1. Basic information

1.1 CRIS Number: 2008/020-316
1.2 Title:  Support to Local Government Reform
1.3 ELARG Statistical code:  01.34
1.4 Location:  Montenegro

Implementing arrangements:
1.5 Contracting Authority:  EC Delegation in Montenegro
1.6 Implementing Agency:  EC Delegation in Montenegro
1.7 Beneficiary (including details of project manager):
Montenegrin municipalities
Ministry of Finance
Ministry of Internal Affairs and Public Administration
Coordination Committee for Local Self-Government Reform
Union of Municipalities of Montenegro
The project managers will be:
Ms. Slobodanka Labus Buric
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Other contact point:
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Adviser for local self governments
Union of Municipalities
Tel. 069 520 184
Tel. 620 123/620 097
Email: sasa.scekic@uom.cg.yu

Financing

1.8 Overall cost (VAT excluded):  € 6.05 million
1.9 EU contribution:  € 4.3 million
1.10 Final date for contracting: Two years after the signature of the financing agreement between the European Commission and the Government of Montenegro.

1.11 Final date for execution of contracts: Two years after the final date for contracting

1.12 Final date for disbursements: One year after the final date for the execution of contracts.

2. Overall Objective and Project Purpose

2.1 Overall Objective:

To contribute to a more balanced regional development in Montenegro through a more effective role of local governments in socio-economic development.

2.2 Project purpose:

To improve the local government capacity to facilitate local economic development through better legal framework, enhanced governance and investments in less developed municipalities.

2.3 Link with AP/NPAA / EP/ SAA

The European Partnership identifies, under the political criteria section, the continued implementation of the decentralisation process and upgrading the capacities of municipalities as a short term priority.

The 2007 Progress Report underlines the need to improve the administrative and management capacity of municipalities including public procurement and financial management, and to strengthen central government’s capacity for dealing with local government reform needs.

The SAA, under art.114 ‘Public Administration’ underlines the need to promote good governance at all levels of public administration, including local government.

2.4 Link with MIPD

The MIPD (2008-2010) identifies the need to:

- Implement the decentralisation process with the aim of strengthening local democracy, develop the capacity of the municipalities to perform their tasks and improve their competences (main priorities and objectives - section 2.2.1.1.).
- Improve public administration; make significant progress in the sustainable financing of local authorities; strengthen capacity to deal with new competences, and provide services to citizens and to local communities, regardless of the ethnic affiliation of their members; and clarify competences between central and local government (expected results and timeframe – section 2.2.1.2).
- Contribute to the implementation of the Work Programme for Better Local Government; including upgrading the financial management capacity of the
municipalities, and the use of public procurement rules (programmes to be implemented – section 2.2.1.3).

2.5 Link with National Development Plan
Not applicable.

2.6 Link with national/sector investment plans

The proposed project is linked to a number of key government strategies and plans, namely:

- the Public Administration Reform Strategy developed with EC assistance and covering the period from 2002-2009
- the Work Programme for better Local government, adopted by the Inter-ministerial Committee for Coordination of Local Self Government reform in 2005
- the Action Plan for Better Local Governance developed with EC and CoE assistance and approved by the Coordination Committee for Local Self-Government Reform - expected to be adopted by parliament in 2008

For more details see annex 3.

3. Description of project

3.1 Background and justification

Since independence, Montenegro has made significant progress on local government reform:

- The Committee for Coordination of Local Self-government Reform (CCLSGR) was established in February 2007. It is composed of representatives of the Ministry of Finance, Ministry of Internal Affairs and Public Administration, Union of Municipalities and 4 selected municipalities (rotation is applied) and it facilitates institutional dialogue, cooperation and coordination between central and local government.

- The Action Plan for Better Local Self-governance has been adopted by the CCLSGR and is expected to be adopted later this year.

- The “Analysis on Local Self-government Financing”, “Analysis on Local Self-government Functioning” and “Analysis on Local Self-Government Activities” have been developed and adopted with the support of the EC and CoE. They are being used as a basis for drafting new legislation.

- Amendments to the Law on Local Governance, Law on Local Governance Financing, Law on Territorial Organization have been drafted with the assistance of EC and CoE and are expected to be adopted by the Parliament later in 2008.

- A National Training Strategy for Local Government, as well as an Action Plan for its implementation, have been developed with the assistance of EC and CoE and are expected to be adopted by the Parliament later in 2008.

However, much remains to be done. There are key challenges on the decentralisation framework, and on municipal management and service delivery.
Decentralisation

There are two urgent related tasks. The first is the need to systematically harmonise local self-government legislation with sector laws. The new devolved responsibilities of municipalities are set out in the Law on Local Self-Government (they include education, primary health care, social welfare, and child protection). But many of the existing sector laws also have provisions that are relevant to some of these devolved responsibilities. They need to be harmonised with the self-government legislation in order to avoid confusion and contradictory interpretations of responsibilities. This has been addressed in an Action Plan for Better Local Governance following an assessment by Council of Europe experts. It is expected to be adopted by Parliament later this year. Implementation of the Plan will involve the participation of various line ministries and it is expected that this process might stretch into 2010.

Second is the issue of fiscal decentralisation. Financial resources have yet to be transferred to the municipalities to enable them to deliver the services they will become responsible for under decentralisation. A clear definition of municipalities’ tasks/responsibilities is obviously a crucial first step in fiscal decentralisation. But there are also further issues regarding both the revenues and expenditures of municipalities; and developing 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”.

The CCLSGR has a pivotal role in taking forward both issues. It is supported by a secretariat, provided by the Ministry of Internal Affairs and Public Administration, which has recently been strengthened with eight new appointments. The proposed project is designed to provide further support to the CCLSGR, the Ministry of Interior and Public Administration and the various legislative working groups.

Municipal management and service delivery

Much of the municipal infrastructure throughout the country has deteriorated over the past 10-15 years because of inadequate investment and maintenance. The delivery of key services has suffered. This has been exacerbated by confusion about municipal and central government responsibilities (see the preceding section on decentralisation). But the underlying cause is inadequate resources per se, especially in those rural municipalities that have difficulty in attracting private sector investment.

Coastal cities and Podgorica have been able to attract some mostly private sector investment, although this often does not extend to all of the key services (e.g. sewage, primary health care or social services). Rural municipalities have found it much tougher and have difficulty in attracting any external investment. IFIs are active in providing grants and loans to municipalities for basic infrastructure needs (roads, water supply, etc). But they require feasibility studies and many municipalities lack the capacity and financial resources to produce those studies. The Ministry of Finance also manages a fund for co-financing investments in less developed municipalities (as part of the equalisation fund). But municipalities have to contribute 50-70% which for many is beyond their means, and their borrowing capacity is limited by law1.

1 Repayment of the principal amount and interest should not exceed 10% of realized revenues of a municipality. Source: Law on Financing of Local Self-Government, art. 64.
Good governance and fight against corruption will be enhanced through training for public officials on what corruption and conflict of interest are and how to react when confronted with corruption (either by being offered a bribe or if one sees that other officials take bribes); revision of internal structure of municipal administrations could be envisaged in order to improve checks and control.

The Union of Municipalities of Montenegro (UOM), an association of all 21 Montenegrin municipalities, has become increasingly involved and influential in national policy making. However, it is still a long way from realising its full potential in delivering training, as a provider of information, or as a platform for its members.

The proposed project will help to address these problems in four ways. It will assist the Ministry of Interior in further development of the legal framework; it will assist the Ministry of Finance in its policy towards municipal investments in particular for less developed municipalities in line with CoE recommended criteria (see for further details annex 4); it will help to develop the capacity of municipalities to develop and implement investment projects, through assistance - under the umbrella of the UOM - thus allowing them to access potential investment and IFI finance; and, at the same time, it will support small infrastructures at municipal level through a call for proposals.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact

The proposed project will have a direct positive impact on the living conditions of citizens, in the selected – and often poorest - municipalities.

The proposed support to the UOM will have the catalytic effect of leveraging potential IFI investments for municipalities. Support for the harmonisation of sectoral and self-government legislation should also have a catalytic in terms of clarifying future budgetary requirements and potential investments.

The support to the UOM will also enable municipalities to share their experiences and best practice, an essential precursor to longer term sustainability and inter-municipal cooperation.

3.3 Results and measurable indicators

Result 1
Capacity of the Ministry of Interior to improve the legal framework for decentralisation and local governance improved and relevant primary and secondary legislation drafted and or/amended.

Measurable indicators in relation with result 1
Number of sector laws harmonized with local government legislative framework

Result 2
Capacities of municipalities and Union of Municipalities to identify, plan, develop, procure and implement priority municipal investment projects, in particular in new field of local government competence strengthened.

Measurable indicators in relation with result 2
- Approx. 130 municipal servants trained (an average of 6 per each of the 21 municipalities).
• Number of service packages/Best Practices developed by Union of Municipalities.
• At least 6 municipal investment projects finalized timely and monitored during implementation to ensure quality control.

Result 3
Local investments carried out in most needed municipalities.

Measurable indicators in relation with result 3
At least 6 municipal investment projects successfully completed.

A baseline for all specific indicators will be carried out before the start of the project.

For further details on results and measurable indicators see the log frame in Annex 1.

3.4 Activities
The activities related to the first result in supporting the Ministry of Internal Affairs and Public Administration and the Committee for Coordination of Local Self-Government Reform in harmonizing local governance legislation will include the following:

• Providing assistance and on the job training for drafting laws and for the establishment and operation of various legislative working groups under the Ministry and CCLSGR that will work on the secondary (sector) legislation to be harmonised, based on the legal analyses developed by the Council of Europe in cooperation with the major stakeholders2.
• Strengthening the Committee’s role in coordinating distribution of competences and resources between central and local level.
• Strengthening the secretariat of the Committee.

The activities related to the second result "Training, advice and technical assistance for municipalities and Union of Municipalities" will include the following:

• Assisting in identification of priority investment projects per municipality, ensuring participation of citizens, NGO’s and private sector.
• Training on preparing applications/writing proposals for investment projects (incl. economic feasibility analysis, environmental impact assessment, etc).
• Training on project management and public procurement.
• Training and awareness building on fighting corruption
• Training on multi-year financial and investment planning (including building links between local development strategies and financial/budget planning).
• Developing service packages3 for the Union of Municipalities in the area of capital investment planning4 to use for future training and advisory services by the UOM to municipalities.

3 Information about available donor/IFI finances and requirements, advice, training materials, best practices, on-the-job training, sharing experiences and cross-municipal cooperation.
4 Project proposal development/writing, feasibility studies, public procurement, project implementation/management were areas identified in the needs analysis carried out under the framework of the EAR-CoE Joint Initiative as priorities to be included in the National Training Strategy for local government.
Developing a database for the UoM which will contain information about municipal investment projects per municipality.

The activities related to the third result "Local investments" will include the following:

- Set up of the investment scheme and application methodology with the three beneficiary institutions.
- Training of selected staff of the Ministry of Finance and the UOM in grant scheme management, procurement procedures, monitoring of projects, reporting (e.g. development of standard application forms, guidelines, manuals, evaluation forms and other relevant documents, development of a monitoring system, etc).
- Carrying out an information campaign to inform municipalities about the municipal investment programme.
- Investigating the possibility of building a multi-donor Trust Fund (incl. central government programmes) for municipal investment projects to be used for further calls, once Montenegro is accredited DIS.

3.5 Conditionality and sequencing
The project includes the following conditions:

1) Montenegrin national co-financing of €1.6 million guaranteed for the infrastructures and 0.15 million for institution building (equalisation fund, local government resources and IFI);
2) Adoption of the action plan for local government;
3) Adoption of the relevant legislation;
4) Appointing the relevant staff by the beneficiaries to participate in capacity building activities, working groups, steering and coordination committees, as per work plan.

In the event that conditions are not met, suspension or cancellation of projects will be considered.

3.6 Linked activities
Some €6 million has been committed under the CARDS programme for public administration reform of central government. This has mainly focussed on developing the civil service system along the principles of professionalism and accountability, reforming the salary system and enhancing the capacity of EU integration structures.
Some €5.5 million has been committed under the CARDS for local government reform. This has mainly focussed on enhancing municipal investment, reinforcing the role of the Union of Municipalities and continuing to strengthen the administrative capacity and the legislative framework of local government reform. Under CARDS06MON01-04-02 "strengthening local self government" (€ 643,977.36) CoE supported the development of the local government legislative framework and identification of training needs which resulted in the draft action plan for better local government. This intervention will further expand these activities enhancing the decentralisation process.

There is still a need to complete the legislative framework, develop municipal capacity in key areas identified by the ongoing CARDS project (e.g. public procurement and capital development).

5 The UOM will be responsible for maintaining the database and ensuring regular inputs from municipalities after the database structure has been developed.
investment planning), and strengthen Ministry of Finance’s capacity to manage EC funds. This intervention will address these issues and also complement the existing capacity building activities with the Union of Municipalities. A strict coordination of CARDS and IPA interventions will be assured before starting the present project.

USAID has been active in the local government sector Montenegro since 1999. Their earliest projects focused on providing technical assistance to improve financial management, establishing municipal treasuries and improving tax collection as well as to implement small community investments projects, for a total amount of approx. €12 million. The ongoing programme, amounting to approx. USD 3.4 million, is focused on identifying and addressing critical local constraints to economic growth and forming partnerships with local governments, private businesses and NGOs to expand and increase access to economic and social infrastructures. The emphasis on private sector growth is complementary to the approach under the proposed IPA intervention.

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 project addresses the core problem of inadequate data and planning and management competencies for directing strategic spatial development in all Montenegrin municipalities.

The KfW supports the six coastal municipalities and Cetinje in improving their water supply and sewage system through technical assistance and financing investments. Financial allocations to support the municipalities are foreseen until the end of 2009. The work being carried out, in particular by GTZ and KfW, in these specific sectors will be important to define investment priorities and prepare participation of municipalities to the call for proposals to be organised in the framework of the IPA intervention by the Ministry of Finance.

The Austrian Development Agency has contributed € 2,9 million since 2004 to support five communities of the region Bjelasica & Komovi (Andrevica, Berane, Bijelo Polje, Kolasin and Mojkovac). ADA intends to be committed in the region through a follow-up project of € 2 million.

The OSCE currently implements a project to increase the capacity of municipal assembly members. The capacity building component of the proposed IPA intervention is complementary to this approach since the main target group are central government and local government administration.

3.7 Lessons learned

Although impact realised through the previous assistance overall is satisfactory, a number of challenges remain:

- **Legal Reform**: Initial timelines for the adoption of legal instruments are not always honoured, leading to delays in implementation and causing difficulties in project implementation. Agreed legal instruments are commonly subject to significant change prior to adoption. Therefore, in the context of this project we will adopt a stronger conditionality.

- **Implementation**: In the past there has been considerable emphasis on establishing the legal framework, with insufficient attention paid to the capacity to implement the law. This proposed project will put an emphasis on creating capacity for implementation.

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6 Bar, Budva, Herceg Novi, Ulcinj, Tivat, Kotor
- **Resources:** Often project implementation is hampered by either insufficient staff and resources, or insufficient operational funds. This proposed project will have very explicit conditions about sufficient resources being made available in the government budget.

- **Cooperation with civil society:** Municipalities, especially in smaller towns and from rural areas, have limited experience with and capacity to develop, implement and manage projects. Experience shows that inclusion of civil society in the project management cycle significantly increases the success rate, as civil society organisation often do have the required experience with donor funded projects. Mechanisms to promote their inclusion in the municipal investment projects, through measures such as rewarding extra points during evaluation for those municipalities that have a civil society organisation as partner, therefore should be considered.
### 4. Indicative Budget (amounts in MEUR)

<table>
<thead>
<tr>
<th>ACTIVITIES</th>
<th>IB</th>
<th>INV</th>
<th>TOTAL EXP.RE</th>
<th>IPA COMMUNITY CONTRIBUTION</th>
<th>NATIONAL CONTRIBUTION</th>
<th>PRIVATE CONTRIBUTION</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>EUR</td>
<td>EUR</td>
<td>EUR= (a)+(b)+(c)+(d)</td>
<td>EUR= (b)</td>
<td>%</td>
<td>EUR= (c)=(x)+(y)+(z)</td>
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<td>Contract 1</td>
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<td>0.65</td>
<td>0.65</td>
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<td>TOTAL IB</td>
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<td>0.15</td>
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<td>TOTAL INV</td>
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<td>3.5</td>
<td>69</td>
<td>1.6</td>
<td>31</td>
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<tr>
<td>TOTAL PROJECT</td>
<td>6.05</td>
<td>4.3</td>
<td>71</td>
<td>1.75</td>
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</tbody>
</table>

Amounts net of VAT

The exact sources of funding from the National Contribution (central, local, IFI) will be known only after the result of the call for proposals.

For more details see annex 5.
5. Indicative Implementation Schedule (periods broken down per quarter)

<table>
<thead>
<tr>
<th>Contracts</th>
<th>Start of Tendering</th>
<th>Signature of contract</th>
<th>Project Completion</th>
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<tbody>
<tr>
<td>Contract 1</td>
<td>Q1 2009</td>
<td>Q3 2009</td>
<td>Q3 2011</td>
</tr>
<tr>
<td>Contract 2</td>
<td>n.a.</td>
<td>Q1 2009</td>
<td>Q4 2010</td>
</tr>
<tr>
<td>Contract 3</td>
<td>Q1 2010</td>
<td>Q2 2010</td>
<td>Q1 2012</td>
</tr>
<tr>
<td>Contract 4</td>
<td>Q1 2010</td>
<td>Q2 2010</td>
<td>Q1 2012</td>
</tr>
<tr>
<td>Contract 5</td>
<td>Q1 2010</td>
<td>Q2 2010</td>
<td>Q1 2012</td>
</tr>
</tbody>
</table>

6. Cross cutting issues

6.1 Equal Opportunity
In general, gender needs will be considered as an analytical instrument, from programme design onwards.

In supporting legislative harmonisation, steps will be taken whenever relevant to insert provisions that enhance equal opportunities.

Equal treatment and opportunities for women in the relevant institutions will be taken into account in local level policies and practices that reflect the working capacities and family obligations of their staff, especially women’s participation.

6.2 Environment
The establishment of an efficient system for harmonising local government legislation and sector legislation will enhance the legal basis for environmental protection in Montenegro.

There will also be a requirement that selected proposals from municipalities take into account environmental issues. It is likely that some of the municipal projects proposals will involve actual improvements to municipal infrastructure - in sewage treatment or water supply for instance - thus having a more direct environment benefit.

6.3 Minorities
The project will assist beneficiaries in implementing mechanisms to ensure that in the legislative process the principle of equitable representation of ethnic minorities is taken into consideration. There will also be a requirement that selected proposals from municipalities take into account minorities’ interests.
ANNEXES

1- Log frame in Standard Format
2- Amounts contracted and Disbursed per Quarter over the full duration of Programme
3- Description of Institutional Framework
4 - Reference to laws, regulations and strategic documents
5- Details per EU funded contract where applicable
ANNEX 1: Logical framework matrix in standard format

<table>
<thead>
<tr>
<th>LOGFRAME PLANNING MATRIX FOR Project Fiche</th>
<th>Programme name and number:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support to Local Government Reform in Montenegro</td>
<td>Contracting period expires: 2 years after signing of the FA</td>
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<tr>
<td></td>
<td>Disbursement period expires: 1 year after the execution of contracts</td>
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<td></td>
<td>Total budget: M€ 6.05</td>
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<tr>
<td></td>
<td>IPA budget: M€ 4.3</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>To contribute to a more balanced regional development in Montenegro through a more effective role of local governments in socio-economic development.</td>
<td>GDP per capita at municipal level</td>
<td>Monstat</td>
</tr>
<tr>
<td></td>
<td>Fiscal capacity of municipalities</td>
<td>Ministry of Finance</td>
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</table>

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>To improve the local government capacity to facilitate local economic development through better legal framework, enhanced governance and municipal investments.</td>
<td>Extension of communal services to local population in at least 6 municipalities (environment, roads, schools, health centres, etc..)</td>
<td>Data collected by the Ministry of Finance</td>
<td></td>
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<tr>
<td></td>
<td>Higher execution of local capital budgets</td>
<td>Quarterly reports on revenues and expenditures from municipalities to the Ministry of Finance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Higher transfer of financial resources from the ministry of Finance to the Municipalities</td>
<td>Ministry of Finance reports</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>1. Government commitment to further decentralization</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>2. Commitment from municipalities to make relevant staff available for the capacity building exercise</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Sufficient qualitative project proposals from municipalities</td>
<td></td>
</tr>
<tr>
<td>Results</td>
<td>Objectively verifiable indicators</td>
<td>Sources of Verification</td>
<td>Assumptions</td>
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<tr>
<td>Capacity of the Ministry of Interior to improve the legal framework for decentralisation and local governance improved and relevant primary and secondary legislation drafted and or/amended</td>
<td>Number of sector laws harmonized with local government legislative framework</td>
<td>Resolution on establishment of working groups, minutes and participant lists of meetings</td>
<td>Commitment from CCLSGR members and main stakeholders to make relevant experts available</td>
</tr>
<tr>
<td>Capacities of municipalities and Union of Municipalities to identify, plan, develop, procure and implement priority municipal investment projects, in particular in new field of local government competence strengthened</td>
<td>Approx. 130 municipal servants trained (an average of 6 per each of the 21 municipalities). Number of service packages/Best Practices developed by Union of Municipalities. At least 6 municipal investment projects finalized timely and monitored during implementation to ensure quality control</td>
<td>Training reports and training evaluation, publication of internal and external guidelines on the Ministry of Finance website Participant lists, training reports, service packages published on the UoM website Procurement reports, monitoring reports, projects evaluation</td>
<td>Beneficiary commitment to provide staff and space Sufficient qualitative projects received from municipalities</td>
</tr>
<tr>
<td>Local investments carried out in most needed municipalities</td>
<td>At least 6 municipal investment projects successfully completed</td>
<td>Project proposals registered by the Ministry of Finance in reply to the call for proposals UoM bulletins Municipalities' reports</td>
<td>Commitment from municipalities and UoM to participate in training Commitment from municipalities to input data on a regular basis</td>
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<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Costs</th>
<th>Assumptions</th>
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<tbody>
<tr>
<td>• Providing technical assistance and on the job training for drafting laws and for the establishment and</td>
<td>EU funded service contract, TA EU funded grant to CoE</td>
<td>€ 0.65 million € 0.15 million</td>
<td>Government co-financing assured together with political commitment to decentralisation</td>
</tr>
</tbody>
</table>
- Strengthening the Committee’s role in coordinating distribution of competences and resources between central and local level.
- Strengthening the secretariat of the Committee.
- Assisting in identification of priority investment projects per municipality, ensuring participation of citizens, NGO’s and private sector.
- Training on preparing applications/writing proposals for investment projects (incl. economic feasibility analysis, environmental impact assessment, etc).
- Training on project management and public procurement.
- Training on multi-year financial and investment planning (including building links between local

| EU funded grants to municipalities | € 3.5 million |
| NC grants to municipalities       | € 1.6 million |
| NC services to municipalities     | € 0.15 million |
• Developing service packages for the Union of Municipalities in the area of capital investment planning to use for future training and advisory services by the UOM to municipalities.
• Developing a database for the UoM which will contain information about municipal investment projects per municipality.
• Set up of the investment scheme and application methodology with the three beneficiary institutions.
• Training of selected staff of the Ministry of Finance and the UOM in grant scheme management, procurement procedures, monitoring of projects, reporting (e.g. development of standard application forms, guidelines, manuals, evaluation forms and other relevant documents, development of a monitoring system, etc).
• Carrying out an information campaign to inform municipalities about the municipal investment programme.
• Investigating the possibility of building a multi-donor Trust Fund (incl. central
government programmes) for municipal investment projects to be used for further calls, once Montenegro is accredited DIS.
ANNEX 2: indicative amounts (in million €) Contracted and disbursed by quarter for the project

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<td>Contract 1</td>
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<td>Contract 2</td>
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ANNEX 3: Description of institutional framework

The Committee for Coordination of Local Self-government Reform (CCLSGR) was established in February 2007. It is composed of representatives of the Ministry of Finance, Ministry of Internal Affairs and Public Administration, Union of Municipalities and 5 selected municipalities (rotation is applied) and it facilitates institutional dialogue, cooperation and coordination between central and local government. Under the CCLSGR three commissions have been established: the commission for international cooperation; the commission for fiscal decentralisation; and the commission for administrative decentralisation.

So far, the Ministry of Finance is in charge of providing technical support to the Local Government Finance Commission, responsible for designing, authorising and managing the equalisation fund. The Commission is composed of seven members, five of them are appointed by the Union of Municipalities, two by the Ministry of Finance and Ministry of Interior and Public Administration. The work of the Commission will be handed over to the Commission for Fiscal decentralisation, which will continue to be supported by the Ministry of Finance.

The Ministry of Interior and Public Administration established recently a Local government department which will be staffed in the course of 2008 with approx.10 civil servants.

The Union of Municipalities, staffed with 4 permanent staff, is composed by all twenty one municipalities of Montenegro. The association has its assembly, presidency and boards. Its main goals are: to develop and improve the legal system and the position of local government; to represent common local government interests in front of Republic bodies and other domestic and international entities; to accomplish mutual cooperation between local governments in order to realize jointly local population interests and to develop and improve education and culture of citizens and local government officials.
ANNEX 4: Reference to laws, regulations and strategic documents

Reference list of relevant laws and regulations

European Charter on local self-government
Constitution of Montenegro
Decree on organization and manner of work of state administration
Law on Local Self-Government
Law on Financing of Local Self-Government
Law on Public Procurement
Law on Territorial Organisation of Montenegro
Law on State-owned Property
Decision on the establishment of the Committee for local self-government reform
Analysis of local self-government functioning
Analysis of local self-government activities
Analysis of local self-government financing

Reference to AP /NPAA / EP / SAA

The 2007 Progress Report underlines the need to improve the administrative and management capacity of municipalities including public procurement and financial management, and to strengthen central government’s capacity for dealing with local government reform needs.

The European Partnership document (Council decision of 22 January 2007) identifies under the political criteria section, (sub section public administration) the continued implementation of the decentralisation process and upgrading the capacities of municipalities as a short term priority.

The SAA, under art.114 ‘Public Administration’ underlines the need to promote good governance at all levels of public administration, including local government.

Reference to MIPD

The MIPD (2007-2009) states the following:

2.3.1 Priority axis 1 Political Criteria

The constitution provides for the autonomy of local self-government, but municipalities face a general problem of administrative capacity and a lack of substantive powers. Financial issues regarding both the revenue and expenditure of municipalities and municipal property remain unresolved. There is a need to harmonise local self-government legislation with sectoral laws as well as to enhance municipal capacities to attract investment.

2.3.1.1 Objectives and choices

(3) implementing the decentralisation process and strengthening local democracy; developing the capacity of the municipalities to perform their tasks and improve their competences;

2.3.1.2 Expected results and indicators

An improved public administration would include significant progress in sustainable financing of local authorities; strengthened capacity to provide services to citizens and to
local communities; clarified competences between central and local government. *Indicators:* increased municipal budgets.

**Reference to national / sectoral investment plans**

The proposed intervention is linked to the Public Administration Reform Strategy developed with EC assistance and covering the period from 2002-2009. A significant delegation of competences to lower levels of the Administrative system is one of the key objectives identified in the public administration reform process.

The proposed intervention is linked to the Work Programme for better Local government, adopted by the interministerial Committee for coordination of local self government reform in between municipalities and central government.

The Montenegrin Development and Poverty Reduction Strategy (DPRS), adopted in 2003, and the Strategy for the Fight against Poverty and Social Exclusion, issued in 2007 describe the framework and priorities for poverty reduction actions. Key implementation measures identified include increased decentralisation of competences in the area of social policies, infrastructure and environment.
ANNEX 5: Details per EU funded contract

Contract 1. Service (€ 0.65 million)

This contract will be tendered through international restricted procedures and will provide technical assistance for the following components:

Capacity building of the Union of Municipalities (strengthening the services of the Union)
- Development of service packages for the UOM in the area of capital investment planning (project development/writing, procurement, project implementation/management, entrepreneurship stimulation, etc.)
- Development of database of municipal investment projects.

Capacity building for carrying out call(s) for proposals
- Information seminars/campaign in the regions for municipalities
- Organize focus groups in municipalities to identify priority municipal investment projects
- Developing criteria/procedures/guidelines/manuals/evaluation forms etc.
- Assist municipalities in procurement of works in municipal investment projects
- Develop monitoring system and assist Ministry of Finance where necessary in monitoring of implementation of municipal investment projects
- Develop reporting template and assist where necessary Ministry of Finance in reporting7 to EC Delegation on municipal investment projects

Capacity building of individual municipalities
- Training on preparing applications/writing proposals for investment projects, combined with TA in preparing applications for the call for proposal(s)
- Training on multi-year financial and investment planning (including building the links between local development strategies and financial/budget planning) where needed
- Training on public procurement and project implementation and management, combined with hands-on TA on these topics

A Team leader will be based long term in Montenegro while the rest of expertise will be deployed on mid-term and short term assignments.

Contract 2. Direct grant (0.15 M €)

The Community has awarded Considering the fact that the Council of Europe has been supporting Montenegro through direct grant in the past under CARDS a grant for a project to support local self-government reform in Montenegro which, in cooperation with the major stakeholders, and that the proposed project will addresses the local democracy problems in line with CoE recommended criteria. The Government of Montenegro requested to pursue the present cooperation activity with the CoE in order to ensure continuity and coherence of actions. It is therefore considered appropriate to get into award a direct grant with for this project to the CoE in the meaning of, in accordance with Art 168.1 (f) of IR to the FR.

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7 Including financial reporting
The direct grant with CoE will serve the first result:

**Capacity building of the Ministry of Internal Affairs and Public Administration/Committee for Coordination of Local Self-Government Reform (CCLSGR)**
- Assist working groups of the CCLSGR in drafting/amending primary (local government) and secondary (sectoral) legislation

**Contract 3. Grant for infrastructure (3.5 M €)**

The grant scheme (contract 2) will be operated by EC Delegation with the support of the technical assistance provided by the service contract (Contract 1).

Both technical (“hard”) and social (“soft”) municipal infrastructure projects will be eligible. Examples of criteria which might be used for selection of proposals are:
- Impact on future operating expenditures of local government
- Number of project beneficiaries
- Municipal co-financing
- Expected input on future economic development
- Availability of feasibility study and economic and financial analysis

In the evaluation extra points may be given to municipal investments proposals in support to implementation of new responsibilities devolved to municipalities (education, primary health care, social welfare, and child protection).

The EC grant (contract 2) will be used for at least 6 municipal investment projects, and will be matched by national co-financing at least up to 30% of the investment budget (contract 3 and 4).

**Contracts 4 and 5**

These contracts refer to the national co-financing (€ 1.6 million investment and € 0.15 million institutional building) and represent the national contribution, either coming from the equalisation fund, the municipality budget and/or IFIs for each grant application forwarded to the EC Delegation (minimum 30% co-financing).

Procurement of these funds will be carried out under Montenegrin Public Procurement Law, which is in line with EU standards.