection based on public call against specific criteria. The municipalities which were assessed as part of the PEFA baseline assessment (Veles, Strumica, Ohrid, Chair, Valandovo and Sveti Nikole) are proposed to be directly selected as the first group of test municipalities for implementation of all project components and will serve as a control group for monitoring and evaluation purposes.

The justification behind the direct selection is to assess the overall results and effects of the project through a second PEFA assessment¹⁶ in the last year of the project implementation (2020). For these six municipalities, detailed field assessments were prepared that will enable comprehensive evaluation of the impact of the improved functions of the councils on the overall financial accountability and efficiency of the beneficiary municipalities' as anticipated transformational change.

The pilot municipalities were selected at the beginning of the preparatory phase in order to create a sample including different types of municipalities with diverse financial track records. The six include urban and rural municipalities; municipalities with large and small budgets and populations; municipalities from different geographical regions; one municipality headed by an opposition Mayor (Strumica); one large and one small municipality with negative audit reports; and one municipality with frozen bank accounts (Ohrid). These municipalities are considered as potential model municipalities and champions for the other municipalities to learn from.

Councillors from these six municipalities are well acquainted with the objectives of the project and have attended most of the consultative events during the preparatory phase of the project. Directly enrolling a group of "champion" municipalities with favourable audit reports creates an opportunity to select "nodal" councillors who will take lead in peer-to-peer training through the network of councillors and the e-knowledge platform. Of special importance for the project is to use the CDP as a vehicle to help municipalities with unfavourable audit reports improve the overall public finance management system.

The only pre-condition that the directly selected municipalities will need to meet is to post the developed e-dashboard on the municipal website and populate it with fiscal and financial data.¹⁷

The remaining municipalities (18) will be selected through a call for participation and fulfilment of:

- 1) Eligibility criteria; and
- 2) Selection criteria.

The eligibility and selection criteria are intrinsically linked with the project objectives. Should more than 18 municipalities meet the criteria, additional filters will be applied for selection purposes.

The eligibility criteria will relate to the legal status and the initial commitment of the applicants, i.e. the need for the applications to be submitted from the official local self-government units along with a jointly signed letter of commitment from the Mayor and the President of the Municipal Council.

The selection criteria will be framed around the quality of the process of budget review, systems of checks and balances, systems for internal communication, mechanisms for communication with the citizens and the like.

¹⁶ The 8 PEFA indicators that have been reviewed for six municipalities should be revisited and clearly those indicators that have satisfactory scores (A and B scores) should have been maintained while those with unsatisfactory scores (C and below) should have improved at least a grade and possibly to at least a B score. It is recommended that two additional PEFA indicators be added to the baseline: PI-26 'Scope, nature and follow-up of external audit,' and PI-28 'Legislative scrutiny of external audit reports.'

¹⁷ This means to allow installation of the respective software that automatically and simultaneously transfers data from the excel files of the financial reports delivered to the Councils to the publicly accessible dashboard. More details about the e-dashboard are provided in the "Innovations in Governance" menu presented in Annex 8.

The additional filters will look into more specific details to ensure optimum balance between the geographical, ethnic, gender and political considerations and the financial and human capacities in place.

The table below presents an overview of the proposed eligibility and selection criteria:

Eligibility criteria	Selection criteria
<ol style="list-style-type: none"> 1. Status of local self-government unit 2. Signed letter of commitment by the Mayor and the President of the Municipal Council including the commitment to the project objectives and respect for the principles of transparency, accountability and responsibility in project implementation 	<ol style="list-style-type: none"> 1. Clear budget calendar and qualitative review of the proposed budget – degree of engagement by the Financing and Budget Committee (FBC) and the Municipal Council 2. Efforts and existing mechanisms for citizens' participation (Community Forums in particular) 3. Existence/staffing of the Internal Audit unit 4. Qualitative review of the financial and external audit reports and monitoring of the improvements 5. Reacting upon the recommendations of the Committee on Equal Opportunities and Committee for Inter-Community Relations 6. Readiness to install and administer e-dashboard on the municipal websites with data on budget execution on a quarterly and annual basis.

Output 1.1: Capacity Development Programme delivered through classroom trainings to 250-300 councillors (at least one-third of whom are women)

All councillors from the selected 24 municipalities will be invited to participate in the classroom training. The aim is to secure participation from at least one third of the total (in all, 200 - 250 councillors, at least one-third of them women).

In addition to the intrinsic appeal of acquiring professionally useful knowledge, the incentive for councillors to participate in classroom training will be the opportunity for their municipality to receive funds for the implementation of a priority community project to be selected in close consultation with the citizens. This benefit will be publicized. The councillors will also receive certificates of achievement for successfully completing the training (this applies both to the traditional classroom-style courses and the training provided through the e-knowledge platform – see Output 1.2, below).

Activities for output 1.1:

- Creating a roster of 30 trainers (three trainers per training module with exception of the module on gender issues to be coordinated with UN Women) to be maintained by the Association of Finance Officers (AFO). In this process, the roster of 19 experts who developed the training materials for the seven training courses (M1 – M7) will be jointly re-evaluated by UNDP and AFO with the aim of validating and upgrading the roster of trainers. Other potential trainers (composed both of experts and former councillors) will be added to the roster on the basis of a public call and interviews.
- Designing the briefs and manuals for modules M8-M11.

- Organizing a comprehensive training of trainers (ToT) programme to familiarize the trainers with the teaching approach and the training materials and achieve a shared understanding of the expected results. For this purpose, a manual for trainers will be developed prescribing the training methodology and the related forms and templates.
- Development of knowledge products and standards and guidelines, based on the experiences with the implementation of the training modules.
- Integration of the developed products into standardized curricula through the appropriate institutions, including AFO and the Association of Local Self-Government Units (ZELS).

Output 1.2: E-knowledge platform designed and used by one-fourth of all councillors and institutionalized and made available to all 1,327 councillors

The second channel of delivery of the CDP will be through an e-knowledge platform that was designed during the preparatory phase of the project and will be further upgraded in the implementation phase. The e-knowledge platform will be accessible through the main menu of the project website: www.opstinskisoveti.mk. The aim of the e-platform is to serve as a comprehensive knowledge depository and resource point for councillors, but also for the other structurally linked beneficiaries (Mayors, municipal administrations, NGOs). The platform has been designed to have both conventional and innovative functions, including those that facilitate networking and discussion among councillors.

Activities for output 1.2:

- Populating the e-knowledge platform with the training materials of the CDP produced during the preparatory phase of the project (modules M1 – M7) and the materials that will be produced during the first six months of the project implementation (modules M8 – M11).
- Creating interactive contents, exercises, knowledge tests and certificate options for training course completion for each module.
- Continuous populating of the e-knowledge platform with resource and reference materials relevant to the role and mandate of the councillors.
- Organizing a mentorship programme for the councillors that is staffed by the pool of trainers.
- Establishing a feedback mechanism on the quality of the training and e-modules to ensure continued improvement in the quality of the materials.
- Internalization and institutionalization of the e-knowledge platform within the municipalities and through the partner institutions, namely AFO and ZELS.

Output 1.3: Capacities of councillors built for improved transparency, accountability and citizens' participation by adopting at least one innovative measure in 24 municipalities.

To complement traditional classroom-style training, UNDP will draw on recent achievements in developing innovative solutions to development challenges. These rely not only on technology but also on greater participation of end-users in the conceptualization and design of development solutions, with the aim of ensuring that public services respond more directly, closely and efficiently to citizen needs. To apply this approach to the specific challenges faced by municipal councils, during the project's preparatory phase, an "Innovations in Governance" methodology and menu of tools was prepared.¹⁸

Drawing on the baseline governance assessment, the innovation menu offers a range of options to:

- design and implement innovations in municipal processes;

¹⁸The "Innovations in Governance" methodology and menu of tools are presented in detail in Annex 8.

- offer conceptual innovations for strengthening the role of councillors in municipal governance;
- enhance cooperation with citizens; and
- leverage information and communication technologies to reduce costs and improve efficiency.

One innovation designated as the highest priority was already developed during the preparatory phase: **the e-dashboard**.¹⁹ This is ready for launching and will be tentatively rolled out in Month 6 of the project.

The aim of the e-dashboard is to provide transparent financial information and allow for improved civic monitoring over the municipal budgeting processes. The e-dashboard is meant to be a practical platform for sharing financial data in a manner that would be understandable for those who are not specialised in the subject area (councillors and citizens). The e-dashboard will collect data around the following indicators: revenues, expenditures, liabilities, and will post reports on municipal budget, municipal final account, annual and quarterly reports.²⁰

The application of the other proposed tools will depend on demand from the municipal councils included in the project. The methodology is presented in detail in “Innovations in Governance” menu.

In the first six months of the implementation phase, the project will select a group of councillors to serve as an innovation-focused sounding board for the project. This group will be chosen from among those who were most proactive during the baseline assessments and consultative events, with an eye to including those with relevant professional backgrounds and previous council experience. They will form a “community of councillors – innovators” that will screen project activities and explore how innovative methods and tools can improve the processes and procedures that shape council work.

Activities for output 1.3:

- Installation of the already developed e-dashboard on the municipal websites and populated with data on budget execution on a quarterly and annual basis. For the six directly selected municipalities, use will be obligatory; for the other 18 municipalities that will be selected to attend the classroom training, use will be one of the performance criteria for receiving grants.
- Translating the e-dashboard into a mobile application during the first six months of the project to provide councillors and the public with a user-friendly, hands-on tool to analyse financial performance data including: accrued liabilities and debt versus collected revenues; budget execution versus adoption; and projected revenues versus collected revenues.
- Implementation of the “Innovations in Governance” methodology and tools by determining the eligibility of municipalities, organizing a call for participation and moving forward with implementation of the tools, contingent upon the prescribed criteria and specified preconditions.

Component 2: Empowerment through financial support (grants) for priority activities of the municipalities selected on the basis of public consultations (month 3 to month 46)

As explained above, the same group of 24 municipalities will benefit from all three project components, starting with the directly selected six municipalities, and then expanding gradually to 24, with nine additional municipalities selected during each of the subsequent two years, starting in 2017.

¹⁹The functionalities and objectives of the e-dashboard are presented in detail in Annex 8.

²⁰All of them laid down as mandatory by the Law on Financing of Local Self-Government Units,

This component aims at improving the transparency and accountability of all municipal bodies and citizens' engagement in the definition of local budget priorities. The financial support (grants) will be used as an incentive for the municipalities to measurably improve the council's relations both with citizens (representation and legislation) and with executive municipal bodies (oversight).

The level of transparency and accountability of the municipal bodies in the process of municipal budget preparation and implementation depends on the quality of information, mutual communication and relations among all stakeholders. The first component of the project will increase the knowledge and skills of the councillors and raise their awareness about their mandate to represent their citizens and make decisions and their detailed insight into the needs of the citizens they represent (representation function). In order to receive grants, all municipal bodies will need to work towards creating the conditions for effective citizen engagement in the municipal programmes and budget development.

The anchor of this component will be the successful SDC-funded Community Forums programme, which was introduced as a mechanism for citizen participation in decision making in over two-thirds of the country's municipalities. The overarching goal of the Community Forums programme was to enhance participatory community development and good local governance through a structured instrument designed to encourage a) citizen participation in decision-making processes in their municipality and b) the development by the local administration of a participatory, accountable, and trusted local governance. The programme brought citizens together around municipal budget processes to decide on local priority projects of shared interest. Based on these consultative processes, municipalities were provided with grants to implement needs-based priority development projects.²¹

This methodology and the existing structures developed by SDC will serve as the foundation for this project to allocate funds for activities that citizens and councillors jointly define as priorities.

Through this effort, the selected municipalities will receive funds amounting to a maximum of CHF 50,000 for a maximum of three projects per municipality, with a total allocation of CHF 1.2 million for 24 municipalities over the project's duration.

While the nature of the projects to be funded will result from the consultative processes between the councillors, local administration and the people from the municipalities, the projects will be expected to address people's social inclusion priorities while integrating the overall transversal themes of gender, good governance, and social inclusion and inter-ethnic cooperation. In this process, UNDP will try to build around the criteria applied for the SDC-funded Forums, such as that the projects need to:

- Establish partnerships between organizations and citizens
- To end with measurable, practical and visible results
- To have important and broader societal impact and to relate to an important issue of the marginalized groups
- To be sustainable and continue to work after the end of the support with municipal funding
- To contribute to the decentralization process and accountable financial management by the municipal administration
- To address various social inclusion issues of specific relevance, with specific focus on addressing the needs and interests of various excluded and marginalized groups (for example, Roma and people with disabilities)

²¹ In the last ten years, the Community Forums programme has included 59 municipalities who have participated at least once (some municipalities implemented more than one Forum). Around 100 projects selected by the citizens in all included municipalities have been implemented. During 2007-2010, 9 rural and 14 urban municipalities were involved in the forum process. In the period 2011-2014, 20 rural and 26 urban, municipalities were included. In the selection of the participating municipalities the proportional ethnic representation of the municipalities was also ensured. Since 2010, the Community Forum process was institutionalized and incorporated in the Statutes of the Local Self-Government Units. The main implementing partner in this process was the Association of the Local Self-Governments Unit - ZELS. So far, 59 municipalities have incorporated Forums in their statutes.

- To address equally the needs of men, women, various ethnic groups and to support the participation of these groups in the project implementation

A non-exhaustive list of examples of such social inclusion projects would include:

- Mobile and de-institutionalized service provision for the elderly and other at-risk groups;
- Day-care centres and small-group homes for the homeless;
- Disability-friendly and accessible school infrastructure;
- Inclusive youth centres and multi-cultural youth activities;
- Shelters and social care provision for victims of gender-based and domestic violence;
- Social protection programs for children and young adults who abuse drugs;
- Disability-friendly public transportation;
- Expansion of Internet access;
- Social housing for the indigent, orphans, persons with disabilities, Roma and others;
- Preschool and kindergarten facilities, especially in rural areas;
- Business support centres to expand economic participation by women and ethnic minorities.

A variety of control and scrutiny mechanisms will be put in place to ensure proper disbursement of funds, such as transfers upon deliverables, spot-checks and rigorous monitoring and reporting tools. UNDP will also exercise additional controls through its Operations, Programme and Project Teams.²²

In preparing for the roll-out of the scheme for funding municipal priorities and in referring to the experiences of the SDC-funded Community Forums, the basic precondition for selected municipalities to receive grants will be active participation in all three components of the project and covering fees for community and budget forum moderators.

Each of the selected 24 municipalities is eligible for a grant but must take part in an assessment process that will verify that municipal council members participated in the training and mentoring components of the program, specifically participation by at least 30 percent of councillors in the governance module of the training program, and use of the e-learning platform by at least one-fourth of councillors.

Although municipal co-financing of the projects will not be requested and partial funding of priority municipal projects will not be accepted, every effort will be made to ensure that the small grants program is closely coordinated with existing municipal investment plans and parallel municipal initiatives supporting social inclusion and similar aims.

Output 2.1: Municipal grants scheme implemented that supports priority community projects in each of 24 municipalities.

A pool of funds will be reserved for allocation to all target municipalities under the “grants scheme.” The total sum of funds will be divided equally among all 24 selected municipalities for projects selected on the basis of public consultations.

The 24 selected municipalities will act on behalf of UNDP on the basis of a written agreement to purchase goods or provide services using the project budget to implement priority activities and produce outputs. All selected municipalities will be directly accountable to UNDP in accordance with the UNDP rules and regulations.

Activities for output 2.1:

- Exchange of experience with the local SDC team on the methodology, results, lessons learnt and structures of the Community Forums programme to support the new grants scheme.
- Review and endorsement of the proposed projects selected through a public consultation process by the advisory Project Board.

²² The funds will be transferred in accordance with the applicable UNDP rules and regulations.

- Awarding of grants to municipalities, starting with the directly selected six municipalities and then followed by the selected nine municipalities annually to arrive at a total of 24 municipalities to have been awarded grants.
- Validation of the results of the “grants scheme” in two instances: after the initial and second clusters of municipalities pass their first budget cycles, respectively.

Output 2.2: At least one mechanism for citizen participation in decision making including community and budget forums utilized for setting community priorities in each of 24 municipalities.

A participatory process to forge a community consensus around priority development projects in selected municipalities will be designed and implemented.

The selection of priority projects will also be assisted by local mentors to be assigned to work with the councillors and facilitate the consultations with the citizens. The local mentors will also provide inputs to the project management team and the Project Board.

Activities for output 2.2:

- Implementation of minimum one community and budget forum or similar public consultation mechanism in all 24 selected municipalities.
- Validation and finalization of the criteria for the social inclusion activities that the citizens and councillors will jointly define as priorities.
- Assessment of the participation of the municipalities in all three components of the project by the assigned “mentors” of the two-month “learning by doing” training who will also verify the participatory process and relevance of the proposed projects.²³ When testing the approach with the first group of municipalities, SDC and UNDP will be present intensively in the field.

Component 3: Empowerment through networking, codification, institutionalization and building sustainability (month 3 to 44)

This component is designed to build and expand a network among council members from different municipalities, as a way of improving horizontal communication and cooperation and promote the formulation of joint positions on common needs and interests regardless of their political party affiliations. Together, the council members can then push for legislative and practical changes needed for municipal councils to function more effectively.

The network will help to achieve the project aims by creating and sustaining a mutually reinforcing learning environment to complement the classroom training and online learning. Opportunities will be created for peer-to-peer sharing of experience and lessons learned.

The project will organize three types of networking: face-to-face thematic networking events; virtual peer groups organized through the e-learning platform; and cross-border cooperation with peers across the region.

In line with initial consultations, networking will be coordinated through of the Committee of Councils (CoC) of the Association of Local Self-Government Units (ZELS). This will give project activities a strong institutional foundation, since the CoC participates in the ZELS executive and oversight bodies and in the ZELS General Assembly. It will also promote the long-term sustainability of the network

²³ This activity envisages one month in each project year for induction of the eight municipalities, one month-and-a-half for preparation of the applications and an additional month-and-a-half for evaluation of the applications. This period overlaps with the period of public consultations on the horizontal programmes of the municipality (to be adopted by the Councils not later than 15 November) and the deliberation of the next year’s budget proposal (to be adopted at the end of the year). Six months are envisaged as an adequate period for implementation of the selected interventions.

Output 3.1: Off-line and online network created in which one-fourth of all councillors participate

Depending on the needs and the specific weight of the questions, thematic events will be organized for the presidents of the councils of all municipalities and for the chairpersons of the Financing and Budget Committees, Equal Opportunities Committees, Inter-Community Relations Committees and other committees under the councils of the local self-government units (eg. urban planning, social services).

This approach will build upon the preliminary networking already organized in the preparatory phase.

The networking events will be structured around the key challenges identified by the council members themselves during the baseline assessments. These main challenges include:²⁴

- General challenges related to the overall systemic deficiencies in the normative and institutional framework for the implementation of the councillor's mandate; deficiencies in existing capacities, lack of training opportunities, complex and weak internal structural and functional relations; inconsistent opportunities and mechanisms for interaction with citizens.
- Challenges related to the oversight of the financial aspects of the work done by the municipal executive bodies: marginal role of the councillors in budget preparation and monitoring, insufficient cooperation with the mayors and the municipal administration in that work; lack of specific skills for performing these functions; weaknesses in the internal financial control and audit; lack of preventive mechanisms and tools for the Councils to exercise oversight position etc.
- Challenges related to the functioning of the Equal Opportunity Committees/Inter-Community Relations Committees: lack of capacities and skills within the Committees to properly discharge their roles, inappropriate budgeting for the activities proposed by the two committees despite the existing action plans and other policies and measures; logistical challenges related to the work of both committees; underestimation of the systemic role of these committees.

In addition to face-to-face events, virtual networking will be forged through the e-learning platform. All council members from all local self-government units will be invited to join a "councillors only" on-line club, so this will be open not only to the 24 selected councils that will participate in the classroom training and the grants scheme, but for all councils in all 81 municipalities. Councillors will have access to all content and can elect to receive emails on news and events as well as prompts to engage in online activities.

The e-learning platform will be integrated in the project website, but it can also function as a self-standing website. At its most basic level, the website will give councillors access to the latest news on topics of interest to them, as well as standard information on municipalities and municipal processes. To provide a broader comparative framework reaching beyond strictly national norms and practices, news on regional and international developments in municipal governance will also be available. A search function will help councillors find solutions to specific legal challenges faced in their work.

But the e-learning platform is designed to be far more than a repository of information. Councillors will be able to enrol in online courses from an ample menu, and also share feedback and learning experiences. The platform will provide access to recorded lectures, and councillors will be able to make recommendations to their peers to listen to featured lectures. They will also be able to submit requests and proposals for new training courses, and these will be made available as soon as demand reaches a threshold of at least 50 councillors. This will help bring together councillors around shared interests.

The platform will also feature yardstick tools to facilitate easy comparative municipal analysis.

²⁴ A detailed list of identified challenges is presented in Annex 9.

The platform is designed to be lively and interactive. Opinion polls will be organized in which councillors will be able to cast votes on specific questions and compare their views with those of other councillors. To help motivate council members to build up their knowledge, the website will display self-test scores when councillors choose to share results. Recognition rewards in the form of online medals will be displayed in halls of fame for login times and use of e-learning.

In addition, the website will feature moderated chat rooms to encourage discussion on municipal governance issues. This mechanism will encourage councillors to share experience on topics of mutual interest in municipal governance. The discussions will have expert moderation to ensure that they remain of abiding interest to participants and that opinion is appropriately supplemented with expertise.

Networking features will also allow councillors to post their contacts and social network addresses if they wish to connect with peers. Councillors will be able to create thematic groups on shared interests, after review by the platform administrator. Using these mechanisms, councillors will be able to connect with peers from other municipalities on issues of shared concern or interest, and post issues and requests for comments. In the end, the platform will serve as the mechanism to create a lively virtual community.

Activities for output 3.1:

- Creation of thematic groups consisting of 15-25 councillors each belonging to the Financing and Budget Committee, Equal Opportunities Committee, Inter-Community Relations Committee and other committees under the councils of the local self-government units (e.g. urban planning, social services).
- Organization of a series of networking events for councillors to participate and share experiences. These events will have a dual function. Each will have a substantive focus of intrinsic interest to participants, showcasing municipal experiences and expert speakers on topics of shared interest. At the same time, they will build an *esprit de corps* through contacts and discussion.
- Organization of groups for peer-to-peer support and learning for the councillors and designing thematic meetings and roundtables around various topics of interest.²⁵
- Organization of policy workshops with participation from national authorities and other relevant institutions.
- Preparation of a comparative review of the role of the councils in the local self-government to inform the networking discussions.
- Revival and revision of the Code of Ethics for Local Government Officials to promote a clearer and more visible role of the councillors in support of local government integrity efforts.
- Establishment of a virtual councillors' community through the e-knowledge platform.
- Design of opinion polls for councillors and analysis of responses and needs, through the e-knowledge platform.
- Establishment of on-line focus groups of councillors.
- Monitoring of networking activities and opinions and exploring opportunities to address needs.

²⁵From participating councils, up to three members will be invited to work as 'council nodes' to link with the councillor network. The nodal councillors will be given briefings by the project team and requested to participate in organization of activities. They will also be given special roles in organizing networking events. Within the council, peer groups will be encouraged around the nodal councillors. The nodal councillors will be provided with organized contact and communication with other nodal councillors across municipalities, as well as materials for continued learning relating to municipal governance.

- Verification and codification of all project outputs and practices through the established network of councillors.
- Institutionalization of the project products and results through the established network and systems, through ZELS in particular.

Output 3.2: Exposure to regional and global best practices in empowered municipal councils

This output will be primarily directed towards promoting exchange of sub-regional experiences, but also potentially broader cooperation with more advanced countries in EU and the world that are considered leaders in capitalizing on the role of locally elected officials in the budgeting processes and overall promotion of the principles of good governance at the local level.

The many benefits of these exchanges include: use of experience and capacity that already exists elsewhere towards development of new capacities in the country; opening of additional channels of communication among countries; enhancement of the multiplier effect of technical cooperation; increased knowledge of and confidence in the capacities already available in the country; coordination of policies on development issues relevant to a number of developing countries; development of indigenous solutions and introduction of techniques better adapted to local needs, and accelerated professional development.

Under this output, the project will closely cooperate with ZELS and the Network of Associations of Local Authorities in South-East Europe (NALAS) as well as with the UNDP country offices in the region and the UNDP Istanbul Regional Hub (IRH). UNDP's other global networks and outreach facilities will be utilized as well as, where relevant, the experiences of other partner organizations.

Activities for output 3.2:

- Identification of best practices and the organization of two study visits for councillors for learning purposes, specifically on issues related to budgeting, finance and application of the principles of good governance at the local level. Eligibility for participation in study visits will depend on the commitment of the councillors to implement the comprehensive capacity development programme provided under Component 1 of the project.
- Facilitating the participation of councillors in topical regional and international events.
- Facilitating twinning arrangements to expose the councillors to the best international practices. Considering the large number of participants in the project, twinning will also be used as a performance incentive, as only the best performers will be eligible to take part.

4.2 Description of the partner organizations, their roles, experiences, added value, capacities and limitations

UNDP is committed to building strategic alliances with a number of institutional and civil society partners with which we have been building relationships of trust and cooperation over many years of joint work on the decentralization agenda. This includes municipalities, civil society organizations, various line ministries (including the Ministry of Local Self-Government, the Ministry of Finance and the Ministry of Information Society and Administration) and other UN organizations.

To achieve specific project objectives, UNDP will enter into contractual arrangements or other forms of cooperation agreements with strategic partners to define implementation roles and responsibilities.

These partners are:

- **The Association of Finance Officers of the Local Governments and Public Enterprises(AFO)**
- **The Association of Local Self-Government Units (ZELS)**
- **UN Women**

The Association of Finance Officers (AFO) as a primary project partner

As mandated by SDC, and based on the identified collaborative advantages, UNDP partnered with AFO in implementing a number of agreed activities during the preparatory phase.

During this period, AFO played critical role in provision of a variety of technical inputs and facilitation of a large number of consultative processes. AFO's contributions include: preparation of a Stakeholders Map and Stakeholders Involvement Plan; creation of a pool of 19 highly qualified and experienced experts; involvement of 60 AFO members in consultative events; production of four (4) baseline assessments (on public finance management, and related capacity needs of the councillors, qualitative governance assessment, innovation and of the web pages of all municipalities; preparation of briefs and manuals for seven training courses and a range of other technical inputs for the capacity development programme and other project components.

In preparing the implementation phase of the project, UNDP conducted an internal evaluation of AFO's performance against the expected deliverables and validated the initial arguments for selecting AFO. AFO has a unique comparative advantage in the area of public finance management in the country and in its preparatory work for the project was able to draw upon its 300 members, its network of 24 regional coordinators, its deep pool of internal and external experts and a number of working bodies.

This process reaffirmed UNDP's confidence in AFO as its main partner for the implementation phase.

AFO's role as partner organization in implementation of the project

As indicated in the initial project proposal for the part 2: implementing the mandate, the Terms of Reference for AFO will be framed around the following tasks:

- The AFO network of municipal finance officers will provide both strategic and practical support to the councillors' network. AFO members will assist the councillors in developing joint positions on the changes needed to enable municipal councils to function better.
- AFO members will also help to create and sustain a mutually-reinforcing learning environment.²⁶
- AFO members will play a significant role in monitoring the implementation of the "grants scheme" and the innovation components of the project. The grants will be monitored by AFO members in the municipalities, with use of AFO financial control and reporting mechanisms.
- One of AFO's core tasks during the implementation phase of the project will be to renew the roster of experts and deliver classroom trainings, assist councillors in "learning by doing" and provide continuous mentorship in the framework of the e-knowledge platform.
- AFO's network of 300 members will serve as agents to promote greater citizen engagement in municipal decision-making. Drawing on its insights into good municipal practice, AFO will contribute to better budgetary decisions and improved budgetary oversight at municipal level.
- The AFO core team will provide quality assurance for the project, to ensure that it addresses the challenges in line with the terms of reference and the expectations of the beneficiaries, and also to propose any adjustments that may be needed in light of the country's complex context.
- Finally, as a strategic partner with its own systems and contacts embedded in the municipalities, AFO will ensure that all networking mechanisms, learning tools and knowledge products are sustained and made available to the next generation of councillors,

²⁶All PFM training modules foresee interaction between the councillors and the municipal administration. The Training Plan envisages involvement of the AFO members as trainers. AFO members from the municipality of Veles assisted in the design of the first e-dashboard with municipal financial data and AFO will continue to play a role in monitoring the e-dashboard.

municipal administration and other stakeholders through its institutional network and outreach mechanisms.

In performing its tasks, AFO will closely cooperate with UNDP and other project partners.

As initially envisaged, UNDP will enter into a contractual relationship with AFO covering the roles and activities described above for the entire duration of the implementation phase of the project.

The partnership with AFO is key to the project's sustainability and exit strategy.

Partnership with the Association of Local Self-Government Units (ZELS)

The Association of Local Self-Government Units (ZELS)²⁷ is the only association of municipalities in the country. ZELS promotes and encourages continuous and constructive cooperation and exchange of information among the municipalities and advocates on behalf of the municipalities on all matters that are of common interest.

ZELS, once a two-chamber body, still remains dominated by the Mayors, even though progress has been made regarding the status and influence of the ZELS Committee of Councils (CoC) due to the proactive attitude of the Committee leadership and the recent statutory changes that have allowed better representation of the councillors in the ZELS management and oversight bodies as well as in the ZELS General Assembly.

ZELS is key to the coherence of the country's local self-government system.

The role of ZELS as partner organization in implementation of the project

Building upon consultations and active participation in the preparatory phase, the project will establish close cooperation with ZELS around the networking agenda and for sustaining the capacities, tools and knowledge products beyond the duration of the project.

More specifically, UNDP will work with ZELS, through its Committee of Councils:

- to consult and coordinate on the relevance of the project activities and the intended results;
- to allow for access to the project benefits and results to all municipalities;
- to facilitate and promote networking among councillors; and
- to ensure that the established consultations systems, all the networking mechanisms, learning tools and knowledge products are sustained and institutionalized and made available to the next generation of councillors, as well as to all other interested stakeholders.

In practical terms and to secure optimal technical and substantive support for the ZELS CoC, the project will establish a contractual relationship with ZELS. Funds will be provided to cover the part-time engagement of one ZELS employee and some operational costs of the ZELS CoC office, located in the ZELS premises in Skopje. All other networking costs will be covered directly by the project.

The partnership with ZELS will contribute to the project's sustainability and is part of the exit strategy.

Partnership with UN Women

²⁷See <http://www.zels.org.mk/>

UN Women is the UN organization dedicated to gender equality and the empowerment of women. A global champion for women and girls, UN Women was established to accelerate progress on meeting their needs worldwide. Among the main roles of UN Women is to lead and coordinate the UN system's work on gender equality as well as promote accountability, including through regular monitoring of system-wide progress.²⁸

The role of UN Women in the project

Given the core mandate of UN Women and the benefits of having a UN Women representative office in Macedonia, UNDP intends to partner with UN Women on several significant aspects of the project:

- To ensure proper methodological and conceptual integration of gender as a transversal theme (gender mainstreaming) with distinct emphasis on promoting women's participation in public service management and in decision-making processes
- To advance specific gender-sensitization efforts and, where applicable, work on the introduction of gender analysis tools, instruments for gender planning and budgeting, review and engendering of participatory mechanisms and potential adjustment of the monitoring system to assess progress made towards gender equality
- To implement module M8 on gender issues/gender-based budgeting by building directly on the specific experience of UN Women in designing and implementing gender training and mentorship programmes in 10 municipalities through a regional SDC-funded project.
- To incorporate into the project the gender training modules developed by UN Women for the e-learning system managed by the Ministry of Information Society and Administration, and to adapt them to the specific training needs of the councillors.

Cooperation and coordination with UN Women will be facilitated by a UNDP Social Inclusion and Gender Specialist.

UNDP will enter into a strategic partnership with UN Women (through a Memorandum of Cooperation) covering an agreed division of responsibility on all project issues relevant to gender equality.

Other strategic institutional partners

In addition to the organizations with which UNDP will enter into contractual/cooperation agreements, a range of other relevant institutions and partners will be strategically involved and consulted in all phases of the project, including the **Ministry of Local Self-Government** and the **Ministry of Finance** as the leading central institutions on the decentralization agenda in general, and fiscal decentralization in particular. Representatives of these two ministries will also be members of the Project Board.

In addition, the **Ministry of Information Society and Administration**²⁹, the **Ministry of Labour and Social Policy**³⁰, and other institutions will be kept informed and consulted regularly to ensure the coherence and complementarity of efforts and to build support for the project goals at the central level.

²⁸See <http://www.unwomen.org/en>

²⁹MISA has recently posted two modules, on budgeting and gender budgeting at its official LMS that are obligatory for public civil servants.

³⁰The introduction of gender-sensitive policies into the programmes and budgets at national and local level is the strategic goal number one of the Strategy for Gender Sensitive Budgeting of the Ministry of Labour and Social Policy.

All municipalities and municipal leaderships will be as considered strategic partners and beneficiaries.

Civil society partners

UNDP will be open to cooperation with all relevant local civic organizations from the target municipalities and will consult and coordinate specifically with those NGOs with related experiences and competences in budget monitoring and financial analysis issues.³¹

4.3 Forms of cooperation and coordination between involved partners

At strategic level:

- The main formal mechanism and forum for coordination and consultation among the project partners will be the Project Board.

At operational level:

- The institutional structures and outreach potentials of AFO and ZELS will be fully utilized for horizontal synergies and linkages between municipalities and other partner organizations involved in the project.
- The NGO network “Coalition for Budget Monitoring” will be used for cooperation and coordination among civil society partners at central and local level.
- Other forms of regular formal and informal cooperation and coordination mechanisms may be put in place as the project progresses.

4.4 Addressing the drivers and restrainers of change

The project can make only a modest contribution to dismantling the broader restrainers of change in governance. The environment for all initiatives aimed at improved democratic governance will remain challenging, especially during pre-election periods when populism shapes many funding decisions.

However, the project is designed to dismantle many local-level restrainers of change. This will include an effort to nurture enthusiasm for improved oversight of public finances among municipal council members and other stakeholders. Building on the awareness that genuine change must come from within, within the networking component, the councillors will receive support in developing a common platform for initiating normative and institutional improvements. Furthermore, the capacity development programme that is at the heart of the project is designed to empower councillors with the knowledge and skills crucial for gaining influence in local government issues and strengthening their role in relation to the mayors and the municipal administration. Having this in mind, the capacity development programme was designed to attract interest through the usefulness of the content and dialogue in delivery, rather than standard lecturing.

The councillors consulted in the preparatory phase of the project expressed a keen interest in training, so this thirst for knowledge can be harnessed for change. In addition, municipalities are also eager to experiment with technology to find innovative (and cheaper) ways to deliver services. Finally, the grant scheme will be a powerful incentive to participation as well as a deliverable in and of itself.

³¹ For example, NGO “Forum – Centre for Strategic Research and Documentation” and “Finance Think,” and many other that may have strengths in promoting civil society networking, budget monitoring, fiscal analysis, organizing outreach and awareness raising activities at the local level.

At present, municipal councils have little time, little capacity and little consequence. The time constraints of councillors demand that the project “sell itself,” so that councillors will take the time to participate. Since participation in the council is itself an issue, participation in the training may be a challenge which needs to be addressed. Here the **networking component** of the project is a key attraction, since it is designed to give councillors a sense of worth and strength in numbers. As councillors see a path to overcome their own marginalization, enthusiasm is expected to spread.

Engaging the broader community in public finance issues is the ultimate cure for politicized spending decisions. The project is designed to provide the forum, the tools and the language to open up debates on local priorities and encourage citizens to be more vocal in demanding accountability.

Designating project champions will be an important step towards building momentum for change. Municipal council presidents are a target, since they have the greatest scope to invigorate council performance. The ZELS Committee of Councils (CoC) is another potential institutional champion for the project. Both council presidents and the chair of the ZELS CoC participated in the preparatory phase of the project, and both have shown keen interest in further and deeper engagement. Individual councillors who stand out for their activism are a third potential champion pool.

4.5 Measures to ensure sustainability and exit strategy

The project is designed to ensure that the capacities, knowledge and systems created in the implementation phase are retained and its principles and values are sustained after the project ends.

Sustainability and scaling up will be undertaken at several levels:

- Planning for sustainability, scaling up and exit strategy from the outset;
- Regular consultations with partners and stakeholders to identify any changes and risks that may affect the sustainability measures, scaling up potentials and exit strategies;
- Regular discussions on the specific roles of each partner in sustaining the results;
- Documentation, consolidation and codification of the knowledge products;
- Institutionalization of the learning systems, knowledge products and networking mechanisms in the best suited organizations which serve the needs of all municipalities;
- Creating a permanent pool of resource persons (specialists and non-specialists including former councillors) to deliver training through an institutionalized training program;
- Scaling-up of the learning system and codified knowledge products to all municipalities for future reference of all councillors and other interested stakeholders;
- Institutionalization of the networking mechanisms, particularly through ZELS and AFO.

One obvious challenge to sustainability is the duration of the council members’ mandate. Some councillors who receive training will inevitably leave office either during or after the project’s implementation period. The project takes a two-track approach to this challenge:

- While the councillors may come and go over the project’s lifetime, the development of a cadre of former and present councillors with optimal insight in the council dealings and other resource persons (the trainers) will be a key achievement of this project and will ensure continued impact of the project after it closes. The resource persons will include both specialists in public finance management and experienced former councillors from the finance and budget committees.
- By entering into strategic partnerships with AFO and ZELS from the outset, UNDP is targeting these two organizations as most adequate institutional successors of the project components and results. In that regard, ownership of the knowledge products created, tested and improved during the project will be transferred to these horizontally networked partner organizations.

- Namely, building on the strong network of councillors already represented by the ZELS Committee of Councils and the statutory amendments that increased the councillors' standing within ZELS, ZELS will become the future organizational home and "owner" of the networking component and the resulting tools and products, including the project content management system (website) and the learning management system (e-knowledge platform). All training materials will be posted on the e-knowledge platform and made available to all 1,347 councillors as well as other stakeholders, thus ensuring nationwide scaling up and sustainability.
- AFO will codify and maintain the products related to public financial management (also through the e-knowledge platform) and use them in improving the professional standards of work of municipal finance officers.
- UNDP foresees gradual transfer of "ownership" to AFO and ZELS and this will be part of the monitoring criteria for their performance and evaluation.
- Most of the proposed innovative solutions in the "Innovations in Governance" menu are not resource intensive and in this sense may be more easily internalized and sustained. The project will contribute to increase of the ability of the councillors to make use of the innovative tools and capture sustainable value from innovation in terms of improved local governance processes. Still, the innovations will be implemented under a rigorous and well developed evaluation framework to not only observe the effects of the innovations on the role of councillors in ensuring higher transparency, participation and accountability but also to provide important lessons for adaptation, scalability and sustainability. It is also pertinent to note that innovations in governance will have a demonstrative effect and a high potential impact on governance processes. Successful implementation established through credible data and adequate analyses will be a prerequisite to scale up and sustainability.
- The project will also ensure that the municipalities (24) that will join the first phase play a role of carriers of the project and mentors for the other municipalities in the potential future phases.
- The roster of mentors and peer educators will also remain after the completion of the project to be referred to formally and informally for educational purposes by Mayors.
- During the project, and in cooperation with the main partners, the products and experiences will be translated into standards and induction guidelines to be used by all councillors in the future and made available through ZELS and AFO. If and where relevant, these tools and documented experiences will be used for improving national policies, laws and by-laws, as part of the project sustainability strategy.
- The strategic involvement the Ministry of Finance and the Ministry of Local Self-Government in the Project Board secures stronger connection with the wider national policies and strategies, thus increasing the project's impact and sustainability prospects.

4.6 Reflection on the use of country systems, and if not, the reasons to establish and/or use parallel implementing units

The project's focus is the municipal council, the country's directly elected institution of representative government at the local level. The project will work directly with 24 municipal councils and indirectly with all of the country's municipal councils and council members.

The project will be directly implemented by UNDP and the proposed project team, described in detail under Section 5 of the document.

As described above (cf. 4.2) and to make best of existing systems, capacities and structures, UNDP will partner with three organizations on implementation of specific activities and sustainability of

results: the Association of Finance Officers (AFO), the Association of Local Self-Government Units (ZELS) and UN Women.

On policy and strategic issues, the project will use the reference frameworks and systems of the Ministry of Finance and Ministry of Local Self-Government.

5. Organization, management and administration

5.1 Initial time frame and tentative yearly breakdown of the phase

The following is the indicative duration of the phases:

Inception phase:	2 months
Implementation phase:	44 months
<i>Component 1:</i> Empowerment through capacity development based on traditional and innovative methodologies	44 months
<i>Component 2:</i> Empowerment through financial support (grants) for priority activities of the municipalities selected on the basis of public consultations	44 months
<i>Component 3:</i> Empowerment through networking, codification, institutionalization and building sustainability	44 months
Closing phase:	2 months

Components 1 and 2 will be implemented through three annual sequences of enrolment of 6 + 9 + 9 municipalities in the classroom training programme, distribution of grants and supporting innovations.

Component 3 does not envisage any sequencing and will be implemented in accordance with the Annual Work Plans of the project.

5.2 Management of the project

Organizational structure and steering mechanism

The UNDP Country Office in Skopje will assume full responsibility and accountability for project management and its implementation. Project activities will start immediately after the signature of the contract. UNDP will have a team of complementary experts in the fields of governance, public finance management and decentralization, capacity development and technical assistance, adding international experience to strong familiarity with the local context.

In an effort to ensure coordination, UNDP will continue with the current practice of regular meetings with SDC and will involve SDC in interaction with stakeholders to the maximum extent possible. Coordination mechanisms with other SDC projects will be established.

For the specific purpose of this project, UNDP has established a partnership with a local partner, the Association of Finance Officers of the Local Governments and Public Enterprises (AFO). ToRs and contractual arrangement with the AFO will be designed for Part 2: implementation phase (the tasks and responsibilities of AFO are described under the Chapter 4 of the Project Document). The contractual arrangement with the sub-contractor will contain a clear division of roles and

responsibilities, a quality assurance framework with benchmarks and a monitoring plan. The relationship with the local partner will be designed as a coaching exercise, with a gradual transfer of some of the roles and responsibilities over the lifetime of the project.

While AFO will serve as the main strategic partner in implementation of the project, as indicated under sections 4.2 and 4.5, the project will also establish close cooperation and partnership arrangements with the Association of Local Self-Government Units (ZELS) through the Committee of Councils and UN Women.

The cooperation with ZELS will focus on the networking agenda and will be aimed to ensure that the established consultations systems, all the mechanisms, learning tools and knowledge products are sustained and institutionalized and made available to the next generation of councillors, as well as to all other interested stakeholders.

The partnership with UN Women will focus on ensuring proper methodological and conceptual integration of gender as a transversal theme (gender mainstreaming), advancing specific gender-sensitization efforts, development and delivery of the gender-training module.

Other key partners in project implementation will be the Ministry of Finance, the Ministry of Local Self Government, the Ministry of Information Society and Administration, and relevant non-government organisations. Synergies will be sought with other UNDP, SDC and international-led projects. Sustainability of project results will be prioritized through regular interaction with government and non-governmental actors.

UNDP will apply its own standard programme and operational procedures in the implementation of the project and leverage its capacity development and advisory experience in the country and globally.

During the inception phase, UNDP will prepare project an Annual Work Plan (AWP). Implementation of the AWP will be monitored on a quarterly basis in accordance to UNDP results based monitoring standards and outcome oriented goals. In consultation with SDC, AWP's may be adjusted to reflect relevant development in project implementation.

UNDP will apply its project cycle management standards and communicate regularly to SDC all changes in the dynamics of the project or project personnel. All strategic and implementation decisions will be solely within the purview of UNDP and SDC.

The proposed project structure also includes an advisory Project Board, and a Project Team, composed of a Head of the Team and five specialists for: decentralization and fiscal decentralization, capacity development and inter-municipal cooperation, transparency and accountability/citizen participation, local public finance management and gender equality. The project team will be assisted by a monitoring officer, a research associate and a project associate.

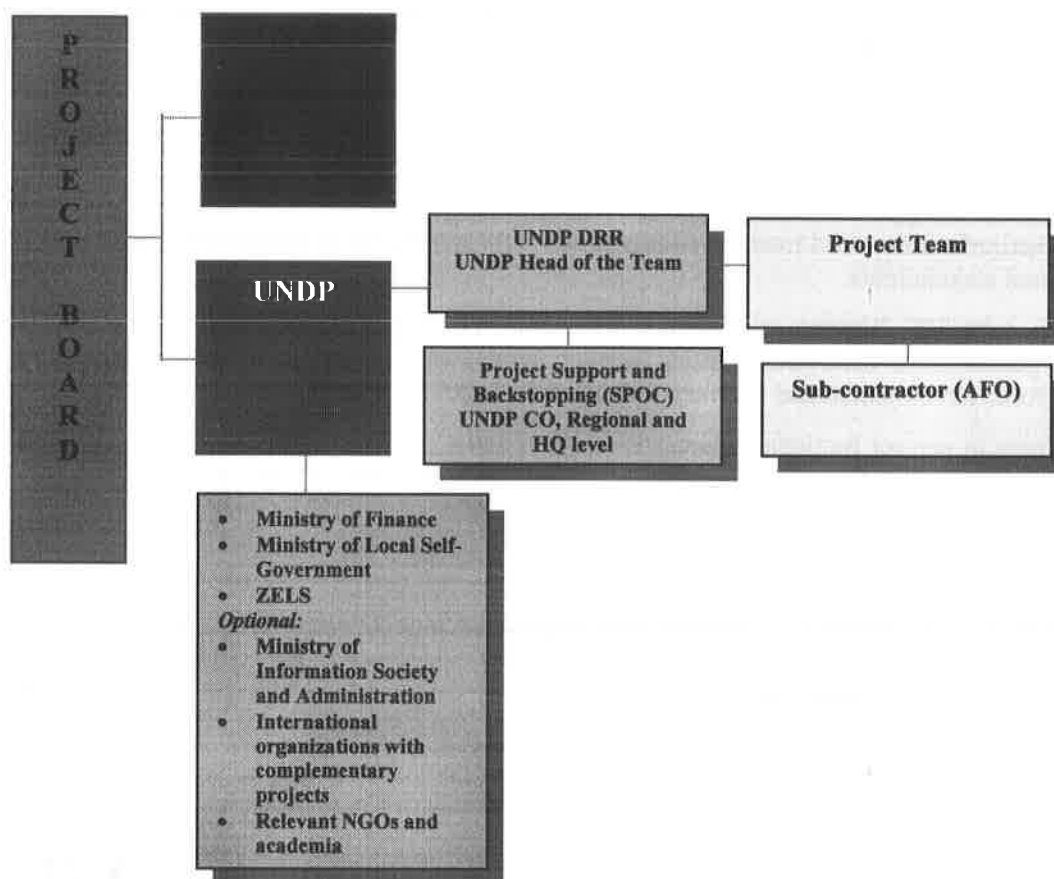
The advisory Project Board will be the main consultative mechanism engaging the key stakeholders throughout the implementation of the project. One of the main functions of the Project Board will be to participate in the evaluation and selection of municipalities and selection of proposed priority local development projects to be funded through the "grants scheme. It will also be responsible for providing strategic guidance to the Project on its main products and for monitoring Project quality and implementation.

In consultation with SDC, UNDP has established a Project Board during the preparation phase of the project, composed of all major stakeholders. This Board has broad consultative and advisory functions.

More specifically, Project Board Members will perform the following functions:

- Provide recommendations and guidelines for project implementation
- Address the challenges perceived during project implementation
- Advise on potential risks and recommend measures to address them
- Advise on how to handle changes in the project, including revisions

The Project Board will meet at least twice a year during the implementation phase. If needed, and at the request of its members, it will meet more frequently.



UNDP will draw upon its global and regional network to provide international expertise on cross-cutting issues such as gender, good governance, social inclusion and inter-ethnic cohesion/ as well as specific areas of expertise such decentralization and public financial management.

Roles, tasks and responsibilities (project team)

The Project Team will include UNDP governance specialists with international experience who are fully proficient and experienced with the local context. The proposed programme team structure for the preparatory and implementation phase is carefully selected to cover the needed management, coordination and policy guidance, the required technical knowledge and networking communication assets. UNDP will also assign duties for monitoring and research to the existing staff of the Governance Unit.

The CVs of the UNDP governance specialist and support staff are attached as Annex 3 to the Project Document.

For the management of the project the following persons are proposed:

Head of the Team/Strategic Guidance and Quality Assurance (under recruitment/ budgeted under Part 2.1: Local office staff of the contractor): Provides overall management, strategic guidance, project oversight and quality assurance during project design and implementation, while ensuring effective linkages with other UNDP initiatives.

Toni Popovski – Decentralization and Local Development Specialist/Advisor and Project Manager (budgeted under Part 3a/3.1: Long term experts): Responsible for strategic guidance on issues related

to the decentralization and local development agenda; regular outreach and coordination with the municipalities and councillors, coordination and quality assurance of expert inputs and products; coordination among partners to ensure coherence and complementarity. Responsible for the day-to-day management of the project including timely and efficient delivery of the project technical, operational, financial and administrative outputs. Leads also specific outputs related to the councillors networking, decentralization and fiscal decentralization.

Ilmiasan Dauti - Capacity Development and Inter-Municipal Cooperation specialist (budgeted under Part 3a/3.1: Long term experts): Coordinate and monitor project field activities, including the activities of the Inter-Ethnic Committees of the Councils as well as the implementation of the project capacity development component including the administration of the e-knowledge platform.

Programme support will be provided by two UNDP specialists:

Sonja Stefanovska Trajanovska - Transparency and Accountability/Citizen Participation Specialist (budgeted under Part 2.1: Local office staff of the contractor): Ensure integration of citizen participation tools and platforms in the capacity development activities with emphasis on the application of innovative tools and practices.

Biljana Nastovska – Social Inclusion and Gender Specialist (budgeted under Part 3a/3.1: Long term experts): Responsible for mainstreaming social inclusion and gender equality in all project components and activities, preparation of training materials on gender equality (year 1) including gender budgeting and delivery of training (years 2-4), in close cooperation and oversight from UN Women, participation in the monitoring of the implementation of the social inclusion projects supported with grants and the activities of the Gender Equality/Equal Opportunities Committees of the Councils.

Support staff will be:

Emilija Veteroska - Monitoring Officer (budgeted under Part 3a/3.1: Long term experts): Her role will be to monitor and report on the progress of implementation of the project in terms of administrative and substantive monitoring of activities.

Martin Nikolic - Research Associate (budgeted under Part 3a/3.1: Long term experts): His role will be to support the implementation of the project activities by undertaking research and analysis of relevant data and information. Responsible for administering the interactive forum, the surveying features of the e-Knowledge platform and the e-Dashboards.

Vencislava Lazarevska - Project Associate (budgeted under Part 3c/3.6: National support staff): Her role will be to perform financial duties related to implementation of the project activities, assist with organizing operational and administrative processes for project needs and provides support to office maintenance; manage the project documentation and to perform other finance related and administrative tasks.

Backstopping services will be provided by:

Slavco Dodevski – Programme Operations Support Officer (budgeted under Part 2.1: Local office staff of the contractor): His role will be to provide quality assurance of the overall financial management and the funds administered by UNDP, including budgeting and accounting of resources in accordance with the organization's Financial Regulations and Rules and to organize and facilitate the auditing of the project.

Sandra Ismanovski – Communications Officer (budgeted under Part 2.1: Local office staff of the contractor): Her role will be to prepare and facilitate the implementation of the Communication and Visibility plan of the project and assure that all activities including the outreach and awareness-raising activities adhere to the 'Guidelines for partner organization for the use of the Swiss Agency for Development and Cooperation logo' and are fully aligned with the visibility needs and interests of the Swiss Agency for Development and Cooperation.

From the side of the local partner/sub-contractor (AFO): Local Public Finance Management and Networks Specialist, Zoran Jankulovski (budgeted under Part 4: Administrated project funds/ Subcontract with AFO): His role in the project will be to maintain delivery of appropriate technical

and operational outputs related to local public finance management and to coordinate the roster of the AFO experts/trainers and assist the field work related to the capacity development and the networking activities of the project.

The Project Team will be responsible for the execution of the project activities. All the members of the team with the exception of Mr. Jankulovski (stationed in Veles) will be stationed in Skopje at the project office.

The project team will be under the overall supervision of Alessandro Fracassetti, the UNDP Deputy Resident Representative.

By engaging existing staff of the UNDP Governance Unit and the AFO the implementation of the project can start immediately after the conclusion of the contractual arrangement with SDC.

The short term experts will be selected according to UNDP rules and procedures, which require competitive selection.

For translation and event management services, UNDP will use its own vetted rosters or may chose a full selection process in accordance with UNDP procurement procedures.

5.3 Where applicable: information regarding tendering and contracting of project component

Procurement of any goods and services needed for implementation of specific components and activities of the project, will be conducted in accordance with UNDP standard procurement rules and principles based on open and transparent procurement and/or recruitment processes, guided by the need to ensure: cost-effectiveness, value for money and economy of scale, as well as highest quality of expertise, services and products delivered.

5.4 Administrative arrangements (accounting, financial management, external audit)

Financial management of UNDP and the funds administered by UNDP, including the budgeting and accounting of resources will be in accordance with the organization's Financial Regulations and Rules.

IPSAS standards have been incorporated in the Financial Regulations and Rules.

UNDP has its own internal financial control mechanism which provide for effective current examination and review of financial, management and operational activities.

UNDP uses an Enterprise Resource Planning System (ERP) named ATLAS to manage project Finances, Human Resources, inventory and procurement. ATLAS also forms the basis for UNDP's internal control and accountability framework.

Audits will be conducted in accordance with auditing procedures provided for in the financial regulations, rules, policies and procedures of UNDP.

https://intranet.undp.org/unit/bom/ofrm/SitePages/Financial_Regulations_and_Rules.aspx

6. Resources

6.1 Human resources, infrastructure, equipment, know how, and financial resources, specifying contributions of other donors and partners

Human Resources:

The Project team will recruit the following short term experts (budgeted under Part 3b/3.4: Short term experts):

- International evaluation expert (1) for preparation of the midterm evaluation (year 2) and final evaluation of the project (year 4)
- National evaluation expert (1) for preparation of the midterm evaluation (year 2) and final evaluation of the project (year 4)
- International local government and decentralization expert (1) for preparation of the Comparative Review of the role of municipal Councils (year 1)
- National municipal financing expert (1) for preparation of the Annual and Semi-Annual Analytical Reports on the Municipal Revenues and Expenditures and Assessment of the prescribed forms of K-1 and K-2 quarterly reports (Year 1 – 4))
- National local governance and democracy expert (1) for updating the 2009 Code of Ethics for Locally Elected and Appointed Officials and the 2013 ZELS Manual on the Municipal Councils (year 1)
- National adult learning expert (1) for delivery of “Training of Trainers” and preparation of related training materials (year 1)

Infrastructure:

The funds allocated for Component 2: Support for municipal councils through grants, might be used for financing priority infrastructure development. The criteria for distribution of the financial support are described under the Chapter 4 of the Project Document.

Equipment:

One project vehicle and seven pieces of IT equipment will be purchased for the Project Team and the support staff.

Know how:

Expert assistance will be provided by UNDP specialists, AFO members and the roster of experts/trainers, as well as the short term experts that will be recruited by the project. The project also envisages using know how of specialised companies for:

- Maintenance, upgrade and hosting of the project web site and the e-knowledge platform
- Design of innovative ICT based tools and design and implementation of innovative citizens participation initiatives
- Design of audio, video and graphic products and printing

In the context of intellectual property (IP) no transfer of technology co-existing with or separate from other IP rights such as patents, trademarks and copyright is envisaged by the project

Financial resources

No financial contributions from other donors and/or partners are envisaged for this project.

6.2 Overall budget

The overall project budget is of **CHF 3,361,427**

This breaks down into the following categories with the respective amounts:

- | | | |
|----------------------|----------------|-----------|
| ✓ Local office: | CHF 203,980.37 | (6.06%), |
| ✓ Long term-experts: | CHF 375,982.43 | (11.18%), |

✓ Short term experts:	CHF 89,962.95	(2.67%),
✓ Local support:	CHF 303,201.00	(9.02%),
✓ Administered project funds:	CHF 2,388,300.00	(71.05%).

Administered project funds for project activities are allocated as follows:

Component 1 – Empowerment through capacity development based on traditional and innovative methodologies	CHF 742,000
Component 2 – Empowerment through financial support (grants) for priority activities of the municipalities selected on the basis of public consultations	CHF 1,200,000
Component 3 – Empowerment through networking , codification, institutionalization and building sustainability	CHF 285,300
Cross-cutting expenditures:	CHF 161,000

Relating to the administered project funds, they will cover the following types of activities:

Component 1:

- Payments against the subcontract with AFO for the tasks related to creation of a roster of experts/ trainers, delivery of training, mentoring, on the job learning and serving as a resource point for the councillors' network, as per the TORs.
- Maintenance, upgrading and hosting of the project web site and the e-knowledge platform
- Organization of a series of 30 training, 10 trainings per year
- Design of innovative ICT based tools and design and implementation of innovative citizens participation initiatives

Component 2:

- Grants for supporting municipal councils (the municipality). The investment in Component 2 is the largest as it include grants to municipal councils worth 35.69% of the total budget.

Component 3:

- Payments against the subcontract with ZELS (part time employee and running office costs of the network); travel and accommodation for international events and events logistics for national events, hosting international events and organization of study visits.

Cross-cutting expenditures:

- Design of audio, video and graphic products and printing
- Project launching and final events
- Translation costs

6.3 Reflections on cost-efficiency and where possible cost-benefit

The presented analyses aim at providing arguments for justifying the allocated budget.

Cost Effectiveness Analysis

As documented in the baseline assessments, the state of municipal governance in the country requires significant improvement. Project investments in councillor capacities and innovations in governance is

expected to contribute to such necessary improvements. This in turn should result in effective municipal expenditures and lead to higher citizen satisfaction.

A stronger role for the councils is expected to generate higher revenues and availability of higher per capita resources for municipal investments in services. Improvements in services delivery contributes to higher levels of citizen satisfaction and trust in the state both of which are possible contributors to higher tax morale. In short, this is expected to lead to higher voluntary compliance and lower costs of collection, both contributing to availability of more resources for investment in municipal services.

Improvements in service delivery is in turn expected to contribute to higher expenditure effectiveness and higher motivation to voluntary compliance in favour of revenue mobilization.

Thus, the project investments will set up a virtuous cycle of results, starting from investment of project funds to culmination in higher investment of local resources in municipal services and sustainable gains in municipal governance and service delivery.

Computation for the analysis:

Total project investment:	CHF 3,361,427
Estimated population of Macedonia:	2, 069,172 ³²
Number of beneficiary municipalities:	24 (29.62%) out of 81
Estimated population of the beneficiary municipalities:	612,889 (29.62%) of the total population
Per capita (24 beneficiary municipalities) investment:	CHF 5.48

With an average investment of CHF 5,48 per citizen (calculated as above), the project during and after its lifetime will contribute to the following outcomes:

On population level:

- Increased quality and improve access to municipal services
- Promoted inclusion of the marginalized sections of the communities including women, handicapped, the elderly and the poor by improving their access to municipal services
- Strengthened participation of citizens in municipal governance
- Fostered societal bonds between ethnically diverse communities
- Promoted interethnic harmony at municipal level

On system change level:

- Increased effectiveness of municipal expenditures (based on abridged PEFA assessments; improvement in scores for the participating municipalities)
- Increased councillor participation and effectiveness in municipal governance (improvements on all 9 scores average values compared with the baseline captured in the Baseline Governance Assessment)
- Increased innovations in governance through adoption of innovations from the menu and adoption of other types of innovations, compared with the Baseline Innovation Assessment

³²State Statistical Office assessment of the population (31.12.2014)

- Increased active working of special committees of the council (Equal Opportunities and Relations among Communities) to accentuate the causes of marginalized and interethnic relations, as compared against the baseline activity levels captured in the Baseline Gender and Inter-ethnic Assessments
- Proactive, capacitated and networked municipal councils with higher engagement with municipal governance
- Use of e-learning platform by councillors, demonstrated by web visits, self-assessments and social rewards
- Citizen engagement in service delivery innovations, recognized through monitoring reports and improvements in services

Valuation:

The investment of an average of CHF 5.48 per citizen is considered very reasonable given the high importance of municipal service delivery and governance in the promotion of inter-ethnic harmony and cohesion in the country. The 2016 minimum wage in the country is MKD 10,080³³ (CHF 177.86) and the total per capita expenditures by municipal budgets is MKD 13,230³⁴ (CHF 233.4).

The level of investment compares favourably with the higher policy importance of improvements in municipal governance for sustainable development in the country. There is a high likelihood of achieving high multiplier effects during the life of new municipal councils to be formed after local elections in 2017 due to higher effectiveness of municipal expenditures and higher own source revenue mobilization. The gains will be sustainable and outweigh the project costs.

7. Risk analysis

7.1 Assessment of main risks for the project and/or risks resulting from the intervention; measures for mitigation

Identified risks

The baseline assessments contributed to the identification of the main risks and the creation of a focused risk-management strategy, with mitigation measures.

The risks identified through the project can be mainly clustered in several categories:

1. External risks related to the political and economic environment/context and perceived deficits of representative local democracy
2. Risks related to institutional and human capacities at local level
3. Sustainability risks

External risks related to the political and economic environment/context and perceived deficits of representative local democracy

³³Law on Minimum Wage (2015)

³⁴2014 Municipal Financial Report (UNDP and the Ministry of Finance)

- The country is experiencing a major political crisis amidst sharp polarisation between the ruling and opposition parties over a wire-tapping and espionage scandal that erupted in January 2015. Confrontation between the major political parties is expected to escalate in the run-up to the early parliamentary elections scheduled for 5 June 2016 and may pose a risk in terms of persistent instability and protest. Institutional counterparts may change frequently and decision-making may slow or halt entirely. Central and local government officials will also engage directly in the election campaigns for the early parliamentary elections and also the regular local elections scheduled for April 2017. These factors may cause delays and require flexibility in project management, particularly if it is necessary to establish working relations with new national and local officials.
- The single greatest risk for the achievement of the expected project outcomes is considered the overwhelming influence of the political parties on the management of municipal finances and on the overall local governance processes. For example, the allocation of resources is an inherently political process and oftentimes municipal councils implement the political agendas of the dominant parties rather than policies prepared in a participatory manner for the benefit of all citizens.
- There are perceived deficiencies in citizens' participation, particularly in relation to budget monitoring and oversight.

Risks related to institutional and human capacities and coordination mechanisms at local level

- Another groups of risks is associated with the existing institutional and human capacities at local level related to the baseline capacities of councillors and the current self-perceived marginalized role of councillors vis-a-vis the Mayor, the lack of checks and balances and horizontal coordination between the administration, councillors and Mayor; the lack of institutional support to the councillors to exercise their oversight, including the capacities of the Committees for Equal Opportunities and the Inter-Community Relations.

Sustainability risks (also addressed under section 4.5)

- Given that the main target group of this project are the politically elected councillors, most of them will inevitably leave office either during or after the project's implementation period, which is considered potential risk for sustainability of the project results.

Risks mitigation measures

In order to address the above identified risks, UNDP's risk mitigation methodology includes the following measures:

External risks related to the political and economic environment/context and perceived deficits of representative local democracy

- Project activities will be safeguarded from political conflicts without inhibiting the natural expression of political affiliation at the local level. In this regard, UNDP's impartial status will be an important risk mitigation factor and the national and local institutions, including the municipal councils and the mayors, have often utilized UNDP as an honest broker for policy dialogue. Careful monitoring and oversight will be implemented and if deemed necessary the schedule of activities will be revised, in close consultation with SDC. UNDP will also mitigate risks by leveraging its non-partisan stance to build relationships of trust and providing evidence-based arguments about development priorities and expected results.
- The project will first create opportunities for the councillors to discuss the perceived deficits of representative local democracy and the potential benefits of direct participatory democracy

through regular networking events. Some of the risks will be mitigated through the capacity – building efforts and the promotion of the good governance principles for all interested councillors.

- The application of the Community Forums methodology as well as the innovative methods and tools will promote the improvement of participatory democracy and the decision-making process of both, the oversight body (Councils) and the executive ones (Mayors and the municipal administration). Conditioning the transfer of grants upon priorities set in a participatory manner can also be considered as a mitigation measure.³⁵
- To attract citizens' interest, the project will focus on the budget cycle as part of a broader annual public policy management cycle to achieve integrated local development, while working at the same time with Councils, Mayors and the municipal administration.

Risks related to institutional and human capacities and horizontal coordination mechanisms

- The project will work on building trust among councillors (as a necessary element of the networking), between councillors and Mayors/administration and between councillors and citizens. Solid ground for efficient and effective networking was laid down during the numerous consultative events held with councillors and other stakeholders in the preparatory phase of the project. The councillors got to know each other better and started to recognize the common interests. In that regard, the project will support the ZELS Council Committee as the main driving force for the networking.
- Engaging with the AFO as a professional and non-partisan organization of individuals, with direct access to the administration network in all municipalities (and a long tradition in capacity development of municipalities), will enable UNDP to mitigate the risk of resistance of the administration and build efficient connections between councils and administration. In this way, the main partner, AFO will be part of careful monitoring and application of a tactful approach in mitigating the related to implementation of the project activities.
- The comprehensive capacity-development programme, which is a major component in this project will address all the identified capacity gaps of the councillors and will be closely integrated with the other project components, such as the networking and the "grants scheme" to ensure synergies and identification of integrated solutions to address any institutional and human capacity gaps that may be within the mandate and purview of this project.

Risks related to sustainability

- A visibility and communication plan that will secure communication of the project objectives, actions that are to be implemented, expected results and high visibility and awareness among beneficiaries in short, medium and long-run.
- Awareness raising and stakeholders' involvement activities in order to preserve the already created sense of ownership (e.g. work with ZELS to bring the mayors on board and avoid the impact of local echoes of political polarization at the national level especially in light of the upcoming extraordinary parliamentary elections and the local elections that are to be held in April 2017).
- The project is designed to allow for upscaling and, where relevant, wider application of practices and models born within its lifecycle. When implementing the activities we will also aim at initiating improvement of the relevant legal/policy frameworks country-wide, which

³⁵ One of the internal risks is that the Mayors could perceive the higher level of transparency and accountability as a threat to their position and might attempt to undermine the process. However, many Mayors experienced with the previously implemented, SDC-funded, Community Forums found that on-budget support to municipal budgets as well as increased transparency and participatory approaches lead to improve their legitimacy and citizen-satisfaction.

would altogether enable a more effective and transparent local governance and decentralization process in the country.

- By entering into strategic partnerships with AFO and ZELS from the outset, UNDP is targeting these two organizations as most adequate institutional successors of the project components and results. In that regard, ownership of the knowledge products created, tested and improved during the project will be transferred to these horizontally networked partner organizations.
- Acceptance of the Ministry of Finance and the Ministry of Local Self-Government to participate in the Project Board already enables continuous information sharing and informed discussion about the possible improvements of the normative and institutional framework in which Councils operate.

Based on the identified risks and mitigation measures, UNDP will further discuss with SDC the scope of risk assessment and the related measures.

7.2 Indication on how the risks will be monitored and managed

Based on the initial risk analysis, UNDP will activate an issue log in ATLAS³⁶ which will be updated by the Project Manager to track and resolve potential problems or requests for change. The external environment will be reviewed regularly to capture issues that may affect project implementation.

Project reviews will be conducted every 6 months, based on the monitoring framework.

The on-line forum of the e-knowledge platform will also create an opportunity for this and other associated risks to be discussed and suitable mitigation measures to be jointly formulated, implemented and, most importantly, owned by the involved project stakeholders

Regular sessions of the Project Board will help SDC and UNDP to consult with the relevant institutions and seek advice regarding the perceived risks and recommended measures.

UNDP will continue the practice of having bi-weekly meeting with the SDC office in Skopje which will be used for monitoring of risks and implementation of the risk management measures.

8. Monitoring and evaluation

8.1 M&E plan

For UNDP, good planning, combined with effective monitoring and evaluation are very important for enhancing the effectiveness of its development interventions. Good planning helps UNDP to monitor results that matter, while monitoring and evaluation helps us learn from successes and challenges and inform the project actions during the implementation and afterwards, with the overall goal to improve people's lives and choices.

Towards that end, UNDP has developed a number of methodologies and tools contained in its Handbook on Planning, Monitoring and Evaluating for Development Results, which will be the main

³⁶ ATLAS is a name for the Enterprise Resource Planning (ERP) system used by UNDP and other UN agencies. UNDP uses Atlas to manage projects, finances, human resources, inventory and procurement. ATLAS also forms the basis for UNDP's internal control and accountability framework.

reference document in performing the monitoring and evaluation functions in implementation of the project.³⁷

In line with UNDP Programme and Operation Policies and Procedures, (POPP), the implementation of the project will be monitored in the following way:

- A quality assessment will record on a quarterly basis progress towards the completion of key results, based on quality criteria and methods captured in the Quality Management table of the respective ATLAS module.
- A project lesson-learned log will be activated in ATLAS and regularly updated to ensure on-going learning and adaptation within the organization, and to facilitate the preparation of the semi-annual, annual and end of the project reports.
- A Monitoring Schedule Plan will be activated in ATLAS and updated to track key management actions/events.
- A Result-oriented reporting system (focus on outcome monitoring with reference to Logframe and budget) will be applied. Semi-annual, annual and end of project reports will be prepared using the SDC standard reporting format.

Identified lesson learned will be incorporated in project activities. The knowledge generated from them will be codified and made available to local partners and inform the local governance debate.

Data will be systematically collected. Inputs will be recorded and monitored, data on training implementation will be consolidated and access and performance conditions for provision of financial support (grants) for the municipalities will be monitored.

Information regarding timing for baseline studies and responsibilities

As part of the preparatory phase of the project, **five (5) baseline assessments** were conducted including interviews with over 170 councillors (respective reports are attached to the Project Document). The baseline assessments were:

- 1) Assessment of public financial management practice and capacity needs of the councillors (in 6 municipalities)
- 2) Qualitative Governance Assessment (in 6 municipalities)
- 3) Quantitative Governance, Equal Opportunities and Inter-ethnic Relations Assessment (in 22 municipalities)
- 4) Assessment of the web pages of all 80 municipalities plus the city of Skopje (access to information and content)
- 5) Municipal innovations assessment (in 3 municipalities)

The analytical phase also included 34 consultative events with more than 700 participants representing all relevant municipal stakeholders and including more than 330 councillors. These events served to validate the baseline assessments findings.

As part of the overall monitoring and evaluation framework, the PEFA baseline assessment conducted in the six municipalities will be repeated after completion of the activities in the same control groups of municipalities with the aim to assess progress and evaluate the results against the baseline data.

Planned (internal/external) review(s) /evaluation

³⁷The M&E handbook is available at <http://web.undp.org/evaluation/evaluations/handbook/english/documents/pme-handbook.pdf>

A mid-term external evaluation is planned for the end of Year 2 and a final impact evaluation of the project for the end of Year 4 of project implementation.

The aim of the external evaluation is to establish a causal link between the project interventions and the outcomes. This evidence will be used to design subsequent scale up activities. Rigorous evidence will also be used to measure the success of applied approach and tools and learn lessons.

The following information is provided as **annexes** to the Project Document:

Annex 1: **Logframe**

Annex 2: **Detailed budget**

Annex 2a: **Budget changes justification**

Annex 3: **CVs of key project/programme staff and experts**

Annex 4: **List of abbreviations**

Annex 5: **Stakeholders involvement plan**

Annex 6: **Baseline assessment reports**

- ✚ Assessment of public financial management practice and capacity needs of the councillors (6 municipalities)
- ✚ Qualitative Governance Assessment (6 municipalities)
- ✚ Quantitative Governance, Equal Opportunities and Inter-ethnic Relations Assessment (25 + 7 + 7 municipalities)
- ✚ Assessment of the web pages of all 80 municipalities and the city of Skopje (access to information and content)
- ✚ Municipal innovations assessment (3 municipalities)

Annex 7: **Capacity Development Programme with attached Training Courses Briefs (7) and Training Manuals (7)**

Annex 8: **“Innovations in Governance” Menu**

Annex 9: **List of identified challenges**

Annex 10a: **PEFA, capacity needs and governance baseline indicators**

Annex 10b: **List of indicators for monitoring progress on the transversal topics**

