



# Municipal Environmental and Economic Governance (MEG) Project

## 2016 Annual Progress Report

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## GENERAL PROJECT AND PHASE INFORMATION

The **Municipal Environmental and Economic Governance (MEG) Project** is an intervention supported and financed by the Government of Switzerland and implemented by the United Nations Development Programme (UNDP) in Bosnia and Herzegovina.

The Project envisages a 12-years engagement, with three Project phases. The first Project phase consists of a five-month Entry Phase (July – December 2015) and a four-year Main Phase (June 2016 - May 2020), with the total budget amounting to CHF 12 million (CHF 493,022 for the Entry Phase and CHF 11,450,000 for the Main Phase).

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

In order to achieve this overarching goal, the Project will engage across a number of thematic areas contributing towards the following three outcomes:

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

Within its first phase, the Project supports local governments, and their utilities, in improving quality and accessibility of public services and infrastructure, as well as enhancing the partners' internal organizational capacities. Ultimately, the mission of the intervention is to enable local structures, both executive and legislative, to operate across an improved level of regulatory, administrative, technical and organisational performance. This will, among other measures, require the development of technical expertise for a series of local actors and the deployment of innovative and inclusive tools for ensuring transparency and public participation in decision making. Local governments will thus be better equipped, and informed, in responding to the needs and priorities of no fewer than 700,000 citizens in the project catchment area, to include the most vulnerable.

The Project will also strengthen local governments' capacities to provide business-oriented public services and deliver measures conducive to employment. A constructive and sustainable engagement with both public and private actors is expected to create new jobs and attract new investments.

The Project's territorial focus is in the country's north-west (NW) corner (including the Una-Sana Canton and the Prijedor region) and its north-east (NE), encompassing the wider Dobož-Tuzla area. The project works with 18 partner local governments<sup>1</sup> competitively selected during the preparatory phase from a group of 31.

The main project partners are: the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina; the Ministry of Development, Entrepreneurship and Crafts and the Ministry of Agriculture, Water Management and Forestry of Federation of Bosnia and Herzegovina; the Ministry for Administration

<sup>1</sup> Northwest cluster: Bihać, Bosanska Krupa, Cazin, Gradiška, Kostajnica, Kozarska Dubica, Prijedor, Sanski Most, Velika Kladuša. Northeast cluster: Dobož, Gračanica, Gradačac, Kalesija, Prnjavor, Teslić, Tešanj, Tuzla and Žepče.

and Local Self-Government and the Ministry of Agriculture, Forestry and Water Management of Republika Srpska; and the two entity local government associations.

## STRATEGIC REVIEW AND OUTLOOK

The MEG project is an extremely complex, multi-layered intervention implemented within an operating environment with few enablers and many prospective pitfalls. As a result, this reporting period was largely used on laying down the foundations necessary for successful project delivery through i) networking and project placement; ii) the design and deployment of critical tools and instruments; and, iii) detailed data collection and management.

Contacts with direct and indirect project partners at all levels of government, and throughout the reporting period, largely bear out what was evident from discussions and consultations during the project design phase: a MEG-like intervention has been needed for some time and its implementation is welcomed across the stakeholder community. The overwhelmingly positive reception for the project, however, comes with great, and often, unrealistic expectations. For starters, interest for the project greatly exceeds its capacities as the number of local governments interested in benefiting from MEG vastly surpasses the 18 ultimately included in its implementation. At the same time, expectations for the partner local governments that did join needed to be managed through near-redundant communication on the responsibilities of partners and the conditions attached to grant funding available through the Project. In addition to local level partners, MEG also actively sought out and regularly engaged partners at cantonal, entity and state levels, to ensure their buy-in, and help identify overlaps in objectives and complementarities in resources. The cumulative result of these efforts by the team is both a high level of awareness of the MEG project across the country and an overwhelming degree of support for its successful implementation in all corners but especially within the partner local communities.

In parallel, the MEG project team worked on the development of a series of instruments and tools to be deployed across all its components. Many are used to collect data; while the inception phase yielded a wealth of information about each of the partner municipalities, the success of individual project activities remains greatly dependant on information not readily available. For example, and in order to introduce a comprehensive and holistic performance management system in all partner local governments, an accurate baseline is needed for all elements of the local governance system, to include citizens as clients. Accordingly, a comprehensive performance management assessment process was designed and delivered, in parallel to a public survey to gauge popular satisfaction with public services received. Furthermore, the targeting of future activities was further informed through a series of assessments, ranging in interest from economic and environmental legislation to disaster risk reduction.

Technical blueprints for the project's work in improving water supply services, introducing local development management and assessing municipal performance were all developed and will be deployed in 2017 with immediate effect. Objectively and effectively evaluating the work of municipal governments will be essential in introducing conditionality of assistance, a crucial project principle.

Having in mind the ambitious agenda for the project's first phase, until 2020, it was essential that trust is built both with project partners at the local level, as well as with project enablers, at cantonal, entity and state levels. Interest in the project is also brewing within the beneficiary communities as well as within their government structures. Popular interest in, and support for, the Project should help push through reforms potentially disliked by local elites.

At the same time, the instrumentarium developed throughout the Project's first year, as the basis for transformational change of the local governance sector in Bosnia and Herzegovina, will not only serve as an excellent foundation for the intervention's future success but will also be made available for adoption and utilization across the local governments landscape in Bosnia and Herzegovina, likely through the two local government associations.

## INTRODUCTION

The MEG Project will facilitate **improvements in institutional and regulatory frameworks**, as well as **advancing the internal organisational capacities** of all partner LGs. This will ideally enable more result-oriented and efficient local service delivery. Ultimately, the supply side of the local governance system (LG legislative and executive bodies, i.e. councils) will operate on improved regulatory, administrative, technical and organisational frameworks, strengthened capacities of LG council thematic commissions, use innovative tools ensuring transparent and result-oriented decision-making processes, and thus be able to respond more adequately to the needs and priorities of citizens and socio-economic stakeholders within target localities. In addition, capacity of LG leaderships will be strengthened, thus enabling **democratic and development-led decision-making**, with visible positive impacts in the environmental and economic sectors. Importantly, the demand side of the local governance system (citizens, businesses, civil society organizations, non-governmental organisations) will be capacitated and productively engaged in local public affairs and scrutiny of LG performance.

The MEG Project will further enhance the performance of LGs to deliver public services to their citizens and businesses within target localities. Specifically, the tailored Project assistance will result in **enhanced operational, effective and efficient work of public utility companies**, which in partnership with LGs, secure sustainable service delivery, particularly in the water sector. Integral to this process are **improved contractual frameworks** (Public Service Agreements – PSAs) in the water-supply and waste-water services related to both urban and remote rural areas within LGs, which provide clear description of roles and responsibilities for both the owners (LGs) and public service delivery institutions (public utility companies).

Moreover, LGs are expected to **tangibly improve the business enabling environment** by introducing a more business-oriented policy design and delivery, improved administrative services and productive public-private dialogue systems, which will contribute to economic growth and job creation at the local level. These achievements will be directly reinforced by improved quality and availability of municipal environmental and economic infrastructure.

The MEG project will support its partner stakeholders in upgrading their existing **regulatory framework at both local and higher government levels**, which will enable better and efficient service delivery in the environmental and economic sectors. Entity sector-related laws and by-laws will be adjusted to enable better regulated and adequately funded local service delivery in the environmental and economic sectors, with focus on water-supply and waste-water services, and business enabling environment. In addition, taking into consideration the specific governance structure of BiH, cantonal level regulatory framework should be improved, particularly with regards to Law on Utility Services.

These processes will be closely supported by stronger and pro-active thematic organisations, and the Associations of Municipalities and Cities in both Entities. Project knowledge and best practices will be widely disseminated through constant networking, thus enabling spill-over effects not only with target partner LGs, but also beyond.

Further support will be offered to existing professional networks in environmental and economic sectors, due to their instrumental role in improving local good governance practices in general, and public service delivery.

### Update on Context and Stakeholders analysis

The start of the project coincided with the pre-election campaign for local elections in BiH, significantly impacting the start of the intervention with the political situation across many local governments in turmoil.

As this risk was recognized and deemed *high* in the risk log, and in line with developments on the ground, select project activities which required more involvement by the city/municipal mayors had to be postponed until official confirmation of election results. This ensured project buy-in from local counterparts who would remain in power for the duration of implementation.

The local elections ushered in a number of changes in mayoral offices as well as municipal councils' halls across the partner local governments<sup>2</sup>. Overall, 40% of MEG local governments experienced a change in leadership, to include Bihać, Gradiška, Kalesija, Kozarska Dubica, Prijedor, Prnjavor and Velika Kladuša.

Shortly after the implementation of election results, the MEG project team met with all the elected mayors, both new and old, and reconfirmed their commitment to the project, as partner local governments. Newly elected mayors were especially motivated and keen to push forward with the Project, as many instantly recognized the benefits for their local communities. Much effort was also invested by the project team to ensure the inclusion of elected council members into project activities which proved problematic in some localities, due to continuous tensions that exist between executive and legislative branches.

In the first six months, the Project's main stakeholders engaged with the Project to a varying degree but there is ample interest in the Project across the institutional landscape. Project board (PB) members (MOFTER, FMRPO, FMPVS, MPVS RS, MULS RS, both AMCs) remained fully engaged in setting up the Project starting with its inaugural session and continuing with a number of bi-lateral contacts with the project team.

The Project will continue to pursue a policy of engagement with all recognized stakeholders with its increasingly visible public profile attracting new interest. In 2017, the Project plans to focus on a closer relationship with municipal councillors and citizens.

## PROGRESS TOWARDS ATTAINMENT OF OUTCOMES

The MEG Project Document and its Yearly Plan of Operations envisioned no outcomes being reached in 2016 as the project had only been rolled out. The MEG project team did, however, deliver a number of products that are critical in meeting the project goal and reaching its outcomes.

The following operational activities were successfully implemented as the basis for future work:

- select partner LGs and establish official cooperation terms under the Project, with newly elected official representatives;
- collect certifiable documentation, operational information and technical background data for setting a common baseline with all LGs and water utility companies;
- conduct a reference point survey of citizens satisfaction with public services in all partner LGs;
- develop a methodology for performance assessment to be able to tangibly measure the progress made in good governance performance;
- prepare a comprehensive and in-depth analysis of complexity of needed intervention in all Project partner LGs, through a detailed, on-the-ground and evidence-based analysis of all partner LGs, in the area of operational performance management;
- develop the project's own methodology for financial assistance, which establishes transparent parameters for partner LGs, based on which the financial assistance will be awarded;
- prepare a compliance review of disaster risk reduction systems in two LGs, including a list of practical recommendations set to improve civil protection capacities and standard operating procedures to effectively plan and deploy preventative measures in emergencies; and
- prepare initial assessments for identifying legal gaps in environmental and economic sectors

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<sup>2</sup> See Attachment 1 - Analysis of 2016 Election results for MEG LGs

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

This outcome required much of the team’s time and effort due to its significance as the foundation for the future success of the entire intervention.

The Project successfully designed and administered an in-depth assessment of performance management systems in all partner LGs, aimed at helping municipal leaders acquire a better understanding of what performance is and how it can be measured, or indeed managed. Individual, tailor-made action plans were then designed for each partner government, clearly identifying gaps and areas where improvements are needed. The detailed results of the assessment were especially relevant as the evidence-based findings clearly highlighted problem areas with measures how to bridge the gap to the desired state of performance.

Partner local governments now also understand and accept the rationale of the project: sound, objectively verifiable, performance indicators that make up the management system, will serve as a measuring tool for the work of partner local governments over the coming years. The results of the assessments will then be fed into a performance-based incentive scheme that will reward tangible improvements through grant assistance for priority projects in the environmental and economic sectors.

Progress made along this outcome is crucial as it leads to a new realization by local government leaders and officers alike, that performance in the public sector can be measured, quantified and ultimately rewarded.

**OUTCOME 2 – Citizens and businesses in target localities benefit from good quality services provided by LGs in the environmental and economic sectors.**

The provision of quality water and waste water services, a shared responsibility of local authorities and their public utility companies, is a key MEG deliverable. Improvements in this area, however, call for a stronger link between the relevant LG departments and the utilities, as well as a more forceful execution of the local council’s oversight role when it comes to this vital service. Better decisions need to be made with regards to the distribution of limited resources, the monitoring of utilities’ performance, environmental protection, tariff setting, and many other areas.

Against this outcome, during the second half of 2016, the Project worked to design, and prepare for delivery, a comprehensive on-site assistance program for water utility companies, aimed at enhancing their organizational, operational and financial capacities. Two technical partners from Bosnia and Herzegovina were identified to help deliver the assistance: “Una Consulting” of Bihać and the “Institute for Water Management” of Sarajevo. The support package is delivered across 15 thematic areas, with the process starting in October 2016.

**OUTCOME 3 – Improved regulatory framework at higher and local government levels and proactive networking accelerate sector-specific reforms and enable more effective local public service delivery.**

The project will support local and other government institutions in improving their regulatory frameworks, with specific focus on service delivery in economic and environmental sectors. In addition, the project will support selected cantonal and entity ministries in improving their policy design and delivery capacity.

To tailor and target its assistance in the two focus sectors, the project conducted an assessment of relevant policy frameworks governing the two sectors at the local level. More than 30 individual consultations were held with stakeholders and practitioners at all levels of government and in both entities. The results of the analysis are being translated into a set of implementable recommendations that will result in improvements of the legislative frameworks governing environmental and economic public services delivery at the municipal level.

As relevant, the Project contributes to on-going policy and regulatory discussions and reforms in the economic and environmental sectors. The pace of discussions is expected to pick up with the eventual

advancement of BiH on the EU accession path and the entering in negotiations on the EU *acquis communautaire* in these sectors.

## OUTPUTS AND PERFORMANCE ACCORDING TO YEARLY PLAN OF OPERATIONS

The Project officially kicked-off in June 2016, following a preparatory phase during which synergies with other projects were assessed to avoid overlaps and maximize complementarities.

In addition, the process of designing the selection criteria, as well as analysing and selecting project partners took place in the first half of 2016. The official endorsement of the selected partner LGs was obtained at the inaugural MEG Project Board meeting in July 2016.

Subsequently, and in keeping with the **MEG Annual Work Plan covering the period June 2016 – May 2017**, the project team initiated the implementation of critical project activities. The following is a review of said activities for the first six months of this project phase.

### **OUTCOME 1 – Supported local governments apply effective development management systems characterised by stronger oversight of the legislative and greater accountability towards the citizens**

#### **Output 1.1. – Local government performance management systems are established and functional**

Within the MEG Project component focusing on improvements in institutional and regulatory framework as well as internal organisational capacities of partner local governments, a comprehensive *Performance Management Assessment* was designed, developed and delivered. The objective of the assessment was to analyse the existing management systems state in partner LGs, and enable future measurement of systemic progress across the partner local governments, focusing on enhancements in internal LG management systems, their functions, capacities and processes, looking in particular at ways to ensure the public's participation.

The Assessment also provided a snapshot of the current situation in all partner LGs, identifying areas of good performance where positive practices can be documented and later replicated, as well as areas that require improvement and where the project can provide technical assistance accordingly.

From the viewpoint of local governments, the assessment represents the basis for identifying new solutions and instruments that their leaderships can employ to implement reforms and achieve modern administration standards. A regular evaluation process will enable local leaders to monitor progress in key areas and compare results with other LGs.

The overall process has been designed as an opportunity for learning and exchanging experiences between municipalities and cities, and as such it contributes to the public administration reform process in BiH in the context of EU integration.

The assessment methodology focused on two sectors – economic development and environmental protection, and on four types of stakeholders (*target groups*): 1) representatives of executive government, 2) representatives of legislative government, 3) private sector, and 4) civil society stakeholders.

In addition to the evaluation of structures from within the administration and the role of a wider circle of stakeholders with regards to performance management principles, the assessment look closely at the role and the performance of representative government bodies – the councils.

The assessment assesses the capacity and performance of all stakeholders within four key fields:

1. Leadership, representative role, decision making and oversight role of the council;
2. Transparency and accountability of local government;



3. Public participation in the decision-making process;
4. LG efficiency and effectiveness.

These four areas are based on Project developed 21 indicators and 104 sub-indicators, making it the most detailed assessment of its kind ever undertaken in Bosnia and Herzegovina.

The assessment of status against all sub-indicators was evidence-based, by reviewing documentation or documenting the statements of target group representatives in interviews and focus groups. Inaccessibility or unavailability of evidence for the required parameters negatively affected the scoring for the relevant area. This once more highlighted the need for better data collection and management by partner local governments.

The objective scoring against all the indicators ultimately resulted in a final score and ranking for all target LGs. The process also identified key weaknesses, as well as specific recommendations for remedial actions to be taken by the local governments as they aim to improve their performance.

The initial, baseline assessment was finalized in late 2016 with an idea to redo the exercise again, preferably in 2019, in order to assess progress against recommendations made. This will steer much of the decision making in terms of technical assistance and granting by the MEG project.

The conceptual framework developed for the first round of the Performance Assessment in 2016 will be used to develop a Good Local Governance framework for Bosnia and Herzegovina, which will also be the basis for future MEG programming as well as better local government development policies by domestic authorities.

The concept of local government performance management is a novel approach to municipal management. It introduces new structures, functions and processes with the aim of implementing strategy-based public policies, which are, by nature, systemic and aligned with the budgets, with a stronger role of municipal councils in decision making and oversight. The concept implies local governments' stepping away from classic administrative and communal duties and moving towards "*comprehensive management*" (to include municipal leadership, its administration and utilities) and a result oriented approach to local development and service delivery.

It is important to note that partner local governments now recognize the linkage between performance management and access to grant funds available through the project. The team accordingly developed the methodology for results-based financial support to LGs, intended for co-financing of priority projects in environmental and economic sectors, that incentivises the achievement of tangible results by partners.

Accordingly, this mechanism creates a link between the partner LGs' performance and the funds the partner LGs will receive depending on results achieved.

The financial support provided to partner LGs within the results-based methodology will also be used exclusively for implementation of priority capital investments from development strategies in the environmental and economic sectors.

As part of the activity of supporting LGs in compliance with regulatory and operational frameworks for disaster risk reduction, the Project initiated a research process and fieldwork in two priority LGs (Doboj and Tuzla) for Disaster Risk Reduction (DRR) Compliance. This task shall result in realistic assessment of DRR systems, with a list of implementable and practical recommendations aiming to improve the LGs' ability to reduce risk, but also plan and prepare for the eventuality of a natural disaster.

### **Output 1.2. – Citizens are more responsible and enjoy greater role in decision-making and monitoring of government performance**

In order to place more focus on the role and responsibility of citizens in local governance, chiefly through the fora of discussions, debates, and budgetary discussions, the project designed and administered a comprehensive survey of citizen satisfaction. The survey assessed the public's view of the quality and range

of services in the partner LGs. Citizens were asked to provide feedback on public services (quality, availability and cost) and their own involvement in public administration planning and decision making processes (availability of mechanisms and opportunities to provide comments and proposals on important matters concerning local community, involvement in public debates and discussions, professionalism and effectiveness of local government employees, attitude of the people's representatives in the government, responses to initiatives etc.). The cluster of respondents surveyed makes up approximately 1% of the adult population for each of the partner LGs.

Accordingly, a questionnaire with 27 questions was designed together with all LG coordinators, with the survey rolled out in October 2016. Respondents were randomly selected citizens who had used public services at least twice during that year. A total of **5,750 citizens** were surveyed in all 18 partner LGs. As a result of the survey, a detailed analysis of perceptions was prepared for each locality and ultimately published on the official websites of the partner local governments.

In order to ensure process sustainability, the project will introduce the survey as a standing practice across all local governments so that any changes in perception can be monitored across time and possibly attributed to actions taken by the local government. The survey will represent an important channel for the citizens' communication with their elected officials and their local administrators. Together with the performance management assessment data, the survey results will be used as a starting point for planning and providing technical support to LGs in the aspects in which the need for improvement is identified. Survey data will also be used to assess changes in performance and will feed into the results-based decision-making process for grant awards.

During the second half of 2016, the project organised 14 thematic meetings and 2 trainings in 7 locations (Banja Luka, Bihać, Doboј, Gradiška, Kozarska Dubica, Prijedor and Sarajevo). In total, 276 people were trained (100 women; 176 men).

**OUTCOME 2 – Citizens and businesses in target localities benefit from good quality services provided by LGs in the environmental and economic sectors.**

**Output 2.1. – Local governments, through institutionalized partnerships with their utilities and based on oversight by Municipal Councils and the citizens, secure sustainability of service delivery, with focus on the water sector**

The initial stage under this output related to the design and publishing of an international tender for solicitation of offers from qualified consulting companies that will help provide technical inputs to the beneficiaries. The process of evaluation of bids and contract award was completed in September 2016, with contracts signed in October 2016. As a result of the process, two local water sector consulting firms - "Una Consulting" Bihać and "Institute for Water Management" ("Zavod za vodoprivredu") Sarajevo – have been contracted and currently operate across the local partner community. The consultant companies have been hired for a period of 12 months (until October 2017), during which time and through provision of direct technical assistance they will work together with the public utility companies' representatives and staff on activities of strengthening their internal capacities.

The tender was divided into two geographical LOTs, with each of the two companies assigned a region of operations:

- **Una Consulting for LOT1**, which includes public utility companies from the Northwest Cluster (Bihać, Bosanska Krupa, Cazin, Gradiška, Kostajnica, Kozarska Dubica, Prijedor, Sanski Most and Velika Kladuša).
- **Institute for Water Management Sarajevo for LOT2**, which includes public utility companies from the Northeast Cluster (Doboј, Kalesija, Gradačac, Gračanica, Prnjavor, Teslić, Tešanj, Tuzla and Žepče).

Legislation in both entities stipulates that competences of LGs include regulating and ensuring provision of utility services, including public water supply services and wastewater management. Bearing in mind that virtually no LGs in BiH comply fully with the relevant legal provisions, there is a pressing need to better regulate the relationship between the local government, as the founder of the utility, and the company itself, as the operator. The project will address this need through the mechanisms of the *Public Services Agreement (PSA)* between the two, regulating mutual rights and obligations, roles and responsibilities, and stipulates objectives, tasks, measures and activities related to provision of public water supply services and wastewater disposal in their areas of responsibility.

The purpose of the PSA is to ensure the necessary legal and operational preconditions for provision and development of public water supply and wastewater disposal services, as well as to effectively meet the basic public need for these services as an indispensable requirement for living and working in local communities.

In this respect, PSA gives special attention to the issue of subsidising public water supply and wastewater disposal services by institutions owned by LG, the public water supply services pricing methodology, as well as to the issue of updating the inventory and calculating depreciation of fixed assets in the ownership of LG, entrusted to the public utility company for management and maintenance.

All 18 public utility companies actively participated in the preparation of individual drafts, agreed the provisional text and granted approvals to start with the process of arranging the signing ceremony. The activity will extend into 2017, because in order to ensure institutional procedures are followed, an approval for the signing on behalf of the LG needs to come from the Municipal Council or City Assembly from individual LGs. This was slightly delayed due to the local elections taking place in late 2016.

### **Output 2.3. – Quality and availability of municipal environmental and economic infrastructure is improved**

In line with the project's mandate in disaster risk reduction, the MEG team designed and administered a compliance assessment of two partner LGs (Doboj and Tuzla) in the sectors of risk reduction and emergency preparedness. The local governments were selected as they represent the two most at risk from natural hazards according to available data. The compliance assessment looked at civil protection capacities, hazard risk reduction protocols, planning procedures in effect, the status of preparations for emergencies, etc.

The assessment looks at the framework for the implementation of disaster risk reduction principles and the organisation of protection and rescue capabilities in the cities of Doboj and Tuzla. The preliminary findings point to a complex structure of administrative division of competences in BiH, which is also reflected in the protection and rescue system. A lack of vertical coherence between laws and bylaws from state to local level prevents a continuous dialogue and hampers exchange of information. The assessment looked at the performance of the two local government systems during the recent emergencies and found numerous shortcomings caused by a lack of a clear command and control chain, poor regulations and a chronic shortage of funds. The assessment report with actionable recommendations will be completed at the beginning of 2017.

## **OUTCOME 3 – Improved regulatory framework at higher and local government levels and proactive networking accelerate sector-specific reforms and enable more effective local public service delivery.**

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

In order to formulate an up to date and relevant course of action for improving the status of legislation in the two core project sectors, the environment and the economy, the project designed and administered a legal assessment looking at the legislation impacting these two sectors at the local level. The process

encompasses a comprehensive desk review of relevant legislation along with an exhaustive set of consultations with key stakeholders from all levels of government, as well as focus groups and questionnaires. The expected deadline for the preparation of recommendations is March 2017.

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

In accordance with the overall plan as well as individual institutional taskings coming out of the “2015-2018 Reform Agenda for Bosnia and Herzegovina”, and having in mind the pressing needs and obvious gaps in local capacities, both stated by representatives of the Federal Ministry of Development, Entrepreneurship and Crafts (FMRPO), the MEG project, acting in accord with its mandate, offered expert policy development assistance to the ministry. The assistance is reflected in the provision of specific technical and expert inputs in the preparation of the “Law on Stimulation of Small Business Development in the Federation of Bosnia and Herzegovina”.

The assistance is provided in the form of legal analysis of relevant EU regulations and legislative frameworks, in particular the *Small Business Act (SBA)*, and relevant directives on stimulation of small businesses and business infrastructure. These segments will, after a process of adjustment to local circumstance, be included in the text of the federal draft law. Relevant provisions of existing regulations and their implementation will be discussed with private sector actors, NGOs, development agencies and other stakeholders where relevant inputs will be included in the draft law, prior to submission into parliamentary procedure.

## **GENDER EQUALITY**

Considering the prominent role afforded to gender issues in the project document and subsequent programming efforts by the team, a UNDP International Gender Advisor was tasked with preparing a Gender Equality Mainstreaming Concept document, to be used by the Project as a guide to address gender-sensitive issues and deploy best practices, tools and approaches as appropriate.

During the reporting period the team, in particular, focused on the following:

- Collection of sex-disaggregated data throughout project activities so as to provide the means to compare impact of project activities on individual groups. For example, the public satisfaction survey methodology, and implementing instructions, mandated for a proportionate share of respondents of both genders. As a result, out of a total of 5,750 respondents, 2210 (close to 40%) were women. Gender sensitive data analysis will thus greatly inform future project activities.
- Proactive lobbying for empowerment of women as direct MEG partners. With water management, a traditional male preserve, prominent as a topic of project interest, and with very few women in positions of leadership across the partner local government, it was important to advocate for the inclusion of women as MEG project coordinators. At the end of the process, 6 out of 18 municipalities designated women to serve as project coordinators.
- To advocate a change even more, the Project will work on promoting equal gender representation in all newly established municipal bodies and working groups, and on ensuring that all newly introduced policies consider gender aspect, and are in line with basic gender-responsive principles.

## FINANCES AND MANAGEMENT

As of December 31, 2016, realized MEG budget utilization versus the set Project targets plan was at the level of **91%**. In total numbers, the Project utilized **CHF 362,856.04** versus budgeted **CHF 397,318.38** or CHF 34,462.34 less than originally planned.

Designation		BUDGET 2016 - CHF		
		Planned	Realized	%
<b>PART 2</b>	<b>Local Office [LO] of Contractor</b>	<b>20,784.24</b>	<b>10,459.45</b>	<b>50%</b>
<b>PART 3</b>	<b>Project Implementation</b>	<b>145,395.96</b>	<b>148,448.14</b>	<b>102%</b>
<i>PART 3a</i>	<i>Long-term experts</i>	108,989.56	110,921.48	
<i>PART 3b</i>	<i>Short-term experts (Consultants)</i>	-	537.29	
<i>PART 3c</i>	<i>Local support</i>	36,406.40	36,989.37	
<b>PART 4</b>	<b>Administrated Project funds</b>	<b>231,138.19</b>	<b>203,948.45</b>	<b>88%</b>
<b>Outcome 1</b>		<b>44,681.74</b>	<b>40,608.71</b>	<b>91%</b>
	Output 1.1	32,316.94	33,001.08	
	Output 1.2	12,364.80	7,607.64	
<b>Outcome 2</b>		<b>170,368.45</b>	<b>146,211.63</b>	<b>86%</b>
	Output 2.1	170,368.45	146,105.18	
	Output 2.2	-	106.45	
	Output 2.3	-	-	
<b>Outcome 3</b>		<b>14,600.00</b>	<b>16,027.13</b>	<b>110%</b>
	Output 3.1	14,600.00	13,446.11	
	Output 3.2	-	2,581.02	
	Output 3.3	-	-	
	Media/PR/visibility (entire Project)	1,488.00	1,100.98	74%
<b>TOTAL CHF</b>		<b>397,318.38</b>	<b>362,856.04</b>	<b>91%</b>

While there were no major deviations from the budgeted Project activities, some activities ended up costing less than originally envisaged. This is specifically noticeable under Output 2.1. under which the Project plans to bring systemic changes in the organisational, operational and financial management of municipal utilities, resulting in their long-term improved and sustainable performance, business-conducive environment and higher citizens' satisfaction, and thereafter – quality service delivery.

In this specific case, during the budget preparation, the Project could only estimate the size of financial offers that would come from consulting companies, which were providing their bids via international tender procedure. This caused a minor discrepancy from the originally envisaged amount for this budget line, but with no significant negative effects to either Project implementation activities or expected outputs/outcomes. The Project will use this experience when planning expected expenditure for the next round of technical assistance to water utility companies.

Although the level of required amount of work that was planned to be carried out by the end of 2016 was rather large, the Project still managed to deliver on all agreed activities, converting inputs into outputs in a short period of time. In addition, specific technical assistance from all service providers to partner local governments and water utility companies, was carried out in satisfactory manner and on time.

Moreover, the Project did not experience any minor or major differences between planned and executed activities. The approved MEG Annual Work Plan was the guiding document to successful and focused implementation of all agreed activities for the first six months of the Project life.

For additional data on budget spending and information per each budget line activity, please refer to **MEG Financial Report 2016**, annexed to this document.

## LESSONS LEARNED

During this reporting period, there were several lessons learned that are worth noting:

- The Project delivers tailored support to 18 LGs, their administration, councils and citizens; 18 water utility companies; and a number of associated institutions at various levels of government. The workload is taxing for both the project and the recipients of the assistance, with sometimes divergent expectations. As a result, each assistance package needs to be carefully discussed and agreed upon with beneficiaries before any activities are launched, to ensure buy-in and the accomplishment of project objectives.
- Local government associations can serve as repositories for the many instruments and tools delivered under the umbrella of the project. With many non-partner local governments seeking assistance with improving the performance of their structures, there is a need to create a central point from which these instruments can be distributed for wider implementation. The project will look to identify ways to widen the reach of products devised by the team but in a less resource-intensive way so as to enable non-partner local authorities to implement them with minimum external assistance.
- Peer-to-peer exchange of knowledge and good practices among LG staff, as well as among water utility companies' employees, has proved to be very effective. Workshops, meetings, and direct communication has proven to be an excellent tool to enable per-to-peer information exchange and learning as officials are keen to learn from each other and share their relevant experiences and practices that can assist everyone in every day operations.

## LIST OF ABBREVIATIONS

AMC	Association of Municipalities and Cities (FBiH and RS)
BFC	Business Friendly Certification
BiH	Bosnia and Herzegovina
CSO	Civil Society Organisations
EU	European Union
FBiH	Federation of Bosnia and Herzegovina Entity
FMRPO	Federal Ministry of Development, Entrepreneurship and Crafts
FMPVS	Federal Ministry of Agriculture, Water Management and Forestry
FOPIP	Financial and Operational Improvement Programme
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GOV-WADE	Governance Project in Municipal Water and Environmental Development
LG	Local Government(s)
MEG	Municipal Environmental and Economic Governance Project
MOFTER	Ministry of Foreign Trade and Economic Relations
MPVS RS	Ministry of Agriculture, Water Management and Forestry of Republika Srpska
MULS RS	Ministry of Public Administration and Local Government of Republika Srpska
NE	North-East
NRW	Non-Revenue Water
NW	North-West
RS	Entity of Republika Srpska
SBA	Small Business Act
SME	Small and Medium-Sized Enterprises
SDC	Swiss Agency for Development and Cooperation
UNDP	United Nations Development Program

**ANNEX****Analysis of election results in MEG Project partner municipalities**

Now that official election results have been announced, new structures of local authorities can be analyzed and compared with that of previous term. It is important for MEG project to make at least basic analysis of election results in early stage in order to get a grasp of possible political risks that could eventually appear in partner municipalities.

The following table presents localities where some new names appeared in the position of Mayor.

No	Municipality	Old Mayor	Party	New Mayor	Party
<b>Cluster 1</b>					
1	Bihać	Emdžad Galijašević	SDA	Šuhret Fazlić	GS
2	Bos. Krupa	Armin Halitović	SDP	Armin Halitović	SDP
3	Cazin	Nermin OGREŠEVIĆ	A-SDA	Nermin OGREŠEVIĆ	A-SDA
4	Gradiška	Zoran Latinović	SNSD	Zoran Adžić	SNSD
5	Kostajnica	Drago Bundalo	SDS	Drago Bundalo	SDS
6	Koz. Dubica	Mile Zlojutro	SDS	Radenko Reljić	SNSD
7	Prijedor	Marko Pavić	DNS	Milenko Đaković	DNS
8	Sanski Most	Mustafa Avdagić	SDA	Faris Hasanbegović	SDA/SBB
9	V. Kladuša	Edin Behrić	Indep.	Fikret Abdić	Laburisti
<b>Cluster 2</b>					
1	Doboj	Obren Petrović	SDS	Obren Petrović	SDS
2	Gračanica	Nusret Helić	SDP	Nusret Helić	SDP
3	Gradačac	Edis Dervišagić	SDP	Edis Dervišagić	SDP
4	Kalesija	Nedžad Džafić	SDA	Sead Džafić	Independent
5	Prnjavor	Siniša Gatarić	SNSD	Darko Tomaš	SNSD
6	Tešanj	Suad Huskić	SDA	Suad Huskić	SDA/SBB
7	Teslić	Milan Miličević	SDS	Milan Miličević	SDS
8	Tuzla	Jasmin Imamović	SDP	Jasmin Imamović	SDP
9	Žepče	Mato Zovko	HDZ	Mato Zovko	HDZ



Second table shows comparative review of previous and forthcoming municipal council structures per municipalities with short observations and assessment of level of a risk concerning possible emergence of discrepancy between Mayor's political affiliation and municipal council majority that could potentially lead to uncertainty and stalemate in the work of local institutions.

**Legend:**

- Red** – possible discrepancy between mayor and municipal council  
**Yellow** – different options are possible  
**Green** – most probably there will be no discrepancy, i.e. stable majority will be established

No	Municipality	OLD structure of municipal council (# of seats)		NEW structure of municipal council (# of seats)		Probability of discrepancy between mayor and municipal council
<b>Cluster Northwest</b>						
1	Bihać	SDA	12	SDA	11	SDA and parties around it formed a stable majority in the previous term. Now, they do not have a comfortable majority. New majority will depend on the political preference of GS who has a new mayor. A lot of different options are possible at this point.
		SDP	10	GS	5	
		A-SDA	3	SDP	5	
		SBB	2	A-SDA	5	
		SDU	1	SBB	2	
		HDZ 1990	1	DF	2	
		NSRzB	1			
2	Bosanska Krupa	SDP	8	SDA	8	In the previous mandate, ruling coalition has changed four times (the last time it was SDP, A-SDA, SBB and DF). The very same coalition as the last one is probable again, but SDP, who got a mayor again, has lost a lot of votes so there is possibility (even easier and more likely options) of other majority combinations which may lead to discrepancy between executive and legislative power.
		SDA	7	A-SDA	5	
		A-SDA	4	SDP	5	
		Eko.stranka	2	DF	4	
		SBB	2	SBB	1	
		SBiH	1	Naša s. Nac. manjine	1 1	
3	Cazin	A-SDA	13	A-SDA	15	There are no significant changes to report in this municipality.
		SDA	11	SDA	10	
		DNZ BiH	2	SDP	2	
		SDP	2	DF	1	
		SBB	1	Laburisti BiH	1	
4	Gradiška	SNSD	10	SNSD	10	Ruling majorities around SDS and SNSD have been constantly changing, while former mayor was from the SDS which is why recently this municipality faced deadlock in its work. The new Mayor comes from SNSD and may relax situation in Gradiška if SNSD manage to gather a ruling coalition. However, there are several new political actors who can make things complicated.
		SDS	7	SDS	5	
		PDP	5	PDP	4	
		SRS/SNS	3	DNS	3	
		SP	2	Izvor	3	
		NSRB	2	Goran Đorđić	2	
		DNS	1	SP	2	
		Nac. Manjine	1	NDP Nac. Manjine	1 1	

No	Municipality	OLD structure of municipal council (# of seats)		NEW structure of municipal council (# of seats)		Probability of discrepancy between mayor and municipal council
5	Kostajnica	SDS	4	PDP	4	Same Mayor has been elected and municipal council has similar structure. The ruling coalition will most probably gather around SDS.
		PDP	4	SDS/SRS	4	
		SNSD	3	SNSD	3	
		SP	2	DNS	1	
		SDP	1	SP	1	
		SRS/SNS	1	US	1	
		SDA	1	SDP	1	
		DP	1	SDA	1	
				NDP	1	
6	Kozarska Dubica	SNSD	9	SNSD	10	In K. Dubica, SDS controlled ruling coalition, which broke up near the end of the term and most of the SDS councilors eventually entered a coalition with the SNSD. Now SNSD has a mayor and a comfortable majority with its coalition partners. Although a change took place in K. Dubica, it seems that there will be a stable majority this time.
		SDS	7	DNS	7	
		PDP	5	SDS	4	
		DNS	3	PDP	3	
		SP	1	SP	3	
		SDA	1			
7	Prijedor	DNS	9	DNS	10	Ruling coalition that dominated in Prijedor is in even stronger position now. The only change is new name of the Mayor who comes from the same political party which is the most popular in Prijedor.
		SNSD	7	SNSD	7	
		SDS	5	SDS	5	
		SDA	2	SDA	3	
		PDP	2	PDP	2	
		SDP	2	SP	1	
		NDS	1	DF	1	
		SBiH	1	SDP	1	
		DP	1			
8	Sanski Most	SDA	14	SDA	14	SDA dominates again in this municipality and we expect to see continuity and stable majority in Sanski Most.
		SDP	7	SDP	5	
		SBB	6	DF	4	
		SBiH	3	SBB	3	
		SNSD	1	A-SDA	2	
				SBiH	1	
				DNS	1	
				NS	1	
9	Velika Kladuša	DNZ BiH	18	Laburisti	13	Although a change took place in Kladuša, the Mayor comes from a party that is outright winner and will most likely have stable majority. Problems might occur with Kladuša's relationships with neighboring municipalities, as the new mayor is an indicted war criminal who served his sentence. But, according to the BiH Election Law, he was granted an opportunity to run for the seat.
		SDA	4	SDA	4	
		Str. Privrednog prosperiteta	3	DNZ BiH	4	
		SDP	2	Pokrenimo Kladušu	3	
		A-SDA	1	DF	2	
				A-SDA	1	
				Str. Privrednog prosperiteta	1	

No	Municipality	OLD structure of municipal council (# of seats)	NEW structure of municipal council (# of seats)	Probability of discrepancy between mayor and municipal council
Cluster Northeast				
1	Doboj	SDS 12 SNSD 8 NDS 2 SDP 2 DNS 2 SP 2 SBIH, HSS, NHI, 2 NSP 2 SDA 1	SDS 11 SNSD 7 SP 3 SDA/SBB/SBiH 3 DNS 3 SDP 2 NDP 1 PDP 1	In previous term, Doboj saw a number of different ruling coalitions gathered around SDS making situation somewhat unstable. The same Mayor coming from SDS was re-elected, while the situation in city council is slightly better in terms of forming a stable majority that will not be prone to constant changes even though there is still a little room for different combinations or complications.
2	Gračanica	SDP 11 SDA 11 BPS 3 SDU BiH 1 BOSS 1 SBB 1 LDS 1 Naša str. 1	SDA 9 SDP 9 Naša str. 3 SBiH 3 SDU BiH 2 BPS 2 DF 1 BOSS 1	The Mayor has remained the same and it is very likely that a new majority in the council will gather around SDP as it was the case in the last term. However, emergence of new political actors and dead heat between SDP and SDA could theoretically complicate the situation.
3	Gradačac	SDP 7 SDA 7 SBB 5 SBiH 4 BPS 2 SEP 2 NSRB 2	SDP 9 SDA 7 A-SDA 3 Reg. demokratski savez Tuzla 3 SBB 2 SEP 2 SBiH 1 HDZ BiH 1 DF 1 Nac. Manjine 1	The Mayor has remained the same, while SDP achieved slightly better result, so it is possible to have the ruling coalition led by SDP in Gradacac as it was the case earlier. However, the structure of municipal council is much more fragmented now, and therefore there is possibility of different SDA-led combinations.
4	Kalesija	SDA 8 SDP 6 NSRB 3 BPS 2 SBiH 2 SBB 2 SEP 1 SDU BiH 1 A-SDA 1	SDA 6 Nezavisna lista 5 Sead Džafić 5 SDP 4 SBiH 3 GDS BiH 3 BPS 3 SBB 1 A-SDA 1	An independent candidate (Sead Džafić) is likely to be a new Mayor while SDA achieved the best result in municipal council. Taking into account frequent changes before elections, all options are open including the possibility that Mayor's political party (independent list) remain in opposition. If there is agreement though between SDA and independent list/new Mayor (a former member of SDA) there could be a stable majority.
5	Prnjavor	SDS 9 SNSD 7 PDP 2 DP 2	SNSD 10 SDS 9 NDP 3 DNS 1	SNSD made a shift in Prnjavor and got its mayor. However, it seems that SNSD will not be able to form majority with its partners from the entity level, and there is

No	Municipality	OLD structure of municipal council (# of seats)	NEW structure of municipal council (# of seats)	Probability of discrepancy between mayor and municipal council
		SRS-NDS 2 SRS 2 SP 2 Pokret za Prnjavor 1 DNS 1	SP 1 SRS RS 1 SDA 1 SNS 1 PDP 1 Nac. Manjine 1	therefore possibility of discrepancy between the mayor and the majority in the municipal council.
6	Tešanj	SDA 11 SDP 7 SBiH 3 BPS 2 SBB 1 LDS 1	SDA 11 SDP 5 SBiH 2 SBB 2 BPS 2 A-SDA 2 DF 1	There are practically no changes in Tešanj and almost certainly there will be continuity and stability of ruling coalition.
7	Teslić	SDS 8 SNSD 6 NDS 4 SP 2 PDP 2 SRS 2 SDA 2 DNS 1 SDP 1 SBiH 1	SDS 9 SNSD 7 PDP 4 SP 3 DNS 2 SDA 2 SDP 1 SRS 1	Teslić again got a mayor coming from SDS, but in last term SDS remained in opposition in the municipal council. SDS has a slightly better chance to form ruling coalition now considering good result of PDP, but situation remains uncertain and different options are still possible.
8	Tuzla	SDP 10 SDA 6 SBB 4 NSRB 3 BOSS 2 HDZ BiH 2 Tuzlanska alternativa 2 SBiH 1	SDP 11 SDA 6 SBB 4 Tuzlanska alternativa 3 HDZ BiH 2 DF 2 BOSS 2	Although SDP got the most votes and a Mayor yet again, there is a real possibility of forming the ruling coalition in the city council without SDP if some disagreements between SDP and its coalition partners from previous term are not resolved.
9	Žepče	HDZ BiH 10 SDA 7 HDZ 1990 3 SDP 3 SBiH 1 SBB 1	HDZ BiH 14 SDA 6 SDP 2 HDZ 1990 1 A-SDA 1 SBB 1	HDZ continues its domination in Žepče and it is in position now to form majority in municipal council on its own.

In conclusion, out of 18 partner municipalities, a higher possibility of discrepancy has been identified in one municipality only. In 9 municipalities, there is a possibility of establishing a stable majority, but there is also a more or less chances for things to get complicated, which is something that can be undoubtedly known only after post-election negotiations are over. It is almost certain that stable ruling coalitions will be formed in 8 partner municipalities.

In some of the turbulent municipalities political situation could be stabilized, while in some where stable majority existed situation got uncertain. On average, political situation in partner municipalities is equally good (if not better) as in previous term and the estimate is that election results will not affect regular performance of project activities.