



Bosnia and  
Herzegovina

October 12, 2011  
UNDP Reference: BiH10/00073177

Your Excellency,

**Subject: 2011 Annual Review Report for Electrification of Areas of Accomplished Return Project (EAAR) and the Request for the Transfer of the Final Installment**

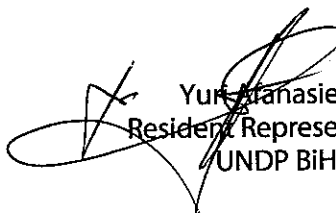
I am pleased to provide you with 2011 Annual Review Report of the UNDP's Electrification of Areas of Accomplished Return (EAAR) project, co-funded by the Government of the Kingdom of Norway in the amount of NOK 6,684,076. The report is submitted in line with the Article IV of the Third-Party Cost-Sharing Agreement between the Norwegian Ministry of Foreign Affairs and the UNDP, signed in December 2009 and it encompasses the implementation period from 01 December, 2010 – 30 September, 2011.

The report encloses the narrative description of the attainments accomplished within the above-mentioned time-frame. In that regard it is my pleasure to inform you that the project activities have proceeded as planned and that the full cooperation has been established with all partners to the benefit of **136** returnee families who will, after many years, receive electricity to their homes. The report also includes the review of the project's financial status and the annual work plan for 2011/2012. In terms of financial delivery please note that the project expenditure amounts to 91% of the donor's contribution as of 30 September, 2011. Detailed financial analysis is provided in the attached financial report.

In light of the above, I would like to use this opportunity to ask for the transfer of the final instalment for the project in matter to UNDP's account in the amount of **NOK 1,315,244** in line with the Article II of the cost sharing agreement referred to here-above.

I take this opportunity to thank you for the outstanding cooperation and support and rest assured that we are available for any further clarification you might require.

Your Excellency, please accept the assurance of my highest consideration.

  
Yurij Manasiev  
Resident Representative  
UNDP BiH

H.E. Ms. Anne Vibeke Lilloe  
Ambassador  
The Royal Norwegian Embassy in Sarajevo



## 2011 Annual Review Report

**Country:** Bosnia and Herzegovina  
**Project No. and Title:** 00073177/ Electrification of Areas of Accomplished Return (EAAR)  
**Donor:** Government of the Kingdom of Norway  
**Project duration:** 2010 - 2012  
**Implementing agency:** UNDP  
**Reporting period:** 01 December, 2010 – 30 September, 2011  
**Previous reporting period:** 01 January – 30 November, 2010

***United Nations Development Assistance Framework Outcome (Number 2):***

Government develops and implements policies and practices to ensure inclusive and quality health, education, housing, social protection and employment.

***Expected UNDP Country Programme Outcome:***

Government coordinates, monitors, reports on and revises employment, education, housing, health, social protection and cultural policies to be more evidence-based, rights-based and socially inclusive.

***Expected UNDP Country Programme Output:***

Municipalities and local development organizations in selected municipalities have increased capacity to plan and implement policies for sustainable local economic development and poverty reduction.

***Expected Project Output:***

Restoration of electricity supply in priority returnee areas selected by UNDP and MHRR.

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**List of Abbreviations**  
(in alphabetical order)

BiH	Bosnia and Herzegovina
EAAR	Electrification of Areas with Accomplished Return
HZHB	Croatian Community Herceg-Bosna
MHRR	BiH Ministry of Human Rights and Refugees
MoU	Memorandum of Understanding
UNDP	United Nations Development Programme

## **I Background**

Bosnia and Herzegovina (BiH) has progressed over recent years from a post-war recovery state to a potential EU accession candidate. It has maintained a constant high GDP rate up until the recent global economic crisis, its banking system is considered one of the best in Southeast Europe and inflation has been maintained in the single digits. However, on its way to full transition from a planned to a free market economy the country is still facing significant challenges which primarily pertain to the inefficiency of the institutions in charge of creating a positive business environment, lack of labor skills as well as deficient infrastructure. UNDP's Regional Disparity Assessment<sup>1</sup> shows that significant disparities exist among different regions within the country in regard to potential and realized local development. In order to assist the local authorities tap potentials as efficiently as possible UNDP has developed a range of interventions aligned with development priorities on state, entity and municipal levels. Specific focus is at those regions with high numbers of returnees which due to a lack of access to basic infrastructure remain socially excluded and unable to benefit from income generation initiatives. In this regard, a lack of electricity supply to returnee households due the war-time devastation of power supply grids has been recognized as one of the major obstacles deterring people from returning to their original households.

The unavailability of electricity in the areas of return has been recognized by the Bosnia and Herzegovina (BiH) authorities as one of the major obstacles hindering the process of return. The revised Strategy for the Implementation of Annex VII<sup>2</sup> of the Dayton Peace agreement reports that in 2010 there were still 2,600 households in 65 municipalities all over BiH where pre-war inhabitants had returned to their homes at least 2-6 years ago (in some cases even 10 years ago), but have been living deprived of electrical power ever since. Although this data reflects a certain progress over the recent years in terms of reducing the number of returnee households deprived from electricity, it confirms that the lack thereof still represents a huge issue. The overall financial needs for the re-establishment of the electricity supply in the priority returnee areas are estimated at approximately KM 40,000,000. To fully deal with the problem this figure would need to be doubled. On the other hand, the current pace of the reconstruction of electric networks is slow due to insufficient implementation capacities on the part of local authorities to cover the existing needs. A report issued by the BiH Council of Ministers indicates that if the current tempo is not enhanced, some households will need to wait as much as 30 years from now to be connected to a source of electrical supply. In order to provide necessary assistance to the Government, UNDP designed its Electrification of Areas with Accomplished Return Project (EAAR) seeking to attain the main objectives which is the restoration of electrical supply for at least 220 returnee households which will also lead to increased interest for return in the project areas. Apart from that the project also envisaged provision of technical assistance to the BiH Ministry of Human Rights and Refugees (MHRR) and local authorities for better management and coordination of electrification activities financed from the state budget.

## **II Project Activities**

EAAR project is implemented and managed through the following two project activities:

### *Activity 1 Restoration of electricity supply to the households*

Implementation of the sub-activities required for the execution of the works in accordance with agreed time schedule, such as tendering for goods and services needed for the restoration of electrical supply to returnee families, contract management, field visits, co-ordination with local partners etc.

### *Activity 2 Project Management*

Management, monitoring of and reporting on the project activities, including the usage of funds and organization of project Board Meetings.

<sup>1</sup> Sabanovic, Edin; Catovic, Nedim; Hodzic-Kovac, Envesa; Nixon, Nicola. "UNDP'S Regional Disparity Assessment" (Sarajevo, 2010)

<sup>2</sup> <http://www.mhrr.gov.ba/PDF/lzbjerglice/Revidirano%20strategija%20Engleski.pdf>

### **III Progress within the reporting period**

In general, the project directly led to increased process of return reflected **through higher number of applications for return and reconstruction of households in the targeted areas**. In particular, the project has been delivering results defined by the project document in line with foreseen timelines which can be summarized as follows:

- In 3 municipalities originally encompassed by the project document restoration of electrical network and connection thereto was completed for 67 households which are now regularly supplied with electric power supply. The same is expected to be done for 69 additional households in other 4 municipalities, where the works are currently in progress and should be completed in the period October – December 2011. Thus, the total number of households supplied with electrical power will be 136 in total of 7 municipalities.
- Full coordination and co-operation has been attained with the total of 12 municipalities which has been formalized through the signing of 9 Memorandums of Understanding (MoUs) for those municipalities that have been encompassed by the project in the reporting period and other 3 being agreed upon and awaiting signing by the end of the year in order to open the way for the project implementation in 2012.
- Cost-sharing arrangements have been successfully negotiated with 2 local authorities for the total amount of approximately USD 83,000. By signing these agreements the project managed to overcome the issues created by negative exchange rate as well as higher costs of implementation than foreseen in the applications submitted by the municipalities to the Ministry of Human Rights and Refugees BiH (MHRR).
- The project helped improving cooperation among local stakeholders in order to remove the problems which hampered the implementation of electrification activities in the field at other locations in BiH, including those contracted by the MHRR. As an example, cost-sharing agreements have been facilitated and signed between UNDP, two municipalities and a cantonal authority to finance the reconstruction of electrical supply in the Municipality of Pale, which has not been originally encompassed by the project. These contributions amounted to USD 53,000 in total.
- The project successfully transferred the ownership over the reconstructed networks in line with ruling administrative and technical standards.
- The project secured the visibility of the contribution provided by the donor as well as of its impact to the process of return.

#### *a. Completion of Activities Initiated in 2010*

As reported in the previous Annual Progress Report, there were four municipalities encompassed by the project in which the restoration of electrical networks was partially completed by December 2010, with some works remaining to be finalized. The project managed to complete all the pending works within the current reporting period which led to the following attainments:

- In the Municipality of Srebrenica, all 26 originally foreseen households were connected to the restored electrical network by January 2011.
- In the Municipality of Visegrad, all 24 households were connected to the reconstructed power network by August 2011.
- In the Municipality of Foca, the construction works were completed in April 2011. Due to very slow responsiveness of the Electric Utility Company RSat this location, the process of connecting all the beneficiary households to the electric power network is still ongoing and its full completion is expected by 30 October, 2011. The number of returnee households connected at this location is 27.
- In the Municipality of Rogatica, the project completed the foreseen civil works by May 2011. The final connection of 17 households is awaiting the completion of the reconstruction of electrical network at

an adjacent location of Pokrivenik, which has been contracted and managed by the Ministry of Human Rights and Refugees.

- Prior to the final connection of beneficiaries to the newly built electrical grid at every location encompassed by the EAAR project, technical control and testing was performed by local electric utility companies. Also, technical inspection was organized by the municipalities and conducted by commissions consisting of relevant technical experts.

*b. Selection of Priority Locations for 2011*

The preparation for the EAAR project activities for 2011 started as early as in October, 2010 by the identification of the priority locations by UNDP, the MHRR and other members of the project Board. The final list formulated and agreed at the Project Board meeting held in October, 2010 included the following locations:

	Municipality	Locations	Number of households
1.	Cajnice	MZ Zaborak - Djakovici	15
2.	Stolac	MZ Ridjice – Burmazi, Kula-Gledjevci	8
3.	Gorazde	MZ Gorazde 1 – Donja Brda/Brezje	4
4.	Nevesinje	MZ Luka – Cesim	17
5.	Gacko	MZ Nadanici – Gornja Bodezista MZ Vrba - Mrdjenovici	30

The MHRR confirmed that no works had been previously initiated or planned at the selected locations and the initial contacts with municipalities were established by UNDP.

*c. Signing of Memorandums of Understanding with the implementing partners*

In order to provide clear framework of cooperation and facilitate collaboration between the parties, UNDP has signed Memorandums of Understanding (MoUs) with each implementing partner:

- The MoUs with the above listed five municipalities were signed in January and February 2011. In line with these agreements, the municipalities assumed the responsibility of providing, free of charge, all necessary maps, permits and consents necessary for unrestricted preparation of project documents as well as civil and electric engineering works. They also agreed to conduct land survey and prepare cable run, as the main precondition for the commencement of the construction works.
- The MoUs with the Electric Utility Company BiH and the Electric Utility Company HZHB were signed in November 2010, as previously reported. In accordance with these documents, the electric utility companies are responsible for the preparation, free of charge, final project documentation consisting of specification of necessary construction works, materials and equipment, bill of quantities as well as technical description of and dynamic plan for electric engineering works for selected micro locations. They also conduct, free of charge, electric engineering works, all necessary testing, professional supervision and reconnection of households to the power network.

*d. Field Visits*

- In the period February – April 2011, representatives of UNDP, municipalities, electric utility companies and the MHRR have jointly visited all the selected locations in order to finalize the list of beneficiaries and collect the information necessary to prepare technical documentation. The survey confirmed the existence of discrepancies between the initial list of beneficiaries submitted by the Ministry and the actual number of returnee households in the visited areas. As a result, the final number of beneficiaries

was increased in line with the situation on the ground. Besides, the EAAR project continued conducting regular field visits to all locations in order to inspect the progress of the implementation.

*e. Preparation of technical documentation*

- Immediately after the finalization of the field visits, the electric utility companies started preparing technical documentation for the project. Prior to its finalization, the documentation was additionally revised by the EAAR project team.

*f. Tendering and contracting*

- With the technical documentation in place, UNDP prepared, published and managed tendering and contracting procedures to procure civil works and materials for electric networks. The results of the tendering process, implemented in the period March – September 2011, are represented in the table below:

<b>Municipality</b>	<b>Civil Works</b>	<b>Purchase of Electric Equipment</b>
Nevesinje	Contract signed: May 26; Starting date: June 21; Completion date: August 21;	Contract Signed: June 13; Completion Date: July 3;
Gorazde	Contract signed: July 4; Starting date: August 2; Completion date: October 2;	Contract Signed: May 25; Completion Date: June 14;
Stolac	Contract signed: June 27/amendment on July 21 Starting date: September 9; Completion date: November 9;	Contract Signed: June 13; Amendment on July 18; Completion Date: July 3; Amendment on August 7;
Gacko	Contract signed: August 5; Starting date: August 17; Completion date: October 17;	Contract Signed: August 3; Completion Date: August 23;
Cajnice	Contract signed: October 24; Starting date: October 30; Completion date: December 15;	Contract Signed: October 15; Completion Date: November 05;

The implementation of civil and electrical engineering works, as well as the procurement of the equipment has proceeded in line with the contracting arrangements:

- Construction and electrical engineering works in the Municipality of Nevesinje have been fully completed and inspected and all 17 beneficiaries have been connected to the power network.
- Construction works in the municipalities of Gorazde, Stolac and Gacko will be finalized by the end of October. It is expected that all the EAAR project beneficiaries in these three municipalities will be connected to the electrical network by the end of 2011.
- Due to the late finalization of technical documentation, the works in the Municipality of Cajnice started with a delay. Provided friendly weather, the completion of civil works is expected by the end of 2011. Electrical engineering works and connection of the beneficiaries to the electrical network are planned to be completed in early spring 2012.

*g. Fund Raising with Local Authorities*

- The EAAR project successfully negotiated participation of the Municipality of Gacko and the RS Ministry of Refugees and Displaced Persons in sharing the costs of the implementation of the project in the amount of approximately USD 83,000. Thus, the preconditions were created for the full



completion of the project activities in municipalities of Gacko and Cajnice, as originally foreseen, which would have otherwise been jeopardized due to a negative USD exchange rate.

- The EAAR project signed cost sharing agreements with the Gorazde Canton and the Municipalities of Pale (RS) and Pale Praca (FBiH) in order to secure funds for the restoration of electricity for 28 returnee households in two villages situated in the Municipality of Pale (RS). Although this municipality is not encompassed by the EAAR project document, the activities were conducted on the specific request of the MHRR and local authorities, which contributed to this initiative with a total of approximately USD 53,000. UNDP will provide additional USD 20,000 - from a donation other than the Norwegian contribution - and technical expertise in order to successfully complete the works at this location as a part of its work plan in 2012.

#### *h. Coordination*

- The EAAR project organized two Project Board meetings as well as a range of meetings with local authorities in order to agree on the plan of action as well as to co-ordinate the activities and harmonize the joint actions necessary to remove the obstacles in the implementation and reduce the risks.
- Official handover ceremony, including press, for the works in Srebrenica was organized in March 2011. At the ceremony, it was acknowledged that the project has been fully financed by the Kingdom of Norway.
- UNDP conducted transfer of title of ownership for the materials used during the implementation of the project activities in 2010 to the Electric Utility Company RS. Consequently, the latter has become fully responsible for its further maintenance.

#### *i. Preparation for the Next Stage*

- UNDP started with the preparation process for the third stage of the project implementation by the end of this year. The preparation process includes initial meetings with representatives of Bratunac, Milici and Zvornik as well as preparation of MoUs.

#### *j. Other*

- Prior to the final completion of the activities and the connection of individual users to the newly built electrical grid, the EAAR project coordinates the execution of technical control and testing by relevant local electric utility companies. Municipalities have been in charge of organizing the final technical inspection made by the commission consisting of technical experts.

### **IV Estimate of In-Kind Contributions by Local Counterparts**

Apart from some of them participating financially in the project's implementation, as elaborated above, the local counterparts provide in-kind services which could be estimated in financial terms. The table below shows that such an estimate in 2011 amounts to approximately USD 35,700 per municipality or **USD 178,500 in total:**

<b>Average Contribution by Local Electric Utility Companies and Municipalities in 2011</b>		
<i>Type of Service</i>	<i>Responsible party</i>	<i>Contribution(USD)</i>
a. Preparation of technical documentation; b. Professional supervision c. Electric engineering works	Electric utility company	28,800
a. Securing maps, permits and consents b. Land surveyor	Municipality	7,700

Total		35,700
Total for 5 municipalities		178,500

## **V Key Risks and Constraints**

- The areas of project implementation are those with the history of ethnic cleansing and return is still a politically sensitive issue, which in some cases, impacts the speed of project implementation because more time is required for successful negotiation of responsibilities. UNDP seeks to resolve these problems through constant presence in the field and the presentation of the EAAR project activities in the context of its assistance to poverty reduction in the entire BiH.
- While the General Elections took place in October 2010, the new Government on the state level has not yet been formed, including the appointment of a new Minister for Human Rights and Refugees. The EAAR project is successfully coordinating with the former Minister in technical mandate and its staff, but if the political vacuum is further prolonged, it might have some negative effect on the project.
- Some local partners, specifically the Electric Distribution Unit Pale, fail to execute in line with UNDP time agenda due to the lack of planning capacities and skills, which affects the delivery of project results in the field. UNDP is resolving this problem by providing additional technical expertise and holding regular meetings in order to speed up the implementation pace.
- The negative fluctuation of USD exchange rate has significant effects on the project financial planning. The EAAR project explores, wherever possible, an opportunity for cost sharing with local authorities. Also, the project regularly reviews all the technical documentation prepared by local electric utility companies in order to ensure that it reflects the requirements within the project scope in line with ruling market prices.

## **VI Lessons learned**

- Negotiations with local authorities and power utility companies have to be started at the end of the previous year for the next year in order to ensure inclusion of EAAR project activities in their annual plans.
- UNDP has been recognized by local authorities as politically impartial organization and reliable partner. Due to that fact, the EAAR project has succeeded in overcoming some difficulties related to return policy in certain project areas.
- Estimated costs as well as the number of households given in municipalities' applications have to be checked and revised through the field visits. The project annual work plan and budget should be based on the updated data.

## **VII Financial status**

The total EAAR project expenditure as of 30 September, 2011 is equal to USD 852,174.45 which represents 91% of the total donation made available by the Government of the Kingdom of Norway for the EAAR project in 2010 and 2011 (USD 932,932.00). The expenditure within the reporting period amounts USD 533,804.16 whereas by 31 December, 2010 it was at USD 318,370.29. Detailed breakdown of expenses is attached to the report.



## Financial Overview by 30 September 2011

**Project Number:** 00073177  
**Project Title:** Electrification of Areas with Accomplished Return  
**Reference:** Third-Party Cost-Sharing Agreement signed on 03 December 2009  
**Reporting period:** 01 January - 30 September 2011

Income 2009	\$478,073.70
Income 2010	\$454,858.30
<b>Total Income (A)</b>	<b>\$932,932.00</b>
<u>Expenditure by 31 December 2010 (B)</u>	<u>\$318,370.29</u>
<u>Opening balance 2011 (A - B)</u>	<u>\$614,561.71</u>

Activity	Impl Agent	Fund	Donor	Account	Description	Disbursement	Unliquidated Obligations	Commitments by the year end	Total Expenditure
<b>1. Restoration of electricity</b>									
	UNDP	30000	NOR	72100	Contractual Services-Companies	325,987.18	76,878.54		\$402,865.72
	UNDP	30000	NOR	75100	Facilities & Administration	10,230.82	12,588.28	11,756.36	\$34,575.47
<b>Total Activity 1:</b>						<b>336,218.00</b>	<b>89,466.82</b>	<b>11,756.36</b>	<b>\$437,441.19</b>
<b>2. Project Management</b>									
	UNDP	30000	NOR	71400	Contractual Services - Individ	44,409.87	22,800.00		\$67,209.87
	UNDP	30000	NOR	71600	Travel	4,694.04		3,000.00	\$7,694.04
	UNDP	30000	NOR	72400	Communic & Audio Visual Equip	728.07		300.00	\$1,028.07
	UNDP	30000	NOR	72500	Supplies	112.04		200.00	\$312.04
	UNDP	30000	NOR	73100	Rental & Maintenance-Premises	5,108.43		2,500.00	\$7,608.43
	UNDP	30000	NOR	74200	Audio Visual&Print Prod Costs	4,404.16		1,300.00	\$5,704.16
	UNDP	30000	NOR	74500	Miscellaneous Expenses	302.24		200.00	\$502.24
	UNDP	30000	NOR	75100	Facilities & Administration	3,073.93	2,705.19	525.00	\$6,304.12
<b>Total Activity 2:</b>						<b>\$62,832.78</b>	<b>\$25,505.19</b>	<b>\$8,025.00</b>	<b>\$96,362.97</b>
<b>Total Expenditure (Activity1 + Activity2) by 30 September 2011:</b>						<b>\$399,050.78</b>	<b>\$114,972.01</b>	<b>\$19,781.36</b>	<b>\$533,804.16</b>
<b>Unspent balance (Opening balance - Total Expenditure) by 30 September 2011</b>									<b>\$80,757.55 *</b>

\* Note: 57,974.42 USD of unspent balances will be contracted for the purchase of materials and civil works in Cajnice by 01 November 2011.  
 22,783.13 USD of unspent balances will be used for project implementation in 2012.

Certified by:

(Signature)

Yuri Afanasiev, Resident Representative

(Name and title)

(Date)

13/10/11

JK

