

## Standard Summary Project Fiche – IPA centralised programmes

### **Project number 3: Municipal Infrastructure Support programme – MISP 2010**

#### **1. Basic Information**

- 1.1 CRIS Number: 2009/021-765**
- 1.2 Title: Municipal Infrastructure Support programme – MISP 2010**
- 1.3 ELARG Statistical code: 01.22**
- 1.4 Location: Republic of Serbia**

#### **Implementing Arrangements**

- 1.5 Contracting Authority: EU Delegation to the Republic of Serbia**
- 1.6 Implementing Agency: EU Delegation to the Republic of Serbia**
- 1.7 Beneficiary (including details of project manager)**

The project will be managed by a SPO from the Ministry of Public Administration and Local Self-Government who will chair the Steering Committee meetings. The steering committee will consist of representatives of all major stakeholders.

Other national institutions relevant to project implementation are:, Ministry of Agriculture, Forestry and Water Management; Ministry of Environment and Spatial Planning; Ministry of Economy and Regional Development; Ministry of Infrastructure; Ministry of Finance; Ministry for National Investment Plan and the Standing Conference of Towns and Municipalities. These institutions will directly participate in further preparation of the project and in the work of the Steering Committee.

#### **Financing**

- 1.8. Overall cost (VAT excluded) <sup>1</sup> 41,120,000 EUR**
- 1.9 EU contribution: 31,120,000 EUR**
- 1.10 Final date for contracting: 2 years after the signature of the Financing Agreement (FA).**
- 1.11 Final date for execution of contracts: 4 years after signature of FA**
- 1.12 Final date for disbursements: 5 years after signature of the FA**

#### **2. Overall Objective and Project Purpose**

##### **2.1 Overall Objective**

The overall objective is to contribute to the decentralization process and to preparing Serbian municipalities for EU accession

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<sup>1</sup> To be confirmed

## 2.2 Project purpose

The project purpose is to further the programme of municipal development projects started under CARDS and continued through IPA, with the next in the successful series of Municipal Infrastructure Support Projects, building on experience gained hitherto, and further driving the approximation to EU standards in the sector, through two components:

### **Component 1: To accelerate building of the project pipeline to EU standards and to further the capacity-building of municipalities**

The purpose is to support municipalities and RDAs to plan and prepare mature infrastructure projects to EC standards with full feasibility studies, cost-benefit analyses and environmental assessments, for inclusion in the SLAP project pipeline database.

Depending on the timing of implementation, the project will also reinforce national coordination mechanisms and assure management of the SLAP database as a tool for transparency, efficiency and effective donor coordination.

### **Component 2: To support implementation of selected infrastructure projects**

The purpose is to implement local infrastructure projects selected from the SLAP project pipeline database at the appropriate time. These may be municipal and/or inter-municipal infrastructure projects from all sectors (environmental, economic and social infrastructure) focused on achieving standards that will be necessary for smooth membership of the EU and its single market.

## 2.3 Link with AP/NPAA / EP/ SAA

### **EP (European Partnership)**

In the European Partnership under Democracy and the Rule of Law (Page L227/28), medium-term priorities are listed as: *“Promote Local Government - adopt and implement decentralisation reform and ensure sufficient local capacities...”*.

Under Sector Policies, Environment: *“Adopt and start implementing a policy on the pollution of air....., water (waste water) and soil (solid waste), strengthen administrative capacity notably as regards planning, permitting, inspecting, monitoring as well as project management...”*

The Serbian government plan for the implementation of EP priorities contains the following short-term Public Administration priorities:

- Line 2.3.5: *“Strengthen capacity (policymaking and inter-ministerial coordination) of the public administration at government and local levels.”*
- Line 2.3.8: *“Adopt and implement decentralisation reform ensuring viability of local governments.”*

This project will address all of these priorities by improving municipal service provision and by building local government project management capacity.

### **SAA**

The project will also support the following medium-term priorities of the SAA:

Political criteria: *“Continue full implementation of civil service and public administration laws, implement measures to develop human resources in the civil service, strengthen the policy-making and coordination capacity of the public administration at government and local levels, establish a centralized payroll system, implement the constitutional provisions relating to decentralization and ensure the resources for local governments.”*

Economic criteria: *“Improve the business environment to increase Greenfield foreign direct investment.”*

**National programme for integration with the European Union – NPI**, (October 2008) highlights the importance of strengthening capacity on the local level in preparation and implementation of infrastructure projects and better coordination between local and central level, together with more investment in infrastructure and development projects in order to promote balanced regional development.

In the section 1.1.4. Public administration, one of the medium-term priorities, related to improvement of capacities of administrations at the local level, is stated in this way: *“Activities in implementation of bigger number of programmes and projects for support to local authorities will continue, regarding training of staff in local administrations, in order to reinforce their capacities in policy making, project and programme preparation and implementation. These projects are mainly funded by foreign donations.”*

Also, in a number of sector policies such as transport policy, energy sector, social policy and employment, industrial policy, environment and others, the importance of investment in the future in infrastructure projects in line with sector strategies and priorities is stressed.

## **2.4 Link with MIPD**

The proposed project is based on priorities established in the *Multi Annual Indicative Planning Document 2009-2011*.

The MIPD section 2.2.1, Strategic objectives, seeks to *“further strengthen the institutional building and the increase of the **absorption capacity** of Serbian institutions”* (Political criteria) and *“to **tackle unemployment and support the job creation**, while improving the **competitiveness of the economy and labour productivity**”* (Socio- Economic criteria).

Section 2.2.2 Strategic Choices for IPA assistance over the period 2009-2011 emphasizes:

*Political criteria: “The existence of modern administration with **good absorption capacity** as well as strengthening the rule of law **and fight against corruption** are considered to be major pre-conditions for successful implementation of the SAP, the adoption of the EU acquis and effective preparation for EU membership.”*

Economic Criteria: *“IPA will also target new strategic areas, which demonstrate **employment generation potential**.... “*

Ability to assume responsibilities of membership: *“Assistance should also be directed to **building project pipelines** for IPA funding but well linked with plans for future national investment programmes and IFI priorities.”*

Section 2.3.1.1, Political Criteria, Objectives and Choices: *“**Progress in the reform of local self-government as part of the decentralisation process**. Support local and regional development policy which is consistent with the EU pre-accession strategy and the EU regional policy and a balanced territorial development by strengthening fiscal decentralisation, evidence based development planning and implementation capacities at central, regional and local level, more efficient spatial, cadastral, municipal planning, improving service delivery, local government asset management and introduction of statistical regions equivalent to the NUTS classification. Strengthen inter-municipal cooperation through the Standing Conference and other municipal associations. Support municipal, inter-municipal and cross-border municipal projects and implementation of the Poverty Reduction Strategy at the local level. ”*

Section 2.3.1.2, Socio-economic Criteria, Objectives and choices: ***“Improving infrastructures in order to promote business related activities and public services and to alleviate the economic downturn and to facilitate economic and cultural links within Europe. ...”***

Section 2.3.1.2., Expected results: ***“Investments provided to rebuild physical transport, environment, business and energy infrastructure. Increased number of people engaged in the tourist, agricultural, food and forestry sectors and rural enterprises assisted to improve the competitiveness of the tourist, agricultural and forestry sectors, the environment and the countryside, the quality of life in rural areas and the diversification of the rural economy.”***

Section 2.3.1.3., Ability to assume obligations of membership:

Environment: **“Reinforced administrative capacity of authorities at central, regional and local level in charge of planning, permits, inspection and monitoring, project management, implementation and enforcement of environmental legislation and standards. Improved coordination between those levels.”**

This project will address **absorption capacity** at the municipal level, but also at the central level in supporting **inter-ministerial cooperation** which is often seen as a weak point in the absorption of funds. It will provide **employment** through infrastructure projects, and address **competitiveness** through **improved infrastructure**.

## **2.5 Link with National Development Plan (where applicable)**

Not applicable.

## **2.6 Link with national / sectoral plans**

The Project is developed to link with the following key strategies and action plans in the municipal and environmental sectors:

**Strategy of Public Administration Reform in the Republic of Serbia**, Ministry of Public Administration and Local Self-Government, Belgrade 2004, stresses the importance of the decentralisation process and highlights basic principles for its implementation. The fundamental objective of the reform is to provide a high quality of services to citizens through decentralisation of the state administration. The Strategy also underlines the need for securing adequate mechanisms by which local government representatives can develop long term capacities in direct cooperation with the government and corresponding bodies of the central administration, or through the national association of cities and municipalities.

**Strategy of Regional Development of Serbia** for the period 2007-2012 (adopted by the Government in January 2007) highlights the importance of stimulating the development of economic infrastructure: ***“Infrastructure is one of the most important factors for maintaining sustainable economic and social development of the Republic of Serbia, and represents a key driver for regional development and utilization of comparative advantages of local areas”***. (Sections 2.12 and 2.4).

**National Strategy of Sustainable development** was adopted by the Government in 2008. The fourth key priority of this Strategy is development of infrastructure and harmonized regional development, improvement of attractiveness of the country and ensuring a corresponding quality and level of services. The fifth key priority is protection and improvement of the environment and rational use of natural resources.

The project is also linked to a number of other sectoral strategies and plans (see Annex 4).

### **3. Description of Project**

#### **3.1 Background and justification**

It has long been clear that Serbia's infrastructure is in poor condition, and urgently requires improving. As Serbia strives to approach EU membership, the task becomes ever more pressing: bad or lacking infrastructure hinders economic competitiveness and thus risks being a blockage to Serbia in overcoming the trade deficit that constitutes its worst macroeconomic imbalance; Serbian industry must become sufficiently competitive to survive in the single market, and improved infrastructure is one of the keys; Serbian environmental protection is well below EU standards and will take many years to change; social infrastructure too is often short of the standards expected of EU member states.

The Serbian economy requires substantial continuous FDI to achieve minimum growth targets that have been set in recent years, but FDI inflows are considerably lower than the country's potential. There are several reasons for this, but two major ones are the condition of infrastructure in general, and the perceived risk of investment. Investors like countries that handle funds well, with transparent funds management and strong project preparation capacities and standards. In improving infrastructure there is an opportunity not only to lay a better physical and human resource basis for investment, but also to enhance transparency and good practice in funds management, enhancing the security of the investment environment.

The 'MISP programme' began in 2003 with the Municipal Infrastructure Agency Support Programme. It continued through the CARDS 2006 Municipal Infrastructure Support Programme (MISP) and the IPA 2008 MISP which is due to follow on from this. The programme as a whole has four goals: a) to assist in developing infrastructure policy and coordination mechanisms; b) to develop the project pipeline and its management mechanisms; c) to develop municipal capacity to prepare projects; d) to carry out the highest priority projects.

The repetitive, programmatic nature of the MISP series provides some distinct advantages. With each MISP project, the programme is adjusted to the rapidly changing circumstances, making use of lessons being learned by the previous ones. The first project in the series showed few concrete results but initiated a valuable process. The second is providing more results and has created the increasingly successful 'SLAP' project pipeline database, and the third, MISP 2008, is designed to consolidate the achievements.

In 2009, we find the following situation with our four goals:

- a) Coordination and policy support is ongoing and to be picked up by MISP 2008 for three years, so does not need to be addressed now unless this project is significantly delayed.
- b) The project pipeline (the quality and number of projects in preparation) is increasing, but not rapidly, and with insufficient achievement of the standards expected for EU public or private investments. There is also a tendency towards very large projects, with the crucial medium-size under-represented.
- c) Municipal capacity is being addressed, and slowly advanced. MISP 2008 is set to focus on capacity building as the means to boost the pipeline, while complementary projects of differing focus also address municipal capacity.
- d) The SLAP shows that there will be priority projects ready for execution when MISPs 2008 and 2010 come to implementation. However, the number of mature projects is projected just to fit the following programmes, with little or no pipeline expansion to take account of other donors and sources of financing.

Building on the present success, we are now in a position to begin thinking forward more strategically. Given the right conditions, IPA components 3 and 4 may become applicable in a few years. Operational Plans for Transport, Environment and Regional Competitiveness will begin to be prepared already at the end of 2009. For these OPs, an indicative priority project list will be required. While other projects will begin to assist in developing the pipeline for large projects suitable for IPS component 3, the need for fundable infrastructure projects of all sizes will continue to grow. If the accession process proceeds well, all efforts to enhance the pipeline will soon be justified in terms of mature investment opportunities. Insufficient efforts in the coming five years may result in a lack of viable investment projects to EU standards just when increasing funding is becoming available.

For MISP 2010, the following two objectives come to the fore:

1. to accelerate the pace of building the project pipeline to EU standards through direct assistance and continued capacity building measures
2. to implement the highest-priority projects at the appropriate time.

Pipeline management and coordination tasks may also be applicable, depending on the timing, and the state of foregoing and following MISPs.

Lessons of current activities must be learned and incorporated, adjusting the direction and selection criteria according to experience gained (see also section 3.8 below). and expanding the range of target sectors.

The presence of concurrent MISP projects does not imply overlapping, since the problem to be solved is so large. Rather, it leads to a reinforcement of efforts at a critical stage, and a flexible programme that learns and adjusts. For each project, the tried and tested parts are retained, and adjustments made according to experience so far. Waiting for one two- to three-year project to end before beginning the next would leave gaps, too long a project cycle to allow proper adjustment at this crucial time, and too weak an overall effort to be sure of avoiding a serious future lack of absorption capacity.

#### *Developing the SLAP Information System*

Under CARDS projects, a project pipeline named SLAP (System of Long-listed Advanced Infrastructure Projects) has been developed, serving for identification, assessment and selection of projects. SLAP is municipal-driven instrument meaning that municipalities are responsible for entering their projects in accordance with the required format. Projects can then be rated based on established criteria. The SLAP is hosted by the SCTM but it is widely used by national stakeholders such as Environmental Fund (ECOfund), and bilateral donors and IFIs. SLAP is rapidly becoming the dominant tool for coordination of local infrastructural projects, as it gives a clear picture of the stage of preparation and implementation of each project. It serves as a resource coordination instrument for preparation or implementation of projects by the various stakeholders, enabling the combination of grants, loans, government resources etc.. Any donor or other financier can use it to select the projects that perform best based on the criteria of their choice.

SLAP is also seen as a major tool for transparency and accountability for funds spent on local infrastructure. The database is planned to go online so that any institution or individual can immediately see the stage of a given project and its financing situation.

The use of a single well-designed, user-friendly, easily accessible, transparent database is in the interests of all parties: municipalities, government, donors, IFIs, other investors, local interest groups and individual taxpayers both in Serbia and the EU. SLAP is now beginning to achieve the critical mass to perform this role, and it is therefore important to continue its

further development, including its obligatory use by all EU projects that address infrastructure.

According to the present SLAP data, there are a great number of local infrastructure projects that need additional financial support to bring them to maturity. IPA 2008 MISIP will contribute to this with a Technical Assistance component of 10 million Euro, while implementing projects for a value of some 45 million Euro. It is foreseen that this will expand the number of projects in the pipeline and their stage of maturity, gradually providing a more predictable project funding environment.

However, given the usual ratio of project development costs to investment costs, the pipeline expansion and improvement will not be dramatic. This rolling process has been shown to be highly effective, but its pipeline expansion and improvement facet is still far from sufficient to meet the expectations of other donors and financing institutions, especially in the number of small and medium projects, and their investment maturity seen in terms of compliance with EC norms.

Project development should therefore be accelerated, so that appropriate mature projects are securely available whenever financing institutions have funds available for a given profile of project.

This project under IPA 2010 is intended to continue the trend, focusing on increasing pipeline quantity and ensuring that project quality meets EU standards, while itself implementing the most appropriate projects at the time its investment funds become available. By its nature, it is impossible to identify at this stage the concrete projects that will be most suitable for implementation by this project, and the implementation component is therefore presented below as a qualitative description of results and activities.

### **3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact (where applicable)**

#### *Project Impact:*

The *output* of component 1 will be the expansion and advancement of the project pipeline presented in the SLAP, paving the way for future projects, avoiding a lack of suitable projects for funding by all financing institutions, and placing project administration on an increasingly transparent basis. It will also improve the capacity of municipalities to develop their own projects and to programme them on the basis of strategic plans.

The *impact* of component 1 will be a smoother, more secure project environment attractive to investors. Serbia will be better able to live up to its historical position as a country of good administrative capacity, demonstrating a transparent, well-administered funds-management environment and attracting growing inward FDI. This will make Serbia better able to cope with EU membership and the single market, through improved competitiveness and better compliance with EU standards.

The *output* of Component 2 will be infrastructure investments in selected municipalities.

The *impact* of component 2 will be improved municipal services in line with the strategic goals of the MIPD, SAA and government strategies, plus another demonstration of good investment practice and adherence to EU standards that will further enhance investor confidence.

The two components will together address the development of the enabling environment for the municipal sector, establish the means for linking infrastructure programming and

budgeting at the municipal and national levels, and build the capacity of local organizations and companies to provide a modern service.

The urban regeneration of old towns will revive depressed areas and enrich the local identity of the municipalities. Restored and improved economic infrastructure (such as tourist amenities) will increase economic potentials of surrounding municipalities, promote cross-border cooperation and enhance the provision of related services.

#### *Catalytic Effects*

The main outcomes of the infrastructure investments in the selected municipalities will be improved environmental and socio-economic development. Capital investment will use modern technology providing a demonstration effect.

The projects in the municipalities will provide the vehicle for promoting institutional and management reforms at the local level and give local managers experience in EU standards and procurement practices.

New and improved economic infrastructure will enable the creation of new jobs, promoting sustainable regional economic development

The enhanced security and transparency of the investment environment will contribute to attracting foreign direct investment.

#### *Sustainability*

Local government is expected to take on an increasingly active role towards establishing an enabling framework that promotes local economic growth through the private sector and encourages job creation. It is also increasingly expected to meet the real needs of local citizen groups through the development of social infrastructure.

This project will boost social-economic and institutional development, and will increase the absorption capacity of local institutions for EU funds in preparation for eventual membership. The MISP series is laying the ground for future initiatives and projects in the area of local infrastructure development, providing a basis for IPA programming processes in the coming years, in accordance with both national and EC strategic priorities.

Development of the project pipeline and SLAP will also enable the government to more securely implement policies of fiscal stimulus if it so chooses. These are commonly held to be best implemented through mature infrastructure investments, and a solid pipeline would avoid pitfalls faced even by far more developed economies that have no good mature projects ready for rapid investment.

### **3.3 Results and measurable indicators**

#### **COMPONENT 1- To accelerate the pace of building the project pipeline and further the capacity-building of municipalities:**

RESULT 1.1 SLAP expanded with new projects, and documentation for projects in the SLAP prepared to EC standards (e.g. feasibility studies, updated technical and tender documentation etc.)

RESULT 1.2 Municipal departments and employees enjoy enhanced capacities for project preparation.

RESULT 1.3 SLAP management supported in developing the SLAP information system and extending it to other appropriate project areas



#### RESULT 1.4 Functioning of The Coordination Group for the Support to Development of Local Infrastructure supported

NB: Results 1.3 and 1.4 will be active if and when this project takes on those responsibilities. This will be dependent on when the previous MISP project, responsible for these results, finishes.

Measurable indicators for reviewing progress include:

##### Result 1.1

- Number of new projects entered in SLAP
- Number of project documents produced and recorded in SLAP
- Number of projects in SLAP deemed mature for funding

##### Result 1.2

- Number and quality of projects prepared by municipal staff
- EU public procurement rules and financial management adopted and applied by municipalities

##### Result 1.3

- Ease of access to SLAP data by municipalities, government, donors, IFIs and citizens – all interested parties
- Transparency of information available
- Relevance of SLAP project criteria / indicators to interested parties
- No. of municipalities participating in SLAP
- Breadth of project areas covered in the SLAP

##### Result 1.4

- Action taken regarding gaps and obstacles in implementing national and municipal infrastructure strategies

### **COMPONENT 2. To support implementation of selected infrastructure projects.**

RESULT 2.1. Priority infrastructure projects selected for financing

RESULT 2.2. Contracts are concluded, works on the selected projects are implemented.

RESULT 2.3 Supervision of the works projects carried out.

Measurable indicators for reviewing progress include:

##### Result 2.1

- No. of projects selected

##### Result 2.2

- Number of tenders held and number of contracts signed
- No. of projects with works started
- Compliance of works progress with schedule
- No. of projects completed and achievement of operating design standards

##### Result 2.3

- No. of appropriate supervisors appointed and working
- No. and quality of supervision reports
- No. and quality of final reports.

### 3.4 Activities

#### **COMPONENT 1. To accelerate the pace of building the project pipeline and further the capacity-building of municipalities**

**Activities related to result 1.1:** SLAP expanded with new projects, and documentation for projects in the SLAP prepared to EC standards (e.g. feasibility studies, EIAs etc., updated technical and tender documentation etc.)

- Communicate actively and widely with all stakeholders, but especially municipalities, to disseminate the benefits of the project and generate participation and commitment
- Support municipalities in deriving project concepts from their strategic plans, and in defining them in a way suitable for entering into the SLAP
- Encourage municipalities to extend the subjects of project concepts to cover broader socio-economic projects
- Prepare project documentation, and assist municipalities to prepare project documentation, for projects and concepts recorded in SLAP (e.g. sketch projects, pre-feasibility and feasibility studies, Environmental Impact Assessments, main projects, tender documentation).
- Assist municipalities in using documents such as pre-feasibility and feasibility studies to refine priorities and make investment decisions (commitment of co-funding etc)

**Activities related to result 1.2:** Municipal departments and employees enjoy enhanced capacities for project preparation.

- Communicate actively and widely with all stakeholders, but especially municipalities, to disseminate the benefits of the project and generate participation and commitment
- Revise training needs analysis prepared by previous MISP projects and prepare appropriate training activities
- Implement formal training in conjunction with coaching on active project preparation activities
- Facilitate an exchange of experience between more and less-developed municipalities

**Activities related to result 1.3** SLAP management supported in developing the SLAP information system and extending it to other appropriate project areas

- Communicate to all stakeholders the importance of complete, transparent and widely accessible project data
- Design and continually upgrade the SLAP website to allow the easiest, most user-friendly online access possible to all SLAP information
- Conduct surveys of all potential interested parties in support of further improvements (e.g. government departments, municipalities, donors, IFIs, citizens, journalists, potential private investors etc.)
- Support further development of SLAP and facilitate its wider usage by relevant stakeholders- line ministries, financial institutions and other donors

**Activities related to result 1.4:** Functioning of The Coordination Group for the Support to Development of Local Infrastructure supported

- Organize regular coordination meetings between relevant sector ministries, donors and SCTM
- Prepare detailed and strategic input documents for CG meetings

## **COMPONENT 2. To support implementation of selected infrastructure projects**

**Activities related to result 2.1:** Priority infrastructure projects selected for financing

- Revise and improve methodology for prioritisation of infrastructure projects
- Select projects for financing

**Activities related to result 2.2:** Contracts concluded, works implemented

- Provide necessary expertise to support the Contracting Authority throughout the procurement stage by assisting in launching tenders, providing clarifications and tender evaluations
- Assist the Contracting Authority in ensuring contracts are signed for project implementation.
- Monitor project execution

**Activities related to result 2.3:** Supervision of the works projects carried out

- Assign appropriate supervisors
- Supervise of all Works Contracts in accordance with appropriate (PRAG or FIDIC) Conditions of Contract and applicable Law
- Produce appropriate reports

### **Activities common to all results**

Prepare a strong, professional communication strategy that can underpin all components by explaining to all stakeholders what the project means to them, and how it is linked with the EU accession process. The strategy will allow for public awareness campaigns to be run wherever this furthers the aims and the overall objective of the MISP, and the interests of EU integration in general.

#### **Contracting arrangements:**

All tasks related to component 1 and supervision in component 2 will be carried out through a single TA contract.

Infrastructure works will be carried out through an appropriate number of works contracts.

### **3.5 Conditionality and sequencing:**

Results 1.3 and 1.4 are to become the remit of this project only when the foregoing MISP 2008 project finishes and hands over these functions, and if a following MISP is not ready to assume them more rationally for a longer period.

Component 2 is independent of the successful conclusion of Component 1, but more dependent on the success of pipeline activities under the current CARDS MISP and MISP IPA 2008, and the availability of co-financing where required.

In particular, the implementation of the project will depend on MISP 2008 for a transparent selection procedure for municipal projects to be prepared for implementation by this following MISP. It has been emphasised elsewhere that one of SLAP's main objectives is its capacity to promote complete transparency in this selection process, and that this constitutes one of the major goals of the entire MISP series.

A review will therefore be made during the inception period of the project, examining the rationale behind the selection process thus far, and the resulting projects recommended by MISP 2008. Implementation of these projects will be subject to their compliance with the transparency criteria that form a key element of the project purpose.

**Identified risks** for project implementation are:

- Lacking support for decentralisation
- Lack of co-operation among involved parties
- Desire of any influential body to avoid transparency
- Changes in political and/or economic situation of Serbia that negatively affect co-financing
- Unforeseen changes in EU, National or local investment policy, related legislation and procurement procedures
- Delays to the start and/or finish of construction works by due to unfavourable climatic or other conditions

### **3.6 Linked activities**

This project should be seen as a part of ongoing series of infrastructure development projects providing continuity in reform of the sector. It is also linked to other EU-funded projects that have a similar long-term, cyclic nature.

#### ***Links with CARDS and IPA programmes***

This project represents a logical continuation to similar previous, current and planned EU initiatives: Municipal Infrastructure Agency Support Programme - MIASP (2003-2007), Municipal Infrastructure Support Programme - MISP CARDS 2006 (2008-2010) and MISP IPA 2008 (putative period of implementation: 2010 - 2012).

The MIASP supported 14 municipalities in 3 regions and began development of the SLAP. The following MISP CARDS 2006, with 3m€TA, supports PUC transformation policy and facilitates the development of an action plan for the transformation of PUCs in co-operation with the national stakeholders. MISP is also providing technical support to municipalities to enhance capacity to prepare and prioritise infrastructure projects and make feasibility studies and tender documents for selected projects from SLAP. By the end of its mandate MISP CARDS will finished at least 4 Feasibility Studies (inter-municipal water supply scheme, tourist infrastructure development, regional drinking water supply scheme etc) and Tender Documentation for at least 6 projects (regional waste water treatment and sewage collection project, regional water supply system, regional solid waste management projects).

MISP CARDS will improve the SLAP so that online data are available on potential candidate projects for co-financing from EU or other funds. Internet-based SLAP2.0 software will be tested. By the end of its implementation period, MISP will prepare further infrastructure projects and develop documentation for funding through MISP IPA 2008. Its third component will implement three infrastructure projects and provide supervision for two regional landfill projects.

**MISP IPA 2008** will continue from the CARDS MISP with the same components. The second component deals with municipal infrastructure programming and project preparation. Feasibility studies and tender documentations will be prepared and through the third component a number of infrastructure projects will be implemented. Projects prepared through MISP IPA 2008 can be potential candidates for financing and implementation by MISP 2010.

**MISP IPA 2010** will follow on from MISP IPA 2008 with increasing focus on building up the project pipeline to EU standards.

The Multi-beneficiary IPA recently established an Infrastructure Project Facility instrument (**IPF**) for preparing infrastructure projects in the Western Balkans, Through this fund, the Republic of Serbia has already received resources for financing infrastructure projects in energy, environmental protection and transport. Serbia is eligible to use the EU grant co-financing mechanism for supporting implementation of IFI infrastructure investments of municipalities financed through loans under IPF. Under the IPF Municipal Window, additional EU grants are provided for co-financing projects that are implemented by IFIs in the area of municipal infrastructure. In this respect cooperation is ensured with KfW/CoE and NIP in supporting the project *Improvement of Water Supply and Sewerage Systems in Medium-sized towns in Serbia* (4 million EUR grant). Also cooperation is extended to an EIB Urban Renewal project implemented with the City of Belgrade to improve transport infrastructure. The condition for further financing of the infrastructure projects is to be listed in the SLAP.

A number of other projects and programmes have created a range of municipal support since 2001: Municipal Support Programme in Eastern Serbia (2003-2007), Municipal Support Programme in North-East Serbia (2007-2010), Programme for municipal improvement and revival in South Serbia (2003-2008), Municipal Support Programme in South-West Serbia,(2006-2009), Exchange I (2004-2007) and Exchange II (2008-2010).

**Municipal Support Programme (MSP)** improved the efficiency of service delivery in 15 selected municipalities in Eastern Serbia through the preparation of strategic action plans and the implementation of municipal infrastructure development projects - 38 projects were implemented. Experience was gained in strategic planning, project preparation and planning, working with donor communities, organisation and implementation of tender procedures, international contracts and technical and financial project management.

The current **MSP NE Serbia** is improving management capacity and good governance in 30 municipalities in North-East Serbia. Under component 6 – identification, preparation and implementation of selected infrastructure projects, 13.5 million euro is allocated for implementation of four infrastructure projects in Banat and Braničevsko- Podunavski district. Those projects consist of two water supplies, an industrial zone and a technology park. This component also deals with activities on identification of projects for technical assistance, which will also be fed into the SLAP.

CARDS also funded **MIR I and II**, an area-based project aimed at 13 municipalities of South Serbia. The main objective is to contribute to the implementation of the Law on Local Self-Government by strengthening service delivery and managing local social/economic development. MIR II contributed to identification of infrastructure projects that were further supported through MISP CARDS.

The EU and the Swiss government are also funding a programme of Municipal development in South West Serbia (**PRO2**) aimed at economic and regional development of 8 municipalities by providing extensive TA and limited grant support for infrastructure projects. The PRO team has also ensured that infrastructure projects are listed in the SLAP, and is assisting these municipalities, some of the poorest in Serbia, to apply for MISP projects among others.

Support to local development has also been provided through the CARDS **EXCHANGE I** programme (5,3m€). The programme's specific aim was to match the best available local government expertise in the EU with locally initiated demands for improvements and innovations from Serbian municipalities, exposing Serbian local officials and staff to best EU practices. It contained a fund of 3.3 m€for financing municipal projects. Through two rounds of Calls for Proposals, Serbian municipalities were invited to apply for grants for capacity

building projects, concentrating on exposure to EU practices, training, national events and small-scale investments.

**PPF IPA 2007** (6 million EUR) will prepare for IPA components 3 and 4 by developing Operational Programme and the Strategic Coherence Framework. The Op will however focus on a small number of major and non-major infrastructural projects in area of transport, environment and regional competitiveness.

**EXCHANGE II** (5m€) is providing technical assistance to municipalities to develop municipal strategic plans, develop municipal service packages and enhance municipalities' ability to formulate projects. It will be followed by EXCHANGE III under IPA 2007 that will continue the capacity building components and again provide a grants scheme through a municipal development fund.

### *Links to other programmes*

**KfW** is presently financing water supply & sewerage improvement through the Municipal Infrastructure Agency for 8 medium-sized municipalities. The programme will make immediate rehabilitation works and will construct new works/extensions and major rehabilitation works. These will include technical and financial management assistance. It is soon to be followed by a similar project for a further 6 towns.

KfW now has another, more general programme to support municipalities to develop projects for funding through their commercial bank credit lines. However, municipalities, especially the most needy, will struggle to provide projects of sufficient quality to access such funds.

**GTZ's** Project "Modernisation of Municipal Services" has been providing support in the form of both TA and limited financing of needs of small and medium municipalities (up to 40,000 inhabitants) in Serbia for municipal infrastructure development.

The **USAID**-funded Serbian Local Government Reform Programme 2001-2006 supported 70 municipalities to improve municipal management and capacity in the following areas: Citizen Participation, Information Technology, Financial Management, Communal Enterprise Management and Public Procurement. It also worked at the national level to support the institutional development of the Standing Conference of Towns and Municipalities and to support policy reform, specifically in the area of government decentralization.

**IFIs:** The European Investment Bank, the European Bank for reconstruction and Development and the World Bank are the largest potential lending institutions for the financing of large municipal infrastructure projects. However, they can only conduct such investment activities if municipalities have viable, mature projects developed to acceptable standards, which is not presently the case.

**Environmental Protection Fund (ECO fund):** since being established in 2005, the fund had financed projects such as regional landfills, closure and remediation of existing waste dumps, and technical documentation for these projects. The Fund allocated 9.5 m€ in 2006, and 11.5 m€ in 2007. The ECO Fund has signed an MoU with SCTM on using the SLAP for selecting and financing projects for implementation. Currently, however, there appears to be a prospect of a lack of projects of appropriate size for ECOfund in the SLAP.

**National Investment Plan (NIP)** supports development of infrastructure in Serbia (roads: 62.52%, communal infrastructure 17.90%; economic infrastructure 11.10%; energy infrastructure 5, 38%; environmental infrastructure 3.11%). Due to financial and economic constraints, NIP budget was significantly reduced affecting mainly local infrastructural projects.

### **3.7 Lessons learned**

The first MIASP project was launched on the basis of experience showing that a major problem for financing local infrastructure lay in the lack of projects and adequately prepared documentation, feasibility studies and tender documents to EU standards. Today, some six years later, this has been partly addressed by the MISP Programme. However, although the pipeline of developing and mature projects is improving, this is not happening fast enough. Expanding the project pipeline is today even more of a priority.

In 2009, inter-municipal cooperation is ever more important to the development of environmental, economic and social infrastructure services. Economies of scale are especially relevant to smaller municipalities that lack the human capacities to prepare projects for financing. More inter-municipal projects would benefit not only the bigger municipalities who would manage them, but also the smaller ones who would be their beneficiaries.

Various environmental considerations also promote the idea of sub-regional cooperation mechanisms. For example, water and waste projects can use more strategic planning in terms of scope and scale, where cooperation between municipalities is essential to improve the ratio of benefits to costs.

A recent analysis of projects coming into SLAP revealed poor preparation in terms of environmental pre-requisites (environmental assessments, permit requirements, etc.). This may be due to poor coordination at a local level with the relevant authorities, but shows the need for more efforts on this aspect of pipeline development and for greater environmental awareness among officials and the general public.

Continuing on the environmental theme and with EU candidacy around the corner, it may be good to consider a more strategic focus. This might be achieved by using SLAP to prioritise municipalities according to environmental loads (i.e. amount of waste generated, or volume of effluent discharged to rivers, etc.). This would help prepare municipalities for the next level of strategic thinking.

With preparations being started for IPA component 3, major projects (limit-10 million EUR) are coming more into focus. But concentrating on them will leave most of the 167 municipalities without support in the essential small- to medium-sized projects. Both are sorely needed but each requires its own approach in Technical Assistance.

Facilities such as the PPF can best concentrate on the major projects, leaving the by now well-adjusted MISP to deal with the medium-sized ones, while area-based municipal/regional support projects can effectively support the poorest regions by making local-central connections and combining infrastructure projects with other measures to address local causes of poverty and conflict.

Current MISP activities show a need for further TA support such as FOPIP, PIU support, regional water supply and solid waste planning, dumpsite closure plans, public awareness campaigns, etc. These elements are all identified in MISP Feasibility Studies.

Co-financing municipal infrastructure is another key issue. While there is a huge need for investment in municipal infrastructure, financial resources are limited. Prudent selection of the projects and identifying the best financing mechanisms has often proved to be one of the main conditions of success. Coordination/brokerage/blending of funds is one of the tasks that can be well executed by the MISP.

All of the above lessons will be addressed by adjustments to be made in this latest MISP project, and should be developed in the Terms of Reference for the TA component.

#### 4 Indicative Budget (amounts in €)

Support to municipalities in the Republic of Serbia to prepare and implement infrastructure projects – MISP 2009			SOURCES OF FUNDING									
			TOTAL EXP.RE		IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION
ACTIVITIES	IB (1)	INV (1)	EUR (a) = (b) + (c) + (d)	EUR (b)	% (2)	Total EUR (c) = (x) + (y) + (z)	% (2)	Central EUR (x)	Regional/Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
Activity 1												
contract 1.1 (Technical Assistance)	X		6,000,000	6,000,000	100%							–
contract 1.2 (Works/supplies contracts)		X	35,120,000	25,120,000	72%	10,000,000 <sup>2</sup>	28%	10,000,000				–
<b>TOTAL IB</b>			6,000,000	6,000,000	100%							
<b>TOTAL INV</b>			35,120,000	25,120,000	72%	10,000,000	28%	10,000,000				
<b>TOTAL PROJECT</b>			<b>41,120,000</b>	<b>31,120,000</b>	<b>76%</b>	<b>10,000,000</b>	<b>24%</b>	<b>10,000,000</b>				

<sup>2</sup> To be confirmed



## 5. Indicative Implementation Schedule

<b>Contracts</b>	<b>Start of Tendering</b>	<b>Signature of contract</b>	<b>Project Completion</b>
Contract # 1	FA + 1Q	FA + 4Q	FA + 17Q
Contract # 2	FA + 5Q	FA + 8Q	FA + 17Q

## 6. Cross Cutting Issues

### 6.1 Equal Opportunity

Equal opportunities and non-discrimination - the Project will support the inclusion of women, minorities and vulnerable groups in central-local programming. Furthermore these groups' concerns (including the rights of the child, disabled persons and elderly people) and social inclusion will be reflected when relevant in the activities programmed under the project, in particular when it concerns public services and socio-economic development, and also to foster social tolerance and conditions for reconciliation. The design of all training programmes for municipal staff will reinforce these issues.

Civil society concepts are a central theme in the transition of societies from central-planning to market-oriented, decentralised political entities. Ensuring that the interests of citizen groups are actively considered with respect to the European development agenda will be a key item in the implementation of municipal projects. This will be accomplished through citizen representatives serving in the municipal institutions supported by the project.

### 6.2 Environment

Environmental considerations will be duly reflected in all project activities in addition to specific actions dedicated to environmental sustainability, in particular concerning environmental impact assessments during project preparation.

Regarding environmental infrastructure, domestic and industrial wastewater is presently discharged untreated into surface watercourses. New wastewater treatment plants will be designed to EU standards, improving the aqueous environment. Regional water supply systems will be extended to meet their original design coverage and the component parts will be completed to meet EU health and environmental protection needs. Regional sanitary landfill sites, besides providing an environmentally safer means of disposing of municipal solid waste, require the commitment of the involved municipalities for joint management and this will promote regional management principles and also regional economic development.

### 6.3 Minorities

An assessment of challenges facing vulnerable groups will be undertaken. The general improvement targeted in the socio-economic environment through a broadening of project focus will be especially beneficial for such groups.

## ANNEX I: LOGICAL FRAMEWORK MATRIX

<b>Support to municipalities to prepare and implement infrastructure projects – MISP 2010.</b>	Programme name and number:		
	Contracting period expires 2 years after signature of the FA by the EC		Disbursement period expires 5 years after signature of the FA by the EC
	Total budget : EUR <b>41,120,000</b>		IPA budget : EUR <b>31,120,000</b>
<b>Overall objective</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	
The overall objective is to contribute to the decentralization process and to preparing Serbian municipalities for EU accession	<ul style="list-style-type: none"> <li>- Improved municipal services to citizens</li> <li>- Environmental health indicators</li> <li>- Citizen satisfaction with improved technical and social services,</li> <li>- Private sector satisfaction with improved economic support services</li> <li>- Increased FDI</li> </ul>	<ul style="list-style-type: none"> <li>- Municipal Annual Reports</li> <li>- Project reports</li> <li>- Other project reports</li> <li>- Government reports</li> <li>- Questionnaires</li> <li>- SLAP</li> </ul>	

Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
<p>The project purpose is to further the programme of municipal development projects started under CARDS and continued through IPA, with the next in the successful series of Municipal Infrastructure Support Projects, building on experience gained hitherto, and further driving the approximation to EU standards in the sector, through two components:</p>			
<p><b>Component 1: To accelerate building of the the project pipeline to EU standards and to further the capacity-building of municipalities</b></p> <p>The purpose is to support municipalities and RDAs to plan and prepare mature infrastructure projects to EC standards with full feasibility studies, cost-benefit analyses and environmental assessments, for inclusion in the SLAP project pipeline database.</p> <p>Depending on the timing of implementation, the project will also reinforce national coordination mechanisms and assure management of the SLAP database as a tool for transparency, efficiency and effective donor coordination</p>	<ul style="list-style-type: none"> <li>- No. and quality of projects recorded in SLAP at various stages of development</li> <li>- No. and quality of projects prepared by municipalities</li> </ul>	<ul style="list-style-type: none"> <li>- SLAP</li> <li>- Project reports,</li> <li>- Minutes of the SC meetings</li> </ul>	<ul style="list-style-type: none"> <li>- Municipalities continue to see their interest in cooperation</li> <li>- Senior municipal officials accept assistance for institutional development of municipal infrastructure</li> <li>- Municipalities have sufficient staff to be trained</li> <li>- National-level actors are willing to coordinate their efforts</li> <li>- All stakeholders understand the advantages of transparency</li> <li>- No institution attempts to capture the agenda ad impose priorities</li> </ul>
<p><b>Component 2: To support implementation of selected infrastructure projects</b></p> <p>The purpose is to implement local infrastructure projects selected from the SLAP project pipeline database at the appropriate time. These may be municipal and/or inter-municipal infrastructure projects from all sectors (environmental, economic and social infrastructure) focused on achieving standards that will be necessary for smooth membership of the EU and its single market.</p>	<ul style="list-style-type: none"> <li>- No. and value of projects identified and selected,</li> <li>- Stage of preparation of tender documentation,</li> <li>- No. and value of projects implemented</li> </ul>	<ul style="list-style-type: none"> <li>- Progress reports</li> <li>- Works schedules</li> <li>- Supervision reports</li> <li>- Project reports</li> <li>- Minutes of the SC meetings.</li> </ul>	<ul style="list-style-type: none"> <li>- Sufficient projects are available from foregoing programmes</li> <li>- No unforeseen property or other issues that hinder progress of works</li> <li>- Investment prioritisation processes and projects accepted by national and local government</li> <li>- No delays in works due to force majeure, contractor bankruptcy or other external threats</li> </ul>

Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<b>Component 1: To accelerate the pace of building the project pipeline and further the capacity-building of municipalities</b>			
RESULT 1.1: SLAP expanded with new projects, and documentation for projects in the SLAP prepared to EC standards (e.g. feasibility studies, updated technical and tender documentation etc.)	<ul style="list-style-type: none"> <li>- Number of new projects entered in SLAP</li> <li>- Number of project documents produced and recorded in SLAP</li> <li>- Number of projects in SLAP deemed mature for funding</li> </ul>	SLAP Project reports	<ul style="list-style-type: none"> <li>- Inter-municipal cooperation is sustained</li> <li>- Municipalities are able to derive project concepts from their strategic plans</li> <li>- Municipalities can agree internally on priorities</li> </ul>
RESULT 1.2: Municipal departments and employees enjoy enhanced capacities for project preparation.	<ul style="list-style-type: none"> <li>- Number and quality of projects prepared by municipal staff</li> <li>- EU public procurement rules and financial management adopted and applied by municipalities</li> </ul>	Municipal entries to SLAP database Municipal Reports Project reports	<ul style="list-style-type: none"> <li>- Municipalities have adequate staff for the project to train</li> <li>- Municipalities are prepared to use their own resources and not leave it to the project</li> <li>- Municipalities are prepared to adhere to the required procurement rules</li> </ul>
RESULT 1.3: SLAP management supported in developing the SLAP information system and extending it to other appropriate project areas	<ul style="list-style-type: none"> <li>- Ease of access to SLAP data by municipalities, government, donors, IFIs and citizens – all interested parties</li> <li>- Degree of transparency of information</li> <li>- Relevance of SLAP project criteria / indicators to interested parties</li> <li>- No. of municipalities participating in SLAP</li> <li>- Breadth of project areas covered in the SLAP</li> </ul>	SLAP website Survey of potentially interested parties	<ul style="list-style-type: none"> <li>- All parties understand the need for transparency</li> <li>- Municipalities rise to the challenge of introducing new types of socio-economic projects</li> </ul>
RESULT 1.4: Functioning of The Coordination Group for the support to development of Local Infrastructure supported	<ul style="list-style-type: none"> <li>- Action taken regarding gaps and obstacles in implementing national and municipal infrastructure strategies</li> </ul>	CG minutes Project reports SLAP	<ul style="list-style-type: none"> <li>- Stakeholders are prepared to coordinate their activities</li> </ul>
<b>Component 2 To provide support for implementation of selected infrastructure projects.</b>			
Result 2.1: Priority infrastructure projects selected for financing	<ul style="list-style-type: none"> <li>- No. of projects selected</li> </ul>	<ul style="list-style-type: none"> <li>- SLAP</li> <li>- Project reports</li> <li>- Minutes from SC meetings</li> </ul>	<ul style="list-style-type: none"> <li>- Sufficient and suitable projects are available</li> <li>- Any land disputes are settled</li> </ul>
Result 2.2: Contracts are concluded, works on the selected projects are implemented.	<ul style="list-style-type: none"> <li>- Number of tenders held and number of contracts signed</li> <li>- No. of projects with works started</li> <li>- Compliance of works progress with schedule</li> <li>- No. of projects completed and achievement of operating design standards.</li> </ul>	<ul style="list-style-type: none"> <li>- Tender evaluation</li> <li>- Municipal reports</li> <li>- Supervision reports</li> <li>- Minutes from SC meetings</li> <li>- SLAP</li> </ul>	<ul style="list-style-type: none"> <li>- Site investigations are positive</li> <li>- Funding agreements are sustained</li> <li>- Contractors do not default</li> </ul>
RESULT 2.3: Supervision of the works projects carried-out.	<ul style="list-style-type: none"> <li>- No. of appropriate supervisors appointed and working</li> <li>- No. and quality of supervision reports</li> <li>- No. and quality of final reports</li> </ul>	<ul style="list-style-type: none"> <li>- Project reports, signed contracts</li> <li>- Supervision reports</li> <li>- SLAP</li> </ul>	<ul style="list-style-type: none"> <li>- Contracts are concluded</li> <li>- Works commence without mishap</li> </ul>

Activities	Means & Costs	Assumptions
<p><b>Component 1: To accelerate the pace of building the project pipeline and further the capacity-building of municipalities</b></p> <p><b>Activities related to result 1.1:</b> SLAP expanded with new projects, and documentation for projects in the SLAP prepared to EC standards (e.g. feasibility studies, updated technical and tender documentation etc.)</p> <ul style="list-style-type: none"> <li>- Communicate actively and widely with all stakeholders, but especially municipalities, to disseminate the benefits of the project and generate participation and commitment</li> <li>- Support municipalities in deriving project concepts from their strategic plans, and in defining them in a way suitable for entering into the SLAP</li> <li>- Encourage municipalities to extend the subjects of project concepts to cover broader socio-economic projects</li> <li>- Prepare project documentation, and assist municipalities to prepare project documentation, for projects and concepts recorded in SLAP (e.g sketch projects, pre-feasibility and feasibility studies, EIAs, main projects, tender documentation).</li> <li>- Assist municipalities in using documents such as pre-feasibility and feasibility studies to refine priorities and make investment decisions (commitment of co-funding etc)</li> </ul> <p><b>Activities related to result 1.2:</b> Municipal departments and employees enjoy enhanced capacities for project preparation.</p> <ul style="list-style-type: none"> <li>- Communicate actively and widely with all stakeholders, but especially municipalities, to disseminate the benefits of the project and generate participation and commitment</li> <li>- Revise training needs analysis prepared by previous MISP projects and prepare appropriate training activities</li> <li>- Implement formal training in conjunction with coaching on active project preparation activities</li> <li>- Facilitate an exchange of experience between more and less-developed municipalities</li> </ul> <p><b>Activities related to result 1.3</b> SLAP management supported in developing the SLAP information system and extending it to other appropriate project areas</p> <ul style="list-style-type: none"> <li>- Communicate to all stakeholders the importance of complete, transparent and widely accessible project data</li> <li>- Design and continually upgrade the SLAP website to allow the easiest, most user-friendly online access possible to all SLAP information</li> <li>- Conduct surveys of all potential interested parties in support of further improvements (e.g. government departments, municipalities, donors, IFIs, citizens, journalists, potential private investors etc. )</li> <li>- Support further development of SLAP and facilitate its wider usage by relevant stakeholders- line ministries, financial institutions and other donors</li> </ul> <p><b>Activities related to result 1.4:</b> Functioning of The Coordination Group for the Support to Development of Local Infrastructure supported</p> <ul style="list-style-type: none"> <li>- Organize regular coordination meetings between relevant sector ministries, donors and SCTM</li> <li>- Prepare detailed and strategic input documents for CG meetings</li> </ul>	<p>1 Technical Assistance contract: EUR 6 million</p> <p>Works contracts.: EUR 25.12 million (IPA contribution)</p> <p>Works contract: EUR 10 million (national contribution)</p>	<ul style="list-style-type: none"> <li>- Continued political will to support decentralization</li> <li>- Good cooperation and coordination amongst all involved parties</li> <li>- Coordination with ongoing projects implemented through IPA and bilateral donors</li> <li>- Municipalities are ready to participate in project implementation</li> <li>- Municipal employees respond to training and project development support</li> </ul>

<p><b>COMPONENT 2. To support implementation of selected infrastructure projects</b></p> <p><b>Activities related to result 2.1:</b> Priority infrastructure projects selected for financing</p> <ul style="list-style-type: none"> <li>- Revise and improve methodology for prioritisation of infrastructure projects</li> <li>- Select projects for financing</li> </ul> <p><b>Activities related to result 2.2:</b> Contracts concluded, works implemented</p> <ul style="list-style-type: none"> <li>- Provide necessary expertise to support the Contracting Authority throughout the procurement stage by assisting in launching tenders, providing clarifications and tender evaluations</li> <li>- Assist the Contracting Authority in ensuring contracts are signed for project implementation.</li> <li>- Monitor project execution</li> </ul> <p><b>Activities related to result 2.3:</b> Supervision of the works projects carried out</p> <ul style="list-style-type: none"> <li>- Assign appropriate supervisors</li> <li>- Supervise of all Works Contracts in accordance with appropriate (PRAG or FIDIC) Conditions of Contract and applicable Law</li> </ul> <p>Produce appropriate reports</p>		<ul style="list-style-type: none"> <li>- Previous MISP projects have prepared appropriate infrastructure projects for financing</li> <li>- Contractors execute projects on schedule</li> <li>- Start or/and finish of construction works by the Works Contractors are not delayed due to unfavourable climatic or other conditions, bankruptcies or other force majeure impediments</li> </ul>
<p><b>Activities common to all results</b></p> <p>Prepare a strong communication strategy that can underpin all components by explaining to all stakeholders what the project means to them, and how it is linked with the EU accession process.</p>		<ul style="list-style-type: none"> <li>-</li> </ul>
<p>Pre-condition:</p> <p>The implementation of the project depends on the transparent procedures of the selection process of the municipal projects for preparation and implementation. Transparent selection process is based on clearly defined and agreed SLAP criteria and process. There is considerable dependence on the stage of advancement of the process initialised under CARDS MISP and MISP IPA 2008.</p>		

**ANNEX II: AMOUNTS (IN M€) CONTRACTED AND DISBURSED BY QUARTER FOR THE PROJECT (IPA contribution only)**

<b>Contracted</b>	<b>N+4Q</b>	<b>N+5Q</b>	<b>N+6Q</b>	<b>N+7Q</b>	<b>N+8Q</b>	<b>N+9Q</b>	<b>N+10Q</b>	<b>N+11Q</b>	<b>N+12Q</b>	<b>N+13Q</b>	<b>N+14Q</b>	<b>N+15Q</b>	<b>N+16Q</b>	<b>N+17Q</b>	<b>Total</b>
Contract 1.1	6.00														<b>6.00</b>
Contract 1.2					25.12										<b>25.12</b>
<b>Cumulated</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>	<b>6.00</b>	<b>31.12</b>	<b>31.12</b>	<b>31.12</b>	<b>31.12</b>	<b>31.12</b>	<b>31.12</b>	<b>31.12</b>	<b>31.12</b>	<b>31.12</b>	<b>31.12</b>	<b>31.12</b>
<b>Disbursed</b>															
Contract 1.1	1.20		0.70		0.70		0.70		0.70		0.70		0.70	0.60	<b>6.00</b>
Contract 1.2					2.512	2.512	2.512	2.512	2.512	2.512	2.512	2.512	2.512	2.512	<b>25.12</b>
<b>Cumulated</b>	<b>1.20</b>	<b>1.20</b>	<b>1.90</b>	<b>1.90</b>	<b>5.112</b>	<b>7.624</b>	<b>10.836</b>	<b>13.348</b>	<b>16.56</b>	<b>19.072</b>	<b>22.284</b>	<b>24.796</b>	<b>28.008</b>	<b>31.12</b>	<b>31.12</b>

### **ANNEX III: INSTITUTIONAL FRAMEWORK – LEGAL RESPONSIBILITIES AND STATUTES**

The Coordination Group for the support to development of Local Infrastructure (CG LI) established in June 2007 consists of the Ministry of Public Administration and Local self Government, Ministry of Agriculture, Forestry and Water Management, Ministry of Environment and Spatial Planning, Ministry of Economy and Regional Development, Ministry of Infrastructure, Ministry of Finance, Ministry for National Investment Plan, Standing Conference of Towns and Municipalities, the European commission, IFIs and bilateral donors. All these parties jointly discuss and solve some of the key issues concerning local government. The group meets every three months to define inter-ministerial priorities, taking into account local needs and available funding. All these ministries and SCTM took part in preparing the project fiche for MISP IPA 2008 and these stakeholders will be involved in future steps of local infrastructure development. Based on previous experience, this group should play a more active role in local development. This project will continue to play the role of a Secretariat of the Coordination Group (subject to the proviso of other MISP projects not being in a better position to take this role).

The Ministry of Public Administration and Local Self-Government (MPALSG) performs public administration tasks related to the system of local government and territorial autonomy, election of local government bodies, territorial organization of the Republic of Serbia and work relations in local government units and Autonomous Provinces. The Ministry of Public Administration and Local Self-Government has the overall responsibility of initiating laws concerning local government.

The changes in the functioning of LSG were influenced by the Strategy for Public Administration Reform adopted by the Government in November 2004. The Strategy set out 5 key principles that should underlie the reform: decentralization, de-politicisation, professionalization, rationalization and modernization.

In accordance with the main principle of decentralization, at the end of 2007 four laws were adopted. The Law on Local Self-Government, the Law on Local Elections, the Law on the Capital City and the Law on Territorial Organization of the Republic of Serbia.

These laws are fully harmonized with the new Serbian Constitution, adopted in 2006, and with the European Charter on Local Government, ratified by the National Assembly in July 2007. In the forthcoming period it is planned to draft a law that will regulate the rights and duties of staff in local government units and a law on communal police, the formation of which is envisaged by the new Law on Local Self-Government.

One significant challenge in the process of strengthening municipal capacities in Serbia is the preparation of employees to face new responsibilities delegated to them through decentralization and the EU integration process. Recognising the need for a strategic approach, the MPALSG, initiated a Training Strategy for LG employees in the context of EU integration process, with an action plan for its implementation. This was done through the Project *Support for strengthening Local Self-Government capacities in the context of the European Integration process*, CARDS 2005. The strategy will be finalized in the first half of 2009.

Several other Ministries are responsible for regulations and policy development in infrastructure, such as the legal aspects of construction, environmental issues, quality standards and other standards

The Ministry of Agriculture, Forestry and Water Management is responsible for the water sector as a whole. The Directorate for Water acts as the ministry's representative. The



Directorate for Water under the Ministry of Agriculture and Water Management has overall responsibility for water management issues at the national level.

In May 2007, the Government created the Ministry of Economy and Regional Development (formerly the Ministry of Economy). The MinERD will have the responsibility for implementing activities necessary for the effective coordination, administration and management of integrated regional development and the support of economic infrastructure.

One of the most important stakeholders is the Standing Conference of Towns and Municipalities (SCTM), which is the national association of local authorities in Serbia. The SCTM was founded in 1953, following the traditions of international associations of local authorities throughout the world. The SCTM is an organisation dedicated to the promotion and development of local government, representing their interests and assisting co-operation among local authorities

Municipalities are responsible for a wide range of infrastructure services including water, wastewater, district heating, solid waste, and public transport among others. Funds for these derive from local revenues and transfers from central government. The law provides for cooperation with other local government units in fields of mutual interest. One of the key goals of the Republic of Serbia is the creation of strong, influential and independent local governments with adequate communal services and a citizen-oriented approach. This objective can be achieved only if strong investment into municipal infrastructure is made. This includes all sectors for municipal development such as the environmental sector (e.g. water supplies, wastewater, solid waste, district heating etc), economic infrastructure (e.g. tourist attractions and other tourist infrastructure, urban renewal, brownfield regeneration, industrial parks, business service centres etc); and social infrastructure (e.g. sheltered housing and/or disabled access, education etc.). Municipalities must expand their role in planning, designing and financing their infrastructure requirements in order to attract private investment and create new employment opportunities. Municipal officials must acquire such expertise for their region to become attractive to international and national private investors.

The Law on Environmental Protection adopted in 2004 has given new responsibilities to local governments in the field of environment. Municipalities are responsible for managing the funds from implementation of the “polluter pays principle” and for adoption and implementation of LEAPs, local and regional waste management strategies and infrastructure project management.

With respect to local government capacity development, financial support provided through CARDS focuses on the government strategy of decentralising responsibilities and financial resources to improve local well being, developing a more balanced regional economic development policy from the local level, and building the management capabilities of local government.

On the local level in the last few years, many municipalities have prepared and adopted their **Local Strategic Plans** and some even **Capital Investment Plans**. This on-the-ground driven strategic planning of needs and available resources has resulted in clear concepts of what the community sees as priorities in the area of municipal infrastructure.

## **ANNEX IV: REFERENCE TO LAWS, REGULATIONS AND STRATEGIC DOCUMENTS:**

### **Summary of relevant laws & regulations:**

- The Constitution of the Republic of Serbia, 2006
- The Law on Public Administration, 2005
- The Law on Civil Servants. 2006
- The Law on Public Revenues and Public Expenditures.
- The Budgetary System Law.
- The Law on Budget of the Republic of Serbia for 2005.
- The Law on securities` market and other financial instruments.
- The Law on Tax Procedure and Tax Administration.
- The Law on Communal Activities (Official Gazette 16/97, 42/98).
- The Law on Public Companies and Performance of Activities of General Interest.
- The Law on Commercial Corporations (with respect to earlier Law on Enterprises).
- The Law on Water.
- The Law on Solid Waste Management.
- The Law on Environmental Protection.
- The Law on Assets in the Ownership of the Republic of Serbia.
- The Law on Privatization.
- The Law on Concessions.
- The Law on Planning and Construction.
- The Law on Foreign Investments.
- The Law on Financing of the Local Self-Government, 2006
- The Law on Local Self-Government, 2007,
- The Law on Territorial Organisation, 2007
- The Law on Local Elections, 2007
- The Law on Capital City, 2007
- The Law on Public Companies and performing of activities of Common Interest (unofficial translation)
- The Law on changes and Amendments on the Law of Ministries, Art 7 extension art 28a with MIA, Belgrade 2003
- The Law on Free Zones, 2006
- The Law on Strategic Assessment Influence on environment
- The Law on Environmental Impact Assessment
- The Energy Law, Official Gazette RS No 44/2004
- The Law on IPPC, 2004

In addition to the strategic documents mentioned in section 2 above, we can name the following.

**Strategy of Public Administration Reform in the Republic of Serbia**, Ministry of Public Administration and Local Self-Government, Belgrade 2004, stresses the importance of the decentralisation process and basic principles for its implementation. The fundamental objective of the reform is to provide a high quality of services for citizens through de-concentration of the state administration, delegation of power from the central toward lower levels and decentralisation. The Strategy also underlines the need for securing adequate mechanisms by which local government representatives will be in position to coordinate and develop long term capacities in direct cooperation with the Government and corresponding bodies of the central administration, or through the national association of cities and municipalities. The purpose of the public administration reform process in the Republic of Serbia is to transform the whole system of administration (central administration and local self-government) in order to harmonize it with overall reform policy.

**Strategy of Regional Development of Serbia** for the period 2007-2012 (adopted by the Government of Republic of Serbia in January 2007). The Strategy highlights the importance of stimulating the development of economic infrastructure: “Infrastructure is one of the most important factors for maintaining sustainable economic and social development of the Republic of Serbia, and represents a key driver for regional development and utilization of comparative advantages of local areas”. (Sections 2.12 and 2.4).

**National Strategy of Sustainable development** was adopted by the government in 2008. The 4<sup>th</sup> key priority of the Strategy is the development of infrastructure and harmonized regional development, improvement of the attractiveness of the country and ensuring a corresponding quality and level of services. The 5<sup>th</sup> key priority is protection and improvement of the environment and the rational use of natural resources.

**National Strategy for Tourism** (May 31, 2006) by Ministry of Trade, Tourism and Services – tourism now falls under the jurisdiction of the Ministry of Economy and Regional Development.

**National Economic Development Strategy of the Republic of Serbia 2006-2012** (2006) by the Ministry of Economy – now the Ministry of Economy and Regional Development.

**Development Strategy of railway, roadway, airway and inter modal transport in RS 2008-2015.** (2008) by the Ministry of infrastructure

**The Strategic Plan of the Standing Conference of Towns and Municipalities 2005 – 2008** adopted at the 36th General Assembly on December 3, 2007 for the period 2008-2010, this establishes SCTM as the association of local authorities which recognizes its role and objectives and supports its membership in standards of good governance at the local level. It proclaims that the main task of the SCTM is to strengthen local government and to represent, protect and support its members and their interests at the national and international level. It also states that the most important priority at the national level is the process of decentralization and democratization and that on the international scene SCTM should become a well-known and recognized association representing all Serbian towns and municipalities. According to the Strategic plan, the four priority areas are:

- Representing (advocating for) the interests of local governments in creating an environment which enables consistent decentralization (participation and influence in all phases of the enactment of legislation, regulations and national strategies relevant for the local authorities)

- Developing a sustainable system of support to capacity building of members
- Encouraging and supporting exchange, communication and cooperation among SCTM members at the inter-municipal, national and international level
- Capacity Building of the SCTM itself.

### **Strategy for Development and Encouraging Foreign Investments**

#### **Local Development Plans adopted by Local Governments /Municipalities across Serbia**

#### **National Employment Strategy 2005-2010**

#### **PRSP Strategy and Implementation Reports**

**The National Waste Management Strategy** incl. the program of harmonization with the EU, (2003)

**National Investment Plan** (2006)

**Study “Local Credit Market for Municipal Infrastructure”** by Royal Haskoning for EAR funded project Municipal Infrastructure Agency Support Programme (August 23, 2007)

**The European Charter on Local Self-Government** of European Council.

**Governmental Memorandum to the Budget Law 2006** dated December 10th, 2005

**Report Logo East Twinning Framework** Serbia, Improvement of the internal management of local governments in Serbia 2006 – 2007.

**Regional waste management Plan**, SCTM Regional Plan tool 11

**Establishment of Waste Transfer stations**, SCTM Green Paper Tool 10.

**Water Resources Development Master Plan**, Information from Ministry, Directorate of Water, Serbia 2001.

**Program of construction, rehabilitation and maintenance of water management facilities** in 2006 -Ministry of Agriculture, Forestry and Water-Directorate for Water

**Sector Review paper on the Water Supply and Waste Water sector**, Royal Haskoning - May 2006

**Global Serbian Wastewater Study**, EAR – 2005

**EBRD Initial and Final Report** Serbia and Montenegro: Institutional Support for the Water Utilities in Kragujevac, Nis and Novi Sad, Belgrade- May 2005 and May 2006.

**Tariff concept for Nis and Novi Sad** by Dr. Fromme International Consulting 2002

**Study on the Improvement of Commercial Performance of Public Municipal Enterprises** for Water Supply and Sewerage as well as District Heating in Novi Sad, Niš and Belgrade by Stone & Webster Consultants – December 2001.

**Aide Memoire 0406 Final** (World bank water sector)

**Energy Sector Development Strategy of the Republic of Serbia** by 2015, Ministry of Mining and Energy, Belgrade, May 2005.

**GTZ brochure on PPP project** in field of solid waste management with Trojon & Fischer EKO, 2006.

**ANNEX V: DETAILS PER EU-FUNDED CONTRACT (\*) WHERE APPLICABLE:**

**TA Contracts**

<b>Contract # and Name</b>	<b>Description</b>	<b>Cost Estimates (EUR m)</b>
<b>CONTRACT # 1: Technical assistance</b>	TA for Contract 1 will consist of a long term service contract covering Component 1 and supervision from Component 2. This Contract will carry out activities to develop the capacities of municipalities in programming procedures and expand and improve project pipeline with prioritised investments for IPA 2010 and 2011. Also, this contract will include TA for Supervision of procurement and construction of priority infrastructure works. The contract will carry out the necessary activities to review and ensure accuracy of the Feasibility Studies carried out for IPA 2008 earlier and to bring those up-to-date. Additional site investigations will be carried out as may be necessary to guarantee accuracy of information to be provided to the tenderers with the Tender Dossiers. Tender Documents will be prepared for works contracts for following MISP projects and for other users of the project pipeline. The contract will carry out construction supervision of all Works contracts listed below.	<b>6.0</b>

**Works Contracts**

<b>Contract Name</b>	<b>Description</b>	<b>Cost Estimate (EUR m)</b>
<b>CONTRACT # 2: Works Contracts (PRAG rules)</b>	The contracts for specific work projects will depend on the projects eligible for funding at the time of implementation of this project. These will be prepared for tendering by the foregoing MISP project, (MISP 2008). Only projects with ready feasibility studies and tender documents prepared in accordance with EU regulations will be eligible to receive funding for infrastructure investments. Projects to be financed through works contracts will be selected from the SLAP database.	<b>25.12</b>
<b>CONTRACT # 2: Works Contracts (national contribution)</b>	Only projects with ready feasibility studies and tender documents prepared in accordance with EU regulations will be eligible to receive funding for infrastructure investments. Projects to be financed through works contracts will be selected from the SLAP database.	<b>10.00</b>

**IMPORTANT:** The value of EU funded infrastructure investment component of the selected projects will be close to €7Million on average.