The Public Finance Management Support to Municipalities project supported the ongoing reform of the municipal financial system in line with the Accession Partnership, building on a number of earlier EU-funded projects in the sector of fiscal decentralisation. Its overall objective was to support the Government and especially the Ministry of Finance to assist those 34 municipalities of total 85 municipalities that had not met the financial criteria to enter into the second phase of fiscal decentralisation by the end of 2007.

The specific objective of the project was to enhance the competences and capacities of the target municipalities in the area of public finance management systems and to effectively manage the financial aspects of the fiscal decentralisation process. This was achieved through:

- Strengthening the public administration capacities of the municipalities in the area of tax administration;
- Improving municipal administration competence in all phases of the budget cycle management and enhancing implementation of proper accounting practices, financial recording and reporting mechanisms;
- Improving the implementation of control exercises in the use of public funds.

By the end of the project, additional 17 municipalities achieved to enter the second phase of the decentralisation process which started in September 2007. Municipalities which were allowed to enter this process are now responsible for covering salaries and compensations in the primary and secondary education, local cultural institutions, kindergartens and homes for elderly people from the municipal budgets.

Summary
With a budget of 0.6 million EUR, capacity building in the area of tax administration, budget cycle management, accounting and Public Internal Financial Control in 34 municipalities, aimed at assisting them in mastering the challenges brought by the second phase of the decentralization has been carried out within the one-year EU-funded project Public Finance Management to the Municipalities. The main beneficiary of the project is the Ministry of Finance. Project stared on 8 April 2008, achieving establishment of procedures and monitoring systems in the area of tax administration, aimed at increased performance in property tax collection; improved capacities of municipal finance staff in budget preparation and execution, accounting, financial reporting and internal audit; as well as implementation of the Law on Public Internal Financial Control on municipal level in order to improve public accountability. The project has organised: 17 workshops throughout the country, trained over 180 municipal civil servants; and delivered over 800 person-days of training.
Increasing municipalities' human resource capacities in the area of tax administration

Based on a training needs assessment and the identification of priority issues, a training curriculum and a training plan was developed and implemented. The project organised workshops on the Methodology for Establishing the value of real estate and on procedures in property tax administration, covering all processes from issuing decisions to appeals and enforced collection.

A total of 88 tax administration officers from 25 municipalities and from the Ministry of Finance were trained. Based on the input provided by the training participants, the project developed a manual for standardized procedures in property tax administration which was distributed to all municipalities and to the Ministry of Finance. In March 2009, the project financed an awareness campaign addressed to taxpayers of selected municipalities under the title “Our money for our municipality” (“Naši pari za našata opština”) which explains to citizens how property tax proceeds are used for the benefit of the community, since the public understanding and acceptance are also needed.

Improving competence in budget cycle management

The second component of the project aimed at assisting the target municipalities in managing, controlling and processing their new responsibilities in terms of budgeting management and accounting resulting from the transfer of fiscal competences and the country’s recent reform initiatives oriented at the introduction of program based budget management. The project organised workshops in:

- Municipal financing and debt management
- Strategic planning
- Financial planning and liquidity management
- Sector specific budgeting in education, culture, sports and social protection

Moreover the project developed and delivered a three level training programme for municipal accountants on the International Public Sector Accounting Standards (IPSAS) which are also the basis of the country’s legal framework for accounting. Extensive on-the-job training was provided through assisting 17 municipalities in the preparation of their annual financial statements according to the IPSAS.

A total of 86 municipal budgeting and accounting officers from 34 municipalities were trained. The Project also developed a manual on financial reporting according to IPSAS and a manual on program based budgeting which is conceived as a guideline for the municipalities in their new budgeting responsibilities. Both manuals were distributed to all municipalities in the country and to the Ministry of Finance.

Performing the internal audit function efficiently

Public Internal Financial Control (PIFC) is the framework established by the European Commission aimed at achieving sound financial management of public resources and EU funds. PIFC includes internal audit as well as financial management and control. This concept is being implemented in the country within the new Law on Public Internal Financial Control which is also addressed to the local level. The project supported the introduction of PIFC through internal audit courses on two levels and a PIFC workshop. In total, 39 municipal internal auditors and heads of finance departments from 31 municipalities were trained. Additionally the project assisted two municipalities and the City of Skopje in carrying out pilot audits on property tax collection.