

MUNICIPAL ENVIRONMENTAL AND ECONOMIC GOVERNANCE (MEG) PROJECT

Project Number: 00080522

Implementing Partner:

Implementation modality: Direct Implementation Modality

Start Date: 31-06-2016

End Date: 31-06-2020

PAC Meeting date:

Brief Description

The overall Project goal is that **local governments, assigned with appropriate competences and finances, have improved their democratic governance, apply sound public policy and performance management systems and provide public services in an inclusive, effective and efficient manner, particularly those related to economic and environmental sectors.**

Together with its 18 partner local governments, private sector counterparts, relevant cantonal, entity and state level institutions, the project will enhance municipal performance, applying sound public policy and management processes, spurring interaction among local decision-makers and citizens, and supporting capital investment to unlock sustainable economic growth and job creation. To sustain changes introduced at the local level, the project will encourage advancement of the regulatory framework as per European Union standards, towards decentralized and improved service delivery, with focus on communal services and business environment.

Within the scope of its first four-year phase, the project commits to support local governments to improve quality and accessibility of services and public infrastructure to the benefit of at least 700,000 citizens, including the most vulnerable groups. Moreover, by strengthening local governments' capacities to provide business-oriented public services and employment-intensive measures, the project intends to reach more than 540 companies and create 180 jobs.

Linkage with SDGs:

SDG 6 "Ensure availability and sustainable management of water and sanitation for all"; SDG 10 "Reduce inequality within and among countries"; SDG 16 "Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels".

Linkage with EU accession agenda: EU *acquis communautaire* in sector environment (water management) and competitiveness.

UNDP Strategic Plan: Inclusive and Effective Democratic Governance.

Contributing Outcome (UNDAF/CPD):

- By 2019, economic and social and territorial disparities between units of local self-governance are decreased through coordinated approach by national and subnational actors.
- By 2019, legal and strategic frameworks are enhanced and operationalized to ensure sustainable management of natural, cultural and energy resources international obligations and enforced at entity and state levels.

Total resources required:	11,840,744.57	
Total resources allocated:	UNDP TRAC:	
	Government of Switzerland:	11,840,744.57
	Government:	
	In-Kind:	
Unfunded:		

UNDP

Print Name:

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Date: June, 2016

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LIST OF ABBREVIATIONS

AMC	Association of Municipalities and Cities
BD	Brčko District
BFC	Business Friendly Certification
BiH	Bosnia and Herzegovina
CSO	Civil Society Organisations
DMA	District Metering Area
DRR	Disaster risk reduction
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
FOPIP	Financial and Operational Improvement Programme
FY	Financial Year
GDP	Gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GOV-WADE	Governance Project in Municipal Water and Environmental Development
HSEI	General Social Exclusion Index
ICT	Information and Communication Technology
IFC	International Finance Corporation
ILDp	Integrated Local Development Project
ILO	International Labour Organisation
KfW	KfW Bankengruppe
LG	Local Government
MDP	Municipal Development Project
MEG	Municipal Environmental and Economic Governance Project
MIS	Management Information Systems
MZ	<i>Mjesne zajednice</i>
NRW	Non-Revenue Water
OECD	Organisation for Economic Co-operation and Development
PSA	Public Service Agreements
RS	Republika Srpska
SMEs	Small and Medium-Sized Enterprises
SDC	Swiss Agency for Development and Cooperation
SECO	State Secretariat for Economic Affairs
UNDP	United Nations Development Program
WWTP	Waste Water Treatment Plant

DEVELOPMENT CHALLENGE

1. CONTEXT

1.1 Wider country context

Bosnia and Herzegovina (BiH) is suffering its most severe economic and social crisis since the end of the 1992-1995 war. The **complex constitutional structure** stemming from the Dayton Peace Agreement is highly cumbersome. The country of 3.8 million people has 13 constitutions (state, two entities, one autonomous district and 10 cantons), 14 legal systems and more than 140 ministries. This governance structure contributed to political deadlock, low investments and socio-economic inequalities, and high levels of corruption. Slow legislative processes resulting from political stalemate further hamper progress. Nevertheless, for the first time in recent political history, in mid-2015 all government levels agreed on the Reform Agenda 2015 – 2018¹, which is a positive factor in the process of initiating important reforms and unlocking the country's integration into the European Union (EU).

Despite setback from the 2014 floods, **economic growth** remained resilient and 2015 forecasts indicate a 1.9 % positive growth. However, difficult labour market conditions were largely unchanged, with the unemployment rate at 27.5 %², particularly high among youth (62.7 %). The business environment is still weak, impeding faster economic growth. In the World Bank Doing Business 2016 report³, BiH was ranked 79th, three places up from the previous year.

BiH's **Human Development** Index value for 2015 is 0.733, which positions the country in the high human development category, ranked 85th out of 188 countries⁴. Every sixth household in the country is poor. The General Social Exclusion Index for BiH, according to the Berthelsman Transformation Index 2014⁵, reports that 50.32 % of the population is socially excluded (unable to have a normal standard of living, is not covered by health insurance, has no access to education, cannot participate in society or has no access to services). Social cohesion remains weak as integration of society across ethnic lines, or simply encouragement of interaction between different communities, is not promoted by elites in power.

BiH features as a **fragile state** in the States of Fragility report 2015⁶, ranked the 79th most fragile state by the Fragile States Index 2015. The dire economic situation, the low government legitimacy and inadequate public service provision are just three areas, which contribute to this fragility ranking. Government legitimacy is undermined due to incompatible visions of the character of the fragile post-conflict state and the role of the different ethno-national groups in it. This indicates that 20 years after the end of the war the social contract is still weak.

Citizens have regionally the lowest level of trust in their political leaders and state institutions. A general atmosphere of apathy and disillusionment with democracy and its structure prevails⁷. Therefore, progress in strengthening the social contract and social cohesion in BiH requires improvement in the relationships between government institutions at all levels, citizens and businesses, and hence - the improvement of governance at local, cantonal, entity and state government levels.

1.2 Local governance and local service delivery in BiH

At the subnational level, scarce financial resources and overlapping or unclearly defined government responsibilities have resulted in **under-provision of vital public services**. With 61 % of the population living in rural areas⁸, BiH is one of the most rural countries in Europe. The sharpest contrast in development is found between the six largest cities and the rest of the country, where disparities in income and quality of life are wide.

¹ Adopted by the Council of Ministers of BiH in July, 2015; <http://europa.ba/wp-content/uploads/2015/09/Reform-Agenda-BiH.pdf>.

² Reference: <http://www.bhas.ba/saopstenja/LFS%202014%20Preliminarni%20bos.pdf>.

³ Reference: <http://www.doingbusiness.org/rankings>.

⁴ Reference: <http://hdr.undp.org/en/2014-report>.

⁵ Reference: http://www.bti-project.de/uploads/tx_itao_download/BTI_2014_Bosnia_and_Herzegovina.pdf

⁶ States of Fragility 2015, Meeting Post-2015 ambitions, OECD, 2015.

⁷ Bertelsmann Stiftung's Transformation Index (BTI) 2014.

⁸ Rural development in Bosnia and Herzegovina: Myth and Reality, United Nations Development Programme in BiH, 2013.

Together with the Brčko District (BD), there are 145 local governments (LG)⁹, of which 80 are in the entity of the Federation of Bosnia and Herzegovina (FBiH) and 64 in the entity of Republika Srpska (RS). LGs vary substantially in terms of size of their population, territory and development status, while at the same time having the same responsibilities. Like in many contexts, subnational authorities, especially at the LG level, tend to be more responsive and present a good entry point for effort to strengthen the social contract by citizen regaining trust in the state and improve quality of life.

Although LGs are closer to the people and so better placed to address problems in service delivery, they are often trapped by **inadequate policy and legal frameworks and limited by insufficient funds**. Therefore, to improve local service delivery, there is a need for **effective cross-governmental (vertical) interaction and regulatory environment** ensuring clear apportionment of functions and finances across government levels.

The **local governance legal framework** lies at the entity level, and also at the cantonal level within the FBiH. The framework laws are the RS Law on Local Self-Government¹⁰ and the FBiH Law on the Principles of Local Self-Government¹¹. Other general provisions are given in the Constitutions and relevant legal framework of the cantons. Therefore, local government legal frameworks and fiscal arrangements vary between the two entities and between the subordinate ten cantons in the FBiH. Implementation of the framework laws on local governance has proven to be complex, characterised by unclear apportionment of functional responsibilities among entity, cantons and LGs, ultimately leading to inefficient service delivery at the local level.

The Law on Public Revenue Allocation in the FBiH and the Amendments to the Budget System Law in the RS¹² provide the overall legal framework for **funding LGs in BiH**. In both entities, lower government levels are financed almost exclusively by origin-based tax sharing, which means that a higher-level government sets the rate and base of a tax, and generally collects it, but then shares some or all of the yield with lower governments on the basis of how much of the tax comes from a particular jurisdiction. As a result, giving all jurisdictions the same “fair share” of the taxes generated in their territories typically yields a lot of money in few places and very little in most others. A Single Account revenue-sharing formula as a rough equalisation mechanism is in place, assigning specific vertical shares of revenue for each level of government. As a result, the per capita public revenues of cantons differ by ratios of more than 4:1, and by more than 200:1 for LGs. Obviously, this makes it extremely difficult for most cantons or LGs to deliver public services of a reasonable standard. The overall system remains centralised due to the fact that locally generated revenue sources are few and LGs have limited influence on setting the tax rates upon which the bulk of their revenue depends. They also have limited insight into collection of shared direct taxes, which affects the predictability of their revenue streams.

With regard to the **institutional framework**, the Ministry of Administration and Local Self-Government is the main institution in charge of local governance affairs in the RS. However, no equivalent institution exists in the FBiH. The FBiH Ministry of Justice has oversight over the implementation of the local governance legal framework, while the actual responsibility for the management of local government matters rests with the ten cantons.

The introduction of a **standardised approach to local strategic planning** in 2010¹³ contributed to making a positive shift towards systematic and integrated local development, with nearly 70 % of LGs having their local strategies in place. Further, integrated strategies that encompass objectives ranging from economic to social development and environmental protection require concerted cross-departmental interaction and consistent alignment with municipal budgets, in order to ensure effective strategies’ implementation.¹⁴ Nearly 30 % of all

⁹ Local governments in BiH are municipalities or cities.

¹⁰ Official Gazette of RS, no. 101/04, 42/05, no. 118/05 1 98/13.

¹¹ Official Gazette of FBiH, no. 49/06, no. 51/09.

¹² Both adopted in 2006.

¹³ The standardised approach to local strategic planning – MiPRO – has been designed and institutionalized with the support of the Integrated Local Development Project (2008 – present), financed by the Government of Switzerland and implemented by UNDP in partnership with the Ministry for Human Rights and Refugees of BiH, the RS Ministry for Administration and Local Self-Government, the FBiH Ministry of Justice, both entity Associations of Municipalities and Cities and 40 LGs.

¹⁴ It is expected that strategic planning and development management efforts will be further reinforced by the adoption of the Law on Development Planning and Management in the FBiH, most likely in 2016.

LGs have begun to apply an **integrated municipal management approach**.¹⁵ Their experiences come to show positive correlation between the application of an integrated municipal management approach and improved municipal performance. Considering their changing, and increasingly prevalent roles, LGs require a whole new set of institutional and technical capacities to take on the role of development catalysts, especially in underdeveloped areas. **Financial performance** varies greatly across LGs, requiring intensive customized capacity building, particularly on mid-term (3-annual) budgetary planning to ensure strategic resource allocation and prioritised sectoral spending, disciplined budget execution and stronger oversight of utilities and public enterprises by LG councils. LGs have still limited success when it comes to developing (or enabling) **viable projects** (including technical documentation) and **attracting external funds** to add to their dwindling budgets.

In general, **citizen participation in local decision making** is weak because of citizens' attitudes toward and limited knowledge of government. Studies in this area come to show that even though a large number of citizens are not satisfied with their representation in public life, or with the quality of local services, only a limited number are willing to participate in local decision-making. Therefore, citizen participation in BiH is more reactive than pro-active. LGs, on the other side, lack effective mechanisms for consultations, including obtaining feedback on citizens' priorities and including their inputs in decision making. Both the **supply and demand sides of governance** need to be reinforced, towards more accountable and democratic local governance.

LGs are the key providers of **essential public services** at the local level, including local roads, water supply and sanitation services, waste disposal, heating, housing, culture and sports. However, service delivery is extremely uneven across LGs, access to and quality of services is inadequate, and overall user satisfaction is low, especially in rural areas. LGs lack resources and need to increase fiscal space, so as to expand access to and improve basic services. This is especially true for rural areas and among LGs with low per capita revenues. Water supply and sanitation services are in financial and priority terms the most important LG services, and service outcome improvements depend heavily on the financial arrangements in both sectors. Moreover, climate change and more frequent extreme weather events (such as the devastating 2014 floods) substantially increase **disaster losses** in BiH and affect local service delivery.

With regard to **water supply and wastewater**, it is estimated that 58 % of the population in BiH (60 % in the FBiH, 57 % in the RS and 37 % in BD) is covered by public water supply with either continuously satisfactory water quality or occasional deviation from water quality standards given in the EU Drinking Water Directive. In addition to huge disparities in terms of accessibility, water quality control varies between settlements. Water supply systems are old and irregularly maintained. Water losses amount to more than 50 %, leading to system failures including shortages, overexploitation of water sources and high distribution costs.

Less than 40 % of the population is connected to public wastewater system. 90 % of the collected wastewater is released into the watercourses without treatment, causing serious contamination of both natural waters and soil.¹⁶ There is a limited number of waste-water treatment plants, of which not all are active. Key issue is financing of their operations and maintenance, while finances are also insufficient for construction of new ones. Although some efforts are made to expand infrastructure, both in terms of wastewater treatment plants and wastewater networks, there is still a considerable demand in this regard.

At present, most of the **water utilities** in the country are not financially fully self-sustainable, which poses long-term water supply issues. Service delivery management capacity and accountability are limited, requiring also interventions through regulatory frameworks, so as to ensure functional and fiscal compliance across jurisdictions. Water tariff levels are often too low to cover operation and maintenance costs, let alone enable capital investments. Political influence on tariff setting is very strong, giving precedence to social over economic criteria. Full costs recovery, with focus on justified costs, needs to be secured. Depreciation for water supply infrastructure is often not accounted for, while there is a need for regulatory overhaul in the sector of communal

¹⁵ These pilot results have also been achieved through the Integrated Local Development Project.

¹⁶ National Human Development Report: Better Local Governance in Bosnia and Herzegovina, UNDP, 2005. It has to be noted that the entity water governance strategies of 2012 and 2015 report that only around 3 % of the population in the FBiH and 15 % of the population in the RS is covered with functioning wastewater treatment. Data in this regard is dynamic and will be positively affected by the finalization of several LG wastewater treatment plants.

services, so as to enable appropriate water supply and wastewater infrastructure management and maintenance. Thus, there is a need for further “commercialization” of water utilities and **strengthening of municipal financial capabilities through appropriate tariff decisions by LG councils**. Moreover, **financial and regulatory oversight** of public utilities by LG councils and upper-level government bodies needs to be reinforced, so as to ensure public services access, quality and affordability, as well as to mitigate contingent liabilities.

As for **solid waste management**, approximately 60 % of the population is covered by organized waste collection, with a lack of proper garbage collection and disposal frequently recorded in rural areas and poorer LGs. Illegal dumping has become rampant, while waste is often thrown in rivers or simply on the roadsides. Only in recent years, LGs began to establish regional waste landfills or recycling facilities according to modern environmental standards. In summary, factors influencing quality and availability of public solid waste management services are similar to those related to water supply or local roads – i.e. financial capacity of LGs, the level of their urbanisation and number of rural/peripheral settlements, their geographic characteristics, capacities of utilities, etc.

Because LGs are the intersection through which most business creation flows, their role is instrumental in creating a **business-conducive environment and stimulating economic growth**. LGs can positively contribute to business-friendliness of localities by improving regulatory processes and administrative services. At present, LGs have approximately 177 different administrative procedures for businesses. The costs for obtaining different business related permits is considerable and the time required to obtain licenses and permits related to doing business is enormous (e.g. 67 days for starting a business compared to an average of 10 days in other European and Central Asian countries¹⁷). In general, LGs lack business-friendly behaviour and competitiveness orientation in economic governance and service delivery.

Access to **business development services** that improve the performance of private enterprises, their access to markets, and their ability to compete remains very limited in large parts of the country. LGs’ engagement in facilitating access to such services has remained marginal, despite the presence of local / regional development agencies across the country.

LGs also lack capacity to design and apply adequate **labour market** and **business-conducive public measures**, which stimulate the emergence / strengthening of economic value chains, utilise endogenous local and regional potentials and contribute to **market system development** and job creation. Insufficiently developed **economic infrastructure** further hampers economic activity, while LGs have only to a limited extent engaged in providing or pro-actively facilitating access to suitable infrastructure for enterprises and investors.

Despite positive experiences, LGs still lack sound economic expertise and tools to engage in productive **public-private dialogue**. Therefore, collective efforts of LGs and the private sector are necessary to address issues where markets do not work, by strengthening orientation of public policies and services towards strengthening competitiveness of local economy. Economic **networks and alliances of businesses exist**, such as the network of Regional Development Agencies, **but they are still weak** and have not reached their potential to influence policy-making. There is no economic development network that brings together professionals from LGs.

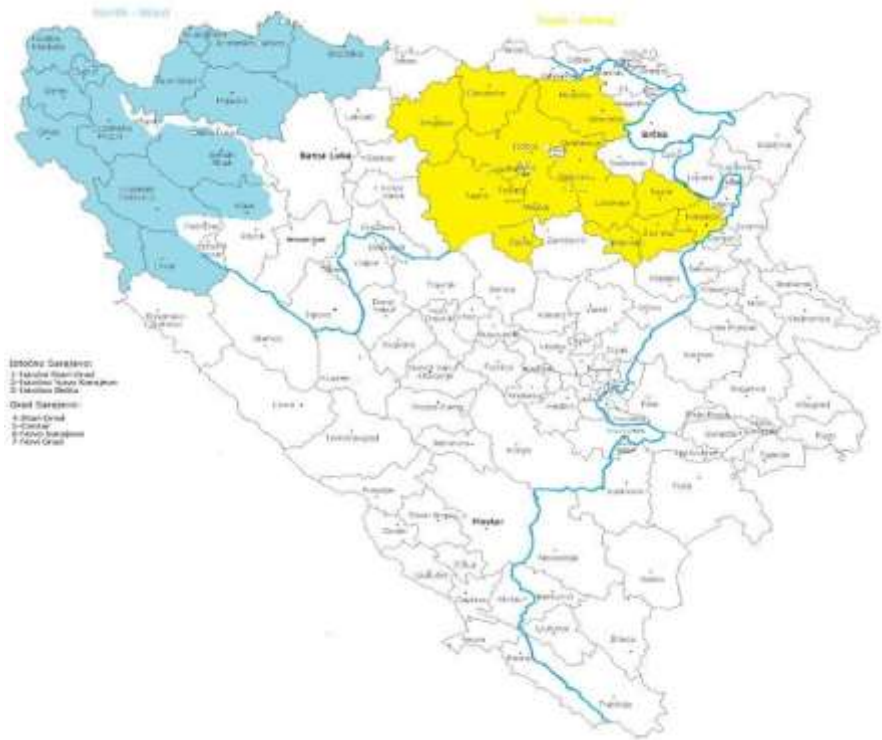
Professional networks that exist in the environmental sector have proven to be instrumental in improving local government practices related to water supply and wastewater management, and informing improvement in the regulatory framework. Among those is the Aquasan network¹⁸, which gathers water and environmental sanitation professionals and practitioners from different parts of the country and different levels of government. There are also the BiH Water Works Association, the RS Water Works Association and the FBiH Association of Employers in Communal Affairs. However, these networks are active to a limited extent and it remains uncertain how much they will be able to keep their momentum, relevance and influence in policy formulation.

¹⁷ Reference: <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB16-Full-Report.pdf>.

¹⁸ Reference: <http://aquasanbih.ba/>.

1.3 State of local environmental and economic sector governance in target regions

Considering the Project territorial focus on North-West (NW) part of the country (including Una-Sana Canton and Prijedor region) and the North-East (NE) region (the wider Doboj-Tuzla area), detailed baseline assessments were undertaken in the areas of environmental and economic governance, covering 31 potential partner LGs grouped in two geographic clusters.¹⁹ General criteria for identifying the potential 31 partner LGs were linked to the priority geographic areas (as defined by the Government of Switzerland within the Terms of Reference for the Project), as well as to previous engagement of LGs in these regions in Swiss-funded projects.



The entry point for the assessment in the environmental sector was **water and waste-water management** following the Financial and Operational Performance Improvement (FOPIP) approach, while **economic governance** assessment was largely based on the general methodology, assessment criteria and indicators set in the Business Friendly Certification in South Eastern Europe Programme, applied specifically in the evaluation of local governments.

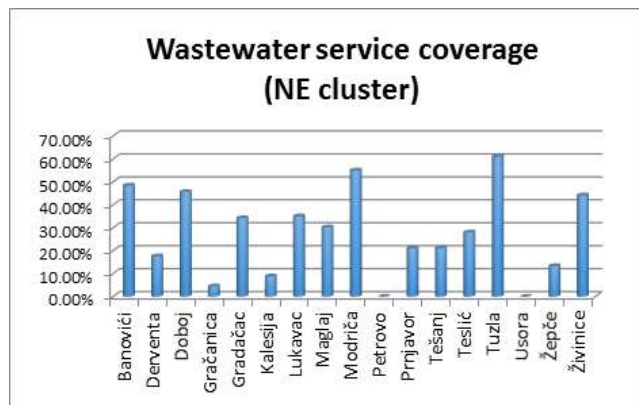
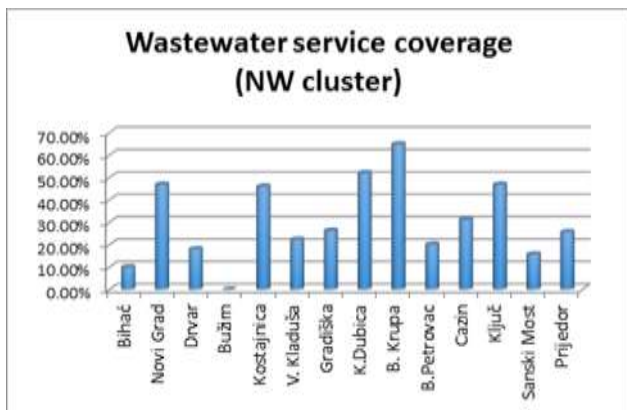
Key findings from the environmental assessment in target areas²⁰

Assessments came to show that the **water supply service population coverage** (public utility provided) differs in the two geographic clusters, with nearly 75.77 % for the North-West region and 50.71 % for the North-East region.²¹ Water supply services are almost continuous with few disruptions (average 22.78 hours per day in the North-West region and 23.82 hours per day in the North-East cluster). Water quality tests on residual chlorine showed positive results in more than 90 % of cases in both clusters.

¹⁹ A detailed list of all potential partner LGs within the two regions is enclosed as *Annex II* to this Project Document.

²⁰ Key baseline performance indicators and assessment findings are enclosed as *Annex III* to this Project Document.

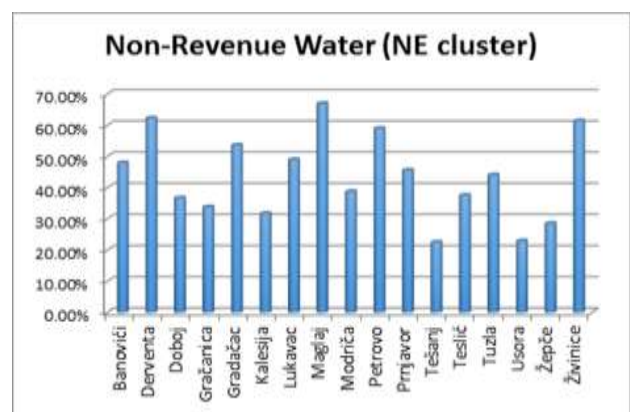
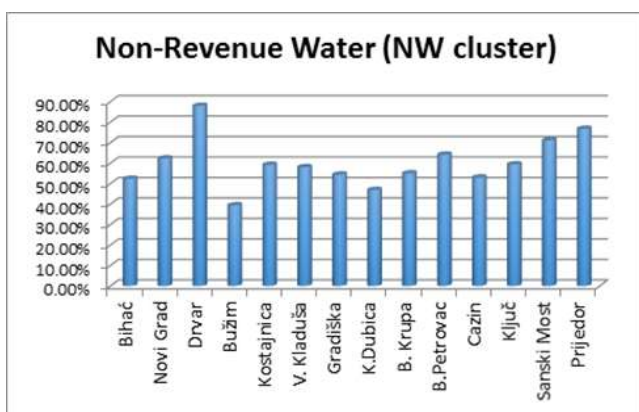
²¹ The average is calculated as the average of individual figures for participating LGs, not as a ratio of summarized population served and population total; the same approach is used for other clusters' average numbers.



Population coverage with wastewater services is similar and rather low in both clusters, standing at 30.45 % in the North-West region and at 27.52 % in the North-East region. While the North-West cluster has no fully operational waste water treatment plants, several exist in the North-East cluster (Gračanica, Gradačac, Prnjavor, Žepče, Živinice - not all having secondary treatment). This indicates existing demand in this particular area. Having in mind high-cost investments for wastewater services and infrastructure, the Project may consider supporting preparation of technical documentation for loans / other types of external funding in this area.

Regarding **measuring water consumption**, both clusters report more than 90 % coverage of the consumers. While this is a good result, the survey also indicated that many of the water meters are not regularly maintained and often are more than 10 years old, and not being calibrated during that period. That leads to an increased level of administrative losses as a component of non-revenue water, since water meters actually record lower consumption. This indicates the need to introduce their regular maintenance and replacements as a routine practice of water utilities. Some of the utilities charge and collect a special “water meter maintenance fee”, which is generally not re-invested for this particular purpose.

Water production is mostly not metered at all and is estimated by pumps’ capacities and usage. Estimates show high overexploitation of water sources, amounting to around 282 litres per person / per day for the North-West region and around 287 per person / per day for the North-East region²², while the actual consumption is less than half of that. Overall **non-revenue water (NRW)** for the North-West cluster is 60 % and 44 % for the North-East cluster, while efficient water utilities in western countries do not have more than 15 % of NRW.²³



Another NRW measure recommended by International Waterworks Association (IWA) is Infrastructure Leakage Index (ILI). Estimated²⁴ ILI average for the North-West and North-East clusters is at 8.71 and 5.91,

²² These numbers could be underestimated, since utilities are reluctant to provide actual figure due to the fact that they pay special water fees based on the amount of water abstracted and thus prefer to report lower abstraction. The average actual consumption is reported to be 101 l / person / day for the NW cluster and 156 l / person / day for the NE cluster, or an average of 131 l / person / day for both regions.

²³ Expressed with other measurement units, NRW accounts for 5.80 m³ / km / day for the NW cluster and 4.44 m³ / km / day for the NE cluster, or 0.17 m³ / connection / day for the NW cluster and 0.11 m³ / connection / day for the NE cluster.

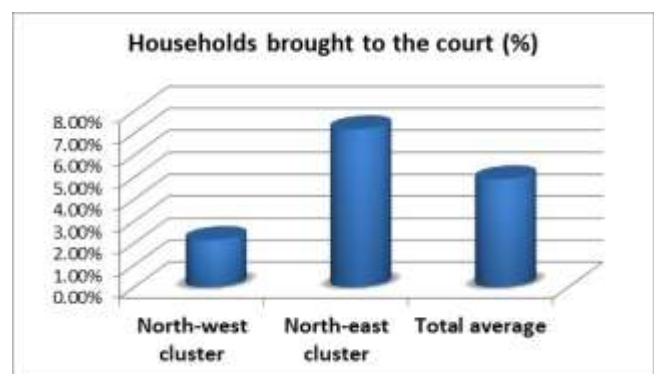
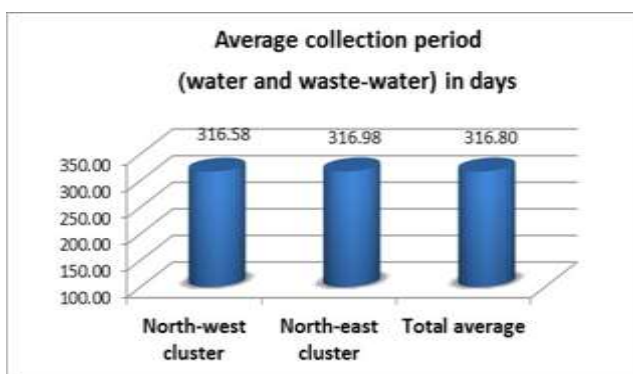
²⁴ During the Project Entry Phase, ILI was only estimated based on available utilities' data, with probably underestimated values for water abstraction.

respectively. The actual figures are probably even higher and well above ILI for well performing utilities in developing countries that does not exceed the value of 4.

The above findings indicate that the **water supply infrastructure is not regularly maintained and replaced**, threatening the long-term sustainability of water supply services. The sustainability is also at risk due to the anticipated increase of operational costs, which will be caused by the gradual introduction of wastewater treatment plants in LGs. These challenges are also closely associated with efforts invested in **reducing actual leaks (real losses) in the network**. Utilities in the North-West cluster reported average of 2.08 failures in water supply system / per kilometre / per year, while the respective number for the North-East cluster is 3.74. At the same time, number of detected leaks by sound detection is 0.31 leaks per km / per year in the North-West region, while it is much higher in the North-East cluster, amounting to 0.60. It has to be noted that utilities generally fail to undertake systematic efforts to detect underground leaks, but they rather act upon customers' complaints. Nevertheless, the above figures still indicate the appalling condition of the existing networks. This points to the need to introduce efficient water production metering, as well as metering by all defined District Metering Areas (DMAs) in order to optimize pressure management, and pressure and flow metering. This will enable efficient NRW management and water balance evaluations by each of the DMAs and the overall network. Further, actual leak detection in the priority DMAs (with highest real losses and worst values of ILI), also needs to be introduced, in order to effectively decrease level of real losses in the network.

Utilities in both clusters are **overstaffed** with 6.35 and 6.17 employees per 1,000 connections, both for water and sewage services (where the international standards stand at 2 employees per 1,000 connections), or 1.78 and 1.68 employees per 1,000 consumers for the North-West and the North-East cluster respectively. Staff costs participate in total costs with around 60 % in both clusters. Only 1 out of 31 utility directors is female. Women account for 19.87 % of the utility staff in the North-West region and 15.10 % in the North-East region, with 1.36 women in management positions in the North-West region and 1.59 in the North-East region. In conclusion, parts of operational costs are not justifiable, while financial resources very much needed for infrastructure maintenance and replacement seems to be spent for staffing purposes. Addressing this challenge will require time, but immediate action is necessary to halt negative trends.

The **collection rate** is more than 95 % for both clusters, which is a very good result compared to average BiH figures from previous periods. At the same time, the average collection period for the water and wastewater services is very high, standing at an average of 317 days for both clusters, most probably due to lack of write-off of suspicious debts over a long period of time. Reluctance to enforce payments is also visible with only 0.52 % of household debtors disconnected from the water supply network in both clusters, or with 2.14 % and 7.18 % of household debtors brought to court respectively for the NW and the NE cluster. Similarly, legal entities' debtors disconnected from the water supply network amount to only 1.21 % in the North-West cluster and to 0.40 % in the North-East cluster.



These shortcomings might be addressed through introduction of water bills writing-off procedures abreast with best global practices, as well as by speeding up the collection of water bill invoices.

Both clusters display **internal cost cross-subsidization using different tariffs for legal entities and households**, where tariffs for legal entities are more than double than those for households. This cannot be justified by actually incurred costs and it may certainly discourage potential investors. Very often international financing institutions, when providing loans for water supply and wastewater infrastructure, insist on gradual tariff equalisation for all types of customers.

Regarding **affordability**, a water and wastewater invoice in the North-West cluster amounts to 2.71 % of the total household income for the region, while it stands at 3.13 % in the North-East cluster. Utilities of both clusters are able to cover almost all (98 - 99 %) operational costs with the existing level of tariffs, but are not able to secure regular network maintenance and replacement, let alone any capital investments in infrastructure extension.

In conclusion, key challenges for the provision of water supply and wastewater services in BiH relate to: i) access to controlled water supply (especially in rural areas), ii) access to wastewater services, including wastewater treatment and iii) overall sustainability of service provision. In relation to this, 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.

Key findings from the economic and business environment assessment in target areas²⁵

The economic assessments conducted in 31 potential partner LGs come to show significant disparities among localities in terms of their gross domestic product (GDP). The **GDP per capita²⁶** ranges between BAM 2,905 (Ključ) and BAM 8,911 (Tuzla). While national GDP per capita for 2014 stands at BAM 7,123, only four LGs in target areas generate the GDP per capita above the national average. The disparity gap between LGs with low GDP per capita and the national average is tremendous, revealing up to 60 % lower GDP per capita in lowest ranked LGs.

It is evident that North-East cluster has more potent economy based on industrial manufacturing and processing. Economies in North-West cluster rely more on primary production based on agriculture and auxiliary activities.

The **employment rate** in two target areas ranges between 6.6 % in Bužim to 23.8 % in Tuzla, while the estimate average employment rate at the local level is at 16.9 %. Better performing local economies are generally characterised by more developed industry and manufacturing-related private sector, which secures value generation, both for LG's (taxes) and their citizens (personal income through salaries). However, most of employment is generated in **retail and public sector**.

The table below presents the dominant economic sectors for each target area, based on the number of employed and location quotient²⁷.

Sector	North-West cluster (2014)			North-East cluster (2014)		
	Employed	% in total employment	Location coefficient	Employed	% in total employment	Location coefficient
Agriculture, forestry, fishing	2,389	4.21	1,69	1,360	1.15	0,46
Industry	17,887	31.50	0,96	51,885	43.82	1,33
Manufacturing within industry	11,203	19.73	0,99	33,403	28.21	1,42
Service	36,517	64.30	0,99	65,159	55.03	0,85
Public sector within service	16,957	29.86	1,12	27,384	23.13	0,86
Total	84,953	100		179,191	100	

The **salary level in the private sector** is significantly lower than the national average of BAM 830 (e.g. Gračanica BAM 536, Tešanj BAM 571, Gradačac BAM 580). While the salary levels are generally higher in the public sector, this finding can also be explained by a common practice where many companies report lower salaries in order to save on taxes and other direct contributions.

²⁵ Key baseline indicators and assessment findings are enclosed as *Annex IV* to this Project Document.

²⁶ USD / BAM exchange rate is 0.6724 (Source: World Bank, 2014).

²⁷ Location coefficient is a measure of concentration of particular industry (or employment within that industry) in the observed locality in relation to that industry (or employment within that industry) in wider region or country.

Export levels differ among assessed localities, and are largely determined by the level of industrialisation and favourable access to main transport corridors. For example, localities such as Lukavac, Maglaj and Tešanj, have highest exports per capita among assessed localities, covering 40 % of total exports for North-East cluster and 9.3 % of total BiH exports. In 2014, exports per capita for North-West cluster have reached BAM 550.20 and for North-East cluster BAM 2,806.80. Importantly, there is positive correlation between the **levels of exports and employment rate**.

A **local development index** has been designed and applied to measure the overall development situation within target LGs. The index comprises the following parameters: i) LG revenues / per capita; ii) employment rate; iii) population (entailing birth rate and migration flow); iv) education (entailing persons with secondary and high education on the labour market) and v) income / per capita. The ranking²⁸ of the 31 potential partner LGs in the two target areas based on the local development index score is presented below.



Business enabling environment is generally insufficiently developed in targeted areas. Although there are positive examples of good economic governance (Tešanj, Teslić, Prijedor, Žepče etc.), overall, there is a great need for systemic approach to coordinate development efforts across key business enabling environment pillars²⁹.

Majority of LGs have **local development strategies** (25 out of 31 LGs), but less than half of them have introduced **systemic approach to strategies' implementation**. Most LGs have already established organizational frameworks to support economic development efforts, through economic development departments or development management units, but those lack significant resources and know-how to operationally drive the development agenda. Local economic development is steered without adequate result-oriented interventions that would enable new development opportunities and utilize LGs' resources for economic growth.

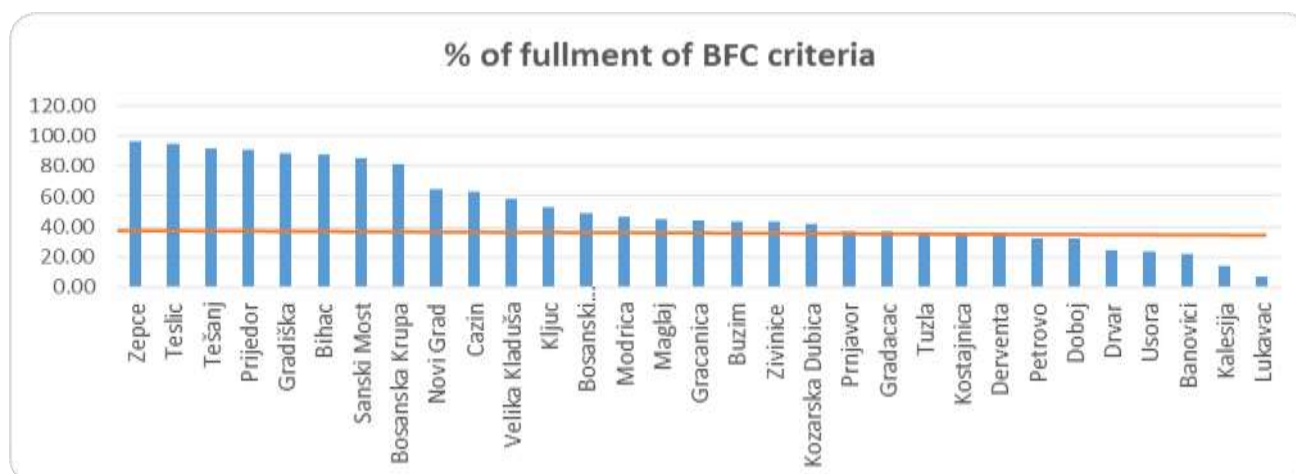
The assessment of LGs' **business enabling environment** shows that there is a significant potential for improvement for majority of 31 LGs in target areas: only 8 LGs (most of them already BFC-certified), are compliant with the business-friendly certification standards³⁰. Positive examples of neighbouring localities coming together to strengthen regional competitiveness (e.g. BEAR region of Tešanj, Teslić and Žepče LGs)³¹ should be promoted and expanded. The chart below shows the ranking of all assessed 31 LGs in terms of % of fulfilment of the standard Business Friendly Certification criteria.

²⁸ These figures will be used as baseline within the Project logical framework, while longer-term changes will be measured based on the exit assessments and the local development index value using the same methodology.

²⁹ I.e. – along the 12 main Business Friendly Certification criteria and performance indicators.

³⁰ I.e. - above 80 % of compliance across all 12 criteria.

³¹ Business Excellence Area, <http://www.bear.ba>.



The economic governance decision-making is not supported by data, analytical tools and current business insights, which makes it difficult to optimize targeting of scarce local resources towards most promising and prioritized economic needs. **LGs' interaction with the private sector is minimal** and often one-sided (LG to the private sector), which results in only pro-forma public-private dialogue. The private sector does not participate in decision-making and is **highly dissatisfied with the LGs' services to businesses**. The highest level of dissatisfaction³² relates to LGs' inability to facilitate business contacts and linkages with other businesses, promotion of local business sector, delivery of adequate policy incentives and capacity of LGs to attract investments, as well as lack of guidebooks and instructions about permitting / licensing procedures. Public private dialogue should be addressed in a systematic manner to reinforce economic governance and economic growth at the local level. Although LGs have some available land for industrial zones in their regulation plans, often these sites lack **water-supply and waste water infrastructure**. In some instances, there are discrepancies between cantonal and local spatial plans, hampering LGs from utilising land resources for investment and economic development. Further efforts should be made to develop workforce in line with business demands.

Lack of higher level governments' fiscal support programs for specific localities leaves the economic development work entirely to the LGs. Few LGs have ready-to-use information on available resources for businesses and investors. Strategies and measures are often insufficiently developed to promote economic potential of localities and attract foreign or domestic investors.

1.4 Stakeholders driving and restraining change (stakeholders' analysis)

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 change. The overview below maps out both influential actors that may drive the process forward, as well as those holding the potential to thwart progress. A more detailed stakeholders' assessment is enclosed as *Annex XI* of this Project document.

Citizens who are insufficiently engaged and who are inadequately included in public policy design and delivery: They are increasingly dissatisfied with getting poor public services³³ for which they pay through their taxes or by invoices for specific services and being ignored by their political representatives. For citizens to be empowered to play a pro-active role in governance processes and be a genuine change driver, they need to be more closely informed about LG's work and engaged in decision-making, while LGs need to introduce participatory performance monitoring system, which enables citizens' scrutiny over public service delivery.

LG councils play a special role in the Project, having in mind that sustainability of reforms and changes introduced at the local level depend very much on the political environment and adequate decision-making. In practice, LG councils often fail to fully perform their functions of oversight, representation and regulation. In the country's highly politicized context, most LG councils have simply become voting machines for backing up or opposing the mayor's decisions. Moreover, LG councillors remain anonymous in the public eye and even in local

³² A detailed presentation of the results from the survey of private sector perceptions on the importance / relevance and quality of procedures, services delivered by LGs within 31 potential partner LGs is enclosed as Annex IX to this Project Document.

³³ Citizen Review of Service Delivery and Local Governance in Bosnia and Herzegovina, the World Bank, 2009.

governance circles. To enable LG councils to be actual change agents at the local level and effectively exercise oversight, their capacity needs to be strengthened towards result-oriented decision-making and legitimising new systems, procedures and policies, particularly in the environmental and economic domains, having in mind the importance of these for the overall quality of life for the citizens. To that end, engagement of the local political leaderships will be instrumental for fostering local democracy and good governance practices. Reinforcing the demand side of governance will also positively affect accountability and effectiveness of LG councils.

Mayors and administrations are generally committed and key players with regard to local service delivery, who are keen to improve their performance and be viewed by citizens as responsive and accountable to them. While mayors and administrations are seen as the main driver of change, in some occasions, depending on the power relations, interests, administrative capacity and willingness of leaderships to take political risks, they can also have a strong restraining influence.

Businesses, which need to be provided with leaner, faster and cheaper administrative procedures, as well as public infrastructure and services enabling their smooth functioning in order to become a stronger driver of change at the local level: From the governance perspective, strengthening public-private dialogue can further unlock the private sector potential to contribute to local development and economic growth.

Municipal utilities have a key role in provision of water, wastewater and other municipal services at the local level. However, they have insufficient technical, organizational and financial capacity, and often lack proper equipment and expertise to manage effectively water supply and sanitation services. They are generally keen to improve their operations and the quality of their service delivery. Therefore, to strengthen their role as drivers of positive change, with positive effects on the governance supply side, utilities need to advance their service management capacities, accompanied by a clear definition of their mandate for infrastructure maintenance and regular replacement, and adequate financial resources. Depending on specific circumstances, utilities can also have a restraining power, particularly in terms of staff optimisation or resistance to introduction of modern utility management due to inherited old routines, as well as for needed water tariff adjustments³⁴.

Local communities / mjesne zajednice (MZs) have the character of community organisations which directly meet various local needs and aim to improve communication with government institutions and citizens' participation in LG. MZs differ across LGs: some are active in local affairs; others are less active or marginalized. They have a keen interest to see governance and public service delivery for their population improved. Therefore, MZs hold a strong potential to make a difference to the ways in which people participate in local decision-making and access local services, especially in rural areas.

Association of Municipalities and Cities (AMCs) represent the voice of municipalities and play an important role in various advocacy processes and country-wide best practice exchange. They have a pivotal interest that their members' interest to improve governance at local is taken into account. This includes issues of improving public management at LG level but also regulatory issues like questions of allocation of tasks and corresponding financial means by higher level government. Despite the fact that both AMCs still lack solid organisational and leadership capacity that would allow them to perform their functions in the most effective manner, they will have a strong supportive role, particularly with regard to regulatory advancement and dialogue between local and higher government levels. Hence, the AMCs hold the potential to consolidate LGs voice and trigger collective action to advance the legal framework or solve common issues.

Professional thematic organisations and networks have been increasingly active and certainly have an important role in both regulatory-reform related processes, as well as in sharing of best practices. For example, thematic associations in the environment and water governance sector are becoming more proactive. Economic organizations and networks, such as chambers of commerce, entity associations of employers, are important actors to engage with (local) governments on issues which are of their concern and in regard to which the government can play a role to improve the business friendly environment and the competitiveness of industries in their locality, as well as advocate for necessary policy and regulatory changes.

³⁴ The cost-recovery principle is an underlining approach related to tariff-setting issues, which has to be aligned with proved operational efficiency – i.e. at present, electricity or staffing costs have high potential to be decreased, while assets management needs more resources, and, in the long-term, the two sides can be balanced or even cost reductions may be higher than assets management financial resources needs. In short, tariffs probably do not need to be increased in all LGs.

Given their nature and professional interest, they are seen as drivers of change, whose capacity, advocacy and influential powers need to be strengthened and actualised for impacts at scale.

Local and regional development agencies, despite their increasingly pro-active role in local economic development, have an insufficient portfolio of business services to support and attract new investments, as well as insufficient financial resources to expand their business-facilitative potential. In general, their interaction with the respective LGs and the private sector, within the broader economic development agenda for the locality/region, remains limited. Nonetheless, by further expanding their service lines and reinforcing productive interaction with LGs and the private sector, local and regional development agencies can have a strong positive influence on local development processes.

Cantonal and entity governments are interested in the concentration of power within their jurisdiction. Therefore, they may have a restraining power in terms of introducing regulatory amendments related to decentralising local services (and therefore – financial resources) in the environmental and economic sectors to LGs. Yet, they have the power to decide on the framework of decentralisation in their respective entity and in the FBiH – between the entity, the canton and LGs. To reinforce the positive influence of entity and cantonal governments in regard to introducing decentralised regulatory frameworks, they need to be engaged from the outset, as well as motivated to scale-up good practices that effectively improve quality of life for the citizens.

Relevant sector-related institutions at cantonal and entity levels (responsible for local governance and sector-related legal and policy frameworks) are crucial for improving the broader enabling environment for local governance and service delivery. They have a main role in revision of relevant legal frameworks and hold an important political function with regard to its adoption. However, these institutions are generally not champions for easily transferring tasks and finances to the LGs. If equipped with relevant administrative and policy-delivery capacities, as well as motivated to introduce effective and efficient regulatory frameworks, line ministries at cantonal and entity levels can certainly be change drivers.

Media is also an important stakeholder, contributing to awareness raising at the local level, encouraging citizen participation in public life and playing an important role in advocacy for regulatory changes in the environmental and economic governance sectors.

1.5 Links to national and international strategies and framework

The intervention is in line with the key priorities set by the **Reform Agenda for BiH 2015-2018**, specifically in terms of improving business environment and competitiveness, and economic governance.

In February 2016, BiH submitted its formal application for launching negotiations with the EU. This is an important external factor for the Project, especially in terms of its potential contribution to eventual legislative reforms in the environmental and economic sectors to meet the EU *acquis communautaire* requirements.

Despite the incomplete local governance policy agenda, the Project is directly relevant to the **RS Strategy for Local Self-Government Development 2010–2015**³⁵, as well as to the draft **Training Strategies for Local Government Employees 2016–2020**, particularly in terms of priorities for further strengthening LGs' elected officials and staff capacity for professional service delivery.

In addition, the Project will contribute to the broader development objectives set within relevant entity sectoral strategies, such as the **SMEs and Entrepreneurship Development in the FBiH Strategic Framework (2010-2018)** and its Strategic objectives 1 – “To reduce administrative barriers for entrepreneurship” and 6 – “To improve business infrastructure”; the **RS Action Plan on Foreign Investments (2014-2017)** and its Objective 1 – “To strengthen competitiveness and improve business environment”, Objective 2 – “To strengthen institutional capacity and development partnerships” which also refers to the LG level; the **FBiH Water Management Strategy**³⁶, specifically to its Strategic objective 1 “Water sector legal reform, needed to adapt to new social environment, adjusting also to EU requests regarding water management”, Strategic

³⁵ A new Strategy for the period 2016 – 2020 will be developed in 2016.

³⁶ Reference: http://fmpvs.gov.ba/upload_files/1440490897-276_1090_1675_e.pdf.

objective 2 “Adequate integration of water management sector in economic system as a whole, with larger representation of the economic tools in the process of water resources management”, Strategic objective 3 “Improvement of efficiency, transparency and responsibility in water management”, Strategic objective 4 “Securing financial sustainability in water management and reform of tariffs for water services with gradual introduction of economic water tariffs” and Strategic objective 6 – “Increase in coverage and improvement of public water supply systems”; and the draft **RS Integrated Water Management Strategy (2015-2024)** and its Objective “Effective water management and use”, particularly with regard to priority 3.2 “Improve water supply” and Objective 4 “Apply effective management for protection of quality of water”.

Moreover, by investing in LGs’ capacities and infrastructure, the Project will directly support implementation of strategic priorities defined in **local development strategies** in target localities.

The Project is in compliance with the European Commission’s **Indicative Strategy Paper 2014-2017 for BiH**, or more specifically with its priority “Competitiveness and innovation, local development strategies”³⁷.

The Project is fully in line with the **Swiss Cooperation Strategy for BiH 2013-2016**, in particular contributing to its priorities in the domain of local governance and municipal services, as well as indirectly - to the economy and employment priority.

The Project is also in line with two strategic programme priorities of the **United Nations Development Assistance Framework (UNDAF) 2015-2019**³⁸ and the UNDP Country Programme Document for BiH (2015-2019), as follows: (i) reduction of regional, economic and social disparities; and (ii) access to services and employment opportunities for the most vulnerable.

2. LESSONS LEARNT AND INSIGHTS INFORMING THE PROJECT HYPOTHESIS

2.1 Lessons learnt from previous similar projects in BiH

Capitalise on and scale-up tested approaches in local governance and service delivery

Previous experiences in the area of local governance and local development in BiH came to show that replication of successful practices to different localities provides the opportunity to easily transfer lessons learned and maintain focus, while scaling up. Replication of successful practices and tested approaches in local governance, local development and service delivery in BiH ensures faster and cost-effective development results, further advancement of municipal performance informed by local strategies, as well as reinforces connectivity between economic and environmental governance. From viewpoint of this lesson learnt, the Project is a follow-up intervention of the Governance Project in Municipal Water and Environmental Development (GOV-WADE).³⁹ It will build on experiences gained through the GOV-WADE - in the environmental sector, and through other Swiss governance projects, such as the Integrated Local Development Project (ILDP)⁴⁰ - in spearheading an integrated municipal planning and governance approach; the Municipal Development Project (MDP)⁴¹ in citizens participation and local service delivery. Moreover, the Project will capitalise on other projects, such as the Mainstreaming Environmental Governance: Linking the Local and National Action in BiH Project and the Democratic Economic Governance: Securing Access to Water through Institutional Development and Infrastructure Project (financed by the Millennium Development Goals Fund for Environment) – in mainstreaming successful approaches to operational planning in the environmental sector; BiH Investment Climate Project of the International Finance Corporation (IFC), also partially funded by Government of Switzerland – in further scaling-up good practices in the area of business enabling environment, as well as the GIZ-supported Open Regional Funds for South-East Europe and its Modernisation of Municipal Services action (co-financed by the Government of Switzerland), particularly in relation to promoting the role of LGs in business friendly environment as well as exchange of good practices in water supply management.

Tackle BiH’s unique governance structure from the bottom up

³⁷ Reference: http://ec.europa.eu/enlargement/pdf/news/annexe_acte_autonome_nlw_part1v1.pdf.

³⁸ Adopted by the Council of Ministers of BiH in June, 2015.

³⁹ GOV-WADE (2006-2013), financed by the Government of Switzerland and implemented by Una Consulting Ltd.

⁴⁰ ILDP (2008-present), financed by the Government of Switzerland and implemented by UNDP in BiH.

⁴¹ MDP (2002-2008), financed by the Government of Switzerland and implemented by MDP Initiative in BiH.

Previous work at the local level came to show that leveraging grass-roots reform pressure by LGs and scaling-up local initiatives can effectively trigger needed higher government level policy and regulatory reforms, and drive change that is guided not by political considerations, but by citizens' needs. One way to work through this is to facilitate parallel processes in both entities, involving cantons and LGs, and ensuring the reciprocal exchange of ideas throughout, thus enabling people to merge their ideas into a country-wide approach on the basis of equal participation rather than outside imposition. LGs are the most functional government level, providing a more responsive framework for addressing numerous development challenges with relative simplicity and directness. Moreover, successful change at the local level has the potential to build pressure from below, thereby inspiring decentralisation and driving change at higher levels of government. All these important aspects will be considered in the Project implementation, particularly in terms of facilitating LGs'-driven improvements of service-delivery-related regulatory frameworks in the water governance and economic governance areas.

Use existing local development strategies as development platforms and make a shift from development planning to integrated development management

Systemic local planning has gained momentum in BiH; however, recent development experiences show that without introducing adequate and disciplined governance performance systems, the overall development value of strategic frameworks is significantly decreased. Therefore, a main lessons learnt is that it is of ultimate importance to make a systemic shift from local development planning to integrated development management by focusing on improving LGs' internal systems, functions, capacities and processes that enable citizen-centred and result-oriented municipal performance, as well as impactful implementation of local strategies that correspond to citizens' needs. Further practical experiences also demonstrate that it is critical to sequence assistance along the natural annual development cycles and offer on-system support, which translates new public policy management concepts and tools into routines, accompanied by strong commitments by local leaderships and constant engagement of citizens in the public policy delivery monitoring. In addition, capacity development assistance in such processes seems to be most successful when coupled with performance-based provision of financial resources and incentives to LGs. These valuable lessons learnt and observations will be taken in consideration when shaping-up the Project work related to strengthening municipal service delivery and performance management systems and capacities.

Speak a language that people understand

This lesson learnt comes from numerous development experiences, showing that much of government is based on rather opaque documents, written by specialists for specialists, and on complex administrative procedures. For "outsiders", be they ordinary citizens, businesses or members of other organisations, to engage effectively in participatory local decision-making, the documents and procedures need to be expressed in a simple everyday language, which makes clear to everybody their rights and responsibilities, and the specific steps they can take. Direct work with improving the demand side of government also shows that LGs should be constantly encouraged to understand the importance of transparency and accountability and be willing to open the process to citizens and socio-economic stakeholders. These important considerations will inform the Project's approach and efforts to facilitate effective and productive citizen participation in local policy design and delivery.

Work with the most committed LGs and champion local success

One of the strongest impressions to come out of previous experiences has been that motivation and willingness of local leaders is of fundamental importance to successful introduction and setting in function of new systems and processes at the local level. Evidence from BiH and a number of countries globally indicates that the efforts of international actors to "impose" democracy and new development solutions in the absence of strong domestic support and ownership are unlikely to be successful in the long run. Therefore, the Project will ensure close engagement of all relevant stakeholders from the outset and will facilitate a common vision of progress reflecting "home-grown" and shared development agendas. Another important lessons learnt is that sharing success stories motivates others to follow good examples. Therefore, once local models are developed and successfully applied, the Project will present and "champion" them country-wide, so as to boost ownership, instigate wider recognition and ensure spill-over development effects in the areas of local service delivery.

Bridge ethnic divides with common interest

Ethnic divisions are an unfortunate reality of the country life, pervading its politics and often hampering initiatives that could have worked in another country. However, people are prepared to set ethnic differences aside when they have a sufficiently important common interest – most often a common economic interest. This will be further applied as an overarching approach in connecting localities, businesses and communities across ethnic lines, by identifying and facilitating initiatives of common interest – in service delivery, economic development or knowledge exchange, etc.

Public private dialogue is a critical factor for local economic development

Development results demonstrate that the approach applied so far in terms of supporting LGs to cooperate with the private sector and improve business environment, has been insufficiently tailored to the actual needs of the private sector. Therefore, a new private-sector-leaning perspective needs to be cultivated within local administrations. Experience with many local economic development initiatives in BiH shows that while active and constant involvement of the private sector in economic governance remains a challenge, it is of critical importance to local economic development. Lessons learnt suggest minimising to the extent possible lengthy research and public planning processes which fail to keep up with concrete implementation and results and introduce, as much as possible, a business perspective in policy design and delivery, focused on visible, effective and tangible results for socio-economic stakeholders. Moreover, facilitation / moderation skills of LGs and business-supporting organisations are critical for effective economic governance. These considerations will be of particular importance when designing the overall Project support to economic governance and public private dialogue.

Support services and economies of scale through inter-municipal / regional cooperation

When LGs join together for service delivery or regional economic activities, they can create economies of scale that result in effective and efficient service outcomes, as well as regional competitiveness. This important observation will be applied in the Project approach, particularly in terms of encouraging inter-municipal cooperation for better service delivery, as well as in joining LGs' and private sectors' efforts to foster regional competitiveness based on most potential economic sectors.

2.2 Insights gained through the inception phase informing the Project hypothesis

The Project Entry Phase⁴² enabled not only thorough situation analysis and sectoral assessments, but also wide consultations with interested stakeholders, which enabled validation of the overall theory of change, as well as gaining insights that further inform the Project hypothesis. These are summarised below.

Need for long-term development assistance for transformational change

Consultations with relevant stakeholders (LGs, policy-makers, institutions, non-governmental organisations, etc.) and previous relevant experiences confirmed that reform-oriented and systemic change interventions need more than a decade to be successfully anchored, when implemented in a context of financial and political instability. Therefore, this affirms the Project assumption for a long-term (more than 10-years) timeframe.

Economic and environmental sectors are priorities for LGs

Consultations and studies conducted during the Preparatory Phase have concurred that the primary focus of the Project has been rightly placed on municipal governance related to environmental and economic sectors, while attempting to also impact the third sector (social sector). Moreover, a review of the 2015–2017 financial frameworks of 40 local development strategies⁴³ illustrates the magnitude of LG needs in the environmental

⁴² The Project Preparatory Phase has been implemented during the period August – December, 2015.

⁴³ 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.

and economic sectors, where the cumulative demand for environmental priorities is nearly 25 %, while economic priorities amount to approximately 56 %⁴⁴. 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.

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 seen as instigators of broader decentralisation processes in BiH.

There is significant scope and demand to improve municipal economic governance

The assessments conducted during the Preparatory Phase highlighted three broad areas, where both the private sector and the LGs see significant scope to improve municipal economic governance. The first one 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 one 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 with educational institutions narrowing the gap between skills developed by such institutions and skills required by the private sector.

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

While in general the integrated approach to local development has been increasingly applied by LGs in BiH, 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. Specifically, 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.), by placing municipal infrastructure and services in function of economic development, or by promoting green jobs.

Work with all actors relevant for democratic governance

The Entry Phase has 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

⁴⁴ LGs rely heavily on funding from higher governments or other external sources. However, many have reached maximum debt levels preventing them from further borrowing.

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.

Potential partner LGs are highly motivated to engage in the Project

Finally, it has become evident that all of 31 LGs within the target geographic localities selected as potential core Project partners are highly motivated to engage in the Project. 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.

Both geographic regions subject to assistance under the Project are relatively equally standing in terms of current economic and environmental governance performance

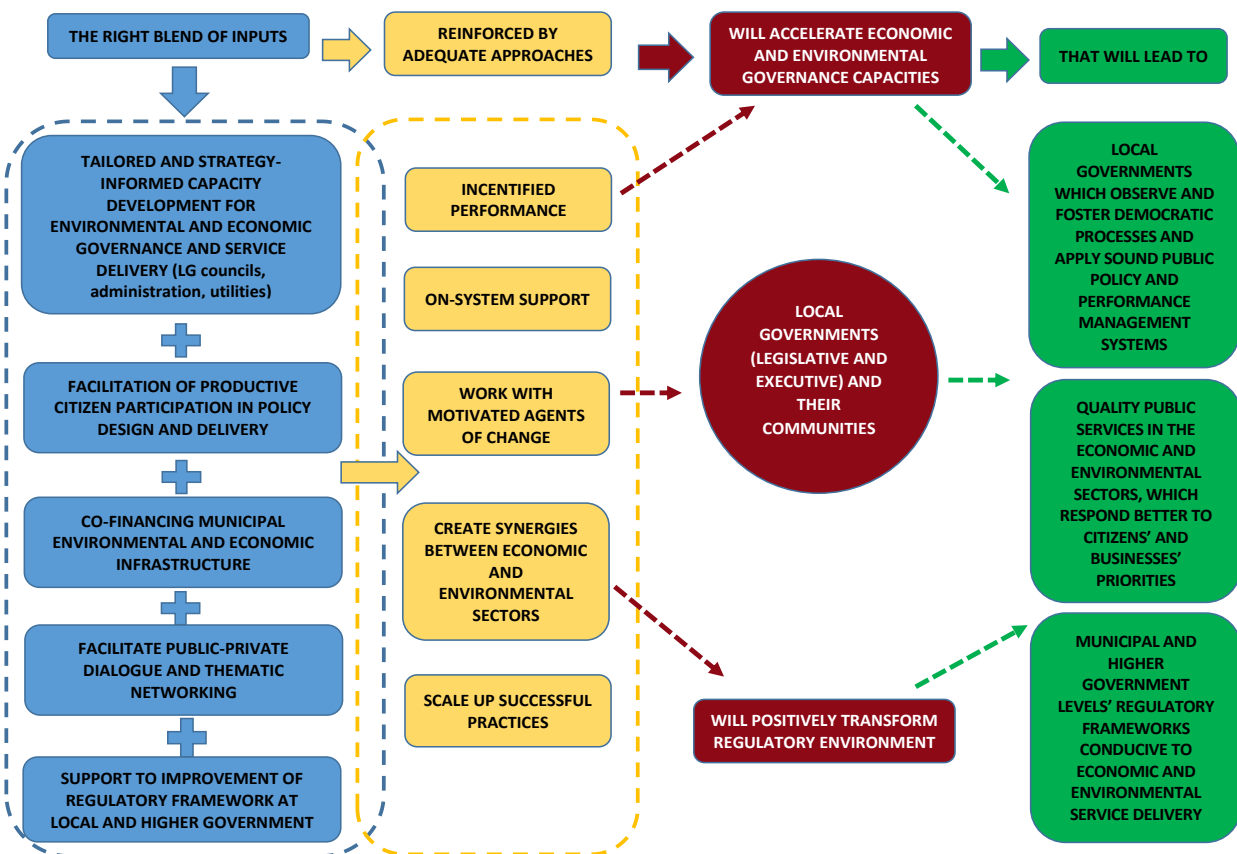
The initial assumption made within the Project technical proposal that one geographic region is more advanced than the other, seems not being correct. In fact, results from the assessments in both areas demonstrate that in some criteria the North-East cluster is performing better, while in other – the North-West, thus none of the two can be considered as “champion” across all aspects. Therefore, Project 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.

STRATEGY

3. OBJECTIVES

3.1 Overarching impact hypothesis

By increasing **accountability between mayors and municipal councils and conditioned on-budget support** to municipalities, legitimacy of and trust in local governance is strengthened and the mayors’ political risks of inducing reforms are reduced. By additionally enhancing **involvement of citizens** in design of and decision making on public affairs, effectiveness and demand orientation of the public management cycle is improved and citizens get better quality services. **Reformed public utilities** reduce drains on municipal budget, and generate revenues for investments. Better services and a more enabling business environment **attract investors**. Documented better service delivery by local governments, in cooperation with municipal associations may start to generate the **bottom-up pressure for more fiscal decentralization and better regulatory environment**.



The rationale is that the social contract, which is about positive state-society relationships and a crucial element in addressing state fragility, gets strengthened if LGs function more democratically and deliver better services to their citizens. Thus, to provide for systemic approaches to local governance development and bottom-up mainstreaming of local initiatives into policy frameworks, the Project places **LGs and their communities at the centre**, while also engaging relevant stakeholders at higher government levels, the AMCs and thematic professional organisations⁴⁵ to ensure enabling environment and leverage local level results.

By applying incentivized performance support and working on-system, the Project will advance economic and environmental governance capacities. **LG councils** will have a central role in this process; therefore the Project will strengthen their legislative and oversight capacity to challenge the administration, demand information,

⁴⁵ E.g. Associations of waterworks, utilities, employers, informal or formal economic organizations and networks.

debate strategies with the executive branch, monitor service delivery outcomes together with citizens and take a long-term view on local development.

Although the Project assistance is focusing primarily on the **economic and environmental sectors**, positive changes that affect the broader governance framework at the local level will be in place, along the **public policy and management cycle approach**. This will be achieved by replicating and institutionalising the **integrated municipal management system**, and strengthening **the management and operational capacity of key local actors**, towards systematic, modernised and result-oriented municipal development management and performance. By introducing innovative LG performance benchmarks, the Project expects to ensure transparent and measurable delivery, as well as par excellence practices within partner LGs and country-wide. Importantly, support for **improvement of business-friendly environment** is in-built across intervention lines.

Respecting and understanding the specific political spaces at the local level, the Project will improve institutional capacity of key local stakeholders to apply good governance principles, provide quality local services, effectively interact with relevant stakeholders and create business-conducive environments. This will entail engaging with all stakeholders relevant for democratic municipal governance. The Project will offer tailored on-system support and ensure flow of knowledge and experiences across LGs, regions and entities, thus providing for coherent and sustainable Project outcomes and impact.

Further, effective water utility reforms and functional performance management systems implying excelling technical, as well as political performance, will be **awarded through financial resources** for realization of local priorities in the environmental and economic sectors. Such assistance will visibly reward the political drivers of change for challenging and sensitive reforms at the local level, which will be also leveraged to reduce eventual (political) risks. As a result, increasingly **better services** combined with a more **enabling business environment** attract investors, improve living conditions, motivate local political leaderships and make citizens feel that change is possible and that their requests are heard and their time invested into participation was worth it.

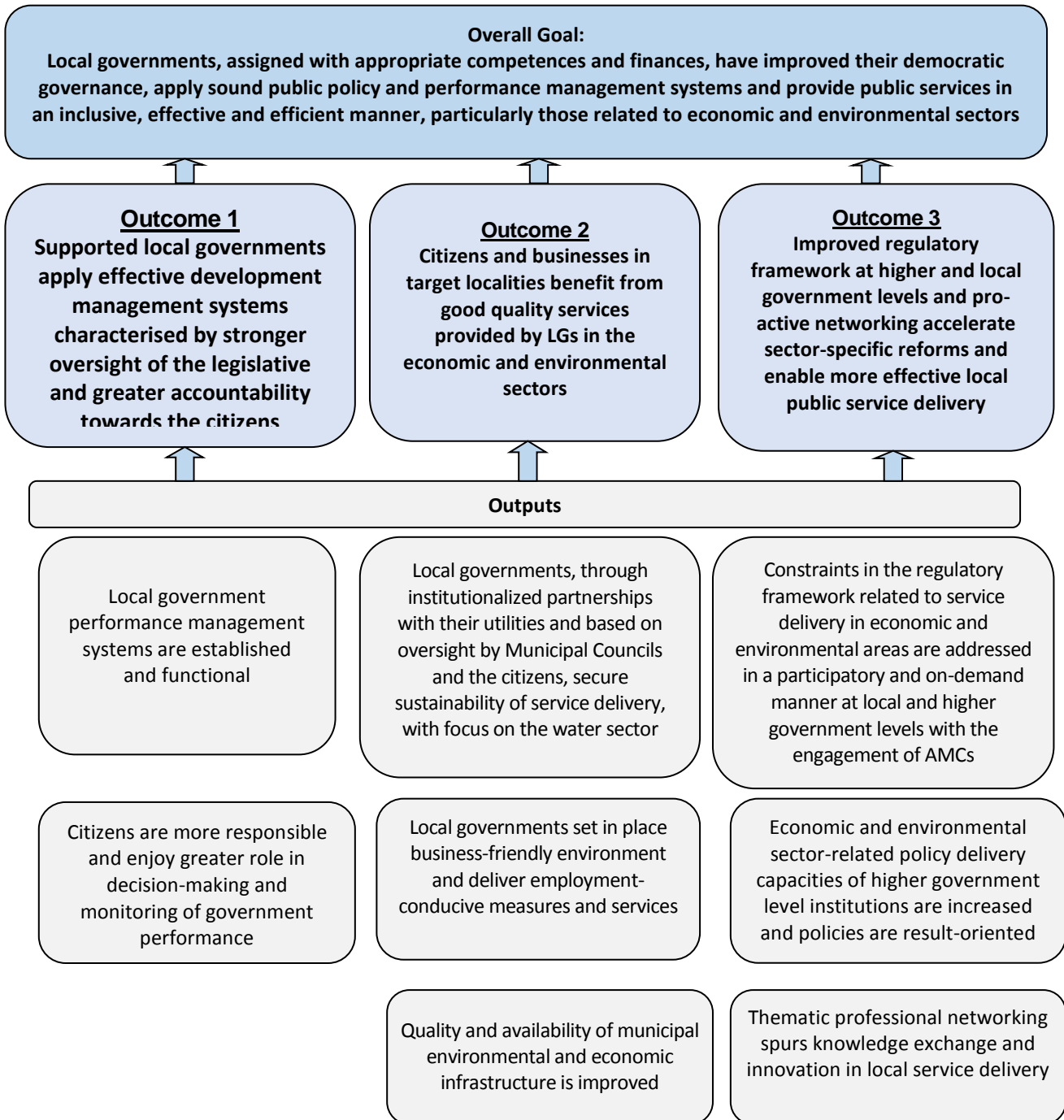
To improve local service delivery, LGs need an **adequate regulatory environment and effective cross-governmental (vertical) interaction**. Therefore, by supporting amendments of relevant regulatory frameworks, the Project will bring lasting positive changes in local service delivery. Importantly, potential regulatory enhancements brought about by the Project will consider: i) clear apportionment of functions across government levels coupled with ii) adequate financial resources for LGs to deliver quality public services and iii) complementarity among regulatory acts. In this context, the Project will operate under the premise that it is critical to ensure **by-laws that are both conducive to policy delivery** as well as **harmonised across government levels**.

The Project recognizes the importance of reinforcing **capacities of higher government level institutions** to effectively manage **policy delivery**. Bearing in mind the important role which **AMCs and other relevant professional organisations and networks** play in this domain, it is proposed that policy and regulatory changes are leveraged by them.

The Project also recognizes the importance of considering **disaster risk reduction (DRR)** and climate change an integral part of development efforts. Therefore, the Project will apply risk-informed and climate-smart development choices which take into consideration the increase in disaster risk and extreme weather events.

The Project will remain flexible to allow for **tailoring of technical assistance** as per partner LGs needs, as well as for **extra financial support for well-performing and highly committed partner LGs**. Having in mind that the overall Project duration is twelve years, the first four-year Main Phase will encompass actions and pilot approaches that would allow for further expansion of the longer-term reform-related processes in the domain of municipal environmental and economic governance.

3.2 Hierarchy of objectives



The overall Project goal is that **local governments, assigned with appropriate competences and finances, have improved their democratic governance, apply sound public policy and performance management systems and provide public services in an inclusive, effective and efficient manner, particularly those related to economic and environmental sectors.**

Appropriate competences and finances means that public service delivery tasks legally assigned to LGs need to be feasible for delivery by LGs as the lowest level of government, based on the principle of subsidiarity. The fiscal transfer and equalisation entail a system that is designed and resourced in a manner that LGs have sufficient financial means for the fulfilment of their tasks. To that end, the Project will contribute to

improvement of the relevant regulatory frameworks (legislative acts, by-laws), towards enabling more effective service delivery and functional and fiscal decentralisation in priority sectors.

Improved governance is about the processes by which public policy decisions are made and implemented, and are the result of interactions, relationships and networks between the different actors (LG council, mayor and LG administration, citizens and private sector). Hence, democratic governance shapes the way public services are planned, managed and regulated within a set of political, social and economic systems.

Providing public services in an inclusive, effective and efficient manner gives the sense that all people, regardless of their gender, ethnicity, age, status or abilities, have to have equal access to public services and that public service users/customers need to receive value for money by LGs.

The *economic sector* refers here to the totality of the economic sectors and respective activities in LGs to support private sector growth, economic development and employment, while the *environmental sector* refers to issues related to land / territory management, water, soil, air and climate and respective activities in LGs related to provision of basic public services, management of natural resources, disaster risk reduction and preparedness, and sustainable development.

Achieving the overall goal of the Project depends on a myriad factors, many of which fall beyond the Project scope. The Project will address these elements with varying intensity and contribute to attaining the overall goal by focusing on the three outcomes described below. The chosen indicators and monitoring tools will help to track progress towards contributing to this broad goal.

RESULTS, APPROACH AND PARTNERSHIPS

3.3 Outcomes and outputs

The expected concrete improvements the Project will contribute to are clustered in three outcomes, as follows:

- **Outcome 1: Supported local governments apply effective development management systems characterised by stronger oversight of the legislative and greater accountability towards the citizens.**
- **Outcome 2: Citizens and businesses in target localities benefit from good quality services provided by LGs in the economic and environmental sectors.**
- **Outcome 3: Improved regulatory framework at higher and local government levels and pro-active networking accelerate sector-specific reforms and enable more effective local public service delivery**

Expected overall results under Outcome 1 include improved institutional and regulatory frameworks, as well as advanced internal organisational capacity of all partner LGs, which would enable more result-oriented and efficient local service delivery. Ultimately, the supply side of the local governance system (LG legislative and executive bodies) will operate based on improved regulatory, administrative, technical and organisational frameworks, strengthened capacities of LG council thematic commissions, innovative tools ensuring transparent and result-oriented decision-making processes, thus will be able to respond more adequately to the needs and priorities of citizens and socio-economic stakeholders within target localities. In addition, capacity of LG leaderships will be strengthened, thus enabling democratic and development-led decision-making, with visible positive impacts in the environmental and economic sectors. Importantly, the demand side of the local governance system (citizens, businesses, non-governmental organisations) will be capacitated and productively engaged in local public affairs and scrutiny of LG performance.

Expected results under Outcome 2 further enhance the performance of LGs to deliver services to their citizens and businesses within target localities. Specifically, Project assistance will result in more operational, effective and efficient utilities, which in partnership with LGs, secure sustainable service delivery, particularly in the water sector. Integral to this process are improved contractual frameworks in the water-supply and waste-water services related to both urban and remote rural areas within LGs, which provide clear description of roles and responsibilities of LGs, utilities and citizens. Moreover, LGs will tangibly improve business enabling environment by more business-oriented policy design and delivery, improved administrative services and productive public-private dialogue, which will contribute to economic growth and job creation at the local level. These achievements will be directly reinforced by improved quality and availability of municipal environmental and economic infrastructure, to the direct benefit of more than 700,000 citizens and 540 businesses in target localities.

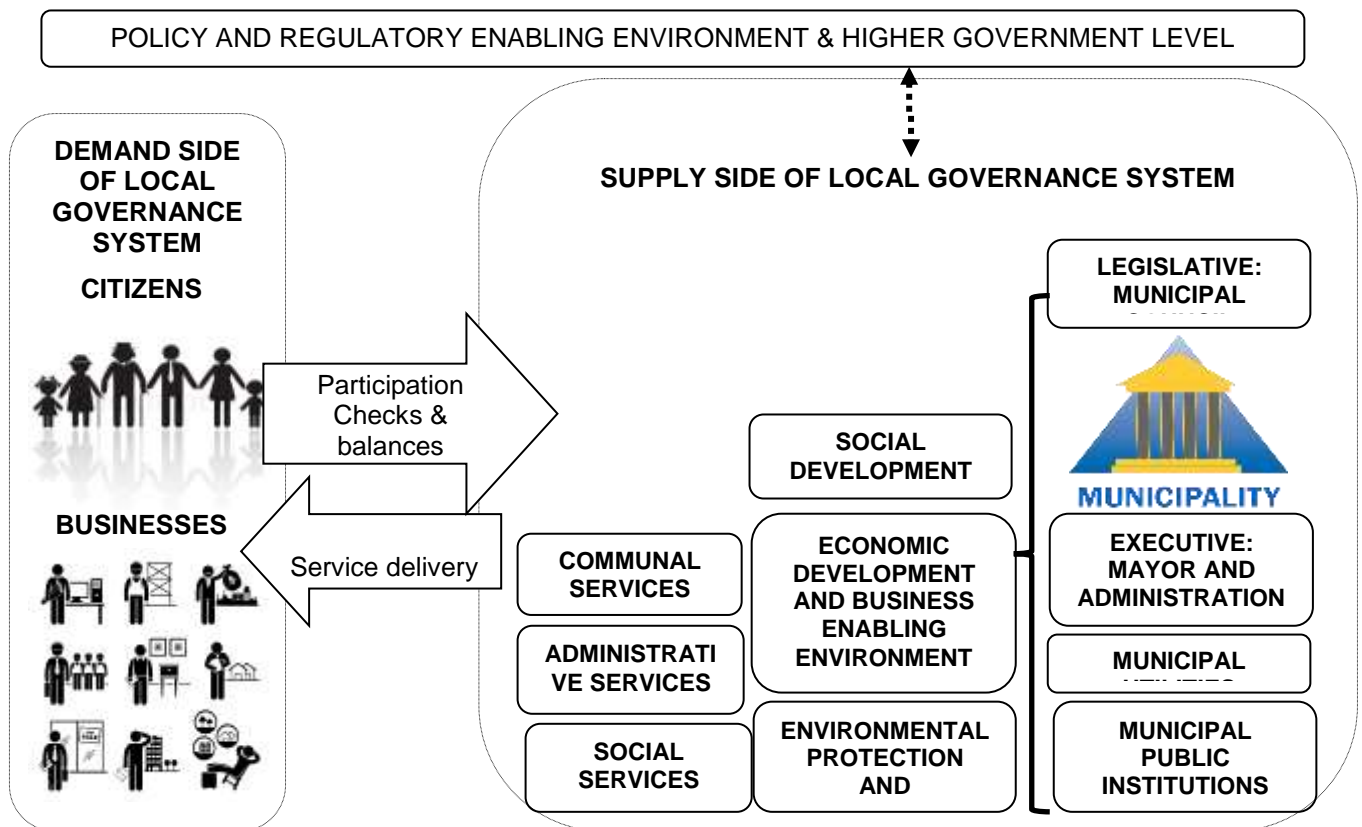
Results under Outcome 3 are related to improved regulatory framework at both local and higher government levels, which will enable better and efficient service delivery in the environmental and economic sectors. Entity sector-related laws and by-laws will be adjusted to enable better regulated and adequately funded local service delivery in the environmental and economic sectors, with focus on water-supply and waste-water services and business enabling environment. In addition, taking into consideration the specific governance structure of BiH, cantonal level regulatory framework will be improved, particularly in regard to Laws on Utility Services. These processes will be closely supported by stronger and pro-active thematic organisations and the Associations of Municipalities and Cities. Project knowledge and best practices will be widely disseminated through networking, thus enabling spill-over effects not only with target localities, but beyond.

A variety of indicators is set for each of these target outcomes, with some expressed in terms of achieving a goal or increasing a score, and others in terms of closing a gap, whichever is the most meaningful formulation.

Outcome 1: Supported local governments apply effective development management systems characterised by stronger oversight of the legislative and greater accountability towards the citizens

A vibrant democracy is a precondition that public policy-making and implementation is targeted towards the provision of equitable quality public services, which respond to citizens' needs. Functioning democratic processes at LG level will signify more than just articulating wishes. They are meant to ensure appropriate policies (e.g. local development strategies developed jointly with citizens) and operationalisation of those (e.g. formulated projects and annual budgets). Furthermore, functioning democratic processes will ensure proper monitoring whether policies and plans have resulted in the expected improvement of public service delivery. Sound public policy and management processes are required to make sure that policy making, planning, implementation and monitoring takes place in an accountable and transparent way, and that misuse of resources is prevented, and operational efficiency is enhanced.

In order to attain these medium term changes at LG level, the Project will work on both the supply and demand side of local governance. The broader LG system, including its demand and supply side, are presented in the graph below:



The Project will support the LG councils and the LG administration, including the mayor, through capacity development and establishing of sound public policy and management systems. Specific attention will be given to the LG councils and strengthening their role in the local democratic system. This will entail, among others, on-the-job training, review and support to improvement of LG councils' organisation, procedures and their interaction with and accountability to citizens. Capacities of the mayor and his/her administration as the executive body of the LG will be strengthened through tailored training and on-the-job coaching in the frame of establishing a sound LG performance management system, which takes care of the elements of the public policy and management cycle.

On the demand side of local governance, the Project will support mechanisms that increase citizen access to information allowing them to monitor LG performance, enable inclusion and participation and increase overall demand for accountability of the LG to citizens.

Output 1.1: Local government performance management systems are established and functional

Based on the existing integrated local development strategies, the Project will provide tailored support to partner LGs towards realization of local development priorities, with particular focus on the economic and environmental sectors. Experience shows that this implies a shift in the functioning of and inter-linkages between different local government bodies. A **LG performance management system** comprises different

elements. Among those are the functioning of LG councils and their linkages to actors at local and higher government levels, as well as the administrative organization and functionality of the LG administration, including the mayor.⁴⁶ The Project will **support the LG councils** to assess their performance management systems in place, provide expert recommendations for anchoring the system and based on the demand of LG Councils - offer tailored assistance and capacity development. In general, support to LG councils will look beyond the LG performance management system, on topics such as regulatory and procedural frameworks for effective and transparent decision-making, oversight, interaction between the council, mayor and administration and other related matters. This would mean implanting actions for: i) strengthening the legislative capacity of LG councils (tailored for each participating LG, not generic); ii) real life exercises (community forums, open LG council sessions, etc.); iii) a set of platforms for productive interaction between LG councils and mayors/administrations (political aspect being of great importance).

The local development function of LGs is a key factor enabling successful implementation of LG strategies and effective service delivery. LGs will be supported by the Project to build specific capacities in this regard. Tailored assistance will mostly come in the form of on-the-job coaching and technical advice, while trainings will be tailored to specific aspects of the setting in function or advancing a basic performance management system. The assistance will be tailored to the specific need of a partner LG. Common needs of partner LGs will be addressed through joint activities. In some cases, as relevant, other non-partner neighbouring LGs may also be invited to participate. Assistance will be engineered via analytical and expert support, as well as on-the-job-coaching **along the annual public policy cycle, aiming to institutionalise and make routine an integrated municipal performance management system**. The Project will start with the most relevant⁴⁷ and responsive departments and the mayor and his / her office, providing coaching and tailored training on different aspects along the public policy and management cycle. In terms of the legislative, LG councils will receive assistance in defining relevant oversight frameworks and in regularly monitoring their implementation. When it comes to the administration, support will be provided for: i) design, implementation, monitoring and evaluation of annual departmental plans which include priorities and actions in the environmental and economic sectors deriving from development strategies; ii) capital investment planning; iii) introduction of electronic tools for service delivery management and informed decision-making,⁴⁸ iv) strengthening LGs' capacity to utilise external funding opportunities for development projects, v) improvement of sector-specific procedural frameworks and vi) preparation of inter-municipal cooperation (IMC) infrastructure initiatives⁴⁹. Sector-specific analytical support, such as analysis of value chains in priority economic sectors - including gaps related to business development services, analysis of labour markets, as well as of LG financial and borrowing capacities will also be offered. Assistance will be delivered via on-the-job and technical support, peer-to-peer learning, and provision of equipment and modern ICT solutions.

Besides the capacity support provided by external experts and trainers, the Project will also draw on the expertise existing in the different partner LGs and will promote peer exchange. It will put in place a system of peer-learning in which experts from one LG will coach and train their counterparts in other LGs on specific issues.

Output 1.2: Citizens are more responsible and enjoy greater role in decision-making and monitoring of government performance

Specific efforts will be made to enhance citizen engagement in public policy management, focusing on sector-related policy-making and scrutiny of policy delivery. **Annual citizen satisfaction surveys** concerning LG service delivery will be introduced. Municipal actors (the LG council, mayor and his/her administration) will be supported to organize **discussions with citizens on priority matters around the main pillars of the policy management cycle**. For example, the Project may support LG councils to more widely broadcast their sessions and introduce public online / real time interactions with citizens on specific issues of their interest (i.e. through website tools like this: <http://skupstina-banjaluca.info/index.php/cyr/gradjani/ankete>, or other

⁴⁶ See section 4.1 for a short explanation of the LG performance management system.

⁴⁷ Starting with those departments in charge of development management/economic development, communal affairs, spatial planning, budget and finance.

⁴⁸ E.g. geographic information systems (GIS), databases, web site presentations, electronic document management systems, service and asset management software solutions, etc.

⁴⁹ This might include preparation of feasibility studies, cost-benefit analyses, etc., as well as support to identify and introduce shared services (e.g. in relation to water services - leak detection, GIS expertise, etc.).

interactive tools). LG councillors may be supported to introduce regular meetings with their constituencies to report on their work done in the council and discuss issues with the citizens. Similarly, structured and meaningful consultations between the mayor and his/her administration with the citizens will be supported, which may take the form of open public meetings on specific issues. Mayors will also be encouraged and supported to introduce regular questions times, during which citizens can meet the Mayor and exchange on issues of their concern. Modern technologies will be also utilised in making interaction between LGs and citizens more transparent and accountable.

The Project will facilitate the **design of a good governance benchmarking system** (with focus on the economic and environmental areas), set the baseline and inform citizens about this benchmarking system. Therefore, the LG performance benchmarks will serve as measurable platforms for participatory monitoring and evaluation of policy and service delivery impacts⁵⁰. The monitoring of the annual performance of the partner LGs would be conducted with the involvement of citizens and the best performing LG would be awarded. In this regard the Project will work closely with the AMCs.

Outcome 2: Citizens and businesses in target localities benefit from good quality services provided by LGs in the economic and environmental sectors

While the first outcome will focus primarily on the broader governance framework, structures, processes and administrative capacities of LGs to design, deliver and ensure oversight on development policies in close interaction with their citizens, this outcome will seek to enhance specifically the service delivery outcomes. With the aim of improving LG public services in general and such related to economic and environmental development in particular, the Project will use water supply and wastewater services, as well as services related to improving business-friendly environment as the main entry points. Support to provision of other services, e.g. solid waste management, is not excluded, depending on concrete priorities of partner LGs. Potential intersections are seen within the possibility to support green economy at the local level.

The rationale is that water supply and wastewater services are the major public services in the environmental sector for which LGs are responsible. In financial terms, water and sanitation services put a considerable strain on municipal budgets adding to the urgency of improving quality and accessibility to these vital services. Since local utilities are not only concerned with water supply and wastewater service provision but also with the provision of solid waste management and other communal services, it is expected that the support to these utilities will also impact the broader set of public services, as well as the overall environmental sector.

In regard to improving public services in the economic sector, LGs will be supported to improve business environment by (i) improving their administrative service delivery for businesses and consequently reduce the administrative compliance costs for businesses; (ii) enhancing the economic infrastructure; and (iii) supporting the competitiveness of businesses and contributing to market system development.

Output 2.1: LGs, through institutionalised partnerships with their utilities and based on oversight by LG Councils and the citizens, secure sustainability of service delivery, with focus on the water sector

This output is meant to bring about systemic improvements in the organisational, operational and financial management of municipal utilities, resulting in their long-term improved and sustainable performance, business-conducive environment and higher citizens' satisfaction, and thereafter – quality service delivery. The activities under this output will be used as input for sector-related policy-design, budgeting and capital investment planning under outcome 1. This implies, for example, stronger connectivity between relevant LG departments and utilities, direct engagement and oversight by LG councils and leaderships in decision-making related to merit-based staffing and performance monitoring of utilities, regular information and awareness raising among citizens towards gradual cost-effective water tariffs setting, environmental protection, etc.

The Project will support LGs, involving the LG council, the mayor and the administration, as well as local water utilities to revise or develop **Public Service Agreements (PSA)** which define, among others, details regarding responsibilities of the LG council, the administration and the utilities related to asset management, tariff setting structure and procedure, employment, service delivery to socially vulnerable groups and payment for

⁵⁰ This action will aim at defining a common set of benchmarks, affirming good governance and service delivery standards within participating LGs, with potential for their mainstreaming country-wide.

these services. This will lead to a closer and better defined interaction between utilities, local administrations and LG councils, which is currently flawed. The support to arrive at PSAs⁵¹ will come in the form of general orientation and capacity development on the nature, value and substance of PSAs for all concerned, in the form of specific trainings on what to consider and how to develop PSAs, and technical support to LGs in the process of their development. Finally, support will be provided in operationalising the PSAs in all partner localities. It is expected that the PSAs related to water and wastewater service delivery will also be taken as a basis for developing PSAs for other municipal services such as solid waste collection. The Project keeps the option of providing some support to LGs in developing PSAs for other public service areas.

Utilities' organisational structure and staffing will be tackled, by introducing full-time equivalent approach to employment and reorganization / optimisation of staff through introduction of merit-based recruitment and internal set-up to adequately manage public service delivery. Such transformation will be undertaken gradually and is subject to success depending on the support **and oversight from LG leadership**. Reform suggestions will be based on thorough assessments and considerations for functional and financial sustainability of utilities and progress will be measured through concrete benchmarks.⁵² It will also contain staff development and performance-based human resources management at all levels. The Project will offer analytical support and expert guidance in devising procedural improvements to organisational systems and workflow, and will facilitate information-sharing and engagement of LG councils, mayors and administrations.

Utilities will also advance their **technical and management capacities** with the support of the Project. On the technical side, process-based support will be provided to management and staff to prepare, deliver and monitor implementation of annual work plans aligned with the broader LG plans and budgets. In water utilities, capacity for non-revenue water management will be strengthened, particularly with regard to monitoring of inflow, outflow, consumption and pressure within adequately defined water supply zones / District Metering Areas (DMA), as well as sound leak detection and measures to prevent and decrease both real and administrative losses. The Project will assist network mapping, effective zoning and metering. Support will be offered with regard to improving assets management, DMA establishment and water balance evaluation per each of DMAs with the aim of improving Non-Revenue Water (NRW) management, water quality and quantity management. Utilities will also be supported to establish an efficient system for customer relations, enhance current tariff policy and improve use of Management Information Systems (MIS).

Financial management capacity will also be strengthened, including for water tariff evaluation and setting, accounting procedures and systems, and billing and revenue collection based on analysis of cost coverage of operating, maintenance and debt expenditures. Support will include expert analyses, on-the-job coaching, equipment and software, and technical twinning with European water utilities.⁵³

It is expected that this support will also have a spill-over effect, since many of the capacities, systems and procedures built can also be applied for the provision of other local utility services. Despite the fact that some of the measures envisaged may entail political risks (e.g. those related to optimised organisation and staffing structures, water tariff adjustments, etc.), the Project will seek to engage with LG councils and award those of them embracing and implementing reforms. Moreover, regular communication and information-sharing with the citizens will also be used to reinforce community support in introducing administrative changes in the water supply and wastewater service delivery, with the clear message linked to sustainability and improved quality of these services. Best-performing public utilities (technically, financially, but also politically – through institutionalised PSAs) will be rewarded by financial support for environmental infrastructure, and by higher level of trust by the citizens, while at the same time – promoted as a best practice model country-wide. Reformed water utilities will gradually increase quality of service delivery and improve its financial and operational sustainability, thus enabling reduction of painful drains on municipal budget for subsidies on one side, and will even gradually generate increased revenues to be used for needed capital investments in the

⁵¹ Detailed information in the PSA is provided as *Annex V* to the Project Document.

⁵² For this purpose, the public utilities' performance benchmarks created within the Danube Water Programme will be utilised (<http://www.danubis.org/bih/baza-podataka-poduzeca/benchmarking-poduzeca/>) in close interaction with Aquasan network, which leads this initiative in BiH.

⁵³ Based on successful technical twinning practices of water utilities from BiH and the Netherlands facilitated by UNDP in Srebrenica region, as well as considering other relevant countries, such as Switzerland.

sector. Such reforms will convince the local population that **change is possible** and that their requests are heard, at the same time holding strong replication potential for other public services as well.

Output 2.2: Local governments set in place a business-friendly environment and deliver employment-conducive measures and services

Through intensive engagement of LG departments in charge of local economic development (bringing in also other relevant departments), activities under this output are designed to enhance **business environment** and address **obstacles to growth in priority economic sectors** towards market system development, including through the value-chain approach, tailored support schemes and strengthened public private dialogue and partnerships. Therefore, based on the findings and recommendations of LG business-friendliness assessments, tailored assistance will be provided to LGs to improve their business-enabling environment against the key quality criteria. Activities in this regard will focus on enhancing, simplifying, centralising and reducing costs of **administrative services** (e.g. in relation to construction permits that will take into consideration disaster risk and be in line with spatial plans, support to registration of companies, where crafts and services fall within direct LG competence, relevant and timely information for investors and businesses, guidelines for users for issuing permits and licences, etc.) and **investment promotion and place marketing**. LGs will be assisted to increase own revenues by gradually raising tariffs to cost-recovery levels, adopting business-friendly fees and charges, and developing more buoyant tax bases, including property taxes. In addition, LG Economic Departments will be assisted to introduce **regular economic performance monitoring** based on the defined key governance benchmarks (for the economic sector), which will be publicly available through LG websites and will be linked with the overall annual performance assessment against the good governance benchmarks.

Having in mind that within the broader economic governance framework LGs can apply a wide range of public measures and incentive mechanisms to foster economic development and employability, partner LGs will be supported to design and implement **business incentives and employment-conducive measures** (e.g. incentive schemes for private sector development and competitiveness, active labour market measures focused on youth and women⁵⁴, reduction of communal taxes and fees, land-use incentives). The Project will co-finance such employment-conducive measures at the level of maximum 50 % of the total investment.

In addition, the Project will support partner LGs in identifying the most relevant and most **potential industry sub-sectors and their corresponding value-chains**. Furthermore, the Project will engage with these industry sub-sectors and assist partner LGs to identify constraints in the administrative service delivery and how these services could be improved in terms of administrative requirements and reducing time and costs for obtaining permits and licences for doing business. Together with LGs, the Project will also identify market failures or governance failures and together with relevant stakeholders – seek systemic solutions. In addition, the Project will support interaction with respective industry sub-sectors and the LGs in processes of identifying economic infrastructure gaps and support LGs to facilitate access to existing infrastructure for industries, providing linkages to economic infrastructure providers and where relevant - ensure such infrastructure. In case infrastructure gaps concern municipal infrastructure like water supply, wastewater services or local roads, LGs may address these gaps through their respective public policy procedures. In case such gaps concern non-municipal infrastructure, like availability of land to construct a business facility, access to office space, or access to high-speed internet, the Project will support LGs to play its role as an intermediary to link businesses with respective owners of land, office space and internet infrastructure providers. Addressing of infrastructure gaps will ensure that solutions are in line with disaster risk assessments, spatial plans and engineering rules and regulation in order to avoid exposure to disaster risk.

The Project will also support priority industries and LGs in facilitating market system development and supporting **competitiveness of local businesses**. First, a review of the existing business development services will be undertaken, so as to take stock of what is in place, as well as identify key gaps, specifically related to priority economic sectors. Activities can be diverse in this regard and depend on the specific context and the respective need of local SMEs. This can include activities to reduce skills gaps by linking businesses closer to education institutions, facilitating access to business development services and financial institutions,

⁵⁴ In addition to aiming to improve employability, the Project will place special attention on providing opportunities for decent jobs obtained through upgrade of skills and as a result of the assistance.

improving existing LGs employment grant schemes and scholarship programs. The Project will work closely with **local/regional development agencies** or other relevant private or non-governmental organisations in target areas to advance, diversify and expand **business development services** (e.g. training, counselling, brokerage, consultancy, market intelligence, support to certification, access to finances, etc.), directly responding to business needs in the priority economic sectors and specific value chains.

Public private dialogue between LGs and the private sector will be supported making sure that this dialogue is driven by the business actors. This dialogue will mostly take place between a specific SME sub-sector and the LG on specific issues identified by the respective business actors. Among those, specific focus will be given to the private sector's suggestions for improvement of sector-related regulatory framework, which will then be taken into account when initiating actions under outcome 3. Innovative tools for economic analysis, facilitation of public-private dialogue, etc. will be applied. A new mind-set and culture will be facilitated in relation to interaction between LGs and the private sector, characterised by pro-active dialogues, increased trust and result-oriented actions contributing to local economic development. Representatives of the private sector will be invited to contribute not only to local economic development processes, but also to suggest and engage in legislative changes, bringing in the private sector perspective. Moreover, pilot initiatives and catalytic projects (including inter-municipal cooperation for economic growth) will be facilitated.

Output 2.3: Quality and availability of municipal environmental and economic infrastructure is improved

Activities under this output are closely linked to those of output 2.1 and 2.2, ensuring direct assistance to improve municipal infrastructure and quality of local services in the two priority sectors. The Project will provide limited assistance to LGs for preparing technical documentation (feasibility studies, cost-benefit analyses, etc.) for key infrastructure projects, contributing to the creation of pipeline of infrastructure projects applicable to external funding. In this process, tailored training on disaster risk management will also be provided to LGs, while the Project will ensure mainstreaming the disaster risk reduction aspect in the design of infrastructure projects, as to ensure disaster resilient infrastructure. Tailored assistance will be provided to prepare and submit project applications to relevant financing institutions⁵⁵, donors or higher government levels.

By offering direct **project funding and LG budget support** to be matched by partner LGs, the Project will contribute to realisation of **priority infrastructure projects** linked to environment sector, with focus on water supply and wastewater services, as well as the economic sector. At the same time, this support will serve as the main incentive to award LG leaderships for successfully rooting sector-related reforms and relevant policies and frameworks to enable their effective oversight and implementation. This support will be to a great extent pre-conditioned by sound progress and performance results by LGs in the areas of direct interest to the Project. In that sense, the allocation of the financial resources envisaged for infrastructure investments will be calibrated based on the performance curve and continuous progress achieved within target LGs, as a result of changes introduced. The performance criteria will be set jointly by the Project and participating LGs at the beginning of each Project year. After the first year, the Project may explore possibilities for expanding the above described minimum criteria with the good governance performance benchmarks, thus further reinforcing performance-based awarding approach.

To that end, a set of **basic performance criteria** will 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 financial assistance to LGs will then be calibrated based on the performance results for each year and the population size of LGs, most probably based on a three-scale approach, as follows: up to 160,000 CHF / year for co-financing priority projects in the two sectors for the best performing LGs; up to 90,000 CHF / year for the mid-rank performing LGs and no financial assistance to those which did not display any progress or failed to meet all of the minimum criteria described above. The total Project financial resources for capital

⁵⁵ Such as the EBRD, the EIB, KfW, etc.

investments will be adjusted each year based on real progress and performance of LGs. Financial assistance for all LGs is envisaged for Project years 2 and 3.

Financial support, manifested via direct allocation of financial resources to LGs' budgets (where sufficient financial management capacity, operational frameworks and transparency are in place) or, alternatively – through stronger involvement of UNDP in terms of management of the allocated financial resources (for LGs with insufficient financial / operational frameworks in place to guarantee sound utilisation of the financial resources), will be explicitly used for realisation of environmental and economic infrastructure priorities. The Project will co-finance LG priority projects with up to 50 % of the total investment. In these processes, UNDP will apply its contractual and quality assurance systems to ensure transparent and effective financial support to LGs. This will also contribute to stronger delivery capacities of LGs and transparent and cost-effective procurement procedures.

Outcome 3: Improved regulatory framework at higher and local government levels and pro-active networking accelerate sector-specific reforms and enable more effective local public service delivery

Democratic local governments' capability of providing effective public services depends to a large extent on a conducive regulatory framework. This concerns on the one hand the entity and cantonal frameworks, which regulate organisation and financing of public service delivery. On the other hand, this concerns LGs' own regulatory frameworks like, for instance, the municipal statutes and other legal acts (e.g. the local government decisions, council's order of business, etc.).

In order to attain these changes, the Project will support LGs and higher government level institutions in improving their regulatory frameworks, with specific focus on the economic and environmental sectors and respective public services within these. At times it is, though, not only the state of the regulatory framework that impedes on effective local public service delivery, but rather the policy delivery capacities at higher government level. Therefore, the Project will support selected cantonal and entity ministries in improving their policy design and delivery capacity. As relevant, the Project will utilise and contribute to on-going policy and regulatory reforms in the economic and environmental sectors, instigated by eventual advancement of BiH on the EU accession path and entering in negotiations on the EU *acquis communautaire* in these sectors. The Project will further support and collaborate with existing professional networks, since they have proven to be instrumental in improving LG good governance practices in general and public service delivery in particular.

Output 3.1: Constraints in the regulatory framework related to service delivery in economic and environmental areas are addressed in a participatory and on-demand manner at local and higher government levels with the engagement of AMCs

Higher government levels (cantonal and entity institutions) will be assisted to improve relevant regulatory frameworks (laws, by-laws, decisions, etc.) affecting local service delivery and local business environment. Activities will focus mainly at relevant ministries and departments concerned with regulations affecting the environmental and economic sectors⁵⁶. Jointly with different stakeholders (public, private and non-governmental), the gaps and bottlenecks in the existing regulatory framework related to the environment and economic sectors will be identified and analysed. Based on these, the Project, together with its partner LGs and AMCs, will explore possibilities for **amendments of existing local governance-related principal or sectoral regulatory framework⁵⁷, with considerations for adjustment of apportionment of responsibilities across government levels**, as well as for introducing fiscal/functional decentralization features within the respective sector-related regulatory framework. Furthermore, examples of promising revisions of regulatory frameworks will be drawn and built upon. Based on demand, the Project will provide technical assistance in drafting new or

⁵⁶ Including the FBiH Ministry for Development, Entrepreneurship and Crafts, the FBiH Ministry of Justice; the RS Ministry for Economic Relations and Regional Cooperation; the RS Ministry for Administration and Local Self-Government.

⁵⁷ E.g. Laws on Communal Activities (cantonal and RS entity levels) with regard to operations and financial sustainability of water supply providers; legal or contractual definition of obligations of LGs and utilities regarding assets management and capital investments; regulatory acts related to business zones; spatial planning regulations defining type of land at LG level; introduction of elements of the Small Business Act at local, cantonal and entity regulatory framework; water tariff setting methodology, etc. The Project may also focus on the entities' Water Laws/by-laws related water sector financing and effective allocation of available public funds.

revising existing regulations. Each proposed amendment/new legal act or by-law will be harmonised with relevant legal acts, as well as abreast with the main EU requirements, while at the same time disaster-risk-informed and climate-smart. Regulatory proposals will be drafted through participatory processes, engaging representatives from all government levels, the AMCs, professional organisations and other interested stakeholders. As needed, **assistance will be provided for participatory discussions** on draft regulatory acts among the structures of the AMCs (thematic Standing Commissions, Presidencies), Aquasan Network and other professional organisations, as well as with the private sector (where relevant). Newly-adopted regulatory frameworks in both sectors will be widely promoted among LGs and other relevant stakeholders, as relevant, while AMCs will be supported to develop Guidelines for LGs on how to implement the new regulatory acts, thus facilitate follow-up application and implementation by LGs. If the regulatory changes relate to the private sector, a targeted information campaign will be initiated to inform businesses.

At municipal level, major progress in the regulatory framework is expected to be achieved through the **development of municipal performance systems and Public Service Agreements**. The Project will ensure that these regulations will be developed in participatory manner following due procedures and with due inclusion of the different actors relevant for democratic governance at municipal level. It has to be stressed that PSAs are envisaged not only as key instruments to improve water management at the local level, but also as a basis for legislative changes at higher government levels (entity and cantonal), aiming to incite regulatory changes that will close the gaps threatening the sustainability of water utilities' operation. Besides these two major regulatory changes at municipal level, the Project also offer on-demand support to LGs in **developing model policies on investment promotion, preparing guidebooks and instructions about permitting / licensing procedures that integrate disaster risk reduction, enforcement of already existing regulations which implementation is ineffective** (e.g. in regard to LGs' ownership over communal infrastructure in rural areas), etc., which could find application in all partner LGs and beyond. In order to ensure vertical harmonisation of sectoral regulatory framework and strengthen own LG regulatory frameworks, assistance will also be provided to advance municipal regulations, procedures and rulebooks. Newly-adopted municipal regulatory frameworks which is relevant and important for the private sector, will be presented to local business, so as to familiarise them with introduced changes and improvements.

Output 3.2: Economic and environmental sector-related policy delivery capacities of higher government level institutions are increased and policies are result-oriented

Assistance will be provided to relevant **sectoral ministries at cantonal and entity levels to strengthen their capacity for policy delivery in the environmental and economic sectors** by: i) providing limited advice in annual prioritisation and budgeting, in partnership with LGs and considering their priorities; ii) helping partners to define, manage and evaluate the impact of public financial grant schemes supporting LGs⁵⁸; iii) providing support to strengthening policy, operational and institutional frameworks (on-demand) and iv) stimulating discussion among stakeholders on setting up Water Tariff Regulatory Bodies. Support will take the form of technical assistance, on-the-job coaching, practical workshops and roundtables.

Output 3.3 Thematic professional networking spurs knowledge exchange and innovation in public service delivery

The Project will support **knowledge exchange and dissemination of good practices among partner LGs, country-wide and even across neighbouring countries**. Peer-to-peer interaction between neighbouring municipalities will be facilitated across entities and regions.

The AMCs, Aquasan Network, and other **sector-related professional organisations will be further nourished** to share learning and experiences, thus transferring knowledge beyond the core participating LGs. Networking will also be facilitated through non-formal and more ad-hoc networks of industries the Project will work with in partner municipalities. Networking will be enabled via workshops, conferences and participation of professional organisations in EU regional networks and initiatives. Furthermore, sector-related professional

⁵⁸ The Project will further build on the existing financial mechanisms in BiH offering top-down targeted support to LGs for realization of priority economic and environmental projects originating from local strategies, such as the entity Local Development Funds and the entity Environmental Funds.

organisations will contribute to participatory revision of relevant legislative framework at higher government levels, with specific focus on economic and environmental governance.

By closely interacting with the AMCs, the Project will launch **annual country-wide thematic awards for excellence in local service delivery**, giving priority to the environmental and economic sectors. For that purpose, the LG performance benchmarks introduced under output 1.2 will be used. Thus, the Project will not only create a competitive spirit for improved service delivery within participating LGs, but will also promote *par excellence* service delivery standards, thus ensuring transferability of good practices generated within the Project to LGs country-wide. This will be accompanied by best practice publications and video-stories disseminated by the AMCs.

4. IMPLEMENTATION STRATEGY

4.1 Fundamental Project concepts

Local development management (performance management) system

The concept of local development / performance management has been piloted by ILDP within nearly 40 LGs in BiH. It aims at introducing relevant structures, functions and processes within LGs, which enable strategy-informed, systemic and budget-aligned public policy delivery, with stronger role of LG councils in decision-making and oversight. The concept implies LGs' shift away from classical administration and utility-related affairs towards "whole-of-government" approach to local development and service delivery. The main characteristics of this model, which will be taken and applied by the Project (for the broader governance work, as well as specifically for its economic and environmental dimension), are:

- establishing / strengthening a **local development management function** within local administrations, which drives overall coordination of strategies' implementation, facilitates cross-departmental interaction and monitors short-term and long-term development results, and service delivery outcomes;
- encouraging regular **cross-departmental coordination in planning, implementation, monitoring and reporting** of policy delivery and development results;
- introducing **short-term (annual) operational planning based on the local strategies and directly linked with LG budgets**, in consultation with the citizens;
- translating annual operational plans into **departmental plans**, so all envisaged public service/development management priorities have their concrete "implementation address" and responsible units;
- delivering short-term tasks and priorities;
- monitoring annual **progress based on set performance benchmarks** and capturing result-based achievements, which are shared with the citizens.

All these enable effective realization of local strategies, transformation of local governments into development-conducive, effective and people-centred governance service providers. This concept will be the springboard of effective, inclusive and accountable public policy management system to be introduced within target LGs.

Economic governance

Local economic governance is a term that describes an effort where various actors (LGs, supporting institutions, businesses and their associations, etc.) shape the evolution of the local economy, acting in close interaction to define problems, look for solutions and implement actions. Good economic governance is mostly about: (i) helping any kind of business to thrive by creating an **enabling business environment** (where markets work effectively, as opposed to creating local monopolies) and (ii) placing collective efforts by private and public sector to create a **competitive advantage** to a level beyond that of the individual firm, usually by

collective action that addresses issues where markets do not work⁵⁹. This definition applies to the key focuses of the Project, namely - to enhance business environment and address obstacles to growth in priority economic sectors, design and apply public incentive measures to foster economic growth, facilitate diversification of business development services tailored to the specific economic potentials of a region and expand public-private partnerships. Pro-active engagement of the private sector is envisaged, motivated by result-oriented and development-interest-led relations between LGs and businesses.

Financial and Operational Improvement Programme (FOPIP)

This concept will be applied in the Project's work with water utilities. It implies conducting of thorough technical, financial and institutional gap assessments, as well as design of subsequent action plans, which provide foundation for tailored support to partner utilities. The support will be provided considering the broader *Plan – Do – Check – Act* (PDCA) cycle. This is a management concept based on the fact that improvement is always possible and strong organisations stand out since they continuously strive to improve. After the initial phase of *Planning* (based on the identified areas where improvements are possible and defined activities which will lead to such improvements) and *Doing* (implement activities planned), it is necessary - after a certain but predefined time - to evaluate achievements (*Check*) and based on such assessments take any necessary corrective actions (*Act*). Upon completion of this cycle, the process is considered completed if the goal is reached, or the new cycle starts with planning of new set of activities, because the set goal is only partially achieved (which is more often the case). If the **utilities management and leading staff obtain the skill and discipline to apply PDCA in their own future work, the desired results of the Action Plan may be sustained, while local ownership of Project results will be ensured**. In terms of substantive scope, the focus is mostly placed on:

- operational autonomy of the utilities;
- organization structure and staffing;
- network mapping, effective zoning and metering, non-revenue water (NRW) management;
- consumer relations;
- tariff policy, collection procedures and billing cycle;
- accounting procedures and Management Information System;
- budgeting, business planning and financial management;
- inventory and fixed assets cycle, including infrastructure ownership and depreciation.

Ultimately, this concept supports systemic and self-managed approach to effective, efficient and sustainable operation of public utilities. It is important to highlight that this approach is not only about technical and organisational capacities, which alone cannot bring needed changes, but is also about the operational autonomy, legislative oversight, organization structure and staffing, as well as tariff-setting policy. All these aspects have very important **political and even cultural implications**, stemming also from previous political regimes and systems. Therefore, the Project aims to change attitudes and introduce, among others, the “full time equivalent job” concept, so as to argue for the optimum organizational structure, where individual employee's performance evaluation is looking at results achieved and not at time spent at work.

Another heritage from the former political system that will be addressed is **attitude** toward shared responsibilities. This often leads to unfulfilled responsibilities and delivery failures. The Project tool to address this issue specifically in the water management service delivery area, is the PSA. Its adoption will provide for clarification of responsibilities, counter “blaming” or “awaiting” approaches by relevant parties.

Business friendly certification methodology

⁵⁹ Adapted from: Meyer-Stamer, Jorg, 2008: Creating Prosperous Towns. Duisburg: Mesopartner, pp. 18-19.

In providing tailored support to partner LGs to improve their business enabling environment and overall economic governance, the Project will utilise the general methodology, assessment criteria and indicators set in the Business Friendly Certification for South and Central Europe Programme.⁶⁰ The main criteria relevant for the Project's scope of assistance are:

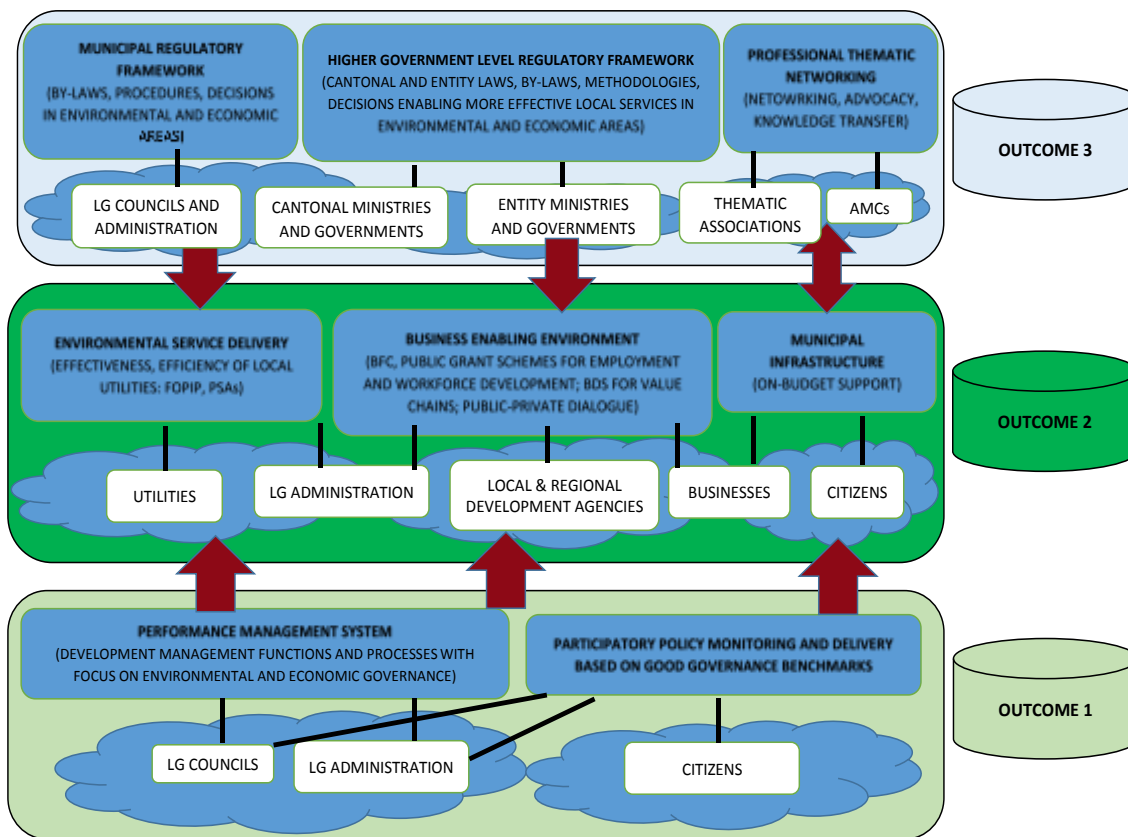
- strategic approach to local economic development;
- administrative capacity to support businesses (local economic development / development management unit / function);
- partnership with the private sector;
- efficient system for issuing construction permits;
- database management of business-related information;
- proactive approach in investment promotion and marketing;
- credit solvency and financial stability;
- promotion of job creation and human resources development;
- promotion of public-private partnerships;
- adequate infrastructure and reliable utility services;
- transparent and stimulating taxes and incentive policies;
- use of information technologies (e-government).

These main criteria comprising the concept will be used by the Project to formulate and deliver tailored support to partner LGs, based on thorough assessments conducted during the Preparatory Phase. The Project, however, will not support the certification process itself.

4.2 Methodological approach

The overall implementation strategy and methodological approach are presented in the graph below:

⁶⁰ Reference: http://bfc-see.org/Certification_criteria.



The Project acknowledges that the primary LG concern is how to stimulate job creation and create better living conditions for the citizens. Thus, the Project intends to **make use of economic and environmental sectors as entry points to improve the local governance system as a whole**, with the goal to positively impact all sectors, services and stakeholders at the local level, to the benefit of the citizens. This will be achieved by supporting LGs in applying **sound public policy and performance management systems**.

The Project will **work directly with selected LGs**. As the government tier closest to the citizens, entrusted with significant competencies over local service provision, LGs have an important role in the overall consolidation of democratic governance, building of public trust, and fostering of socio-economic development. LGs are considered the most functional government level in BiH, providing a more responsive framework for addressing numerous development challenges with relative simplicity and directness. Moreover, it is assumed that successful change at the local level has the potential to build pressure from below, thereby inspiring decentralisation and driving change at higher levels of government.

Based on the specific political, administrative and governance context within each partner LG, the Project will design and apply a wide range of tools to **assist LG councils** (with focus on women) to strengthen their legislative, oversight and representation roles, with focus on the public policy management system and the environmental and economic sectors. Further, the Project will facilitate productive participatory processes where citizens undertake social audit through real life participatory exercises and performance monitoring.

The Project will give emphasis to working with **motivated agents of change**. The success of the Project will to a large extent depend on a motivated political leadership in partner LGs. Therefore, the forthcoming Local Elections in 2016 may represent a fresh opportunity for the Project to engage with new LG leaderships, committed to positive change and ready to take moderate political risks to achieve development results in their communities. They need to have a clear vision for the development of their locality, which is also articulated within the local development strategy. Particular attention will be placed on women, by seeking ways to voice them out and support their decision-making capacity. It is expected that by working with such agents of change, partner LGs will be able to deliver good practices that can be replicated by other LGs. Furthermore, these agents of change are expected to have a strong voice in advocating for regulatory changes at higher government level.

he Project's approach will be underpinned by facilitation of strong **ownership by all engaged stakeholders, particularly – partner LGs**. Support of participating LGs by the Project may be ceased due to insufficient commitment to reforms and performance results. Outside of the local administration, the Project will also apply the same principle in working with and supporting the most motivated agents of change among the private sector and non-governmental organisations (thematic professional organisations, development agencies). All these stakeholders together, when highly motivated, can trigger substantial positive change and transformations at the local level.

The Project will **engage with all stakeholders relevant for democratic local governance**. This entails the mayor and his/her administration, the LG council, local utilities, as well as the public (citizens, business representatives). Acknowledging the important role LG councils play in democratic processes, the Project will provide for strengthening of their capacities by means of engaging with them along the lines of public policy and performance management cycle. The Project will take a particular interest in the “drivers of democracy”, by engaging the most relevant (i.e. influential) actors and increasing the political weight and active role of often-disempowered groups such as women, youth and minorities. Since the mayor plays a key role and heads the administration, he/she will be the main counterpart of the Project. While providing assistance, the Project will apply gender-sensitive approach, which will enable women decision-makers and expert staff to have possibilities to strengthen their capacity and actively engage in decision-making processes. The LG administration and the utilities are directly involved in public policy and service delivery, thus the Project will provide them with considerable capacity development support. The Project will also invest in improving the institutional engagement of the public, including the private sector, along the public policy and management cycle.

As an overarching methodological approach, the Project will seek to create **unique synergies between the environmental and economic sectors** to add value to service outcomes and amplify development effects. For example, this will be achieved by applying cost-efficient measures in the water supply and wastewater sector, and by placing local infrastructure and services in function of economic development. By supporting quality municipal service delivery, the Project will not only respond to citizens' needs with attention to the most vulnerable, but also contribute to investments and economic activity. The Project will focus on (i) water and environmental sanitation services and (ii) administrative services. Interventions will ensure that disaster risk reduction is taken in consideration in both environmental and economic components.

The Project will work fully **within the existing institutional frameworks and systems**, instead of creating parallel structures and processes, allowing for tailored assistance, optimal use of resources and long-term sustainable results at the system level. It will **combine process-based and “on-system” technical and financial support, and capacity development** based on i) sound sector analysis and local strategies; ii) engagement of citizens and socio-economic stakeholders in governance; iii) strong ownership of LGs; iii) horizontal and vertical cooperation; and iv) networking and knowledge exchange. The Project will remain flexible to be able to respond to diverse LGs' capacity development needs, as well as to changes in the environment. Support to networks of different actors as well as to direct cooperation among LGs will contribute to the **flow of knowledge and experiences** across target localities, regions, entities and internationally, thus promoting project results to transcend the partner LGs and find also application in other LGs across the country.

Since most of the potential partner LGs already have integrated local strategies in place, which are a pre-condition for strengthening performance management systems, the Project does not envisage supporting strategic planning. Instead, the Project will channel **financial resources explicitly for the implementation of local strategic priorities** and improvement of development management capacities. For further cost-efficiency, only limited Project resources will be used to design comprehensive LG training programmes; instead, the Project intends to make use of the extensive portfolio of training programmes available through other UNDP-implemented projects or the Training System for Local Governments in BiH.⁶¹

As already mentioned, the Project will **build on previous, existing and complementary initiatives** supporting improved local service provision. As such, the achievements of GOV-WADE Project and the ILDP form the

⁶¹ The Training System for Local Government Employees has been established in 2009 and offers a diverse set of quality training programmes for local government elected officials and staff, including in the area of environmental and economic governance and service delivery.

foundation not only for strengthening the LG performance informed by local strategies, but also for reinforcing connectivity between economic and environmental governance.

Embracing an **area-based approach**⁶², the Project will form two geographic clusters and tailor the assistance to the specific circumstances within the selected localities, including with regard to vertical linkages and partnerships with higher government levels. This area-based approach will help to further the exchange between Project partners and develop networks for joint learning.

To improve local service delivery, LGs need an **adequate regulatory environment and effective cross-governmental interaction**. Therefore, by supporting amendments of relevant regulatory frameworks, the Project plans to bring lasting positive changes in local service delivery, with likely reform impact in the broader local governance domain. In the focus of the Project work at the higher government level will be priorities as defined by partner LGs. On these endeavours, the Project will work through and with the entity AMCs and relevant thematic professional networks.

To reinforce its overall strategy, the Project will develop a **communication and visibility concept**, which will provide Project-specific communication approach, target groups and tools. The concept will be prepared in cooperation with the Embassy of Switzerland.

Overall, it is the Project’s intention to create enabling environment for **changing attitudes**, giving highest support to leaders of such changes, thus reducing their political ramifications. The Project concept supports systemic and self-managed approach to effective, efficient and sustainable operation of public utilities and holds good replication potential for other public services.

4.3 Target beneficiaries and expected benefits

The table below gives an indication of the number of beneficiaries to be directly involved with the Project at various levels. It is based on the assumption that the Project will actively work and provide financial support to 18 core partner LGs. It may include few neighbouring non-core LGs (from the wider group of 31 LGs in both clusters) to benefit through limited technical support or training, inter-municipal cooperation (for example in joint addressing of water governance matters, exchange of knowledge and experience, support to targeted value chains or business enabling environment) or spill-over of good practices and networks. The Project will work directly with both the LG legislative (LG councils) and executive bodies (mayors, local administrations and utilities).

Direct Project beneficiaries	BiH
LGs	
No. LGs	145
No. LGs participating in Project	18
Share of total LGs participating	12.5%
LG leaders and staff	
No. LG leaders and staff engaged in legislative and capacity development activities under the Project	360
Local utilities’ leaders and staff	

⁶² Area-based development (ABD) is defined by UNDP as follows: “Targeting specific geographical areas in a country, characterised by a particular complex development problem, through an integrated, inclusive, participatory and flexible approach”.

Direct Project beneficiaries	BiH
No. utilities' management and staff engaged in the Project	108
Cantonal institutions	
No. of cantonal ministries participating in the Project	6
Entity institutions	
No. of entity ministries participating in the Project	6
Entity & cantonal officials	
No. entity & cantonal officials engaged in regulatory and capacity development activities under the Project	120
Local and regional development agencies	
No. local and regional development agencies receiving support under the Project	8
Professional networks	
No. professional thematic networks receiving support under the Project	2
Citizens	
No. of citizens benefitting from improved local services and employment opportunities as a result of the Project assistance	700,000
No. of vulnerable / socially excluded citizens in target localities benefitting directly from improved services and employment opportunities	40,000
Local businesses	
Local businesses in target localities benefitting directly from improved economic infrastructure and business environment	540

The Project will also work at the cantonal and entity levels with relevant ministries having direct responsibilities for water management, environmental services, economic development and entrepreneurship. Besides the ministries at higher government levels, the Project will cooperate with the two AMCs. These two associations, and in particular their members, will be instrumental in enabling exchanges, resulting in the dissemination of good practices and influencing and informing changes in the regulatory framework governing higher level and municipal government relationships. Furthermore, the Project will cooperate with existing professional networks related to environmental governance (e.g. AQUASAN, Associations of Water Works / of Employers in Utility Services) and economic governance (e.g. networks of professionals, trade associations, chambers of commerce), as well as local and regional development agencies. 2 professional thematic networks will directly benefit from capacity development assistance provided by the Project.

As for the **wider Project impact**, the end Project users, comprising the population in 18 core partner LGs, are app. 700,000 citizens and local businesses in target localities. The total population in 31 potential partner LGs in two target areas encompassed by the assessment in the Project Preparatory Phase exceeds 1.2 million.

4.4 Geographical area of intervention, selection of partner LGs and levelling of the Project assistance

The Project will be working with a core **group of up to 18 LGs**, organised in two geographic clusters (North-West, including Una-Sana Canton / Prijedor region; North-East, covering the wider Doboj / Tuzla region). However, in the course of Project implementation, limited support for some additional underserved LGs within or even out of these two clusters is possible, depending on available financial resources.

The core LGs will be selected from a wider group of 31 potential partner LGs within the target geographic clusters, which took part in the thorough assessment process during the Project Preparatory Phase.

The **selection criteria**, designed to reflect the broader Project scope and objectives, as well as ensure adequate representation of LGs, are as follows:

- (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 affordability⁶³), weighted 0.3;
- (ii) **economic governance performance** (measured by local development index⁶⁴ and business-enabling environment score⁶⁵), 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 Preparatory 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. Importantly, 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 will be familiarized with the proposed selection criteria during the final consultations on the Project document, while the final version of criteria will be made known to them as soon as the Project Board reviews them. The selection process will be done by the Project team, based on the results and information gathered during the assessment in the Project Preparatory Phase, as well as based on confirmed interest and motivation through additional consultations with potential partner LGs.

Final endorsement of the selected LGs will be done by the Project Board. All LGs will be informed why they are / are not selected and what they should improve to get a higher score.

However, the long-term engagement of an LG in the Project will depend on its constant motivation and performance progress. The Project Board will have the right to terminate interaction with LGs which fail to meet minimum development progress and performance criteria to be agreed at the outset of the partnership.

A more detailed explanation of the selection criteria and the overall methodology is available within *Annex VI* of the project document.

In addition, the Project will “layer” its assistance to LGs, as follows:

- most intensive and direct support will be offered to the 18 direct Project partners throughout the entire Project implementation;
- indirect and *ad-hoc* support will also be provided to the broader group of 13 LGs within the target geographic clusters, mainly through technical support and training (together with core partner LGs), inter-municipal cooperation initiatives, networking and peer-to-peer exchange of knowledge and practices;
- most indirect benefits will be in place for all LGs within the broader geographic regions defined as priority for the Project.

4.5 Main Project institutional and organisational partners

There are several **key partners** whose role, motivation and capacity will be crucial for the overall Project implementation. These include the Ministry of Foreign Trade and Economic Relations of BiH, Entity Governments, and in particular the FBiH Ministry of Development, Entrepreneurship and Crafts, the FBiH

⁶³ The values of the parameters have been obtained through the assessment conducted as part of the Project Preparatory Phase.

⁶⁴ The local development index is a composite index designed in the Preparatory Phase and developed for all 31 potential partner LGs.

⁶⁵ 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 Preparatory Phase.

Ministry of Agriculture, Water Management and Forestry, the FBiH Ministry of Justice, the FBiH Ministry of Environment and Tourism, the RS Ministry for Administration and Local Self-Government, the RS Ministry of Agriculture, Forestry and Water Management, the RS Ministry of Physical Planning, Civil Engineering and Ecology, the RS Ministry of Finances (particularly related to its coordinating function for implementation of projects in the municipal water infrastructure sector in that entity); both entity AMCs, as well as partner cantonal governments, LGs and their utilities, local and regional development agencies and professional thematic networks.

The Project's paramount approach to each of these stakeholder groups is the same: **engagement and ownership**. The Project will engage with all its partners right from the outset and the majority of capacity-building activities will bring together several different groups of stakeholders to break down barriers and build trust.

The BiH Ministry of Foreign Trade and Economic Relations, the FBiH Ministry of Development, Entrepreneurship and Crafts, the FBiH Ministry of Agriculture, Water Management and Forestry, the RS Ministry for Administration and Local Self-Government, the RS Ministry of Agriculture, Forestry and Water Management, both entity AMCs (representing LGs) will be part of the Project Board, which is the Project's main steering body.

The Ministry of Foreign Trade and Economic Relations of BiH will be the state-level partner institution, holding the closest mandate related to the Project's scope and objectives. The Ministry carries responsibilities, among others, for water management and economic development policies.

The FBiH Ministry of Development, Entrepreneurship and Crafts is also seen as key Project partner, particularly considering its broader competencies with regard to entrepreneurship development and policies and frameworks related to SME development. Of particular importance will be the support and leading role of the Ministry in the process of identifying and introducing amendments in the relevant regulatory framework governing economic development. However, the Ministry, has very limited human capacities though its employees are nonetheless committed and reliable partners.

The FBiH Ministry of Environment and Tourism, the RS Ministry of Physical Planning, Civil Engineering and Ecology, the FBiH Ministry of Agriculture, Water Management and Forestry and the RS Ministry of Agriculture, Forestry and Water Management are also seen as key Project partners, specifically in relation to the broader environment sector, as well as specifically for the water sector. Having in mind their mandate, the Ministries will have an important role in identifying and applying adequate approaches to improving the regulatory frameworks related to environmental governance, as well as delivering incentivized policies with stronger consideration of the sub-national government levels. All Ministries have relatively good sector-related capacity.

The RS Ministry for Administration and Local Self-Government holds direct responsibility and policy-making role with regard to local government matters in the RS. The Ministry has been actively engaged and is a very committed partner in numerous local governance projects, with an instrumental support for project results. However, despite good partnership will and adequate expertise within the relevant ministry departments, a main challenge remains lack of sufficient human resources to effectively handle the broad spectrum of local government challenges and tasks within the RS. The Ministry will be among the key project partners contributing to the process of renewal of the relevant legal framework in the RS. **The FBiH Ministry of Justice** will also be engaged, as necessary, in regulatory processes, despite its limited capacity.

Relevant cantonal ministries responsible for the economic and environmental sectors in Tuzla, Una-Sana and Zenica-Doboj cantons will also be important Project partners. Successful previous interaction of Swiss-funded projects (such as the GOV-WADE Project) will serve as platform for expanding the Project's work with the Una-Sana canton, as well as replicating good practices particularly related to conducive legal framework for provision of municipal services in the environmental sector. All cantonal ministries will play an important role in the Project's efforts to improve regulatory / spatial planning frameworks for better service delivery in both the environment and economic sectors.

The **AMCs** represent the voice of LGs in BiH and play an important role in various advocacy processes, country-wide sharing of practices and positive "pressure" to responsible policy-makers in the best interest of their

members. Therefore, from the viewpoint of the Project implementation, AMCs will have a strong supportive role, particularly in the process of design and advocacy in improving regulatory frameworks which enable more effective local service delivery in both priority sectors; initiating dialogue between local and higher government levels, in the sharing of best practices and disseminating the Project's results related to good governance performance benchmarks country-wide. However, both AMCs have limited organisational and technical capacity to allow them to perform their functions in the most effective manner.

LGs are seen as generally committed and key players with regard to local development assistance interventions, with a high degree of decision-making power, which is a crucial pre-condition for effective and sustainable delivery of support. In general, capacities of both local leaderships, as well as local administration in regard to development management needs to be further strengthened to ensure delivery of local development results and better quality of life for the citizens. LGs are not only key Project partners, but also main recipients of the Project financial, knowledge and technical support.

Municipal utilities will also be key Project partners and their work is related to the Project's efforts to support partner LGs to ensure sustainability of local service delivery particularly in the environmental sector. The Project will work directly with utilities in all core partner LGs, as well as indirectly – with utilities from neighbouring LGs or beyond in terms of sharing knowledge and best practices.

Local and regional development agencies and professional thematic networks (particularly those in the environmental and economic sectors) will also be valuable Project partners, which will reinforce efforts to improve sector-related regulatory framework at both higher and local government levels, as well as to ensure dynamic networking and exchange of ideas and good practices. Specifically local and regional development agencies will have an important role in relation to supporting LGs to improve business-enabling environment through provision of targeted support to the private sector and promotion of the investment potential of localities.

4.6 Transversal theme

Gender equality

Women's voices often go missing in political debates and decision-making processes. As a result, their needs and priorities are often not considered. This may be entirely unintentional, with men in authority assuming that they speak on behalf of women, as well as men not realizing that women may have different opinions. In other cases, it may simply be expected that women should hold the same views as their husbands or other male relatives. Yet there are often good reasons why men and women have different perspectives, due to their different roles and experiences. Taking both perspectives into account in decision-making leads to informed decisions.

In BiH, women face difficulties in participating meaningfully in decision making, even in areas where such decisions affect their lives directly. The Project will facilitate and promote equal participation of women and men in governance processes; ensure equal benefits for male and female from public services; contribute to economic empowerment of women and advocate for gender-sensitive legislative formulation. Gender equality is a precondition for the achievement of inclusive and effective democratic governance.

The Project will ensure that women and men are equally included in all its activities. It will track changes by collecting data for sex-disaggregated indicators where possible and relevant. Moreover, women's needs will be proactively addressed throughout the Project activities with an objective to ensure that women are equally empowered to participate in LG structures. In order to ensure adequate mainstreaming of the gender equality aspect across Project activities, a Gender Equality Mainstreaming Concept will be developed at the outset of the Project launch.

4.7 Other important Project thematic focuses

Disaster Risk Reduction as one of the main Project thematic considerations

The Project will address DRR as a second transversal theme. The Project will support LGs to ensure that the technical design of environmental and economic infrastructure solutions are based on risk-information and integrate DRR methods. Special attention will be given to intervention related to water supply and wastewater management. The reason for this is that disasters can degrade water supply and wastewater services, and disasters can result from inadequate and contaminated water supply and poor wastewater systems. A particular focus with this regard will be placed on the unofficial rural water supply systems, which are not regularly controlled and have at times a higher likelihood to become contaminated, which increases the risk of outbreak of diseases. The Project will also support LGs to look at risks of floods, landslides etc. and assess how those have the potential to rapture water distribution and waste water systems, or lead to contamination of the water-supply network, and consequently - to the risks of outbreak of diseases.

Social Inclusion as another important Project thematic consideration

It is recognized that inclusive societies are more likely to be peaceful and stable. The Project will seek to enhance social inclusion in all stages of the public policy cycle, as well as in accessing public services. This means that the Project will work with all actors of local democracy to sensitize and make them more responsive to the issue of social inclusion. It will also support LGs to devise their policies and service delivery in a manner that allows marginalized groups of society to gain access to public services - particularly those related to water supply, as well as to have equal opportunities when it comes to employability and access to labour market. The socially excluded groups are: unemployed women and youth and long-term unemployed people; persons with disabilities; returnees and internally displaced persons; Roma.

4.8 Sustainability

The Project will work on-system as much as possible with committed partners. The Project will rely on off-system solutions only when and if absolutely necessary and complementary to on-system measures. It is assumed that this will result in systemic local governance changes and durably improved public service delivery.

Domestic ownership and result-orientation as Project underlying principles, are essential pre-condition not only for launch of demanding reform processes, but also for the overall sustainability of the intervention.

The Project acknowledges that the regulatory framework at local and higher-government levels is a key factor for durable systemic change. Therefore, the Project, together with relevant partners, will support its advancement, so that the overarching principles of good decentralized governance are effectively applied, providing an important element in improving society-state relationships, strengthening the social contract and finally - contributing to accelerating the transition out of fragility.

Moreover, co-funding of viable municipal infrastructure projects owned by LGs will ensure sustainability of investments with lasting positive impact on the citizens' quality of life. Ultimately, sustainability and continued development will rest in the hands of the many thousands of individuals who will have received training, support and encouragement during the life of the Project.

4.9 Possible partnerships and synergies

A cornerstone for the strategy for successful Project implementation is found in the synergies with other on-going or planned initiatives in this area. In addition to capitalising on previous relevant initiatives (GOV-WADE, ILDP, MDP), synergies will be built with the UNDP-implemented **Revitalising Local Communities/Mjesne zajednice (MZ)** Programme (2015-2018, a partnership initiative by the Government of Switzerland and the Government Sweden), specifically with regard to utilising on-going grass-root participatory processes, combining financial resources for service delivery and exploring decentralisation of services at MZ level within common localities. Further synergies will be sought with the upcoming follow-up phase of the **Migration for Development Project**, also financed by the Government of Switzerland so as to utilize the potential of diaspora for local economic development, and contribute to more effective realization of local development strategies. Close complementarities will also be ensured with the upcoming intervention of the Government

of Switzerland and the Government of Sweden aiming to support both entity Associations of Municipalities and Cities.

Synergies are also envisaged with the **Municipal Infrastructure Development Fund** co-funded by SECO, Water Program Zenica-Tuzla funded by SECO and KfW, as well as with the **Water and Sanitation Project** and the Financial and Operational Performance Improvement Programme (European Investment Bank (EIB), Government of Sweden), particularly with regard to leveraging financial resources for implementation of water capital investment projects. The Project will also utilise experiences gained in the regional pilot projects on **non-revenue water management, benchmarking and asset management in water and sanitation sector in South-East Europe⁶⁶, implemented by GIZ ORF MMS, NALAS and the Swiss Cooperation**. Fruitful exchange of practices and tools will be ensured with the **Empowering Municipal Councils Project**, financed by the Government of Switzerland and implemented by UNDP in Macedonia.

Complementarities will also be sought with the GIZ ORF supporting **business-friendly certification**, as well as with the new **ProLocal Plus Project** (2016-2019, financed jointly by GIZ and the EU). Synergies will be in place with the Swiss-funded Youth Employment Project in BiH and MarketMakers in the area of workforce skill development and job creation. Successful approaches and knowledge in the area of value chains and economic governance accumulated via the implementation of the **Value Chains for Employment Project** (2010-2013) and the **Srebrenica Regional Recovery Programme** (2007-2016) (both financed by the Government of the Netherlands and implemented by UNDP) will be transferred to the Project. The Project will also benefit from cross-fertilizing synergies with the **Local Integrated Development Project** (2016-2018, funded by the EU), specifically with regard to combining financial resources for service delivery in economic and environmental sectors, as well as for complementarities with regard to value chains, most likely within common localities in the broader Dobož-Tuzla region. Important synergies will also be ensured with the broader **disaster risk reduction and disaster resilience** programme implemented by UNDP. While probable demarcation in terms of territorial presence will be applied for the **Growth Oriented Local Development Project** (funded by USAID and the Government of Sweden), pro-active exchange of experience in the economic sector will be ensured.

4.10 Use of existing country systems

The Project is fully **embedded within the local governance system** and as such, directly supports its structures, functions and strategic commitments. In this context, the Project will utilise the existing local and cantonal strategic frameworks, legitimate participatory bodies, as well as the existing training and e-learning platforms of the public LG Training System in BiH.

⁶⁶ World Bank Danube Water programme has project components on non-revenue water management, benchmarking and assets management in water and sanitation sector.

PROJECT MANAGEMENT

5. ORGANIZATION, MANAGEMENT AND ADMINISTRATION

5.1 Project duration

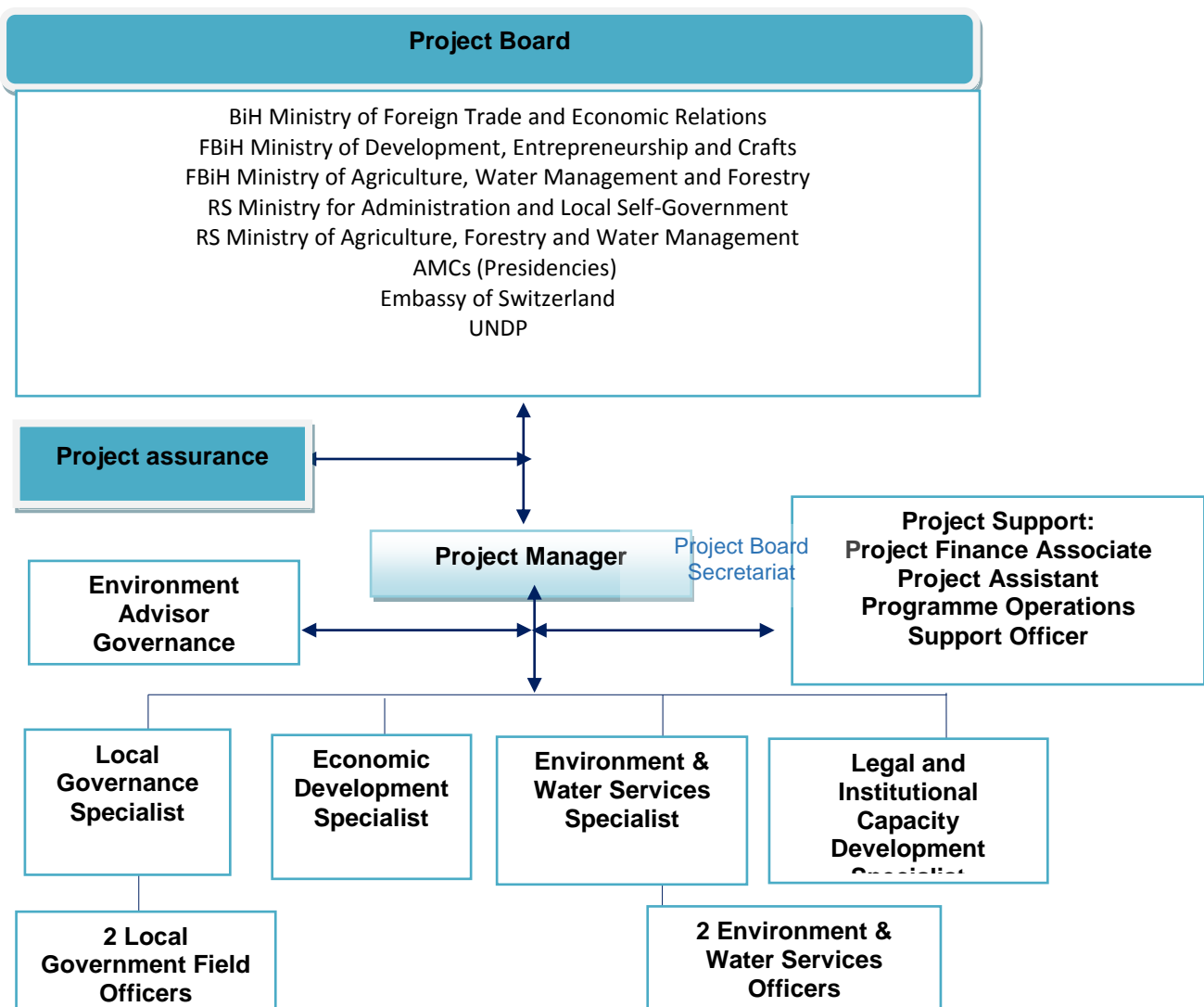
The overall implementation period for this Project phase is 4 years (2016-2019). The overall envisaged duration of all the project phases is twelve years.

5.2 Project management

UNDP in BiH will assume full responsibility and accountability for the overall project management, including, achieving of project outputs and specified results, efficient and effective use of resources, as well as monitoring and reporting.

5.3 Project institutional and organisational structure

The project institutional structure comprises the Project Board, the Project Assurance and the Project Manager with the Project Team, interacting in a broader Project context with partners and all interested stakeholders. A snapshot of the broader Project institutional structure is presented in Annex VII of the Project document.



The **Project Board** will be the group responsible for making, by consensus, management decisions for the Project when guidance is required by the Project Manager, including recommendation for approval of project plans and revisions. Based on the approved annual work plan (AWP), the Project Board supervises the overall implementation progress and authorizes any major deviation therefrom. It provides strategic guidance, as well as give final approval to selected strategic and operational issues. Further, the Project Board approves the list of partner LGs selected and proposed by the Project based on the selection criteria as defined under sub-chapter 4.3. It ensures that required resources are committed and arbitrates on any conflicts within the Project or negotiates a solution to any problems between the Project and external bodies. The Project Board will meet at least twice per year, or as necessary when raised by Project Manager. Members of the Project Board will be representatives of: the Embassy of Switzerland in BiH, the BiH Ministry of Foreign Trade and Economic Relations, the FBiH Ministry of Development, Entrepreneurship and Crafts, the FBiH Ministry of Agriculture, Water Management and Forestry, the RS Ministry for Administration and Local Self-Government, the RS Ministry of Agriculture, Forestry and Water Management, AMCs representing LGs and UNDP (with no voting rights).

The **Project Assurance** role supports the Project Board by carrying out objective project oversight and monitoring functions. This role ensures appropriate project management milestones are managed and completed. Project Assurance has to be independent of the Project Manager. The role of Project Assurance will be performed by the UNDP Rural and Regional Development Sector Leader.

The **Project Team** will comprise the National Project Manager and core team members. The Project Team will be secretariat to the Project Board. A more detailed description of the main functions and responsibilities of the team and key consultancies is presented in *Annex X* of the Project document.

The **Project Manager** has the authority to run the Project on behalf of UNDP. The Project Manager will have the responsibility to ensure that the Project produces the required results that are capable of achieving the benefits defined in this document. S/he will be responsible for day-to-day management and will ensure that the Project produces the results specified, to the required corporate standards and within the constraints of time and cost.

The Project Team will comprise part-time **advisors** in the areas of **environment and governance** (UNDP Energy and Environment Sector Leader and UNDP Governance Specialist who will provide conceptual and technical expertise) to core team members.

The Project will also deploy a team of 4 specialists to support the complex project implementation – i.e. the **Local Governance Specialist, the Economic Development Specialist, the Environment/Water Management Specialist and the Legal and Institutional Capacity Development Specialist.**

In addition, considering the extensive work at the local level, Field Officers will be based in the UNDP regional offices in the target regions. **2 Local Government Field Officers (1 in each target region) and 2 Environment / Water Management Field Officers** will ensure overall coordination, day-to-day support and steering of the Project field work and interaction with local governments in the area of local governance and business enabling environment, as well as environmental governance.

Overall financial, administrative and logistical support will be ensured via **1 Project Finance Associate and 1 Project Assistant.** In line with the UNDP quality management framework, assistance will be also provided part-time by the **Programme Operations Support Officer.** The Project will also engage on a part-time basis a Monitoring and Evaluation Specialist as well as a Communications / PR Specialist.

Through competitive processes, the Project intends to select competent service providers from the target areas to deliver project segments (i.e. – technical assistance, analyses, business services, etc.), thus contributing to capacity development of organisations/companies from the target regions and ensuring that knowledge remains within Project localities.

In addition, the Project will deploy several key short-term national and international specialists to support project implementation, among whom experts in gender matters; economic and environmental areas; monitoring and data collection; governance and policy.

5.4 Tendering and contracting

UNDP's Programme and Operations Policies and Procedures⁶⁷ provide the operational standards and give procedural guidance on core business processes globally, and are the basis for all aspects of UNDP operations. UNDP utilises a sound and transparent set of mechanisms for financial support to institutional and socio-economic partners and for infrastructure interventions such as micro- and large-scale grant schemes.

The selection of consultants and service providers will be based on open and transparent procurement / 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. UNDP will be in charge of procuring, contracting, managing and quality assuring the delivery of services, works and products, following UNDP procurement rules and principles.

In addition, UNDP will deploy its available partnership and contractual modalities to engage in cooperation with local governments, particularly with regard to providing financial support to the implementation of LG priority projects.

In order to add value to its investment financial assistance, as well as to increase the investment volume and strengthen ownership over implemented interventions, the Project will apply the principle of obligatory co-funding by all partners and beneficiaries.

6. RESOURCES

6.1 Project budget

The total Project budget for the four-year Main Phase amounts to CHF 11,450,000 (the budget is enclosed as Annex VIII to the Project Document).

The Project budget comprises the costs for project activities as well as fixed and costs of resources necessary for their implementation.

With regard to the allocation of financial resources per outcomes, 16.5 % (CHF 1,895,356) of the total budget is allocated to Outcome 1, 73.5 % (CHF 8,420,370) to Outcome 2 and 10 % (CHF 1,134,273) to Outcome 3.

Resources for *administered project funds* amount to approximately 84 % of the budget at CHF 9,582,173. The remaining 16 % or CHF 1,867,827 is distributed as follows: *local office* CHF 121,811; *long-term experts* CHF 1,273,190; *short-term experts* CHF 43,362; *local support* CHF 429,463.

This distribution implies that the level of effort and investment to be realised under Outcome 2, i.e. for assistance to utilities, business enabling environment and municipal infrastructure projects, is the most cost-intensive. The envisaged financial resources for investments and support to implementation of infrastructure projects amount to CHF 4,595,679, which is approximately 40 % of the total Project budget (to be co-funded by partner LGs). The expected co-financing by partner LGs is at ca CHF 4,000,000.

6.2 Cost benefit and cost effectiveness

The Project will deploy numerous measures in order to achieve cost effectiveness. In terms of procurement, outsourcing of services will be based on a transparent and competitive process, upon which a contractual award is made to the lowest technically compliant offer or using a combined scoring method. As part of the Project, competitive and transparent procurement processes will also be applied by LGs, to result in procurement of goods, services and works delivered at the lowest price and highest value for money.

Further, the Project will promote cost-effectiveness in the local governance system through increased performance and better management of LGs and their different bodies, such as the municipal / city council / assembly, the administration and particularly local utilities. This will lead to improved efficiency of local services.

⁶⁷ Reference: <https://info.undp.org/global/popp/Pages/default.aspx>.

By having on board LGs that have previously proved their commitment and management capacities (this is linked with the general selection criteria for LGs, favouring those that were previously / at present successfully partnering with the Embassy of Switzerland and the UNDP), as well as by applying strict impact criteria, the Project will ensure effectiveness and efficiency of its investments. The Project will seek to achieve economy of scale in investments by combining, where possible, financial resources with other on-going interventions in target localities, or public funds of higher government levels.

Moreover, all training and capacity development assistance will be delivered by clustering partner LGs, so as to ensure economy of scale. The Project will seek to utilize in-kind contribution from partners in the form of hosting venue, hospitality and transport costs for events and training. For further cost efficiency, the Project will make use of the relevant training programmes available through the LG Training System or offered by other actors in the field. Where possible, the Project will seek to leverage financial contribution from the private sector as well.

7. PLANING, MONITORING AND EVALUATION

7.1 Operational planning

The Project Document sets the overall frame of the Project activities. More detailed annual plans of operation will be developed on annual basis and will be informally revisited every 6 months to take into account new developments and the changing context. The plans will be approved by the Embassy of Switzerland.

7.2 Monitoring and evaluation

The Project will be monitored and evaluated through the corporate standards and requirements established by the UNDP as part of the programme and project management set-up and management decisions, and in line with the requirements of the Swiss Development Cooperation. In addition, Project monitoring will be also characterised by a gender- and conflict-sensitive approach.

The Project will support LGs to use existing or develop their monitoring and evaluation (M&E) systems. Data from those systems will be collected and used by the Project Team for the overall Project monitoring. The timing should be adjusted to the schedule of Project reporting towards SDC.

Main tools for project monitoring

The main tools for organising the Project monitoring system encompass a series of documents, providing baseline and target quantitative and qualitative indicators, more particularly:

- The gender-sensitive Logical Framework (as described within *Annex 1* of the Project Document);
- Baseline assessment reports for 31 potential partner LGs and summary reports for two geographic clusters of interest to the Project (prepared as part of the Project Preparatory Phase);
- LG good governance benchmarks (to be established in during the first Project implementation year);
- Electronic system for data collection and analysis (MEG Manager) designed as part of the baseline assessment in the Project Preparatory Phase and comprising all relevant data and indicators, enabling future monitoring of economic indicators, business friendly certification status, analysis of private sector views and review of key trends.



Annual reporting cycle⁶⁸

- Twice a year, the established Project **Monitoring Framework** shall be updated and progress recorded towards the completion of key results, based on the Project monitoring table.
- Based on the initial risk analysis, a **Risk Log** shall be activated and regularly updated by reviewing the external environment that may affect the implementation. The Project Manager together with Monitoring and Evaluation Specialist are responsible for monitoring the risks and should provide the status updates to the Project Board when applicable.
- A Project **Lessons-Learned Log** shall be activated and regularly updated to ensure on-going learning and adaptation within the organization, and to systematically capture lessons learnt.
- **Semi-annual Review and Reporting.** The Project Board will meet during the mid-year if required to assess the implementation progress and ensure the successful achievement of the annual targets. The requirement for such review will be established by the Project Board during annual review meetings. A Mid-Year Report shall be prepared by the Project Manager with inputs from team members and shared with the Project Board as per established requirements.
- **Annual Review Report.** An Annual Report shall be prepared by the Project Manager and shared with the Project Board as per the established requirements.
- **Annual Project Review.** Based on the above report, an Annual Project Review shall be conducted during the fourth quarter of the year or soon after, to assess the performance of the Project and appraise the Annual Work Plan for the following year. In the last year, this review will be a final assessment. The review is done by the Project Board and may involve other stakeholders as required. It shall focus on the extent to which progress is being made towards outputs, and that these remain aligned to appropriate outcomes.

Semi-annual, annual and final project reports towards SDC

- **Brief semi-annual Project operational and financial reports** shall be prepared by the Project Team and submitted to the Embassy of Switzerland after the end of the each implementation mid-year.
- **Annual Project progress and financial reports** shall be prepared by the Project Team and submitted to the Embassy of Switzerland after the end of the each implementation year.
- **Final Project operational and financial reports** shall be prepared by the Project Team and submitted to the Embassy of Switzerland at the end of the Project.
- **Inputs will be provided to the Project End-of-Phase Report** prepared by the Embassy of Switzerland.
- **Annual audit reports** will be prepared and submitted to the Embassy of Switzerland.
- **Project evaluations**

The Project will be subject to **internal and external reviews**. An internal mid-term review will be used for stock taking, strategic focusing and identification of adjustments. An external review is planned for 2019 to establish a basis for planning the next Project phase. The external review will be financed and mandated by the SDC / Embassy of Switzerland directly.

8. RISK ANALYSIS

The following table provides a detailed overview of the risks for the Project and measures for mitigation and indication on how the risks will be managed.

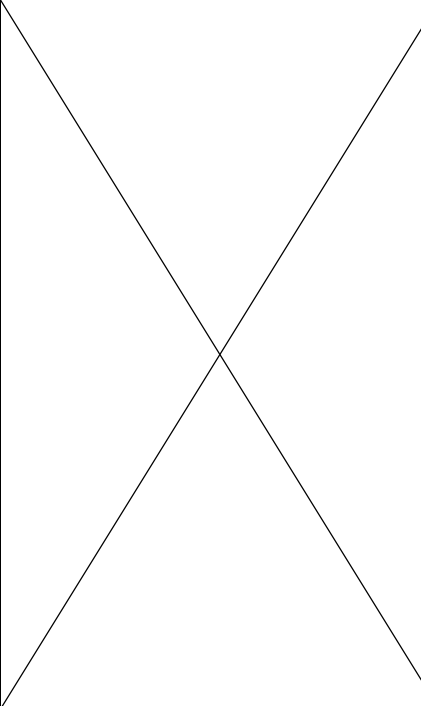
⁶⁸ All reports to be prepared and submitted will be compliant with the results-based reporting requirements of the Swiss Cooperation.

General Risks	Probability	Impact / Type	Project response
<p>Local and General Elections</p> <p>The forthcoming Local Elections in 2016 and General Elections in 2018 might pose certain risks to the project implementation, provided that already committed local leaderships in partner LGs are not re-elected. In addition, a couple of months before and after elections, regular LG activities are often set aside.</p>	High	High / Political (Delays in implementation)	The Project will apply adequate mitigation measures, such as signing Agreements with all partner LGs, thus formalising their commitment and contribution to the Project, as well as familiarising the newly-elected LG officials with the Project purpose and motivating them to engage in its implementation.
<p>Unconsolidated state and political stalemate</p> <p>Party-political power relation is an obstacle, both to envisaged decentralisation agenda and to the broader democratic transformation of LGs.</p>	High	Medium / Political (Delays or inability to introduce regulatory and performance improvement changes)	The Project will work with political leaders at various government levels, including both legislative and executive branches, to raise their understanding and strengthen the quality of decision-making. Ensuring transparent and participatory processes is another angle from which to mitigate the risk.
<p>Legislative inertia</p> <p>Getting new legislation adopted is notoriously difficult in BiH, particularly when it challenges the current balance of power and money between levels of government, politicians and parties.</p>	High	High / Political (Delays or inability to introduce regulatory changes)	The Project will support legislative processes by closely engaging operational staff, widely consulting all relevant stakeholders to secure public scrutiny, and advocating among policy-makers on the importance and implications of the proposed legal amendments.
<p>Social unrest and growing citizen dissatisfaction with governments and the socio-economic situation</p>	Low	Low / Political (Delays in implementation and damage to Project assets)	The Project will closely monitor the political situation and apply an early-warning approach to short-term planning and delivery. It will also promote citizens' participation in decision-making.
<p>Reluctance of LGs to introduce transparent, effective and measurable operational frameworks</p> <p>These frameworks would allow for thorough assessment of their performance. LGs generally attempt to preserve social peace and higher employment rate.</p>	Medium	High / Behavioural (Obstacles to any fundamental reform and optimisation of LG administration)	Mitigation measures include involving LG leadership right from the outset and clearly defining financial and systemic benefits from the proposed changes.
<p>Insufficient LG financial resources might hamper their co-financing capacities.</p> <p>LGs increasingly face budget deficits. Recent floods further exhausted already scarce financial resources of many. There may be a risk that partner LGs will not be able to match the financial resources provided by the Project.</p>	Medium	Medium / Financial (Hampers LGs co-financing capacities)	In order to mitigate this risk, timely planning of necessary co-financing, taking into account LG financial capacities and budgetary cycles, is envisaged.

General Risks	Probability	Impact / Type	Project response
<p>Lack of interest by citizens (including private sector) to productively engage in local policy management cycle Citizens are increasingly uninterested to engage in public life.</p>	Medium	<p>Medium / Behavioural (Results related to the increased accountability and inclusion might not be achieved)</p>	The Project will encourage a structured participation, facilitate awareness-raising and support voicing out of communities' interests and needs in the local public policy management cycle, with focus on the most vulnerable. Particular attention will be paid to engagement of private sector, by facilitating interest-based public-private dialogue.
<p>Force Majeure (e.g. disasters) impacts the Project The 2014 floods demonstrated that in the event of disaster, local financial, administrative and human resources tend to be fully engaged in recovery efforts, putting development investments and activities on hold.</p>	Low	<p>High / Environment (Delays in the implementation and damage to Project assets; hampers LGs' co-financing capacities)</p>	The Project will have a flexible approach, including reprogramming of activities to respond to the emerging needs. The Project will also support LGs to look at risks of floods, landslides etc. and assess how those have the potential to rapture water distribution and waste water systems, or lead to contamination of the water-supply network, and consequently - to the risks of outbreak of diseases.
<p>Misappropriation of Project investment funds</p>	Low	<p>Medium / Financial (Misuse or inappropriate spending of Project funds by beneficiaries)</p>	In order to minimise the risk of misappropriation of funds, competitive and transparent procurement processes will be applied and municipal controlling mechanisms (expenditure review, audit, follow-up) will be strengthened and monitored. The Project will apply rigorous quality assurance regime for all activities, particularly those related to financial support to infrastructural interventions.

9. ANNEXES

Annex I: Logical framework

Hierarchy of objectives Strategy of Intervention	Key Indicators	Data Sources Means of Verification	Assumptions
Overall Goal	Impact Indicators		
<p>Local governments (LGs), assigned with appropriate competences and finances, have improved their democratic governance, apply sound public policy and performance management systems and provide public services in an inclusive, effective and efficient manner, particularly those related to the environmental and economic sectors.</p>	<p><u>Indicator</u>: Value of local development index in target localities. <u>Baseline</u>: Development index for target localities (2015). <u>Target</u>: Increased value of local development index in target localities by 5 % (2019).</p> <p><u>Indicator</u>: % of LGs in BiH that apply integrated, effective and democratic approach to local development management and service delivery⁶⁹. <u>Baseline</u>: 25 % of 145 LGs in the country (2015). <u>Target</u>: 34 % of 145 LGs in the country (2019).</p> <p><u>Indicator</u>: # of citizens (female and male, as well as socially excluded⁷⁰) benefiting from quality and accessible infrastructure and services within target localities. <u>Baseline</u>: Estimate is approximately 500,000 citizens⁷¹ (2015). <u>Target</u>: At least 700,000 citizens⁷² (out of whom at least 50 % women) (2019).</p> <p><u>Indicator</u>: Level of citizens' engagement (disaggregated by</p>	<ul style="list-style-type: none"> • Baseline and final citizens' survey in participating LGs, • Regional Disparity Assessment conducted by UNDP, • Baseline assessments in potential partner LGs, • Records, documentation and local strategies implementation reports of partner LGs, • Project reports. 	

⁶⁹ The approach implies setting in place processes, functions, strategic and regulatory frameworks enabling coherent and budget-aligned public policy management.

⁷⁰ Within the Project, socially excluded / vulnerable citizens are: unemployed women and youth and long-term unemployed people; persons with disabilities; returnees and internally displaced persons; Roma.

⁷¹ The baseline is to be confirmed upon selection of partner local governments.

⁷² The target is to be confirmed upon selection of partner local governments.

	sex) in local policy making within target localities. <i>Baseline:</i> To be established upon selection of partner LGs ⁷³ (2016). <i>Target:</i> Level of engagement increased by 20 % by 2019 (for both men and women).		
Outcomes	Outcome Indicators		Assumptions
Outcome 1 Supported local governments apply effective development management systems characterised by stronger oversight of the legislative and greater accountability towards the citizens	<i>Indicator:</i> # of partner LGs where the LG council, the mayor and the administration jointly apply operational and accountable municipal performance management systems resulting in improved municipal performance and more active oversight role of the LG councils. <i>Baseline:</i> 4 (2015). <i>Target:</i> 18 (2019). <i>Indicator:</i> % realization of annual implementation plans of local development strategies of partner LGs. <i>Baseline:</i> 40-50 % on average (2015). <i>Target:</i> increased by 25 % (2019).	<ul style="list-style-type: none"> • Baseline and exit assessments in partner LGs. • Project monitoring data and reports. • Formal documentation, Decisions of LG Councils, systematisations of partner LGs. 	Change agents do not face too strong obstacles for their plans. Other donor projects in MEG municipalities are willing to cooperate. High motivation of LG leaderships and staff to embrace new participatory work approaches and processes.
Outcome 2 Citizens and businesses in target localities benefit from good quality services provided by LGs in the environmental and economic sectors.	<i>Indicator:</i> Increase of % of households in target localities with access to controlled water supply services and / or wastewater services. <i>Baseline:</i> 62 % of households have access to controlled water supply services and 29 % of households have access to wastewater services within 31 potential partner local governments (2015). <i>Target:</i> 66 % ⁷⁴ of households have access to controlled water supply services and 32 % of households have access to wastewater services within finally selected 18 core partner LGs (2019).	<ul style="list-style-type: none"> • Project monitoring data, Project documentation and reports. • Formal documentation of partner local governments and annual strategies' implementation reports by local governments. • Official statistics from partner local governments. • Exit assessments in partner local governments (2019). 	LGs maintain at least the current level of human and financial resources and hence the basic capacities to improve public services.

⁷³ For that purpose, the methodology adopted by the "Strengthening the Role of Local Communities/Mjesne zajednice in Bosnia and Herzegovina" will be utilized and possibly – the baseline results obtained under that Project (2016) will be utilized by the Municipal Environmental and Economic Governance Project for potential common localities.

⁷⁴ Target percentages relate to the anticipated Project outcomes in terms of improvement or creation of new water supply and wastewater infrastructure, based on the envisaged Project funds specifically for municipal environmental and economic infrastructure (approximately CHF 4 million for 18 LGs for 4 years). Having in mind that investments in new water supply or wastewater infrastructure are very costly, these targets reflect the realistic expected positive change within 18 core partner LGs, specifically with regard to environmental infrastructure improvement or extension.

	<p><u>Indicator:</u> Level of citizens' satisfaction (disaggregated by sex) with services & infrastructure within target localities. <u>Baseline:</u> To be established upon selection of partner LGs⁷⁵ (2016). <u>Target:</u> To be established upon selection of partner LGs (for both men and women) (2019).</p> <p><u>Indicator:</u> Number of vulnerable/socially excluded citizens (disaggregated by sex) in target localities benefiting directly from improved services as a result of the Project assistance. <u>Baseline:</u> At least 100,000 vulnerable / socially excluded citizens (estimated) within potential partner local governments⁷⁶ (2015). <u>Target:</u> Out of the estimated 100,000, at least 40,000 vulnerable/socially excluded⁷⁷ citizens (within whom at least 50 % women) benefit directly from improved access to and quality of services within target localities as a result of the Project assistance (2019).</p> <p><u>Indicator:</u> % increase in the number of private sector investments of at least 50,000 KM each / annually within target localities as a result of improved business environment. <u>Baseline:</u> Estimated 3 % increase in the volume of private sector investments / annually in average for 31 potential partner local governments⁷⁸ (2015). <u>Target:</u> At least 5 % average increase in the volume of private sector investments / annually for 18 core partner LGs or at least additional CHF 900,000 of private sector investments by the end of the Project phase (2019).</p>	<ul style="list-style-type: none"> • Citizen satisfaction surveys in target localities. • Postings and information in media and newspapers, photo and video records. 	
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⁷⁵ For that purpose, the methodology adopted by the "Strengthening the Role of Local Communities/Mjesne zajednice in Bosnia and Herzegovina" will be utilized and possibly – the baseline results obtained under that Project (2016) will be utilized by the Municipal Environmental and Economic Governance Project for potential common localities.

⁷⁶ Baseline to be confirmed upon selection of partner local governments.

⁷⁷ As defined within the Project Document.

⁷⁸ The baseline is to be confirmed upon selection of partner local governments.

<p>Outcome 3 Improved regulatory framework at higher and local government levels and proactive networking accelerate sector-specific reforms and enable more effective local public service delivery.</p>	<p><u>Indicator:</u> Extent to which key regulatory gaps related to provision of communal services and business enabling environment were addressed through improved regulatory frameworks at higher and local government levels with support by the Project. <u>Baseline:</u> Significant regulatory gaps affecting local service delivery in the environmental and economic sectors (2015). <u>Target:</u> Key regulatory gaps affecting local service delivery in the environmental and economic sectors are addressed through amendment/creation of at least 3 principle regulatory acts in compliance with the EU relevant standards, with the pro-active advocacy of AMCs and the thematic professional networks (2019). <u>Indicator:</u> Extent to which legislative bodies at local and higher government levels exercise oversight over result-oriented regulatory framework in the environment and economic sectors <u>Baseline:</u> Insufficient scrutiny role of the legislative in implementation of sector-specific regulatory frameworks (2015) <u>Target:</u> Increased oversight role of the legislative leads to result-oriented implementation of newly-enforced regulatory framework in the environment and economic sectors (2019) <u>Indicator:</u> Level of organisational capacities, influence and pro-activeness of thematic professional networks in environmental and economic sectors <u>Baseline:</u> Very limited (2015) <u>Target:</u> Improved capacities manifested through pro-active engagement in advocacy and best practice generation (2019)</p>	<ul style="list-style-type: none"> • Entity, cantonal Official Gazettes. • Decisions of LG councils. • Project evaluation reports. • Project monitoring data, Project documentation and reports related to monitoring the enforcement of newly-introduced / amended regulatory frameworks at local and higher government levels. • Records from networking events. • Initiatives of thematic organisations which result in successful policy and / or regulatory improvements. • Official institutional records which show engagement of professional thematic networks and AMCs in legislative processes. • Postings and information in media and newspapers, photo and video records. 	<p>Willingness of main policy stakeholders to support decentralisation and professionalization of municipal civil service.</p> <p>Political support by mayors and LG Councils.</p> <p>Getting new legislation adopted is difficult in BiH, particularly when it challenges the current balance of power and money between levels of government and political parties.</p>
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Outputs per outcome	Output Indicators	Data Sources Means of Verification	Assumptions
<p>Outcome 1: Supported local governments apply effective development management systems characterised by stronger oversight of the legislative and greater accountability towards the citizens</p>			
<p>Costs of outputs for outcome 1 (CHF): 1,895,356</p>	<p>% of total Project cost: 16.5 %</p>		

Output 1.1	Local government performance management systems are established and functional	<p><u>Indicator:</u> Extent to which basic elements defining performance management system are in place in target localities⁷⁹.</p> <p><u>Baseline:</u> almost inexistent (2015).</p> <p><u>Target:</u> 100% of the basic elements in place in all target localities (2019).</p> <p><u>Indicator:</u> % of implementation of annual departmental plans in environmental and economic sectors (by # of projects and allocated financial resources).</p> <p><u>Baseline:</u> 30 % (2015).</p> <p><u>Target:</u> 60 % (2019).</p>	<ul style="list-style-type: none"> • LG documents of endorsed performance management systems. • Expert views on existing municipal performance management systems. • Project monitoring data, Project documentation and reports. • Decisions of LG Councils, systematisations and organisational structures of participating LGs. 	Commitment of main LG actors to improve municipal performance.
Output 1.2	Citizens are more responsible and enjoy greater role in decision-making and monitoring of government performance.	<p><u>Indicator:</u> # of participatory performance monitoring systems established and ensuring citizens' oversight in local policy delivery.</p> <p><u>Baseline:</u> Ad-hoc performance mechanisms exist across potential partner LGs; however, none are based on systemic and measurable information sharing to the citizens (2015).</p> <p><u>Target:</u> At least 18 participatory performance monitoring systems established in partner LGs, enabling annual information-sharing to the citizens along key public policy performance benchmarks (2019).</p> <p><u>Indicator:</u> # of citizens' recommendations/suggestions voiced through public consultation process which were considered and addressed annually by LGs and Municipal Councils.</p> <p><u>Baseline:</u> Estimate average per LG is 20 recommendations addressed or taken into consideration annually⁸⁰ (2015).</p> <p><u>Target:</u> 50 per locality / annually (among which at least 40 % voiced out by women) (2019).</p>	<ul style="list-style-type: none"> • Project monitoring data, Project documentation and reports. • Records from public consultations/citizens gathering events, including feedback to citizens. • LG regular reports; municipal websites, on-line sessions of Municipal Councils or other public interaction tools. • Postings and information in media and newspapers, photo and video records. 	<p>LG councillors and Mayors willing to engage in a constructive dialogue with citizens and businesses</p> <p>The legal basis for referenda and citizens' initiatives proves to be solid enough</p> <p>Relevantly low level of trust between socio-economic partners and LGs needs to be considered and adequately approached throughout the entire period of assistance at the LG level</p>

⁷⁹ Basic elements defining performance management system include: a local development management function, regular cross-departmental coordination in planning, implementation, monitoring and reporting, and strategy-based annual planning.

⁸⁰ Exact baseline is to be established upon selection of partner local governments.

		<p><u>Indicator:</u> Extent to which Municipal Councils in participating 18 core LGs engage pro-actively, transparently and competently in local decision-making, and exercise public policy oversight together with their citizens.</p> <p><u>Baseline:</u> Insufficiently transparent, knowledge-based and inclusive decision-making and policy delivery oversight by Municipal Councils in 31 potential partner LGs (2015)⁸¹.</p> <p><u>Target:</u> Increased level of Municipal Councils' transparent, inclusive and development-led engagement in policy-making and oversight of policy delivery in participating 18 core LGs (2019).</p>		
Outcome 2: Citizens and businesses in target localities benefit from good quality services provided by LGs in the environmental and economic sectors.				
Costs of outputs for outcome 2 (CHF): 8,420,370 % of total Project cost: 73.5 %				
Output 2.1	Local governments, through institutionalized partnerships with their utilities and based on oversight by Municipal Councils and the citizens, secure sustainability of service delivery, with focus on the water sector	<p><u>Indicator:</u> Average bill collection period by utilities (days sales outstanding).</p> <p><u>Baseline:</u> 316 (2015).</p> <p><u>Target:</u> 90 (2019).</p> <p><u>Indicator:</u> Number of water utilities where the water tariff setting procedure enables regular network maintenance and replacements.</p> <p><u>Baseline:</u> None of the utilities have tariff setting procedure in place that secures regular network maintenance and replacements (2015).</p> <p><u>Target:</u> At least 10 local utilities (2019).</p> <p><u>Indicator:</u> % of non-revenue water (NRW) reduction in target localities.</p> <p><u>Baseline:</u> Estimated to average of 51 %⁸² (2015).</p>	<ul style="list-style-type: none"> • Project monitoring data, Project documentation and reports. • Official records and documentation from water utilities. • Customer satisfaction surveys. • Adopted PSAs within partner LGs. • Annual performance reports of water utilities against the set performance benchmarks. 	<p>LGs willing and capable to improve their services.</p> <p>Local and regional development agencies within target localities are interested to further expand their portfolio of business development services and pro-actively support economic development in their localities.</p>

⁸¹ Average has been calculated based on ILDP experiences in relation to citizens' participation in local policy-making.

⁸² This figure is based on the data on water abstraction (estimated) and water invoiced (real) provided by the water utilities in target 31 local governments. Since water utilities mostly do not measure water abstraction and are reluctant to provide accurate numbers due to the fact that paying water fees is based on the amount of abstracted water, this estimate needs to be re-evaluated with water balance evaluations in the water utilities.

		<p><u>Target:</u> Average of 37 %⁸³ (2019).</p> <p><u>Indicator:</u> Number of public service agreements (PSAs) detailing roles and responsibilities in terms of water supply and wastewater management services in target localities, including concrete oversight by LG councils and citizens of utility performance.</p> <p><u>Baseline:</u> None of the utilities have PSAs detailing and clearly assigning roles and responsibilities in terms of water supply and wastewater services (2015).</p> <p><u>Target:</u> At least 15 PSAs (2019).</p> <p><u>Indicator:</u> Customer satisfaction survey on water supply and wastewater services (including an indicator on citizens' satisfaction with utility management) is conducted every two years by utilities in target localities.</p> <p><u>Baseline:</u> None of the utilities within 31 potential partner LGs regularly conduct customer satisfaction survey (2015).</p> <p><u>Target:</u> At least 12 utilities regularly conduct gender-sensitive customer satisfaction surveys and respond to the recommendations provided by citizens (2019).</p>		
Output 2.2	Local governments set in place business-friendly environment and deliver employment-conducive measures and services	<p><u>Indicator:</u> Number of businesses (among which – women-led businesses) which access and benefit from new business development services facilitated and co-financed by partner LGs as a result of Project support.</p> <p><u>Baseline:</u> 0 (2015).</p> <p><u>Target:</u> 35 (2019).</p> <p><u>Indicator:</u> Average % of fulfilment of business friendly certification criteria.</p> <p><u>Baseline:</u> 47 %, based on average value for all potential partner LGs (2015).</p> <p><u>Target:</u> Increase by 20 % (2019).</p>	<ul style="list-style-type: none"> • Project monitoring data, Project documentation and reports; • Annual performance reports of economic development departments within partner local governments against the set performance benchmarks in the economic sector. 	Municipalities willing and capable to improve their support to promoting the economic sector

⁸³ Higher NRW (e.g. higher than 60 %) in some local governments can be reduced by 5 % per year, but NRW lower than 40 % is expected be further reduced by 3-4 % per year (with effective NRW management measures).

		<p><u>Indicator:</u> Average value of perceived satisfaction gap⁸⁴ of the private sector between importance and quality of business enabling activities and services provided by LGs in target localities.</p> <p><u>Baseline:</u> -0.68 satisfaction gap for activities and -0.31 satisfaction gap for urban planning and permits⁸⁵, based on average satisfaction gap expressed by the private sector in 31 potential partner LGs (2015).</p> <p><u>Target:</u> Decrease of the average value of perceived by the private sector satisfaction gap to -0.40 for activities and -0.15 for urban planning and permits in 18 core LGs (2019).</p> <p><u>Indicator:</u> # of jobs (including “green” jobs⁸⁶) created as a result of Project assistance.</p> <p><u>Baseline:</u> 0 (2015).</p> <p><u>Target:</u> 180 (2019).</p> <p><u>Indicator:</u> Number of value-chains and number of businesses within them supported by LGs in target localities as a result of Project assistance.</p> <p><u>Baseline:</u> 0 (2015).</p> <p><u>Target:</u> 3 value chains and 540 businesses (among which at least 20 % women-led) (2019).</p>		
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⁸⁴ The Project baseline studies reviewed the private sector perception of the importance / relevance, on one side, and quality, on other side, of business enabling procedures, services and activities performed by LGs, based on the perception of the surveyed private sector. Another study will be undertaken at the end of the Project phase to define changes in the perception. If the gap is represented with a negative figure, it means that the quality of the service is evaluated lower than its importance / relevance. Higher gap indicates more room for improvements.

⁸⁵ As elaborated within Annex IX of the Project Document.

⁸⁶ Any job that contributes to preserving or restoring the quality of the environment whether it is in agriculture, industry, services or administration.

Output 2.3	Quality and availability of municipal environmental and economic infrastructure is improved	<p><u>Indicator:</u> Number of technical documentation for disaster-resilient infrastructure projects developed as a result of assistance provided by the Project. <u>Baseline:</u> 0 (2015). <u>Target:</u> 5 (2019).</p> <p><u>Indicator:</u> Level of ability of local governments to develop investment pipelines in the environmental and economic sectors. <u>Baseline:</u> Insufficient knowledge and skills of local governments and utilities to prepare investment pipelines (2015). <u>Target:</u> Increased level of capacity of local governments to develop investment pipelines in the environmental and economic sectors manifested by successful attraction of external funds for projects' implementation (2019).</p> <p><u>Indicator:</u> Number of disaster-resilient infrastructure interventions implemented resulting in either increased coverage of population by services or improved usage of infrastructure systems as a result of Project assistance. <u>Baseline:</u> 0 (2015). <u>Target:</u> 30 (2019).</p>	<ul style="list-style-type: none"> • Project monitoring data, project documentation and reports. • Formal documentation of partner local governments. • Official contracts for ensured external funding of infrastructure investments (credits, loans, grants) for environment or economic infrastructure. • Postings and information in media and newspapers photo and video records. 	Overall economic environment, municipal revenues and access to loans and grants enable increase in investment
Outcome 3: Improved regulatory framework at higher and local government levels and proactive networking accelerate sector-specific reforms and enable more effective local public service delivery				
Costs of outputs for outcome 3 (CHF): 1,134,273 % of total Project cost: 10 %				
Output 3.1	Constraints in the regulatory framework related to service delivery in economic and environmental areas are addressed in a participatory and on-demand manner at local and higher government levels with the engagement of AMCs.	<p><u>Indicator:</u> Number of cases where Project contributions were taken up in the regulatory framework of (i) local governments, (ii) cantons (FBiH), (iii) entities to ensure more effective local public service delivery. <u>Baseline:</u> 0 (2015). <u>Target:</u> 10 (2019).</p> <p><u>Indicator:</u> % of increase of public financial resources at the local level for local service delivery in the environmental sector as a result of improved higher government level</p>	<ul style="list-style-type: none"> • Entity and cantonal Official Gazettes; Municipal Decisions. • Project Final Evaluation Report. • Project monitoring data, Project documentation and reports. • LG documentation and regulatory framework enabling LGs' responsibility and control over rural water supply systems. 	Municipalities and higher governments see the need to improve the regulatory framework.

		<p>regulatory frameworks enabled through support of AMCs and a critical mass of local governments.</p> <p><i>Baseline:</i> Insufficiently funded mandates of local governments lead to often poor service delivery in the environmental sector. Concrete figures are to be set upon selection of partner local governments (2015).</p> <p><i>Target:</i> Increase by 5 % (2019).</p> <p><i>Indicator:</i> Number of citizens living in remote / rural areas who have access to safe water supply services as a result of improved and effectively enforced water governance regulatory framework.</p> <p><i>Baseline:</i> To be set upon selection of partner local governments (2015).</p> <p><i>Target:</i> Increase by 10,000 citizens, among whom at least 40 % women (2019).</p>	<ul style="list-style-type: none"> • AMC reports. 	
Output 3.2	Economic and environmental sector-related policy delivery capacities of higher government level institutions are increased and policies are result-oriented	<p><i>Indicator:</i> Number of policies and methodologies in environmental and economic sectors designed and implemented by relevant higher government level institutions⁸⁷ with direct positive effects on local service delivery as a result of Project support.</p> <p><i>Baseline:</i> 0 (2015).</p> <p><i>Target:</i> at least 6 (2019).</p>		
Output 3.3	Thematic professional networking spurs knowledge exchange and innovation in local service delivery.	<p><i>Indicator:</i> Number of LG economic development professional networks established and functioning.</p> <p><i>Baseline:</i> At present such a network does not exist (2015).</p> <p><i>Target:</i> 1 LG economic development professional network established involving at least 50 % of LGs in BiH and functioning as a knowledge-exchange hub (2019).</p> <p><i>Indicator:</i> Number of influential and competent professional thematic networks supporting exchange of good practices and advocating for better environment in relevant sectors.</p>	<ul style="list-style-type: none"> • Reports, meeting records, best practices publications of professional networks. • Official institutional records which show engagement of professional thematic networks in legislative processes. • Project monitoring data, Project documentation and reports. 	Sufficient and sustained interest of professional networks to exchange and find solutions to common challenges.

⁸⁷ At entity and/or cantonal levels.

		<p><u>Baseline</u>: At present there is one active and competent professional thematic network in the water management sector (2015)</p> <p><u>Target</u>: At least two strong and competent professional thematic networks in the environmental and economic areas (2019).</p> <p><u>Indicator</u>: Number of innovative practices in local service delivery created by LGs and disseminated by AMCs and thematic networks within the Project lifespan.</p> <p><u>Baseline</u>: 0 (2015).</p> <p><u>Target</u>: 10 practices in at least 10 local governments (2019).</p>		
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Activities for Output 1.1. Local government performance management systems are established and functional	Inputs
<p>1.1.1 Introduce performance management system.</p> <p>1.1.2 Provide support to municipal departments, with focus on economic and environmental sectors.</p>	<ul style="list-style-type: none"> - Selection of service providers. - Technical assistance (TA) to strengthen municipal performance management system, design and deliver assistance for LG leaderships, as well as to LG economic and environmental departments. - TA to prepare technical documentation for IMC infrastructure projects. - Assessment of needs and expert support to mainstream DRR within local strategies and operational frameworks. - Analysis of value chains in priority economic sectors. - Introduction of innovative IT solutions. - Support to design of water supply master plan, and urban/spatial planning.
Activities for Output 1.2. Citizens are more responsible and enjoy greater role in decision-making and monitoring of government performance.	Inputs
<p>1.2.1. Annual citizen satisfaction surveys.</p> <p>1.2.2. Introduce good governance performance benchmarks for all participating local governments.</p> <p>1.2.3. Support citizen engagement in public policy management.</p>	<ul style="list-style-type: none"> - Expert support to design the LG performance benchmarks. - Facilitation of public discussions and citizens meetings on priority matters, as well as of network events (workshops, roundtables). - TA to design citizen satisfaction survey, as well as to conduct analysis to identify possibilities for decentralizing local public service to MZs. - Travel.
Activities for Output 2.1. Local governments, through institutionalized partnerships with their utilities and based on oversight by Municipal Councils and the citizens, secure sustainability of service delivery, with	Inputs

focus on the water sector.	
2.1.1. Support to enhancing organisational structure and staffing of municipal utilities. 2.1.2. Support improvements of technical and management capacities of municipal utilities. 2.1.3. Support upgrading utilities' financial management capacity.	<ul style="list-style-type: none"> - TA to utilities in terms of organizational, management and financial capacities and introduction of PSAs. - TA for technical twinning. - Travel.
Activities for Output 2.2. Local governments set in place business-friendly environment and deliver employment-conducive measures and services.	Inputs
2.2.1. Tailored assistance to LGs to improve business-enabling environment. 2.2.2. Provide assistance to LGs to design and deliver business incentives and employment-conducive measures. 2.2.3. Provide assistance, together with local and regional development agencies, to SMEs in potential industry sub-sectors and their corresponding value-chains. 2.2.4. Support to productive public-private dialogue.	<ul style="list-style-type: none"> - TA to improve administrative services for business conducive environment, prepare promotional materials and improve web presentation. - Support for participation in business fairs. - Expert support for market intelligence. - TA to design and deliver incentives for economic development and employability. - TA to design BDSs for local/regional development agencies. - Facilitation of public-private dialogue. - Travel.
Activities for Output 2.3. Quality and availability of municipal environmental and economic infrastructure is improved.	Inputs
2.3.1. Support to preparation of technical documentation for key infrastructure projects and support to external fund raising; 2.3.2. Support to municipal economic and environmental infrastructure.	<ul style="list-style-type: none"> - TA to prepare technical documentation for key infrastructure projects. - TA to manage and provision of on-budget support.
Activities for Output 3.1. Constraints in the regulatory framework related to service delivery in economic and environmental areas are addressed in a participatory and on-demand manner at local and higher government levels.	Inputs
3.1.1. Support to revision and improvement of relevant regulatory frameworks. 3.1.2. Support advancement of municipal regulatory frameworks.	<ul style="list-style-type: none"> - Expert support for legal reviews of existing laws and regulatory impact assessment. - TA to support drafting/revision of regulatory framework and facilitation of consultative processes. - TA to assist advancement of municipal regulatory frameworks. - Travel.
Activities for Output 3.2. Economic and environmental sector-related policy delivery capacities of higher government level institutions are increased and policies are result-oriented.	Inputs
3.2.1. On-demand assistance to relevant sectoral ministries to strengthen their capacities for policy delivery in the environmental and	<ul style="list-style-type: none"> - TA for annual prioritization and budgeting of higher government level institutions.

economic sectors.	<ul style="list-style-type: none"> - TA to design, manage and evaluate sector related incentive schemes. - Expert support for participatory definition and setting up Water Tariff Regulatory Bodies.
Activities for Output 3.3. Thematic professional networking spurs knowledge exchange and innovation in local service delivery	Inputs
3.3.1. Support strengthening of water-sector and establishment of local government network of economic development professionals. 3.3.2. Support networking events. 3.3.3. Annual awards “Par excellence in LG service delivery”.	<ul style="list-style-type: none"> - Facilitation of discussions and joint actions between professional organizations in legislating processes. - Support AMCs' structures in legislating processes. - TA to produce thematic publications, video stories and tutorials and best practices. - Design of implementation guidelines for application of new regulatory acts.

Annex II: List of the 31 potential partner LGs within the two priority geographic areas

CLUSTER 1 “North-West” (14 local governments with 519,345 inhabitants in total based on the preliminary 2013 Census results)

Bihać, Bosanska Krupa, Bosanski Petrovac, Bužim, Cazin, Drvar, Gradiška, Ključ, Kostajnica, Kozarska Dubica, Novi Grad, Prijedor, Sanski Most, Velika Kladuša.

CLUSTER 2 “North-East” (17 local governments with 711,560 inhabitants in total based on the preliminary 2013 Census results)

Banovići, Derвента, Doboј, Gračanica, Gradačac, Kalesija, Lukavac, Maglaj, Modriča, Petrovo, Prnjavor, Teslić, Tešanj, Tuzla, Usora, Žepče, Živinice.

Annex III: Key baseline performance indicators and assessment findings from the water utility assessments in priority LGs



Summary
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Summary
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Annex IV: Key baseline performance indicators and assessment findings from the economic and business environment assessments in priority LGs



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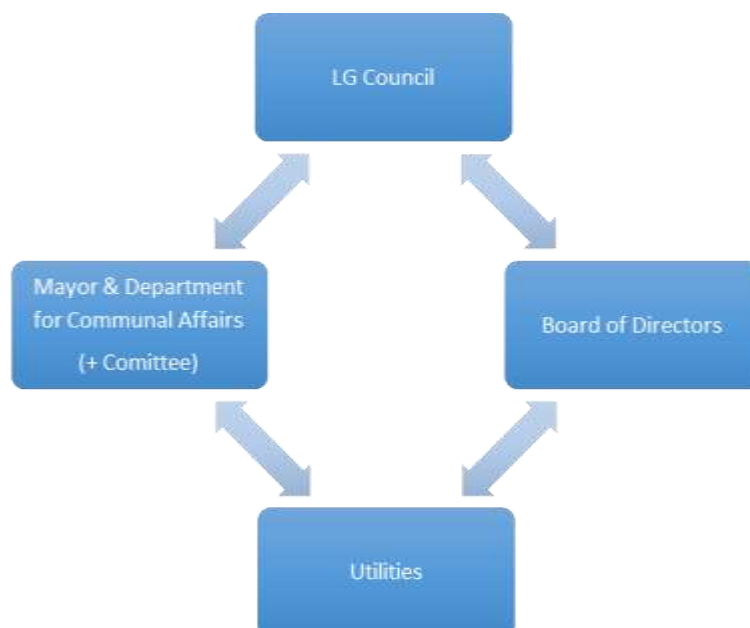


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Annex V: Public service agreement (PSA)

Limited asset management efficiency, resulting in high non-revenue water, combined with low tariffs and consequently, the lack of funds for investment maintenance, as well as overstaffing coupled with the lack of adequate expertise adversely affect the long-term service delivery sustainability. All these issues also stem from ill-defined responsibilities related to the provision of water supply and wastewater services. For example, the existing legislation (Laws on Communal Services, entity legislation of local self-governance) defines LGs as owners of water supply and wastewater infrastructure. However, it fails to clearly prescribe responsibilities for a number of important matters, such as maintenance of fixed assets books, depreciation evaluation and separation of funds for infrastructure maintenance and replacement, and transfer of infrastructure management from the owner to utilities. As a consequence, implementation of these responsibilities generally does not take place. These gaps would be best addressed through adequate legal changes. However, bearing in mind that legislative processes in BiH are highly complex and lengthy, for the mid-term period it would be more efficient to support LGs and their utilities in regulating details of their mutual obligations through a Public Service Agreements (PSA). The purpose of such an agreement is to provide for long-term sustainable supply of quality drinking water through maintenance, improvement of reliability and expansion of the existing water supply network, as well as for quality collection and disposal of wastewater through maintenance and improvement of wastewater network, with consideration for and protection of environment in mind. Its aims are to: (i) ensure continuous and quality delivery of public water services; (ii) set clear, time-specific targets, which require consistent efficiency improvements and finally high efficiency standards; (iii) provide access to public water supply and public wastewater systems under equal conditions to all customers; (iv) set public water service tariffs based on the “user pays”, “polluter pays”, and full cost recovery principles; (v) provide subsidies in order to meet basic human needs for water and sanitation to vulnerable population groups unable to afford services at the standard tariff; (vi) maintain public water supply and public wastewater systems in a state of functionality; (vii) perform public water services in a sustainable and transparent manner; (viii) perform regular control of the quality of public water services provided through agreed set of performance indicators; (ix) ensure protection of customers with regards to quality and cost of public water service; (x) ensure preservation and protection of aquatic ecosystems and environment, etc. Agreement contents would be similar for most LGs, covering details that are presently missing in the relevant regulatory framework.

Communication lines among key actors responsible for water supply and wastewater services



When it comes to the tariff setting, the agreement should methodologically define affordability constraints that will limit the tariff in as far as these do not threaten full cost recovery level and eventual debt service obligations. The agreement should also define how a full cost recovery tariff is to be calculated, providing for a more autonomous, but also a more transparently operating utilities, oriented towards performance, output and accountability.

The agreement would also provide for increased accountability and transparency both on the side of LGs and utilities. It would define rules and responsibilities for communications, operational and strategic management. It would redefine the role and required expertise of the Board of Directors, appointed by the LG council, strengthening both their oversight and support functions. The LGs governance role towards the service provision would also be clearly defined. This would be achieved by enhancing awareness and competence of the LG council, supported by the strengthened Departments / Secretaries for Communal Affairs as part of local administration. If found appropriate, communication between the LG council, relevant departments and utilities would be supported by a relevant Committee to be established by LG council, bringing together experienced experts, whose role would be to provide competent insights into priority matters, propose plans of activities, review services-related operational and financial plans (budgets) and tariff change requests, as prepared by utilities. They would act as local regulatory/advisory body, where the final decisions and approvals would remain with LG council, as prescribed by the relevant legislation.

Another important matter to be captured within the Public Service Agreement relates to the provision of services to socially vulnerable or excluded groups. At present, many LGs claim that they refrain from setting adequate tariff levels because of their concern for the most vulnerable groups. As a consequence, the entire population benefit from subsidized services, mostly at the expense of assets management, leading to decrease of service delivery outcomes. Thus, a solid and well-justified subsidization model needs to be introduced for those unable to pay for the services.

The agreement should also address internal cross-subsidizing between different consumers' categories - private and legal entities, where the latter have 2-4 times higher tariffs. There is no justification for such an approach, in particular having in mind that legal entities often require inferior water quality and less variant water supply, which means that they in principle induce lower costs in water treatment or needed infrastructure (e.g. reservoirs for water storage needed for peak consumption). This is an important area for improvement, also influencing business environment. Experiences worldwide mostly support costs-based tariffs, with utilities having the same tariffs for legal and private entities. However, some countries chose to offer incentives/subsidies to legal entities to attract investors and contribute to job creation.

While the Public Service Agreement model has a potential to be applied country-wide, in the longer-run it should lead to systemic changes in the relevant regulatory framework, including cantonal and RS Laws on Communal Services, entity legislation on local self-governance and eventually entity Laws on Water and Laws on Environmental Protection.

Annex VI: Selection criteria for partner LGs

The Project will seek to work with **18 LGs grouped within 2 geographic clusters (North-West and North-East)**.

Partner LGs will be selected among a long-list of 31 potential partner LGs which went through a thorough assessment process in the economic and water management sectors. All of them have formally expressed their interest to take part in the Project.

All potential partner LGs will be introduced to the detailed scope and objectives of the Project, as well as to the selection criteria and methodology.

Selection criteria	
Environmental governance performance (total weight 0.3, or 300 points)	Economic governance performance (total weight 0.3, or 300 points)
<ul style="list-style-type: none"> • % of non-revenue water (<i>indicator weight – 0.4 or 120 points</i>) • Number of utility employees per 1000 users of services (water and sewage) (<i>indicator weight – 0.4 or 120 points</i>) • Share of the monthly bill for a household in the average household income (affordability) (<i>indicator weight – 0.2 or 60 points</i>) 	<ul style="list-style-type: none"> • Local development index (<i>indicator weight – 0.5, or 150 points</i>) • Business-enabling environment score (<i>indicator weight – 0.5, or 150 points</i>)
Commitment and motivation to engage in the Project (total weight 0.4, or 400 points)	
<ul style="list-style-type: none"> • Existence of valid local development strategy at least until 2019 (yes / no) (<i>indicator weight – 0.4, or 160 points</i>) • LG interest and responsiveness based on previous direct experience and during the Project Preparatory Phase (<i>indicator weight – 0.3, or 120 points</i>) <ul style="list-style-type: none"> • Co-financing capacity (<i>indicator weight – 0.3, or 120 points</i>) 	

Concrete values for all criteria will be taken in consideration and embedded within a broader methodology, which will result in ranking. Baseline information and data for the sector-specific indicators will be taken from the conducted assessments in all potential partner LGs, while for the common criteria the Project team will consider previous direct experience with potential partner LGs as well as their general responsiveness during the assessment process in the Project Preparatory Phase.

LGs will be informed about the final criteria during final consultations of the Project document (in writing or in person). LGs will be invited to confirm their interest to engage in the Project, as well as state their readiness and capacity to co-finance Project financial support.

In case there are complaints by LGs, they will be considered by the Project team and shared with the Project Board to agree on further proceeding.

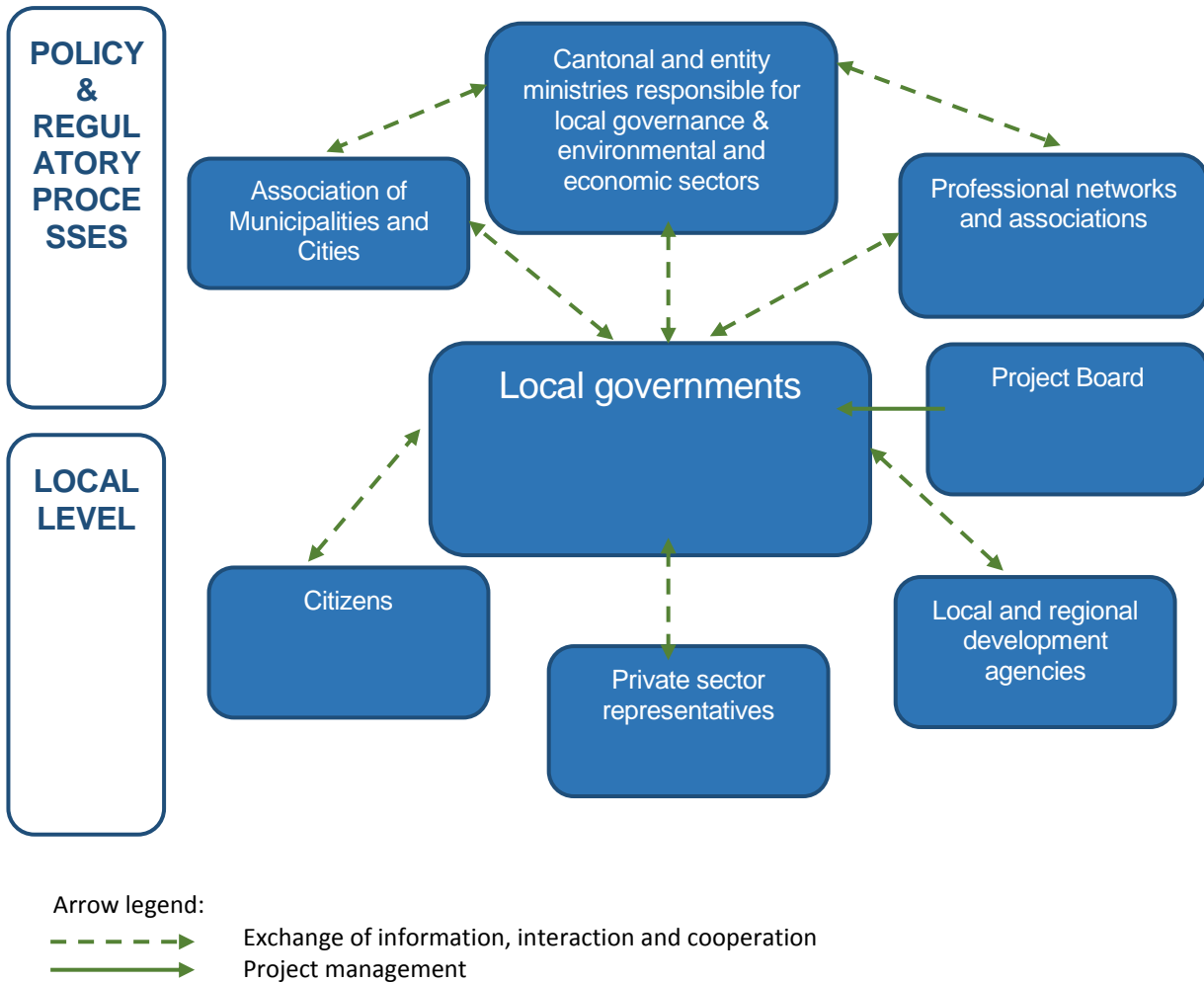
Adjustment criteria

The adjustment criteria will be applied by the Project team / Project Board at the final selection stage. These criteria are:

- **Balanced representation of LGs in the Project** (at least 40 % of the participating LGs will be from one entity).

- **Presence of at least 1 “champion” LG for each of the priority sectors within each cluster.**
- **Complementarities / avoiding duplication with other strategic interventions working in the potential partner LGs.**

Annex VII: Project institutional structure



Annex VIII: Detailed Project budget

PART 1: Services Headquarters	0
PART 2: Local Office of Contractor	121,811
PART 3a: Long-term Experts	1,273,190
PART 3b: Short-term Experts	43,362
PART 3c: Local Support	429,463
PART 4: Administered Project Funds	9,582,173
Outcome 1, Output 1.1.	
Activity 1.1.1.	
Select service providers and deliver TA to strengthen municipal performance management system	188,456
<i>Design and deliver assistance to LG leadership</i>	41,368
Activity 1.1.2.	
<i>Assess the needs and deliver expert support to mainstream DRR within local strategies and operational frameworks</i>	93,079
<i>Design and deliver TA to LG economic departments</i>	224,824
<i>Design and deliver TA to LG environmental departments</i>	224,824
<i>Analyse value chains in priority economic sectors including review of BDS gaps</i>	17,237
<i>Prepare technical documentation for IMC infrastructure projects (including limited TA)</i>	34,474
<i>Introduction of innovative IT solutions (GIS) in priority LGs</i>	82,080
<i>Introduction of electronic tools to support service delivery management</i>	58,320
<i>Support to spatial/urban plans (limited)</i>	108,000
<i>Support to design of water supply master plans (conceptual design and feasibility plan) - limited</i>	43,200
<i>Travel (covering all field visits DSAs, transportation costs, vehicle costs and roster drivers' fee)</i>	63,072
Outcome 1, Output 1.2	
Activity 1.2.1	
Citizen satisfaction survey (conduct and analysis)	8,618
Activity 1.2.2	
Expert support to design the LG performance benchmarks	4,309
Award event for participating LGs	2,160
Learning event for LG winner	54,000
Activity 1.2.3	
Public discussions and citizens accountability tools	24,000
Travel (field visits transportation costs and roster driver's fee)	728
Outcome 2, Output 2.1	
Activity 2.1.1	
Design, procure and deliver TA to utilities (organizational capacities)	227,280
Activity 2.1.2	
Design, procure and deliver TA to utilities (management capacities)	568,200
Equipment for utility companies	281,600
Activity 2.1.3	
Design, procure and deliver TA to utilities (financial capacities)	340,920
Technical twinning	90,720
Travel (covering all field visits DSAs, transportation costs and roster drivers' fee)	60,480
Outcome 2, Output 2.2	
Activity 2.2.1	
Design and deliver TA to improve administrative services for business conducive environment (legal and economic expertise)	62,052
Prepare promotional materials and improve web presentation	69,984
Support participation in business fairs	46,656

Activity 2.2.2	
Provide expert support to market intelligence	51,710
Design and delivery (including Technical Assistance) of incentives for economic development and employability	984,053
Activity 2.2.3	
Design of BDSs for local/regional development agencies	45,965
Delivery of BDSs by local/regional development agencies (implementation through 6 local/regional agencies)	220,631
Travel (covering all field visits DSAs, transportation costs and roster drivers' fee)	42,000
Activity 2.2.4	
TA for support and facilitation of public private dialogue	7,680
Outcome 2, Output 2.3	
Activity 2.3.1	
Preparation of technical documentation for key infrastructure projects	300,000
Activity 2.3.2	
On budget support (in Years 2 and 3)	3,948,592
Technical assistance and quality assurance to municipal infrastructure projects	347,087
Travel (covering all field visits DSAs, transportation costs, vehicle costs and roster drivers' fee)	102,150
Outcome 3, Output 3.1	
Activity 3.1.1	
Legal reviews of existing laws and regulatory impact assessment	14,364
Support drafting/revision of regulatory framework and facilitation of consultative processes	28,728
Activity 3.1.2	
Assist advancement of municipal regulatory frameworks in economic and environment sectors (including development of PSAs)	51,710
Travel (covering all field visits DSAs, transportation costs, vehicle costs and roster drivers' fee)	15,120
Outcome 3, Output 3.2	
Activity 3.2.1	
Delivery of TA for annual prioritization and budgeting of higher government level institutions	57,456
Provide TA to design, manage and evaluate sector related incentive schemes (limited)	57,456
Provide TA for strengthening operational and institutional frameworks	62,000
Support participatory definition and setting up Water Tariff Regulatory Bodies	17,237
Outcome 3, Output 3.3	
Activity 3.3.1	
Support strengthening of water-sector professional organization, including advocacy in legislating processes	19,440
Support establishment of economic sector professional organization, including advocacy in legislating processes (TA and events)	28,000
Support AMCs' structures in legislating processes	11,491
Design of implementation guidelines for application of new regulatory acts	7,182
Activity 3.3.2	
Network events (workshops, roundtables).	8,640
Participation in international thematic networks' events (travel)	10,800
Thematic publications, video stories and tutorials and best practices	9,720
Activity 3.3.3	
National annual award ceremony "Par excellence in local service delivery"	12,960
Best practice publication	6,480
Travel (covering all field visits DSAs, transportation costs, vehicle costs and roster drivers' fee)	15,120
Media/PR/visibility (for the entire Project)	77,760
GRAND TOTAL	11,450,000

Annex IX: Results from the survey of the private sector perception on the importance / relevance and quality of procedures, services delivered by LGs within the 31 potential partner LGs

Private sector perception of the importance/relevance and quality* of procedures and activities performed by LGs – ranked by Importance, from highest to lowest

Procedures and activities performed by local government	Importance	Quality	Gap
Promotion of local business sector	3.86	2.85	-1.01
Qualifications and skills of the LG's staff in charge of local economic development	3.80	3.02	-0.79
Mayor's support to economic development and the business sector's initiatives	3.77	3.21	-0.56
LG capacity to attract new direct investors	3.75	2.88	-0.87
Functionality of "One-Stop-Shop" service concept	3.68	2.96	-0.72
Regular contacts and communication between the LG and the private sector	3.68	3.00	-0.68
Business-to-Business (B2B) opportunities	3.67	2.70	-0.97
Promotion and responsiveness to the private sector initiatives at higher levels of government	3.59	2.69	-0.90
Quality of information and services provided to the business sector within the Citizen Assistance Centre	3.55	3.39	-0.16
Promotion and responsiveness to the private sector initiatives through local policies	3.51	2.79	-0.72
Inter-municipal and regional cooperation, related to economic development, coordinated by LG	3.50	2.76	-0.74
Educational programs and activities for the business sector	3.44	2.63	-0.81
Implementation of strategy for local economic development	3.38	3.03	-0.35
Economic sector analysis	3.38	2.72	-0.66
Organization and support to participation in fairs	3.23	2.76	-0.47
Surveying of the private sector perception and needs	3.20	2.76	-0.45
Average	3.56	2.88	-0.68

* **Scale for Importance:** 1 – not at all, 2 – somewhat important, 3 – relatively important, 4 – very important, 5 – crucial for my business.

* **Scale for Quality:** 1 – not satisfied at all, 2 – not satisfied, but see some progress, 3 – neutral, 4 – satisfied, with a room for improvement, 5 – very satisfied, it helps to sustain or grow my business.

Private sector perception about importance/relevance and quality* of urban planning and construction permitting procedures – ranked by importance, from highest to lowest

Urban planning and construction permitting elements	Importance	Quality	Gap
Efficiency of procedures and licensing/permitting processes at the higher levels of government	3.75	3.15	-0.61
Information about available investment locations	3.63	2.91	-0.72
Efficiency of procedures and licensing/permitting processes at the local level	3.60	3.17	-0.43
Availability of an electronic document tracking system	3.55	2.86	-0.69
Information/instructions about the permitting/ licensing procedures at the municipal website	3.52	3.12	-0.41
Guidebooks, instructions and template forms for investors	3.44	2.77	-0.67
Spatial plan	3.37	3.14	-0.23
Detailed regulatory plans	3.34	3.02	-0.32
Availability of information about present investors/testimonials of investors at the municipal website	3.29	2.78	-0.51
Geographic information system	3.14	2.74	-0.40
Average	2.16	1.85	-0.31

* **Scale for Importance:** 1 – not at all, 2 – somewhat important, 3 – relatively important, 4 – very important, 5 – crucial for my business.

* **Scale for Quality:** 1 – not satisfied at all, 2 – not satisfied, but see some progress, 3 – neutral, 4 – satisfied, with a room for improvement, 5 – very satisfied, it helps to sustain or grow my business.

Annex X: Description of key functions and responsibilities of the Project Team and key specialists

National Project Manager (project recruited staff, full time): The Project Manager will assume overall responsibility for project management and implementation, with the support of the Project team. Main functions are: i) overall project management and technical guidance; ii) effective leadership towards project implementation processes; iii) project monitoring, reporting and quality assurance based on the principles of result-based, gender-sensitive management and delivery; iv) knowledge management; v) partnership and advocacy and vi) strategic synergies and coordination with relevant interventions. In addition, the National Project Manager will be responsible for vi) steering the design of the project regulatory component, providing advice and steering the drafting of relevant legal framework.

Programme Quality Assurance and Strategic Guidance (UNDP permanent staff, part-time): main functions are: i) ensure financial and substantive monitoring and evaluation of the Project and its progress; identification of operational and financial problems, development of solutions; ii) ensure that Project reports are regularly prepared and submitted; iii) provide regular technical and programme advice to the Project and ensure regular information on the project implementation and achievements to the UNDP Senior Management; iv) provide strategic support in development and implementation of Project strategies and encourage synergies with other UNDP interventions; v) steer both the initiation and on-going implementation of the Project, including representation in the Project Board.

National Environment Management Advisor (UNDP permanent staff, part-time): main functions (related to all 3 Project outcomes) include: i) provide technical advice and guidance, particularly with regard to the environment and water management sector, related to sector-related local governance support, infrastructure investments, amendments of relevant regulatory framework, linkages with relevant entity and cantonal institutions; iii) advice on interaction between the Project and other UNDP interventions, as well as other interventions in the country and suggest cross-sectoral synergies so as to maximise Project impact.

International Governance Advisor (UNDP permanent staff, part-time): main functions (all Project outcomes) include: i) offer governance expertise and provide technical advice, particularly with regard to local governance, local performance management system, capacity development of local government councils and staff, sharing experiences and approaches from other relevant interventions, citizen participation processes and tools; design of local grant schemes and on-budget support, advice on the design and steering of the measures aiming to contribute to improvement of business-enabling environment; experts inputs in the design and / or amendments of relevant regulatory framework; ii) advice on interaction between the project and other relevant UNDP interventions, and suggest cross-sectoral synergies so as to maximise project impact.

National Local Governance Specialist (Project recruited staff, full time): main functions include: i) designing and supporting, in close coordination with the rest of the Project Specialists and the Local Governance Field Officers, the delivery of the assistance processes related to outputs 1.1, 1.2, 2.2, 2.3, 3.1 and 3.3; ii) providing guidance to local governments in the capacity development and participatory local policy-making processes; iii) in close coordination with the project management and field officers, designing, steering and providing technical advice on the allocation of the financial assistance for municipal infrastructure envisaged within the project; iv) supporting and leading the process of peer-to-peer exchange and networking among relevant stakeholders; v) providing guidance in the process of revision of relevant municipal regulatory/by-law framework in the economic governance area; vi) identifying and utilizing opportunities for synergies with other relevant local level development initiatives.

National Economic Development Specialist (Project recruited staff, full time): main functions include: i) designing and steering, in close coordination with the rest of the Project Specialists and the Field Officers, the delivery of the assistance processes related to outputs 1.1, 2.2, 2.3, 3.1 and 3.3, specifically from the viewpoint of economic governance and economic development; ii) providing guidance to local governments in the process of improving business enabling environment at the local level and designing and delivering specialized incentive measures stimulating job creation and economic development; iii) steering the activities

related to design and introduction of new business development services in target areas, linked with priority value chains; iv) in close coordination with the project management and field officers, designing, steering and providing technical advice on the allocation of the financial assistance for municipal infrastructure envisaged within the Project, specifically related to economic infrastructure; v) supporting and leading the process of peer-to-peer exchange and networking among relevant stakeholders related to the local governance professional economic development network; vi) providing guidance in the process of revision of relevant municipal regulatory/by-law framework in the economic governance area; v) identifying and utilizing opportunities for synergies with other relevant local level economic development initiatives.

National Environment/Water Management Specialist (Project recruited staff, part time): main functions include: i) designing and steering, in close coordination with the rest of the Project Specialists and the Field Officers, the delivery of the assistance processes related to outputs 2.1 and providing expert inputs and contributing to the implementation of activities under outputs 1.1, 2.1, 2.3, 3.1 and 3.3, specifically from the viewpoint of water management; ii) providing guidance to utilities in the process of improving their organisations, technical and financial capacity; iii) steering the process of design and endorsement of PSAs within target LGs and beyond; iv) in close coordination with the Project management and field officers, designing, steering and providing technical advice on the allocation of the financial assistance for municipal infrastructure envisaged within the Project, specifically related to environmental (water) infrastructure; v) supporting the process of peer-to-peer exchange and networking among relevant stakeholders related to environmental governance; vi) providing guidance in the process of revision of relevant municipal and / or entity regulatory/by-law framework in the environmental governance area; vii) identifying and utilizing opportunities for synergies with other relevant local level development initiatives.

National Legal and Institutional Capacity Development Specialist (Project recruited staff, full time): main functions include: i) designing and steering, in close coordination with the rest of the Project Specialists, the delivery of the assistance processes related to outputs 3.2 and providing expert inputs and contributing to the implementation of activities under outputs 3.1, 3.3 and 1.1, specifically from the viewpoint of institutional and regulatory frameworks improvement; ii) providing guidance to relevant higher government level institutions in the process of improving their operational framework enabling more effective policy delivery; iii) steering the process of participatory design of relevant amendments / designing of new regulatory framework in both priority sectors; iv) in these processes, closely interacting and mobilising engagement of relevant professional thematic networks; v) in close coordination with the field officers, providing support to the introduction of new or amendments of existing municipal regulatory framework in the two priority sectors, streamlined to higher government level new or existing regulatory acts; vi) supporting the process of peer-to-peer exchange and networking among relevant stakeholders related to good practices related to regulatory framework at local or higher government levels.

National Local Government Field Officer (Project recruited staff, full time, 2 posts): main functions include: i) support, coordination and oversight of the Project support within the selected local governments related to outputs 1.1, 1.2, 2.2, 2.3, 3.1, while providing assistance to activities under output 3.3; ii) supporting and coordinating the delivery of the comprehensive capacity development assistance to beneficiaries at the local level; iii) in coordination with the Local Governance and the Economic Development Specialists, facilitating, supporting and providing oversight in the processes of design and implementation of infrastructure projects, especially those related to improvement of business enabling environment, economic infrastructure and measures stimulating job creation and economic development; iv) encouraging and supporting knowledge sharing, exchange of experiences and partnership among partner local governments within and across regions.

National Environmental/Water Management Field Officer (Project recruited staff, full time, 2 posts): main functions include: i) supporting, coordinating and overseeing the Project support within the selected local governments related to outputs 1.1, 2.1, 2.3, 3.1, while providing assistance to activities under output 3.3; ii) supporting and coordinating the delivery of the comprehensive assistance to utilities; iii) under the guidance and in coordination with the Environmental/Water Management Specialist, supporting and providing oversight in the processes of delivery of sector-specific support to utilities, designing and implementing

environmental infrastructure projects; iv) encouraging and supporting knowledge sharing, exchange of experiences and partnership among partner local governments within and across regions.

National Project Finance Associate (Project recruited staff, full time): main functions include: i) supporting Project financial monitoring and management; processing financial transactions on the Global Atlas System; supporting preparation of budget revisions, budget monitoring; ii) providing administrative and operational support to Project implementation, ensuring quality of business processes; iii) making arrangements for purchase and receipt of office and Project supplies, vehicles and equipment; iv) providing logistical and administrative assistance to the organization and delivery of Project activities; iv) managing and exercising financial supervision of the financial packages related to delivery of incentive financial assistance for grants or infrastructure projects managed by LGs.

National Project Assistant (Project recruited staff, full time): main functions include: i) overall logistical and technical support to Project activities, events, workshops, meetings and training; ii) support in various Project business processes, including recruitment, procurement and human resource administrative management; iii) assisting the Project team in preparation of Project publications and materials; iv) compiling information and keeping comprehensive data bases to enable smooth Project monitoring.

National Administrative Associate (UNDP permanent staff, part-time): i) supporting the Project Manager and the Project Team in conducting thematic assessments and analysis of project documents; ii) supporting preparation of Project Board meetings, including communication with institutional stakeholders; iii) supporting preparation and conduct of Project-specific assessments; iv) reviewing and clearing of Project supporting documents and processes and approval of requisitions; v) coordinating proper flow of the procurement/recruitment/payments and advances requests; v) providing support to the Project Team staff through direct engagement in their daily work and assisting with preparation of the budget revisions, recruitment requests and participation in Project field visits when needed; vi) acting as replacement for the Project finance/procurement staff on leave in order to ensure uninterrupted Project implementation.

National Programme Operations Support Officer (UNDP permanent staff, part-time): key functions are: i) providing overall financial guidance in long-term and short-term planning; ii) reviewing and quality assuring various memoranda, agreements (all programmatic legal instruments) to be signed between various beneficiaries and the Project; iii) acting as a control point and assurance for the Project's initiation in Atlas and budget revisions; iii) reviewing and approving of budgets and budget revisions; reviewing and clearing of Project's Financial Reports; iv) provision of guidance to the implementing partners and Project staff on routine implementation of projects, tracking use of financial resources; v) supporting organisation of Project audits.

Monitoring and Evaluation Specialist (UNDP permanent staff, part-time): i) supporting the Project to develop a detailed Project monitoring platform, based on and expanding the Project logical framework; ii) ensuring that progress and results of the Project are monitored, communicated and acted upon in a timely, efficient and results-based manner; iii) providing support in the design and regular review of the annual/overall Project monitoring framework; iv) supporting the team to define data collection tools and frequencies, and establishing timeframes based on work plans and in close cooperation with relevant Project units; v) supporting preparation and conduct of Project evaluation missions.

International Gender Advisor (UNDP permanent staff, short-term assignment): main tasks are: i) supporting the Project to prepare a Gender Equality Mainstreaming Concept, which enables guidance on the approaches and tools to be utilised in the overall Project implementation, towards gender-sensitive implementation of activities (including within the Project monitoring platform); ii) advice to ensure that gender issues are taken into consideration in the design and implementation of all aspects of capacity development and participatory policy-making, identifying ways to promote the full participation of women; iii) advice the Project management on gender-related best practices, particularly in the areas of economic and environmental governance.

Communications / PR Specialist (internal UNDP staff, short-term assignment): the expert will provide support to the Project Team to: i) design a Project-specific Communication and Visibility Strategy, providing concrete guidance on the communication approach, messages, audience, visibility principles, specific communication tools optimising and reinforcing the Project efforts across various processes and activities; ii)

provide advice in design specific Project milestone periods, to prepare visibility and promotion materials and products.

National Monitoring and Data Collection Expert (externally recruited expert, short-term assignment): the expert will provide support to the Project Team to design and set up a tailored monitoring system and data collection tools, in order to provide for regular review of Project progress and performance, as well as to allow for necessary Project strategy adjustments to meet the changing circumstances.

Annex XI: Detailed stakeholders' assessment

Stakeholder	Interest in/commitment to the Project	Identified challenges	Capacity for change (contribution to the Project)	Actions to strengthen the capacity of the stakeholder to address their interests
Primary direct stakeholders				
The Ministry of Foreign Trade and Economic Relations of BiH	State-level partner institution holding the closest mandate related to the Project's scope and objectives. Carries responsibilities, among others, for water management and economic development policies. Particularly interested in introducing policy and regulatory changes to improve business environment.	Has no competencies for local service delivery in the environmental and economic sectors.	Participates in the Project steering.	Raising capacities for design and implementation of result-oriented policies and methodologies in environmental and economic sectors with positive effects on local service delivery.
Entity and cantonal governments	Have the power to decide on the framework of decentralisation in their respective entity and in the Federation of BiH – between the entity, the canton and LGs. Interested in effective performance and financial stability of LGs to decrease need for the support from higher level governments. Cantonal governments are particularly interested in improving public service delivery in the environmental sector since they share responsibilities with LGs.	Interested in the concentration of power within their jurisdiction. May have a restraining power in terms of introducing regulatory amendments related to decentralising local services (and therefore – financial resources) in the environmental and economic sectors to LGs.	Line ministries at cantonal and entity levels can certainly be change drivers and have positive influence in regard to introducing decentralised regulatory frameworks. Can play a role to improve the business friendly environment and the competitiveness of industries in their locality, as well as advocate for necessary policy and regulatory changes.	To reinforce the positive influence of entity and cantonal governments on introducing decentralised regulatory frameworks, they need to be engaged from the outset, as well as motivated to scale-up good practices that effectively improve quality of life for the citizens. Can be further positively motivated to engage in policy and regulatory processes by organized bottom-up pressure by LGs and the private sector.
FBiH Ministry of Justice	Has the oversight over the implementation of the local governance legal framework in the Federation of BiH. Has decision-making power and leads public consultation processes. Has interest in	The actual responsibility for the management of local government matters rests with the ten cantons. Has limited budget and human capacities.	Engagement, as necessary, in the process of drafting, consulting and adopting regulatory changes. Employees are committed and reliable Project partners. Can influence policy and legislative processes; provide access to local governments and steer public	Raising capacities for the oversight of the local governance legal framework in the Federation of BiH.

Stakeholder	Interest in/commitment to the Project	Identified challenges	Capacity for change (contribution to the Project)	Actions to strengthen the capacity of the stakeholder to address their interests
Primary direct stakeholders				
	the coordination of decentralization policies in the Federation of BiH.		policy-making debates.	
RS Ministry for Administration and Local Self-Government	Has direct responsibility and policy-making role in local government matters in Republika Srpska. Actively engaged and very committed partner in numerous local governance projects, with an instrumental support for Project results. Highly interested in effective LG performance.	Lack of sufficient human resources to effectively handle the broad spectrum of local government challenges and tasks. Has limited budget and human capacities.	Participates in the Project steering. Engagement in the process of drafting, consulting and adopting regulatory changes. Has adequate expertise within relevant ministry departments. Can contribute to the process of renewal of the relevant legal framework. Employees are committed and reliable Project partners for municipality-related initiatives.	Raising capacities for design and implementation of the local governance legal framework in the Republika Srpska.
FBiH Ministry of Environment and Tourism & RS Ministry of Physical Planning, Civil Engineering and Ecology	Project partners, specifically in relation to the broader environment sector. Have direct responsibility and policy-making role related to environment and municipal utilities.	Often insufficient sector-related coordination with relevant entity institutions, as well as with local and cantonal (in the FBiH) institutions, which makes policy- and regulatory changes burdensome.	Engagement in the process of drafting, consulting and adopting regulatory changes. Important role in identifying and applying adequate approaches to improving the regulatory frameworks related to environmental governance, as well as delivering incentivized policies with stronger consideration of the sub-national government levels. Has relatively good sector-related capacity.	Raising capacities for design and implementation of result-oriented policies and methodologies in the environmental sector. Promotion of smooth sectoral coordination among all relevant institutions responsible for the environmental sector.
FBiH Ministry of Agriculture, Water Management and Forestry & RS Ministry of Agriculture, Forestry and Water Management	Project partners, specifically in relation to the water management sector. Have direct responsibility and policy-making role related to water management and provision of water services. Interested for effective performance of local governments and service delivery in the water sector.	Often insufficient coordination with relevant entity institutions, as well as with local and cantonal (in the FBiH) institutions, which makes policy- and regulatory changes burdensome.	Participate in the Project steering. Engagement in the process of drafting, consulting and adopting regulatory changes. Important role in identifying and applying adequate approaches to improving the regulatory frameworks related to water management, as well as delivering incentivized policies with stronger consideration of the sub-national government levels. Have relatively good sector-related capacity.	Raising capacities for design and implementation of result-oriented policies and methodologies in the water sector. Promotion of smooth sectoral coordination among all relevant institutions responsible for the water management across government levels.

Stakeholder	Interest in/commitment to the Project	Identified challenges	Capacity for change (contribution to the Project)	Actions to strengthen the capacity of the stakeholder to address their interests
Primary direct stakeholders				
FBiH Ministry of Development, Entrepreneurship and Crafts	A key Project partner, particularly considering its broader competencies with regard to entrepreneurship development, business regulatory and policy environment and policies and frameworks related to SME development.	Limited human capacities and insufficiently well-developed interaction with the private sector.	Participates in the Project steering. Engagement in the process of drafting, consulting and adopting regulatory changes. Support and leading role in the process of identifying and introducing amendments in the relevant regulatory framework governing economic development. Employees are committed and reliable partners.	Raising capacities for design and implementation of result-oriented policies and methodologies related to SMEs and crafts. Strengthening of the interaction with the private sector.
Relevant sector-related institutions at cantonal and entity levels	Responsible for local governance and sector-related legal and policy frameworks. Have main role in in revision of relevant legal frameworks and have important political function with regard to its adoption. Inspired by positive examples, some cantonal ministries are a powerful driving force beyond introduction of decentralised local services, including through improved regulatory framework.	Not champions for easily transferring tasks and finances to local governments.	If equipped with relevant administrative and policy-delivery capacities, as well as motivated to introduce effective and efficient regulatory frameworks, line ministries at cantonal and entity levels can certainly be change drivers.	Rising administrative and policy-delivery capacities and motivation to introduce effective and efficient regulatory frameworks. Can be further positively motivated to engage in policy and regulatory processes by organised bottom-up pressure by LGs and the private sector.
Entity Associations of municipalities and cities (AMCs)	Represent the voice of municipalities and cities, and play an important role in various advocacy processes and country-wide best practice exchange and provide services to their members. Have a pivotal interest that their members' interest to improve governance at the local level is taken into account. This includes issues of improving public management at LG level and regulatory issues like allocation of tasks and corresponding	Both AMCs' Secretariats lack solid organisational and leadership capacity that would allow them to perform their functions in the most effective manner, or mobilise wide support by their members.	Participate in the Project steering. Can have a strong supportive role in advocacy and decision-making with regard to regulatory advancement for more effective local service delivery, dialogue between local and higher government levels, sharing of best practices and disseminating the Project results related to good governance performance benchmarks country-wide. Have the potential to consolidate voice of local governments and trigger collective action to advance the legal framework or	Strengthening advocacy and policy-making role of AMCs. Strengthening of the motivation and capacity of both decision-making and technical bodies of AMCs. Improvement of information-sharing mechanisms.

Stakeholder	Interest in/commitment to the Project	Identified challenges	Capacity for change (contribution to the Project)	Actions to strengthen the capacity of the stakeholder to address their interests
Primary direct stakeholders				
	financial means by higher level government.		solve common issues. Capable of ensuring positive pressure to responsible policy-makers in the best interest of municipalities; have expert bodies in place, which can be utilised for the legislating processes facilitated by the Project.	
Professional thematic organizations and networks	Increasingly active and have an important role in both regulatory-reform related processes, as well as in sharing of best practices. Economic organizations and networks, such as chambers of commerce, entity associations of employers, are important actors to engage with (local) governments on issues which are of their concern.	Insufficiently well developed and still not much active in policy or regulatory changes.	Thematic associations in the environment and water governance sector are becoming more pro-active. Can advocate for improvement of the sector-related regulatory framework at both higher and local government levels, as well as to ensure dynamic networking and exchange of ideas and good practices.	Capacities, advocacy and influential powers need to be strengthened and actualised for impacts at scale. Support to establishment of the economic sector professional network.
Local and regional development agencies	Increasingly pro-active role in local economic development, with limited interaction with the respective LGs and the private sector, within the broader economic development agenda for the locality/region. Have interest in strengthening their status of development agent and interface between higher and LG levels.	Still lack diverse and private-sector-oriented portfolio of business services to support and attract new investments. Insufficient financial resources to expand business-facilitative potential.	Can have a strong positive influence on local development processes, particularly in economic development. Can have important role in supporting local governments to improve business-enabling environment through provision of targeted support to the private sector and promotion of the investment potential of localities. Can provide assistance to SMEs in potential industry sub-sectors and their corresponding value chains.	Further expanding their service lines and reinforcing productive interaction with LGs and the private sector.
Local governments (LG council, the Mayor, administration)	Core Project partners and beneficiaries. Generally committed and key players with regard to local service delivery and infrastructure, with important implications for the	Accountability mechanisms in local policy design and delivery have to be improved. LGs lack sufficient financial resources to deliver vital local services to the citizens. In some occasions,	Have a high degree of decision-making power at the local level. Engagement of the local political leaders is instrumental for fostering local democracy and good governance practices. Through their	Strengthening capacities for development-oriented decision-making and legitimising new systems, procedures and policies.

Stakeholder	Interest in/commitment to the Project	Identified challenges	Capacity for change (contribution to the Project)	Actions to strengthen the capacity of the stakeholder to address their interests
Primary direct stakeholders				
	quality of life of the citizens and overall socio-economic local development. Main recipients of the Project financial, knowledge and technical support. Interested in overall progress and stability, economic development and improving of living conditions to fulfil expectations of their constituencies.	depending on the power relations and interests, can have a strong restraining influence, if influence of party politics prevails over concrete needs of population.	decision-making and administrative structures, affect quality of service delivery, while their motivation to engage in the Project will be a pre-condition for success. LGs will also play an important role in providing co-funding from municipal budgets. Keen to improve their performance and be viewed by citizens as responsive and accountable to them.	Introducing benchmarks and accountability mechanisms for municipal performance; Improvement of municipal and higher government level regulatory frameworks related to service delivery for more effective, efficient, accountable and adequately funded services and improved business enabling environment. Assistance to design and deliver business incentives and employment-conducive measures.
Local communities (MZs)	There are app. 2,587 MZs in BiH, defined as areas within LGs. Have the character of community organisations which directly meet various local needs and aim to improve communication between government institutions and citizens in LG. Have a keen interest to see governance and public service delivery for their population improved. Engaged in capacity development processes, facilitation of community discussions and effective representation in broader municipal, entity or country-level fora.	Have various status, size, responsibilities, capacity and level of activity. Party politics and personal connections affect community government. Highly dependent on funding from LGs. Technical and human capacities are insufficient.	MZs have a key role as intermediary between communities and LGs in the process of decision-making and accountability, design and implementation of improvements of services and infrastructure. Have an important role in mobilising citizens, providing administrative support/services and organising various events with the local community. Have a high level of commitment and enthusiasm and strong potential to improve the ways people participate in local decision-making and access local services, especially in rural areas.	Improvement of human, technical capacity of MZs. Strengthening the role, function and legitimacy of MZs. Strengthening of the MZs as facilitators and people-centred community governance structure, without adding a new government level.
Municipal utilities	Core Project partners and beneficiaries. Have a key role in	Have insufficient technical, organizational and financial capacity,	Generally keen to improve their operations and the quality of their service delivery. Can	Advancing their financial, technical and management

Stakeholder	Interest in/commitment to the Project	Identified challenges	Capacity for change (contribution to the Project)	Actions to strengthen the capacity of the stakeholder to address their interests
Primary direct stakeholders				
	provision of water, wastewater and other municipal services at the local level. Interested in improvement of utilities' performance and attraction of more funding for infrastructure, but also in fulfilling expectations of local political leaders for employment of politically suitable persons.	and often lack proper equipment and expertise to manage effectively water supply and sanitation services. Can have a restraining power, particularly in terms of staff optimisation or resistance to introduction of modern utility management due to inherited old routines.	support partner local governments to ensure sustainability of local service delivery, particularly in the environmental sector.	capacities, organizational structure and staffing, accompanied by a clear definition of their mandate for infrastructure maintenance and regular replacement, and adequate financial resources. Gradual implementation of staff optimisation. Support to preparation of technical documentation for infrastructure projects. Work directly with utilities in all core partner LGs, as well as - indirectly - with utilities from neighbouring municipalities or beyond in terms of sharing knowledge and best practices.
Civil Society Organizations (CSOs)	Represent interests of citizens and vulnerable groups. Provide services and participate in decision making. Have interest to advance local democracy, improve services, increase employment opportunities and improve the quality of life in general.	CSOs still lack considerable recognition among citizens and have a weak role in policy making. They are often seen either as donor-driven or as an extended hand of political parties. Community-based organisations, with few exceptions, generally lack basic capacities with regard to participatory policy-formulation, partnership formulation, scrutiny of delivery of public policies and services, and project development and management. Many of them lack a strong constituency and not many are	Can have a role with regard to activating citizens and being local agents to support the development efforts of local governments. Can be engaged in discussions at the municipal level, thus contributing to more transparent and inclusive policy design and service delivery. Have to leverage funds from available external financial resources to implement local initiatives.	Strengthening of human and knowledge capacities, as well as fund-raising skills. Improvement of facilitation, advocacy and project capacity of CSOs.

Stakeholder	Interest in/commitment to the Project	Identified challenges	Capacity for change (contribution to the Project)	Actions to strengthen the capacity of the stakeholder to address their interests
Primary direct stakeholders				
		concerned with decentralization issues and municipal governance.		
Businesses	Producing goods and services on a profit making base. Highly interested in improved business friendly environment.	Strong links between influential businesses and politics. Organized in informal interest groups, influence decision-making processes in municipalities in favour of their business. Very limited, if any, organised dialogue between businesses and LGs.	Have strong potential to contribute to local development and economic growth if their smooth functioning is enabled.	Support to productive public-private dialogue. Provision of leaner, faster and cheaper administrative procedures, as well as public infrastructure and support services.
Citizens	Have the role of consumers / users of services at the local level. They are directly interested in improvements in provision of services and infrastructure. They should have the most benefits from improved accountability and participation.	Insufficiently engaged and inadequately included in public policy design and delivery. Increasingly dissatisfied with getting poor public services for which they pay through their taxes or by invoices for specific services and being ignored by their political representatives.	If empowered to play a pro-active role in governance processes could be a genuine change driver.	Engagement of citizens in decision-making. Informing them about work of local governments. Introduction of municipal participatory performance monitoring system, which enables citizens' scrutiny over public service delivery. Annual citizens' satisfaction surveys.
Media	Provide information on the work of public institutions and help the public to shape its opinion.	Pay little attention to the issues of decentralization and municipal governance. Most of them work under direct influence of political parties or are co-financed from public funds.	Have the potential to strongly influence and shape public opinion and report on Project achievements.	Engage local and national media in policy processes and build regular interaction with them in the course of the Project implementation, based on the Project communication concept.

Annex XII: Results Framework (Alignment with standard UNDP programming requirements)

<p>Intended Outcomes as stated in the UNDAF 2015-2019: By 2019, economic and social and territorial disparities between units of local self-governance are decreased through coordinated approach by national and subnational actors. By 2019, legal and strategic frameworks are enhanced and operationalized to ensure sustainable management of natural, cultural and energy resources international obligations and enforced at entity and state levels.</p>	
<p>Outcome indicators as stated in the UNDAF RRF, including baseline and targets: Indicator: # of jobs generated in formal economy (for both men and women) Baseline: 150 (2014) Target: 500 (2016)</p> <p>Indicator: Number of integrated and inclusive development management systems in place within targeted areas / municipalities. Baseline: No (2014) Target: 40% (2019)</p>	<p>Indicator: Value of development index in targeted areas Baseline: 2014 development index in areas/municipalities Target: Growth of development index value in targeted areas (2019)</p> <p>Indicator: Number of integrated water and natural resource management activities at local level Number of integrated water and natural resource management activities at local level Baseline: 0 (2014) Target: 3 (2016)</p>

Applicable Output from the UNDP Strategic Plan: SP Output 1.1: National and sub-national systems and institutions enabled to achieve structural transformation of productive capacities that are sustainable and employment - and livelihoods- intensive; SP Output 3.2: Functions, financing and capacity of sub-national level institutions enabled to deliver improved basic services and respond to priorities voiced by the public

Project title and Atlas Project Number: Municipal Environmental and Economic Governance (MEG) Project, Atlas project Number 00080522

EXPECTED OUTPUT	OUTPUT INDICATORS	DATA SOURCE	BASELINE		TARGETS (by frequency of data collection)					DATA COLLECTION METHODS	
			Value	Year	Year 1	Year 2	Year 3	Year 4	FINAL		
<p>Output statement: Local governments (LGs), assigned with appropriate competences and finances, have improved their democratic governance, apply sound public policy and performance management systems and</p>	<p>Value of local development index in target localities.</p>	<p>Municipal development index / Assessments and statistics by UN, international stakeholders and national authorities / Project reports of UN programmes</p>	<p>Development index for target localities</p>	<p>2015</p>				<p>Increased by 2 %</p>		<p>Increased value of local development index by 5 %</p>	<p>Assessment</p>
	<p>% of LGs in BiH that apply integrated, effective and democratic approach to local development management and service delivery⁸⁸</p>	<p>Project records and reports. LGs' official reports and statistics. Media coverage on the topic.</p>	<p>25 % of 145 LGs in the country</p>	<p>2015</p>				<p>28%</p>		<p>34 % of 145 LGs in the country</p>	<p>Focus groups interviews, field visits; document review</p>

⁸⁸ The approach implies setting in place processes, functions, strategic and regulatory frameworks enabling coherent and budget-aligned public policy management.

provide public services in an inclusive, effective and efficient manner, particularly those related to the environmental and economic sectors.	# of citizens (female and male, as well as socially excluded ⁸⁹) benefiting from quality and accessible infrastructure and services within target localities.	Programme records and reports; citizens' satisfactory surveys; institutional reports	Estimate is approximately 500,000 citizens ⁹⁰	2015			600,000		At least 700,000 citizens ⁹¹ (out of whom at least 50 % women)	Survey; document review; focus groups interviews
	Level of citizens' engagement (disaggregated by sex) in local policy making within target localities.	Programme records and reports; LGs reports; Media reports	To be established upon selection of partner LGs ⁹²	2016					Level of engagement increased by 20 % by 2019 (for both men and women).	Observation, interviews, document review.

⁸⁹ Within the Project, socially excluded / vulnerable citizens are: unemployed women, youth and long-term unemployed; persons with disabilities; returnees and internally displaced persons; Roma.

⁹⁰ The baseline is to be confirmed upon selection of partner local governments.

⁹¹ The target is to be confirmed upon selection of partner local governments.

⁹² For that purpose, the methodology adopted by the "Strengthening the Role of Local Communities/*Mjesne zajednice* in Bosnia and Herzegovina" will be utilized and possibly – the baseline results obtained under that Project (2016) will be utilized by the Municipal Environmental and Economic Governance Project for potential common localities.

Annex XIII: Monitoring and Evaluation Plan (as per standard UNDP programming requirements)

MONITORING PLAN

Monitoring Activity	Purpose	Frequency	Expected Action	Partners (if joint)	Cost (if any)
Track results progress	Progress data against the results indicators in the RRF (including IRRF, UNDAF, CPD-related indicators) will be collected and analyzed to assess the progress of the project in achieving the agreed outputs.	Quarterly, or in the frequency required for each indicator.	Slower than expected progress will be addressed by Project management and the Project Board. Twice a year, the established Project Monitoring Framework shall be updated and progress recorded towards the completion of key results, based on the Project monitoring table.	UNDP	
Monitor and Manage Risk	Identify specific risks that may threaten achievement of intended results. Identify and monitor risk management actions using a risk log. This includes monitoring measures and plans that may have been required as per UNDP's Social and Environmental Standards. Audits will be conducted in accordance with UNDP's audit policy to manage financial risk.	Quarterly	Based on the initial risk analysis, a Risk Log shall be activated and regularly updated by reviewing the external environment that may affect the implementation. The Project Manager together with Monitoring and Evaluation Specialist are responsible for monitoring the risks and should provide the status updates to the Project Board when applicable	UNDP	
Learn	Knowledge, good practices and lessons will be captured regularly, as well as actively sourced from other projects and partners and integrated back into the project.	At least annually	A Project Lessons-Learned Log shall be activated and regularly updated to ensure on-going learning and adaptation within the organization, and to systematically capture lessons learnt	UNDP, Project Board	
Annual Project Quality Assurance	The quality of the project will be assessed against UNDP's quality standards to identify project strengths and weaknesses and to inform management decision making to improve the project.	Annually	Areas of strength and weakness will be reviewed by project management and used to inform decisions to improve project performance.	UNDP, Project Board	
Review and Make Course Corrections	Internal review of data and evidence from all monitoring actions to inform decision making.	Semiannual, annual		UNDP, Project Board	
Project Review (Project Board)	The project's governance mechanism (Project Board) will hold regular project reviews to assess the project performance and review the Work Plan to ensure realistic budgeting		The Project Board will meet during the mid-year to assess implementation progress against the annual targets. The requirement for such review will be established by the Project Board during annual review meetings. A Mid-Year Report shall be prepared by the Project Manager and shared with the Project Board as per established requirements.	Project Board	

EVALUATION PLAN

Evaluation Title	Partners (if joint)	Related Strategic Plan Output	UNDAF/CPD Outcome	Planned Completion Date	Key Evaluation Stakeholders	Cost and Source of Funding
Final Project Evaluation	Government of Switzerland will conduct the Final Project Evaluation	SP Outputs 1.1 and 3.2	UNDAF Outcomes 4, 5 and 6	2020		50,000 USD/ Government of Switzerland

Annex XIV: Multi-Year Work Plan (as per standard programming requirements)⁹³

EXPECTED OUTPUTS	PLANNED ACTIVITIES	Planned Budget by Year				RESPONSIBLE PARTY	PLANNED BUDGET		
		Y1	Y2	Y3	Y4		Funding Source	Budget Description	Amount
Output statement: Local governments (LGs), assigned with appropriate competences and finances, have improved their democratic governance, apply sound public policy and performance management systems and provide public services in an inclusive, effective and efficient manner, particularly those related to the environmental and economic sectors.	Activity 1: Strengthen capacities of local governments to apply effective development management systems characterised by stronger oversight of the legislative and greater accountability towards the citizens	300,920.38	429,966.41	358,081.08	227,213.90	UNDP	SDC		1,316,181.77
	Activity 2: Assist LGs in the environmental and economic sectors to provide good quality services to citizens and businesses in target localities.	576,237.23	3,504,546.48	3,421,708.22	561,376.94	UNDP	SDC		8,063,868.86
	Activity 3: Support institutions to improve regulatory framework at higher and local government levels and facilitate proactive networking to accelerate sector-specific reforms and enable more effective local public service delivery.	81,846.95	196,257.70	178,432.68	72,588.21	UNDP	SDC		529,125.53
	Activity 4: Project Management	344,520.54	156,936.31	156,771.58	374,804.14	UNDP	SDC		1,033,032.57
MONITORING									21,443.64
Evaluation (as relevant)									
General Management Support									877,092.19

⁹³ Cost definitions and classifications for programme and development effectiveness costs to be charged to the project are defined in the Executive Board decision DP/2010/32

EXPECTED OUTPUTS	PLANNED ACTIVITIES	Planned Budget by Year				RESPONSIBLE PARTY	PLANNED BUDGET		
		Y1	Y2	Y3	Y4		Funding Source	Budget Description	Amount
TOTAL									11,840,744.57

Annex XV: Social and Environmental Screening (as per Standard UNDP programming requirements)

Project Information

Project Information	
1. Project Title	Municipal Environmental and Economic Governance (MEG) Project
2. Project Number	Atlas Project Number 00080522
3. Location (Global/Region/Country)	Bosnia and Herzegovina

Part A. Integrating Overarching Principles to Strengthen Social and Environmental Sustainability

QUESTION 1: How Does the Project Integrate the Overarching Principles in order to Strengthen Social and Environmental Sustainability?

Briefly describe in the space below how the Project mainstreams the human-rights based approach

The Project does not explicitly work in the area of human rights. However, its activities promote a human rights approach through improving access of public services, jobs and livelihoods. Thus, the project promotes social and economic rights of the population within target 18 local governments. The project respects the main human rights principles, such as: non-discrimination, participation, empowerment, and good governance. The Project will seek to enhance social inclusion in all stages of the public policy cycle, as well as in accessing public services. This means that the Project will work with all actors of local democracy to sensitize and make them more responsive to the issue of social inclusion. It will also support LGs to devise their policies and service delivery in a manner that allows marginalized groups of society to gain access to public services - particularly those related to water supply, as well as to have equal opportunities when it comes to employability and access to labour market. The socially excluded groups are: unemployed women and youth and long-term unemployed people; persons with disabilities; returnees and internally displaced persons; Roma.

Briefly describe in the space below how the Project is likely to improve gender equality and women's empowerment

The aspect of gender equality has been encompassed by the analysis conducted in the preparatory phase and during the project design phase. Consequently, the project proposes concrete measures to ensure gender equality through implementation of all project activities. The project's logical matrix provides framework to track changes for collecting data against sex-disaggregated indicators where possible and relevant. In order to ensure adequate mainstreaming of the gender equality aspect across the Project activities, a Gender Equality Mainstreaming Concept will be developed at the outset of the Project launch. The Project will employ International Gender Advisor who will ensure that gender equality principle is mainstreamed throughout the entire Project life-cycle.

Briefly describe in the space below how the Project mainstreams environmental sustainability

The project focuses on improving environmental governance. The project recognizes the importance of considering disaster risk reduction and climate change as an integral part of its development efforts, and will apply risk-informed and climate-smart development choices which take into consideration the increase in disaster risk and extreme weather events. The project's risk log includes potential environmental impact as a risk with low probability. As a mitigation measure, the project envisages a flexible approach, including reprogramming of activities to respond to the eventual emerging needs.

Part B. Identifying and Managing Social and Environmental Risks

<p>QUESTION 2: What are the Potential Social and Environmental Risks?</p> <p><i>Note: Describe briefly potential social and environmental risks identified in Attachment 1 – Risk Screening Checklist (based on any “Yes” responses). If no risks have been identified in Attachment 1 then note “No Risks Identified” and skip to Question 4 and Select “Low Risk”. Questions 5 and 6 not required for Low Risk Projects.</i></p>	<p>QUESTION 3: What is the level of significance of the potential social and environmental risks?</p> <p><i>Note: Respond to Questions 4 and 5 below before proceeding to Question 6</i></p>			<p>QUESTION 6: What social and environmental assessment and management measures have been conducted and/or are required to address potential risks (for Risks with Moderate and High Significance)?</p>
<p>Risk Description</p>	<p>Impact and Probability (1-5)</p>	<p>Significance (Low, Moderate, High)</p>	<p>Comments</p>	<p>Description of assessment and management measures as reflected in the Project design.</p>
<p>Duty-bearers do not have the financial capacity to meet their obligations in the Project</p>	<p>I = 1; P: 2</p>	<p>Low</p>		<p>The environmental assessments were conducted for the project design purpose in the areas of institutional, operational and financial capacities and possible improvements in the sector of water utilization and wastewater management in selected local governments. In order to mitigate this identified Social and Environmental risk, timely planning of necessary co-financing for the project, taking into account LG</p>

				financial capacities and budgetary cycles, is envisaged.	
	QUESTION 4: What is the overall Project risk categorization?				
	Select one			Comments	
	<i>Low Risk</i>	<input checked="" type="checkbox"/>		The project includes activities of no or very low risk of adverse social and environmental impacts.	
	<i>Moderate Risk</i>	<input type="checkbox"/>			
	<i>High Risk</i>	<input type="checkbox"/>			
	QUESTION 5: Based on the identified risks and risk categorization, what requirements of the SES are relevant?				
	Check all that apply			Comments	
	<i>Principle 1: Human Rights</i>	<input type="checkbox"/>		N/A	
	<i>Principle 2: Gender Equality and Women's Empowerment</i>	<input type="checkbox"/>		N/A	
	<i>1. Biodiversity Conservation and Natural Resource Management</i>	<input type="checkbox"/>		N/A	
	<i>2. Climate Change Mitigation and Adaptation</i>	<input type="checkbox"/>		N/A	
	<i>3. Community Health, Safety and Working Conditions</i>	<input type="checkbox"/>		N/A	
	<i>4. Cultural Heritage</i>	<input type="checkbox"/>		N/A	
	<i>5. Displacement and Resettlement</i>	<input type="checkbox"/>		N/A	
	<i>6. Indigenous Peoples</i>	<input type="checkbox"/>		N/A	
<i>7. Pollution Prevention and Resource Efficiency</i>	<input type="checkbox"/>		N/A		

Final Sign Off

<i>Signature</i>	<i>Date</i>	<i>Description</i>
QA Assessor		Amra Zorlak, Monitoring and Evaluation Analyst
QA Approver		Adela Pozder-Čengiđ, Rural and Regional Development Sector Leader
LPAC Chair		Adela Pozder-Čengiđ, Rural and Regional Development Sector Leader

Social and Environmental Risk Screening Checklist

Checklist Potential Social and Environmental Risks		Answer (Yes/No)
Principles 1: Human Rights		
1.	Could the Project lead to adverse impacts on enjoyment of the human rights (civil, political, economic, social or cultural) of the affected population and particularly of marginalized groups?	No
2.	Is there a likelihood that the Project would have inequitable or discriminatory adverse impacts on affected populations, particularly people living in poverty or marginalized or excluded individuals or groups?	No
3.	Could the Project potentially restrict availability, quality of and access to resources or basic services, in particular to marginalized individuals or groups?	No
4.	Is there a likelihood that the Project would exclude any potentially affected stakeholders, in particular marginalized groups, from fully participating in decisions that may affect them?	No
5.	Is there a risk that duty-bearers do not have the capacity to meet their obligations in the Project?	Yes
6.	Is there a risk that rights-holders do not have the capacity to claim their rights?	No
7.	Have local communities or individuals, given the opportunity, raised human rights concerns regarding the Project during the stakeholder engagement process?	No
8.	Is there a risk that the Project would exacerbate conflicts among and/or the risk of violence to project-affected communities and individuals?	No
Principle 2: Gender Equality and Women's Empowerment		
1.	Is there a likelihood that the proposed Project would have adverse impacts on gender equality and/or the situation of women and girls?	No
2.	Would the Project potentially reproduce discriminations against women based on gender, especially regarding participation in design and implementation or access to opportunities and benefits?	No
3.	Have women's groups/leaders raised gender equality concerns regarding the Project during the stakeholder engagement process and has this been included in the overall Project proposal and in the risk assessment?	No
4.	Would the Project potentially limit women's ability to use, develop and protect natural resources, taking into account different roles and positions of women and men in accessing environmental goods and services? <i>For example, activities that could lead to natural resources degradation or depletion in communities who depend on these resources for their livelihoods and well being?</i>	No
Principle 3: Environmental Sustainability: Screening questions regarding environmental risks are encompassed by the specific Standard-related questions below		
Standard 1: Biodiversity Conservation and Sustainable Natural Resource Management		
1.1	Would the Project potentially cause adverse impacts to habitats (e.g. modified, natural, and critical habitats) and/or ecosystems and ecosystem services?	No
1.2	Are any Project activities proposed within or adjacent to critical habitats and/or environmentally sensitive areas, including legally protected areas (e.g. nature reserve, national park), areas proposed for protection, or recognized as such by authoritative sources and/or indigenous peoples or local communities?	No
1.3	Does the Project involve changes to the use of lands and resources that may have adverse impacts on habitats, ecosystems, and/or livelihoods? (Note: if restrictions and/or limitations of access to lands would apply, refer to Standard 5)	No
1.4	Would Project activities pose risks to endangered species?	No
1.5	Would the Project pose a risk of introducing invasive alien species?	No
1.6	Does the Project involve harvesting of natural forests, plantation development, or reforestation?	No
1.7	Does the Project involve the production and/or harvesting of fish populations or other aquatic species?	No
1.8	Does the Project involve significant extraction, diversion or containment of surface or ground water?	No

	<i>For example, construction of dams, reservoirs, river basin developments, groundwater extraction</i>	
1.9	Does the Project involve utilization of genetic resources? (e.g. collection and/or harvesting, commercial development)	No
1.10	Would the Project generate potential adverse transboundary or global environmental concerns?	No
1.11	Would the Project result in secondary or consequential development activities which could lead to adverse social and environmental effects, or would it generate cumulative impacts with other known existing or planned activities in the area? <i>For example, a new road through forested lands will generate direct environmental and social impacts (e.g. felling of trees, earthworks, potential relocation of inhabitants). The new road may also facilitate encroachment on lands by illegal settlers or generate unplanned commercial development along the route, potentially in sensitive areas. These are indirect, secondary, or induced impacts that need to be considered. Also, if similar developments in the same forested area are planned, then cumulative impacts of multiple activities (even if not part of the same Project) need to be considered.</i>	No
Standard 2: Climate Change Mitigation and Adaptation		
2.1	Will the proposed Project result in significant greenhouse gas emissions or may exacerbate climate change?	No
2.2	Would the potential outcomes of the Project be sensitive or vulnerable to potential impacts of climate change?	No
2.3	Is the proposed Project likely to directly or indirectly increase social and environmental vulnerability to climate change now or in the future (also known as maladaptive practices)? <i>For example, changes to land use planning may encourage further development of floodplains, potentially increasing the population's vulnerability to climate change, specifically flooding</i>	No
Standard 3: Community Health, Safety and Working Conditions		
3.1	Would elements of Project construction, operation, or decommissioning pose potential safety risks to local communities?	No
3.2	Would the Project pose potential risks to community health and safety due to the transport, storage, and use and/or disposal of hazardous or dangerous materials (e.g. explosives, fuel and other chemicals during construction and operation)?	No
3.3	Does the Project involve large-scale infrastructure development (e.g. dams, roads, buildings)?	No
3.4	Would failure of structural elements of the Project pose risks to communities? (e.g. collapse of buildings or infrastructure)	No
3.5	Would the proposed Project be susceptible to or lead to increased vulnerability to earthquakes, subsidence, landslides, erosion, flooding or extreme climatic conditions?	No
3.6	Would the Project result in potential increased health risks (e.g. from water-borne or other vector-borne diseases or communicable infections such as HIV/AIDS)?	No
3.7	Does the Project pose potential risks and vulnerabilities related to occupational health and safety due to physical, chemical, biological, and radiological hazards during Project construction, operation, or decommissioning?	No
3.8	Does the Project involve support for employment or livelihoods that may fail to comply with national and international labor standards (i.e. principles and standards of ILO fundamental conventions)?	No
3.9	Does the Project engage security personnel that may pose a potential risk to health and safety of communities and/or individuals (e.g. due to a lack of adequate training or accountability)?	No
Standard 4: Cultural Heritage		
4.1	Will the proposed Project result in interventions that would potentially adversely impact sites, structures, or objects with historical, cultural, artistic, traditional or religious values or intangible forms of culture (e.g. knowledge, innovations, practices)? (Note: Projects intended to protect and conserve Cultural Heritage may also have inadvertent adverse impacts)	No
4.2	Does the Project propose utilizing tangible and/or intangible forms of cultural heritage for commercial or other purposes?	No
Standard 5: Displacement and Resettlement		

5.1	Would the Project potentially involve temporary or permanent and full or partial physical displacement?	No
5.2	Would the Project possibly result in economic displacement (e.g. loss of assets or access to resources due to land acquisition or access restrictions – even in the absence of physical relocation)?	No
5.3	Is there a risk that the Project would lead to forced evictions?	No
5.4	Would the proposed Project possibly affect land tenure arrangements and/or community based property rights/customary rights to land, territories and/or resources?	No
Standard 6: Indigenous Peoples		
6.1	Are indigenous peoples present in the Project area (including Project area of influence)?	No
6.2	Is it likely that the Project or portions of the Project will be located on lands and territories claimed by indigenous peoples?	No
6.3	Would the proposed Project potentially affect the human rights, lands, natural resources, territories, and traditional livelihoods of indigenous peoples (regardless of whether indigenous peoples possess the legal titles to such areas, whether the Project is located within or outside of the lands and territories inhabited by the affected peoples, or whether the indigenous peoples are recognized as indigenous peoples by the country in question)? <i>If the answer to the screening question 6.3 is “yes” the potential risk impacts are considered potentially severe and/or critical and the Project would be categorized as either Moderate or High Risk.</i>	No
6.4	Has there been an absence of culturally appropriate consultations carried out with the objective of achieving FPIC on matters that may affect the rights and interests, lands, resources, territories and traditional livelihoods of the indigenous peoples concerned?	No
6.5	Does the proposed Project involve the utilization and/or commercial development of natural resources on lands and territories claimed by indigenous peoples?	No
6.6	Is there a potential for forced eviction or the whole or partial physical or economic displacement of indigenous peoples, including through access restrictions to lands, territories, and resources?	No
6.7	Would the Project adversely affect the development priorities of indigenous peoples as defined by them?	No
6.8	Would the Project potentially affect the physical and cultural survival of indigenous peoples?	No
6.9	Would the Project potentially affect the Cultural Heritage of indigenous peoples, including through the commercialization or use of their traditional knowledge and practices?	No
Standard 7: Pollution Prevention and Resource Efficiency		
7.1	Would the Project potentially result in the release of pollutants to the environment due to routine or non-routine circumstances with the potential for adverse local, regional, and/or transboundary impacts?	No
7.2	Would the proposed Project potentially result in the generation of waste (both hazardous and non-hazardous)?	No
7.3	Will the proposed Project potentially involve the manufacture, trade, release, and/or use of hazardous chemicals and/or materials? Does the Project propose use of chemicals or materials subject to international bans or phase-outs? <i>For example, DDT, PCBs and other chemicals listed in international conventions such as the Stockholm Conventions on Persistent Organic Pollutants or the Montreal Protocol</i>	No
7.4	Will the proposed Project involve the application of pesticides that may have a negative effect on the environment or human health?	No
7.5	Does the Project include activities that require significant consumption of raw materials, energy, and/or water?	No

Annex XVI: Legal Context

Select the relevant one from each drop down below for the relevant standard legal text:

1. Legal Context:

- Country has signed the Standard Basic Assistance Agreement (SBAA)**
- Country has not signed the Standard Basic Assistance Agreement (SBAA)
- Regional or Global project

2. Implementing Partner:

- Government Entity (NIM)
- UNDP (DIM)**
- CSO/NGO/IGO
- UN Agency (other than UNDP)
- Global and regional projects

Or [click here for the MS Word version of the standard legal and risk management clauses.](#)