

COVER PAGE

Country: Montenegro

Project Title: Strengthening mechanisms for public finance at the local level in Montenegro

Expected Outcome(s)/Indicator(s): The Project is designed to support development of capacities of the municipal stakeholders and stakeholders at the central level to introduce transparent, accountable, results oriented budgeting reflecting capital investments, local and national strategic priorities.

(CPAP outcomes):

1. Efficiency and transparency of Government improved in order to effectively lead policy formulation, coordination and service delivery in accordance with European Union requirements.
2. Government capable to efficiently managing the requirements of independence and European Union accession.

Expected Output(s)/Annual Targets:

Output: Strengthening mechanisms for public finance at the local level in Montenegro;

Targets: 1) New budgeting techniques introduced based on the assessment; 2) Municipal bonds market in Montenegro assessed and recommendations provided for improvement;

(CPAP outputs linked to the above CPAP outcome):

- 1.1 Institutional review of Government completed.
- 1.2 Technical support and policy advice provided to implement recommended structural/organizational changes as well as for improved project management.
- 2.3 On-the-job training for senior Government staff provided, as well as advice on the development of consultative procedures and information communication technology. Establishment of international connections that should help key institutions to access funding from the European Union.

Executing entity: UNDP CO Montenegro

Responsible party: UNDP CO Montenegro

Brief Description:

The overall Project objective of the Project "Strengthening mechanisms for public finance at the local level in Montenegro" is to facilitate socio-economic development at the local level through strengthening accountable, transparent and results oriented public finance mechanisms.

Programme Period: January 2011 – December 2012
Project Title: **Strengthening mechanisms for public finance at the local level in Montenegro**
Project ID: TBD
Project Duration: 24 months (January 2011 – December 2012)
Management Arrangement: Direct Execution

Total Budget	1,080,900 US\$
Allocated resources:	1,080,900 US\$
Donor:	
Kingdom of the Netherlands	
Government	_____
Regular	_____
Other:	
• In kind contributions	_____
Unfunded budget:	

Agreed by (Government):

Agreed by (UNDP CO Montenegro):

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Strengthening mechanisms for public finance at the local level in Montenegro

1. Executive Summary

After the independency in 2006, the Government of Montenegro has initiated a rapid process of changes, giving the priority to macroeconomic stabilisation. Montenegro continued moving towards a functioning market economy; recording significant macroeconomic results in terms of economic growth, exports growth, improved efficiency of the economy, financial sector growth. In parallel to this, the Government continued structural reforms, with special focus on reform of the overall public sector including public finances. The key challenges in this area remain still limited capacities for policy making and implementation of policies and laws combined with insufficient transparency and accountability within the public sector in Montenegro.

Reform and strengthening of the local governance system in Montenegro is progressing; The Government of Montenegro has developed and adopted strategic policy documents for further development of the local governance system; namely the “Analysis on Local Self-government Financing”, “Analysis on Local Self-government Functioning” and “Analysis on Local Self-Government Activities”. Those documents set up the basis for the amendments to the overall legal system for functioning of municipalities; hence, the new legal framework was adopted, with the new Law on Local Self Governments in the centre.

Significant step was made in the fiscal decentralisation in Montenegro with the adoption and implementation of the Law on local self-government financing. The Law, fully in line with the EU best practices, brought about changes in intergovernmental fiscal relations, more transparency and equity.

However, fiscal decentralization in Montenegro remains a work in progress: municipal “expenditure assignments” (municipal tasks/ responsibilities) are defined, but there are also further issues regarding the revenues and expenditures of municipalities such as consolidation of revenues, an objective system for establishing and allocating grants, and municipal property rights and assets.

In order to continue building transparent and accountable public finance system at the local level there is a need to improve overall municipal budgeting process, support fiscal equalisation system and mechanisms at the same time to explore possibilities for issuing municipal bonds for financing of capital infrastructure.

The overall objective of the Project “Strengthening mechanisms for public finance at the local level in Montenegro” is to facilitate socio-economic development at the local level through strengthening accountable, transparent and results oriented public finance mechanisms.

The Project is designed with a specific purpose to support development of capacities of the municipal stakeholders and stakeholders at the central level to introduce transparent, accountable, results oriented budgeting reflecting capital investments, local and national strategic priorities.

In order to achieve the specific purpose, the project is expected to deliver the following results:

Result 1: Mechanism for transparent and accountable public finance at the local level established and operational;

Result 2: Municipal bonds market in Montenegro is strengthened through better understanding of benefits and opportunities among municipalities;

Result 3: Fiscal equalisation mechanisms in Montenegro further strengthened;

This project proposal outlines the various interventions that are foreseen. The main aspects are highlighted in this executive summary. The details can be found in the relevant sections in the following chapters of the proposal.

2. Background

2.1. Political and macro-economic situation

Montenegro, until 2006 was part of the Union of Serbia and Montenegro. On 21 May 2006, Montenegro organised a referendum on independence, in line with the provisions of Article 60 of the Constitutional Charter of Serbia and Montenegro. The citizens of Montenegro voted for independence from the Union of Serbia and Montenegro, and consequently on 3 June 2006 the Parliament of Montenegro adopted the "Declaration of Independence". After declaring independence, Montenegro started the process of joining international organisations and in 2006 became a member of the UN, OSCE, ILO, ITU, ICRC and other international organizations. In 2007, Montenegro also became member of the Council of Europe. In October 2007, Montenegro adopted the Constitution, conform international standards and recommendations of the Council of Europe.

In the previous period, Montenegro continued moving towards a functioning market economy; the country recorded significant macroeconomic results in terms of economic growth, exports growth, improved efficiency of the economy, financial sector growth. However, mixed progress on structural reforms is affecting economy; additionally, the competitiveness is worsening. The main challenges that the country is facing remain implementation of laws and policies; reform of the overall judicial system and fight against organized crime and corruption.¹

The Government of Montenegro in June 2007 has adopted a National Programme for Integration in EU (2007-2012). The Stabilisation and Association Agreement (SAA) between the EC and Montenegro and the Interim Agreement on trade and trade related matters were signed in October 2007. The Interim Agreement entered into force in January 2008. Montenegro submitted its application for EU membership on 15 December 2008. On 23 April 2009 the Council decided to invite the Commission to prepare an Opinion on Montenegro's application.

Agreements between the EU and Montenegro on Visa Facilitation and Readmission entered into force on 1 January 2008; as of December 19 2009, the citizens of Montenegro are on the "white Schengen" visa system.

To support Montenegro in achieving EU membership, the EU provides financial backing through the Instrument for Pre-Accession Assistance (IPA). As a potential candidate country, Montenegro is entitled of first two IPA components: Institutional Development and Cross-Border Cooperation.

2.2. Features of the sector

Local governance system in Montenegro

The key laws for local governance legislative framework have been adopted. The Government of Montenegro has adopted the Strategy of Administrative Reform 2002- 2009)² (PAR Strategy). The PAR Strategy identified significant delegation of competences to lower levels of the Administrative system as one of the key objectives in the PAR process. In February 2005, the Work Programme for Better Local Government³ was adopted which in more detail provided specified objectives and necessary actions to be taken in order to support the process of further decentralization and improvement of local government. This document is the actual basis for implementation of the decentralization process, and has been used by donors and Montenegrin authorities in planning their projects and activities in the area of local governance over the past few years. In accordance with the Work Programme, the Action Plan for Better Local Governance is prepared on yearly basis.

An Action Plan for Better Local Governance 2009 has been approved by the Coordination Committee for Local Self-Government Reform early 2009. The Action Plan provides the time-table for implementation of the Government decision to create financial, personnel and other necessary conditions for the

¹ EC "Montenegro 2008 Progress Report"; SEC(2008) 2696; Brussels, 2008

² The Government of Montenegro, "Public Administration Reform Strategy in Montenegro 2002-2009", Official Gazette , 03/ 2003

³ The Ministry of Interior and Public Administration in close cooperation with the Union of Municipalities was leading this process

implementation of activities given by the National Training Strategy (NTS) and the NTS Action Plan.

The Government of Montenegro has developed and adopted strategic policy documents for further development of the local governance system; namely the “Analysis on Local Self-government Financing”, “Analysis on Local Self-government Functioning” and “Analysis on Local Self-Government Activities”. Those documents set up the basis for the amendments to the overall legal system for functioning of municipalities.

The key institutional stakeholders within the local governance system in Montenegro are Municipalities in Montenegro⁴; The Ministry of Interior and Public Administration (department for local self governments); the Ministry of Finance; the Committee for Coordination of Local Self-government Reform (CCLSGR); the Human Resources Management Authority (HRMA) and the Union of Municipalities.

Financing of municipalities in Montenegro

The Government of Montenegro has made significant step towards fiscal decentralisation of the country: the Law on local self-government financing⁵ has been prepared and adopted in 2003; actual implementation started in 2004.

The Law on local government financing, fully in line with the EU best practices, brought about significant changes in intergovernmental fiscal relations. Certain amendments to the Law have been done in 2007, mainly in relation to improved functioning of the Equalisation Fund.

The sources of municipal funding are:

- Revenue of primary jurisdiction of the local self-government: this includes local taxes, (surtax to personal income, tax on immovable property, tax on consumption, tax on construction land, registration tax, gambling tax); local fees (resident fee, administration fee, communal fee); and local reimbursement (reimbursement for using construction land, reimbursement for arrangement of construction land, reimbursement for environment protection and improvement, reimbursement for use of the local roads; other revenues introduced by municipality itself, according to special laws).
- Common revenue: common tax and reimbursement revenues introduced by the State (revenues from personal income tax, revenues from tax on immovable property and revenues from concession and other reimbursement for using natural resources allocated by the State).
- The State Budget – on behalf of conditional grants for financing investment projects, which are of local self-governments’ special interest. The Government on the basis of a proposal made by the Ministry of Finance decides on the allocation of the conditional grants.
- Equalisation fund: The Ministry of Finance implements a fund for so-called conditional grants, from which municipalities that benefit from the Equalization Fund can obtain grants for municipal investment projects up to 50% of the total investment amount.

In order to ensure sound and transparent distribution of resources from the Equalisation Fund, the Law on Local Finances provides for the establishment of the Commission for fiscal equalisation (Article 35). The Commission, elected for the period of five years, comprises of seven members, five of which are nominated by the Union of Municipalities and two by the Ministry of Finance. The President of the Commission is elected from the five representatives of the Union of Municipalities.

The Commission adopts the Statute, which regulates its functioning. As indicated in the Law on Local Finances, the main competences of the Commission are to: i) follow on implementation of the fiscal equalisation criteria; ii) identify problems and provide recommendations for improvements in implementation of the fiscal equalisation criteria; iii) provide expert opinion on documents and acts on fiscal equalisation provided by the Ministry of Finance; iv) prepare reports on the overall development of the fiscal equalisation system and provide suggestions for its improvements. The work of the Commission is financed from the equalisation fund, while Ministry of Finance provides administrative and expert support. Some of the main issues and obstacles related to the work of the Commission are: expertise and capacities of the members of

⁴ Andrijevića, Bar, Bijelo Polje, Berane, Budva, Danilovgrad, Kolašin, Kotor, Mojkovac, Nikšić, Plav, Plužine, Pljevlja, Podgorica, Rožaje, Tivat, Žabljak, Ulcinj, Herceg Novi, Cetinje i Šavnik

⁵ „Official Gazette MNE“, nr 42/03 i 44/03 & „ Official Gazette MNE“, „, broj 5/08

the Commission require further development; the role of the Commission needs to be reinforced and the operational framework for the Commission has to be revised. In addition, there is a need to ensure better exchange of experience with the similar structures and exposure to best practices in fiscal equalisation from the EU countries.

Fiscal decentralization in Montenegro remains a work in progress. A clear definition of municipalities' tasks/responsibilities ("expenditure assignments") is obviously a crucial first step in fiscal decentralisation. But there are also further issues regarding the revenues and expenditures of municipalities such as consolidation of revenues, an objective system for establishing and allocating grants, and municipal property rights and assets. This will be the subject of negotiations in the CCLSGR, which will be guided by the "Analysis on Local Self-government Financing".

Municipal budgeting in Montenegro

A municipal budget is a policy statement expressed in monetary terms, declaring the goals and specific objectives the municipality as a whole wishes to achieve by means of the expenditure concerned. As a policy-making document, the budget generally contains a definition of both the quantity and the quality of the envisaged priorities (in terms of projects, services, etc). Priorities identified in the strategic planning processes have to be clearly reflected in the budget.

Local Governments in Montenegro are facing same problems as in other transitional countries with the budgeting. Historically local governments Montenegro had considerable autonomy in expenditure control, while there was little autonomy in revenue generation. Although local governments exercised general decision-making power in spending local government funds, decisions regulating tax rates, services charges and rents, and the distribution of collected funds were determined by the central government. It was common that decisions by the central government dictated which cities would serve as industrial development, transportation, or financial centers. These decisions were typically made on a political basis rather than on market considerations, the availability of resources, technical skills, transportation to markets or other economic factors.

In Montenegro, the allocation of resources still is closely managed by the central government, in many instances to achieve a greater level of macroeconomic stability for the country. Under these current conditions it is unlikely that local governments will be granted complete revenue authority in the near term. As this is the case, municipalities throughout the country will be required to solve increasingly complex problems and issues with limited resources. Municipal officials will be challenged both in the immediate and long-term to find innovative ways to manage and allocate the resources they do have in the most effective and efficient manner possible. Local governments in Montenegro today face a multitude of problems. Previously, the use of resources was concentrated in areas considered paramount by the top leadership with, in many cases, little consultation with citizens. This method of decision-making is changing yet the residual effects of the past continue to challenge officials and decision makers at all levels of government.

The comprehensive reforms currently underway in Montenegro place municipalities at the forefront of instituting meaningful changes and innovative solutions to the challenges facing local governance particularly in the areas of local finance and budgeting. Currently local governments in Montenegro use the line-item budget format with line-item budget classification in accordance with the government. The line item budget is the most traditional and wide spread form of preparing the budget. It lists how much will be spent on every item used by municipal departments, public and communal enterprises. The focus of this type of budget is on what is bought. Expenditures are organized by broad categories such as personnel, social benefits, operating and maintenance and then further delineated in each category such as salaries, fuel, spare parts, water, and electricity. Once the assembly approves the budget, the budget users can begin procuring the authorized goods and services.

The line-item approach to budgeting has three major drawbacks in that:

- executives/ responsible administrators have little flexibility to make minor adjustments when circumstances demand it;
- the line item budget tells little about quality or quantity of service rendered; and
- it increases the likelihood for persons to miscode expenditures to codes in which there are funds,

rather than the appropriate code for a given expenditure.

Further to this, UNDP has performed in-depth analysis of the key components of local governance system in Montenegro (e.g. transparency and accountability, service delivery, project management and absorption capacities for IPA funds), at the same time looking at the municipal budgeting practices. The main issues have been identified in the following areas: a) coordination and cooperation among municipal departments in preparation of budgets; b) work planning system, setting of objectives and prioritization; c) understanding of difference and specific aspects of results and performance oriented budgeting vs. line-budgeting; d) capacities of municipal employees working in the municipal finance units and working in the municipal budgeting departments; e) financial reporting and monitoring of budget implementation; e) citizen participation in the process of budget preparation.

Municipal bonds in Montenegro

The quality of key infrastructure services at the local level in Montenegro is poor and deteriorated; this is further exacerbated by the weak municipal management and insufficient human and financial capacities to facilitate planned infrastructure development. Therefore, the issue of financing public infrastructure is becoming more apparent; Montenegro needs to explore, facilitate, and support new financing mechanisms. Municipalities have several options: a) financing municipal infrastructure from municipal budgets⁶; b) private capital and c) financing through debts through bank credits⁷ or the issuing of municipal bonds.

Issuing of municipal bonds is a more flexible financing mechanism. Basically, a municipal bond is a loan that enables a municipality to borrow money from bond-buyers. Municipalities routinely raise needed capital by selling/ issuing bonds for periods as brief as a few days to as long as 30 or 40 years. The distinguishing characteristic of a bond is that the municipality (the issuer) enters into a legal agreement to compensate the lender (the bondholder) through periodic interest payments in the form of coupons; and to repay the original sum (the principal) in full on a stipulated date, which is known as the bond's "maturity date"⁸.

Similarly to other capital markets in the region, the structure of the Montenegrin market is characterized by dominant existence of Equities; in addition, different types of Debt securities are present. At the early stages of its establishment only short-timed securities were available, serving the purpose of increasing liquidity. The buyers of these securities were only commercial banks.

Beyond the Equities and the short-timed securities, the capital market in Montenegro is dealing with so-called "old-foreign-currency-savings" securities, with possibility to be used as a currency in the privatization process. The Government of Montenegro released security issues for the reconstruction of the roads and road infrastructure in the country in total amount of 1,2 mil. EUR. These are long-term securities, with the annual interest of about 3% and a three-year non-payment period. In all the mentioned cases, buyers were known coming from the existing governing structures.

Municipal bond market in Montenegro brings number of controversies: according to some authors, the whole strategy for the establishment of a municipal bond market was deceptive, leading into de-facto its non-existence⁹. The Primer market is under the control of the Fund for development; which in its portfolio has number of other bonds and securities (e.g. from the Fund for restitution; the old currency savings securities; securities issued by the Ministry of Finance of Montenegro, etc). The total amount of municipal bonds in its portfolio is 11.6 mil EUR. The secondary market is not functional. The following table presents municipal bonds issued by municipalities in Montenegro.

⁶ This is perceived as the most practical (and in many ways the least risky); however, current municipal budgets are insufficient for any significant investment.

⁷ Bank credits are available commercially; however, the banking market, still at its early development stage, has significantly been affected by the global economic crisis, resulting in the high interest rates. Some of the International Financial Institutions (IFIs) are providing loans to municipalities.

⁸ Thau Annette: "The Bond Book: Everything Investors Need to Know About Treasuries, Municipals, GNMMAs, Corporates, Zeros, Bond Funds, Money Market Funds, and More", third edition, McGraw-Hill Professional, 2004

⁹ Policy and Legal Advice Center report on comparative analysis of financial markets in the Western Balkan region

Municipality	Total bonds issued	Nominal	Dated	Secondary trade
Andrijevica	435.407	1 EUR	Serial from 2009 to 2015	Bonds included in the market- no secondary trade
Berane,	622.125	1 EUR	Serial from 2009 to 2015	Bonds included in the market- no secondary trade
Bijelo Polje	1.249.255	1 EUR	Serial from 2009 to 2015	Bonds included in the market- no secondary trade
Cetinje	965.531	1 EUR	Serial from 2009 to 2015	Bonds included in the market- no secondary trade
Danilovgrad	812.000	1 EUR	Serial from 2009 to 2015	Bonds included in the market- no secondary trade
Kolašin	995.400	1 EUR	Serial from 2010 to 2016	Bonds included in the market- no secondary trade
Nikšić	1.306.452	1 EUR	Serial from 2009 to 2015	Bonds included in the market- no secondary trade
Podgorica	1.244.243	1 EUR	Serial from 2010 to 2016	Bonds included in the market- no secondary trade
Plužine	622.613	1 EUR	Serial from 2010 to 2016	Bonds included in the market- no secondary trade
Pljevlja	1.244.243	1 EUR	Serial from 2009 to 2015	Bonds included in the market- no secondary trade
Rožaje	746.410	1 EUR	Serial from 2009 to 2015	Bonds included in the market- no secondary trade
Šavnik	400.001	1 EUR	Serial from 2010 to 2016	Bonds included in the market- no secondary trade
Žabljak	392.000	1 EUR	Serial from 2010 to 2016	Bonds included in the market- no secondary trade
Bar	599.998	1 EUR	Serial from 2010 to 2016	Bonds included in the market- no secondary trade

The initial work on establishment of municipal bonds market in Montenegro was done but further development and improvements are required. The main challenges for the establishment of functional municipal bonds market are those related to human resources and to the establishment of secondary market. Municipal employees have limited knowledge and understanding of general aspects of municipal bonds and the opportunities arising from the functional municipal bonds market. All municipalities in Montenegro are facing difficulties with preparation of document for issuing of municipal bonds; municipal creditworthiness is at a low level and needs to be addressed. As indicated in the previous table, already issued municipal bonds were sold to already familiar buyer, the Fund for development, resulting in non existence of the real, secondary bonds market.

The whole mechanism and the concept are relatively new to municipalities and should be clarified and brought to the attention of all concerned – municipalities, investors, those who mediate or regulate and the public. Development of a functioning municipal bonds market should be considered as a part of a broader development of the capital market/ securities market in Montenegro. Especially important will be further development of the secondary market, and open trade with municipal bonds.

Municipalities in Montenegro need to work on the preparation of mature, full-fledged capital investment projects that could be financed through issuing of municipal bonds. One of the main preconditions for the issuing of municipal bonds is financial reporting, especially municipal balance sheets. Currently, there is a lack of consolidated financial data and lack of adequate accounting and reporting policies at the local level.

2.3 Beneficiaries and parties involved

The key institutional stakeholders for this project are: Municipalities in Montenegro; the Government of Montenegro (specifically the Ministry of Interior and Public Administration and the Ministry of Finance); the Committee for Coordination of Local Self-government Reform (CCLSGR); the Commission for fiscal equalisation; the Human Resources Management Authority (HRMA) and the Union of Municipalities.

The direct beneficiaries of the project will be: a) Local-self governments (municipal leaderships and administrations) in Montenegro; b) The Commission for fiscal equalization; c) The Government of Montenegro (the Ministry of Finance and the Ministry of Interior and Public Administration); d) The Union of Municipalities of Montenegro.

2.4 Problems to be addressed

The project is designed as a demand driven intervention that will address identified needs in the area of public finance at the local level:

I) Improving municipal budgeting process

In order to ensure transparent and accountable public finance system at the local level and in accordance with analyses that have been performed and demands for assistance from municipalities, the following needs have been identified:

- improve coordination among different municipal departments in planning, prioritisation and preparation municipal budgets;
- enhance core organizational and individual capacities within the municipal budget units/ financial departments;
- promote new roles of the municipal budgets departments (e.g. Educator; Adjudicator; Promoting fiscal responsibility; Promoting public accountability, etc);
- promote and introduce results oriented budgeting and initialise work on capital budgets;
- work on financial departments and the improvement of the overall budgeting process (including budget preparation, execution and financial reporting);
- ensure sustainable development of capacities through on-going support to capacity development of municipal staff and officials;
- establishment of a sound and sustainable mechanism for citizen participation in local decision making processes;

II) Improving municipal infrastructure through issuing of municipal bonds

Financing of municipalities within the context of the overall fiscal decentralization in Montenegro is an issue that should be emphasised: municipal budgets have been reduced due to the economic crisis. Municipalities, especially in the northern part of the country, are already challenged to cover running costs will be severely challenged to cover their running costs not to mention financing of development and infrastructure priorities.

Municipalities are confronted with issue of capital investments: municipal bonds and development of municipal bond market could be a viable solution. The initial work has been done; however, this remains work in progress. In order to facilitate further development of municipal bonds market, the following needs should be addressed:

- Increase knowledge and understanding of municipal bonds and opportunities for municipalities;
- Prepare set of how to and guidelines for municipalities for issuing of municipal bonds;
- Provide hands on experience to the municipalities in Montenegro in best practices in issuing of municipal bonds;

III) Development of transparent system for fiscal equalisation

Fiscal equalization is a transfer of fiscal resources across jurisdictions with the aim of offsetting differences in revenue raising capacity or public service cost. Its principal objective is to allow local governments to provide their citizens with similar sets of public services at a similar tax burden. Fiscal equalization can be seen as the natural companion to fiscal decentralization as it aims at correcting potential imbalances resulting from local self-governance/ local autonomy.

Fiscal equalization is also tremendously country specific: it is shaped by the wider institutional framework. In order to facilitate fiscal equalization in Montenegro, the Law on Local Finance provides for the establishment of a Commission for fiscal equalization.

The following issues have emerged as a priority:

- further development of expertise and capacities of the members of the Commission for fiscal equalisation;
- strengthen the operational framework for the Commission for fiscal equalisation (revise the rule book and the statute);
- promote the role of the Commission for fiscal equalisation in the overall fiscal system in Montenegro;
- exchange of experience and know-how with the partners from the EU countries and within the region;

2.5 Other interventions

There are a number of completed, current and proposed projects that have the aim of supporting decentralisation, good local governance and the overall socio-economic development in Montenegro.

The *European Union* (through the European Commission and the European Agency for Reconstruction) has been supporting reform of the overall public administration and civil service in Montenegro. Specifically, support to local governments in Montenegro was aimed to enhance municipal investment, reinforce the role of the Union of Municipalities and strengthen the administrative capacity and the legislative framework regulating local government reform. Parallel to this technical assistance the EC is providing a grant fund for small municipal infrastructure projects that will provide additional investment funds to municipalities.

The *USAID* was supporting development of municipal finances (improving financial management, establishing municipal treasuries and improving tax collection) and providing grants for small community investments projects. The current programme is focusing mainly on economic growth and strengthening partnerships for socio-economic development.

The *Council of Europe (CoE)* has been extensively involved in the programme focused on direct capacity building support to municipalities, and establishment of the institutional framework for local self-government. The CoE has been working with the UoM, OSCE, SNV, and EAR/ EC in developing a National Training Strategy. In addition, CoE is active in support further development of a legal framework for local self-governments.

The *OSCE* has been active in preparation of legal framework for local self governments and development of the National Training Strategy. Currently, OSCE is implementing a project to support development of capacities of municipal assembly members.

The *GTZ* is currently implementing the “Municipal Land Management project”, which aims at improving municipal planning and administration in the use of land as resource.

The *SNV* was working on a “Responsive Local Governance” initiative, and later focusing more on tourism and regional economic development focus. In the past, SNV cooperated closely with OSCE, Council of Europe, SNV, and the UoM on the development of the national training strategy and training needs assessment of municipalities.

The *KfW* supports the six coastal municipalities¹⁰ and Cetinje in improving their water supply and sewage system through technical assistance and financing investments.

The *Austrian Development Agency (ADA)* has been active in five municipalities Andrijevisa, Berane, Bijelo Polje, Kolašin and Mojkovac. ADA will continue its activities through support to establishment of a Regional Development Agency and a Small Project Fund for municipal projects.

The Dutch government *MATRA* programme is currently financing the project “Increasing accountability and transparency at the municipal level in Montenegro” implemented by the VNG International.

3. Strategy

The objective of the Project “Strengthening mechanisms for public finance at the local level in Montenegro” is to strengthen mechanisms for public finance at the local level through introducing more transparent, accountable and results oriented budgeting. At the same time, the project will facilitate development of capacities of the key stakeholders involved in the public finance system at the local level.

The project will further support the European integration process and the implementation of the relevant national sectorial and regional strategies. The objective serves the key national objectives as highlighted in the Stabilisation and Association Agreement and the National Programme for Integration in EU (2007-2012).

The Project “Strengthening mechanisms for public finance at the local level in Montenegro” will pursue activities in all municipalities in Montenegro, and provide support to the key institutions at the central level.

3.1 Overall Objective

The overall project objective of the Project “Strengthening mechanisms for public finance at the local level in Montenegro” is to facilitate socio-economic development at the local level through strengthening accountable, transparent and results oriented public finance mechanisms.

3.2 Project purpose

The specific purpose of the Project is to support development of capacities of the municipal stakeholders and stakeholders at the central level to introduce transparent, accountable, results oriented budgeting, which will reflect local and national strategic priorities at the same time address municipal capital investment needs.

3.3 Results

The project is expected to deliver the following results:

Result 1: Mechanism for transparent and accountable public finance at the local level established and operational.

Result 2: Municipal bonds market in Montenegro is strengthened through better understanding of benefits and opportunities among municipalities.

Result 3: Fiscal equalisation mechanisms in Montenegro further strengthened.

¹⁰ Bar, Budva, Herceg Novi, Ulcinj, Tivat, Kotor

3.4 Activities

The overall programme implementation will be divided into three phases, specifically: Inception, Implementation and Completion phase. Environmental, gender, human and minority rights and communication considerations are cross cutting elements of the project.

I. Inception phase

This phase will last for 3 months and during that period the following activities will be implemented:

Activity 1. Planning and Preparation of Work plans/ Action plans

The Project Team, headed by the Project Manager and supported by consultant/Core Technical Advisor (part-time), will be established during the first weeks of the project. The Project Team will carry out an in-depth analysis of the overall project objective, results and activities and appraise the factors relevant on which it will prepare project work plans (overall, annual and quarterly work plans).

During the inception phase of the project, results from different researches and reports will be available. The Team will carry out additional activities, check and revise the findings from the formulation phase and reflect on both the internal (such as macro-economic framework, political context, national development priorities, linkage to the objectives and priorities of the national development policies and strategies) and external factors (global economic crisis, relationship with the EU, stability of the region, etc). In this phase, additional consultations will be conducted with other international organizations active in this area, such as Council of Europe and Delegation of European Union to Montenegro to ensure that project proposal is integrated in a broader context, with respect to the progress of Montenegro and recent developments/changes regarding the public administration and decentralization processes, especially in relation to the most recent changes of the Law on local self-government financing.

The Project Team will then adjust envisaged activities under the project to ensure consistency, complementarities and coordination with the national framework¹¹ and projects of other international organizations active in this area. Findings and work plans will be presented to the Project Board, and other partners.

Activity 2. Complete Project Inception Report

The Inception Report will elaborate on the original Project Document, propose possible adjustments and necessary amendments, present the overall programme work plan, activities envisaged in the coming quarter, monitoring plan, planned HR related activities, and budgetary/ procurement plans for the entire project (tentatively) and for the coming quarter (in detail).

All the materials will be submitted to the Project Board one week prior to the meeting.

II. Implementation phase

The Implementation Phase will be divided into a number of activities corresponding with the expected results of the Project ““Strengthening mechanisms for public finance at the local level in Montenegro””. It is important to mention that a number of activities are crosscutting; especially those related to capacity development and establishment of best practices in municipal public finances.

¹¹ Training programmes developed by this Project will be in line with National Training Strategy and complementary to trainings developed under IPA 2008 and IPA 2010 projects.

Result 1: Mechanism for transparent and accountable public finance at the local level established and operational.

In order to achieve Result 1, hence to establish functional and sustainable public finance mechanisms that will reflect principles of transparency and accountability, the following activities are envisaged:

Activity 1.1. Review current practices in municipal budgeting practices

UNDP and the Project will review and analyse current budgetary processes in the municipalities in Montenegro. This review will include all the segments of the process, including budget preparation, public participation, budget execution and financial reporting.

This exercise will include all municipalities in Montenegro. Based on findings, municipalities will be grouped on the principles of similarity (issues, challenges, practices, problems, etc).

Activity 1.2. Perform capacity assessment of municipal finance departments

In parallel with the review of municipal budgeting practices and processes, UNDP, in close cooperation with the Ministry of Finance and the Union of Municipalities, will organize and perform capacity assessment of financial departments (organizational level) and staff within those departments (individual level) for public budgeting in line with international principles.

A comprehensive report will be produced showing priority areas to be addressed as long and mid-term priorities. This will enable the adoption of a situation-based approach and facilitate develop a tailor made methodology for the improvement of municipal capacity in financial aspects.

The project will provide comprehensive capacity building programme consisting of trainings, coaching, on the job-trainings and exchange of experience. Capacity development activities will be applied cross-cuttingly to all activities within the project.

Activity 1.3. Provide capacity development support for improvement of municipal finances

Activity 1.3.1. Design and implement capacity development programme

In order to direct the development of local capacities towards programme budgeting, UNDP within this project will develop comprehensive capacity development programme for municipal financial departments, which will be based on the assessment of capacities and priority needs. Capacity development programme will consist of a well-balanced combination of training and coaching, which will be additionally supported with study visits. Having in mind a) extensive and relevant experience that municipalities in the Netherlands can offer in the area of public finance at the local level; b) the support of the Netherlands government to this project, the ongoing one with the Ministry of Finance and the one implemented by VNG; UNDP as implementing agency will aim to maximize the exposure of the stakeholders in this project to this experience by organizing study tours in the Netherlands and making sure that TORs for international expertise are shared with Netherlands pools, networks of experts.

The training curriculum will be prepared and presented prior to the rollout of the training package. Each training module will be accompanied by a training manual. It will contain the following information:

- Lesson plan of the session;
- Training presentation of the subject;
- Information sheets per subject;
- Exercises and case studies for group work in training sessions;

- Background information relevant to the subject;
- List of web links, contacts, and references for further study;

The Project will deliver trainings in line with the following basic principles:

Responsive – responding to needs;

Interesting – the sessions must hold attention;

Interactive – a participatory approach to the learning experience to maximise take up of information;

Useful – the information given must be useful;

Lead to improvement – following sessions participants must be better equipped to deal with their daily work;

The project will use adult learning techniques in the delivery of trainings, avoiding the lecture approach at all times, with dry handouts and lengthy explanations. This is best achieved through the classic training format in which participants learn by doing, taking in information far quicker when they are involved directly in the discussion and learning process. This will be the approach in all trainings that will be delivered within the framework of this project.

Activity 1.3.2. Provide mentoring and coaching support to municipalities

In addition, mentoring and coaching support will be provided through a direct, on-the job assistance to the staff from municipal finance departments. This will be done through support of the senior level experts from Montenegro and from other countries. Regional experience and experience from the EU member states, especially Netherlands, is relevant for reform and restructuring of municipal finances in Montenegro. Therefore, the project will provide this kind of expertise following the principle that learning by doing with support of experts and experienced practitioners are one of the most efficient learning tools.

In order to ensure efficient and effective utilisation of resources at the same time to strengthen the notion of inter-municipal cooperation, mentoring and coaching will be delivered to at least two (or more) municipalities at the same time. Professionals from the finance units will be invited to the host municipality where mentoring and coaching support will be organized. Each municipality will host these events.

If required, municipalities will be provided more direct support on a day-to-day basis.

Based on the specific interests and needs of the municipalities in Montenegro study tours will be organized (primarily in country and to Netherlands and then to other EU member countries if necessary). The purpose of the study tours will be to facilitate a horizontal learning process through the exposure to the best practices in different areas (as per municipal needs). Participants must be well briefed as to the purpose, content and programme of the tour. Each study tour will last between 2/ 3 days (depending on the specific areas) and will include 7-10 participants from municipalities. Upon return, the participants will provide a specific report about the visit.

Activity 1.3.3. Develop a monitoring system for the implementation of capacity development programme

During the Inception Phase, the Project Team will develop an effective monitoring and evaluation system, which will be based on high quality indicators according to the principles of “S.M.A.R.T., i.e. Specific, Measurable, Attainable, Realistic, and Time-bound. The Project Team will monitor formal training programme throughout its all stages (from design to delivery). This will ensure that the trainings are effective, relevant and of the best quality.

It is important to know how well received the training seminars will be by the participants of the sessions. This allows the team to assess the impact of the training seminars and provides feedback that is useful in determining the results of the training sessions. It can also be used as a basis for modifying, changing or indeed for expanding the training sessions for the future.

The team will develop a tailored evaluation form that will assess the effectiveness of the training; based on our expertise and the experience from the previous projects we would suggest using and adjusting the 4-level Kirckpatrick’s evaluation model, measuring:

1. Reactions: Measures how participants have reacted to the training (answers the question: was the learning process effective?)

2. Learning: Measures what participants have learned from the training (answers the question: has learning taken place?)
3. Job Performance Level-Behavior: Measures whether what was learned is being applied on the job (answers the question: has job performance improved?)
4. Results: Measures whether the application of training is achieving results (answers the question: what was the value or benefit achieved by training?)

It is important to know how well received the capacity development activities will be by the participants of the sessions. This will allow UNDP and other partners to assess the impact of the training seminars and provides feedback that is useful in determining the results. It can also be used as a basis for modifying, changing or indeed for expanding the capacity development programme in the future.

Activity 1.3.4. Support planning process in other municipal departments

UNDP will provide support to the other municipal departments to prepare work plans, define results and identify resources needed for the achievement of those identified results. All the inputs will serve to transform a traditionally “expenditure based” budget into a “programme/ results oriented” budget.

The following features will be included in the programme budgeting process:

- management of the financial control;
- improved programme and financial planning;
- defining results/ objectives and programmes to achieve established results/ objectives;
- appropriation by programmes;
- use of performance indicators to measure programme outputs, and
- use of indicators to measure budget efficiency;
- clear separation of responsibility between the personnel involved in budget implementation and payments;

For local governments as administrative authorities, the budget is a work programme on which each department can base its own operational work programme. This function of the budget demands that the structure of objectives, the activity schedule, the resource schedule and the financial schedule is clearly expounded in the budget documents. Therefore, the project will provide support to the municipal departments to prepare work plans, define results and identify resources needed for the achievement of those identified results.

In addition, the project will provide support to municipalities to reflect in the budget and allocate financial resources for financing of low-carbon priorities. This will be in line with the national and regional environmental and governance priorities.

Activity 1.3.5. Organize workshops and roundtables for local governments

UNDP and the Project will, together with the partners from all municipalities, the Ministry of Finance and the UoM, organize a number of workshops, round-table and panel discussions, where theoretical and practical aspects of the budget preparation and implementation will be discussed. The first workshops will be aimed to present the concept of so-called New Public Management. New Public Management (NPM) is a widespread movement within Western governments, where politicians and civil servants are inspired by management concepts from the private sector. NPM involves a different style of budgeting. Authorization no longer regards the input, the amounts spent for certain government tasks and the means with which these are achieved, but the output, the product delivered and the cost supported by the collectivity.

Activity 1.4. Define transparent and accountable monitoring system for budget execution

During the process of development of municipal capacities for results oriented budgeting, the idea of using budget as a control instrument will be promoted. This control process has a number of layers and would be used by:

- legislative authority over the municipalities (which are in this case in the capacity of executive authorities);
- municipal authorities (executive authorities) over the administrative authorities (different departments within the municipality, communal enterprises, etc) and
- internally: instrument for internal control within a single component of the administrative authority.

It is important to understand both types of administration control that are available for this purpose, namely, a priori control and ex post control. UNDP will work with municipalities toward the better understanding of both control mechanisms. This will additionally facilitate capacity development, as well as transparency and accountability at local level in Montenegro.

Activity 1.5. Support design of a sound reporting system

The budget should serve as a source of information for everyone concerned; the information contained in the draft budget document is necessary for its consideration and, upon approval, serves as the most important source of information to the local government for executing its functions. While the budget is the heart of municipal resource administration, municipal accounting and reporting systems are central to the budget-making process. UNDP in close cooperation with other partners will support the development of sound accounting and reporting systems for the municipalities in Montenegro in line with the current legal framework.

Tailor-made accounting and reporting systems will further facilitate the implementation of new budgeting processes: financial reporting should assist in fulfilling the duty of the local government units to be publicly accountable and should enable users to assess that accountability and to evaluate the operating results of the local government units for the year (and, year on year). Finally, financial reporting will enable users to assess the level of services provided by the municipality.

Activity 1.6. Draw lessons for wider policy and guidance in a report to MoF, Mol and UoM

UNDP will prepare a report for the MoF, Mol and UoM where the best practices and lessons for wider policy and guidance for introduction of results based budgeting will be presented. The report will include a brief on the previous situation (including organizational and individual capacity needs) and present the current situation by analyzing/ comparing performance in different aspects of municipal budgeting processes in the selected municipalities. The report will highlight different aspects of budgeting process, starting with preparation, coordination, and execution/ implementation, accounting and reporting.

In addition, the report will include the main challenges, problems and weaknesses from the pilot municipalities, and provide a set of very concrete guidelines to improve performance in the most problematic areas of municipal budgeting process.

Activity 1.7. Propose benchmark system for improvement of municipal finances

A benchmarking tool will be developed based on assessment results, the current situation and by analyzing/comparing performance in different aspects of municipal budgeting processes of the municipalities in Montenegro. The focus of the benchmarking tool will be to measure all the aspects of budgeting process, starting with preparation, coordination, execution/ implementation, accounting and reporting. The project, in close cooperation with the UoM, MoF, Mol and municipalities will propose several types of performance indicators that are often used in the benchmark systems.

Indicators in a properly developed set of performance measures should satisfy the following criteria: valid;

reliable; understandable; timely; resistant to perverse behavior; comprehensive; non-redundant; sensitive to data collection cost; focusing on controllable facets of performance.

Based on the benchmarking results in the municipalities in Montenegro, the main challenges, problems and weaknesses related to the municipal budgeting processes and introduction of results based budgeting will be analyzed and common problematic areas will be identified. This will enable the Programme to provide a set of very concrete guidelines to improve performance in the most problematic areas of municipal budgeting process. Namely, benchmarking results and experience gathered during the implementation of the consulting and mentoring programme will be used to revise and recompose a training programme and to readjust it to changing needs which may occur over time.

The common rationale for the implementation of benchmarking and performance measurement initiatives is that municipalities in Montenegro will be better able to control costs, compare processes among similar jurisdictions, maintain standards, and perform inter-jurisdictional comparisons among sectors of activity.

Activity 1.8. Support selected municipalities to develop/ improve capital budgets

A capital budget is a multi-year financial plan for the construction or acquisition of capital projects/ investments. The capital budget is distinguished from an operating budget. An operating budget normally provides for the day to day expenditures of a municipality for items such as salaries, wages, benefits, heat, hydro, maintenance of buildings and infrastructure, etc., whereas the capital budget plans for the acquisition or rehabilitation of capital assets. Capital budgeting is a very important planning tool for municipalities as it allows them to provide for the necessary infrastructure to maintain or enhance future service levels. Through capital budgeting, municipalities can plan future operating budget expenditure, debt repayment and potential reserve fund needs in order to manage the financial position of a municipality over a five to ten-year period.

UNDP will work in close cooperation with the Ministry of Finance, the Ministry of Interior, the Union of Municipalities and other stakeholders to identify 2 municipalities to introduce or improve capital budgets. There will be number of selection criteria/ requirements for municipalities.

Preparation of the capital plan requires a co-ordinated approach by various departments within the municipality. It is, therefore, important that all user departments with capital needs be included in the process. This co-ordination of effort may be achieved by establishing a coordination group (ad hoc basis). However, in order to ensure long term sustainability, it will be advised to establish Municipal Development Units (MDU) within the existing municipal structure. The MDUs will work in close cooperation with the Finance and technical departments of the municipality, ensuring global and integrated development approach. This will not require hiring of new staff but rather training and development of the existing municipal employees.

UNDP will support the finance department/ coordination group to establish timelines for carrying out the process. As noted earlier, the process should coincide with the operating budget process; however, our experience from other countries showed that most municipalities normally establish the capital budget process somewhat before the operating budget so that the identified impacts can be assessed and feedback to the capital budget can occur prior to either budget receiving final adoption. The timelines should also establish the critical dates for certain actions in the process (i.e. submission of the first draft, public debates, presentation to the municipal management, etc). There is also a need to consider municipal management and financial policies in developing municipal capital budget.

Activity 1.9. Finalize capital budget and prepare explanatory report

Municipal stakeholders have to be involved in the preparation of the capital budget. The final version of the budget with the detailed preview of budget categories and financial expectations will be prepared and submitted for public discussion and afterwards to the municipal assembly for formal adoption.

In order to facilitate the process, UNDP will support municipalities to prepare a report that will highlight elements of the budget; the report will include the following details:

- Evaluation criteria for identification and prioritization of projects;
- Summary of the strategic priorities for the respective municipality;
- Detailed listing of recommended capital programs;

- Summary of financial requirements;
- Summary of funding sources;
- Summary of debt amounts anticipated.

Result 2: Municipal bonds market in Montenegro is strengthened through better understanding of benefits and opportunities among municipalities.

Initial activities for establishment of municipal bonds market in Montenegro were performed, but it still remains work in progress. In order to ensure sufficient finances for municipal infrastructure projects, there is a need to increase understanding, benefits and opportunities through issuing of municipal bonds. The primer focus is on municipalities and municipal employees. Therefore, the project will perform in depth analysis of the current practices and experiences in municipal bonds, identify main areas for further support and strengthening, and prepare municipalities for the next wave of municipal bonds. This should be a part of a complex development strategy, inevitably linked with diversification and capital market extension. The following activities are envisaged within this project:

Activity 2.1. Conduct an assessment of municipal bonds in Montenegro and provide recommendations

The UNDP will provide experts support to prepare a comprehensive review and analysis of the municipal bonds market in Montenegro. This analysis should verify whether the bond market in Montenegro is well-founded and is likely to meet the needs of municipalities/ beneficiaries. The document should serve as the basis for planning in this area, providing operational details in terms of number and nature of municipalities, volume of debt raised, and the context, conditions and constraints for such a market, including consultations with the Securities Commission, Stock Exchange, National Bank and Ministry of Finance, as well as municipalities themselves.

The report will include the following parts:

Brief Introduction

- Objectives of the study (short, mid and long term perspective);
- Overall justification for introduction of municipal bonds;

Analysis of situation

- Legal framework for functioning of local governments/ issuing of municipal bonds
- Policy priorities in the area of local governance
- Municipal/ Regional Socio-Economic Situation (General Description of the current situation); with brief overview of local economies
- Local infrastructure (current, planned, needing upgrading)

Recommendations for development of municipal bonds market

- Changes and development of a legal and policy framework
- Capacity development at the local level
- Support to the financing institutions
- Awareness campaign

The analysis will take into consideration current situation in Montenegro and provide recommendations in the short term (2010-2012), medium term (2013-2015) and longer term perspective.

Activity 2.2. Support municipalities to improve creditworthiness

Creditworthiness is a municipal capacity to repay debts on time, and in full. In order to improve their creditworthiness, municipalities has to manage finances in a way to generate a steady operating surplus equal to at least 5% of their recurring operating expenses every year (operating surplus equals recurring operating revenues minus recurring operating expenses).

UNDP through this project will provide policy advice to selected municipalities how to classify their revenues and expenses properly to get an accurate picture of the operating surplus of the respective municipality. In addition, the Project will support municipalities to build a strong financial profile for municipality and to practice financial transparency.

Activity 2.3. Review the performance of the implemented initiatives and propose required changes in the legal framework

UNDP, in close partnership with the Ministry of Finance, the Ministry of Interior and Public Administration - department for local governance and the Union of Municipalities, will develop set of indicators to monitor progress in implementation of the municipal bonds initiatives in the selected municipalities. Based on findings deriving from the process, as well as from single activities, a set of recommendations for changes and improvements in the legal and regulatory framework will be developed. Specifically, focus will be on removal of obstacles and introduction of needed provisions for issuing of municipal bonds.

In addition, UNDP will review current municipal practices in issuing municipal bonds (local level) and propose improvements of the process management and adjustments in the municipal operating framework.

Activity 2.4. Develop guidelines and manuals for issuing of municipal bonds

UNDP, within this project, will prepare the Guidelines for Issuing of Municipal Bonds. Following the analysis and reflecting on experience from the selected municipalities, as well as international best practices, the Guidelines will provide a brief introduction to the purpose of the municipal bonds and the key principles for issuing, legal requirements (national and municipal level), the process of issuing of municipal bonds (work plan, activities, tasks), the types of indicators, evaluation, monitoring and reporting process.

Part of the manual will be templates as required by the national level framework (submission to the Ministry of Finance, opening of the emission account at the Central registry for securities, etc). UNDP, together with the MoF, MoI and the UoM, will work on development of a comprehensive capacity development programme that will support municipalities to work on preparation and issuing of municipal bonds in the follow up phases, planned for 2011 and 2012.

Result 3: Fiscal equalisation mechanisms in Montenegro further strengthened.

The Project will provide technical assistance to representatives of the Union of Municipalities, the Ministry of Finance and the Ministry of Interior and Public Administration- Sector for Local Governance participating in the Commission for Fiscal Equalisation (As per the Law on Local Finances, article 35).

Activity 3.1. Identify capacity development needs of the members of the Commission

The Project will review previous capacity building activities delivered to the members of the Commission and analyze available training materials, reports and results. The Project Team will perform training gap analysis of the members of the Commission for fiscal equalisation (and their alternates, if appointed), focusing on the following elements:

- a) Current situation: determine the current state of skills, knowledge, and abilities of the members of the Commission. The Project will review previous capacity building activities delivered to the members of the Commission and analyze available training materials, reports and results.
- b) Desired or necessary situation: identify the desired or necessary conditions including needed skills, knowledge, and abilities of the members of the Commission for more substantive inputs and productive work;
- c) Check the current situation against desired or necessary situation: the difference, the "gap" between the current and necessary situation will identify the needs, purposes, and objectives of trainings.

Based on findings the Project will define:

- a) short-term capacity development priorities (to be addressed within the scope of this project) and
- b) longer-term priorities (which would ensure further development of capacities of the members of the Commission, ensuring further development of fiscal equalization system in Montenegro).

Activity 3.2. Organize capacity development programme/ trainings for the members of the Commission

The capacity development of the Commission for fiscal equalization needs to be considered holistically, taking into consideration both individual and organizational needs required for their functioning. Therefore, development of capacities of the members of the Commission will be approached holistically by using balance of formal trainings, on the job trainings and coaching.

However the final training/ capacity development programme and number of modules will depend on the results of the Training Needs Assessment. The trainings will strive to develop expert capacities of the members, at the same time to strengthen the Commission for making more sound decisions.

Activity 3.3. Provide coaching/ advisory assistance to the members of the Commission

UNDP, within this Project, will provide a comprehensive coaching/ advisory support that will facilitate further development of capacities of the members of the Commission for fiscal equalization.

UNDP will provide advisory support to the members of the Commission on number of specific topics arising from the work in the Commission. Learning by doing with the support of experienced people, according to the best international practices, is the best option for the development of institutional capacities and capabilities. This approach will ensure national ownership of the capacity development process and at the same time support the long-term sustainability of results.

Activity 3.4. Organize study tours and facilitate exchange experience

Study tour based on the specific interests and needs of the members of the Commission centred on the EU best practices in the area of fiscal equalization will be organized. The purpose of the study tours will be to facilitate horizontal learning process through exposure to the EU models and best practices in fiscal decentralization and specifically fiscal equalization.

Participants must be well briefed as to the purpose, content and programme of the tour different models and approaches will be presented, with potential to be replicated in Montenegro. In addition, the study tour will serve as a platform for future partnerships and sustained relationship between the Commission, the GoM, the UoM and partners from the EU member states.

Upon return, the participants as well as the Project Team will provide a specific report about the visit. Detailed agenda and precise locations will be determined in the course of the project in close cooperation with the partners/ stakeholders and members of the Commission.

III. Completion phase

A Plan for Sustainability must be thought out right from the beginning of the Project “Strengthening mechanisms for public finance at the local level in Montenegro” and hence will be part of the Inception and Mid-Term Evaluation Reports. Plans will be updated as independent evaluations and internal monitoring missions are performed. The sustainability plan will be developed at the beginning so this plan can serve as a vision during the project and contribute to a well thought out Exit Strategy, which will be agreed well before the completion of the programme period.

At the end of the assignment, the Project Team will hand over activities and responsibilities to the UNDP CO, the municipalities in Montenegro and the Union of Municipalities, the Government of Montenegro (the Ministry of Finance and the Ministry of Interior and Public Administration) smoothly and with sustainability in mind. It will be important to review what was done and why it was done, to reinforce a clear and coherent concept of the project at the end.

The Completion Phase will encompass and the final project evaluation, which will be an external ex post evaluation. Handover and closure of the project: transfer of project infrastructure will be carried out according to agreements between UNDP and the respective donors.

IV. Communication and Visibility

Activities will be carried out in support of the objective of the Project "Strengthening mechanisms for public finance at the local level in Montenegro". They will conform to the Government of Montenegro communication guidelines, the UNDP Communications Strategy Framework and the communication proscription of the donors supporting and EAR communications prescriptions. Furthermore, during the Inception phase, work will start on preparation of a sound communication strategy and action plan for the Project.

The communication strategy will address complex issues related to municipal finances and fiscal decentralisation and serve to:

- to keep the stakeholders and general public informed about the project and achievements of the project;
- to ensure better coordination of activities in the area of public finance and local governance and the overall socio-economic development through continuous, well-planned exchange of information;
- to raise awareness on good local governance, socio-economic sustainable development, gender, and other relevant areas covered to the extend possible by the Project;

Core elements that the communication strategy will consider will be:

- A plan for an intensive information campaign targeted at the central and local level (project partners, possible partners and stakeholders);
- A plan for information campaign at the general level;
- Promotional and information material concerning the Project;
- Specific sports and cultural events that will be used not only to promote the project but also create a certain feel good factor;

The first large media/ communication event will be official launching of the Project "Strengthening mechanisms for public finance at the local level in Montenegro". Participants in this event will be high representatives of the Government of Montenegro, the Union of Municipalities, representatives of municipalities, representatives of the diplomatic core in Montenegro, donors active in the sector of local governance and decentralization and public finance reform in Montenegro, and other high level project partners. This is anticipated to be one of the main media events that will contribute to successful kick off of the project. In addition to this, there will be several other events (for every relevant results that will be obtained) occurring during the programme lifetime, which will be planned within the communication strategy. The occasions of expert visits will be used to promote the project as well as increase awareness on the relevant issues through experts writing media articles, being guests on specialized TV shows, and guest lecturers at one or more universities throughout Montenegro.

4. Assumptions and risks

4.1 Assumptions at different levels

On the level of overall objective:

Other programmes - national, local and donor-funded - function in coordination with "Strengthening mechanisms for public finance at the local level in Montenegro" to strengthen accountable, transparent and results oriented public finance mechanisms at the local level, hence, to contribute to the socio-economic development.

On the level of project purpose:

- Political stability at the local and central level continues and reform of national and municipal economies continues towards market economy;
- Municipalities (municipal officials and municipal administration) are willing to embark on reform processes and adopt transparent and accountable budgeting;

- Priorities for capital investments identified in line with the adopted indicators and reflect municipal strategic decisions;

On the level of results:

- Municipalities in Montenegro decided to introduce new practices in the budgeting process;
- Municipalities (municipal leadership and administration) are willing to implement accountability and transparency as a backbone of municipal budgeting and reporting;
- Municipal leaderships and municipal employees are aware of capacity development needs and truly embarked on the process of capacity development;
- Municipalities in Montenegro are able and ready to adopt new and improved budgeting procedures;
- Staff working in municipalities are willing to learn and improve its capacities and skills;
- Municipalities and other stakeholders are working on further strengthening of municipal bonds market in Montenegro;
- There is sufficient interest among commercial banks, development funds and other investors to participate in the functioning of municipal bonds market;
- The Commission for fiscal equalization makes sound decisions based on evidences and indicators;
- Members of the Commission for fiscal equalization are willing to embark on a sound capacity development programme;
- Genuine commitment among all stakeholders in Montenegro for establishment codification of knowledge and knowledge sharing platform;

On the level of activities:

- Municipal leaders are willing to participate in the project related activities;
- Municipal officials and other partners are willing to take part in the process of capacity development and to participate in intensive municipal reform process through introduction of transparent, accountable and results oriented budgeting;
- Strategic priorities are reflected in the municipal budgets and are identified based on clear criteria;
- Citizen participation strengthened through establishment of transparent and accountable budgeting and reporting practices;
- Municipal officials are participating in the intensive learning study tours;
- Municipal bonds are successfully prepared and implemented;
- Municipalities understand the interest and work on functional bonds market;
- Members of the Commission for fiscal equalization are following the rulebook and make sound and transparent decisions;
- Stakeholders from the local and central level governance and from other structures are supporting development of knowledge products;

4.2. Risk and flexibility

The following risks are identified for the Project. Throughout the Project, the Project Team needs to carefully monitor potential risks and (in consultation with the project stakeholders, UNDP and donors) take counter measures.

Risk	Likelihood	Importance	Mitigation Strategy
Political instability and possible political changes	medium	high	<ul style="list-style-type: none"> - work plan for the Project and activities for each municipality will be developed and agreed with municipal stakeholders; - Project Board will ensure participation and representation of the key stakeholders; - inclusion of representatives from the municipal finance departments from the start of the Project (at the level of non-politically appointed staff); - the project will have in-built flexibility and the possibility to curtail certain project elements or the whole project, should insufficient progress be made;
Coordination between national and local structures requires further development	medium	medium	<ul style="list-style-type: none"> - efficient coordination between national and local structures will be approached as one of the objectives that the project is aiming to achieve; - efficient coordination will be promoted in all the project activities; support coordination platform within the project itself;
Political gridlock between (directly elected) mayors and (directly elected) municipal assemblies interfere in project implementation	medium/ low	high	<ul style="list-style-type: none"> - clear message from UNDP, the Project Team and donors that Project will be discontinued without support and cooperation of all political parties and relevant stakeholders; - focusing Project interventions on activities that have been identified as priorities by all stakeholders (regardless of their political affiliation) during assessment mission; - publicize and communicate the Project to the public at large in order to build pressure

			from the side of the citizens for Project implementation;
There is no sufficient and active support to further development (“secondary market”) municipal bonds	medium	high	<ul style="list-style-type: none"> - support and promote activities in the selected municipalities that will facilitate establishment of municipal bonds market; - lobbying at the central level and among the key stakeholders on benefits of municipal bonds in Montenegro;
Existing capacities of municipal officials and staff too low for achieving projected programme results	medium	medium	<ul style="list-style-type: none"> - adjust intervention strategy accordingly to achieve feasible change over time;
Municipal officials unable to take into consideration long-term strategic development perspective due to urgency of immediate concerns	medium	high	<ul style="list-style-type: none"> - intensified coaching, guidance, facilitation during strategic planning component
Municipal projects that emerge from consultation process are unrealistic in terms of time-frame, funds and implementation	medium	high	<ul style="list-style-type: none"> -clear criteria will be established by the Project (the Project Team and experts) in infrastructure prior to consultations and selection process in the municipalities
Increased donor activity in Montenegro leads to overlap of donor activity and confusion within the municipal management structures	medium	low	<ul style="list-style-type: none"> -extensive consultations prior to start and during implementation with relevant donors/donor project representatives to head off anticipated difficulties -placing the local sustainable development strategies in the centre of donor coordination at local level;

Organizational culture resists changes to administrative processes, organizational structure and methods of work	medium	medium	-approach organizational development carefully involving municipal leadership in the process from the earliest stages; -propose modest, feasible changes incrementally;
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For an effective risk management, a process is needed to ensure that risks are identified, assessed for likelihood and impact and prioritization with mitigating and remedial actions identified. The Project Team/ UNDP will employ a proactive risk management strategy, recognizing that risks may appear from many directions. The mitigation of these risks will stem, amongst other, from:

- High-level technical and advisory assistance, including members of the team capable of responding to dynamic project environment and facilitating multi-dimensional process involving multitude of stakeholders;
- Effective use UNDP's previous experience in Montenegro and in the region and support that can be mobilised from the Regional Centre in Bratislava or from other offices in the region.

Project flexibility will be achieved by the regular meetings of the Project Board. At each meeting, any necessary changes will be proposed for discussion and/or approval.

5. Implementation

5.1. Physical and non physical means

a) Project Team

- Project Manager;
- Core Technical Advisor (part time);
- Project Administrative and Finance Assistant;
- Project Coordinators - regional (2 persons);

b) Running costs

- Office rental, utility and telephone fees;
- Signs, banners, posters, promotional materials;
- Sundry office materials;
- Interpretation, translation, editing, etc.;

c) International and national short-term consultants

d) Sub-contracts to contractors and implementing partners, when appropriate

e) Publishing and reporting

f) Events: venues and sundry costs for conferences, seminars, workshops, meetings, etc.; daily subsistence costs (accommodation; board; local transportation)

g) Rail, air and bus transportation

h) Equipment, training tools and furniture

i) Goods and consumables for communal services

5.2. Organization and implementation procedures

The UNDP Country Office in Montenegro will directly implement the Project; however, the Project Team will establish strong day-to-day cooperation with the key partners, the Ministry of Finance, the Ministry of Interior and Public Administration and the Union of Municipalities. All of the key partners have expressed strong commitment and support to the project overall objective and results and have been involved in the design of the project.

Project Board

The Project will be supervised by the Project Board (PB) which comprises of representatives of the Government of Montenegro (the Ministry of Finance and the Ministry of Interior and Public Administration), representative of the Union of Municipalities, representative of UNDP and representative of donor.

The main role of the Project Board would be to oversee the implementation of the Project and authorise any significant changes to the results and overall objective as well as to the general character of the activity components. Furthermore, it will be the key mechanism for coordination between this Project and other related development initiatives in Montenegro. The secretary of the PB will be the Project Manager with the main responsibility to facilitate the organization of meetings and timely distribution of relevant information and materials, while the chair of the PB will be a representative of the Government of Montenegro.

It would first meet at the end of the Inception Phase to approve the Inception Report and the first annual work plan. The PB would then meet on regular quarterly basis in order to review the progress in the previous period and approve the following quarterly work plan. Finally it will meet close to the end of the project to review the overall progress, the report on the independent evaluation and the proposal for the follow up activities.

Project Implementation

The overall implementation of the Project would remain to be the responsibility of the UNDP CO in Montenegro, while day-to-day operations of the Project will remain with the Project Team and the Project Manager (PM). The Project Manager will report on project progress, challenges, problems and opportunities to the UNDP, and through UNDP to the PB and provide an overview of the activity planned for the following quarter.

5.3. Reporting

Inception report: an inception report will be submitted not later than three months after the signature of the project document.

Quarterly progress reports: submitted 10 days before the end of the reporting period i.e. before the Project Board meeting, will summarize activities and events during the past period, activities and events planned for the next three months (the next Quarterly Work Plan).

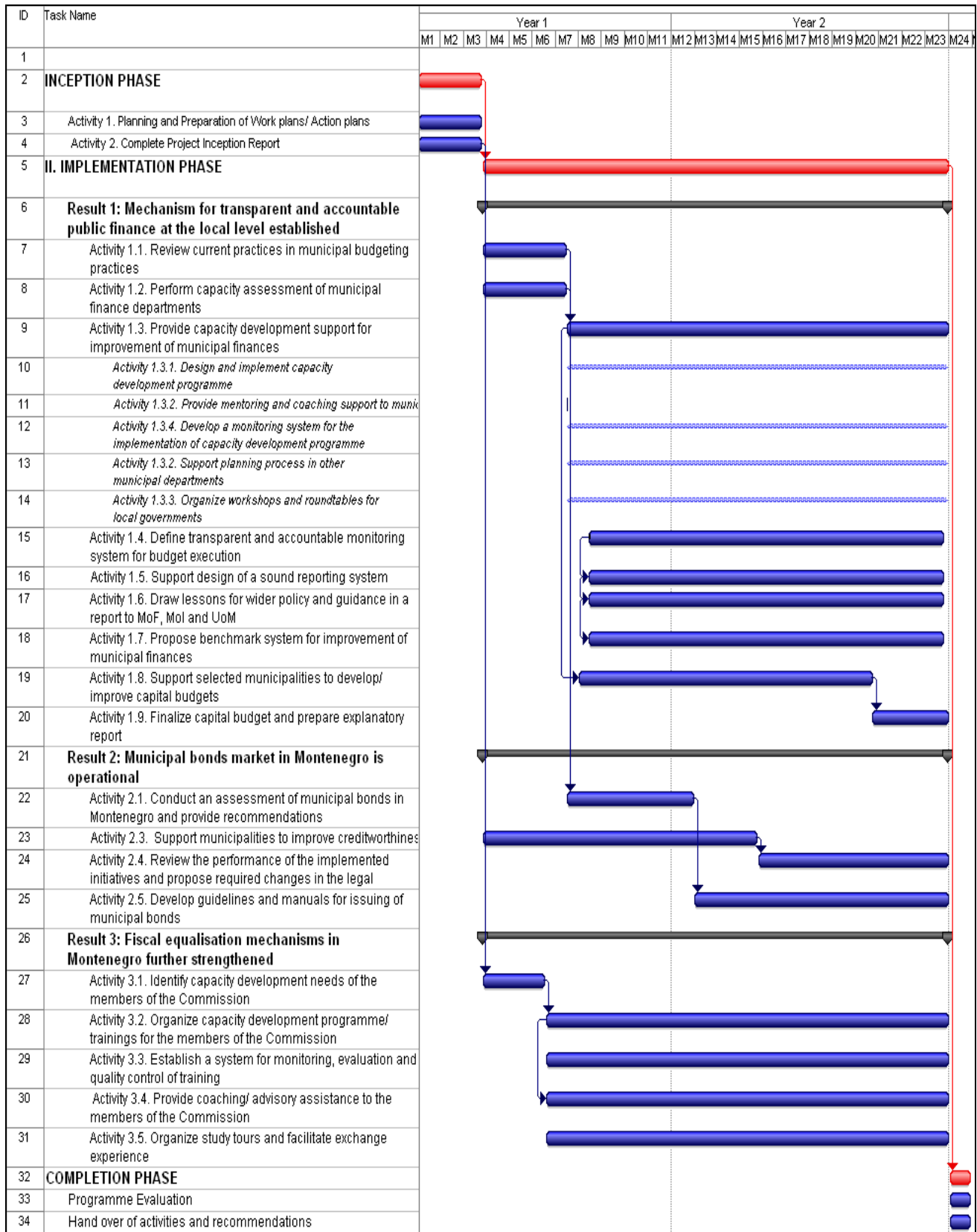
The PT (through the Project Manager) will be submitting the following plans and documents:

Annual Work Plans (AWP): will indicate the expected results, indicators and resources required for the achievement of Project outputs. Those plans will not need to include all the details, but should provide a tentative plan for 12 months. The first Annual Work Plan will be submitted to the Project Board attached to the Inception report.

Quarterly Work Plans (QWP): will be based on Annual Work Plans but will be more detailed and specific. They represent the commitment of the Project Team for delivery of concrete key activities and the amount of financial resources planned/ required in the following 3 months.

Final report: will cover the main experience acquired and conclusions to be drawn from the assignment. The format of the final report will be based on the standard reporting format. It will be used to inform UNDP, donors, the Government of Montenegro, the Union of Municipalities and other interested parties of issues that have arisen that may assist with the planning of similar projects.

5.4. Timetable



6. Factors ensuring sustainability

6.1. Policy support

The Project “Strengthening mechanisms for public finance at the local level in Montenegro” directly corresponds with the national policies and strategies. Public administration, financial management reforms and dealing with related governance issues are priorities for Montenegro in the forthcoming integration processes. This includes a decentralization of the public administration and services. The Project “Strengthening mechanisms for public finance at the local level in Montenegro” is in line with the administrative reform programme, and directly supports key objectives of the PAR Strategy, namely:

- an institutional and legal consolidation of the administrative system, as well as consistent implementation of laws and other legal regulations, and
- Stimulation and training of civil servants for better and legally based work within the administrative system.

The Project will work on introducing more accountability, transparency, professionalization and efficiency in the functioning of municipalities in Montenegro, at the same time contributing to socio-economic development.

Project “Strengthening mechanisms for public finance at the local level in Montenegro” will build on results of the previous and on-going projects that are operating in the area of reform of public finance/ municipal reform. The project will directly support implementation of the national EU integration strategy.

6.2. Appropriate technology

The technologies applied by the Project will reflect consideration of their need to operate in a longer run. The software that will be introduced in municipalities for the development and monitoring of municipal budgets and the application that will facilitate financial reporting will be tailor-made product based on needs. The software will be in line with the Montenegrin public finance framework, at the same time reflecting international best practices. This will ensure compatibility among different municipalities in Montenegro, which is a prerequisite for e-local government.

6.3. Environmental protection

All the Project activities will reflect the principles of environmental protection and local sustainable development, taking into consideration environmental concerns affecting Montenegro in line with standard EU practices. Furthermore the Project will promote the awareness and the understanding of the environmental issues throughout the overall implementation; at the same time addressing environmental issues to higher instances on the level of the Government of Montenegro.

6.4. Social aspects (socio-cultural issues and gender equality)

The Project “Strengthening mechanisms for public finance at the local level in Montenegro” will contribute to open socio-cultural communication and non-discriminative and multi-ethnic exchanges of experience and cooperation between local governments, and local officials, civil society organizations and business community. At the same time, through the project and all activities that are to be carried out, promotion of tolerance, dialogue and communication between all the partners at the local and regional level, as well as with the central level government will be ensured.

The full participation of women is a prerequisite for long term socio-economic development and creation of good local governance. In Montenegro, women continue to be under-represented in formal decision-making structures. Although women are increasingly active in community support systems, gender disparities persist in public positions at all levels in Montenegro.

Therefore, the Project “Strengthening mechanisms for public finance at the local level in Montenegro” will mainstream gender policy and gender equality through all envisaged activities, based on the following elements: gender equality consolidates the work of combating poverty; gender equality is of fundamental importance for sustainable and democratic development; unequal power structures for women and men constitute an obstacle to economic growth and democratic development and equal opportunities for women

and men to own land and assets, to access employment and exercise other human rights are essential for sustainable and democratic development.

There are differences in relations between women and men in different municipalities in Montenegro (and even within different communities) and Project Team should take this into consideration - but without abandoning any requirements in respect of human rights.

6.5. Institutional and management capacity

The Project is focused on organizational strengthening and capacity development of municipal budgeting/ finance departments, development of capacities of the Commission for Fiscal equalization and enhancing performance of the overall public finance system in Montenegro. In addition, the Project will strive to codify and preserve all the knowledge relevant for local finances through establishment of a knowledge management system that will be hosted by the Union of Municipalities.

6.6. Economic and financial viability

The Project represents a viable long-term investment in so far as permanent capacities of local governments and to some degree of the Government/governance structures in Montenegro are to be developed. The Project will directly support development of enabling environment for municipal budgeting, establishment of results oriented budgets; provide for establishment of functional bonds market, support equitable and transparent distribution of transferred funds and work on exchange of knowledge.

7. Monitoring and evaluation

7.1 Reviews/evaluations

Quarterly reviews (monitoring)

In the environment in which the Project will be operating, there are many uncertainties and some aspects of project implementation are outside the direct control of the project management team. This means that the success of project implementation depends on having 1) a good, detailed realistic plan; and 2) a monitoring system that will pick up on important changes to the project as soon as possible, and enable decisions to be made that will either bring activities back on track, or modify them so as to ensure achievement of the intended impacts.

Therefore, the Project “Strengthening mechanisms for public finance at the local level in Montenegro” will instigate a continuous monitoring on a day to day, monthly and quarterly basis of the Project progress. The quarterly reviews of the Project results will be prepared by the Project Team and endorsed by the Project Board. During the Inception phase of the Project, detailed monitoring plan will be developed and adopted. The purpose of progress monitoring will be to ensure that the project remains on track according to its planned objectives and activities. It is therefore essential that the plans are carefully prepared, and that they take into consideration all major factors that are certain or highly probable from the risk analysis.

In addition to regular quarterly reviews there will be mid-term reviews. The focus of this review should be an assessment of ‘output to purpose’; that is, are the project activities being completed on schedule, and are they likely to achieve the project objectives.

The mid-term monitoring review should address the following:

- Assess the effectiveness of the management arrangements for implementing and monitoring the Project;
- Progress to date in achieving planned results;
- Assessment of the operating environment to identify whether the planned activities and results are still relevant and appropriate. This should include a look at any revised local government legislation, and an update of the risk assessment;

- The quality of the relationship between the project team and municipalities.

Monitoring Impact

An independent evaluation consultant would be contracted to design an evaluation plan and to carry out independent evaluations at appropriate time frames. The focus of the monitoring impact will be on capacity change and how to measure capacity change. Assessment of capacity change can be done in different ways: a) a self-assessment by administration staff and assembly members using a questionnaire, and repeated after a period of time; b) an external expert qualitative assessment using a standard methodology to be able to make comparisons between municipalities and before-and-after; c) use of basic statistical and objectively verifiable indicators; d) opinion surveys of the local population; d) capacity index. For effective triangulation to verify results, it is suggested that at least three of the above methods will be used.

Evaluation

An independent evaluation will take place in the Completion Phase. This evaluation will be based on the Project document. It will analyse the progress of the project towards its results and purpose, and identify areas for further development assistance.

8. Legal Context

This document, together with the CPAP signed by the Government and UNDP, constitutes a Project Document as referred to in the SBAA and all CPAP provisions apply to this document. The CO will play the role of implementing partner/executing agency and the overall project will be executed in DEX modality within existing UNDP internal rules and procedures by the CO.

- The overall project execution, implementation and the project administration;
- Maintaining the project's conceptual clarity and comparable standards regarding data collection, monitoring, project evaluation at different stages etc.;
- Exchange of information, knowledge codification and application;
- Consultancy and expert support necessary at phases of the project implementation;
- Maintaining working contacts with the partners;
- Application of the commonly agreed standards and procedures regarding data collection;
- Regular monitoring and reporting;

9. Results and Resources Framework

<p>Intended Outcome as stated in the CPAP's RRF:</p> <p>1. Efficiency and transparency of Government improved in order to effectively lead policy formulation, coordination and service delivery in accordance with European Union requirements.</p> <p>2. Government capable to efficiently managing the requirements of independence and European Union accession.</p>				
<p>Outcome indicators as stated in the CPAP's RRF, including baseline and targets:</p> <p>1. Indicator: No. of senior civil servants in the central Government trained with UNDP support. Baseline: 15; target: 50</p> <p>2. Indicator: No. of central Government institutions benefiting from UNDP institutional capacity building. Baseline: 5; target: 9</p>				
<p>Partnership Strategy: Municipalities in Montenegro; The Government of Montenegro (specifically the Ministry of Interior and Public Administration and the Ministry of Finance); the Committee for Coordination of Local Self-government Reform (CCLSGR); the Commission for fiscal equalisation; the Human Resources Management Authority (HRMA), Union of Municipalities of Montenegro, respective authorities at central and local level, CSO, etc.</p>				
<p>Project title and ID (ATLAS Award ID): Strengthening mechanisms for public finance at the local level in Montenegro; Award ID: TBD</p>				
INTENDED OUTPUTS	OUTPUT TARGETS FOR (2011-2012)	INDICATIVE ACTIVITIES (for details please see section 3.4)	RESPONSIBLE PARTIES	INPUTS
<p>Output:</p> <p>Strengthening mechanisms for public finance at the local level in Montenegro</p> <p>Baseline:</p> <ul style="list-style-type: none"> Transparent and accountable public finance system at the local level needs to be improved; Municipal bonds market in Montenegro needs further development; Transparent system for fiscal equalisation needs further development; <p>Indicators:</p> <ul style="list-style-type: none"> Number of municipalities /municipal staff/officials satisfied in involvement in capacity development programme; Prepared guidelines for municipalities for issuing of municipal bonds; Number of members of the Commission participated in capacity development 	<p>Targets for Output:</p> <ul style="list-style-type: none"> New budgeting techniques introduced based on the assessment; Municipal bonds market in Montenegro assessed and recommendations provided for improvement; 	<p>Key Activity 1: Project Management</p> <p>Key Activity 2: Mechanism for transparent and accountable public finance at the local level established and operational</p> <p>Activities:</p> <ol style="list-style-type: none"> Review current practices in municipal budgeting practices; Perform capacity assessment of municipal finance departments; Provide capacity development support for improvement of municipal finances; Define transparent and accountable monitoring system for budget execution; Support design of a sound reporting system; Draw lessons for wider policy and guidance in a report to MoF, Mol and UoM; Propose benchmark system for improvement of municipal finances; Support selected municipalities to develop/ improve capital budgets; Finalize capital budget and prepare explanatory report; <p>Key Activity 3: Municipal bonds market in Montenegro is strengthened through better understanding of benefits and opportunities among municipalities</p>	<p>Project Team staff, DG Team Leader, DRR</p>	<p>Year 2011 (545,855 USD)</p> <p>Year 2012 (535,045 USD)</p> <p>Total Project Budget (1,080,900 USD)</p>

<p>programme/trainings;</p> <ul style="list-style-type: none"> • Study tours reports; 		<p><u>Activities:</u></p> <ol style="list-style-type: none"> 1. Conduct an assessment of municipal bonds in Montenegro and provide recommendations; 2. Support municipalities to improve creditworthiness; 3. Review the performance of the implemented initiatives and propose required changes in the legal framework; 4. Develop guidelines and manuals for issuing of municipal bonds; <p><u>Key Activity 4: Fiscal equalisation mechanisms in Montenegro further strengthened</u></p> <p><u>Activities:</u></p> <ol style="list-style-type: none"> 1. Identify capacity development needs of the members of the Commission; 2. Organize capacity development programme/ trainings for the members of the Commission; 3. Provide coaching/ advisory assistance to the members of the Commission; 4. Organize study tours and facilitate exchange experience; 		
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Annex 1: Budget

Strengthening of public finance at the local level in Montenegro	Two Years				Costs (in USD)
	Expenses	Unit	# of units	Unit rate (in EUR)	
1. Human Resources					
1.1 Project Team (PT)					
1.1.1 Project Manager	Per month	24	1,900.00	45,600.00	63,300.00
1.1.2 Core Technical Advisor (international and part-time)	Per month	24	2,500.00	60,000.00	83,300.00
1.1.3 Project Administrative and Finance Assistant	Per month	24	1,400.00	33,600.00	46,600.00
1.1.4 Project Coordinators - regional (2 persons)	Per month	48	1,750.00	84,000.00	116,600.00
1.2 Expert fees (gross amounts, expat/int. staff)					
1.2.1 International short term experts and trainers	Per day	120	600.00	72,000.00	100,000.00
1.3 Expert fees (gross amounts, national staff)					
1.3.1 National Short-Term	Per day	250	200.00	50,000.00	69,400.00
1.4 Per diems for missions/travel					
1.4.1 Abroad				11,200.00	15,500.00
1.4.2 Local				15,000.00	20,800.00
Subtotal Human Resources				371,400.00	515,500.00
2. Travel					
2.1. Study Tours (including travel, allowances for 15 participants)	Per study tour	3	22,500.00	67,500.00	93,700.00
2.2. International, local and regional travel (air/car/bus/van/ train)				15,000.00	20,800.00
Subtotal Travel				82,500.00	114,500.00
3. Equipment and supplies					
3.1 Furniture	set	6	600.00	3,600.00	5,000.00
3.2 Computer equipment, network	set	5	1,800.00	9,000.00	12,500.00
3.3 Photocopier	pcs	1	2,000.00	2,000.00	2,800.00
3.4 Spare parts/equipment for machines, tools	per month	24	100.00	2,400.00	3,300.00
Subtotal Equipment and supplies				17,000.00	23,600.00
4. Local office/project costs					
4.1 Office rent and utilities	Per month	24	1,500.00	36,000.00	50,000.00
4.2 Consumables - office supplies	Per month	24	200.00	4,800.00	6,600.00
Subtotal Local office/project costs				40,800.00	56,600.00
5. Other costs, services					
5.1 Publications	pcs	2	10,000.00	20,000.00	27,800.00
5.2 Sub-contracting for municipal software development	pcs	1	25,000.00	25,000.00	34,800.00
5.3. Sub-contacting for trainings and workshops	per event	10	6,000.00	60,000.00	83,300.00
5.4. Sub-contacting for design of municipal monitoring system	pcs	1	25,000.00	25,000.00	34,700.00
5.4 Evaluation and auditing costs		1	20,000.00	20,000.00	27,800.00
5.5 Translation				20,000.00	27,800.00
5.6 Costs of conferences/seminars, inclusive of allowances	per event	2	11,000.00	22,000.00	30,500.00
5.7 Costs of meetings and workshops, inclusive of allowances	per event	8	2,000.00	16,000.00	22,200.00
5.8 Costs of visibility activities			8,000.00	8,000.00	11,100.00
Subtotal Other costs, services				216,000.00	300,000.00
6. Subtotal direct project costs (1-6)				727,700.00	1,010,200.00
7. GMS (7%)				50,939.00	70,700.00
8. Total eligible project costs (6+ 7)				778,639.00	1,080,900.00

Annex 2: Annual Work Plan

Strengthening mechanisms for public finance at the local level in Montenegro

Democratic Governance Cluster

Key Activities	Time Frame		Responsible Party	Planned Budget			
	Start	End		Donor	Budget Description	2011 (Amount USD)	2012 (Amount USD)
1. Project Management	1 Jan 2011	31 Dec 2012	UNDP	182	71400 – Contractual Services – Individuals	113,250.00	113,250.00
	1 Jan 2011	31 Dec 2012	UNDP	182	71200 – International Consultants	41,650.00	41,650.00
	1 Jan 2011	31 Dec 2012	UNDP	182	71600 – Travel	18,150.00	18,150.00
	1 Jan 2011	31 Dec 2012	UNDP	182	72200 – Equipment and Furniture	9,450.00	1,650.00
	1 Jan 2011	31 Dec 2012	UNDP	182	72800 – Information technology Equipment	11,500.00	1,000.00
	1 Jan 2011	31 Dec 2012	UNDP	182	73100 – Rental and Maintenance - Premises	25,000.00	25,000.00
	1 Jan 2011	31 Dec 2012	UNDP	182	74500 – Miscellaneous Expenses	3,300.00	3,300.00
	1 Jan 2011	31 Dec 2012	UNDP	182	72400 – Communications and Audio Visual Equipment	5,550.00	5,550.00
	1 Jan 2011	31 Dec 2012	UNDP	182	Total Activity without F&A	227,850.00	209,550.00
	1 Jan 2011	31 Dec 2012	UNDP	182	75100 - Facilities & Administration	15,950.00	14,665.00
	TOTAL						243,800.00

2. Mechanism for transparent and accountable public finance at the local level established and operational	1 Jan 2011	31 Dec 2012	UNDP	182	71200 – International Consultants	19,800.00	28,000.00	
	1 Jan 2011	31 Dec 2012	UNDP	182	71300 – Local Consultants	14,700.00	14,700.00	
	1 Jan 2011	31 Dec 2012	UNDP	182	71600 – Travel	27,250.00	27,250.00	
	1 Jan 2011	31 Dec 2012	UNDP	182	74200 – Audio Visual and Printing Production Costs	7,800.00	7,800.00	
	1 Jan 2011	31 Dec 2012	UNDP	182	72100 – Contractual Services - Companies	32,750.00	32,750.00	
	1 Jan 2011	31 Dec 2012	UNDP	182	Total Activity without F&A	102,300.00	110,500.00	
	1 Jan 2011	31 Dec 2012	UNDP	182	75100 - Facilities and Administration	7,155.00	7,730.00	
	TOTAL						109,460.00	118,235.00
3. Municipal bonds market in Montenegro is strengthened through better understanding of benefits and opportunities among municipalities	1 Jan 2011	31 Dec 2012	UNDP	182	71200 – International Consultants	20,000.00	20,000.00	
	1 Jan 2011	31 Dec 2012	UNDP	182	71300 – Local Consultants	10,000.00	10,000.00	
	1 Jan 2011	31 Dec 2012	UNDP	182	74200 – Audio Visual and Printing Production Costs	10,000.00	10,000.00	
	1 Jan 2011	31 Dec 2012	UNDP	182	72100 – Contractual Services - Companies	35,000.00	35,000.00	
	1 Jan 2011	31 Dec 2012	UNDP	182	Total Activity without F&A	75,000.00	75,000.00	
	1 Jan 2011	31 Dec 2012	UNDP	182	75100 - Facilities and Administration	5,250.00	5,250.00	
	TOTAL						80,250.00	80,250.00

4. Fiscal equalisation mechanisms in Montenegro further strengthened	1 Jan 2011	31 Dec 2012	UNDP	182	71200 – International Consultants	20,000.00	20,000.00
	1 Jan 2011	31 Dec 2012	UNDP	182	71300 – Local Consultants	10,000.00	10,000.00
	1 Jan 2011	31 Dec 2012	UNDP	182	71600 – Travel	30,000.00	30,000.00
	1 Jan 2011	31 Dec 2012	UNDP	182	74200 – Audio Visual and Printing Production Costs	10,000.00	10,000.00
	1 Jan 2011	31 Dec 2012	UNDP	182	72100 – Contractual Services - Companies	35,000.00	35,000.00
	1 Jan 2011	31 Dec 2012	UNDP	182	Total Activity without F&A	105,000.00	105,000.00
	1 Jan 2011	31 Dec 2012	UNDP	182	75100 - Facilities and Administration	7,350.00	7,350.00
	TOTAL					112,350.00	112,350.00

COMPONENTS TOTAL						510,150.00	500,050.00
GMS COMPONENT:				182	75100 - Facilities and Administration	35,705.00	34,995.00
PROJECT TOTAL						545,855.00	535,045.00

Annex 3: Expression of support and endorsement



MINISTRY OF FINANCE OF MONTENEGRO

No: 04-

9773/1

August 30, 2010.

UNDP

Resident Representative of the UNDP Montenegro
H.E. Alexander Avanesov

Subject: *Expression of support and endorsement of the Project "Strengthening mechanisms for public finance at the local level in Montenegro"*

Your Excellency,

As you know, the Ministry of Finance and the United Nations Development Programme have been discussing over the course of the last few months about the possibility of initiating a Project "Strengthening Mechanisms for Public Finance at the Local Level in Montenegro" with the overall objective to facilitate socio-economic development at the local level through strengthening accountable, transparent and results oriented public finance mechanisms.

In addition, the specific purpose of the Project is to support development of capacities of the stakeholders at municipal and the central level to introduce transparent, accountable, result oriented budgeting reflecting capital investments, local and national strategic priorities. The Project is expected to deliver the following results: 1) Mechanisms for transparent and accountable public finance at the local level established and operational; 2) Municipal bonds market in Montenegro is strengthened through better understanding of benefits and opportunities among municipalities; and 3) Fiscal equalization mechanisms in Montenegro further strengthened.

I would therefore like to express my full support and endorsement of the Project "Strengthening mechanisms for public finance at the local level in Montenegro".

Your Excellency, please accept my deepest consideration. I look forward to our continued co-operation in the future.

Sincerely Yours,



Minister
Igor Lukšić

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