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MUNICIPAL ENVIRONMENTAL AND ECONOMIC GOVERNMENT PROJECT (MEG)

ENTRY PHASE REPORT

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GENERAL PROJECT AND PHASE INFORMATION

The **Municipal Environmental and Economic Governance (MEG) Project** is a new intervention in the domain of local governance in Bosnia and Herzegovina (BiH). It is funded by the Government of Switzerland, and implemented by the United Nations Development Programme (UNDP). The Project is a 12-year initiative with three phases. Project Phase 1 consists of a 5-month Entry Phase and a four-year Main Phase, with the total Project budget amounting to CHF 12,000,000.¹

In line with the Terms of Reference for the Project defined by the Government of Switzerland, as well as the UNDP's Technical Proposal, the Project's overall goal is defined as follows: *Municipalities, assigned with appropriate competences and finances, have improved their democratic governance and provide public services in an inclusive, effective and efficient manner, particularly those related to economic and environmental sectors.*

Against this overall goal, three broad lines of intervention are envisaged:

- (i) Democratic public policy and sound management processes within local governments (LGs);
- (ii) Provision of high quality public services within the economic and environmental sectors that are responsive to citizens' needs;
- (iii) Regulatory frameworks at higher government levels enable effective public service delivery.

The Project's territorial focus is on the North-West (NW) part of the country (including Una-Sana Canton and Prijedor region) and the North-East (NE) region (the wider Dobož-Tuzla area), covering 31 potential partner LGs. The priority areas of intervention were defined by the Government of Switzerland within the Terms of Reference for the Project, building on previous relevant Swiss-funded projects.²

The mandate for the implementation of the Entry Phase and the first four-year Main Phase was awarded by the Swiss Development Cooperation (SDC) to UNDP based on a competitive bidding process.

The envisaged outcome of the Entry Phase was the participatory design of fully-fledged draft Project Document for the four-year Main Phase. The total contracted budget for the Entry Phase amounted to CHF 493,022.

Upon signing a Mandate for Project Implementation, the Project's Entry Phase started on 27 July and ended on 31 December, 2015. This report is prepared to provide information on the outcome, outputs, and specific activities conducted during the Entry Phase.

STRATEGIC REVIEW AND OUTLOOK

During the Entry Phase, a **detailed MEG Project Document** for the Main Phase was developed, in close cooperation with Project partners and stakeholders in the country and the Embassy of Switzerland in BiH / SDC. In line with the Terms of Reference, it included the logical framework, a project implementation plan and the budget. It clarified a number of open issues, such as geographic clusters and criteria for the selection of partner LGs, LG budget support model, modalities of support related to the economic sector, as well as possible contribution by other donors.

¹ While the SDC budget for the whole Project phase is CHF 12 million, out of which CHF 500,000 is allocated for the entry phase, the budget contracted with UNDP is CHF 493,022 for the Entry Phase and CHF 11,450,000 for the Main Phase.

² Banovići, Bosanski Petrovac, Bosanska Krupa, Bužim, Bihać, Cazin, Drvar, Derventa, Dobož, Gračanica, Gradačac, Gradiška, Ključ, Kozarska Dubica, Kostajnica, Kalesija, Lukavac, Modriča, Maglaj, Novi Grad, Petrovo, Prijedor, Prnjavor, Sanski Most, Teslić, Tešanj, Tuzla, Žepče, Živinice, Usora, and Velika Kladuša. The map of the potential partner LGs is provided in the Annex 1.

The Project Document was based on the Technical Proposal submitted by UNDP as part of the bidding process and informed by the assessments in the field of environmental and economic governance, as well as consultations with all the relevant stakeholders.

Considering the Project territorial focus, the **detailed assessments** were undertaken to establish the Project baselines, covering 31 potential partner LGs grouped in two geographic clusters. The entry point for the assessment in the environmental sector was water and wastewater management following the Financial and Operational Performance Improvement (FOPIP) approach, while the economic governance assessment was largely based on the general methodology, assessment criteria and indicators set in the Business Friendly Certification (BFC) in South Eastern Europe Programme, applied specifically in the evaluation of LGs. Based on the assessment findings, key challenges for the provision of water supply and wastewater services in BiH relate to: **access to controlled water supply (especially in rural areas), access to wastewater services**, including wastewater treatment and **the overall sustainability of service provision**. At the same time and regarding sustainability of services provision, it is important to underline the need for improved assets management, regular maintenance and replacement of infrastructure elements, establishment of tariffs based on a cost recovery principle allowing for realistic depreciation valuation and its use for investments in upgrading of infrastructure. Optimizing staff numbers and competencies, as well as operational efficiency of utilities are necessary for improved justification of incurred costs and their inclusion into tariffs. The economic governance assessment indicated **insufficiently developed business enabling environment**, with a clear need for coordinated efforts across key business enabling environment pillars and stronger interaction with the private sector. While majority of targeted LGs have local development strategies, a **systemic approach to strategies' implementation is often missing**. The **economic governance decision-making is not supported by data**, adversely affecting targeting of scarce local resources. At the same time, the **lack of higher level governments' fiscal support programs** for specific localities leaves the economic development work entirely to the LGs.

When it comes to the **consultations**, they were carried out with over 120 representatives³ of LGs and utilities, cantonal, entity and state governments, relevant non-governmental organisations (NGOs) and professional networks. They were organised through a series of events as well as electronically. The consultations served to present both the Project concept and findings of the assessments, ensure buy-in and partnership commitments, and collect valuable inputs to be fed into the Project Document for the first four-year Main Project Phase.

During the Project Entry Phase, a particular emphasis was on **defining criteria and methodology for selecting partner LGs**, based on the assessments and the consultations. A **model for budget support to LGs was also established**, in order to allow for the Project's contribution to the realisation of priority infrastructure projects, with a focus on water supply and wastewater services, as well as the economic sector.

All the **main Project Document elements** were defined and validated with the Embassy of Switzerland through a joint workshop, while a fully-fledged draft Project Document for the Main Phase was submitted on 31 December, 2015.

CHAPTER 1: INTRODUCTION

1.1. Context

BiH is facing an intricate set of development challenges, including economic decline, high unemployment,⁴ growing poverty and socio-economic inequalities. The complex administrative structure, political deadlocks, and slow legislative processes hamper development, as well as integration into the European Union (EU). Many constraints persist on the

³ Full list of institutions included in the consultations either through organized events or electronically is provided in the Annex 2.

⁴ Unemployment rate per ILO methodology amounts to 27.5 % in 2014. Source: Agency of Statistics of Bosnia and Herzegovina.

economy, including poor infrastructure and a generally unattractive investment climate. As a result of governance failures, people have little faith in political leaders and public institutions, as demonstrated in the February 2014 protests. Already difficult socio-economic conditions were further exacerbated by the floods and landslides that struck the country in May 2014, affecting a quarter of its territory and 27% of the population.

Placed within such a complex environment, LGs⁵ have monotype competences, despite considerable differences in their size. The overall LG-related **policy agenda** is diffuse and piecemeal, with important decentralisation reform stalled. In general, unclear division of responsibilities among entities, cantons and LGs coupled with unfunded mandates has resulted in under-provision of vital local services. **Management capacities of LGs** require improvements if they are to become the driving force of local development processes and ensure quality services. Most LGs have designed their local development strategies, while nearly 30% of them have begun to apply an **integrated municipal management approach**.⁶ Yet, deficiencies in decision-making, internal management and organisation, policy and regulatory frameworks, as well as inadequate operational capacity hamper effective policy delivery. **Effective engagement of citizens and civil society organisations (CSOs)** in municipal affairs is still marginal.

Both finances and priority wise, **water and environmental sanitation services** are the most important LG services. More than 40% of the BiH population lacks access to controlled water, with less than 40% connected to the public sewerage system.⁷ Water losses often amount to more than 50%, leading to overexploitation of water sources and high distribution costs. Water tariff levels are sometimes too low to cover even operation and maintenance, let alone enable capital investments (while depreciation is not calculated for all fixed assets). Because LGs are the intersection through which most business creation flows, their role is instrumental in creating a **business-conducive environment**. Despite some positive experiences, most LGs still lack sound economic expertise and tools to engage in productive public-private dialogue and increase investment attractiveness of their localities through viable business infrastructure, support to employability and local entrepreneurship.

1.2. Short description of the Project

The Government of Switzerland has been engaged in water and environmental governance in BiH for many years, including through the Governance Project in Municipal and Environmental Development (GOV-WADE) implemented in the north-west of the country. Based on the overall successful experiences in the domain, the MEG Project has been conceived as a 12-year initiative further supporting decentralization and local governance in BiH, enhancing sustainable and equitable local service delivery, and contributing to expanding economic development opportunities, by focusing on LGs as the government tier closest to the citizens. The Project envisages three phases, where the Phase 1 consists of an Entry Phase and a first four-year Main Phase.

Having in mind its focus, the MEG Project is expected to contribute to the broad priorities set by the **Reform Agenda for BiH 2015-2018**, as well as relevant entity sectoral strategies.⁸ When it comes to the **Swiss Cooperation Strategy for BiH 2013-2016**, the Project supports the realisation of its priorities in the domain of local governance and municipal services, as well as, indirectly, the economy and employment priority. The Project is in line with the European Commission's **Indicative Strategy Paper 2014-2017 for BiH** and its priority related to competitiveness, innovation, and

⁵ Together with the Brčko District, there are 145 LGs (80 in the FBiH and 64 in the RS).

⁶ The approach, introduced by the Integrated Local Development Project in 40 LGs, is characterised by setting in place processes, functions and regulatory frameworks enabling coherent and budget-aligned public policy management.

⁷ Entity Water Management Strategies, 2012.

⁸ These include the RS Strategy for Local Self-Government Development 2010–2015, entity Training Strategies for Local Self-Government Employees 2016–2020, SMEs and Entrepreneurship Development in the FBiH Strategic Framework (2010-2018), the RS Action Plan on Foreign Investments (2014-2017), the FBiH Water Management Strategy, and the RS Integrated Water Management Strategy (2015-2024)

local development strategies, as well as with the strategic priorities set within the **United Nations Development Assistance Framework (UNDAF) 2015-2019**⁹ and the UNDP Country Programme Document for BiH (2015-2019).

When it comes to improved economic and environmental governance, as well as better service delivery outcomes, there is a **wide range of stakeholders**, which can drive or restrain positive changes and affect the Project implementation. These include citizens, LGs (LG Councils, Mayors and administrations), municipal utilities, businesses, local communities (*mjesne zajednice* - MZ), the entity Associations of Municipalities and Cities, professional thematic organisations and networks, local and regional development agencies, cantonal and entity governments, relevant sector-related institutions at cantonal and entity levels (responsible for local governance and sector-related legal and policy frameworks).¹⁰

While the overall MEG Project's goal as well as three specific objectives have been defined by the Embassy of Switzerland / SDC within the Project's Terms of Reference, the fully-fledged Project Document for the first Main Phase was to be elaborated in a participatory manner during the Project's Entry Phase. In this context, the Entry Phase had five specific outputs, as follows:

- (i) Project baselines established through assessments in the areas of environmental and economic governance;
- (ii) Partnerships established, consultations and validations of the Project concept conducted;
- (iii) Criteria for the selection of the partner LGs defined;
- (iv) Municipal budget support model defined; and
- (v) Main elements of the draft Project Document for the Main Phase defined.

CHAPTER 2: OUTCOME ACHIEVED

In consultations with the Project partners and stakeholders, as well as in close cooperation with the Embassy of Switzerland / SDC, the draft MEG Project Document was finalised and submitted for review as a final outcome of the five-month Project Entry Phase.

The Project Document was based on the UNDP Technical Proposal, findings of the comprehensive **baseline assessments**, as well as inputs obtained through consultations. As already mentioned, the entry point for the assessment in the environmental sector was water and wastewater management following the FOPIP approach, while the economic governance assessment was largely based on the general methodology, assessment criteria and indicators set in the BFC in South Eastern Europe.

Although the UNDP Technical Proposal envisaged that the assessments would be carried out for a group of 25 potential partner LGs, at the request of the Embassy of Switzerland, the list of the targeted LGs was extended to include additional five (namely, Banovići, Bosanski Petrovac, Drvar, Kalesija, Živinice). Furthermore, the request by the Municipality of Žepče to be included in the Project was received and granted in October, upon additional consultations between UNDP and the Embassy of Switzerland. As a result, the total number of LGs encompassed by the two assessments was 31 (14 of which in NW and 17 in the NE cluster).

Following the public procurement process for the assessment in the environment sector, the Institute for Water Management Sarajevo (ZZV) and Hydro-Engineering Institute Sarajevo (HEIS) were contracted in September and

⁹ Adopted by the Council of Ministers of BiH in June, 2015.

¹⁰ E.g. FBiH Ministry of Development, Entrepreneurship and Crafts; FBiH Ministry of Environment and Tourism; FBiH Ministry of Agriculture, Water Management and Forestry; RS Ministry of Physical Planning, Civil Engineering and Ecology; RS Ministry of Agriculture, Forestry and Water Management; RS Ministry for Administration and Local Self-Government.

October, including addendums to encompass additional local governments (Bosanski Petrovac, Drvar, Kalesija, Živinice, Banovići, and Žepče).

Moreover, upon the public procurement for the assessment in the field of economic governance, contracts were signed with the Economic Institute Sarajevo (EIS) and Development Consulting Group (DCG) Belgrade in October and November, including also the assessment in the additional LGs.

The introductory meetings between ZZV and HEIS, on one side, and representatives of LGs and water utility companies, on the other, were held in Bihać and Doboj in September. The meetings between EIS and DCG, and LG representatives in charge of economic development were held in Bosanska Krupa and Doboj in October. They were facilitated by UNDP regional offices, and their main purpose was to present the assessment methodology and timeline.

The water and wastewater management assessment encompassed several key elements, namely: level of operational autonomy of utilities, organizational structure and staffing, network mapping, effective zoning and measurement program, non-revenue water (NRW) management, consumer relations, tariff policy and collection procedures, including billing cycle, accounting procedures and management information system (MIS), budgeting and business planning, financial management, inventory and fixed assets cycle, including infrastructure ownership and depreciation, and other areas for possible improvement. The assessment was finalised in early December, indicating the following key challenges: access to controlled water supply (especially in rural areas); access to wastewater services, including wastewater treatment; and the overall sustainability of service provision. These challenges call for improved asset management; regular maintenance and replacement of infrastructure elements; establishment of tariffs based on a cost recovery principle, allowing for realistic depreciation, and its use for investments to upgrade infrastructure; optimizing staff numbers and competencies; and overall improvement in the operational efficiency of utilities.¹¹

The economic governance assessment consisted of the analysis of the current economic situation; assessment of the business environment; provision of recommendations for potential improvements of business friendly environment; and ranking of localities as per their business friendly environment. The analysis of the current economic situation included the aspects of economic activity and workforce, while the assessment of the business environment was conducted on the basis of criteria set by the BFC. The assessment was completed in late December, indicating a need for coordinated efforts across key business enabling environment pillars and stronger interaction with the private sector; the necessity to introduce systemic approach to the implementation of development strategies; the lack of economic governance decision-making based on data, analytical tools and business insights, as well as the lack of higher level governments' fiscal support programs.¹²

In order to present the Project concept, provide for buy-in and partnership commitments, **consult on and validate the Project Document**, several events and consultative meetings were organized during the Entry Phase. Consultations on the Project summary were also organised electronically.

Two kick-off meetings were held in Bihać and Doboj in September, to inform the potential partner LGs about the Project's scope and goals. They brought together over 90 representatives of 31 targeted LGs, including local utilities. As a result, all the LGs provided their letters of intent to participate in the Project, confirming also their readiness to undertake specific administrative and regulatory changes as well as to co-finance the implementation of infrastructure interventions as part of the Main Project Phase.

Consultations intensified in the course of October and November, including events for state, entity and cantonal institutional partners. The events were attended by representatives of the BiH Ministry of Foreign Trade and Economic Relations, Prime Ministers and relevant line Ministers from Una-Sana, Tuzla, and Zenica – Doboj Cantons, the Entity Associations of Municipalities and Cities. As entity governments' representatives could not

¹¹ Complete summary reports by ZZV and HEIS are provided in the Annex 3.

¹² Complete summary reports by EIS and DCG are provided in the Annex 4.

partake in the events, additional efforts were made to organise specific meetings with the relevant entity ministries, including the FBiH Ministry of Development, Entrepreneurship and Crafts, the RS Ministry of Administration and Local Self-Governance, the RS Ministry of Finances, the RS Ministry of Agriculture, Forestry and Water Management, the RS Ministry of Industry. All the consulted institutional partners expressed their support to the Project, providing valuable inputs and suggestions.

The Project was also presented to the Local Governance / Local Development Donor Coordination Group, bringing together donors and international organisations supporting and implementing projects in this domain. Having in mind the MEG Project's intentions to support improvements of business enabling environment at the local level, additional meetings were held with the GIZ Open Regional Fund (ORF) and BFC Network in BiH, as well as the International Finance Corporation (IFC).

The final consultative meeting brought together over 20 representatives of relevant local/regional development agencies, professional thematic networks, and NGOs.

The consultations provided for Project partners and stakeholders' views and inputs in relation to the Project's relevance, scope and activities. They were also valuable for identifying potential synergies and partnerships with similar interventions and projects implemented by other actors.

Additionally, the validation workshop was organised with the Embassy of Switzerland in late December to share the baseline assessment findings and discuss the main elements of the Project Document.

Having in mind the Project's geographic focus and based on the inputs obtained from both the assessments and intensive consultations with stakeholders, the **criteria for selection of partner LGs** were designed. Up to 18 core partner LGs are to be selected from the group of 31 potential partner LGs within the target geographic clusters, which took part in the thorough assessment process during the Project Entry Phase. The selection criteria include:

- (i) environmental governance performance (measured by % of NRW; number of employees in local utilities per 1,000 users of services (water and sewage); share of the monthly bill for a household in the average household income or affordability¹³), weighted 0.3;
- (ii) economic governance performance (measured by local development index¹⁴ and business-enabling environment score¹⁵), weighted 0.3;
- (iii) commitment and motivation to engage in the Project (measured by existence of valid local development strategy at least until 2019; LG interest and responsiveness based on previous direct experience and during the Project Entry Phase as well as co-financing capacity), weighted 0.4.

Adjustment criteria may also be applied, so as to ensure adequate representation of LGs from both entities, with the main principle that at least 40 % of participating LGs will be from the other entity. Moreover, each geographic cluster will have "champion" LGs for the environmental and economic sectors, so as to serve as development engines for the cluster, and beyond. Complementarities / avoiding duplication with other strategic interventions working in the potential partner LGs will also be considered in the final selection of LGs.

Potential partner LGs were familiarized with the proposed selection criteria during the final consultations on the Project Document.

As another important output of the Project Entry Phase and a key element of the Project Document, the **municipal budget support model** was defined to contribute to the realization of priority infrastructure projects linked to environment sector, with focus on water supply and wastewater services, as well as the economic sector. The model

¹³ The values of the parameters have been obtained through the assessment conducted as part of the Project Entry Phase.

¹⁴ The local development index is a composite index designed in the Entry Phase and developed for all 31 potential partner LGs.

¹⁵ The business environment score for all 31 potential partners (based on the standard Business-Friendly Certification methodology) has been done as part of the economic assessments in the Entry Phase.

is envisaged as a main incentive to award LG leaderships for successfully rooting sector-related reforms and relevant policies and frameworks to enable their effective oversight and implementation. In this context, the support is to be preconditioned by sound progress and performance results by LGs in the areas of direct interest to the Project, with the allocation of financial resources for infrastructure investments calibrated based on the performance curve and continuous progress achieved within target LGs, as a result of changes introduced.

To that end, a set of basic performance criteria would be agreed with all partner LGs at the outset of the Project implementation. These criteria include (but may not be limited to): (i) operational development management function in place evidenced by relevant changes in the internal organisation and systematisation of LGs; (ii) annual strategy implementation plans aligned with the LG budgets and originating from local strategies adopted by LG councils; (iii) clearly defined annual priorities in the environmental and economic sectors, articulated through concrete projects; (iv) % of implementation of the annual LG plans from the previous year. The total Project financial resources for capital investments would be adjusted each year based on real progress and performance of LGs.

As a final output of the Project Entry Phase, all the **main elements of the draft Project Document were defined**. In this process, the Project Team was supported by a Swiss expert, contracted in early November with a task to prepare a draft logical framework and write-up the draft fully-fledged Project Document for the Main Phase. His work was also underpinned by a short-term local economic development expert tasked to design specific sub-elements of the Project Document related to economic governance and local economic development.

CHAPTER 3: OUTPUTS AND CONSTRAINTS

Key Outputs related to the Outcome:

- (i) Project baselines established through assessments in the areas of environmental and economic governance, including:
 - summary assessment reports for both geographic clusters and individual reports for 31 potential partner LGs in the field of economic governance;
 - summary assessment reports for both geographic clusters and individual reports for 31 potential partner LGs in the field of environmental governance;
- (ii) Partnerships established, consultations and validations of the Project concept conducted, including:
 - 2 kick-off events with the potential partner LGs and municipal utilities;
 - Consultative meetings with the relevant institutional partners at the state, entity and cantonal levels;
 - Consultative meeting with the relevant local / regional development agencies, professional thematic networks, and NGOs;
- (iii) Criteria for the selection of the partner LGs defined;
- (iv) Municipal budget support model defined; and
- (v) Main elements of the draft Project Document for the Main Phase defined, including the context, lessons learned, objectives, strategy of intervention, project organisation, management and administration; resources; planning, monitoring and evaluation; and risk analysis; the logical framework and the budget.

The key constraint during the Entry Phase was a short period of implementation, which officially ended by the submission of the draft Project Document on 31 December. Thus, the consultations on the draft Project Document summary, as well as the Project Document finalization based on the comments and suggestions received from

stakeholders and the Embassy of Switzerland / SDC largely took place after the Entry Phase had been closed. These activities required intensive involvement of the UNDP project team beyond the Phase duration, which was made possible entirely by UNDP's resources.

Also, a 5-month timeframe proved barely sufficient for the two baseline assessments, putting a lot of strain on the engaged service providers, leading to certain delays in the delivery of the reports and leaving very limited time to the UNDP project team to review assessment findings and recommendations. Increasing the initially envisaged number of potential partner LGs from 25 to 31 only added to these delays, triggering also the need to revise the contracting arrangements with the service providers, as well as their work and time plans. As a chain reaction, assessment delays resulted in somewhat postponed project document drafting. Nevertheless, the project team commitment and extra efforts made it possible to meet the deadline set for the submission of the draft Project Document.

CHAPTER 4: FINANCES AND MANAGEMENT

Total final contracted budget for the Entry Phase, as per the Budget Addendum signed on 29 September 2015, was CHF 493,022. Out of this amount CHF 437,114 or 88.66% was disbursed for the implementation of the project activities, leaving the balance of CHF 55,908.

All funds were used explicitly for the foreseen Entry Phase outputs, and there were no budget deviations, apart from minor over-expenditure in Part 3b, budget line 3.4: Fees International and National Short Term Experts, in the amount of CHF 219. The reason for this over-expenditure is the difference in the USD/CHF exchange rate value for September 2015, when the Budget Addendum was signed, and December 2015, when the costs were incurred and paid. On the other hand, UNDP co-funded costs in Part 3b of the budget with the amount of CHF 8,460, since the total remuneration for Swiss project design expert was higher than foreseen in the original budget and not acceptable to the Embassy of Switzerland, despite savings on other lines.

Major savings in regard to the approved budget were accounted in regard to costs of the project team and two baseline assessments, the latter resulting from the favourable prices for the required services obtained through public procurement, despite an increased scope of work (31 instead of 25 LGs) in regard to the initial plan.

The project team included local office staff, as well as long and short term experts.

The local office staff included: Programme Quality Assurance and Strategic Guidance (Rural and Regional Development Sector Leader), Environment Management Advisor, Programme Operations Support Officer, Monitoring and Evaluation Specialist, Administrative Associate, and two Regional Field Officers.

The list of long-term experts consisted of Governance Advisor and Environment/Water Management Specialist.

Also, the project engaged short-term expertise, including the International Project Design Consultant, Local Economic Development Consultant and Gender Advisor (as contribution by UNDP).

Full and signed Financial Statement for the Entry Phase is attached to this report as Annex 6.

CHAPTER 5: LESSONS LEARNT

There are several specific findings stemming from the Entry Phase which should be taken in consideration in regard to the overall relevance and feasibility of the project:

- a. Need for long-term development assistance for transformational change***

Consultations with relevant stakeholders confirmed that reform-oriented and systemic change interventions need more than a decade to become successful, when implemented in a context of financial and political instability. Hence, the Project's long-term timeframe has been justified.

b. Economic and environmental sectors are priorities for LGs

Consultations and studies conducted during the Entry Phase have concurred that the primary focus of the Project has been rightly placed environmental and economic sectors within municipal governments, while attempting also to impact the social sector. A review of the 2015–2017 financial frameworks of 40 local development strategies¹⁶ illustrates the magnitude of LG needs in the environmental and economic sectors, where the cumulative demand for environmental priorities is nearly 25 %, while economic priorities amount to approximately 56 %¹⁷. Concentration on public water supply and waste-water public services has been confirmed as having the highest leverage to improve the totality of municipal governance and related public service delivery. It has been confirmed that these services are the municipal public services, which are (i) of high priority for people and businesses, (ii) account for a major share of the LG budgets for capital investments, (iii) are organised in the most complex manner by asking for the engagement of the citizens (including the private sector), LG councils and administration. Moreover, these services are provided by local utilities, which are institutionally linked both to the LG legislative, as well as executive branches. Thus, the intervention is both highly relevant and feasible to make use of economic and environmental sectors as entry points to improve local governance, with the ultimate goal to positively impact all sectors, services and stakeholders at the local level.

c. Strengthening capacity at the local level as “early preparation” for future decentralized resources

Strengthening local public policy management and performance capacity, combined with demand-driven improvements of local service delivery related regulatory frameworks, is the right approach towards paving the way and preparing LGs for gradual decentralisation processes. From that viewpoint, the envisaged regulatory changes within the Project are justified.

d. There is significant scope and demand to improve municipal economic governance

The assessments conducted during the Entry Phase highlighted three broad areas, where both the private sector and the LGs see significant scope to improve municipal economic governance. The first is concerned with improving the administrative service delivery and, consequently, reducing the administrative costs for businesses at municipal level (permits/licenses/approvals). The major part of regulatory service delivery happens at the municipal level. Thus most private companies rely on the knowledge, professionalism and capacity of LG staff to deliver administrative services for business start-ups, investment and day-to-day operations. Relatively quick progress can be achieved in this area. The second is concerned with enhancing economic infrastructure. This refers to basic infrastructure like roads, water supply, sewerage, electricity, and telecommunication but also to accessibility of land and buildings. While LGs have a role to provide some of this infrastructure directly, their role is also to support businesses in accessing such infrastructure. The third concerns the broader areas of supporting competitiveness of businesses. The assessments conducted during the Entry Phase have shown that more complex issues need to be addressed to enhance competitiveness of micro, small and medium enterprises in target localities. LGs have the potential to play a role in facilitating linkages between local businesses and different business development service providers and financial institutions. They can also play a role in linking businesses

¹⁶ The review includes LGs from Una-Sana / Prijedor region and the wider Tuzla / Dobož region, and indicates that 70 % of planned financial resources are needed for capital investments for basic service delivery.

¹⁷ LGs rely heavily on funding from higher governments or other external sources. However, many have reached maximum debt levels preventing them from further borrowing.

with educational institutions narrowing the gap between skills developed by such institutions and skills required by the private sector.

e. A stronger connectivity between the environmental and the economic sectors needs to be established

While the integrated approach to local development has been increasingly applied by LGs, a stronger connectivity between the environmental and the economic sectors needs to be explored, so as to add value to service outcomes and amplify development effects, including from the viewpoint of green economies. Such synergy can be achieved by applying cost-efficient measures in the water and sanitation sector (e.g. energy efficiency audit of water utilities; optimisation of water utilities' staffing to contribute to cost-effectiveness, etc.), placing municipal infrastructure and services in function of economic development, or by promoting green jobs.

f. Work with all actors relevant for democratic governance

The Entry Phase also confirmed the importance to work with all actors relevant for democratic governance. This entails the mayor and the LG council, the LG administration, the local utilities, the public, private and civic stakeholders. Particular attention has to be paid to the municipal council which plays an important role in strengthening society–government relationships and the social contract. Entity and cantonal line ministries expressed readiness to work with LGs to develop policies, set up frameworks for sectoral standards and institutional arrangements to monitor, evaluate, and enforce performance for municipal service delivery.

g. Potential partner LGs are highly motivated to engage in the Project

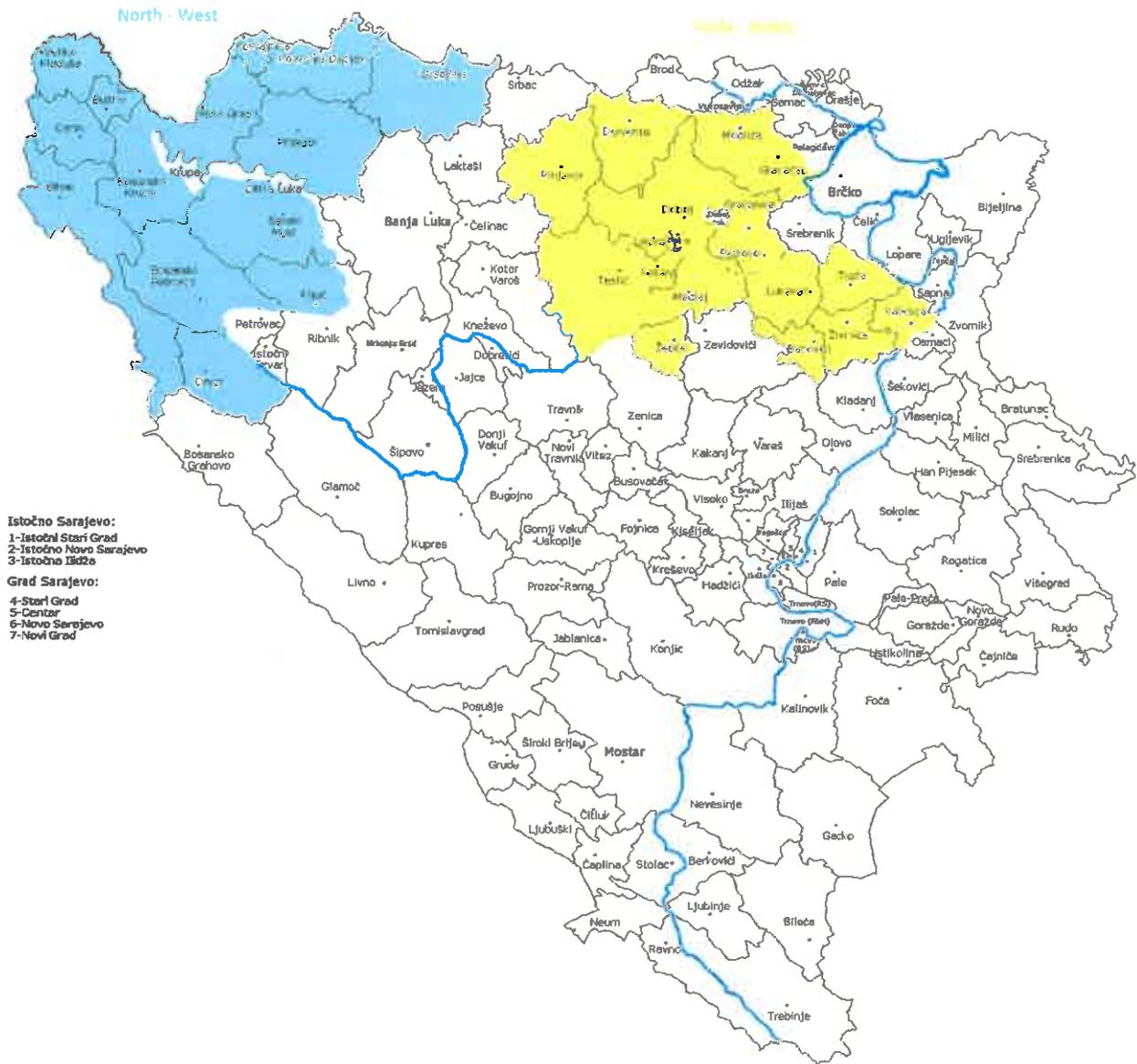
It has become evident that all 31 LGs within the target geographic localities selected as potential core Project partners are highly motivated to engage in the Project. Each of them confirmed so by providing a letter of interest, and pledging therein a financial participation. The success of the Project will to a large degree depend on the commitment of the LG actors and particularly – of the LG leadership – to serve as change agents not only in their locality, but also beyond.

h. Both geographic regions are relatively equal in terms of current economic and environmental governance performance

The initial made in the technical proposal that one geographic region is more advanced than the other, is not correct. The results from the assessments demonstrate that neither North-East nor North-West cluster could be considered as “champion” across all aspects. Therefore, the assistance to economic and environmental governance will have to be tailored to the specific circumstances in each locality and replication and scaling-up of successful practices will not be explicitly from one region to the other, but rather from micro-localities from the two clusters to the rest of the participating LGs, and beyond.

ANNEXES

Annex 1 – Map of potential partner LGs



Annex 2 – List of stakeholders who received project concept and/or participated in the consultations

State level:
BiH Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina;
Entity level:
FBiH Ministry for Development, Entrepreneurship and Crafts; FBiH Ministry of Agriculture, Water Management and Forestry; FBiH Ministry of Justice; RS Ministry of Finance; RS Ministry of Agriculture, Forestry and Water Management; RS Ministry of Administration and Local Self-Governance; RS Ministry of Industry; RS Ministry of Economic Development and Regional Cooperation.
Cantonal level:
Una-Sana Canton Prime Minister; Ministry of Agriculture, Forestry and Water Management; Ministry of Construction, Spatial Planning and Environmental Protection; Tuzla Canton Prime Minister; Ministry of Agriculture, Forestry and Water Management; Ministry of Spatial Planning and Environmental Protection; Ministry of Development and Entrepreneurship; Zenica–Doboj Canton Prime Minister; Ministry of Agriculture, Forestry and Water Management; Ministry of Industry.
Local / regional development agencies, thematic professional networks, NGOs:
Regional Development Agency Sarajevo – SERDA; Regional Development Agency Zenica – REZ; Development Agency Banja Luka – EDA; North East Regional development Agency – NERDA; Una – Sana Canton Development Agency; Economic Institute Banja Luka; Economic Faculty Tuzla; Economic Faculty Bihać; AQUASAN; Water Management Association of RS; FBiH Utility Employers Association; UNA CONSULTING; PLOD; Municipal Development Project; Centre for Development and Support (CPR); Development Agency of the City of Prijedor; City development Agency (CIDEA); Centre for Ecology and Energy; Development Agency Tešanj; Una-Sana Chamber of Commerce; Development Agency Novi Grad; Development Agency Gradiška; Development Agency Kozarska Dubica; Development Agency Cazin; Association of Economists of RS – SWOT; entity Associations of Municipalities and Cities.
Local governments and their utilities:
Banovići, Bosanski Petrovac, Bosanska Krupa, Bužim, Bihać, Cazin, Drvar, Derventa, Doboj, Gračanica, Gradačac, Gradiška, Ključ, Kozarska Dubica, Kostajnica, Kalesija, Lukavac, Modriča, Maglaj, Novi Grad, Petrovo, Prijedor, Prnjavor, Sanski Most, Teslić, Tešanj, Tuzla, Žepče, Živinice, Usora, and Velika Kladuša
International agencies:
EU, OSCE, Council of Europe, Embassy of Sweden, GIZ, GIZ ORF, IFC.

Annex 3 – Summary reports for water and waste water management assessment and cumulative performances baseline table

NW cluster:



Summary
Report_Water_Utiliti

NE cluster:



Summary
Report_Water_Utiliti



Key_performance_in
dicators_baselines.x

Annex 4 – Summary reports for economic and business environment assessment

NW cluster:



Assessment_findings_North-West_cluster

NE cluster:



Assessment_findings_North-East_cluster

Annex 5 – List of the most important events during the Entry Project Phase

Event	Date	Location
Tender for the assessment in the field of environmental governance	14 August – 01 September	Sarajevo
Tender for the assessment in the field of economic governance	31 August – 21 September	Sarajevo
Consultation meeting with SDC	02 September	Sarajevo
Signing of contract with Hydro-Engineering Institute and Water Institute Sarajevo, and a one-day workshop to harmonize approaches and evaluation methods for the two clusters	15 September	Sarajevo
Kick-off with LGs in the NW cluster	08 September	Bihać
Kick-off with LGs in the NE cluster	09 September	Doboj
Introductory meeting with LGs and utilities for water and wastewater management assessments in the NW cluster	22 September	Bihać
Introductory meeting with LGs and utilities for water and wastewater management assessments in the NE cluster	23 September	Doboj
Signing of addendums with Hydro-engineering Institute and Water Institute Sarajevo	30 September	Sarajevo
Consultations with institutional stakeholders	06 October	Sarajevo
Signing of contract with Institute of Economics Sarajevo	07 October	Sarajevo
Consultations with cantonal representatives	14 October	Sarajevo
Local Governance / Local Development Donor Coordination Group Meeting	20 October	Sarajevo
Introductory meeting with LGs for the economic governance assessment in the NW cluster	21 October	Bosanska Krupa
Introductory meeting with LGs for the economic governance assessment in the NE cluster	21 October	Doboj
Signing of addendum with Hydro-engineering Institute Sarajevo	28 October	Sarajevo
Meeting with GIZ ORF and BFC Network in BiH	29 October	Sarajevo
Signing of contract with DCG	30 October	Sarajevo
Signing of contract with the International Project Development Consultant	04 November	Sarajevo
Consultations with relevant line ministries in the RS Entity	04 – 05 November	Banja Luka
Signing of addendum with Institute of Economics Sarajevo	06 November	Sarajevo
Consultation meeting with local/regional development agencies, professional thematic networks and NGOs	10 November	Sarajevo

Consultation meeting with SDC	12 November	Sarajevo
Signing of contract with Local Economic Development Consultant	23 November	Sarajevo
Meeting with IFC	26 November	Sarajevo
Consultation meeting with NERDA and REZ	14 December	Sarajevo
Validation workshop with the Embassy of Switzerland	21 December	Sarajevo
Submission of draft project document for the Main Phase	31 December	Sarajevo

Annex 6 – Signed financial statement



Adobe Acrobat
PDFXML Document

Annex 7 – List of abbreviations

AMC	Association of Municipalities and Cities
BFC	Business Friendly Certification
BiH	Bosnia and Herzegovina
CSO	Civil Society Organisations
DCG	Development Consulting Group
EIS	Economic Institute Sarajevo
EU	European Union
FBiH	Federation of Bosnia and Herzegovina Entity
FOPIP	Financial and Operational Improvement Programme
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GOV-WADE	Governance Project in Municipal Water and Environmental Development
HEIS	Hydro-Engineering Institute Sarajevo
IFC	International Finance Corporation
ILO	International Labour Organisation
LG	Local Government
MEG	Municipal Environmental and Economic Governance Project
MIS	Management Information Systems
MZ	<i>Mjesne zajednice</i>
NE	North-East
NRW	Non-Revenue Water
NW	North-West
OECD	Organisation for Economic Co-operation and Development
RS	Republika Srpska Entity
SME	Small and Medium-Sized Enterprises
SDC	Swiss Agency for Development and Cooperation
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Program
ZZV	Institute for Water Management Sarajevo