



# **Contracting Authority: Delegation of the European Union to Bosnia and Herzegovina**

## **Local Integrated Development Action**

### **Description of the Action**

**DRAFT**

Title of the action:	Local Integrated Development Project
[Number and title of lot]	N/A
Location(s) of the action:	<i>Bosnia and Herzegovina, with a focus on 20 local governments</i>
Name of the applicant	United Nations Development Programme (UNDP) in Bosnia and Herzegovina
Nationality of the applicant	International Organisation

Dossier No	
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(for official use only)

EuropeAid ID	N/A
Ongoing contract/Legal Entity File Number (if available)	N/A
Legal status	International Organisation
Co-applicant	N/A
Affiliated entity	N/A

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# PART A. CONCEPT NOTE

## 1. Summary of the Action

Title of the action:	Local Integrated Development Project
[Lot: - Please tick the box corresponding to the specific lot for which you are applying:	N/A
Location(s) of the action: — specify country(ies), region(s) that will benefit from the action	Bosnia and Herzegovina, with specific focus on 20 local governments
Total duration of the action (months):	36 months
EU financing requested (amount)	EUR 6,000,000.00
EU financing requested as a percentage of total budget of the Action (indicative)	90%
Objectives of the action	<p><b>Overall Objective</b> To raise standards of living and social cohesion in Bosnia and Herzegovina through inclusive sustainable socio-economic development.</p> <p><b>Specific objectives</b> To stimulate good governance and economic activity, and promote social inclusion at the local level through integrated local development in the areas primarily affected by floods and areas with a large percentage of returnees/internally displaced persons (IDPs).</p>
Target group(s)	<p>Main target groups of the intervention are:</p> <ul style="list-style-type: none"> <li>- 20 local governments;</li> <li>- 30 micro, small and medium enterprises (MSMEs) and 300 rural households in selected areas;</li> <li>- 50 civil society organizations;</li> <li>- Approximately 100,000 citizens, including 5,000 members of socially excluded and vulnerable groups (e.g. returnees, IDPs, unemployed women, elderly, Roma, people with disabilities, long-term unemployed, etc.);</li> <li>- at least 3 relevant higher government level institutions.</li> </ul>
Final beneficiaries	Final beneficiaries will include all residents of local communities targeted by the Action, including public, civic and economic stakeholders and particularly socially excluded and vulnerable groups.
Estimated results	<p><b>Result 1:</b> Local partnerships are capable of defining and steering effective local socio-economic development as per local needs.</p> <p><b>Result 2:</b> Investment needs in target localities are addressed to deal with long-term consequences of the 2014-floods and</p>

	<p>achieve objectives of local integrated development strategies/action plans.</p> <p><b>Result 3:</b> Job creation and income generation needs of local communities are addressed, in particular for returnees and IDPs, households affected by the 2014-floods and other vulnerable groups.</p>
Main activities	<p><b><u>Activities related to Result 1:</u></b></p> <p><i>Activity 1.1. Strengthening of local development partnerships in target localities and design of integrated and socially-inclusive local development strategies<sup>1</sup>.</i></p> <p><i>Activity 1.2. Embedding development management function within participating local governments and improving effectiveness of local services.</i></p> <p><i>Activity 1.3. Strengthening efficiency of local service delivery by improved municipal expenditure management.</i></p> <p><b><u>Activities related to Result 2:</u></b></p> <p><i>Activity 2.1 Grant scheme for integrated local development in target areas.</i></p> <p><i>Activity 2.2. Top-down targeted support to local development by higher government levels.</i></p> <p><b><u>Activities related to Result 3<sup>2</sup>:</u></b></p> <p><i>Activity 3.1. Support to the creation/strengthening of value chains and provision of business development and extension services in target areas.</i></p> <p><i>Activity 3.2. Job opportunities for the socially excluded through public works schemes in target areas.</i></p> <p><i>Activity 3.3 Facilitation of investments for economic growth in target areas.</i></p>

<sup>1</sup> Based on the Standardised Methodology for Integrated Local Development Planning endorsed by both entity Governments in 2009.

<sup>2</sup> These activities will be closely synergised, where possible, with the other two relevant Actions supported by the European Union – i.e. the Local Employment Partnership Action implemented by the International Labour Organisation (ILO) and the Local Competitiveness and SMEs Action (implemented by GIZ).

## 2. Description of the Action

### 2.1. Country context

Bosnia and Herzegovina is facing an intricate *set of development challenges*, including economic decline, growing poverty and socio-economic inequalities. Prolonged political deadlock coupled with complex constitutional arrangements have resulted in a series of enduring socio-economic issues, from poor legislation and corruption<sup>3</sup>, to low investment<sup>4</sup>, a negative growth in GDP and painfully high levels of unemployment. All this is fully reflected in a worsening social situation, including growing poverty and inequalities between regions and social groups. Many constraints persist on the economy, including poor infrastructure and a generally unattractive investment climate. As a result of governance failures, people have little faith in their political leaders and public institutions<sup>5</sup>, which was demonstrated in the February 2014 protests and violent riots.

The national human development report *Social Inclusion in Bosnia and Herzegovina*<sup>6</sup> found that over 50 % of the population suffers from some form of *social exclusion*. Among the most vulnerable are minority returnees, Roma, people with disabilities, the elderly and youth. Nearly 20 years after the end of the war, around 100,400 people remain internally displaced, while those who have returned face a series of challenges, as recommendations on creating conditions for sustainable return remain largely unaddressed.

Already difficult socio-economic conditions in the country were further exacerbated by the worst *floods and landslides* on record that struck the country in May 2014, affecting a quarter of its territory and 27% of the population. Devastation of economic, communal and social infrastructure seriously impacted work addressing internal displacement, increasing the number of people in need of assistance. Many IDPs and returnees were displaced again and lost what they had managed to rebuild.

Nevertheless, over the last few years encouraging *progress has been made at the local level*, including in terms of overcoming the consequences of the 2014 floods. In the country's decentralized institutional context, local development has provided a more responsive framework for quick-wins in the short and medium terms. In other words, despite many challenges, the relative directness and simplicity of the situation within a municipality means that some challenges can be addressed more efficiently and effectively at the local level. This is also because local leaders are more sensitive to their local contexts; locally-driven initiatives are better able to address the specific and most pressing needs of their community. Further, successful change at local level is expected to build pressure from below, thereby inspiring and driving change at higher levels.

### 2.2. General and specific objectives of the Action and results

The *overall objective* of the Action is to raise standards of living and social cohesion in Bosnia and Herzegovina through inclusive sustainable socio-economic development. In that light, the *specific objective* is to stimulate good governance and economic activity, and promote social inclusion at the local level through integrated local development in the areas primarily affected by floods and areas with a large percentage of returnees/IDPs.

To reach these objectives, the Action is designed as an integrated intervention comprising *two main pillars*: (i) governance pillar and (ii) economic development and job creation pillar.

The Action envisages three inter-related *results*: 1) Local partnerships are capable of defining and steering effective local socio-economic development as per local needs; 2) Investment needs in target

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<sup>3</sup> Reference: <https://www.transparency.org/cpi2014/results>.

<sup>4</sup> Reference: <http://www.fipa.gov.ba/informacije/statistike/investicije/default.aspx?id=180&langTag=en-US>.

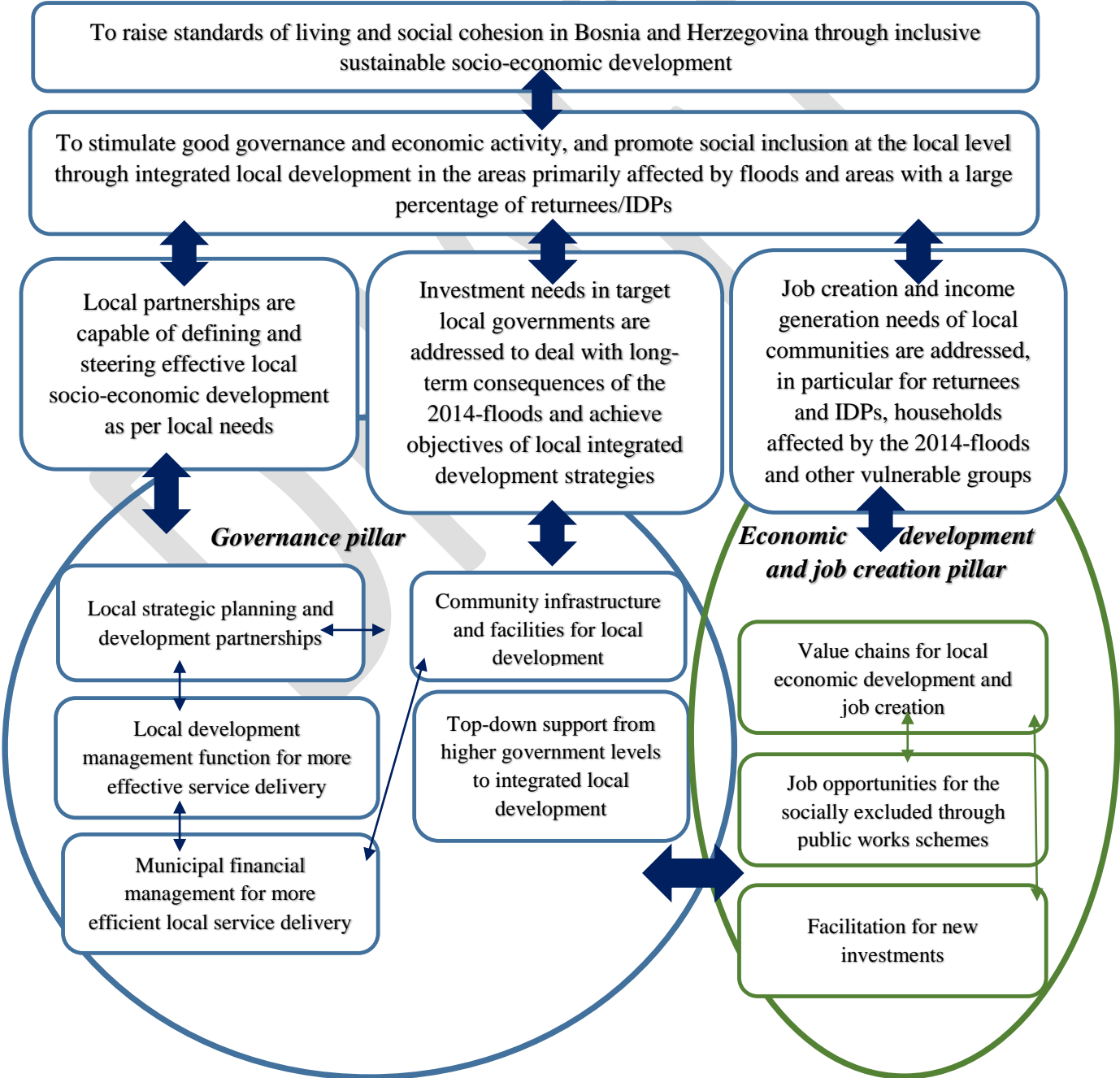
<sup>5</sup> Reference: <http://www.bti-project.org/reports/country-reports/ecse/bih/index.nc>;  
[http://www.ba.undp.org/content/dam/bosnia\\_and\\_herzegovina/docs/Research&Publications/NHDR/BiH\\_NHDR\\_2009\\_The\\_Ties\\_that\\_Bind\\_En.pdf](http://www.ba.undp.org/content/dam/bosnia_and_herzegovina/docs/Research&Publications/NHDR/BiH_NHDR_2009_The_Ties_that_Bind_En.pdf).

<sup>6</sup> *Social Inclusion in Bosnia and Herzegovina*, UNDP, 2007, [http://www.ba.undp.org/content/dam/bosnia\\_and\\_herzegovina/docs/Research&Publications/NHDR/BiH\\_NHDR\\_2007\\_National\\_Human\\_Development\\_Report%20\\_En.pdf](http://www.ba.undp.org/content/dam/bosnia_and_herzegovina/docs/Research&Publications/NHDR/BiH_NHDR_2007_National_Human_Development_Report%20_En.pdf).

localities are addressed to deal with long-term consequences of the 2014-floods and achieve objectives of local integrated development strategies/action plans; and 3) Job creation and income generation needs of local communities are addressed, in particular for returnees and IDPs, households affected by the 2014-floods and other vulnerable groups.

**2.3. Intervention strategy and main areas of work**

The broader intervention strategy is determined by the objective that calls for simultaneous actions to stimulate good governance and local economies in order to provide better access to public services and labour markets for large part of the population that have access to neither of them. Therefore, by mutual reinforcement of its two pillars, the Action will leverage governance actions to strengthen local democracy, effectiveness and efficiency of local service delivery, while at the same time will apply economic development interventions to support local competitiveness and job creation, with focus on the most vulnerable population groups. **Job opportunities for the most vulnerable and improved access to and quality of public services** are the main “connecting threads” among specific activities – i.e. the Action offers a complex combination of governance and economic development interventions that are all indirectly or directly either increasing employment opportunities, or improving access to public services, with focus on the most vulnerable categories of the population in target localities.



Within its *governance pillar*, and towards reaching Result 1, the Action will support *participatory development of local strategies* in 13 localities, and along these processes - strengthen *community partnerships*, thus contributing to adopting of legitimate development platforms comprising social, economic and environmental priorities as articulated by the citizens, and activating vibrant pro-development local partnerships. In the longer term, these efforts will lead to more responsive and engaged citizenry, voicing out of the socially excluded groups and increased public trust in local governments.

To bring about systemic improvements in the organisational and financial management of local governments, the Action will support the introduction of a *development management function*, which will not only facilitate effective implementation of local strategies, but will also set the grounds for long-term improved performance and higher citizens' satisfaction. Further, in order to support efforts of local governments to implement their local strategies, the Action will provide limited assistance for preparation of technical documentation (e.g. feasibility studies, cost-benefit analyses, etc.) for key infrastructure projects, to contribute to a *pipeline of infrastructure projects* for external funding.

While organisational structure and administrative capacities are key for the overall effective service delivery, the *financial management capacity* is another important factor pre-determining its efficiency side. By looking at the administrative budget costs, management of municipal assets, and identifying and setting recommendations to address the critical causes of budget over-spending, the Action will seek to instigate sustainable reduction of local government operating budgets (by at least 3 % measured against the annual operating budget at the end of the Action) and introduce modern utility management solutions, thus freeing-up financial resources for local development. All these activities will be reinforced by tailored capacity development and on-system support to at least 350 local government elected officials and staff. Importantly, having in mind the change-driven nature of the intervention, the Action will seek strong commitment from local policy-makers, as well as facilitate scrutiny by local communities, so as to ensure lasting results.

Under Result 2, financial support will be offered for the *implementation of at least 20 local priorities* voiced out by the citizens and supported by their local governments. Thus, the Action will not only significantly contribute to improvement of local infrastructure and services, as well as business enabling environment, but will also be able to demonstrate that people's needs were transformed into results and their voices were effectively heard. Core project selection criteria will be applied to identify projects that originate from local strategies and directly contribute to more efficient service delivery. In effect, this assistance will also help with implementation of priority cost-efficiency measures defined within partner local governments. At aggregate level, it is expected that about 100,000 citizens and about 1,000 socially excluded (among whom at least 40% women) will directly benefit from improved public infrastructure and better service delivery.

Enabling policy and financial frameworks are an important pre-condition for effective integrated local development. In order to expand the effects of the Action, particular attention will be placed to support functioning of the entity Local Development Funds<sup>7</sup>, as *top-down financial incentivizing tools supporting local development*, which have been successfully rolled out by relevant entity institutions in two subsequent cycles since 2014. In addition, the Action will seek to interact with higher government level institutions holding direct responsibility for areas of interest within the intervention – i.e. entity Employment Agencies, entity line ministries (agriculture, economic development and SMEs, tourism, etc.), so as to leverage targeted financial support, positively influence design of financial support schemes for local development and ensure country-wide application of local development policy actions, thus ensuring impact beyond the target localities. Intervening at the level of higher government financial incentives for local development based on bottom-up direct experiences and needs will provide for effects beyond the territorial scope of the Action and contribute to its overall sustainability.

While activities under results 1 and 2 will create preconditions and enabling environment for economic and private sector development, activities under result 3 will directly support MSMEs and potential investors to increase economic dynamics in targeted local communities, ensure growth of business

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<sup>7</sup> In the Federation of Bosnia and Herzegovina, the financing mechanism is owned, managed and co-funded by the Ministry for Development, Entrepreneurship and Crafts, and supports local development from the viewpoint of local business infrastructure and local economic development. In Republika Srpska, the financing mechanism is owned jointly by the Ministry of Administration and Local Self-Government and the Ministry of Finances, while it is managed by the Investment and Development Bank.



operation of targeted MSMEs and create new jobs and income generation opportunities, including for the long term unemployed and socially excluded (with focus on returnees, IDPs and long-term unemployed). Through intensive and on-demand *support to micro, small and medium enterprises (MSMEs) and rural households along the priority value chains* within target areas, the Action will seek to address obstacles to growth in priority economic sectors and foster job creation/income generation. Based on the local strategies and the findings of the rapid assessments in target areas, the Action will provide business development support to at least 30 MSMEs that are part of 5 targeted value chains, production inputs and extension services to 300 small-scale agricultural producers, with a primary focus on facilitating job creation/income generation and strengthening regional competitiveness. Particular attention will be placed on providing *income generation possibilities for the most vulnerable and hard to employ population groups* – the long-term unemployed and the unemployed socially excluded. To that end, local governments, together with local employment offices will be supported to design and deliver public active labour market measures through grant schemes for public works, aiming to provide short-term employment possibilities for at least 300 long-term unemployed in the target areas. Moreover, the Action will apply pro-active *support to investment attraction* in the target localities, via market intelligence, pro-active identification of potential investors and facilitating their interaction with local governments, as well as on-demand re/training of potential employees to match the needs of a future investor, aiming at not less than 3 new investments in total.

Key stakeholders are: local governments, MSMEs and rural households in selected areas, civil society organizations, business associations, local and regional development agencies, socially excluded and vulnerable groups (returnees, IDPs, women, elderly, Roma, people with disabilities), higher government level institutions such as relevant line ministries and agencies.

The duration of the Action is 36 months, with a 4-month inception phase.

### 3. Relevance of the action

#### 3.1. Relevance to the country strategy and policy frameworks

The Action is in line with the priorities set by the *Reform Agenda for Bosnia and Herzegovina 2015-2018*<sup>8</sup>, specifically in terms of improving business environment and competitiveness; good governance and effective public financial management.

Moreover, the Action will significantly contribute to implementation of the *Revised Strategy for the Implementation of Annex VII of the Dayton Peace Agreement*<sup>9</sup> and is fully in line with the *Joint Declaration in Response to the Continuing Challenges of Displacement in Bosnia and Herzegovina* signed between Bosnia and Herzegovina, the entities and the main international donors<sup>10</sup>.

The Action is highly relevant to the existing flood recovery priorities in Bosnia and Herzegovina. At the time of development of the Action, governments in Bosnia and Herzegovina have not passed a flood recovery strategy (except for the Floods Protection and Management Action Plan 2014-2017<sup>11</sup>).

Despite the incomplete local governance policy agenda,<sup>12</sup> the Action is directly relevant to the *Strategy for Local Self-Government Development (2010–2015) of Republika Srpska*, as well as to the *entity Training Strategies for Local Government Employees (2011–2015)*. By investing in local governments' capacities and infrastructure, the Action will directly support implementation of strategic priorities defined in *local development strategies* in target localities.

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<sup>8</sup> Adopted by the Council of Ministers of Bosnia and Herzegovina in July, 2015.

<sup>9</sup> <http://www.mhrr.gov.ba/PDF/Izbjeglice/Revidirano%20strategija%20Engleski.pdf>

<sup>10</sup> Ministry of Human Rights and Refugees of Bosnia and Herzegovina, Ministry for Refugees and Displaced Persons of Republika Srpska, Ministry of Displaced Persons and Refugees of the Federation of Bosnia and Herzegovina, United Nations, United Nations High Commissioner for Refugees (UNHCR) and the EU.

<sup>11</sup> Adopted by the Council of Ministers of Bosnia and Herzegovina in January, 2015.

<sup>12</sup> The Local Government Development Strategy for Bosnia and Herzegovina (2006) was adopted only by the Associations of Municipalities and Cities. The Federation of Bosnia and Herzegovina and the 10 cantons do not have local government development strategies.

In addition, the Action will contribute to the broader development objectives set within relevant entity sectoral strategies, such as the *SMEs Development in the Federation of Bosnia and Herzegovina Strategic Framework (2010-2018)*; the *Action Plan on Foreign Investments in Republika Srpska (2014-2017)*; the *Rural Development Programme of the Federation of Bosnia and Herzegovina (2013-2020)* and the *Strategic Plan for Rural Development and Agriculture of Republika Srpska (2016-2020)*.

The Action is in compliance to the *Indicative Strategy Paper 2014-2017 for Bosnia and Herzegovina*, or more specifically to the priorities *3.1.3 Competitiveness and innovation, local development strategies and 3.1.4. Education, employment and social policies*.

By mobilising and bringing together local stakeholders around development priorities agreed in local development strategies, the Action is fully in line with the Indicative Strategy Paper's focus "on providing support to partnerships for economic and social development at the local level, building on the existing local development strategies and the operational structures involved". Local governments will receive support and assistance to design and implement development policies based on an integrated approach aimed at strengthening MSMEs competitiveness and innovation, employment and job creation, as well as social inclusion. In line with the Indicative Strategy Paper, the Action will build on local partnerships including local governments, MSMEs, civil society and any other relevant local stakeholders.

By promoting socio-economic development in the areas with a large concentration of returnees and IDPs, the Action will "address issues of economic sustainability in focal areas for return and displacements" and will contribute to creating conditions for sustainable return, thereby tackling shortcomings of the return process in Bosnia and Herzegovina, highlighted in the 2013 Progress Report<sup>13</sup>.

The Action is also in line with two strategic programme priorities of the *United Nations Development Assistance Framework (UNDAF) 2015-2019*<sup>14</sup> and the *UNDP Country Programme Document 2015-2019*, as follows: (i) reduction of regional, economic and social disparities; and (ii) access to services and employment opportunities for the most vulnerable.

## **3.2. Relevance to the particular needs and constraints of the target country and localities and synergies with other relevant initiatives**

### **3.2.1. Specific pre-project situation in the target country**

Bosnia and Herzegovina experiences its most severe economic and social crisis since the end of the 1992-1995 war. The **unemployment rate**, according to Labour Force Survey 2014 stood at 27.5 % in 2013, while official government figures placed it at 44.5 %. Rates for vulnerable groups, such as women and young people, are even higher (31.2 % and 63.1 % respectively). Every sixth household in the country is poor. According to national statistics, the **economy** shrank by 0.9 % in 2012, but showed a modest increase of 1.5 % in 2013 and 2.1% in 2014. Bosnia and Herzegovina ranks 131 out of 189 countries in the 2014 "**Doing Business**" index of the World Bank. Moreover, with a **human development index** value of 0.731, the country was ranked 86 out of 187 countries in 2013.

With 61 % of population living in rural areas, Bosnia and Herzegovina is one of the most rural countries in Europe. The sharpest contrast in development is found between the six large cities and the rest of the country, where disparities in income and quality of life are wide. According to national statistics, **61 out of 144**<sup>15</sup> **local governments are classified as either "underdeveloped" or "extremely underdeveloped"**. Nonetheless, subnational authorities, especially at local level, tend to be more responsive and present a good entry point for attempts to regain citizen trust in government and improved quality of life.

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<sup>13</sup> Bosnia and Herzegovina 2013 Progress Report – Page 19: "Efforts to implement the revised Strategy under Annex 7 to the Dayton Agreement mainly focused on the reconstruction of housing units. Recommendations on creating conditions for sustainable return remain largely unaddressed".

<sup>14</sup> Adopted by the Council of Ministers of Bosnia and Herzegovina in June, 2015.

<sup>15</sup> In 2014, a new municipality of Stanari was established in the Republika Srpska, bringing the total number of local governments in the country to 145, including Brčko District.

Over 50 % of the country's population suffers from some form of *social exclusion*, among the most vulnerable being minority returnees, Roma, people with disabilities, the elderly and youth. There are still around **100,400 IDPs**,<sup>16</sup> the majority of whom live in private accommodations and around 8,500 living in substandard collective centres. They survive on benefits and meagre income earned through informal labour. Those who have returned face numerous challenges including little opportunity for employment, limited access to rights and services, as well as personal security issues. Some IDPs and returnees were displaced again in 2014 by the floods and landslides. Moreover, over 90 % of Roma are unemployed, while nearly 10 % of the country's population live with some form of disability. Bosnia and Herzegovina faces challenges to gender equality, ranging from a need to increase the political and economic participation of women to the necessity to address the violation of women's human rights.

### **3.2.2. Detailed analysis of the problems to be addressed by the action and how they are interrelated at all levels**

At the local level, despite progress made, *planning and management capacities of local governments* require improvements if they are to become the driving force of local development processes and ensure quality services. The introduction of a standardised approach to local strategic planning in 2010 contributed to making a positive shift towards a systematic, effective and sustainable local development, with nearly 70 % of local governments having their local strategies in place. However, limited organizational and management capacities to transform the development strategies into concrete actions, the "broken" linkage between strategies and local governments' budgets, coupled with generally insufficient financial resources and unutilised partnerships potential, pose challenges for successful implementation of local strategies.

Many sectoral ministries/agencies at cantonal, entity and state levels allocate financial support (predominantly in the form of grants) to priority projects of local governments in a wide spectrum of areas, such as agriculture, tourism, rural development, communal infrastructure, youth and sports, environment protection, water management, waste management, culture, sustainable return, etc. However, financial assistance is rarely linked/pre-conditioned with existing local development strategies and the therein legitimate priority projects affirmed by local communities. This, in the long-run, leads to fragmented development results, often detached from genuine local development needs. This structural challenge has been addressed for a first time in 2014, when two entity-based **Local Development Financial Mechanisms** were established<sup>17</sup> and are at present in its second cycle. In the Federation of Bosnia and Herzegovina, the financing mechanism is owned, managed and co-funded by the Ministry for Development, Entrepreneurship and Crafts, and supports local development from the viewpoint of local business infrastructure and local economic development. In Republika Srpska, the financing mechanism is owned jointly by the Ministry of Administration and Local Self-Government and the Ministry of Finances, while it is managed by the Investment and Development Bank.

Shift towards integrated planning and strategy implementation implies a shift away from classical administration and utility-centred service of local governments. 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. Nearly 30 % of local governments have begun to apply an **integrated municipal management approach**<sup>18</sup> and their experiences come to show positive correlation between an operational local development management function and effective municipal performance. Considering their changing, and increasingly prevalent roles, local governments require a whole new set of institutional and technical capacities to take on the role of development leaders, especially in underdeveloped areas.

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<sup>16</sup> Internal Displacement Monitoring Centre, November 2014.

<sup>17</sup> The financing mechanisms in both entities were established with the support of the Integrated Local Development Project and at present deliver their 2<sup>nd</sup> cycle of assistance to local governments country-wide.

<sup>18</sup> These pilot results have been achieved through the Integrated Local Development Project (2008 – 2016), which is a joint initiative of the Government of Switzerland and UNDP, implemented in partnership with the Ministry for Human Rights and Refugees of Bosnia and Herzegovina, the Ministry for Administration and Local Self-Government of Republika Srpska, the Ministry of Justice of the Federation of Bosnia and Herzegovina, both entity Associations of Municipalities and Cities and 40 local governments.

Furthermore, local governments are the key providers of *essential public services at the local level*, including local roads, water supply and sewerage, waste disposal, heating, housing, culture and sports. However, service delivery is extremely uneven across local governments, access to and quality of services is relatively poor, and overall user satisfaction is low, especially in rural areas. Limited financial resources of local governments to deliver financially demanding public services result in *ad-hoc* and fragmented investment in capital infrastructure, underfunded services and accountability gaps. Local governments have still limited success when it comes to *developing viable projects and attracting external funds* to add to their often dwindling budgets. All these challenges have been further exasperated by the May 2014 floods. In such a context, it is important to set priorities, *optimise municipal expenditures*, match local financial resources with funds from higher government levels and carefully target the allocation of scarce funding.

As facilitators of local development processes, local governments need capacities to *effectively interact and partner with socio-economic stakeholders* in local development processes. While cooperation with civil society has improved through formal partnership agreements and more transparent funding mechanisms, experiences are still mixed when it comes to effective citizens' engagement in public affairs. *Civil society organisations'* (CSOs) trust in public administration is rather low. According to the Survey on CSOs in Bosnia and Herzegovina,<sup>19</sup> only 39 % participated in development of local strategies in the last three years and only 32 % participated in development of action plans at the local level. Involvement of the most vulnerable population groups in public affairs is almost non-existent. These groups are usually not organized and have no capacity or channels to voice out their needs in local public life.

Because local governments are the intersection through which most business creation flows, their role is instrumental in creating a *business-conducive environment and stimulating economic growth*. Despite positive experiences, local governments still lack sound economic expertise and tools to engage in productive public-private dialogue and increase investment attractiveness of their localities through viable business infrastructure, support to employability and local entrepreneurship for economic growth and job creation.

*The most vulnerable groups of population* (returnees, IDPs, households affected by the floods, Roma and other ethnic minorities, persons with disabilities, young people and women from disadvantaged backgrounds and long-term unemployed) are disproportionately high affected by *unemployment* and need targeted support in order to increase their chances for employment. According to the 2014 Labour Force Survey, unemployment rate was at 27.5 % (25.2 % for men and 31.2 % for women), unemployment rate was the highest among young persons aged 15 to 24 years and stood at 62.7 % (61.0 % for men and 65.4 % for women). The economic activity rate in 2014 was extremely low, at only 43.7 %. Majority of working age population that is economically inactive has primary and lower level of education (59.3 %). Most of the unemployed are long-term unemployed (over 80 % unemployed for more than one year and 71.7 % are unemployed for more than two years). There is little difference between unemployment duration among man and women.

At the same time, many industries increasingly seek *viable investment* locations in Bosnia and Herzegovina, so a gradual competition among localities emerges: they want to keep or attract companies to raise taxes and create employment. Therefore, not only companies, but also municipalities and cities have to consider how to increase their competitiveness. While efforts need to be invested in attracting companies, it is of great importance to apply adequate *labour market measures* and *enhance competitiveness of the existing MSMEs*, by stimulating the emergence/strengthening of economic value chains, utilising endogenous potentials, ultimately contributing to economic growth and job creation. While holding a strong potential to vitalise local economies, MSMEs face challenges ranging from impeded business registration processes, limited access to credit funds and lack of skilled labour force. While over the last decade various local economic development actors have emerged, including local and regional development agencies and business associations, a productive public-private dialogue is yet to be initiated.

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<sup>19</sup> Civil Society Organizations in Bosnia and Herzegovina; IPSOS, 2014.

### 3.2.3. Synergies and complementarities with on-going or planned relevant interventions

While using territorial demarcation, the Action will capitalize on and scale-up the achievements in the area of local development planning and management of the on-going *Integrated Local Development Project* (2008 - December 2016, funded by the Government of Switzerland), thus contributing to the broader harmonised local planning system in the country.

Direct territorial synergies will also be established with the *EU Floods Recovery Programme* (funded by the EU and implemented by the UNDP, UNICEF and IOM), as well as with the *UN Floods Recovery Programme "Danas za nas"* (financed by 28 bilateral donors and implemented by UNDP in partnership with UNFPA, FAO, UNICEF and UNESCO), in terms of follow-up expansion of investments in public infrastructure, building disaster resilience and assistance to the private sector in flood-affected territories. The Action will also be in direct synergy with the broader disaster risk reduction and disaster resilience programme implemented by UNDP.

Successful approaches and knowledge in the area of value chains and support to employability of the most vulnerable population groups accumulated via the implementation of the *Value Chains for Employment Project* (supported by the Government of the Netherlands), the *Support to Durable Solutions of Revised Annex VII Dayton Peace Agreement Implementation Strategy Project* (funded by the EU and implemented in partnership with UNHCR, UNICEF and IOM), the *Srebrenica Regional Recovery Programme* (funded by the Government of the Netherlands) and the *Applying the Human Security Concept to Stabilize Communities in Canton 10 Project* (supported through the United Nations Trust Fund for Human Security) will be transferred to the Action. From the viewpoint of economic development synergies, the Action will seek close territorial complementarities with the upcoming follow-up *Migration for Development* intervention (funded by the Government of Switzerland and expected to start in 2016) and explore utilization of the potential of diaspora for local investments and economic development.

The Action will also benefit from cross-fertilizing synergies with the *Municipal Economic and Environmental Governance Project* (funded by the Government of Switzerland), which is expected to start its main phase in early 2016, 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 complementarities will be sought also with the *Green Economic Development Project* (funded by the Government of Sweden and the two entity Environmental Funds) in terms of potentially directing available financial resources for energy efficiency measures in target localities.

Direct complementarities will be built with the *Role of Local Communities/Mjesne zajednice in Bosnia and Herzegovina Project* (2015-2019), a partnership initiative of the Government of Switzerland and the Government Sweden, including in terms of utilising on-going grass-root participatory processes and combining financial resources for service delivery within common localities. The Action will also replicate hallmark experiences accumulated through the EU-funded *Reinforcement of Local Democracy Project*, particularly with regard to engagement of civil society organisations in local decision-making and grant scheme management. Successful area-based approaches for local and rural community-led development will be transferred from the *Birač Region Advancement and Cooperation Project* (funded by the Government of the Netherlands).

Although the other 2 Actions under the EU IPA package aiming to contribute to local economic development and competitiveness in Bosnia and Herzegovina – i.e. the *Local Employment Partnerships Action* (implemented by ILO) and the *Local Competitiveness and SMEs Action* (implemented by GIZ) - were not designed from the outset to work in the same territories due to differences in priorities and selection criteria for the beneficiaries, programmatic synergies with these interventions have been identified by the Action, specifically in terms of complementary delivery of the assistance related to private sector development and job creation in common territories.

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.

### 3.3. Target groups and final beneficiaries

In line with its objectives and specific activities, the Action has the following target groups:

- **20 local governments:** the Action will provide assistance to target local governments and their communities to design integrated local strategies (in app. 13 local governments) and strengthen effectiveness and efficiency of local service delivery by facilitating participatory local development partnerships, introduction of development management function in local administrations, pilot modernization of local service delivery through utilization of ICTs, and reinforcement of municipal cost-efficiency measures. In addition, the Action will support improvement of community infrastructure and facilities, based on priorities in local development strategies as well as recommendations for improvement of efficiency of service delivery. Participating local governments will be selected based on an open Call for expression of interest and a mixture of weighted selection criteria<sup>20</sup>.
- **30 MSMEs and 300 rural households** (among which at least 50 % belonging to the most vulnerable population groups) in the target areas: the Action will work to strengthen the productive capacities through inputs directly related to needs (technical assistance, assets and small-scale infrastructure, business development services), as well as process-based economic assistance to MSMEs to strengthen productivity based on the value-chain approach. Selection of beneficiaries will follow thematic public call/s that will be based on criteria aimed at ensuring support to priority value chains in target localities, as well as maximum effect on job retention and competitiveness.
- **At least 50 civil society organizations and grass-root citizens' groups in target communities:** the Action will place efforts to facilitate and activate lasting local development partnerships, as a participatory local development mechanism for local development, bringing together representatives from civil society, grass-root citizens groups (including socially excluded and vulnerable citizens), private sector, local institutions, media and academia. Membership in the local development partnerships will not be limited, however, in large localities certain representation mechanisms could be utilised for given stakeholders' group, so as to ensure effective and constructive functioning of the partnership mechanism.
- **Approximately 5,000 members of socially excluded and vulnerable groups** (e.g. returnees, IDPs, unemployed women, elderly, Roma, people with disabilities, long-term unemployed, etc.) in target localities will benefit from stronger engagement in local public decision-making, improved access to and quality of public services, income generation and employment opportunities.
- **At least 3 relevant higher government level institutions:** Efforts will be made to encourage government institutions and public funding mechanisms at higher government levels to channel available public resources for local development based on local strategic priorities and thus, contribute to a more impactful implementation of local strategies.

The potential number of indirect beneficiaries will comprise more than 300,000 people in total.

### 3.4. Particular added-value elements

Significant investments in infrastructure rehabilitation will **improve economic dynamics in targeted local communities** and generate additional employment. Better infrastructure, more accessible and better quality public services will contribute to private sector development, as well as to development of economy of targeted local communities, creating preconditions for growth and employment. The Action will also generate **significant parallel co-funding** by partners at local and higher government levels, as well as by the private sector beneficiaries.

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<sup>20</sup> The Local Employment Partnerships Action (implemented by ILO) and the Local Competitiveness and SMEs Action (implemented by GIZ).

The Action applies an inclusive and partnership-based approach throughout its activities, introducing ***gender equality and social inclusion principles*** in local community affairs, thus contributing to further development of social capital in selected communities

The Action takes into account the broader ***Community-Led Local Development Approach***<sup>21</sup> introduced by the EU for the 2014-2020 programming period.

Last but not least, the Action is an ***integral part of the broader local governance and local development programme implemented by the UNDP***, which financial scope for the next 5 years amounts to nearly USD 60 million. Such level of complementary financial resources, coupled with cross-fertilising synergies at the local level, will certainly add value to the individual effects anticipated by the Action, to the best interest of local communities and citizens in Bosnia and Herzegovina. Moreover, UNDP is well positioned to bring on board institutional counterparts from various government levels, thus adding an important vertical policy dimension into the Action's impact.

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<sup>21</sup> Reference: [http://ec.europa.eu/regional\\_policy/sources/docgener/informat/2014/community\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/community_en.pdf).

## PART B. FULL APPLICATION FORM

### 1. General information

<b>Reference of the Call for Proposals</b>	<i>Direct Agreement</i>
<b>Title of the Call for Proposals</b>	<i>N/A</i>
<b>Name of the applicant</b>	United Nations Development Programme (UNDP) in Bosnia and Herzegovina
<b>Number of the proposal</b>	
<b>Title of the action</b>	Local Integrated Development
<b>Location of the action</b> <i>-specify country(ies) region(s) that will benefit from the action</i>	Bosnia and Herzegovina, with specific focus on 20 local governments
<b>[Number of the Lot]</b>	<i>N/A</i>



## 2. The Action

### 2.1. Description of the Action

#### 2.1.1. Description

The Action is designed as an integrated intervention, comprising two main pillars – governance and economic development, inter-linked together to achieve the set results and objectives, where income generation / job opportunities and improved access to and quality of public services in economically challenged and flood affected areas are the main “connecting threads” among specific activities.

The Action will provide assistance to a ***diverse set of target groups*** – i.e. local governments, civil society organisations, MSMEs, agricultural farms, relevant local and higher government level institutions.

The Action will embrace an area-based approach and will seek to form ***3-4 geographic clusters***, and subsequently tailor the assistance to the specific circumstances within selected localities, both from the viewpoint of governance, as well as regional economic competitiveness. The Action will also keep a strong vertical policy linkage with relevant sectoral institutions at higher government levels, so as to top-up local resources and enable country-wide multiplier effect. In doing so, the Action will also utilise important complementarities with EU *Local Employment Partnerships Action* (implemented by ILO) and the *Local Competitiveness and SMEs Action* (implemented by GIZ), the broader local governance/local development programme implemented by the UNDP, as well as with other relevant interventions. UNDP field presence through the 5 Regional Offices will also contribute to the effective delivery of the Action, enabling proximity to the beneficiaries at the local level.

It is estimated that at least 300,000 citizens within target localities will indirectly benefit from improved local services and economic opportunities created by the Action, while at least 5,000 socially excluded and vulnerable groups (returnees, IDPs, long-term unemployed, minority groups, etc.) will voice out their priorities in local policy-making and development, as well as benefit from improved access to and quality of public services, as well as employment and income generation opportunities. At least 50 long-term as well as 300 temporary new jobs for the “hard-to-employ” will be created in target localities through income generation and private sector support activities.

The duration of the Action will be 36 months, with a 4-month inception phase, which will allow for early adaptation of the Action strategy and fine-tuning of its activities upon selection of the partner localities.

#### 2.1.1.1. Overall objective of the Action

The ***overall objective*** of the Action – to raise standards of living and social cohesion in Bosnia and Herzegovina through inclusive sustainable socio-economic development – will be achieved by streamlining all activities around improved governance and service delivery, creation of employment and income generation opportunities, and social inclusion of the most vulnerable population groups.

#### 2.1.1.2. Specific objective of the Action

The ***specific objective*** of the Action is to stimulate good governance and economic activity, and promote social inclusion at the local level through integrated local development primarily in areas affected by floods and areas with a large percentage of returnees/IDPs and other vulnerable groups.

In particular, the following groups are identified as vulnerable within the Action:

- Returnees and IDPs;
- Long-term unemployed (unemployed for more than 12 months), particularly women and youth in target localities;
- Ethnic minorities;
- The elderly;
- Persons with disabilities.

The Action will therefore place specific attention on the most vulnerable population groups through improved access to and quality of local services and employment/income generation opportunities.

#### 2.1.1.3. Geographic scope of the Action and selection of partner local governments

The Action will work with **20 selected local governments**, grouped together in 3-4 geographic clusters. Selection of participating local governments will be based on an **Open Call for Expression of Interest** with considerations for balanced representation across entities / Brčko District and a weighted mixture of **programmatic criteria**, as follows: (i) local governments' need to develop a local strategy; (ii) flood-affected local governments (*the list of flood-affected local governments is enclosed as Annex II*); (iii) localities with high number of returnees and IDPs (*the list of local government of particular concern is enclosed as Annex III*); (iv) economic development potential; (v) local governments' motivation and commitment (including financial) and (vi) considerations for potential direct territorial synergies with the other two Actions funded by the EU and working at the local level – i.e. Local Employment Partnerships Action (implemented by ILO) and the Local Competitiveness and SMEs Action (implemented by GIZ).

Partner local governments will be selected based on the highest ranking score against the defined criteria. Having in mind the area-based nature of the intervention and its underlying attempt to foster regional competitiveness, the selection of partner local governments will consider engagement of cluster-lead local governments which have strong economies and potential to act as an economic development engine for other localities in the selected cluster. Thus, the selection process will enable engagement of local governments with local strategies already in place. In this case, such local governments will benefit from support to setting in place/strengthening development management function, strengthening effectiveness and efficiency of local service delivery and improving infrastructure, as well as take part in the economic activities facilitated by the Action. Ultimately, the Action will adopt a flexible and on-demand approach to providing assistance to partner local governments and their socio-economic stakeholders, potentially calibrating assistance packages from the broader Action framework to specific needs.

With the exception of the *Activity 2.2. Top-down targeted support to local development by higher government levels*, the Action will concentrate on the selected target localities, including also support to capital investments, private sector development, etc. In that sense, competitive processes organised under the Action (grant schemes for infrastructure, employment, etc.) will be opened to selected local governments only and their socio-economic stakeholders.

Partner local governments will be selected during the inception phase.

#### 2.1.1.4. Expected results and activities

The Action's results are defined as follows:

- 1) Local partnerships are capable of defining and steering effective local socio-economic development as per local needs;
- 2) Investment needs in target localities are addressed to deal with long-term consequences of the 2014-floods and achieve objectives of local integrated development strategies/action plans; and
- 3) Job creation and income generation needs of local communities are addressed, in particular for returnees and IDPs, households affected by the 2014-floods and other vulnerable groups.

Further on, the document provides detailed description of the activities and their sub-actions, which jointly lead to achieving the set results and objectives of the Action.

### **RESULT 1: Local partnerships are capable of defining and steering effective local socio-economic development as per local needs**

#### **Activity 1.1. Strengthening of local development partnerships in target localities and design of integrated and socially-inclusive local development strategies**

Under this activity, the Action will facilitate the establishment of **local development partnerships** as participatory and democratic mechanisms bringing together governments and local public institutions,

private sector, civil society organisations, informal citizens' groups, media and academia, as well as representation of the socially excluded population groups. The vitalising of such local partnerships will be reinforced by the participatory *local strategic planning processes* in localities where local strategies need to be designed.

In all localities the Action will encourage participatory policy design and delivery by facilitating pro-active engagement of local partnerships in important steps of the local decision-making processes, thus strengthening civic engagement in local affairs and bringing a sense of community-led local development. Local development partnership mechanisms will play significant role in decision-making, management, implementation and public scrutiny of the activities and sub-activities implemented within the life-span of the Action. In the longer term, these efforts will lead to more responsive and engaged citizenry, voicing out of the socially excluded groups and increased public trust in local governments.

From the viewpoint of the Action, the outputs and results from this activity will reinforce public scrutiny for Activities 1.2, 1.3 and 2.1., while local development strategies will serve as investment platforms and inform Activities 2.1, 2.2, 3.1 and 3.2 of the Action.

#### Sub-activity 1.1.1: Selection of partner local governments

In the inception phase, the team will design the selection criteria and process, considering the key parameters provided in section 2.1.1.3 of the Description of Action. Following endorsement of the criteria by the Project Board, the Open Call for Expression of Interest will be announced. Prior to final selection, as necessary, the Action team will conduct assessment visits in potential partner localities.

Final approval of partner local governments will be also endorsed by the Project Board, based on the proposal of the Action team. Working relations with the selected local governments will be established through Memoranda of Understanding defining partners' responsibilities in the Action implementation, including, among others, co-financing commitment, dedication to Action-facilitated reform processes and principles of work, commitment to social inclusion, etc. The Action will, however, reserve the right, through support by the Project Board, to cease further support to any selected local government which fails to deliver on its commitments.

Partner local governments will be selected *during the inception phase*.

#### Sub-activity 1.1.2: Strengthening of local development partnerships as community-led development mechanisms

Establishment/strengthening of local development partnership mechanisms will be initiated by local governments in all target localities, through a call to all socio-economic stakeholders at the local level. In cases where there are already similar participatory mechanisms (such as Partnership Groups for local strategic planning, community forums, etc.) in target localities, the Action will encourage their further utilisation and vitalisation.

Local development partnerships will bring together representatives from local governments, local institutions, civil society organisations, individual citizens and renowned local community members, representatives from local communities/*mjesne zajednice*, citizens' groups, individuals and businesses from diaspora (where relevant), private sector, media and academia. Particular attention will be paid to effectively engaging the socially excluded and vulnerable groups, either directly or through organised representation, as well as to equal gender representation. These participatory public councils will play both advisory, as well as public scrutiny role in local decision-making processes (e.g. in relation to strategic planning; setting of priorities and local budgets; reviewing of annual plans' implementation; citizens' satisfaction with service delivery; other relevant decisions).

Local development partnerships will be formalised through signature of engagement by all members and will have their Terms of Reference, defining roles and responsibilities, representation mechanisms, modus operandi and frequency of gathering. Prior to establishing the participatory body, a simple stakeholder analysis will be conducted in each locality, so as to make sure all relevant interested parties will be invited to engage. Innovative and effective approaches on how to utilise ICTs for citizen participation will also be explored and piloted (e.g. website citizen forums, SMS info-sharing for fast citizens' feedback, social media, etc.).

Local development partnerships will be technically supported either by local governments, or by designated by them local development agency or organisation. Typically, and depending on the size of the locality, local development partnerships will vary from 30 to 100 members. Throughout the life-span of the Action, local development partnerships will convene at least 2 times per year, at milestone decision-making points of relevance to the Action.

In order to support general capacity development of local development partnerships, awareness-raising and capacity development will be offered along the implementation of the Action. Small-scale information sessions, public debates and training for advocacy skills (particularly for the socially excluded) will be offered by the Action. Moreover, efforts will be placed on engaging the private sector, through targeted motivation meetings between local governments and the private sector.

Local development partnership mechanisms will be established/strengthened within all participating local governments.

#### Sub-activity 1.1.3: Participatory local development planning

The main entry point for setting the longer-term development of localities is the local development strategy. By utilising participatory processes and based on the mainstream principles, approach and stages defined by the Methodology for Local Development Planning in Bosnia and Herzegovina (MiPRO)<sup>22</sup>, the actions under this sub-activity will support at least 13 local governments to upgrade their strategic frameworks and define, together with their citizens, development priorities in social, economic and environmental areas. This process will be optimised by drawing on lessons learnt and successful tools from previous local planning experiences, as well as by ensuring adequate expert support.

Upon selection of partner local governments, entry-point rapid assessments and socio-economic analyses will be conducted by expert teams recruited by the Action. In parallel, all necessary preparatory steps will be initiated by local governments (setting planning teams, stakeholders' analysis, etc.), coupled with introductory capacity development on strategic planning for the planning teams. Serving as a basis for strategic planning activities, the assessments will be validated with local development partnerships. Moreover, they will be used to tailor the level and scope of assistance to each partner local government.

Further, experts will support local planning teams and local development partnerships to define development vision and objectives, sectoral plans comprising priority projects in social, economic and environmental areas (including potential inter-municipal/regional priorities), as well as financial and implementation segments of local strategies directly aligned with local budgets. Draft local strategies will be presented to and discussed with local partnerships, prior to their submission for review and adoption by Municipal Councils/Assemblies.

This sub-activity will be delivered through provision of direct technical assistance by consulting teams in all phases of the strategic planning process. It should be noted that local planning will take place in the year of Local Elections, which will be fully taken into consideration by the Action team.

The duration of the local planning processes in partner local governments will not exceed 9 months, following the inception period.

#### **Activity 1.2. Embedding development management function within participating local governments and improving effectiveness of local services**

This activity will support all partner local governments to introduce/strengthen their **development management capacity**, which will ultimately enable local administrations to effectively instigate local development and ensure improved service delivery. The introduction of such a function entails re-organisation and optimisation of local administrations, and setting in place a development management unit/function as the main driver for internal coordination, implementation and monitoring of local strategies. This process will be coupled with tailor-made capacity development to improve the effectiveness of local service delivery and advance local administrations towards citizen-centered and development-oriented performance.

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<sup>22</sup> Reference: [http://www.ba.undp.org/content/bosnia\\_and\\_herzegovina/bs/home/library/poverty/methodology-for-integrated-local-development-planning-in-bosnia-.html](http://www.ba.undp.org/content/bosnia_and_herzegovina/bs/home/library/poverty/methodology-for-integrated-local-development-planning-in-bosnia-.html).

From the viewpoint of the Action's internal logic, this activity will enable follow-up implementation of local strategies designed under Activity 1.1, as well as will contribute to more effective service delivery in all participating local governments.

#### Sub-activity 1.2.1: Functional reviews in participating local governments and support to introduction of local development management function

This sub-activity will support partner local governments to introduce development management function. To that end, a simple functional review of the local governments' organisational set-up will be conducted, against the minimum features of the broader concept for integrated local development management. The assessment will consider options for introducing the development management function by utilising the existing administrative structures and human capacity, seeking to consolidate its different elements scattered throughout the administrative organization and group them as a coherent set of interlinked roles/responsibilities. Each analysis will conclude with clear directions and recommendations (for revision of internal organisational structure and job descriptions) for embedding the local development management function into local administration. This step needs to coincide with the concluding stage of strategic planning stage and ensure that proposed local development management modalities are in place at the time of developing the operational part of local strategies (for planning local governments). This will enable partner local governments to embed local development management responsibilities, including from the viewpoint of strategy implementation, into their strategies.

The timeline for this sub-activity will be the same for all local governments (i.e. – ideally starting in the seventh / eight month of the Action implementation and lasting up to nine months). In this process, the rich *instrumentarium* of knowledge tools and approaches from previous similar UNDP experiences will be utilised, including a training programme on local development management to be delivered to target local government elected officials and staff.

Following the local leadership's endorsement of the development management function and proposed specific modalities, expert support will be provided to introduce and gradually strengthen the local development management function. This will entail shadow support to the relevant unit/teams in the milestone stages of the annual strategy implementation cycle (i.e. annual implementation plans and budget preparation, mid-term review of progress, annual reporting and assessment of results against the set plans) through the field officers in the year 2 and year 3 of the Action.

Given that this sub-activity implies changes within local administrations (including new administrative unit/function, anchoring of administrative tools and introduction of new internal administrative processes, etc.), mayors' explicit commitment and firm support will be key pre-condition for its effective delivery. Unless the functional review recommendations are embraced and continuously supported by local leaderships, the Action will preserve the right to abort the envisaged technical assistance and limit access to grant schemes. Such considerations, in all cases, will be approved by the Project Board.

In addition, a package of training programmes will be offered to all participating local governments throughout the implementation of the Action, to address priority knowledge and skills gaps of local government staff and elected officials, in areas such as: project cycle management, business-enabling environment, disaster risk reduction, etc.

#### Sub-activity 1.2.2: Introduction of pilot ICT solutions for effective service delivery

This sub-activity will provide assistance to the introduction of pilot IT solutions reinforcing effective management of local services. Up to 4 local governments displaying highest potential and interest to introduce such innovations will be supported to purchase and set in function IT solutions (such as road maintenance software, GIS, Energy Management Information System, solid waste management software, etc.), which provide modern possibilities for management of local services and in the long-term contribute to optimised expenditures for service delivery.

This sub-activity will be implemented in year 2 of the Action.

#### Sub-activity 1.2.3: Preparation of technical documentation for large-scale projects

In order to support efforts of participating local governments to implement their local strategies, the Action will provide limited assistance for preparation of technical documentation (e.g. feasibility

studies, cost-benefit analyses, etc.) for key infrastructure projects, contributing to a pipeline of infrastructure projects for external funding.

Such support will be provided to select 4 local governments for potential projects of strategic (regional) development importance, with expected local co-financing. These activities will be complemented by a training programme on design of large-scale infrastructure projects.

This sub-activity will be implemented in year 2 of the Action.

### **Activity 1.3. Strengthening efficiency of local service delivery by improved municipal expenditure management**

While organisational structure and administrative capacity of local governments are key for the overall effective service delivery, the **financial management capacity** is another important factor determining its efficiency side. In that regard, the Activity will seek to instigate sustainable reduction of local government operating budgets (by at least 3 % measured against the annual operating budget at the end of the Action), so as to free up financial resources for local development. It will provide a set of **cost-optimisation measures** (investment as well as administrative), and assist in the implementation of some them (related primarily to energy efficiency and / or water management).

From the viewpoint of the Action's internal coherence, this activity will further reinforce the achievements of Activity 1.2, and closely align with Activities 2.1 and 2.2, thus stimulating effective and efficient local service delivery.

#### **Sub-activity 1.3.1: Financial review of participating local governments**

Experts will conduct thorough reviews of municipal budget expenditures, including, but not limited to: (i) operational costs (printing, IT services, procurement approach, etc.); (ii) utilities' expenditures (electricity, heating, water costs, etc., in municipal-owned buildings), (iii) infrastructure / assets management improvement and reduction of related costs; (iv) selected service-delivery related systems (street lightening, water supply, etc.).

These assessments will coincide with the rapid assessments conducted under Sub-activity 1.1.3 and will also provide inputs for the strategic planning/annual implementation plans.

Each assessment will provide a set of concrete recommendations and cost-efficiency measures, to be considered by local governments. The assistance will be coupled with a training programme on municipal assets management. Sub-activity 1.3.2 and the grant scheme under Activity 2.1 of the Action will provide possibility to implement some of the priority cost-reduction measures identified within partner local governments.

Having in mind the change-driven nature of the sub-activity, the Action will seek strong commitment and determination from local policy-makers, as well as will facilitate scrutiny by local communities, so as to ensure lasting results. Public finance management expertise will be provided, so as to ensure guidance for local governments in translating the identified measures into concrete projects and initiatives, as well as review performance progress. Best practices and achievement in this area will be widely promoted through the Associations of Municipalities and Cities.

This sub-activity will be implemented during months 7 -10 of the Action.

#### **Sub-activity 1.3.2: Small-scale energy efficiency investments and support to municipal cost optimisation**

Following the completion of the financial reviews and therein defined recommendations, the Action will provide financial support to 5 priority local government cost-reduction projects. Priority projects will be selected by the Action team, with due consideration of costs and benefits, overall potentials for cost-reduction, local governments' commitment to cost optimisation as well as readiness to financially contribute to project realisation.

This sub-activity will be implemented in Year 2 of the Action.

**RESULT 2: Investment needs in target localities are addressed to deal with long-term consequences of the 2014-floods and achieve objectives of local integrated development strategies/action plans**

**Activity 2.1 Grant scheme for integrated local development in target areas**

This Activity will support implementation of at least 20 local priorities originating from local strategies / plans of all participating local governments. Thus, the Action will not only contribute to *improvement of local public infrastructure, services and business enabling environment*, but will also be able to demonstrate that citizens' priorities voiced out during planning processes were transformed into results.

The financial assistance to local governments will be allocated through a competitive grant scheme, opened to all local governments participating in the Action. Core project selection criteria will be applied to identify projects that originate from local strategies and directly contribute to more efficient service delivery. In effect, this assistance will also help with implementation of the priority cost-efficiency measures defined within partner local governments under Sub-activity 1.3.1, as well as contribute to enabling business environment and the overall effective realisation of activities under Result 3.

At aggregate level, it is expected that about 100,000 citizens and about 1,000 socially excluded (among whom at least 40% women) will directly benefit from improved public infrastructure and better service delivery.

**Sub-activity 2.1.1: Design and launch of the grant scheme**

The sub-activity will set the scope, priorities and criteria for awarding grants to proposed projects by participating local governments.

Detailed priorities, selection criteria and rules for applying will be developed in the Call for Proposals and Guidelines for Applicants prior to launching the competitive selection process. Guidelines for Applicants (to include Application Form and Annexes) will contain information on: (i) purpose of the Call for Proposals, (ii) eligibility rules regarding applicants and partners, (iii) maximum and minimum financial support per grant by the Action; (iv) types of actions and costs eligible for financing, (v) evaluation (selection and award) criteria, (vi) instructions on how to fill in the application form and how to submit an application, and (vii) Annexes. The Public Call will remain open for at least four weeks.

To meet the main eligibility criteria, the projects will be required to (1) originate from local development strategies and (2) directly contribute to more efficient service delivery. At the individual grant level, the financial assistance per grant will not exceed EUR 60,000. Thematically, the grant scheme will support local governments address their investment needs related to any issue recognised by the local strategies and local partnerships - e.g. improvement of public spaces; water-supply and wastewater infrastructure; disaster risk reduction and disaster resilience; energy efficiency in public sector; improvement of business infrastructure with special focus on business infrastructure increasing competitiveness of the area and reinforcement of the priority value chains; modernisation of local administrative services for the citizens and for businesses; improvement of local social services, with focus on the most vulnerable population groups. Participating local governments can submit more than one proposal under the grant scheme, while projects should include at least one partner (e.g. from public, private or civic sector). Special attention will be given to potential inter-municipal projects. Project duration will not exceed 12 months.

Applicants will be required to ensure co-funding at the level of minimum 25% of the financial support provided by the Action. Approximately 20 projects will be supported under the grant scheme, where no "equal distribution per local government" principle applies, but ranking of projects based on the evaluation process.

The sub-activity will explore possibilities to ensure matching funds from higher government levels.

All community infrastructure and facilities to be supported under the grant-scheme will comply with the standards and requirements related to ensuring accessibility of persons with disabilities and energy efficiency. The Action team will conduct evaluation of the applications, while the final list of projects to be funded will be endorsed by the Project Board. The results of the grant scheme will be publicly announced.

The grant scheme will be launched at the beginning of Year 2 (following the completion of planning processes within selected local governments). This sub-activity, including selection of proposals, will last up to 3 months.

#### Sub-activity 2.1.2: Implement selected projects

The projects supported under the grant scheme will be implemented during a 12-month period. Letters of Agreement will be signed with local governments which will be responsible for the overall quality implementation of the projects, together with their partners.

In order to ensure that the works performed under the projects are delivered up to standard and that the materials purchased are of adequate quality, a quality assurance regime will be introduced by the UNDP through relevant experts (civil engineer). Quality assurance will entail field visits and supervision of works, as per the specifics of each projects. Results achieved within the projects will be widely disseminated through media, respecting visibility rules and principles and acknowledging the financial support provided by the EU.

The implementation of the projects under the grant scheme will take app. 12 months, expected to be finalised in the first quarter of 2018.

#### **Activity 2.2. Top-down targeted support to local development by higher government levels**

Enabling policy and financial frameworks are an important pre-condition for effective integrated local development.

In order to expand the effects of the Action, particular attention will be placed to support functioning of the existing entity Local Development Financing Mechanisms, in a form of public grant schemes managed *by relevant entity ministries in support of* local socio-economic development and service delivery. By utilizing and expanding the existing entity Local Development Financing Mechanisms (in the FBiH, owned by the Ministry of Development, Entrepreneurship and Crafts and in the RS, owned jointly by the Ministry of Finances and the Ministry of Administration and Local Self-Governance, both established in 2014), the Action will further sustain public policy tools which contribute to the realization of local development initiatives, while at the same time supporting systemic implementation of higher governments' sectoral strategic priorities. In 2015, the Public Financing Mechanisms are in their second annual operational cycle.

In addition, the Action will seek to interact with other higher government level institutions holding direct responsibility for areas of interest encompassed by the Action – i.e. entity Employment Agencies, entity line ministries (agriculture, economic development and SMEs, tourism, etc.), so as to leverage additional targeted financial support, positively influence design of financial support schemes for local development and ensure country-wide application of local development policy actions, thus ensuring impact beyond the target localities. Intervening at the level of higher government financial incentives for local development respecting legitimate local priorities in development strategies will further contribute to realisation of local priorities as articulated by local governments and their communities. Under this Activity, the Action will identify at least 2 relevant and interested higher government level institutions, and offer *technical assistance to support quality design and management of public grant schemes* in the area of local development and job creation.

From the viewpoint of the Action's internal coherence, this Activity will further reinforce the achievements of Activities 1.1, 2.1 and potentially – 3.1, 3.2 and 3.3, with spill-over effect country-wide.

#### Sub-activity 2.2.1 Assistance to further functioning of the entity Local Development Financial Mechanisms

This sub-activity will provide support to the functioning of the Local Development Financing Mechanisms in both entities. In Republika Srpska, co-funding will be offered to the existing Local Development Financing Mechanism owned by the Ministry of Administration and Local Self-Government and the Ministry of Finances. In the Federation of Bosnia and Herzegovina, co-funding of the thematic public grant schemes managed by the Ministry for Development, Entrepreneurship and Crafts will be offered, specifically targeting development of business infrastructure and business zones,



as well as SMEs competitiveness.

The financial assistance of the Action will be channelled to, and co-funded by the entity governments in two consecutive cycles – 2016 and 2017. The envisaged financial resources by the Action in support of the Financing Mechanisms amount to app. EUR 400,000 per year for both entities, and they will be co-funded by the entity governments, as grant recipients, with at least 40 % of that amount.

The responsible ministries will be in charge of managing all stages of Financing Mechanisms operating process, including transparent selection of beneficiary local governments, transfer of funds, monitoring of project implementation, and evaluation of results. During the entire process, UNDP will provide overall technical support, capacity building, and quality assurance to the entity institutions in order for them to successfully manage all required stages.

The Financing Mechanisms will apply an open and competitive selection process, where all local governments country-wide will be eligible for assistance. Core project selection criteria will be applied to identify projects that originate from local strategies, as well as directly contribute to improved local services and economic development. In parallel, the Financing Mechanisms will ensure support to local priorities, which directly contribute to the realisation of existing sectoral strategies at higher government levels. At least 20 projects will be supported within the two annual cycles of the Financing Mechanisms, while specific priority areas for each cycle will be defined by the entity governments.

At the individual grant level, the financial assistance to a project submitted by a local government and selected for funding under the Financing Mechanisms will not exceed EUR 60,000. Local governments in the country will be invited to submit no more than one project proposal with the duration that does not exceed 12 months. Local governments applying for the support will be required to also ensure co-funding at the level of minimum 25 % of the amount provided through the Financing Mechanisms. The responsible entity institutions will sign contracts with the selected local governments (responsible for implementation of the projects), and the results achieved within each project supported by the Financing Mechanisms will be widely promoted, respecting the visibility and financial contribution of the EU.

The sub-activity will be implemented throughout the Action.

#### Sub-activity 2.2.2: Technical assistance to selected higher government levels' relevant institutions to design and deliver tailored top-down support to implementation of local priorities

The Action will explore possibilities to partner with other relevant higher government level institutions responsible for governing sectors of relevance to the Action (i.e. – employment creation, tourism development, agriculture and rural development, environment protection, energy efficiency, etc.) and support them in the process of design of public competitive grant schemes, where final beneficiaries will be local governments, civil society organisations or private sector for projects related to local socio-economic development.

The assistance to at least 2 committed institutions will be non-investment, provided in the form of expert advice by the Action team in the grant scheme design process. Thus, the Action will not only contribute to further spill-over effect of its results, but will also strengthen capacities of select higher government level institutions to manage public resources in more effective, transparent and efficient manner.

This sub-activity will be implemented in Year 2 and Year 3 of the Action.

### **RESULT 3: Job creation and income generation needs of local communities are addressed, in particular for returnees and IDPs, households affected by the 2014-floods and other vulnerable groups**

#### Activity 3.1. Support to the creation/strengthening of value chains and provision of business development and extension services

While activities under results 1 and 2 will create preconditions and enabling environment for *economic and private sector development*, Activity 3.1 will directly support MSMEs and agricultural producers to increase economic dynamics in targeted local communities, ensure growth of business operation of targeted MSMEs and create new jobs and income generation opportunities in target localities.

Through intensive and on-demand support to MSMEs and rural households along the priority value chains within target areas, this Activity will seek to address obstacles to growth in priority economic sectors and foster job creation/income generation. Based on the local strategies and the findings of the rapid assessments in target localities, the Action will provide business development support to at least 30 MSMEs that are part of 5 targeted value chains, production inputs, extension services and small-scale infrastructure improvement assistance to 300 small-scale agricultural producers, with a primary focus on facilitating job creation/income generation and strengthening regional competitiveness.

Key beneficiaries of the assistance under this activity will be MSMEs and rural households in selected areas, business associations and local and regional development agencies.

The financial assistance to final beneficiaries will be provided based on open and competitive selection processes and selection criteria, where MSMEs/rural households from target localities will be eligible for assistance.

From the viewpoint of the Action's internal coherence, this Activity will further reinforce implementation of local strategies from the viewpoint of economic development and competitiveness, while at the same time will benefit from the improvements of the business infrastructure supported through Activity 2.1. It is also directly inter-connected with Activities 2.2, 3.2 and 3.3.

#### Sub-activity 3.1.1: Rapid assessments and selection of priority value chains

This sub-activity will entail conduct of rapid assessment of value chains in target areas (coinciding with the socio-economic assessment undertaken within sub-activity 1.1.3). The analyses will serve as a basis for identification of the value chains with higher economic and employment growth potential. A quick analysis of the main production sectors will be carried out in all target areas with an emphasis on food production and processing, textile sector, wood processing, metal sector and production of construction materials.

Depending on the final selection of geographic areas of intervention, the analyses might be extended to other economic sectors (and to other neighbouring localities, if relevant for targeted sector/value chain). 5 priority value chains will be selected on the basis of criteria such as value-added production costs (labour and material inputs), demand for a product and multiplication potential on employment in other sectors. Information will be gathered through analysis of the existing reports and other sources of secondary data, interviews and focus groups.

Value chains will be mapped in order to identify main actors and relationships between them and to breakdown value chain to the level of main activities. Mapping exercise will be followed by the analysis of value chain technological capacities. This analysis is crucial for identification of the type of assistance needed to enhance competitiveness of individual operators within the value chain. Economic analysis, including assessments of production costs and value added, will position analysed value chains and their actors against competitors.

More specifically, this sub-activity will: (i) assess all actors, their roles and relationships within the value chain (who benefits, who needs assistance to improve performance, possibility for involvement of vulnerable groups, etc.), (ii) define the actors' needs for inputs (raw materials, labour, energy, water and production assets) and flow of information, knowledge and goods / products (origin – destination), (iii) define the actors' needs for machinery, (iv) assess the products' handling, storage, processing, (v) identify the needs for business services and the status of requirements / compliance related to specific product standards, (vi) assess packaging and distribution activities, (vii) conduct products' analysis (volume, quality, price, timely delivery, after sale services), (viii) analyse market share.

Infrastructure needs that might affect value chains productivity, such as production facilities which increase value added to the product, power generation, irrigation systems, roads, storage facilities, etc., will be also assessed and potentially addressed through the infrastructure component (grant scheme) of Activity 2.1. The assessments will be conducted by expert teams.

Final validation of the 5 priority value chains will be done through the participatory local development mechanisms and in consultation with private sector representatives and local governments. The following criteria will be proposed for consideration in the prioritisation process: (i) value chain potential for employment / income generation, (ii) level of required investment in value chain and potential for attracting external investments, (iii) impact of value chain on local economy; (iv) value

chain competitiveness analysis; (v) prospects of integration in markets and possibilities for growth; (vi) availability of adequate work force; (vi) potentials for job generation for vulnerable groups.

Value chain analyses will determine a set of potential activities to be undertaken by the Action, such as: (i) improvement of coordination processes within value chain, (ii) improvement of products (design, quality, value-added processing capabilities, etc.), (iii) improvements in production processes (technology) and continuity, (iv) compliance with accreditation standards, such as food quality, hygiene and safety standards (ISO, HACCP, organic products, etc.), (v) reduction of products' delivery time and reduction of transaction costs, (vi) technology and quality management upgrade and introduction of quality standards; (vii) provision of advice and production assets to small farmers and (viii) linkages with markets and improvement of value chain capacities to respond to changes in the market. This broader set of support areas will be offered in a customised manner to selected final beneficiaries (MSMEs and agricultural producers), following the rapid assessments and prioritisation of up to 5 value chains in target territories.

The sub-activity will be implemented over a period of six months in the Year 1 of the Action.

#### Sub-activity 3.1.2: Selection of beneficiaries and delivery of the assistance

This sub-activity will focus on competitive selection of final beneficiaries and provision of tailored assistance, as per the broader objectives of the Action, as well as the specific scope of assistance defined further below.

Final beneficiaries under this sub-activity (MSMEs and rural households) will be selected based on open competitive processes and specific selection criteria for each target group, specifically targeting beneficiaries within the 5 priority value chains in target territories.

Specifically for selection of MSMEs, the following main criteria will be applied: (i) the MSME belongs to one of the 5 priority value chains; (ii) the proposal of the applicant MSME is fully in line with the sectoral priorities and needs within the identified value chains in target territories; (iii) applicant MSME is committed to co-fund the financial assistance to be offered by at least 60 %. Call for Proposals for MSMEs will be announced for each priority value chain respectively (covering specific sector and eligible localities). Evaluation of applications and selection of MSMEs as beneficiaries of the Action will be organised in a participatory manner, where separate evaluation commissions will be set for each value chain. These commissions will comprise representatives of UNDP, relevant local / regional development agency from the target territories, relevant entity ministry / institution holding competencies in the area of SME support (such as the Ministry for Entrepreneurship, Development and Crafts of the Federation of Bosnia and Herzegovina, the SME Development Agency of Republika Srpska).

As for the selection of agricultural producers/farms, the following main criteria will be applied: (i) the agricultural producers/farms belong to/are interested to be included in one of the 5 priority value chains; (ii) the proposal of the applicant is fully in line with the sectoral priorities and needs within the identified value chains in target localities; (iii) applicant is committed to ensure at least in-kind contribution. In the selection process, priority will be given to applicants from vulnerable population groups, by applying additional weight criteria. The financial assistance to agricultural producers/farms will require co-funding by relevant local governments at the level of at least 25 % of the financial support allocated by the Action. Call for Proposals for agricultural producers/farms will be announced per relevant priority value chain (covering specific sector and eligible localities). Evaluation of applications and selection of the final beneficiaries will be organised in a participatory manner, bringing together representatives of UNDP, relevant local governments and local / regional development agencies. As for the delivery of the assistance to agricultural producers/farmers, based on the specific needs of selected beneficiaries, UNDP will conduct procurement for goods / services / works as necessary, so as to ensure economy of scale and quality in delivery of the support.

In all cases, selection of beneficiaries will be based on transparency principles, while Public Calls, related announcements and information on the selected beneficiaries will be widely disseminated through media and information channels (websites, social media, etc.).

The type of support to beneficiaries within the priority value chains can be described as follows:

- *small-scale farm holding investments* (for at least 300 agricultural producers/farms): such as small-scale farm infrastructure, assets, seedlings, equipment and machinery (drying facilities and basic processing equipment), livestock (including new breeds);
- *extension services* (for at least 300 agricultural producers/farms): all aspects of modern production techniques, promotion of good agricultural practices, adoption of international standards and certification, information on market trends and requirements and provision of market linkages, farm accounting and assistance in preparation of business and investment plans with all required documents and drawings, etc. The assistance will be implemented, where possible, by the Regional Extension Services, backed by the Action specialised team and short term consultants as necessary;
- *value chain upgrade related to infrastructure investment and skill-force development*: financial support to address infrastructure bottlenecks affecting the entire chain, as well as to provide training and qualification of the workforce within existing MSMEs, or matching MSMEs' demands with the labour market for creation of new jobs.
- *business development services* (for app. 30 MSMEs): facilitation of access to finances; support to MSMEs to implement standards and certificates required for the EU market; support for accessing new markets (e.g. trade fairs, business-to-business meetings, investment brokerage, etc.); branding, promotion and place marketing; management improvement; support to business innovation and access to new technologies. The assistance will be delivered, where possible, through local / regional development agencies, so as to foster and sustain connections between businesses and business development services in target localities in the long-run;
- *entrepreneurship promotion and support to start-ups* (for unemployed, or interested to start new business in target areas): a support scheme will be designed and implemented aiming to stimulate entrepreneurship among the economically active population in the target localities. This is expected to add to the stock of new MSMEs, ultimately contributing to job creation. The Action will identify 80 participants to engage in the practical modular training programme, while 10 most successful will receive limited financial support as incentive for feasible business ideas coupled with follow up mentoring assistance.

However, detailed design of the substance of business development and extension services to be offered to beneficiaries will be based on the rapid assessments, as well as on the needs of selected beneficiaries.

It is expected that at least 30 new jobs will be created as a result of the assistance provided under sub-activity 3.1.2 by the end of the Action.

Close partnership and interaction will be sought with entity Employment Agencies and local Employment Offices in target localities. Moreover, direct complementarities will be sought with the Local Competitiveness and SMEs Action implemented by GIZ, as well as, where possible, with other relevant interventions, such as the Competitive Regional Economic Development (CREDO, supported by the Government of Sweden) in the North-West and Herzegovina areas of the country, as well as the USAID/Sida Growth-Oriented Local Development Project.

This sub-activity will be implemented after completion of sub-activity 3.1.1 and will spread by the end of the Action.

### **Activity 3.2. Job opportunities for socially excluded through public works grant schemes**

This activity is focused on providing jobs and income generation possibilities for the most vulnerable and “hard to employ” population groups in target localities, namely to the long-term unemployed and socially excluded. To that end, local governments, together with local Employment Offices and Social Welfare Centres will be supported to design and deliver public active labour market measures through grant schemes for public works, aiming to provide short-term employment possibilities for approximately 300 long-term unemployed in the target areas. The Action will explore possibilities to ensure longer-term employment perspectives for beneficiaries under public works grant schemes either through their more regularised engagement by local governments / utilities, inclusion into value chains supported under sub-activity 3.1.2., or through complementary on-the-job training, where appropriate.

Where possible, complementarities will be sought with the Local Employment Partnerships Action implemented by ILO.

Through design and implementation of public work schemes, the Action will: (i) contribute to creation of new job opportunities and tackle the issue of long-term unemployment; (ii) provide stable stream of income for socially excluded and (iii) support improvement of local community infrastructure, facilities and public spaces.

Primary beneficiary groups of this activity are local governments and the long-term (12 months or longer), unskilled, unemployed persons coming from the most vulnerable population groups. Public works schemes will help them to reconnect with the labour market, regain confidence and create opportunities to earn income and improve their living standard.

All participating local governments, in partnership with local Employment Offices and Centres for Social Welfare, will receive financial support by the Action to deliver the grant schemes for public works, and, where possible, organise specific on-the-job training. Financial resources offered by the Action for this purpose will be co-funded by 25 % by local governments. Local governments will be responsible for selection of the types of public works grant schemes, the definition of the selection criteria for beneficiaries (in partnership with the local Employment Offices and the Social Welfare Centres), the design and management of the grant schemes, as well as for providing supervision and monitoring of the implementation, as per relevant regulatory requirements.

This activity will be implemented in two repetitive annual cycles, respectively in Year 2 and Year 3 of the Action.

From the viewpoint of the Action's internal logic, this activity will further reinforce the efforts of activities under Result 3, while keeping explicit focus on the most vulnerable population groups in target localities.

#### Sub-activity 3.2.1. Design of the grant scheme for public works

Good targeting of beneficiaries is crucial for the successful implementation of this sub-activity. Therefore, support to local governments will be provided in the process of design of the public works grant schemes, in close partnership with local Employment Offices and Social Welfare Centres. The specific objectives of the sub-activity are to ensure income generation possibilities for at least 300 representatives of socially excluded and long-term unemployed population groups in target localities (among whom at least 30 % women), so that they get an opportunity to re-establish connection with labour market and generate income for their families. Also, a particular attention will be paid to ensure that the grant schemes identify those long-term unemployed that have some possibility in terms of using their newly accumulated income to reinvest it in subsistence agricultural production, as a sustainable means to improve their livelihoods, in which case they could receive limited assistance under the sub-activity 3.1.2.

Hence, grant schemes for public works will respect two main criteria: (i) eligible applicants are representatives of the socially excluded and vulnerable groups (as specified within section 2.1.2.2 of this document); and (ii) engagement under the grant scheme is for a minimum of 4 months/beneficiary. Additional criteria regarding possibility and preconditions for skills development or involvement in value chains support will be considered based on the specific situation in targeted local government.

The Action will, where possible, seek connections and look for potential synergies through cooperation with the ILO-implemented Local Employment Partnerships Action.

#### Sub-activity 3.2.2. Delivery and supervision of the grant scheme for public works

The delivery of the grant schemes for public works will be based on an open competitive Call for Applications by eligible beneficiaries. The Public Calls will be announced by local governments for not less than 2 weeks and information about this possibility will be widely disseminated through communication and information channels at the local level.

Applications will be reviewed and evaluated by local commissions comprising representatives of local governments, Social Welfare Centres, Local Employment Offices and UNDP. The final list of selected beneficiaries will be publically announced. The grant schemes will be delivered in two annual cycles

(Year 2 and Year 3 of the Action), where the target number of beneficiaries to benefit from income generation opportunities is at least 150/annually.

Overall supervision and monitoring of the delivery of the public works will be ensured by local governments.

### **Activity 3.3 Facilitation of investments for economic growth in target areas**

This Activity will support development of close relationship with potential investors through “aggressive” outreach to them, brokerage and facilitation of interaction with local governments. A wide range of support-services will be offered to potential investors, utilising the resources and information gathered through the implementation of the Action, such as: investment prospects, labour force analyses, training/qualification of labour force as necessary for the new investment; interaction with relevant local governments, so as to help translation of the potential interest into a concrete new investment.

It is envisaged that at least 3 new concrete investments will be facilitated by the Action within its life-span, enabling creation of at least 30 new jobs in target areas.

This Activity is closely complementary with Activities 1.1, 2.1 and 3.1 of the Action.

#### **Sub-activity 3.3.1: Identify potential investors and support realisation of new investments in target localities**

This sub-activity will offer opportunistic support to investments’ attraction within target localities, via (i) market intelligence, (ii) identification of potential investors, brokerage and facilitation in the process of translating the investors’ interest into concrete investments through on-demand specific services, such as technical assistance, small-scale improvements in business infrastructure and facilities (where co-funding by local governments will be at least 25 % and co-funding by the private sector will be at least 30 %); (iii) strengthening public-private dialogue by closely connecting local governments and the potential investor/s and speeding-up necessary permits and licences by local governments; (iv) promotion and place-marketing; (v); marketing intelligence and labour force analyses; (vi) training and on-demand qualification of potential employees to match the needs of a future investor, etc. Importantly, the viable potential of diaspora for economic development will be utilised, towards new foreign investments at the local level.

The Activity will be implemented in cooperation with the Foreign Investment Promotion Agency (FIPA), regional and local development agencies, etc.

The Action will provide relevant, up-to-date and accurate information that might help potential investors to make positive decision about the investment. The design of support measures for efficient realization of specific investments will depend on the type of investment and the needs articulated by the investor and stakeholders.

This sub-activity will be implemented throughout the entire life-span of the Action, after completion of local planning processes (Year 1 and Year 2).

### **2.1.2. Methodology**

#### **2.1.2.1. Guiding principles and methodological approach**

The Action implementation will be guided by several critical considerations that are geared towards ensuring maximum effect across all of the components.

***Synergy of intervention*** will be crucial, as the Action intervention lines are closely inter-linked both through territorial focus as well as in terms of complementarity improvement of public administration capacities to manage local development, deliver public services, raise external funds and manage its expenditures, investment in infrastructure, economic development and creation of jobs/income generation opportunities.

The Action will seek, as much as possible, to form ***geographic clusters*** of participating local governments and their communities so as to ensure (i) tailoring of the assistance to the specific circumstances, needs and potentials of the areas; (ii) unlocking regional competitiveness potential of these areas by applying a value-chain approach; (iii) stimulating inter-municipal cooperation and

networking across localities and areas. Delivery of the area-based assistance will be supported by UNDP field presence and regional office infrastructure in the selected areas.

While working primarily at the local level, the Action will seek to establish ***sound linkages with strategic and financial frameworks of higher government levels***. Further, using conditionality principle, the Action will provide financial resources explicitly for the implementation of legitimate local priorities as defined within local strategies. In the long-term, local strategies will continue to serve as investment development platforms for local governments, higher government levels, as well as for the international community.

In order to avoid policy-isolated delivery of the Action, as well as to reinforce long-term sustainability and amplification of its results country-wide, attention will be placed on reinforcing sector-specific (local development and job creation) policy and financial tools of higher government levels. Such an approach will allow for top-down government actions implemented through public financial schemes contributing in a targeted and integrated manner to local development efforts country-wide.

The Action will ***apply local ownership approach as sine qua non for sustainable local development*** and lasting effects of the intervention. Local ownership will be articulated through (i) commitment of partner local governments to the objectives and activities of the Action; (ii) direct engagement in and co-funding of activities of the Action (including by both public, as well as private counterparts); (iii) concrete arrangements and responsibilities in terms of sustainability (maintenance and functionality) of investments done in target areas.

The Action will ***scale up successful local development approaches*** (local planning, development management, value-chains, etc.) and build up, where possible, on participatory bodies already in place. Governance-related activities will fully utilise existing public frameworks, systems and processes, so as to further strengthen capacities of local governments.

The Action will also ***apply an inclusive and partnership-based approach*** throughout its activities, manifested most visibly in the (i) participatory development planning processes; (ii) formation and functioning of local development partnerships; (iii) regional (inter-municipal) investments and initiatives; (iv) community engagement through disclosure of project-related information and consultation with local communities on matters that directly affect them; (v) particular focus on voicing-out and tailoring the assistance to socially-excluded and vulnerable population groups.

***Energy efficiency*** in public buildings and renewable energy sources will be encouraged where relevant throughout the Action investment assistance, thus managing the carbon footprint and reducing functionality cost.

The Action will seek to ***add job-creation value*** also through the set of financial grant schemes, by seeking to engage, as much as possible, service providers from the target localities for delivery of services/works, as well as by encouraging temporary engagement of unemployed people in delivery of the projects funded by the grant schemes.

As one of the main implementation principles, ***cost efficiency*** will be pursued through: (i) improved public financial management by partner local governments, which will positively affect efficiency of local service delivery; (ii) applying value-for money principle in open and competitive procurement processes; (iii) delivery of training and capacity development assistance following the principle of clustering of partners, so as to ensure economy of scale; and (iv) combining, where possible, financial resources with other on-going interventions in target localities.

#### 2.1.2.2. Steering and management arrangements

UNDP in Bosnia and Herzegovina will assume full responsibility and accountability for the overall management of the Action, including monitoring and evaluation of interventions, achieving of the objectives and specified results, and the efficient and effective use of resources.

The Action institutional structure comprises the ***Project Board***, the ***Project Assurance*** and the ***Project Team***, interacting in a broader project context with partners and all interested stakeholders.

The ***Project Board*** will be the group responsible for making, by consensus, management decisions for the Action. It will be formed immediately upon start of the Action and will meet no fewer than twice a year. The Project Board's scope of work will include programme oversight, as well as regular review of

work plans, reports and procedures submitted by the Action team. More specifically, the Project Board will review and adopt the inception report, the annual work plans, as well as the progress/annual and final reports for the Action. It will also supervise progress of work, provide strategic guidance, as well as give final approval to milestone strategic and operational matters. The Project Board ensures that required resources are committed and arbitrates on any conflicts within the Action, or negotiates a solution to any problems between the Action and external bodies.

Members of the Project Board will be representatives of: the Delegation of the EU to Bosnia and Herzegovina, UNDP, the Ministry of Human Rights and Refugees of Bosnia and Herzegovina, the Ministry of Development, Entrepreneurship and Crafts of the Federation of Bosnia and Herzegovina, the Ministry for Administration and Local Self-Government of Republika Srpska and the two Associations of Municipalities and Cities representing local governments. To ensure closer connectivity with other two projects funded by the EU and implemented at the local level, representatives of ILO and GIZ will be invited to join Project Board sessions in a function of observers.

As necessary, the Action will convene a broader consultative body – **Advisory Board**, comprising all other relevant institutions (such as the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, the entity Ministries of Agriculture and Rural Development, the entity Employment Agencies, etc.).

In addition, the Action will utilise the existing **Local Government / Local Development Donor Coordination Group** as one of its main coordination mechanisms, allowing for regular exchange of information in the subject-area, as well as synergies with other relevant interventions. Regular coordination and exchange will be organised specifically with the ILO and GIZ, so as to ensure closer connectivity between the three Actions funded by the EU.

The **Project Assurance** role supports the Project Board by carrying out objective and independent Action oversight and monitoring functions. This role ensures Action 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/Team Leader and core team members.

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

The Action will also employ a **core team of specialists** to support the Action implementation – i.e. 1.5 posts for National Local Governance Specialists (36 months) and 1 full-time National Economic Development Specialist (36 months).

In addition, considering the extensive **work at the local level** and depending on the final selection of partner local governments, 4 full-time National Economic/Rural Development Field Officers (total duration – 29 months/post) and 4 full-time National Local Governance Field Officers (total duration – 28 months/post) will be recruited within the respective UNDP Regional Offices..

Overall financial, **administrative and logistical support** will be ensured via 1 full-time National Project Associate. In line with the UNDP quality management framework, assistance will be also provided by the Programme Operations Support Officer (15 % monthly).

The Action will deploy part-time specialists to support and oversee project implementation, including **National M&E Specialist** (UNDP M&E Specialist, 30 % monthly), **Governance Advisor** (20 % monthly), **Administrative Support** (18 months in total, 50 % monthly), **PR and Communications Specialist** (30 % monthly) and **Civil Engineer** (18 months in total).

### 2.1.2.3. Tendering and contracting

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. In delivery of the Action, UNDP will apply its relevant **contractual and quality assurance modalities** and



systems for financing governments, private sector and non-governmental organisations, particularly relevant for the grant schemes for public infrastructure and facilities, as well as to the support to MSMEs and rural households.

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

- Partner local governments (benefitting from the grant scheme, cost-efficiency measures, preparation of technical documentation, labour market measures, support to agricultural producers and measures to enable new investments in their territories): at the level of minimum 25 % of the financial assistance offered by the Action;
- Higher government level institutions (for the public grant schemes/Local Development Funds): at the level of minimum 40 % of the financial assistance offered by the Action;
- Final beneficiaries for the public grant schemes/Local Development Funds: at the level of minimum 25 % of the maximum financial assistance per project/grant;
- MSMEs: at the level of minimum 60 % of the financial assistance offered by the Action;
- Rural producers/households: in-kind contribution.

#### 2.1.2.4. Considerations for cost-efficiency

By designing and applying cost-efficiency measures within target local governments, the Action will instigate ***systemic longer-term efficiency results in local budgets***. Moreover, the Action will apply strict ***co-funding criteria*** to all Action beneficiaries, so as to assure effectiveness and efficiency of investments.

For further cost efficiency, the Action will ***make use of the relevant training programmes available through the Training System of Local Governments***, or offered by civil society organisations in the field. Further on, all training and capacity development assistance will be organized and delivered following the principle of clustering of partners, so as to ensure economy of scale. The Action will seek to utilize in-kind contribution from partners in the form of hosting venue, hospitality and transport costs, where possible. Staffing costs are rationale bearing in mind the envisaged number and scope of activities.

The Action will also seek to achieve economy of scale in investments by ***combining, where possible, financial resources with other on-going interventions*** in target localities, so as to contribute to a positive cost-benefit Action ratio.

Traditionally high costs of the public sector in the country will be addressed through ***competitive and transparent procurement processes*** that will result in procurement of goods, services and works delivered at the lowest price and highest value for money.

#### 2.1.2.5. Monitoring and evaluation

The main monitoring tools for organising the Action monitoring system encompass the ***Logical Framework*** (providing baseline and target quantitative and qualitative indicators and results), as well as analytical and systemic data collection throughout all work areas of the assistance delivery. Project ***Monitoring and Evaluation Work Plan*** will be developed to map all essential steps and tools in assessing and reporting progress towards achieving project objectives.

***Inception Report*** will be prepared following the 4-month inception phase.

***Bi-annual Progress Reports***, as well as ***annual narrative and financial reports*** will be prepared and submitted to the Project Board. The Action will also conduct ***mid-term and final independent evaluation***.

*Final Report* will also be prepared and submitted to the Project Board at the end of the Action, incorporating the findings of the final independent evaluation.

#### 2.1.2.6. Visibility

The Action will ensure visibility according to the Joint Visibility Guidelines for EU – United Nations Actions in the field.<sup>23</sup> A detailed Visibility and Communication Plan is included in Annex 6 of the EU-UNDP Delegation Agreement.

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<sup>23</sup> Document available here: [https://ec.europa.eu/europeaid/sites/devco/files/guidelines-joint-visibility-eu-un\\_en.pdf](https://ec.europa.eu/europeaid/sites/devco/files/guidelines-joint-visibility-eu-un_en.pdf).

**2.1.3. Duration and indicative action plan for implementing the action**

The duration of the action will be 36 months, with a 4-month inception phase.

Year 1														
Activity	Half-year 1						Half-year 2						Implementing body	
	1	2	3	4	5	6	7	8	9	10	11	12		
Inception phase														UNDP
Recruitment of staff														UNDP
Establishment of the Project Board and meetings														UNDP and Project Board members
Coordination with GIZ and ILO														UNDP
Design of detailed Visibility and Communications Plan														UNDP
Design of detailed Monitoring and Evaluation Plan														UNDP
Submission of inception report, including suggestions for fine-tuning of the Action														UNDP
1.1.1: Selection of partner local governments														UNDP, endorsement by the Project Board
1.1.2: Strengthening of local development partnerships														UNDP
1.1.3: Participatory local development planning														UNDP
1.2.1: Functional reviews in participating local governments and support to local development management function														UNDP
1.3.1: Financial assessment of participating local governments														UNDP
2.2.1 Assistance to further functioning of the entity Local Development Financial Mechanisms (design, launch and contracting beneficiaries)														UNDP, in partnership with relevant entity ministries
3.1.1: Rapid assessments and selection of priority value chains														UNDP
3.1.2: Selection of beneficiaries and delivery of the assistance														UNDP

Year 1													
Activity	Half-year 1						Half-year 2						Implementing body
	1	2	3	4	5	6	7	8	9	10	11	12	
3.3.1. Identify potential investors and support realisation of new investments													

Year 2													
Activity	Half-year 1						Half-year 2						Implementing body
	1	2	3	4	5	6	7	8	9	10	11	12	
Project Board meetings													UNDP and Project Board members
Coordination with GIZ and ILO													UNDP
Mid-term evaluation													UNDP
1.1.2: Strengthening of local development partnerships													UNDP
1.1.3: Participatory local development planning													UNDP
1.2.1: Support to introduction of local development management function													UNDP
1.2.2: Introduction of pilot ICT solutions													UNDP
1.2.3: Technical documentation for large-scale projects													UNDP
1.3.1: Financial assessment of participating local governments (monitoring)													UNDP
1.3.2: Small-scale energy efficiency investments and support to municipal cost optimisation													UNDP
2.1.1: Design and launch of the grant scheme													
2.2.1 Assistance to the entity Local Development Financial Mechanisms (cycle 1 - projects and design, launch and contract beneficiaries for cycle 2)													UNDP
2.2.2: Technical assistance to selected higher government level institutions to design and deliver tailored top-down support for local development													UNDP

Year 2													
Activity	Half-year 1						Half-year 2						Implementing body
	1	2	3	4	5	6	7	8	9	10	11	12	
3.1.2: Selection of beneficiaries, delivery of the assistance													UNDP
3.2.1. Design of the grant scheme for public works													UNDP
3.2.2. Delivery and supervision of the grant scheme for public works													UNDP
3.3.1. Identify potential investors and support realisation of new investments													UNDP

Year 3													
Activity	Half-year 1						Half-year 2						Implementing body
	1	2	3	4	5	6	7	8	9	10	11	12	
Project Board meetings													UNDP and Project Board members
Coordination with GIZ and ILO													UNDP
Final evaluation													UNDP
1.1.2: Strengthening of local development partnerships as community-led development mechanisms													UNDP
1.2.1: Functional reviews in participating local governments and support to introduction of local development management function													UNDP
1.3.1: Financial assessment of participating local governments (monitoring)													UNDP
2.1.1: Design and launch of the grant scheme (implementation of projects)													
2.2.1 Assistance to further functioning of the entity Local Development Financial Mechanisms (implementation of projects from cycle 2)													UNDP

Year 3													
Activity	Half-year 1						Half-year 2						Implementing body
	1	2	3	4	5	6	7	8	9	10	11	12	
2.2.2: Technical assistance to selected higher government levels' relevant institutions to design and deliver tailored top-down support to implementation of local priorities													UNDP
3.1.2: Selection of beneficiaries and delivery of the assistance													UNDP
3.2.1. Design of the grant scheme for public works													UNDP
3.2.2. Delivery and supervision of the grant scheme for public works													UNDP
3.3.1. Identify potential investors and support realisation of new investments in target localities													UNDP

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#### 2.1.4. Sustainability of the Action

Sustainability of the Action will be sought through **continuous interaction with partners at all government levels**, by engaging all socio-economic stakeholders in local planning and management, elevating Action concepts and successful approaches at the policy level.

Moreover, support to viable local infrastructure projects and local initiatives co-funded by partner local governments will **ensure sustainability of investment** with lasting positive impact on the citizens' quality of life. Capacity development of local governments will contribute to the longer-term sustainability of efficient, effective and citizens-centred service delivery. Encouraging active engagement of local communities in decision-making and development processes will enhance their ownership.

In terms of **environmental sustainability considerations**, improvements to energy efficiency will be pursued, so as to help manage the carbon footprint for the buildings and reduce cost for the beneficiaries.

In general, the Action will have longer-term local development effect, triggered by **strengthened competitiveness of private sector**, improved business enabling environment and more qualified labour market force, which jointly form an entry point for sustainable economic growth beyond the Action life-span.

#### 2.1.5. Risks and mitigation measures

A preliminary assessment shows that the Action is **not a high risk intervention**, as it will follow a tested area-based approach, which has extensive experience in similar interventions and in transferring ownership to local governments and stakeholders. UNDP's experience and practices have shown that most local governments appreciate the assistance, especially when matched with grant support and infrastructure projects, which can be used as an incentive to motivate local government to undertake change-related municipal performance and public financial management interventions.

The Action will deploy an active risk management and contingency planning strategy to ensure sound management and quality delivery of activities. Regular assumption and risk reviews will be undertaken and reported in the progress and reports.

Type of risks	Probability	Likely impact	Mitigation measures and contingency plan
Local Elections 2016 adversely affecting the Action implementation dynamics	High	High	Conduct appropriate planning taking account of the 2016 Local Elections, as to allow adequate adjustment of resources and work-plans. Maintain constant communication with local leaderships and representatives of political parties in Municipal Assemblies, so as ensure that any potential change in governing structure will not influence implementation of the Action.
Decrease of USD exchange rate against EUR / BAM	Low	High	The Action will apply pro-active early warning and financial planning and management system.
Duplication and insufficient coordination between the Action and other local governance/local development interventions	Low	Medium	The Action will utilize the Local Governance/Local Development Donor Coordination Group to ensure regular coordination among various relevant field-level interventions in the country. Regular exchange and coordination activities will specifically be in place with the other two relevant Actions funded by the EU – the Local Employment Partnership Action implemented by the ILO and the Local Competitiveness and SMEs Action implemented by GIZ.
Severe weather and natural disasters	Medium	High	Many of the potential target areas covered by the Action are subject to severe weather conditions: droughts and floods. The Action planning will take account of the risk of

Type of risks	Probability	Likely impact	Mitigation measures and contingency plan
			severe weather in winter. Other natural events will require a response to be developed once the extent of the impact of the event is clear.
Local leaderships, especially mayors and Municipal Councils/Assemblies, show insufficient understanding of and support to Action-facilitated change processes	Medium	Medium	<p>Some local leaderships will be more committed to the Action than others. The Action will therefore have a demand-based and results-oriented approach, and the flexibility to ensure that participating local governments commit to active engagement. The competitiveness of the grant schemes, nature of infrastructure projects and the co-funding requirements should ensure positive participation.</p> <p>It should be noted that the cut in transfers for local governments is likely to increase the demand for support from the Action in preparation of planning documents and projects, as well as in improvement of municipal finances, as local governments increasingly seek alternative forms of financing local priorities and increased independence from higher government level funding.</p> <p>Administrative changes, as well as changes in public finance management will be approached carefully, involving local leaderships from the outset. Feasible and performance-improvement changes will be proposed incrementally and not at once. The Action will reserve the right, through support by the Project Board, to seize financial support to any participating local government which fails to commit to and achieve improvements in change-related areas of support.</p>
Local governments have insufficient financial capacities to co-finance the financial assistance offered by the Action	Low	Medium	Participating local governments will be required to provide co-funding for financial assistance (infrastructure and assets; technical documentation; public works grant schemes; support to rural households) offered by the Action. This has proven not to have been problematic in previous UNDP area-based interventions in the country, despite the financial crisis which resulted in a significant reduction of transfers from higher government levels. Early planning regime will further facilitate timely planning of the amount of expected co-funding by local governments within the Action.
Local governments continue to dis-link local development strategies from municipal budgets, thus hampering effective realisation of strategic priorities defined jointly with the citizens	Medium	Medium	Targeted support to participating local governments will be ensured by the Action specifically in the process of annual budget planning. Engagement of local development partnerships in that stage will also be facilitated, so as to allow for budget preparation in line with local strategies and local development needs as articulated by the socio-economic stakeholders.
Political gridlock between municipal government and municipal assembly interfere in project implementation	Low	Medium	<p>There will be a clear message from the Action team that local governments' involvement will be discontinued without support and cooperation of all political parties and relevant stakeholders.</p> <p>The Action's communication efforts will be directed to widely publicize it to the public in order to build pressure of the citizens and local development partnerships in its implementation.</p>



Type of risks	Probability	Likely impact	Mitigation measures and contingency plan
Insufficient interest for development of clusters/value chains among stakeholders	Low	Medium	<p>Clustering and value-chains are relatively new concept among local governments and private sector stakeholders in the country, so the real knowledge about benefits of clustering has to be increased.</p> <p>The Action will seek to further promote this approach through relevant higher government levels' public grant schemes.</p>
Relevant higher government level institutions fail to ensure financial sources for local development	Low	Medium	<p>Financial crisis has significantly reduced level of investments by higher government levels for local development in various sectors. Nevertheless, relevant local development measures and priorities are outlined in the existing sectoral strategies, therefore it is expected that financial resources will be in place.</p> <p>The Action will seek commitment and engagement of higher government level authorities from the outset, specifically in terms of the Local Development Financing Mechanisms in both entities.</p>
Availability of a sufficient number of quality service providers/experts to allow for quality delivery of the filed-level assistance to local governments and private sector			<p>Both non-governmental, individual and commercial operators from the country, or potentially – from neighbouring countries will be informed and invited to provide their services, based on the specific areas of work of the Action.</p>
Political or private interests prevent the merit-based selection of final beneficiaries under the Action			<p>Beneficiary selection will be governed by a set of pre-agreed objectively verifiable criteria with each assigned a number of points. Strong quality assurance mechanisms will be ensured by the Action team.</p>

### **2.1.6. Logical framework**

The logical framework is enclosed as *Annex I* to this document.

### **2.1.7. Action budget**

The total budget of the Action is EUR 6,666,667, where requested EU financing amounts to EUR 6,000,000 (90% of the total budget) and co-financing by UNDP stands at EUR 666,667. Direct eligible costs of the Action are at EUR 6,274,143, while indirect costs amount to EUR 392,523 (or 7%).

Financial resources allocated for programmatic activities amount to approximately 85.3% of the Action budget at EUR 5,686,125, with the following distribution along the three Action results:

- Result 1 – approximately 26.4 %,
- Result 2 – approximately 37.2 %,
- Result 3 – approximately 36.5 % and

The remaining 14.7% of the Action budget amounting to EUR 980,542 is distributed as follows: project management and evaluation at EUR 519,867, visibility at EUR 68,152 and indirect costs at EUR 392,523.

Detailed activity-based budget of the Action is enclosed as Annex 3 of the EU-UNDP Delegation Agreement.

### **2.1.8. UNDP's relevant experience**

UNDP is the United Nations' (UN) global development network, advocating for change and connecting countries to knowledge, experience and resources to help people build a better life.

**UNDP has offices in 177 countries** world-wide and provides expert and technical advice, capacity development and financial support to developing countries, with emphasis on assistance to the least developed. UNDP globally focuses on poverty reduction, democratic governance, energy and environment for sustainable development, and crisis prevention and recovery. UNDP also encourages the protection of human rights and the empowerment of women in all of its programmes.

**UNDP's main goal in Bosnia and Herzegovina** is the democratic and peaceful development of the country, where social, economic and environmental aspects of development coexist in harmony, augmenting the quality of life equitably for all citizens. Programme activities are guided by the aspirations of Bosnia and Herzegovina to become a member of the EU, as well as by the UN Development Assistance Framework 2015-2019 and the Country Programme Document 2015-2019. UNDP's work in the country is complementary to and reinforced by other UN agencies (the United Nations Children's Fund, the UN Volunteers, the UN High Commissioner for Refugees, the International Labour Organisation, UN Women, etc.).

In partnership with state, entity, cantonal and local governments, and a wide range of socio-economic partners, UNDP in Bosnia and Herzegovina works in the following **programme areas**: (a) reduction of regional, economic and social disparities; (b) sustainable management of environmental and energy resources, and green jobs creation; (c) access to justice and increased human security; and (d) access to services and employment opportunities for the most vulnerable. In all areas, there is an emphasis on conflict-sensitive, integrated and innovative programme design based on country priorities and in line with the recent flood recovery needs. Common denominators mainstreamed across work areas are: governance, better access to and quality of public services, and employment.

The UNDP Country Office in Bosnia and Herzegovina is managed by the UNDP Resident Representative, Sezin Sinanoglu, and the UNDP Deputy Resident Representative, Zahira Virani. They

are responsible for ensuring the effective day-to-day management of the office and assume overall strategic responsibility for UNDP programmes and operations.

The Country Office has 141 staff spread across senior management, the operations division, four programme sectors and 5 Regional / 4 project offices (Banja Luka, Brčko, Bihać, Doboј, Drvar, Mostar, Sarajevo, Srebrenica and Tuzla). UNDP's capability to respond to complex development needs at the local level is maintained by a team of more than 50 programme and project officers with expertise in the areas of local and regional development, rural development and agriculture, economic and private sector development, local governance, environment management, energy efficiency, civil society development and social inclusion.

The operations' division includes the Human Resources Unit, the General Services and Procurement Unit, the Programme Operation Support Unit, the IT Unit, and the PR and Communications Unit, providing high quality professional support for all programme activities. The four programme sectors are as follows: Rural and Regional Development, Energy and Environment, Social Inclusion and Human Security and Justice. Since June 2014, a Recovery Programme team has also been set up, so as to deliver post-flood assistance to affected communities and governments country-wide.

***Since 1996, UNDP has delivered more than 350 million USD in development assistance to Bosnia and Herzegovina.*** During the period 2001-2012, USD 230 million was delivered with an annual delivery rate of 90 % of approved budgets, of which only 9.3 % was spent on management costs. While UNDP finances some intervention activities with its core funds or other UN special-purpose resources, the majority of its funding comes from partnerships with multilateral funds and bilateral donors, who recognise UNDP as a reliable and strategic development partner.

***The UNDP operational system*** is composed of an accountability framework and an oversight policy. The accountability framework underscores the commitment of UNDP to results-based performance management, as well as to the shared values of accountability and transparency. The oversight policy of UNDP includes conducting independent internal and external audits providing assurances to the Executive Board and the Administrator that functional systems of internal controls are in place, including evaluation of the policy framework, efficient utilisation of resources, and adherence to professional and ethical standards. Government counterparts participate directly in the design, as well as in the implementation and monitoring of UNDP activities through joint project boards, regular meetings with project and programme staff to review the results achieved and to take decisions on future actions.

***The Programme and Operations Policies and Procedures***<sup>24</sup> 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. UNDP also uses the Atlas software system as a results-based platform to support the management of projects, finances, human resources, inventory and procurement, and this forms the basis for UNDP's internal control and accountability framework.

In terms of existing delivery mechanisms, UNDP has sound operational and administrative frameworks, which offer a diverse set of partnership modalities, including specifically with governmental partners. Increasingly, UNDP in Bosnia and Herzegovina is engaging in contractual partnerships with governments and their institutions, entailing transfer of implementing responsibility and commensurate financial resources not only to provide for effective and transparent policy delivery, but also to strengthen their capacities.

Of particular relevance to the delivery of the Action are the Financial and Administrative Framework Agreement (FAFA) between the European Community and the United Nations, signed in 2003, as well as the Pillar Assessment or Delegation Agreement (PAGoDA) in terms of overall management rules, general and special conditions of the agreement,

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<sup>24</sup> Reference: <https://info.undp.org/global/popp/Pages/default.aspx>.

UNDP is present in the country since 1996, with an unparalleled track record in leading local governance reform and sustainable local development. Since then, UNDP has been supporting the people of Bosnia and Herzegovina in moving from post-conflict recovery towards sustainable development.

Until 2008, UNDP implemented a number of projects focusing on post-conflict reconstruction and sustainable return, local economic development and recovery of basic local services. Those included the *Sustainable Transfer to Return-Related Authorities Programme*, the *Rights-Based Municipal Development Project*, and two area-based economic development programmes (the *Upper-Drina Regional Development Programme* and the *Srebrenica Regional Recovery Programme*, presently in its fourth phase).

In 2008, a second generation of programmes in the area of local governance and local development has been launched, characterised by a growing focus on integrated local development, economic governance, private sector development and environment management. Through these programmes UNDP has effectively delivered more than USD 46 million, partnering with governments at state, entity, cantonal and local levels; civil society organisations and the private sector. Some of the highlight interventions include the joint SDC/UNDP *Integrated Local Development Project* and the *Migration for Development Project*; the *Municipal Training System Project* primarily funded by Sida; the *Mainstreaming Environmental Governance Programme* and the *Democratic Economic Governance: Access to Water Programme* supported by the MDGF; the *Value-Chains for Employment Project* and the *Birač Region Advancement and Cooperation Project* funded by the Government of the Netherlands; the *Vrba River Basin Environment and Tourism Development Programme* funded by the Government of Japan; the *Walking the Via Dinarica – Tourism Development Project* co-funded by USAID; the EU-funded *Reinforcement of Local Democracy Project*, the recently launched SDC/Sida *Strengthening the Role of Local Communities/Mjesen zajednice in Bosnia and Herzegovina*, which will work with 120 MZs country-wide and the *Municipal Economic and Environmental Governance Project* (funded by SDC).

These programmes support local governments to gradually transform into development-conducive, effective and people-centred governance services, adding to the stock of locally generated jobs and investments, managing local development sustainably and contributing to improved quality of life.

Given its integrated nature, UNDP's work in the area of local governance and local development inevitably and increasingly coheres with initiatives related to environment protection and energy efficiency. This is manifested through assistance to local governments for provision of affordable, safe and sustainable water supply and sanitation services; utilisation of energy potential; conservation of natural resources and biodiversity, and creation of livelihoods based on management and rehabilitation of ecosystem services; as well as disaster-preparedness and resilience.

Since 2008, UNDP has effectively delivered more than USD 14 million through implementation of interventions in the environment and energy sector. Specifically, UNDP assists relevant higher government level institutions to improve environmental policies and operational frameworks affecting also the work of local governments. For example, through the *GoAL WaSH Project* funded by MDGF and Sida, UNDP supports the improvement of regulatory framework in the water and sanitation sector and assists water utilities to provide effective and safe services to the citizens. Down-streaming of higher government level policies in the environmental sector was supported through the *Mainstreaming Environmental Governance: Linking Local and National Action Programme*, which helped governments at entity and local levels to manage environmental resources and service delivery by improving environmental governance, and developing 5 local sustainable energy action plans and 37 local environmental action plans. Support to local governments to improve water and sanitation service delivery has been provided through the *Democratic Economic Governance* programme, resulting in studies defining priority investment for water supply over a 10-year period for partner localities, as well as infrastructure projects enabling safe water provision to 50,000 citizens. Moreover, the *Green Economic Development Programme* has helped to create green jobs and bring local economic benefits by implementation of 42 energy efficiency and renewable energy projects, which have so far generated 664 man/months employment and introduced a systemic approach to energy management of public sector buildings. UNDP also cooperates with local governments in applying climate change models into flood risk management policies and strategies, with increasing focus on disaster risk management.

Many of the UNDP-implemented projects in local governance and local development have a strong focus on women and target the most vulnerable groups, such as returnees, IDPs, Roma, persons with disabilities, the elderly and unemployed women and young people, often in localities where local development is still taking shape. Special emphasis is given to gender-sensitive programme implementation, contributing to women's empowerment, representation and employability. Another key value is engaging with civil society organisations marginalised groups and local leaders to promote participation and democratic representation of citizens.

Through its regional offices, UNDP is today implementing projects in almost 90 of the 144 local governments and their communities. During its 19 years of presence in the country, UNDP has succeeded to establish effective cooperation with all levels of government, including with entity ministries responsible for local governance and environment management, and particularly strong partnerships with local governments. UNDP's work is supported by its global knowledge networks in the areas of local development and governance, and utilises relevant best practices from various countries in South and Eastern Europe, Africa and Asia.

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## PART C. ANNEXES

### Annex I. Logical framework

LOGICAL FRAMEWORK FOR THE PROJECT			
OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	
To raise standards of living and social cohesion in Bosnia and Herzegovina through inclusive sustainable socio-economic development	Number of socially excluded employed through implementation of the Action	Project records	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
To stimulate good governance and economic activity, and promote social inclusion at the local level through integrated local development primarily in areas affected by floods and areas with a large percentage of returnees/internally displaced persons.	<p>% of local governments in Bosnia and Herzegovina that apply an integrated approach to local development planning and management.</p> <p>Annual turnover of local SMEs supported directly through the intervention.</p> <p>Number of socially vulnerable people benefiting from strengthened livelihoods in target areas.</p>	<p>Decisions of Municipal Councils/Assemblies of local governments</p> <p>Official statistics</p> <p>Social Inclusion Index Survey</p> <p>SME Financial Reports (AFIP/APIF)</p> <p>Tax Authorities' employment reports</p> <p>Project reports</p>	
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
<p><b>Result 1:</b> Local partnerships are capable of defining and steering effective local socio-economic development as per local needs.</p> <p><b>Result 2:</b> Investment needs in target localities are addressed to deal with long-term consequences of the 2014-floods and achieve objectives of local integrated development strategies/action plans.</p> <p><b>Result 3:</b> Job creation and income generation needs of local communities are addressed, in</p>	<p>1.1. Number of local governments which adopted integrated local development strategies (R1; target value: 13).</p> <p>1.2. Number of local governments with basic development management functions and frameworks in place (R1; target value: 20).</p> <p>1.3. Number of socio-economic stakeholders in target localities engaged in and voicing out their development needs within the local development planning process</p>	<p>Source 1: Decisions of Municipal Councils/Assemblies of local governments; systematisations and organisational structures of participating local governments (<i>indicators 1.1. and 1.2.</i>).</p> <p>Source 2: Integrated local development strategies of participating local governments (<i>indicator 1.1.</i>).</p>	Local development planning in the country is conducted based on the standardized methodology for local development planning, thus eliminating possibilities for overly-high number of local planning documents, which are not aligned

<p>particular for returnees and IDPs, households affected by the 2014-floods and other vulnerable groups.</p>	<p>(R1; target value: min. 30 per locality, of whom at least 30% from vulnerable population groups).</p> <p>1.4. Number of local government staff and elected officials from target local governments who increase professional and technical capacity for local development management and service delivery (R1; target value: 350).</p> <p>1.5. Number of technical documentation for potential projects developed as a result of assistance provided by the Action; (R1; target value: up to 4).</p> <p>1.6. Number of local governments' public service delivery supported by IT solutions; (R1; target value: 4).</p> <p>1.7. % decrease of municipal operating budget re-allocated for local development by the end of the Acton (R1; target value: 3 % of 2015 operating budget in average for all partner local governments).</p> <p>2.1. Number of public buildings and infrastructure rehabilitated in target localities (R2, target value: at least 20).</p> <p>2.2. Number of citizens (female and male) benefiting from improved access to and quality of infrastructure and services within target localities (R2; target value: at least 100,000).</p> <p>2.3. Number of vulnerable groups and their family household members in target areas benefiting from improved social services (R2; target value: 1,000).</p> <p>2.4. Number of ministries/agencies receiving technical support in design and delivery of effective local development grant schemes/support measures (R2; target value: at least 3).</p> <p>2.5. Number of public financial mechanisms supporting local initiatives based on priorities in local strategies and number of projects supported by them (R2; target value: at least 2 financing mechanisms and at least 20 projects).</p>	<p>Source 3: Records and minutes from local planning processes led by local governments (<i>indicator 1.3.</i>).</p> <p>Source 4: Postings and information in media and newspapers; photo and video records (<i>all indicators</i>);</p> <p>Source 5: Project reports (<i>all indicators</i>).</p> <p>Source 6: Official documentation and reports from target local governments and rehabilitated public buildings/infrastructure; photos (<i>indicators 2.1., 2.2., 2.3.</i>).</p> <p>Source 7: Official documentation Decisions, reports, publically announced competitive financial mechanisms for local development in BiH) of relevant governments institutions (<i>indicators 2.4., 2.5.</i>).</p> <p>Source 8: Postings and information in media and newspapers; photo and video records (<i>all indicators</i>);</p> <p>Source 9: Project reports and reports by final beneficiaries of the public financing mechanisms (<i>all indicators</i>).</p>	<p>with municipal budgets and remain detached from the municipal development management system,</p> <p>Higher government levels are receptive and supportive to the notion of targeted support to local development, and willing to apply public financial mechanisms for targeted development impacts, rather than for political leverage purposes.</p> <p>Political climate in Bosnia and Herzegovina is still tense and dominated by nationalistic rhetoric.</p> <p>Forthcoming Local Elections in 2016 may delay planned local level project interventions.</p> <p>Relevantly low level of trust between socially excluded population groups and local governments and communities.</p>
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	<p>2.6. Level of realization of annual implementation plans<sup>25</sup> by target local governments by the Action last implementation year (R2; target value: at least 50% of annual implementation plans for the first planning year).</p> <p>3.1. Number of MSMEs in target areas supported to improve economic activity (R3, target value: 30).</p> <p>3.2. Number of socially excluded people benefiting from employment opportunities (R3; target value: 300).</p> <p>3.3. Number of women-led businesses in target localities supported (R3; target value: 5).</p> <p>3.4. Number of value chains created and/or strengthened within target localities (R3; target value: 5).</p> <p>3.5. Number of small scale agricultural producers (agricultural holdings) receiving investment support and extension services (R3, target value: 300, among whom at least 50% from vulnerable population categories).</p> <p>3.6. Number of investment prospect translated into solid investment and total number of jobs (R3; target value: 3 new investments and at least 30 new jobs).</p>	<p>Source 10: Equipment/goods delivery protocols signed by MSME beneficiaries/rural households (<i>indicators 3.1, 3.3, 3.5.</i>).</p> <p>Source 11: Official documents, reports and active labour market grant schemes of target local governments, as well as evidence from local Employment Offices/Social Welfare Centres in target areas (<i>indicators 3.2.</i>).</p> <p>Source 12: Feedback from direct beneficiaries (<i>indicators 3.1, 3.3, 3.5.</i>).</p> <p>Source 13: Public media coverage; information posted on websites of local governments and other public media sources in Bosnia and Herzegovina (<i>various project indicators.</i>).</p> <p>Source 14: Official records from meetings between local governments and potential investors; documents evidencing new investments in target localities (<i>indicators 3.6.</i>).</p>	
<b>ACTIVITIES</b>	<b>MEANS</b>	<b>OVERALL COST</b>	<b>ASSUMPTIONS</b>
<p><b><u>Activities related to Result 1:</u></b></p> <p><i>Activity 1.1. Strengthening of local development partnerships in target localities and design of integrated and socially-inclusive local development strategies.</i></p>		<b>Result 1: EUR 1,498,807</b>	Strong motivation for participation and engagement on behalf of target local governments and their communities,

<sup>25</sup> This indicator will track the % of implementation of annual operational plans of target local governments for the first two years of implementation of the adopted strategies.



<p>1.1.1. Selection of partner local governments;</p> <p>1.1.2. Strengthening of local development partnerships as community-led development mechanisms;</p> <p>1.1.3 Participatory local development planning.</p> <p><b>Activity 1.2. Embedding development management function within participating local governments and improving effectiveness of local services.</b></p> <p>1.2.1. Functional reviews in participating local governments and support to introduction of the local development management function;</p> <p>1.2.2. Introduction of pilot ICT solutions for effective service delivery;</p> <p>1.2.3. Preparation of technical documentation for large-scale projects.</p> <p><b>Activity 1.3. Strengthening efficiency of local service delivery by improved municipal expenditure management</b></p> <p>1.3.1. Financial assessment of participating local governments;</p> <p>1.3.2. Small-scale energy efficiency investments and support to municipal cost optimisation</p>	<p style="text-align: center; font-size: 48px; opacity: 0.3; transform: rotate(-30deg);">DRAFT</p>	<p style="text-align: center;"><b>Result 2: EUR 2,113,036</b></p>	<p>with particular commitment to the aspect of social inclusion.</p> <p>High motivation of local government leaderships and staff to embrace new participatory work approaches and processes.</p> <p>Procurement-intensive project, which brings along risks in terms of delays and lack of quality service providers to deliver services.</p> <p>Coordination and complementarity with floods recovery, as well as social inclusion interventions delivered by governments and the international community.</p>
<p><b><u>Activities related to Result 2:</u></b></p> <p><b>Activity 2.1 Grant scheme for integrated local development in target areas.</b></p> <p>2.1.1. Design and launch of the grant scheme;</p> <p>2.1.2. Implement selected projects.</p> <p><b>Activity 2.2. Top-down targeted support to local development by higher government</b></p>			

<p><i>levels.</i></p> <p>2.2.1. Assistance to further functioning of the entity Local Development Financial Mechanisms;</p> <p>2.2.2 Technical assistance to selected higher government levels' relevant institutions to design and deliver tailored top-down support to implementation of local priorities.</p>			
<p><b><u>Activities related to Result 3:</u></b></p> <p><b><i>Activity 3.1. Support to the creation/strengthening of value chains and provision of business development and extension services.</i></b></p> <p>3.1.1. Rapid assessments and selection of priority value chains;</p> <p>3.1.2. Selection of beneficiaries and delivery of the assistance.</p> <p><b><i>Activity 3.2. Job opportunities for socially excluded through public works grant schemes</i></b></p> <p>3.2.1. Design of the grant scheme for public works;</p> <p>3.2.2. Delivery and supervision of the grant scheme for public works.</p> <p><b><i>Activity 3.3 Facilitation of investments for economic growth in target areas</i></b></p> <p>3.3.1. Identify potential investors and support realisation of new investments.</p>		<p><b><u>Result 3: EUR 2,074,282</u></b></p> <p><b><u>Visibility: EUR 68,152</u></b></p> <p><b><u>Project management and evaluation: EUR 519,867</u></b></p> <p><b>Indirect costs (7 % of the total direct costs): EUR 392,523</b></p>	

## Annex II. List of flood-affected local governments during the 2014 floods

Federation of Bosnia and Herzegovina	Canton	Population	
Bihać	Una-Sana Canton	61,186	
Bosanska Krupa		29,659	
Ključ		18,714	
Sanski Most		47,359	
Domaljevac - Šamac	Posavina Canton	5,216	
Odžak		21,289	
Orašje		21,584	
Banovići	Tuzla Canton	23,431	
Čelić		12,083	
Doboj-Istok		10,866	
Gračanica		48,395	
Gradačac		41,836	
Kalesija		36,748	
Kladanj		13,041	
Lukavac		46,731	
Sapna		12,136	
Srebrenik		42,762	
Teočak		7,607	
Tuzla		120,441	
Živinice		61,201	
Breza		Zenica-Doboj Canton	14,564
Doboj - Jug			4,409
Kakanj			38,937
Maglaj			24,980
Olovo	10,578		
Tešanj	46,135		
Usora	7,568		
Vareš	9,556		
Visoko	41,352		
Zavidovići	40,272		
Zenica	115,134		
Žepče	31,582		
Foča	Bosna-Podrinje Canton		2,213
Goražde		22,080	
Pale		1,043	
Donji Vakuf	Central Bosnia Canton	14,739	
Jajce	Central Bosnia Canton	30,758	
Travnik		57,543	
Hadžići	Sarajevo Canton	24,979	
Ilidža		71,892	
Ilijaš		20,504	
Novi grad Sarajevo		124,471	
Vogošća		27,816	

<b>Total affected local governments:</b>	<b>81</b>
FBIH	43
RS	37
BD	1

<b>Total population affected:</b>	<b>2,662,223</b>
FBIH	1,465,390
RS	1,103,805
BD	93,028

Republika Srpska	Population
Banja Luka	199,191
Bijeljina	114,663
Bratunac	21,619
Brod	17,943
Čelinac	16,874
Doboj	77,223
Donji Žabar	4,043
Gradiška	56,727
Jezero	1,341
Kostajnica	6,308
Kotor Varoš	22,001
Kozarska Dubica	23,074
Laktaši	36,848
Lopare	16,568
Milići	12,272
Modriča	27,799
Novi Grad	28,799
Osmaci	6,172
Oštra Luka	2,997
Pale	22,282
Pelagićevo	7,332
Petrovo	7,010
Prijedor	97,588
Prnjavor	38,399
Ribnik	6,517
Rogatica	11,603
Rudo	8,834
Šamac	19,041
Šekovići	7,771
Šipovo	10,820
Srbac	19,001
Srebrenica	15,242
Teslić	41,904
Ugljevik	16,538
Vlasenica	12,349
Vukosavlje	5,426
Zvornik	63,686

# Annex III. Returnees and IDPs: local governments of particular concern

