



REVIEW REPORT

Municipal Environmental and Economic Governance (MEG) Project in Bosnia and Herzegovina

2019

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List of Acronyms

AMC	Associations of Municipalities and Cities
BiH	Bosnia and Herzegovina
CHF	Swiss Francs
CRS	Catholic Relief Services
D4D	Diaspora for Development
EU	European Union
FBiH	Federation of Bosnia Herzegovina
FGD	Focus Group Discussions
GLG	Good Local Governance
GoAL WaSH	UNDP Programme for Governance, Advocacy and Leadership in Water, Sanitation and Hygiene
GOV-WADE	Governance Project in Municipal Water and Environmental Development
HACT	Harmonized Approach to Cash Transfers
ICIBU	Issued-Centred Intergovernmental Bottom-up Approach
ILDp	Integrated Local Development Project
KII	Key informant interviews
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
KPI	Key Performance Indicator
LED	Local Economic Development
LG	Local Government
LSG	Local Self-Governance
MEG	Municipal Environmental and Economic Governance
MC	Municipal Council
MZ	Mjesna Zajednica
OECD-DAC	Organisation for Economic Co-operation and Development – Development Assistance Committee
OMS	Operational Management System
PMS	Performance management systems
PSA	Public Service Agreements
REDAH	Regional Development Agency for Herzegovina
RS	Republika Srpska
SDC	Swiss Agency for Development and Cooperation
SDGs	Sustainable Development Goals
SIDA	Swedish International Development Cooperation Agency
ToR	Terms of Reference
UNDP	United Nations Development Programme
WB	World Bank

Executive Summary

Following the Dayton Agreement of 1995, post-war Bosnia and Herzegovina (BiH) was established as a parliamentary democracy with a multi-layer government structure.

Swiss Cooperation has been supporting Bosnia and Herzegovina for a long time. In the most recent Cooperation Strategy 2017-2020, the overall goal of Swiss Cooperation Program reads as *“Switzerland contributes to strengthening social, economic and political inclusion in Bosnia and Herzegovina. It reinforces the further development of a democratic political system and a social market economy, based on accountable public and private actors as well as active and empowered citizens, with the long-term perspective of European integration.”*

“Democratic Governance, Municipal Services and Justice” represents one of the three focus areas of Swiss Cooperation in BiH. Based on two decades of cooperation experience in this sector, the Swiss Agency for Development and Cooperation (SDC) initiated the *Municipal Environmental and Economic Governance* (MEG) project. The project focuses on local governments as the key agents of change within the current complex constitutional and political structures in BiH, to tackle the prevailing economic and social challenges.

The MEG project aims at improving sectoral governance, targeting public service provision in 18 selected municipalities. The project implementation focuses on three key areas: local administrations in the environmental and economic sectors, participation of citizens and businesses in local decision making, and changes in the regulatory framework to institutionalize municipal good governance.

Currently, the First Phase is running from 2016-2020, being implemented by UNDP. As this phase is approaching its final year, the Swiss Embassy has commissioned an external review. Based on a review of documents, key informant interviews in BiH, direct observations, and focus groups discussions, the review team was tasked to review and assess the relevance, effectiveness, efficiency, impact and sustainability of the project (OECD/DAC), to then provide evidence-based recommendations for the next phases of the project in terms of theory of change, objectives, strategy of intervention, modalities of implementation and geographical areas for intervention.

The effectiveness of the project is assessed in a first status assessment. The MEG project has achieved considerably positive results in a challenging context. Significant progress has been achieved in regard to Good Governance in the Environmental Sector, where the sustainability and efficiency of Public Utility Companies, as well as their collaboration with the municipal administration, has improved steadily. Similarly, improvements have been recorded regarding LED activities, including better administrative processes and employment-conducive grants. Imbalances, however, were found in the achievement of results across the three outcome areas, with Outcome 3 – improvements in the regulatory framework – showing less progress than the other two. Gender inequality and social inclusion were continuous considerations throughout the Project, nevertheless, the addressing root causes of these phenomena may be beyond the scope of one single project.

In-depth analysis of project design and implementation provided insights into the relevance and efficiency of the MEG Project. MEG has been highly successful in developing innovative processes, within a very specific institutional environment. The review finds that standards and instruments with the potential to improve the performance of municipal administrations have been successfully developed and implemented. Especially noteworthy is the positive response to project complexity – the inclusion of all relevant stakeholders, as well as the focus on multiple sectors for improvements in local governance was met with exclusively positive feedback by partners and beneficiaries. There is

some potential to re-shape project modalities to increase relevancy and efficiency of the project. It is recommended that the on-budget financial support is adjusted to reflect SDC interests and willingness to take risks. Selection criteria for municipalities could also be fine-tuned to be more inclusive. Overall, however, the review finds that the MEG Project has made significant contributions towards achieving the SDGs.

The evaluation targeted impact and sustainability of the MEG project. Citizen satisfaction with municipal service provision has increased, and municipal staff reports better communication and collaboration across departments, as well as better processes including planning and monitoring mechanisms. Overall capacity development of administrations and LGs has been successful, with an observable shift in the mindset of LGs defining their incentives as development measures rather than “buying social peace”. Challenges continue to persist in citizen communication, and ensuring spillovers to departments outside of LED and the environment. Furthermore, attention needs to be paid to risks of functional substitution. The question remains which public institution will take on the oversight provided by MEG and how progress under MEG will be sustained past the Third Project Phase. Finally, different scaling-up options with different development partners are presented.

The continuation of the Project should build on the successes of Phase One. Opening the MEG project to all municipalities in BiH provides an opportunity to increase overall impact, strengthen the position of regional institutions, and potentially decrease national disparities. After successfully achieving progress in municipal water supply, the evaluation team suggests broadening the thematic scope and including waste management. Together the scaling up in different areas plays into the transition of MEG into an ‘Accelerator for Local Governance’, providing a springboard for committed and willing municipalities to develop governance best practices. To ensure that progress is continued post-MEG, further efforts need to be applied in facilitating changes in the regulatory framework, applying an Issued-Centred Intergovernmental Bottom-up Approach. Strengthening local structures and institutions in the coming phases can further drive institutionalisation and ensure the sustainability of considerable achievements made under the MEG Project.

The review report is structured as follows. The report starts with context and background of the review. The second chapter contains the Main Findings (Observations and Conclusions). In this chapter, the Evaluation Questions regarding the five OECD/DAC criteria are addressed. Chapter III contains the Recommendations for the remaining year of Phase One, as well as for the continuation of the Project in Phases two and three. While the main text is structured according to thematic areas, references to specific Evaluation Questions (EQ) are provided in brackets (see Annex VIII for relevant numbering)..

1. Context and Objective of Assignment

2.1. Country Background: Political Structures in Bosnia and Herzegovina

Bosnia and Herzegovina: a parliamentary democracy. With the Dayton Peace Agreement, the Bosnian War ended in 1995. As a result of the Dayton Agreement, Bosnia and Herzegovina is constituted as parliamentary democracy with a multi-layer government structure.

Central Government. The central government is headed by the Presidency, which is held by a three-members body – one from each of the three mayor ethnic groups. The Chair of the Presidency rotates every eight months.

The legislative and executive power is split between the Council of Ministers and the Parliamentary Assembly of Bosnia and Herzegovina whose members are chosen by a proportional representation system. The Council of Ministers is headed by a Prime Minister. The Prime Minister¹ is nominated by the Presidency and approved by the House of Representatives. The Council is responsible for carrying out policies and decisions in the fields of diplomacy, economy, inter-entity relations, proposing the annual budget and other matters as agreed by the entities.

Subnational levels. The state of Bosnia and Herzegovina is comprised of two entities: the Federation of Bosnia Herzegovina (FBiH) and the Republika Srpska (RS). In addition, the District of Brčko is acting as a self-governing administrative unit, that remained under international supervision until 2012. The competences of state level authorities are outlined in the Constitution – leaving the remaining competences to the entity governments.

Below entity level, there are 145 local governments in BiH. The FBiH is divided into 10 cantons spanning 80 municipalities, while the RS is directly split into 64 municipalities.

2.2. Project Background

The Swiss Agency for Development and Cooperation has supported local governments as key agents of change in BiH over the last two decades, including the realization of the GOV-WADE² and ILDP project³. Based on the learnings and successes of these projects, SDC initiated the *Municipal Environmental and Economic Governance* (MEG) project. Embedded in the Swiss Cooperation Strategy Bosnia Herzegovina 2017-2020, the MEG project is directly linked to other SDC funded initiatives such as the project *Strengthening the Role of Local Communities (Mjesna Zajednica – MZ)*⁴ and the *Strengthening Associations of Municipalities and Cities (AMCs)*⁵ in BiH project.

The MEG Project will be running over a period of 12 years, divided into three phases. The overall goal reads as “*local governments, assigned with appropriate competences and finances, have improved their democratic governance, apply sound public policy and performance management systems and*

¹ Formal title: “Chairman of the Council of Ministers of Bosnia and Herzegovina”

² The Governance Project in Municipal Water and Environmental Development (GOV-WADE), funded by the Government of Switzerland and implemented by Una Consulting, with the objective to build the capacity of local authorities and civil society for sustainable water management, contributed to the improvement of governance frameworks for the water and environmental sector at municipal level. The project ran from 2006 until 2014.

(Source: <https://www.eda.admin.ch/deza/en/home/activities-projects/projekte-fokus/Project-database.html/dezaproyects/SDC/en/2006/7F04624/phase3>)

³ The Integrated Local Development Project (ILDP) is a joint project of the Government of Switzerland and UNDP launched in 2008 and expected to run until 2021, with the aim to harmonize integrated and inclusive strategic planning at the local level.

⁴ The project runs from 2013-2019, funded with CHF 4,8m, and with the objective to empower local communities to raise citizens’ responsiveness, participation, and social inclusion in local development processes.

⁵ The project runs from 2018-2021, with the objective to enhance AMCs’ capacities to actively support local governments in the provision of services.

provide public services in an inclusive, effective and efficient manner, particularly those related to the environmental and economic sectors.”⁶

Specifically, the three outcomes are:

1. Supported local governments apply effective development management systems characterized by stronger oversight of the legislative and greater accountability towards the citizens.
 - a. Local government performance management systems are established and functional
 - b. Citizens are more responsible and enjoy a greater role in decision-making and monitoring of government performance
2. Citizens and businesses in target localities benefit from good quality services provided by local governments in the environmental and economic sectors.
 - a. Local Governments, through institutionalized partnerships with their utilities and based on oversight by Local Government Councils and the citizens, secure sustainability of service delivery, with focus on the water sector
 - b. Local Governments set in place a business-friendly environment and deliver employment-conducive measures and services
 - c. Quality and availability of municipal environmental and economic infrastructure is improved
3. Improved regulatory framework at higher and local government levels and proactive networking accelerate sector-specific reforms and enable more effective local public service delivery.
 - a. Constraints in the regulatory framework related to service delivery in economic and environmental areas are addressed in a participatory and on-demand manner at local and higher government levels with the engagement of AMCs
 - b. Economic and environmental sector-related policy delivery capacities of higher government level institutions are increased and policies are result-oriented
 - c. Thematic professional networking spurs knowledge exchange and innovation in public service delivery

In order to achieve these outcomes, the MEG project focuses on a complex variety of entry points:

- **Local Government:** with a focus on the environmental and economic sector, the Project is working with local administration to establish efficient processes for public service delivery
- **Community Participation:** by introducing additional, and improving existing communication channels between governments (local, entity, cantonal, state) and local communities, the Project facilitates citizen and business participation in municipal decision making
- **Regulatory Framework:** in collaboration with the Associations of Municipalities and Cities, the Project is supporting the drafting and implementation of relevant laws and bylaws to enable the sustainable and efficient provision of public services at municipal level

The project focuses on two geographical clusters (north-western and north-eastern) that include both BiH entities. A selection of 31 municipalities were set by SDC, out of which 18 were selected after a 5-month preparation phase according to criteria developed by UNDP.⁷ This set measured the performance of municipal administrations in the environmental and economic sector, as well as political will. The resulting list of municipalities was adjusted to balance representation of municipalities from the two entities.

The First Phase (2016-2020), with a commission value of CHF 12 million, is being implemented by UNDP. Project modalities comprised of technical cooperation, capacity development⁸, as well as

⁶ MEG, 2016, Project Document, p. 23

⁷ MEG, 2016, Methodology and report outlining the selection of partner local governments

⁸ For a definition see UN General Assembly (2003), p. 8

performance-based on-budget support. During this first phase, the project developed individual work plans for each participating municipality, provided technical assistance, and implemented the first rounds of performance-based financing.

2.3. The Assignment: External Review

As the first phase of the MEG project is approaching its final year, the Swiss Embassy has commissioned an external review. The review team consisted of **Admir Vranic** (Local Expert Municipal Development, Water Sector, and Social Inclusion), **Anna Buchmann** (International Junior Expert, Local Economic Development and Documentation), and **Dr. Matthias Witt** (Team Leader, International Expert Local Governance and International Development).

The cooperation with the team of the commissioning partner, SDC, the implementing agency, UNDP, as well as the counterparts and interviewees in the field, was always professional and open. The review team wants to express their gratitude to **Mr. Srećko Bajić** for competent management of the assignment and flexible and active support to the team in all logistical and content issues.

The purpose of the review is to provide an in-depth assessment of the MEG project, which in turn informs the implementation of the last year of Phase 1, the formulation of Phase 2, and the vision of Phase 3. The duration of the assignment is from 20th June until 5th August.

Specifically, the objectives of the evaluation include the assessment of the project according to the OECD-DAC criteria, and the provision of evidence-based recommendations regarding the theory of change, objectives, strategies, modalities and focus areas. (See Annex I for Overview of Assignment Objectives)

The review is based on a three-stage methodology to analyse the progress, efficiency and impact of the 1st phase of the MEG project and formulate recommendations for the continuation of the project based on the learnings:

Inception Phase	Inquiry Phase	Reporting Phase
<ul style="list-style-type: none"> • Review of documents • Development of interview guides • Planning of field visit 	<ul style="list-style-type: none"> • Key informant interviews with governments, development partners, beneficiaries • Focus groups • Direct observations • Benchmarking 	<ul style="list-style-type: none"> • Collection of observations, conclusions and recommendations • Research and inclusion of outside sources

In the **inception** phase, the review team (international and national consultants) focussed on reviewing relevant project documents to ensure a broad understanding of the context, the project itself, and the ToRs. As a result, the exact methodology was defined, including comments to the ToR and the final selection of field visits.

The **inquiry phase** (July 01 – 12, 2019) served for verification of the results of the literature review and collection of data on-site. The review team applied various techniques for data collection, including key informant interviews (KII), Participatory Appraisal Workshops, and Focus Group Discussions (FGD).

During the **reporting phase** (July 15 – August 09), the data collected was evaluated and the preliminary recommendations validated. The complete review methodology is attached in Annex II.

2.3.1. Additional Comments on the Terms of Reference

Sector Governance. The MEG project is essentially a local governance project, targeting Governance in the Sectors of Environmental Management and Local Economic Development. ‘Governance’ is understood as the ability of public institutions to serve their citizens. It refers to the rules, processes and behaviours by which interests are articulated, resources are managed, and power is exercised in society.

Major issues to be addressed in this context, concern the way public functions are carried out, management of public resources, and exercise of public regulatory powers. Governance interventions aim at strengthening the capacities of public authorities to exercise their functions. Sustainable changes are achieved, if public authorities change the way they interact and make decisions – more inclusive, more citizen-oriented, more transparent etc.

Referring to MEG, this includes the institutional framework in the two sectors – including legislation, public administration, sectoral regulators and service providers. Regarding MEG the decision making in the sectors by the institutions involved will be analysed, and findings and recommendations in this regard provided.

The attribution challenge. The MEG intervention is acting within a complex political, economic, and administrative environment. In addition to changes induced by MEG, Local Governments are driving change processes of their own, next to ongoing projects funded and implemented by other international development partners. By documenting evidence, observations and conclusions, and linking these to the proposed recommendations, this review attempts to connect MEG activities with outcomes. However, due to complex interactions among actors, it is difficult to establish a clear relation between specific MEG interventions and long-term, sustainable impacts.

‘Regulatory Reform’ – institutional change. At the core of any Governance intervention lies the aspiration of supporting changes in behaviours. A common way of achieving this goal is institutional change. The MEG project has devised a component towards “regulatory reform”. This component represents the core governance contribution. In this understanding, the heading “regulatory reforms” may lead to an underestimation of the potential governance reform impact. Therefore, Component 3 was analysed within the perspective of contributing to institutional change.

2. Main Findings

2.1. Status Assessment

In order to assess the relevance, efficiency, effectiveness, impact, and sustainability of the MEG project, the review started with a status assessment of country structures and challenges, the project design, and project implementation. The results are attached in Annex III as background notes. This baseline has been developed on the basis of the document review, key informant interviews, and independent research. It is then used to evaluate the performance of the MEG project based on evidence collected through the document review and observations from the field (key informant interviews, focus groups, direct observations).

2.2. Observations and Conclusions

2.2.1. Progress and Achievement (EQ 2.1 & 2.3)

In the following section, outcome-level baseline values (June 2016) are compared to cumulative results (March 2019) to showcase to what extent the Project has achieved its set targets and objectives. Both these values are retrieved from the Operational Management (OMS) document. In order to assess whether the 2020 targets are achievable over the next year, the cumulative results are then compared to the achievements noted in the Mid-Term Review 2018.

Outcome 1: Supported local governments apply effective development management systems characterized by stronger oversights of the legislative and greater accountability towards citizens.

The **document review** highlights considerable progress in Outcome 1. The baseline value of zero partner LGs where the mayor and the administration apply operational and accountable municipal

performance management systems (PMS) rose to 18 municipalities applying on average 70% of PMS. This underlines one of the major areas of impact of the Project, as this cumulative result already outperforms the target of 18 LGs applying at least 60% of the PMS. This result also includes the negative progress on Velika Kladuša (difficult cooperation) and Kozarska Dubica (financial distress). Otherwise, the indicator would rise to 76% of applied PMS in 16 LGs.

The achievement of 60% application of PMS in all 18 municipalities is unlikely until the end of the First Phase. While the comparison to the Mid-Term Review from 2018 shows strong progress over the past year (application of PMS increased by 30%), the uncertainty regarding the two outlier municipalities remains strong. Based on evidence collected from the document review as well as interviews during the field mission, the review team concludes that progress regarding PMS in V. Kladuša and K. Dubica cannot be expected until the end of 2020. However, as the Project has continuously offered support and tried to re-engage the two municipalities, the lack of progress must be attributed to out of the Project's control.

The document review also shows that progress has been achieved in regard to the indicator measuring the number of citizen recommendations which were considered and addressed by Municipal Governments and Municipal councils. The baseline value of 10 on average per LG annually, continuously rose to 148 on average per 17 LG annually, thereby outperforming the 2020 target of 50 per LG annually. However, while the indicator asks for gender disaggregation, this data is not provided in the OMS. Furthermore, the indication of the qualitative aspect of 'considering and addressing' is not provided in the OMS - are the suggestions and feedback provided by citizens simply being responded to, or are they taken into consideration and implemented by local governments – and to what extent? This missing data can be identified as a shortcoming of the OMS. The team further addressed this question during the **site visits**. Municipal staff answered that suggestions are taken into account where politically viable. While the feasibility of requests must be assessed, neither the interviews nor the document review provided a clear picture as to how responsive municipal governments are working.

The percentage of realization of annual implementation plans increased from 40% in June 2016 (baseline) to 65.92% among 17 LGs (excluding Kozarska Dubica). This is the only indicator within Outcome 1 where the 2020 target value (at least 70%) has not yet been achieved. It is also the only indicator within this Outcome that diminished compared to results from the Mid-Term Review 2018, from 69% to 66% (excluding Kozarska Dubica). Even though there was negative growth, the strong increase in the first two years provides an indication that the fulfilment of this indicator by 2020 is well within reach.

Overall, progress towards Outcome 1 is very positive, and the achievement of goals in Phase 1 appears to be well on track. Outside of the framework of the OMS indicators, the review team observed other important performance and sustainability aspects relevant for Outcome 1.

Migration: Challenge for Municipal Management. Key interviewees highlighted numerous times that migration is one of the biggest challenges for almost all municipalities visited. This challenge does not only refer to permanent migration abroad, but includes temporary migration for work purposes, substantial remigration from abroad to BiH, as well as migration within BiH. The responses further hinted to the assumption that part of the challenge for local administrations arises from hardly accessible, not actual and/or unreliable data on population status and migration patterns. When asked about the strategies for managing the situation, municipal decision makers stated that the coping strategy employed in the absence of data is to continue working and planning without taking migration into account. In order to address these challenges, development management systems might need to be adjusted to include sections on forward looking planning and appropriate coping strategies. (EQ 5.4)

Progress Person-dependent. Another important observation is the central role of the Mayor's attitude in the adoption and implementation of MEG good governance best practices. In most municipalities visited, success stories were attached directly to the mayor. As elected officials, mayors have usually a strong role in local government. However, through checks and balances, the discretionary decision-making power is usually controlled. That includes, but is not limited to, administrative legislation that limits structural change, procedural legislation that prescribes minimum requirements for advertising of positions and staff selection, and administrative as well as judicial review processes for these decisions. Even though the checks and balances are in place, the implementation challenge seems to remain. (EQ 5.1 & 5.4)

Budgets and Reform Processes. (EQ 5.1 & 5.2) Openness to reform processes seems to differ across municipalities and, as mentioned above, appears to be highly dependent on the mayor and his administration. As such there was a great variety of stages of reform processes across municipalities – with initially well-performing municipalities often leading the field (Gradiška being an exception). Nevertheless, the review team only found limited evidence that the Project is embedded in a wider reform process, and that adequate budgetary commitments were available to support such processes. Key informant interviewees could not confirm an increase in their budgets following the MEG project. Similarly, while independent research⁹ showed that, on average, budgets in the water and LED sector are steadily increasing, no out-of-the-ordinary budgetary allocation can be observed, nor attributed to the Project.

Citizen Participation. Additional channels for communication and exchange between citizens and municipal administrations were introduced under the MEG Project, mainly in the form of Citizen Hours. While each municipality mentioned these as successful accountability mechanisms, it was also pointed out that such opportunities are barely taken up by the constituency. Citizen participation, according to interviews, is very low, as people have lost trust in the political system. The extent to which the participatory processes promoted by the Project have helped to better address the needs of vulnerable groups in particular is therefore difficult to measure. However, this might be due to factors outside the scope of the Project. (EQ 4.3)

Outcome 2: Citizens and businesses in target localities benefit from good quality services provided by LGs in the economic and environmental sectors

The **document review** highlights that considerable progress has been made. The level of dissatisfaction decreased from 35% in June 2016 (baseline) to 24% in March 2019 (OMS). The 2020 target of less than 25% of citizens within target locations are unsatisfied or very unsatisfied has thereby been achieved. **Interviews** with grantees, beneficiaries and community representatives also provided mainly positive feedback and satisfaction with the provision of services by municipalities. However, it needs to be kept in mind that the majority of focus group participants were direct project beneficiaries, thereby directly receiving grants or benefitting from specific new services. The review team furthermore only had the chance to speak to citizens not directly connected to the MEG project in 'star' municipalities, namely Žepče, Tešanj and Teslić. The representative power of the observations from the field is thereby limited. (EQ 2.4 & 4.1)

The number of vulnerable/socially excluded citizens with access to improved services increased from 0 as the baseline value to 1,737 according to the OMS. This result is still considerably far away from the 2020 target of 40,000. Looking at the Mid-Term Review 2018, the indicator has more than doubled

⁹ Budget allocations from 2016 were compared to 2018, based on information provided on each municipality's website.

(from 597 to 1,737). Nevertheless, based on the provided data the review team concludes that the achievement of this indicator seems unlikely by 2020. (EQ 2.4 & 4.2)

Great progress has been made in the volume of annual **private sector investment** as a result of direct project interventions. While the number was zero during the Mid-Term Review 2018, the March 2019 assessment showed that CHF 1,108,504 of private investment was generated, outshooting the target of CHF 900,000 set for 2020. (EQ 2.5)

The number of **water utilities** adopting the tariff setting methodology developed under MEG to enable regular network maintenance and replacement has increased from 3 to 5, while 6 more local governments are expected to adopt the methodology throughout the year (according to the OMS). This target, therefore, is also well on track to meet the expected output of 10 utilities.

Overall, the project has made moderate progress in Outcome 2, where the relatively low number of vulnerable/socially excluded citizens provided with services refrains from progress being rated high. Outside of the framework of the OMS indicators, the review team observed other important performance and sustainability aspects relevant for Outcome 2.

Environmental Services – Next step solid waste management? In the First Phase, water supply was set as a focus area of improving the provision of environmental services. Based on interviews with municipal staff, utility companies, and other stakeholders, as well as through the document review, the review found evidence that progress in this area has been substantial, as many water utility companies report that they are well on their way towards financial sustainability.

The drafting and adoption of Public Service Agreements (PSAs) with water utilities is another milestone achievement for the MEG project. However, the scope of MEG concept is broader than water utilities and comprises all areas of environmental service delivery. First signs of diversification of service provision by the project are visible in the 2019 Annual Work Plan, where plans are mentioned to support the regional landfill in Dobo – an intermunicipal cross-entity project for solid waste management. The review commends that opportunistic approach to (a) support cross-entity projects and (b) expand support in environmental management to waste management is a good starting point for the next phase.

There are a few new and different challenges the project would face in the waste management sector. The importance of water is in its role as key to social peace in the hands of local government with full competence in this area. Waste management, on the other hand, does not represent such an immediate social need, even though the environmental, and thereby long-term social need is great.¹⁰ Interviews showed that all municipalities face difficulties with illegal landfills and transportation costs tied to effective waste management. In addition, and contrary to water, waste management strategies often involve higher levels of government in decision making processes, which makes the sector more complex. Nevertheless, waste management could pose a potential entry point for MEG to tackle good governance on the local level. There seems to be demand to improve the service, and a great potential for inter-municipal cooperation, a pre-requisite also for regulatory change. (EQ 1.1 & 2.2)

Permits and administrative processes. In terms of local economic development, the review team observed considerable progress in providing better business-supporting services in the form of permits. Many municipalities were able to reduce the number of required permits and shortened the necessary waiting times. For example, one-stop shops were set up so that businesses are able to easily apply for construction-related permits. (EQ 2.5)

¹⁰ See also background note in Annex III

Diversification of Business Zones. (EQ 1.4 & 2.5) Progress was made in the establishment of business zones. The good governance aspects of attracting investors, offering special conditions, and responding to investor needs seems to be adequately covered by the MEG project. However, it was striking that the various business zones targeted mostly three industries: wood, metal works, and agricultural production/processing. These are the industries traditionally followed by BiH, and where resources are focused currently. As such this concentration plays towards the comparative advantage of the country.

However, a broader sectoral variety, or variety of municipal focus industries, could provide potential for increasing overall investment and job-creation. First, attracting new industries could provide a channel to foster innovation. Indications for a missing innovative spirit by local businesses were visible during workshops and key informant interviews with grantees. Business owners directly stated that products or services beyond the existing contracts are of no interest; neither was growing past a certain number of employees. Introducing foreign businesses from different industries could introduce an element of competition (to keep innovating), spill-over effects of learning, and additional linkages between businesses. Secondly, attracting businesses from other industries could facilitate the process of economic diversification. Traditional industries are often volatile, and include a large amount of manual work. The rent to be earned in these businesses is thereby limited. As other economies are progressing towards new and innovative industries, municipalities could use business zones to carve out a niche within these industries. However, this might be connected to additional improvements in service provision and infrastructure development, especially in the areas of telecommunication. Another aspect of diversification is employment. Key informants mentioned that the jobs created in traditional industries often do not match the skills available in the country. New and innovative international businesses could create additional high skilled jobs, potentially counteracting emigration. However, it is important to note that the inability of the education system to respond to the needs of the labour market poses an additional challenge, for both traditional as well as innovative industries. Thirdly, diversification could reduce competition between municipalities who are currently targeting the same pool of investors.

Attracting businesses from non-traditional industries poses a risk, as municipalities have (a) created infrastructure servicing traditional industries, and (b) build up competences in attracting and managing businesses in these industries. At the same time, in terms of processes and procedures for good governance, the current support to municipalities for business zone management is generally effective. However, the economic benefits of intentionally diversifying the set of industries could create greater economic benefits and help municipalities develop more diversified local economic development strategies.

Business Development Services (BDS). (EQ 2.5) The review team did not find any evidence that MEG's support to BDS providers would distort markets. However, at the same time no evidence was found that would suggest that market failures are directly addressed through BDS providers. The benefit the support brings, however, is increased (female) entrepreneurship and the potential for more diversification. A specific focus on supporting Social Enterprise could further help reduce market failure such as the provision of public goods or internalising externalities. Furthermore, as the review team recommends an extension of the region (see recommendation 3.2.3), MEG could aim for a closer cooperation with the existing Regional Development Agencies.

The grant scheme. (EQ 1.4) On an operational level, the implementation of grant schemes, under the perspective of supporting good governance best practices, has been positive under the MEG project. On a conceptual level, the grant program needs to be considered under a relevance aspect. The country briefings showed that the major challenges for economic growth in BiH are connected to the labour market: economic emigration is accompanied by decreased popularity of traditional

occupations and further encouraged by low, sticky wages. The review team understood that, as a result, businesses struggle to hire staff for open positions. Within this context, the review team is under the impression that the quantitative focus of the grant scheme on employment-creation, in a context where there are severe labour shortages, could be less relevant. While this focus could help in moving informal jobs towards formal employment, and marginally affect unemployment, the feedback from businesses participating in the grant scheme has shown that sometimes the jobs created have been filled with insufficiently qualified personnel.

Similarly, on an abstract level, the review team would argue that the measure of success of the grant schemes could go beyond implementation, and be identified by the municipalities' capacity to effectively use grants as an instrument for overcoming identified obstacles for local economic development. The two problems mentioned by all municipalities are that people are lacking skills for, and interest in, traditional occupations, i.e. the qualitative side of employment-generation. The review team feels that tackling these obstacles might provide a better outcome in terms of LED, while still encouraging the collaboration between public, private and civil society actors for better governance. Overall, the Project seems to have contributed towards building the capacity of LGs to use incentive schemes as a development measure rather than an instrument for 'purchasing' social peace and/or pursuing political agendas, especially in terms of implementation. Focusing the grant scheme even more on challenges identified by Business Councils and local businesses could increase relevancy in the future.

Attracting outside funding. (EQ 5.4) The review found that one of the greatest impacts of the MEG support to LED departments was in regard to the ability to attract outside funding. On the one hand, there is a strong variance in the ability of municipalities to attract outside funding and convert it into effective grant projects. After analysing the field visit and key informant interviews, it became clear that this ability is a strong indicator for municipal management capacity, as this requires strategy as well as implementing skills:

	Fundraising	Designing Local Grant Schemes	Accountability to Donor
Beginner	Using MEG funds	Piloting grant scheme for the first time, continuation dependent on MEG support	No previous engagement
Inter-mediate	Acquisition of multiple funding sources	Previous sporadic use of grant schemes	Engagement with a small number of donors
Advanced	Acquisition of external funding sources as well as ability to provide grants from municipal budget	Strategic use of grant schemes	Established routine for accounting and billing, engagement with multiple donors at the same time

Two examples of success are provided by the municipality of Žepče and Gradiška. The visit to Žepče revealed that the municipality, together with the development agency, managed to pool financial resources from different sources to build their own grant schemes. Outside of MEG, the municipality is now also developing a mentor/business coaching program to complement the financial support with skills and learning. As was the case in Žepče, the review team found that in most cases, the effectiveness of local development agencies, who often support municipalities in this matter, also plays a significant role. Similar to the role the mayor's attitude and commitment in the effectiveness of the local administration, the attitude and commitment of the head of the local development agencies seems to strongly influence and determine the effectiveness of the local development agency.

Gradiška provides a different success story. The municipality received a considerable investment jointly by SECO and KfW for the construction of a waste water treatment plant as a direct outcome of the MEG project. In general, development partners (e.g. KfW, WB) mentioned in key

informant interviews, that they view MEG participation as a strong indicator for municipal capacities and thereby take it into consideration in their investment decisions. The review team concludes that – in successful municipalities – the value-added of the MEG project is in clearly identifying and consolidating best practices, thereby providing (a) the capacity to independently develop local LED activities, and (b) a springboard for securing additional and much more substantial financial assistance.

Outcome 3: Improved regulatory framework at higher and local government levels and proactive networking accelerate sector-specific reforms and enable more effective local public service delivery

The **document review** of the OMS document showed that only one indicator – oversight of LGs in the environmental sector – has been increased with the introduction and signing of PSAs between administrations and water utility companies. None of the other indicators for Component 3 of the MEG project show any progress – neither compared to the baseline, nor to the Mid-Term Review 2018 results. Similarly, the overview of progress in regulatory change under the MEG Project (Annex VII) created by the review team also shows that, even where some technical assistance was provided, no tangible progress has been achieved. The implementation of the legislation promoted by the Project (and outlined in the advocacy strategy) has therefore been stagnated. (EQ 5.3) Facilitating and implementing legislative change is difficult, however, feedback provided by key stakeholders active in lobbying for regulatory change stated that the Project team can expect to initiate meaningful progress within three years.

During the **field visit**, the review team searched for explanations for the lack of progress regarding changes to legal frameworks on cantonal or entity level through conversations with key members of the UNDP implementation team¹¹. From the answers, the review team understands that, due to the highly interest- (rather than process-) driven political environment and the delay in the formation of the FBiH government, the MEG project staff seems to view efforts and resources spent on institutionalisation as ineffective, and regard the likelihood of future progress as low. Based on this perception, it is likely that the implementation team – maybe implicitly – focused their efforts on the areas where progress is most likely to be achieved, i.e. the environmental sector. As a result, considerably less effort seems to have been applied in the push for regulatory reforms. In addition, delays have been intensified post-election.

In contrast to the status of implementation and the perception of the implementation team, in interviews with staff from the Swiss Embassy it was confirmed that systemic change is prioritized over immediate benefits. Therefore, while SDC was actively promoting efforts and persistence with activities aimed at sector-specific reforms – a focus on long-term, systemic change and sustainability – the project team's focus may be on tangible outcomes in Component 1 and 2 – fulfilment of indicators and immediate benefits to LGs and citizens. The review team sees a risk in meeting the targets in Outcome 3, as considerable progress must be achieved in the last year of Phase 1 of the Project.

Thematic networks. In terms of supporting thematic networks the achievements are mixed. The desk review showed that the establishment of the LED Practitioners network is celebrated as a success of the MEG project. So far, 21 out of the target of 58 municipalities have joined the network. Considerations to lower the target number for 2020 were mentioned in the OMS document. It is too early to clearly evaluate the impact of this network, as further support and development is needed to fully establish an independent, functioning network. This might be the reason that participation in, or benefits of, the network were not mentioned in conversations with key informants of LED departments in visited municipalities.

¹¹ Meeting with UNDP MEG staff, 02/07/2019

When it comes to the collaboration with existing networks, specifically the Aquasan network for water professionals, progress has been limited. Project documents frequently state that a joined conference is planned, and that work is stalled due to the limited capacities of the network. However, interviews with Aquasan showed that it may not be in Aquasan's interest to have their role diminished in the organisation of the conference with limited say in its conceptualisation. There is room for better collaboration in the future course of the Project.

Efficient use of resources. (EQ 3.1) After conducting the above analysis and benchmarking the results across the municipalities, the review team concluded that there was currently no evidence pointing towards the inefficient use of project's resources to achieve the planned results. However, the parallels between smaller investment into Outcome 3 and the imbalance of achieved results should be further elaborated and the option discussed if more resources in this Project area could contribute towards achieving the targets for 2020.

Gender Inequality and Social Exclusion (EQ 2.6 & 2.7)

The desire to address and include gender and social inclusion issues within the MEG project design and implementation is clearly visible. As far as project implementation goes, the **document review** highlights efforts outlined in the project documents. At the same time, progress reports so far point out that there remains a strong need to further push gender mainstreaming efforts within administrative structures and processes. During the **field visits**, interviews with municipal staff about gender equality confirmed that this issue receives attention. The effort of administrations to have at least one female staff member present at key informant interviews was also observable. The project documents also show that the Project ticks the 'standard' gender mainstreaming boxes, such as devising a strategy, providing training and disaggregating indicators according to gender. In the economic sector, local governments are supported to open traditionally one-gender dominated industries to non-traditional gender, and specifically provide entrepreneurship grants to businesses owned/managed by women and/or that are hiring women. Furthermore, offering an income-sensitive rate structure for water services within the tariff methodology is an effective tool to meet the needs of excluded categories in terms of access to clean water. These aspects of the MEG project do promote gender equality and social inclusion.

This evidence does not imply that root causes of gender inequality and social exclusion are thoroughly addressed in the project design and implementation. However, it depends on the understanding of the root causes. Background research on gender inequality and social exclusion (see Annex) shows that the issue of gender inequality is broader than the scope of MEG – and may need a change of mindset on multiple layers of society. Hence, and having the already complex nature of the Project in mind, tackling the root causes might be difficult to achieve within the MEG project, especially in the First Phase. While that doesn't mean that these issues should be neglected, expectations of impacts and results in these fields might need to be adjusted. It needs to be analysed what is realistically possible within the time frame and capacities of the Project. Some potential may lie in small-scale, innovative and exciting initiatives to push gender equality measures within local governments and excite project partners with these topics.

2.2.2. Project Design and Implementation

Theory of Change & Complexity (EQ 1.1 & 2.2)

Impact Logic. On the impact level, the project logic includes the assumption that good governance best practices developed and implemented in the environmental and economic sector will have spill-over effects on the working of the administration in other departments as well, thereby improving the performance of the entire municipal administration. The feedback provided by municipal staff hinted

on improvements regarding inter-departmental communication and team work. First indications, such as the feedback that the positive impact and effects of better processes and procedures have been recognised by municipal staff, and the shift of mindset of LGs defining their incentives as development measures rather than “buying social peace”¹², suggest that a change in behaviour could be under way. (EQ 2.4) However, specific examples of spill-over effects could neither be provided, nor been observed by the review team. While the project is indeed viewed by participants as a good governance project, it seems to be limited to the sectors of the environment and economy. Nonetheless, the evidence suggests that the objectives and theory of change of the MEG project are still relevant.

Bottom-up Approach of Governance Reform. (EQ 4.3) Even if a cross-sectoral reform process towards better local governance has not yet been facilitated by the MEG project, the entry points of environmental and economic sector have served the project well. Municipalities hold a high degree of competency in the area of water supply and local economic development, and can thereby exercise some control over the administrative processes in these areas. Progress in Outcome 1 and 2 shows that the adoption rate of these small, incremental changes has indeed been high in most participating municipalities. As discussed above, another entry point is provided by solid waste management – this could be included in Output 2.1.¹³

Multi-stakeholder Approach. (EQ 2.2) The inclusion of all stakeholders in the Project and the change process was repeatedly praised by all project participants and stakeholders, even though it increased project complexity. It was frequently mentioned that Municipal Councils are often not targeted by donor projects, even though they are central to political process on the level of the municipality. This aspect was highlighted as unique to MEG. However, including Municipal Councils also imposed additional implementation challenges. Accounts of conflict and frustration in working with Municipal Councils was voiced by many MEG project staff.

The role of AMCs in MEG. Conceptually, AMCs are the focal point of Local Governance projects, where their role is generally focusing on influencing the legal and policy framework. This is true also for the MZ project, ILDP, and MEG. As the representative agency of municipalities and cities in front of higher-level government they are holding, in theory, a key position in terms of representing municipal interest, pushing political change and reforms from the bottom-up, and providing a platform for MEG to institutionalise good governance best practices for sustainability. However, based on evidence collected from the document review and key informant interviews, the review team came to the conclusion that the collaboration with AMCs to facilitate regulatory changes is currently very limited within the MEG Project. This would contribute to explaining why progress in this outcome area has been slow. A first indication supporting this perception is the role of AMCs within MEG: AMCs assumed an oversight role in the Steering Committee, while technical support was provided on-demand.

In the interview with the AMC of FBiH, three touch points between the MEG project and the AMC were mentioned: support in the analysis and consolidation of the Income Tax Law, suggestions for improvements on the Law on Concessions, as well as technical assistance in the form of a public finance officer support. Furthermore, the interviewee mentioned that “going-up” (i.e. actively collaborating in lobbying for legislative change) has not been discussed within the MEG project. Similarly, the interviewee was not aware at all of the Good Local Governance framework devised within the MEG project. Three collaborations with each AMC over the First Phase seems little in relation to the role prescribed to AMCs.

¹² 2018 Semi-Annual Progress Report, p. 11

¹³ Local governments, through institutionalized partnerships with their utilities and based on oversight by Municipal Councils and the citizens, secure sustainability of service delivery, with focus on the water sector.

At the same time, feedback from municipal staff led to the assumption that the power of AMC is seen as very limited. For example, with regard to the challenges of municipalities to implement incomplete regulatory framework (the issue of missing or inadequate by-laws was raised multiple times), the review team tried to better understand whether AMCs could contribute to making progress on the regulatory front. Most interviewees did not give clear a perspective. However, in interviews in V. Kladuša, municipal staff considered AMC support of little value, and expressed little faith in the representative power of the organisation. In addition, the interview with a representative of the RS AMC actually gave the impression that the AMC perceives their role as representing the interest of the entity government, rather than that of municipalities. These examples show that (a) AMCs as key actors for local governance have not been a vital part of the MEG project, and (b) the limitations to the power of AMCs. Part of the stagnation in progress for Outcome 3 could possibly be attributed to these factors.

As to the future, both AMCs mentioned that they envision a more operational role in the next phase of the MEG project. The current project structure suggests that AMCs are holding a conceptual and oversight role in order to ensure the embeddedness of the MEG project in the local structures and provide a focal point of all SDC Local Governance projects. While this is a valuable role, including AMCs as an operational agent in the MEG project would move coherence from an abstract to an implementation level.

Contribution to the Sustainable Development Goals (SDGs). (EQ 1.5) The MEG project has contributed towards the SDGs. The review team only took into consideration the indicators relevant to the Theory of Change of the MEG project, as not all areas of the SDGs could be possibly addressed by the Project. The indicators used for reference are attached in Annex V.

The previous analysis of achievements suggests that progress has been made in regard to SDG 6 (Clean Water and Sanitation). The successful work with utility companies and municipalities increased the number of people using safely managed drinking water, and increased the proportion of local administrations with established policies and procedures for participation, at least in the area of water supply.

Regarding SDG 10 (Reduced Inequalities), the MEG project has created a moderate contribution. The inclusion of considerations of lower income water users in the tariff methodology has made safe access to water more affordable and thereby more equal. Having to pay less for a basic service can also help low income household increase their disposable income, which directly connects to the indicator regarding the growth of household expenditure. Similarly, the jobs created under the employment-generating grant scheme can directly increase the labour share of GDP as informal employment is converted into formal, and previously unemployed are participating in the labour market.

Both, **document analysis** as well as **key informant interviews** showed that little contribution has been made in the MEG project toward SDG 11 (Sustainable Cities and Communities). One relevant indicator concerns solid waste management, which has not been dealt with in the first Phase of the project. An opportunity has been identified and mentioned, however, in the Annual Workplan 2019. At the time of the review no account of the proposed activity was provided. Another area of limited progress is the indicator concerning the *'proportion of population living in cities that implement urban and regional development plans integrating population projections and resource needs, by size of city'*. As mentioned before, municipal administrations are highly aware of the emigration issue, but have not developed strategies to deal with it as an administration outside of 'business as usual'.

Finally, SDG 16 (Peace, Justice and Strong Institutions) includes the highest number of relevant indicators corresponding to the Project's Theory of Change. Primary government expenditure as a proportion

of originally approved budget by sector is included as a KPI in the performance-based financing methodology of the MEG project – at least on municipal level. As most municipalities performed well in this regard, it can be concluded that the Project has made a great contribution towards this indicator. In terms of inclusive service provision (i.e. population satisfied with their last experience of public services; population who believes decision-making is inclusive and responsive) moderate progress has been made. Channels for communication between municipalities and citizens/businesses have been further developed under MEG (Business Councils, Citizen Hours, Online Tool). Feedback provided by grantees and workshop participants was exclusively positive in visited municipalities. Similarly, the results of the citizen survey show that the level of unsatisfaction is decreasing. However, the fact that the channels of communications are reported to be barely used, especially by citizens due to political frustration, limits the extent to which municipal services can be/are responsive. Some of the activities of the Project aim at solving the lack of engagement (i.e. through printing Budgets for Citizens, facilitating the work of Citizen Participation Groups with LGs, etc.).

Project Complexity. (EQ 2.2) The MEG project engages on different levels of governance in two complex sectors. As a result, resources are stretched across a variety of agents and activities. It could be argued that a stronger focus (stakeholder or theme) provides greater impact in the long run. However, the at the core of the MEG project is the behavioural change within municipal administration towards democratic governance and effective service provision. As this is a complex goal, multiple entry points and agents are needed to effectuate changes towards it. The analysis above also shows that including multiple stakeholders and sectors has proven to be beneficial. Therefore, while the project complexity poses operational challenges on the level of project management, multiple sectoral entry points and the engagement of different levels of stakeholders is seen to achieve better results in achieving the project objective.

Regional Scope (EQ 1.3)

The two regional clusters included in the MEG project are, generally speaking, the focus areas of most international cooperation activities in BiH. In some locations, up to four international donors are actively providing support in the areas of economic development, democratisation, infrastructure, and environmental management. As a result, some municipalities in the focus areas experience stretched capacities leading to lower absorption of good governance best practices, while the remaining regions outside of the focus area are poorly supported.

This oversaturation could affect the overall impact of the Project, as participating municipalities are stretched too thin in their obligation and adoption capacity. The last two progress reports, as well as the internal Mid-Term Report¹⁴ point towards this challenge when Local Governments are involved in multiple donor projects. Similarly, a key informant disclosed that some municipalities working with other donors, who are providing significantly greater financial resources, are in no need of the MEG funds and thereby less inclined to follow the recommendations of the Project. These municipalities have been identified within the MEG project as ‘champions’. While they are crucial to the progress and overall success of the project, it could be possible that their status may have given them special status.

The selection of the First Phase could be viewed as biased towards including already well-performing municipalities. This is manifested in two processes (a) the pre-selection of 31 municipalities by SDC, and (b) the nature of the selection criteria, specifically the co-financing ability. While this practice creates the best possible set-up for the achievement of set indicators and goals within MEG, it also has the potential to further increase the already existent disparities between municipalities in BiH.

¹⁴ MEG 2018 Semi Annual Progress Report, p. 16; MEG 2017 Semi Annual Progress Report, p. 15, MEG Mid-Term Review Report, 2018, p. 13

The project concept tried to address this issue of disparities by including support to weaker municipalities at a later stage. The logic follows the path of creating champions of development in the first stage, which less developed municipalities can follow and catch-up to in the long run. However, the identified ‘champions’ have often already been well-performers before their participation in the MEG project. The municipalities of Tešanj, Teslić and Žepče entered the project as ‘stars’¹⁵ and are continuously leading the field when it comes to performance reviews (see March 2018 Independent Evaluation)¹⁶, even if they have to increasingly put effort into achieving the agreed on KPIs to receive co-financing. As such, the First Phase of MEG could be viewed as benefitting the already successful municipalities.

As these ‘star’ municipalities are introducing changes by themselves and enjoy additional support by various international donors, the added value of MEG is arguably relatively small. However, in municipalities who are struggling on their own, and receive less support from the international community, the potential for MEG to achieve major impacts in the long run is considerably greater. The way forward would depend on the vision for MEG – supporting already successful municipalities promises better results and possibly more tangible impact for each input, while supporting less successful municipalities will show less results initially but might be necessary to avoid disparities between municipalities in the long run.

As SDC mentioned that the second option is of greater interest, a central question for Phase Two emerges around how to leverage the learning from this phase and apply it to less-developed municipalities to ensure that long-term, the disparities are closing. While the current design of the project foresees efforts towards closing the gap, actionable steps are now needed to ensure the ‘catching-up’ process.

One of these steps evolves around the involvement of additional municipalities. (see Recommendation 3.2.3) According to results from key informant interviews, the Southern and South Eastern regions of BiH (including Herzegovina) have received only little attention by international donor support. Justifications include the poor state of development, and lack of political will. However, the development partners active in these regions report great results and have confirmed sufficient cooperation and political will by local governments in these municipalities.

This step could also benefit Outcome 3 of the Project, as the involvement of more municipalities strengthens both Local Governments as well as the Associations of Municipalities and Cities, thereby creating more bottom-up pressure for reforms. The review team, therefore, is of the opinion that including the previously neglected areas provides an opportunity to (a) decrease disparities between regions, (b) offers great potential for impact and progress of MEG in the long run, and (c) creates more leverage at higher levels of government.

Selection Process and Criteria (EQ 1.3)

For the First Phase, an elaborate system of selection criteria was devised throughout a 5-month scoping phase. This system has provided a good starting point for selecting municipalities for the MEG project. There are three selection criteria to comment on specifically: administrative performance, political will, and co-financing.

Administrative Performance. Good Governance is set as the core objective of the MEG Project.¹⁷ An effective and efficient administration is identified as a key outcome for achieving this goal. The selection criteria, however, only include Environmental Governance Performance, Economic Governance Performance, and Commitment and Motivation. While this reflects the MEG approach of sectoral good governance, it does not address the core issue of administrative organisation. Key

¹⁵ MEG, 2016, Methodology for performance-based financial support to partner local governments, p. 12-17

¹⁶ The Review Team received Documents with the title ‘SDC Visit to ‘Name of Municipality’ for Prijedor, Prnjavor, Tešanj, Teslić, and Žepče.

¹⁷ MEG, 2016, Project Document, Phase I: 4 years (2016-2020), p. 13

informant interviews highlighted over-employment as a common issue across municipalities – not just in the Public Companies, but in the administrations themselves. One interviewee even mentioned his impression that over-employment is the reason for the financial challenges his administration is facing. Including a selection criterion for administrative performance would offer the opportunity to address this challenge, and also plays towards the core objective of the MEG project.

Political Will. The First Phase has clearly shown that commitment and motivation to implement political changes is a key determinant of success of the MEG project. Key informants pointed out that only when key decisionmakers are open for change, and willing to introduce reform processes, are the activities and interventions of the MEG project fruitful. In the current selection process political will is, besides two other indicators, measured as ‘Local governments’ interest and responsiveness based on previous direct experience [with UNDP] and during the Project Preparatory Phase.’¹⁸ Political will is difficult to measure, and the current method might not correctly reflect actual political will. The current methodology, for example, could disadvantage municipalities that have not previously worked with the UNDP.

Co-financing Ability. The willingness and ability of municipalities to provide co-financing for infrastructure and grant programs is currently set as a selection criterion to determine Commitment and Motivation (i.e. political will). However, this could potentially exclude municipalities with less financial means, even if the political will for change and ownership is present. Adjusting this criterion would provide a chance to make the selection process more inclusive. Commitment and motivation should still be strictly measured and evaluated. (see Recommendation 3.2.4)

Data availability is a great challenge to a smooth selection process. The First Phase of the MEG project was preceded by a 5-month scoping phase throughout which the MEG team developed the selection criteria and worked closely with the 31 pre-defined municipalities to collect the relevant data. Opening up the project scope to all municipalities in BiH, and changing the selection criteria at the same time, requires considerable data collection effort. Another scoping phase for the next stage of the MEG project would be necessary.

Modalities (EQ 3.3)

The Carrot and Stick Approach

The prospect of co-financing serves as a ‘carrot’, and has been introduced as a motivator for local governments to push reform and implement best practices developed within the MEG project. At the same time, failing to achieve progress in agreed on KPIs is seen as a ground for exclusion. Evidence collected in the field visit highlights that ‘the carrot’ has generally fulfilled its purpose, while ‘the stick’ is missing.

The carrot. Local administrative and water utility staff repeatedly mentioned how much they appreciate the funds provided by the MEG project, and how essential the infrastructure and grant investments are to the wellbeing of their communities. According to them, the financing aspect of the Project has provided a great incentive. Another noteworthy incentive mentioned is the element of competition introduced by the performance-based financing approach. In a workshop with MEG project staff from different municipalities, friendly competition emerged as a key driver for reform. Outperforming immediate contenders (municipalities at the same level of progress) seems to serve as a great motivator for change. The ‘carrot’ effect thereby is twofold: (1) the incentive of financial support in the form of co-financing, and (2) the incentive of out-performing other municipalities.

¹⁸ MEG, 2016, *Methodology and Report Outlining the Selection of Partner Local Governments*

The stick. A visit to the municipality of K. Dubica confirmed the findings of the document review¹⁹: the MEG Project team has not followed through with the consequences of ‘the stick’. Even though the municipality has failed to achieve the required KPIs and experiences budgetary challenges, it has not been excluded from the Project. Instead, ‘soft option’ was offered to the municipality. A similar situation seems to have developed at the other end of the spectrum. One interviewee illuminated that ‘star’ municipalities might have received special treatment where funds were disbursed even though KPIs were not achieved, simply because the municipality shows strong development overall.²⁰ In such instances, the MEG Project team is failing to enforce a credible ‘stick’.

Sustainability. Overall, the Carrot and Stick approach embedded in the performance-based financing model has overall been successful. Even though the financial contribution of the MEG project is small compared to other items of municipal budgets, together with the element of competition, it has served as an effective tool of motivation for change. Other development partners (i.e. CRS) have also reported successes with this modality. The question is, however, what happens once the project is concluded – is the ‘Carrot and Stick’ approach a sustainable solution for systemic change? There are a few aspects to discuss in this regard:

Aid-dependency is an important risk to consider. In interviews municipal staff mentioned multiple times that employment-generating grant schemes will only be implemented in the future if MEG-support is granted. In some municipalities, therefore, budgetary allocation towards such schemes has not increased. At the same time, other municipalities recorded that the positive experience with grant schemes under MEG has motivated them to continue the schemes post-Project even without external funding. Overall the available MEG funds might be too small to create real dependency, however, this is an important consideration to ensure the continuation of progress once the project concludes and best practices are no longer tied to financial support.

The capacity of beneficiaries to preserve progress and change processes post-MEG needs to be considered. Municipal staff and staff members of the public utility companies stated, that the MEG-induced learnings and improvements (processes, strategies) are anchored in the working of their administration and have been permanently adopted, especially since all involved stakeholders have witnessed the positive impact of these changes. At the same time, the following remarks were made regarding the sustainability of results:

- The implementation and continuation of good governance best practices are highly person-dependent (usually the mayor) and therefore prone to political instability and change
- Suggestion by the World Bank to institutionalize MEG as permanent regulatory body
- Outside influence is often needed to foster changes and reforms in BiH
- Observation by MEG staff that it is their presence that prevents regression back to pre-MEG levels

Based on these statements the review team concludes that the risk of loss of progress post-MEG is considerable, even though capacities are present. (EQ 5) Similar to success in achieving results within MEG, sustainability post-MEG is a question of political will. Institutionalisation in a way that good governance best practices are (almost) irrevocably anchored in the legislative (entity-level) and executive (municipal level) structures is therefore necessary to ensure the sustainability of the MEG achievements. As pointed out previously, progress in the adoption of the GLG framework as well as progress in Outcome 3 remains limited, thereby threatening sustainability in Phase 2 – especially if the scope of the project is extended and not all of the municipalities from Phase 1 are included in the Second Phase.

¹⁹ See discussions in the minutes of the 4th and 4th Meeting of the Project Board

²⁰ Verification/triangulation of this statement is recommended, as this was outside of the scope of the current review.

M&E function. (EQ 3.2) The results of the document review and key informant interviews point towards a very thorough, regularly applied, and complex M&E system that tracks Project results at the output and outcome level. Especially the independent reviews as a basis for co-financing seem to be an important building block of the project modalities. In the next step the review team would recommend to make use of the collected data to further develop the project structure, modalities and focus in Phase 2 and 3 and better understand what works and what doesn't.

The Flow of Funds

The funds available for investment were transferred from the Swiss Embassy to UNDP. UNDP then was in charge of dispensing the funds to the municipalities as 'on-budget'. This was done based on the Harmonized Approach to Cash Transfers (HACT). Interviews highlighted that the most common mechanism applied was the reimbursement of municipalities for their expenses.

This means that the co-financing was not directly implemented as on-budget support. This is justified by the small amount of co-financing provided by MEG. It seems that municipalities received information on potential co-financing that was then included in municipal budgets. LGs thereby received an indication but were not transferred the funds directly after the budgeting process but rather upon evidence of receipts. Therefore, local systems are only partially used to implement and manage the performance-based financing mechanism of the MEG project.

There are several explanations for such an approach. On the one hand, budget support – as one core element of the use of country system – is the preferred modality by SDC, and therefore, a developmental policy decision. On the other hand, albeit the policy decision is taken by SDC, it is the service provider that is in charge of implementation. Thereby, the implementing service provider (i.e. UNDP) must concentrate on combating and eliminating fiduciary risks while putting less emphasis on strengthening municipal planning and budget management. As a result, the implemented is less willing to take risks than the commissioning party's policy prescribes.

Ideally, 'on budget' support to municipalities would include the transfer of funds to municipalities in accordance with BiH budget procedures. This means that the funds would be included in municipal planning and budgeting procedures, audited by the relevant authorities, and reporting thus based on annual budget reports and statements of the municipality – without the supervision of UNDP. Although the funds provided by MEG are not likely to make up a substantial part of the municipal budget, currently the observed approach defeats the purpose of budget support, because it does not use the municipal systems to the full extent (i.e. difference between on-budget support and reimbursement).

The Grant Scheme (EQ 1.4)

The purpose of the grant scheme is understood as two-fold: (1) a channel for public-private dialogue, and (2) an instrument for overcoming obstacles to local economic development.

The relevance of the grant scheme for public-private dialogue was found to be present but limited. In municipalities where such grant schemes did not exist beforehand, the experience was viewed as positive and worth continuing in the future, dependent on the availability of municipal budgets post-MEG. However, many municipalities stated that they already had grant schemes in place before participating in the MEG project. In these cases, an added value frequently mentioned by staff was the improvement of administrative processes, including the streamlining of documentation and monitoring of project and results. However, there was no evidence that suggested additional communication between businesses and municipalities. Most grantees reported that they were not part of Business Councils, nor mentioned any mechanism for communication with their municipality beyond the release of funds and subsequent reporting, reducing the process to a matter of

transactions. As a result, there was only limited evidence that the use of grant scheme transitioned from a quantitative approach (fund disbursement) to a more qualitative approach (public-private dialogue).

In line with the aforementioned observations, limited relevance of the grant scheme for overcoming obstacles to local economic development was observed (also outlined in the discussion before under Outcome 2). Grant beneficiaries did give consistently positive feedback, mentioning that the co-financed grants were easier, faster, and less-expensive to apply for compared to other public calls, the targeting of the fund seemed less precise. According to one grantee, equipment was purchased even before the application for the grant. In another case, a grantee mentioned that the financial support was used to hire staff even though it did not possess the necessary skills for the role. Therefore, the implementation of the grant scheme seems to help LGs build capacities to provide economic incentives. In the next Phase, capacities in identifying and targeting specific business challenges could be further build upon.

Infrastructure Investments

The choice of infrastructure investments to be addressed by MEG's co-financing modality was made by the municipalities. The strategic requirement set by the Project for Phase One was a focus on water supply. First efficiency challenges within this selection process could be observed. In one case, MEG funds were used to construct a local water grid, connecting a remote community of approximately 200 residents to a capturing area. This investment included the construction of two water capturing stations (pumping, filtering, etc.), as well as several kilometres of pipe work. The investment sum seemed high compared to the number of potential connections, especially when considering the increasing rate of emigration from rural areas into cities and abroad. Localized/decentralized solution could offer a more efficient and economical alternative while still ensuring access to safe drinking water.

Using local administrative systems, including the system for identifying priority investment projects, is the best option for long-term change, under the assumption that a cost-benefit analysis including social and economic factors serves as the basis for prioritization. At the same time, use of local administrative systems comes at a cost of less control and influence on the process. As such, small signs that the cost-benefit analyses of water supply infrastructure projects are highly influenced by political factor were observed during the field visit: (a) the Laws on Water state that municipalities are solely responsible for the quality of water, and (b) the 'water for all attitude' as a remnant from socialist Yugoslavia persist. These two considerations seem to motivate municipalities to opt for connecting all households to the public water system, even if it is not the most efficient and effective solution. As a result, decentralized solutions and more innovative approaches to water supply are often not explored.

The Fallacy of Functional Substitution – Balancing Distance and Embeddedness

A standard challenge for design and implementation of projects of international cooperation is to avoid, or at least limit, the extent to which the project assumes functions of local staff (functional substitution, "Ersatzvornahme"). Design and implementation need to address as closely as possible the needs of project partners, focusing on strengthening the capacities of partners, not assuming their functions and duties. The challenges in this regard for supporting processes and institutions in BiH is even bigger, because the complex political setting hampers functionality (and institutionalisation) of the statutory domestic administrative structures and processes – that creates ample room for functional substitution by any project.

In order to create results, the project needs to address both conceptually as well as in the implementation, the capacity deficits of project partners. This requires intimate knowledge of partner structures – a certain embeddedness is necessary. In this regard, the review team commends the individualized support provided by the Project to partner LGs. On the other hand, in order to avoid functional substitution, any project needs to maintain an arms-length distance to their partners.

The review team had the impression that the balance between embeddedness and distance needs a careful review in the case of MEG. Four observations drive this analysis: (a) Conceptually, MEG resembles an organisation that takes over functions that are usually assumed by government or public institutions (such as providing funding), (b) Interviews with beneficiaries gave the impression that MEG is perceived as an institution, (c) One interviewee of another international organisation suggested that MEG should be made permanent, as the Project were developing standards and oversight mechanisms and there was no other institution ready to implement these very important instruments, and (d) In a key informant interview a member of the MEG implementation team mentioned that previous experience shows that progress is lost once a project is concluded. The conclusion of this key informant suggested that on-going project support would be necessary to ensure sustainability of results. In the view of the review team, this approach would undermine sustainability efforts.

These observations, as eclectic as they might seem, hint to an issue, especially as they are quite unusual compared to other review situations in their boldness, and no contrary observation has been made.

Assuming Public Functions – imitating State Institutions. In more standard settings of international cooperation, existing public institutions are strengthened in their capacities to perform their duties. In a situation like in BiH, where public functions are less established and sometimes “fluid”, the external support combines advisory to existing institutions, but also filling functional gaps where operational or oversight institutions do not exist. Part of the uniqueness of MEG in its institutional environment comes from the fact that MEG as a project is aiming to fill gaps – developing standards, policies, oversight mechanisms. In a way, functional substitution is part of the DNA of MEG; examples include – but are not limited to – the oversight function for water utilities (potentially task of the water sector regulator), the PSA methodology (potentially task of a municipal oversight body), or the grant funding methodology (potentially task of a Finance Ministry). In part, mimicking public functions is part of the success of MEG, and the review team sees the necessity for this strategy. However, by nature, this project concept stands in the way of sustainability, and should therefore be accompanied by an exit strategy (i.e. how long does MEG assume public functions, and who takes over in the long run?).

Conflict of Interest (EQ 3.4)

The ‘Kalesija Case’ refers to the situation where the mayor of Kalesija applied for the MEG employment grant with his own company, thereby triggering a conflict of interest. The relevant MEG project team member stated that this situation arose out of the lack of applicants for the grant. It was further mentioned that since no funds were exchanged, the worst-case scenario was avoided. Since then, the Mayor has hired a lawyer to advise on his political and economic involvements and avoid such misunderstandings in the future. A positive side effect of this case lies in the fact that it was the Municipal Council who brought the conflict of interest to the attention of the administration. Even though the motivation of the council was judged to be of political nature by MEG team members, this is an example of exercising oversight by the MC. In order to deal with Conflict of Interest post-Kalesija, the MEG project team mentioned that additional trainings on anti-corruption and conflict of interest topics has been motioned for MCs. Trainings for mayors, in contrast, would not be fruitful. According to the judgement of the MEG team, no further actions are required.

Scaling up (EQ 5.5)

In order to scale up the results of MEG, a strategic choice needs to be taken. Currently, MEG is designed as a project tackling three – albeit linked – issues: Water Sector, LED, and Governance. Most progress has been made with very concrete instruments regarding water sector management. The impact, however, comes from combining the three issues. The strategic choice, therefore, is whether to concentrate MEG in the future on water supply and sanitation; in this case, a stronger cooperation with World Bank might bring the opportunity to scale up the instruments developed by MEG in this area. The main argument supporting this choice would be that, using World Bank’s implementation capacity and strong “convening power”, could ensure that these instruments are being used in the future. The main counterargument is that, in a standard water sector approach, MEG would probably lose its uniqueness and visible contribution to progress.

One strategic alternative consists in scaling up by concentrating in the future on handing over instruments and procedures to BiH institutions – strengthening municipal management, developing capacities of AMCs, working with ministries on their oversight capacities. In this case, MEG would concentrate on fulfilling the original strategy of learning from two sectors and transferring the lessons into permanent public practice. This would strengthen the focus on institutionalisation and governance. The main argument supporting this choice would be that this approach to scaling up would contribute to sustainably developing governance practice. The main counterargument is that progress may slow down, and the focus would shift from developing innovative instruments to “standard” local governance approach with all its challenges.

A third plausible strategic option is to scale up the impact by spreading the MEG methodology both, regionally as well as content-wise: Use the MEG methodology and instruments to accelerate progress in less developed municipalities, develop a climate in which municipalities work together in a mentor-mentee relationship, and go beyond water to waste management. This option is preferred by the review team. The argument PRO is that the methodology is unique and can produce stronger impacts over time, especially as 3 years of implementation are a short time in relation to the complexity of the program. The main counterargument is that, in its broadness, the MEG project may not produce tangible and lasting results.

Synergies with other interventions (EQ 1.2 & 3.1)

As part of SDC’s portfolio, MEG’s transversal approach has the potential of synergies with a number of other projects (see Annex VI). The extent and approach to synergies varies between the components. Furthermore, occasionally the project concepts are closely linked, and it is not clear whether these projects provide for synergies or overlaps. However, as UNDP is the implementing agency for MEG and other projects, the review team assumes that potential overlaps are dealt with in implementation.

On the **governance aspects**, MEG is closely linked with ILDP (focus on harmonization of strategic planning between municipalities and cantonal/entity governments) and Strengthening AMCs. The three projects – MEG, ILDP, and AMC – bear the potential to sustainably strengthen the country’s institutions on the supply side of governance, while the MZ projects has the potential to support part of the demand for better service delivery (and may, therefore, contribute to activating citizen participation). While the review acknowledges the potential of MEG / AMC, the interface between the two projects was not fully clear to the review team, especially in regard to the request of AMCs for financing staff positions through MEG.²¹

Regarding **local economic development**, MEG can benefit from the experiences and approaches targeting youth unemployment (YEP, Market Makers). The most interesting potential synergies regarding LED, the review team finds, stem from the D4D project, linking diaspora interaction with

²¹ If this option is considered it should first be checked whether such a collaboration is already done within the Strengthening AMC project.

local labour markets. This is because, despite all the discussions about emigration, the review team has found interesting examples for remigration (in particular, the team of Sanski Most municipal management showcased the potential for remigration back to BiH).

Regarding the **environmental management** aspect, the Zenica wastewater treatment project offers a perspective for municipalities to “graduate” from MEG. Once a municipality is targeted by another major project, they should graduate from MEG, albeit staying on as ‘mentors’ for Communities of Practice and peer learning opportunities.

As the various aspects of **migration** have been identified as possibly the single most important challenge for all components of MEG, strengthening the migration portfolio through the proposed project on regional cooperation, together with MEG, the new project could target the consequences of migration for municipal management, and contribute to developing instruments for prospective management.

Given the changing donor landscape in Bosnia and Herzegovina, the review team found that synergies with **projects of other development partners** concentrate on World Bank (Water Sector), Sweden (Governance, possibly LED) and UNDP. Germany, as one of the other previously active development partners, has refocused support to BiH and reduced its sectoral scope.

The collaboration with **UNDP’s GoAL WaSH** project has been an excellent example for synergetic approaches in the past, especially in terms of building up financial independence of water utilities on the one hand, and in including a reduced tariff rate for the socially excluded on the other hand.

For future cooperation planning, SIDA may offer the possibility to collaborate in the implementation of MEG through Swedish co-funding, because the MEG plays well into SIDA’s core sectors for BiH, and also the close cooperation of Swedish Aid with UNDP in the country. A closer collaboration with World Bank could offer a synergetic approach in the water sector. It should be explored as to what extent a collaboration could lead to using MEG water service management approaches also outside MEG’s current regional scope. (EQ 5.5)

3. Recommendations

3.1 Recommendations for Phase II

3.1.1 Scaling of Innovations and Best Practices

This report has highlighted MEG’s ability to develop innovative processes, within a very specific institutional environment. The review has argued that MEG has been developing standards and instruments that have the potential to improve performance and direction. Examples for these instruments include the Performance-based Financing Methodology, the Performance Management System, the Annual Survey of Citizen Satisfaction, Performance Service Agreements and others.

Strengthening statutory users. One of the key limitations for scaling up the use of innovative products is in the weakness of statutory users – municipalities, regulatory bodies, ministries, other oversight institutions. This is why the review also recommends discussing with other development partners, e.g. Sweden, to make use of MEG’s products.

Sharing experiences regionally. In the area of LED, the performance criterion – planning and measuring effects of financial incentives for employment and businesses – is seen as an innovative instrument for measuring the quality of any LED program, not only in BiH. In this case, sharing the instrument (and the experiences made in its implementation) internationally, or at least regionally, could benefit other countries that find themselves in a similar situation. This could include

Montenegro, Albania or other countries. The same is true for the software solution for communication between municipalities and citizens as one important product of the governance work of MEG.

3.1.2 Issued-Centred Intergovernmental Bottom-up Approach (ICIBU)

The review team recommends that MEG puts more efforts into pursuing changes in the legal and regulatory framework. As a method, multi-stakeholder processes by building networks of decision-makers and practitioners provide a promising approach to, over time, create momentum for changing the legal and regulatory framework. Although results can be expected more over medium and long-term, the review team maintains that this is a promising approach to creating lasting changes, and, thus, sustainability of the MEG approach.

Exchange best practices with other development partners regarding initiating regulatory change.

The review team believes that the MEG team could benefit from knowledge exchange with other agents of change, such as Aquasan or CRS, who both have reported some progress in their processes to influence legal frameworks.

Make better use of local expertise. Aquasan has been active in the facilitation of legal changes in the water sector and reported to having currently (over the past 3 years) achieved considerable progress in the area of water supply, mostly through mobilising and facilitating multi-stakeholder processes. The review team suggest that there is a great opportunity for the MEG team to partner with Aquasan towards initiating change of the legal and regulatory framework.

3.1.3 Excite and inspire Gender Equality and Social Inclusion Initiatives

Organise smaller, focused initiatives that spark excitement. The background notes and observations from the field showed that gender roles may have reversed in post-Yugoslav times. Therefore, it will be beyond the scope of one single project to tackle the root causes of gender equality and social inclusion. However, MEG can contribute to developing examples for modern international approaches to gender equality, in a ‘needle pinch’ approach.

Learning from international experience in the area of gender equality and social inclusion can help re-ignite the spark and plays towards the need of ‘outside’ expertise in the BiH context. Examples can address exemplary municipal management techniques (e.g. gender budgeting), or support engagement with inspiring women business leaders (e.g., in discussion fora for LED events). A possible way of doing so may include partnering with Civil Society organisations from other countries and learning from the experience – this would also provide for an inspiring training for local governments.

The review team recommends blending new and inspirational management instruments of the Design Thinking school of thought with gender equality and social inclusion. This can contribute to giving the gender dimension an additional perception of “modernness”. As for management techniques, gender budgeting process (and department) of the city of Munich has attracted international attention in recent years and could serve as a showcase for BiH as well.

3.1.4 International Expertise in Implementation

Balancing embeddedness and distance. In order to manage the balance between having insider’s knowledge of the systems, and professional distance in the complex case of Bosnia and Herzegovina (see “balancing distance and embeddedness”), the review team recommends a blending of national staff and international staff in the implementation team.

The function of including international staff is to contribute an “outsider’s view” to the approach of long-term technical cooperation in the country. Together with national staff that is embedded in the country, a mixed team can – if well managed – contribute to managing MEG’s role as capacity development intervention rather than functional substitution. Even the team composition of this review is a case in the point of that blending approach.

The review team is of the opinion that an international organisation as UNDP is an excellent partner for setting up blended teams, managing team diversity and would also be in a position to make the team successful.

3.1.5 Linking LG and LED

Municipal business incubators. Given that LED in BiH has a strong focus on traditional industries, the review team recommends that MEG might want to pilot incubator approaches in selected municipalities. As the approaches are implemented broadly in Germany, Switzerland, GB and France, municipalities with an international exposure (e.g., Sanki Most) might be interesting pilot cases.

The objective would be to give innovative entrepreneurs space and time to make their ideas marketable. Additional support could consist in formal training (entrepreneurship, accounting etc.), but also facilitating group learning processes, e.g. through Design Thinking. The review team is of the opinion that this could add another layer of innovation to MEG.

3.1.6 Providing benefit to non-participating municipalities

Spread the experience. Based on MEG's objective of "local governments [...] have improved their democratic governance [...]", the team of MEG project might think of how to share experiences of MEG with non-participating municipalities. From the perspective of MEG, active participation of the selected municipalities is one of the key success factors – sharing with non-participating municipalities could be seen as reducing the incentive to participate. However, it is highly likely that the contrary is true – testing the innovations that have been developed for the exclusive use of participating municipalities with others might even improve their performance – and therefore, increase the success of MEG.

During the field visits, the review team has discussed with successful municipalities whether they would support less developed municipalities. Some of them did already, albeit on an ad hoc basis. The review team therefore recommends that MEG design a process where successful municipalities are supported in training other municipalities. A process model could lean towards "Communities of Practice".

3.2 Vision for Phase II and Phase III

3.2.1 Roles and Responsibilities: Recommendations for the Next Implementation Partner

On-Budget support: link policy with implementation. Given that on-budget support is one of SDC's most favoured modalities, and given that on-budget support implies administrative and fiduciary risks, it is recommendable that policy formulation and risk management be in one hand. MEG has been innovative in developing mechanisms that try to bridge the gap between a policy of on-budget support and the avoidance of the inherent risks by the implementing partner.

The review team acknowledges the fact that all stakeholders have been working on the solution, but the resulting compromise, as sophisticated as it is, has its conceptual flaws. These can be avoided if policy and implementation are both in the same hand.

The Continuation Question. As for the first phase, SDC has chosen UNDP as implementing partner. The review team is asked to present options for continuation. During the field visit, the review team has therefore discussed continuation options with various potential partners. The review team acknowledges that part of MEG's success comes from acting as if it were a public institution (setting standards, performing oversight functions, performing financial functions). It is with this background that the review team would prefer a continuation arrangement that is not based on implementation by private sector, because certain contractual arrangements would probably not be possible through a private sector institution.

As GIZ is withdrawing from the sector in BiH, the Swedish SIDA is the most important remaining bilateral donor in the sector. As international organisations, World Bank and UNDP are potential

partners. The review team recommends that Swiss Development discusses the potential to find common ground for jointly funding MEG's next phase with the Swedish embassy.

For implementation, the review team recommends rethinking the MEG approach in regard to reducing the bypassing of BiH statutory institutions and capacities. More specifically, statutory partners like the AMCs in regard to legislative framework, Regional Economic Development Agencies in regard to LED and the existing water sector network should play a stronger role, while the role of the implementing team may change to a more managing as compared to operational role.

Advisory to using scenario planning as management tool. In situations of high uncertainty, decision making needs to follow different procedures than in situations with considerable certainty. Scenario planning offers thinking in alternatives, and is regarded as an appropriate method for making decisions. Furthermore, a setting like MEG, in which decision makers are faced with similar situations, and have gained experience in collaborating, provides for an excellent environment to introduce participants to process innovation. The review team, therefore, recommends to MEG to introduce scenario planning, and, in case of success, to think further about creative methods of decision making.

3.2.2 The Vision: Resolute Accelerator Approach

Continue Sector Governance Approach. Starting from MEG's objective of strengthening democratic governance capacities of local governments, the review team commends SDC on the courage of implementing a rather complex governance intervention in a challenging environment. Despite all findings aimed at improving the current project, the review team has come to the conclusion that the path of an innovative sectoral governance approach should be continued. Thus, the ultimate success of MEG consists of improvement of BiH institutions with regard to local governance – the actors themselves (municipalities, cities, regional special purpose associations etc.), the regulators, oversight institutions as well as citizens, clients, companies, and cooperation partners. It is this vision that the review team would recommend maintaining: establishing long-term functioning public systems in BiH.

Future MEG: Local Governance Accelerator. In the First Phase, the biggest impacts were achieved in middle performing municipalities. Municipalities with the following characteristics seemed to perform the best under the MEG project:

- Political will to change the status quo
- Some advancements in good governance and strategic planning
- Limited foreign investment so that the incentive of the grants is still big enough

Participating municipalities ranked the lowest in the initial scoping phase also seem to have struggled the most to achieve the required performance indicators of the MEG project. On the other end of the spectrum, municipalities who are already doing very well and are engaged in multiple donor projects providing much larger financial assistance might lose the incentive for reform and thereby only marginally implement changes proposed under MEG.

Looking at the set-up of the project as well as the selection criteria, a similar picture emerges. In order to successfully be selected for participation, as well as to be able to implement the suggested changes, municipalities need basic good governance structures overall and in the focus sectors – such as a development strategy, progress towards the Business-Friendly Certificate, and progress in the sustainable management of their water utilities. At the same time, while the technical and financial assistance provided by MEG showed positive results in all municipalities, the most developed ones seemed to be well able and have the capacities to change and improve government practices independently.

The question is whether the MEG project should work with the same municipalities over 12 years, thereby increasing the likelihood of good governance best practices being anchored in these municipalities. In this scenario, the ‘catch-up’ process of weaker municipalities would be assumed as a spill-over effect, or supported through smaller side activities. The alternative option is that MEG works with different municipalities throughout the 12 years, offering municipalities that have established the basic structures for sector governance a springboard to being able to better accelerate and manage their own development post-MEG. Such an approach could be viewed as an ‘accelerator’. This is where the review team sees the greatest potential and impact for MEG, therefore recommending to view the MEG Project as an ‘accelerator’.

At the same time, there are benefits to continue working with some of the municipalities of the First Phase in terms of learning and the need to consolidate achieved results. A possible solution could be to continue working with half of the municipalities, where the top and bottom performers from the First Phase are not eligible for re-selection. The available spaces are then open for additional municipalities to apply for.

3.2.3 Country-Wide Approach

Open up MEG to all municipalities in BiH. Opening the reach of MEG country-wide will unlock development potential in other areas, not previously engaged by SDC, leading to greater overall impact. The accelerator approach – including maybe shorter periods of participation with each municipality – and working more through BiH institutions, like the REDAH, may lead to slower progress, albeit increased sustainability.

Start the selection process with an application. A sufficiently elaborate application process could serve as the first screening criteria for the commitment and willingness of municipalities. Training and support might need to be provided to help Local Governments understand the requirements of the application and collect the necessary data to measure the selection criteria.

Prepare for the phase II of MEG – starting as soon as possible. Opening up the application process to all municipalities and adjusting the criteria to include municipalities with less financial means leads to not just more, but also a greater variety of municipalities able to apply and participate in the MEG project. As a result, another phase of data collection and assessment is necessary, similar to the 5-month Preparatory Phase for MEG phase I. This data collection and assessment phase should start as soon as the application process is completed, a short-listed selection of interested municipalities has been compiled, and the exact selection criteria for Phase II have been decided. In order for the application and preparatory process to be completed in accordance with the commencement of Phase II, it is recommended to start the scoping phase immediately.

Design and implement light support (Phasing-Out) for municipalities not re-selected in Phase II. Based on the risk of post-MEG loss of progress, the review team recommends ensuring a slow phasing out of good governance support to Phase I municipalities, focusing on securing the sustainability on achieved impacts.

If the client decides to follow the before outlined recommendations, it is likely that two types of municipalities are phased out in 2020: overly well performing municipalities, and overly bad performing municipalities. Two slightly varying phasing out phases could be designed for the leavers.

The municipality of Dubica serves as a ‘testing ground’ and example for a soft option of phasing out bad performers. While the financing option is not available to the municipality anymore, on-demand technical support and regular check-ins could help sustain achieved progress. This soft option could be refined and rolled out for other municipalities not being re-selected in Phase II.

Leverage experience of best performers. Learnings and expertise of best performers should be leveraged in the second phase of the Project, even though they should not be selected as direct beneficiaries. A phasing-out approach for these municipalities could be organised in the form of a graduation to ‘mentors’ within a peer-to-peer training system. While ‘mentoring’ might cause political discontent, a peer-to-peer support program where well-performers act as buddies for less-well performers could foster inter-municipal cooperation. Within this buddy system, well-performing municipalities provide support and assistance to less well-performing municipalities that have newly entered the MEG project.

The review team envisions two possible financial incentive schemes to ensure the effectiveness and sustainability of the peer-to-peer learning:

- Financial support could be offered to mentors (previously well-performing municipalities under MEG) linked to the performance and progress of their buddies. This would also play into the incentive of friendly competition.
- Best-performers could be hired by MEG to organise workshops, learning events, and trainings – and being reimbursed for their services.

3.2.4 Amendments to the Selection Criteria

Amend the measurement of political will. A sufficiently elaborate application process for participation in the MEG project could serve as the first screening criteria for the commitment and willingness of municipalities to introduce good governance best practices. In addition to the previous selection criteria, this application process could include a section where municipalities have to provide a statement/ argument, why they want to participate and how they would introduce difficult political changes. This should be coupled with an adjusted co-financing criterion discussed below.

The selection criteria measuring responsiveness, however, might not be re-applied, as it creates disadvantages for municipalities previously not engaged in UNDP implemented projects. During the next scoping phase, the implementing partner, however, should be encouraged to collaborate with other donors who have expanded into the Southern areas of BiH (e.g. CRS) to collect background information on commitment and motivation. Such a collaboration could furthermore open up potential synergies and linkages between projects and donors.

Include a criterion for measuring administrative performance/capacity of local government. The review team understands that the RS law on self-governance sets a maximum number of municipal staff per inhabitants. The review team also found that almost no municipality complies with this ratio. The review team believes that this presents a suitable selection criterion for measuring administrative performance in both entities. However, the review team also suggests to provide an implementation period where municipalities have the change to restructure their departments in order to meet the requirements of this criteria. Otherwise, the ‘closeness’ to the figure required to the law could be used as an indicator.

Amend the co-financing criteria. In order to open up the selection process to less developed municipalities (who are still able and willing to implement best practices and reforms), amending the co-financing criteria is necessary. One option could be to stagger the percentage of the required co-financing according to the availability of municipal budget per inhabitant.

3.2.5 Include Waste Management Sector as Sectoral Focus Area

Leverage successful water advisory. Given the positive feedback and considerable progress made in MEG’s water sector related interventions, the innovations and activities in this area should continue and be deepened in re-selected Phase One municipalities, and be expanded to newly joining municipalities.

Waste management. Given the fact that waste management is increasingly perceived as a problem, and that municipalities have started devoting attention to waste management, the review team recommends that MEG engages in this sector. As the sector of solid waste management includes a “production chain” comprised of several steps (collection, separation, transport, incineration, deposition etc.), the entry should be carefully planned, counting on ongoing initiatives of municipalities that explore potential to partner among themselves.

A carefully prepared phased and prioritised implementation scheme addressing the prevailing problems in the field of solid waste management should be the basis for future development, following the EU principle of “Polluter pays”, as incorporated in the BiH legislation.

Sectoral scoping phase. Given the complexity of the sector, and the fact that no interview partner could identify a donor currently working on waste, the entry may be designed as a piloting phase, addressing selected issues like inter-municipal cooperation in waste deposit, exploring the demand of municipalities to engage in waste management and designed as a scoping phase of 3-4 years.

Staff competencies. Improving staff competencies and operational efficiency of utilities is important for the next phase. The lack of qualified staff in water and wastewater utilities is problematic and improvement in this regard is vital for comprehensive efficiency improvements in the water sector.

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Annexes

Annex I: Overview Assignment Objectives

General Objective	Document and analyse progress to date and provide recommendations for the end of Phase 1, the formulation of Phase 2, and the vision of Phase 3
Specific Objective	<p><i>Implementation of Phase 1:</i></p> <ul style="list-style-type: none"> Assessment project performance according to the OECD-DAC criteria, Relevance, Effectiveness, Efficiency, Impact, Sustainability (see evaluation matrix below) <p><i>Formulation of Phase 2:</i></p> <ul style="list-style-type: none"> Innovations and Best Practices Prospects for scaling and replication Non-performing project components Necessary adjustments to address ethics, anti-corruption and conflict of interest in the project Potential for strengthening gender equality and social inclusion Opportunities for better linkages between local governance and local economic development Potential of private sector engagement Spill-over Effects <p><i>Formulation Phase 2 & Vision of Phase 3:</i></p> <ul style="list-style-type: none"> Theory of change Focus and main components Linkages and synergies with other components of SDC in BiH Implementation modalities Geographic area Selection of partner municipalities Selection of partners at the meso-level Role of Associations of Municipalities Implementation partner, structures roles
Outputs	<ul style="list-style-type: none"> Inception Paper Draft Report Review Report
Target Audience	Project staff, Embassy of Switzerland in Sarajevo

Annex II: Review Methodology

Purpose and Objectives

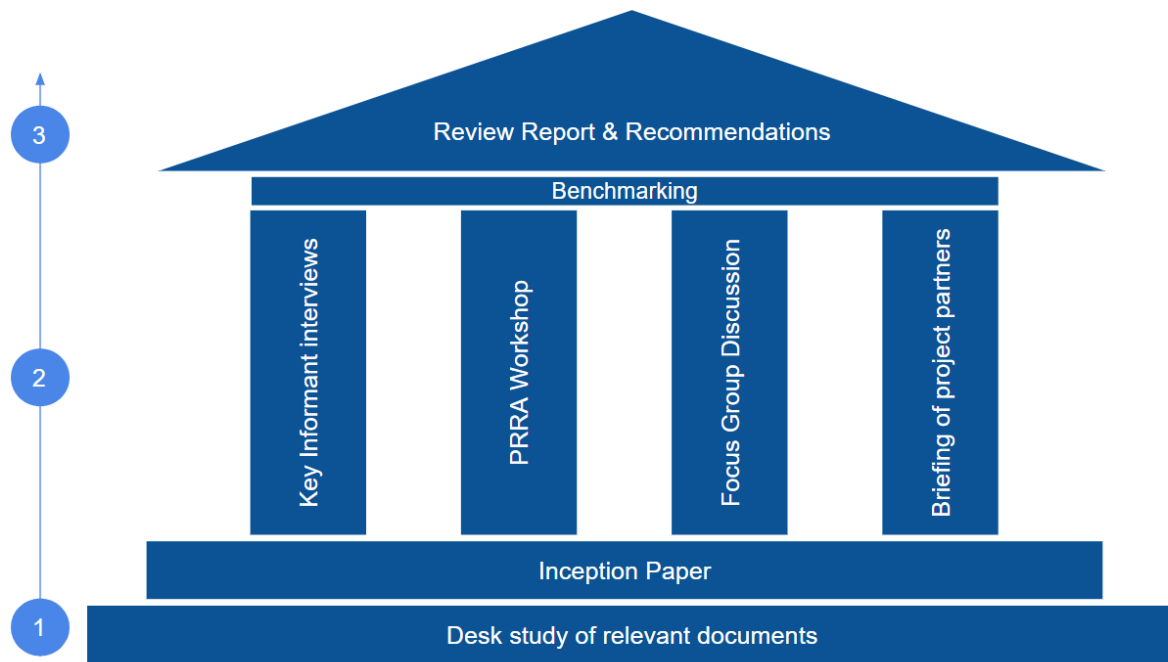
The purpose of the review is to provide an in-depth assessment of the project which in turn informs the implementation of the last year of Phase 2, the formulation of Phase 2, and the vision of Phase 3.

Specifically, the objectives of the evaluation include the assessment of the project according to the OECD-DAC criteria and the provision of evidence-based recommendations regarding the theory of change, objectives, strategies, modalities and focus areas.

General Objective	Document and analyse progress to date and provide recommendations for the end of Phase 1, the formulation of Phase 2, and the vision of Phase 3 of the project
Specific Objective	<i>Implementation of Phase 1:</i> <ul style="list-style-type: none">• Assessment project performance according to the OECD-DAC criteria, Relevance, Effectiveness, Efficiency, Impact, Sustainability (see evaluation matrix below) <i>Formulation of Phase 2:</i> <ul style="list-style-type: none">• Innovations and Best Practices• Prospects for scaling and replication• Non-performing project components• Necessary adjustments to address ethics, anti-corruption and conflict of interest in the project• Potential for strengthening gender equality and social inclusion• Opportunities for better linkages between local governance and local economic development• Potential of private sector engagement• Spill-over Effects <i>Formulation Phase 2 & Vision of Phase 3:</i> <ul style="list-style-type: none">• Theory of change• Focus and main components• Linkages and synergies with other components of SDC in BiH• Implementation modalities• Geographic area• Selection of partner municipalities• Selection of partners at the meso-level• Role of Associations of Municipalities• Implementation partner, structures roles
Outputs	<ul style="list-style-type: none">• Inception Paper• Draft Report• Review Report
Target Audience	Project staff, Embassy of Switzerland in Sarajevo

Evaluation process

The WINS three-step evaluation methodology has been specifically developed to assess the relevance, effectiveness, efficiency, impact and sustainability (OECD/DAC Criteria) of good governance projects.



Step 1: Inception Phase

In the inception phase, the evaluation team (international and national consultants) focus on reviewing relevant project documents to ensure a broad understanding of the context, the project itself, and the TORs. As a result, the team is able to comment on which evaluation questions (EQs) can be answered, define the limits and challenges of the evaluation, and determine the final selection of field visits. In the end, the exact methodology will be defined.

The output of the inception phase is the inception paper, which will be shared with the UNDP and Embassy of Switzerland in Sarajevo. After the debriefing, feedback and suggestions are taken on board.

Step 2: Inquiry Phase

Building on the desk study and the inception paper, the evaluation team will develop a **field visit strategy for primary data collection**. The main pillars of inquiry include:

- Key informant interviews (KII)
- Participatory Rapid Rural Appraisal (PRRA) Workshop
- Focus Group Discussion (FGD)
- Briefings of project partners
- Benchmarking

The evaluation team will kick-off the data collection process by conducting key informant interviews with relevant project stakeholders in 1-2 municipalities of each canton. The interview guides as well as the final list of interviewees are developed based on the findings of, and feedback to, the inception report. Potential interviewees include:

- Ministry of Administration and Local Self-governance, Ministry of Agriculture, Water Management and Forestry of the Federation, Ministry of Development, Entrepreneurship and Crafts of the Federation
- municipal authorities
- local governance stakeholders (municipal associations, professional networks)

- project beneficiaries (citizens)
- other stakeholders (private sector, NGOs, donors etc.)

Subsequently, the evaluation team will facilitate a **PRRA workshop** with end beneficiaries (citizens in partner municipalities) and a **Focus Group Discussion** with project stakeholders (predominately project staff) in each canton.

Participatory rapid rural appraisal methods have proven to be very effective in measuring the relevance and impact of governance interventions. Specific approaches will be developed based on the desk study and inception report, but could include the following:

- **Stories of Change:** individuals and groups tell their stories involving the most significant change they have experienced from the outputs/outcomes of the intervention
- **Ranking/Scoring:** preference ranking (people identify what they like/dislike about a particular set of goods, services or activities) or problem consensus (groups identify, analyse, and rank problems, and suggest possible solutions)
- **Trend Analysis:** share and collect basic information along a spectrum, from one extreme to another; this can include both objective and subjective extremes (e.g. There are X sources of water supply in walking distance of my house vs. I live too far from the nearest water supply)

The Focus Group Discussion, then, serves data validation and triangulation. The findings of the key informant interviews and PRRA workshop will be discussed with project staff involved in Phase 1, 2 and 3 of the project. The preliminary structure of the workshop is as follows:

- The results of the key informant interviews and PRRA workshops are reflected back to project staff
- In small groups, the project staff discusses the identified trends, insights, and possible gaps
- One group presents their ideas, other groups add their results and a collaborative view of the project's performance so far as well as future potential is established

To ensure the relevancy and applicability of the evaluation, the evaluation leader (international consultant) will **regularly brief and inform the project partners** (UNDP and Swiss Embassy in Sarajevo) of the progress of the evaluation.

In the final step, a **benchmarking exercise** is used to compare and contrast the project results across municipalities in order to identify innovations, best practices, and potential for scalability and replication. By then, the evaluation team will be able to draw a comprehensive before-after picture including the impacts of the project on people's lives as well as on overall policies and governance.

An **evaluation matrix** (overview of the evaluation questions, as per TOR, matched to the proposed data collection and analysis) is provided at the end of this proposal.

Step 3: Report Writing Phase

The insights from the desk review, as well as the primary and secondary data analysis will form the base for the development of recommendations and key conclusions.

Cross-cutting issues

In addition to the OECD-DAC criteria, the evaluation will also consider the following cross-cutting issues in relation to the evaluation questions:

- **Gender aspects:** How does the project modality deal with gender mainstreaming not just in the results and impacts, but also in its design and implementation?

- **Inclusiveness:** How does the project modality ensure the inclusiveness of their program (e.g. age, sex, religion, income etc.)?
- **Environmental consideration:** The provision of water as well as economic development often has unintended impacts on the environment. It is therefore important to include environmental aspects within each evaluation area.
- **Community participation:** Community participation is a key factor for success in most development initiatives. If people are included in the project design and implementation, the project is likely to be tailored to their specific needs, and beneficiaries are more likely to adopt the proposed changes in the long run. The evaluation therefore needs to pay special attention to community participation as a cross-cutting issue of the evaluation.

Selection of field visit destinations

The MEG project operates in 18 municipalities across three cantons in Bosnia and Herzegovina. Ideally, beneficiaries, stakeholders and project partners from each project location would be interviewed and included in the evaluation of the project. However, the limit for field visits is set at 10 days in the TORs. To get as close to a complete picture of project performance as possible, the WINS evaluation team plans to conduct key informant interviews in 1-2 municipalities per canton, as well as one beneficiary PRRA workshop and one stakeholder FGD per canton (six workshops overall).

As possible selection criteria, WINS suggests first geographical area (1-2 municipalities per canton). Then, municipalities could either be selected purposive according to progress to date (best and worst), or randomly per canton to avoid bias in the evaluation results. The exact municipalities will be decided upon in collaboration with the Embassy of Switzerland in Sarajevo during the inception phase.

Annex III: WINS Counsult Background Notes: Status Assessment

Country Structures and Challenges

WINS Consult Background Note 1: Local Administration

Institutional Setting

Local self-governance. The basis and organization of the system of local self-government in Bosnia-Herzegovina is regulated by the Constitutions of the entities and their laws, especially Law of Local Self-Governance of the Republika Sprska and Law of Principles of Local Self-Governance of the Federation of BiH. In both entities, the basic unit of local self-government is the municipality. All municipalities have an identical constitutional and legal position, be it rural or urban municipality.²²

Municipal services: responsibilities. Municipalities are the key providers of essential public services in BiH. While the authority to regulate affairs in most cases lies on the levels of entity or canton, municipalities are responsible for the provision of essential public services:

Exclusive responsibilities	Local roads, water, sanitation, waste removal
Secondary responsibilities	Health, education
Only responsibility	District heating

Municipal organisation. Municipalities are headed by elected mayors, supported by local councils. The mayors are chief executives of the local administration, wielding considerable room for discretionary decision making, including appointment of senior staff and design of structures and processes in municipalities.

Organisation of local service provision. Local self-governance laws empower municipalities in both entities to establish companies, institutions, or other organizations to manage, finance, and improve local infrastructure and services. Municipalities may adopt rules on operational procedures, regulate fees, and take management decisions; they provide administrative services and regulate business, which affects local economic development.²³

Municipal utility companies as service providers. As for the provision of local public services, municipalities own public utility companies that provide these services. According to World Bank (2009), in most municipalities, a Communal Services Department in the administration oversees public works, and municipal councils set tariff structures. Typically, in larger urban areas, a single utility supplies water and sewerage, but in smaller municipalities, these utilities also manage waste, maintain roads, clean streets, remove snow, maintain gardens and parks, and operate funeral services and parking lots. The utilities finance their operations through user fees, but depend heavily on local and higher-level government co-financing for capital investments.

Role of Local Communities / Mjesne zajednice (MZs). On village or neighbourhood level, community governance units (MZs) have been established during the Yugoslav period. While their role had

²² Pejanovic, Mirko (2001): Legislative and Executive Powers in the System of Local Self-Government in Bosnia-Herzegovina, UN, New York: p. 73

²³ World Bank (2008): Local Governance and Service Delivery in Bosnia and Herzegovina, Wash., DC.: p 4

vanished, nowadays they are considered as the best to articulate the needs of citizens and channel citizen participation in the municipal decision-making processes.

Challenges

Complex decision-making structure. While municipalities are the main providers of local public services, regulation often involves the cantonal or entity level. In some instances, responsibilities are shared or mandates unclear. This results in complex decision-making processes and gatekeeping behaviour, that can hamper decision-making overall.

Insider – Outsider. Unclear mandates and shared responsibilities lead to a high discretionary power of individuals on different levels in decision making. In the absence of clear rules, loyalty and personal connection can become important factors for decision-making. While actors within the system can have substantial benefits, the system is malevolent for “outsiders”. This can be true on the individual, as well as on the organisational level and can exert decisive influence on the economic and social development of a group or region.

Migration. While one of the objectives of MEG lies in good governance, one of the core limitations for all municipalities contacted by the review team lies in migration patterns. The resulting change in local population poses a challenge to the municipal systems, as it affects the planning of capacities. However, as population figures are politically highly sensitive, reports pointed to the fact that reliable data are not easy to obtain. This challenge itself is neither new nor can it be tackled by the municipal level only; however, municipalities need to find ways to manage.

Institutional Setting

Environmental services. Publicly provided environmental services include the provision of water, the sewage and / or treatment of wastewater, as well as management of solid waste. In both entities, responsibility for the provision of these environmental services rests on the municipal level. However, some regulatory powers lie on cantonal and / or entity levels. Furthermore, a substantial proportion of water-related revenue has to be transferred from the municipally owned utility to cantonal (FBiH) or entity levels.

Regarding water supply, the most important task is to provide drinking water to serve the needs of the population and the economy. Use of water for the water supply of the population, and sanitary purposes is regulated in both entities by Water laws.²⁴

Constitutional water rights. The constitution of BiH states that the competences over water management rest with the Entities (FBiH and RS). The management of shared water resources, however, has not been outlined with the Dayton peace agreement. As a result, BiH authorities do not hold competences over regulating inter-entity relations regarding water management. However, since foreign policy falls under the competence of BiH institutions, including cross-border agreements on water management, the Ministry of Foreign Trade and Economic Relations of BiH can engage in legal and standardization-related activities, studies and research. This includes, but is not limited to, the drafting of laws and regulations in the area of water and determining strategies and development policies in the area of water.²⁵

Water regulation in FBiH. FBiH authorities and Cantonal authorities share competencies over regulating the policies of environmental protection and use of natural resources, which can be exercised collectively or individually, either by Cantons, through coordination, or by Federation authorities. The latest Law on Water was adopted in 2006²⁶ as the key piece of legislation regarding water management in FBiH, aiming to align water management (legislation and practice) in the entity with the EU Water Framework Directive (WFD).

In order to overcome shortcomings in water supply, FBiH authorities adopted the FBiH Water Management Strategy 2010-2022 in 2009. The strategy identifies key challenges, and sets a revenue sharing model.²⁷ According to this model, in the FBiH, 40% of water related revenue are to be transferred by water utilities to the cantonal level, while in the RS, up to 70% of water related revenue are used for special water services on entity level.

RS Law on Water. Similar to FBiH, the RS Law on Water²⁸ was adopted in 2006 as the key piece of legislation regarding water management in RS, aiming to align water management (legislation and practice) in the entity with the EU Water Framework Directive (WFD).

The Law stipulates the obligation of RS Government to adopt Water Management Strategy defining, in the broadest sense, the water management policy of the RS for the period of 12 years. The Water Management Strategy makes an integral part of Environmental Protection Strategy.

²⁴ Law on Waters of FBiH, Official Gazette of FB iH no. 70/06 and Act Law on Waters of RS- Official Gazette of RS no. 50/06 and 92/09, 121/12

²⁵ FBiH, 2012, Water Management Strategy of the Federation of Bosnia and Herzegovina, p. 86

²⁶ "Službene novine Federacije BiH" broj 70/06

²⁷ FBiH, 2012, Water Management Strategy of the Federation of Bosnia and Herzegovina, p. 86

²⁸ "Službeni glasnik RS", broj: 50/06

Waste management: Institutional set-up. Waste management responsibilities in BiH are distributed between a number of institutions at various levels. According to the Constitution, environment is not a core competence of the state of BiH. Nevertheless, some existing constitutional competences in environment (and therefore waste management) could be clearly identified. The responsible institution at the state level is Ministry of Foreign Trade and Economic Relations of BiH.

Development and implementation of the waste management policy are at the entity level and level of Brcko District (BD). Responsible institutions are: Ministry of Environment and Tourism of the FBiH, Ministry of Physical Planning and Civil Engineering and Ecology of RS, Department for Physical Planning and Proprietary Affairs of the Government of BD. In addition, each canton of the FBiH adopts its own laws and policies in waste management which are in accordance with legal and strategic framework of FBiH. Municipalities in FBiH and RS exercise their authorities in waste management through responsible municipal utility service departments.²⁹

Challenges

Access to clean water. Key challenges for the provision of clean water in BiH stem from the production of groundwater, incomplete and inadequate protection of wells against pollution, most notably in the immediate vicinity of industrial zones. Preventive measures are minimal or non-existent. The most common measure to protect water quality is only chlorination.³⁰ In addition, there is an apparent stagnation in the development of water distribution systems in BiH, resulting from the poor condition of water supply facilities, outdated equipment, and a number of bottlenecks in water supply systems.

Low connectivity to public water supply. As a result, a recent IPA project found a quite low percentage of population connected to public water supply.³¹

Percentage of population connected to public water supply	FBiH	RS	BD	BiH
Percentage of population covered with public water supply systems which has, according to EU „Drinking Water Directive“ the continuously satisfactory water quality	36%	34%	25%	35%
Percentage of population covered with public water supply system which has occasional deviation from water quality standards given in EU „Drinking Water Directive“	24%	23%	12%	13%
Total:	60%	57%	37%	58%

Wastewater. With respect to integrated water service management, there is a big discrepancy between the capacities of water supply and drainage and those for municipal and industrial wastewater treatment. Only a small percentage of wastewaters receive at least some treatment, putting those receiving natural waters at considerable risk. This is why investment in wastewater treatment has gained substantial attention in recent years.

²⁹ Mehmed Cero, Irem Silajdzic and Sanda Midžic Kurtagic (2019): Waste Management in Bosnia and Herzegovina – Current Situation and Perspectives; in: Waste Management, Vol. 8, pp. 109-117

³⁰ Water Management Strategy of FBiH

³¹ Report “Water policy in BiH”, IPA project “Support to BiH water policy”

Waste management. While waste management has not yet been tackled, it represents a growing environmental concern. Data from 2015 reveal that 33 % of the waste collected was disposed on sanitary landfills, while 67 % was disposed on uncontrolled municipal landfills, and only 1 % of waste was recovered. New regional landfills (new site or upgrading of existing municipal landfill) are needed while existing ones might need an upgrade. Current estimates indicate the existence of 340 illegal dumpsites in FBiH and 250 in RS. However, the Federal Waste Management Plan 2012–2017 and Draft Waste Management Strategy in RS 2016–2025 estimate that there are as many as 1,200 illegal dumpsites.³² All these landfills exert significant pressure to human health, environment and climate change in terms of pollution caused by uncontrolled discharge of leachate and biogas. Therefore, cleaning of dumpsites and land remediation activities in the location are considered to be one of the priority actions.

³² Mehmed Cero, Irem Silajdzic and Sanda Midžic Kurtagic (2019): Waste Management in Bosnia and Herzegovina – Current Situation and Perspectives; in: Waste Management, Vol. 8, pp. 109-117

Institutional Setting

Institutional set-up. The constitution establishes the competencies of different levels of government. According to the Constitution of Bosnia and Herzegovina, the Ministry of Foreign Trade and Economic Relations BiH is the state ministry responsible for economic development and the support of SMEs. The ministry, however, only holds full competency in the area of international trade (customs). Holding shared competences in areas of environmental management, tourism, agriculture, etc., the ministry performs coordination activities, forums, harmonization, and overseas representation. LED is not an issue addressed at state level.³³

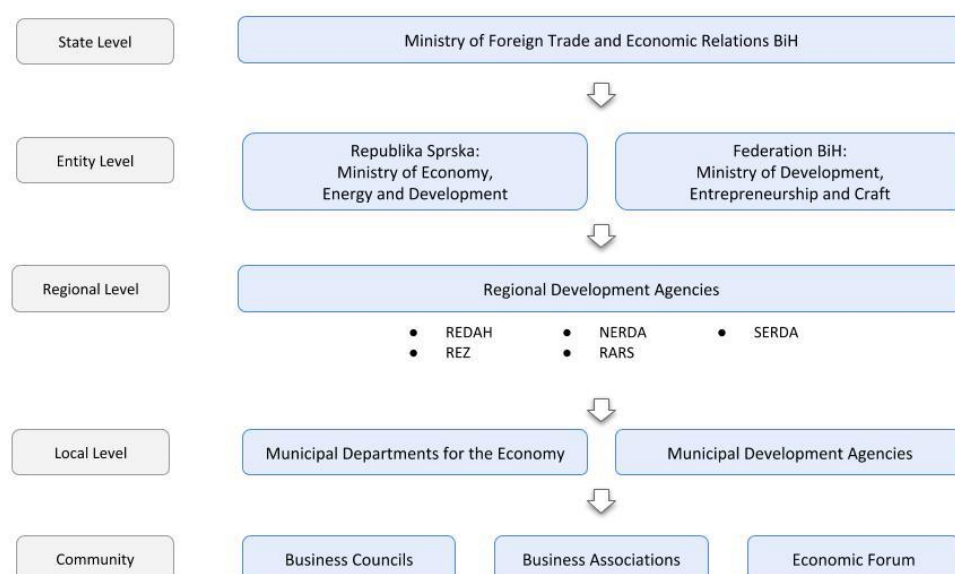
Entity Laws. The Entity Laws outline the mandates of Entity, Cantonal, and Municipal authorities. The *Law of Local Self-Governance* of the Republika Sprska states that municipalities hold full competences in the following, LED-related areas:

- enacts development program, urban planning, budget and final accounts
- regulates and provides use of city construction plots and business premises
- ensures construction, maintenance and use of local roads, streets and other public facilities of municipal significance

According to the *Law of Principles of Local Self-Governance* of the Federation of BiH, municipalities hold full competences in the following, LED-related areas:

- adoption of programs and plans for its development and provision of conditions for its economic growth and job creation
- establishing a policy for control, management and use of construction land
- establishing a policy for managing and collecting revenue for natural and public resources (e.g. local roads and bridges, street lights, public car parks, etc.)

Actors. There is a multitude of actors in BiH working in the area of Local Economic Development. A summary of actors at different levels of government is shown in Figure 1:



³³ This structure was described in a key informant interview with a representative of the Ministry of Foreign Trade and Economic Relations.

Figure 1: Overview LED Actors BiH

Business-Friendly Certificate (BFC). In the absence of a clear legal definition of the mandate of municipalities for economic development, the BFC provides local governments with a framework for devising and implementing LED strategies. The ‘Business Friendly Certification South East Europe’ is a program supported by German Development/GIZ and USAID, aiming to establish a standard of good practices for the creation of an investment-conducive business environment. Since the start of its implementation in 2012, the program has been rolled out in various municipalities across Bosnia and Herzegovina, Croatia, Macedonia, Serbia, and Montenegro. In order to be awarded the BFC, municipalities have to achieve above 80% compliance across 12 criteria which include, for example, the existence of a sustainable LED strategy, a functional LED office, adequate infrastructure and reliable utility services, and an efficient system for issuing construction permits.

Within the MEG project, the percentage of fulfilment of BFC criteria was used as part of the selection criteria for municipalities. As such, 8 municipalities out of the pre-selected group of 31 were BFC compliant in 2016 according to The Project Document.³⁴

There are two BFC Networks, one in each Entity. In the RS, the Network consists of the RS Ministry of Economic Relations and Regional Cooperation, the RS Ministry of Administration and Local Self-Government, the RS Chamber of Commerce, the EDA Development Agency, and the Association of Municipalities of RS. In FBiH, the Network consists of the Federal Ministry of Development, Entrepreneurship and Crafts, the Regional Development Agencies (REDAH, SERDA, REZ, NERDA), and the FBiH Chambers of Commerce.

Inter-municipal Cooperation. There are clear signs of economic collaboration across municipal borders, created with the support of international cooperation. For example, the economic alliance of Tešanj, Teslić, and Zepče leading to the establishment of the ‘Business Excellence Area’ (BEAR), an outcome of GIZ’s ProLocal project³⁵, is celebrated as an example of successfully strengthening regional competitiveness, resulting in increased international investment.

Challenges

Sectoral Structure. According to the 2018 Commission Staff Working Document of the European Commission, *‘during the last five years, there seems to have been remarkably little change in the sectoral structure of the economy’*. (p.35) 2015 statistics show that services made up the bulk of economic activity (66,2%), followed by industry (21,9%), agriculture (7,3%) and construction (4,6%). Small- and micro businesses are the most common company structures, with 93% of companies employing less than 50 people.

Innovation considerably low. The 2018 Investment Climate Statement for Bosnia and Herzegovina by the U.S. State Department finds that BiH scores 86th place out of 128 in the Global Innovation Index 2017. Similarly, the EU Commission³⁶ finds that *‘the country’s digitalisation is still at a very low level.’* (p. 35)

³⁴ MEG, 2016, Project Document Phase I: 4 years (2016-2020), p. 13

³⁵ <https://www.giz.de/de/weltweit/21091.html>

³⁶ European Commission, 2018, Commission Staff Working Document, Bosnia and Herzegovina 2018 Report, p. 35

Labour market. Even though the country experienced a small reduction in unemployment rates, the figure remains high at 38,7%.³⁷ The main sector for employment remains the Public Sector, hosting 26% of the country's labour force.³⁸

However, unemployment figures in BiH are not particularly reliable, as informal activity is estimated at 25% of GDP. As a result, the state is missing out on much needed tax revenues, leading to an overall higher tax rate and required social security payments for formal employment, which negatively impacts BiH's international competitiveness.

Unemployment and informal activity are not the only challenges that the economy, and the labour market, are facing. Continued emigration driven by lacking employment prospects within the country and that easy access to the EU labour market show serious signs of 'brain-drain' in BiH. IMF statistics³⁹ highlight the decline in population (and hence labour force) partly driven by economic emigration. However, more recent, exact figures are hard to come by.

Business Environment and investment. Complex political structures, inefficient local administration and poor legal enforcement have failed to reduce uncertainty for domestic and international businesses. Procedures for entering, acting in, and leaving product markets (i.e. contract enforcement, difficulties settling commercial disputes, issues establishing property rights, waiting times and high number of business registration processes) remain numerous and lengthy. In addition, each entity and canton continue to impose their own regulation and requirements for business registration, adding further complexity (overlap and contradictions) to the system. This is reflected in BiH's poor performance in the World Bank's Ease of Doing Business Report, stating that the country has the least attractive business environment in South-East Europe, ranking of 86 out of 190 global economies in 2018.⁴⁰

Due to the poor business environment and the high political uncertainties, domestic and international investment have remained significantly low. In 2018, foreign direct investment amounted to 2% of GDP, reflecting persisting challenges for international investors to enter the domestic market in the form of complex labour and pension laws, lack of single economic space, inadequate judicial and regulatory protections.⁴¹ Similarly, public investment remained small, due to low overall revenues for local governments, failure to secure external financing, and prioritising consumption and transfer payments in public spending. As a result, capital stock continues to suffer from decades of underinvestment.

Local Economic Development as a way forward. At its core, Local Economic Development (LED) is a strategy for the promotion of economic well-being. Stakeholder engagement and collaboration of local actors is at the core of LED. The ILO⁴² defines LED as a bottom-up, people-centred, locally-owned approach. As such, LED provides localities with a strategy to respond to increasing challenges of globalisation and the drive for decentralization.⁴³ The approach identifies and builds on local economic potential to tackle poverty, unemployment and enterprise development. Within this flexible and localized approach sit a variety of possible interventions, such as entrepreneurship development, improving competitiveness and exports, improving infrastructure, upgrading value chains and skills, facilitating access to financial services and social security, and strengthening local institutional frameworks and governance.

³⁷ European Commission, 2018, Commission Staff Working Document, Bosnia and Herzegovina 2018 Report, p. 34

³⁸ European Commission, 2018, Commission Staff Working Document, Bosnia and Herzegovina 2018 Report, p. 33

³⁹ IMF, 2018, IMF Country Report No. 18/39, Bosnia and Herzegovina, p. 5

⁴⁰ U.S. Department of State, 2018, Investment Climate Statements: Bosnia and Herzegovina

⁴¹ U.S. Department of State, 2018, Investment Climate Statements: Bosnia and Herzegovina

⁴² ILO, 2014, Sustainable Enterprise Programme, Boosting Local Economies

⁴³ Its application, however, goes beyond economic growth – according to the ILO, the LED approach has the potential to assist in the transition from war to peace, political transition, the inclusion of vulnerable groups, addressing social problems (e.g. lack of social protection, crime and violence, child labour), responding to economic crisis, and adapting to climate change.

Common challenges include local government capacity and resources to perform duties, identifying and scaling good practices, ensuring participation, defining the role of multinational enterprises, and imbedding LED activities within the broader national policy framework.

The Swiss Agency for Development and Cooperation SDC takes a similar approach to LED. As outlined in their Local Economic Development Overview 2018⁴⁴, LED:

- Takes place in a defined territory;
- Is a participatory and inclusive process that involves a range of stakeholders;
- Encompasses the pursuit or facilitation of economic competitiveness;
- Is undertaken for the purpose of fostering economic well-being.

The appeal of LED, for SDC, lies within its ‘Interesting scale’, ‘Integrated approach’, and ‘Relevance of place’. The focus on single localities and individual needs allows small donors like SDC to achieve visible impacts (whereby territories set boundaries for clearer M&E), building on a track record of collaboration and willingness for change. Furthermore, working with rural areas can lead to lower migration pressure – which is especially relevant in the BiH context. As an ‘Integrated approach’, LED has the potential to strengthen local governance functions and processes – the main objective of the MEG project. Furthermore, the inclusion of women and vulnerable groups is a main consideration within LED, directly serving the cross-cutting issues outlined in the Project. Finally, LED takes into account territorial contexts, increasing the likelihood of sustainable change.

⁴⁴ SDC, 2018, Local Economic Development, An Overview, Webinar e+I and DDLG Networks

Institutional Framework. BiH has signed and ratified several international conventions, including the Human Rights Convention, The Convention on the Elimination of all Forms of Discrimination against Women (CEDAW), and the Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence.⁴⁵ When it comes to national legislation, the adoption of the Law on Gender Equality (ZoRS) in BiH presented the most important step. In 2000 and 2001, centres for gender equality were established in both Entities. Furthermore, the Agency for Gender Equality works towards nationwide gender equality in public and private life. However, Miftari (2015) finds that *'the lower the level of government is, the weaker is the control over local bodies for gender equality'*.

Re-traditionalization of gender roles. BiH has seen a conservative backlash post-conflict. Gender identities are being reconstructed, reconfigured, and redefined. With the liberal peace building discourse on the one side, and nationalism, culture and religion on the other, the view of women in society has become fragmented, their agency circumscribed, and their space to manoeuvre diminished. Furthermore, even though the institutional structure in BiH has potential to include gender mainstreaming, the majority of the transitional justice programs have not been gender-sensitised.⁴⁶

Persisting gender equality issues. In 2007, the World Bank (2007) found that the gender gap overall was closing. However, breaking it down into endowments, economic opportunities, and agency found unequal progress in these categories. While women have enjoyed relatively equal access to education, they continue to face greater barriers to economic opportunities, especially concerning access to productive inputs and physical assets. In addition, traditional gender roles persist when it comes to the type of employment women are participating in. Similarly, labour market participation still shows a considerable gender gap, with female participation being more than 20% lower than male participation⁴⁷. In addition, traditional gender roles persist when it comes to the type of employment women are participating in. Finally, obstacles in agency continue to affect women – especially in regard to lack of political representation, participation, and gender-based violence.

Continued discrimination against Roma. Even though there has been some progress in addressing the education gap between Roma and non-Roma, the progress is only marginally, and the advancement in endowments that were achieved, have not translated into substantial gains in employment. According to O'Higgins (2012), the greatest persisting barrier is discrimination and persisting stereotypes. Furthermore, Claridge (2010) point out that, by not being part of 'Constituent Peoples' (as defined in BiH electoral law), Roma and Jews are denied the right to stand for election to either the three-member presidency or the House of Peoples of the Parliamentary Assembly.

⁴⁵ Miftari, E. (2015), Gender Equality in municipalities and cities in Bosnia and Herzegovina

⁴⁶ Björkdahl, A., and Selimovic, J. M. (2013), Gendered Justice Gaps in Bosnia-Herzegovina, Human Rights Review, 2014:15, pp. 201-218.

⁴⁷ European Commission, 2018, Commission Staff Working Document, Bosnia and Herzegovina 2018 Report, p. 34

Analysis of MEG Project

Project Design

Modalities

Advisory – technical cooperation, workshops, study tours, seminars. MEG provides a broad range of advisory services to municipalities. Partly, advisory services are provided by the staff of MEG, partly through short term consultancies. The review team understood that the MEG team of UNDP provides both, managerial services for implementing MEG as well as advisory services. Managerial services include project management, for example project planning, financial management, contracting of short-term experts and reporting. Advisory services include the organisation of workshops by MEG staff.

Performance-based financing. To ensure the adoption of the best practices and reforms developed under the technical cooperation component, the Project rewards technical and political performance through co-financing investment and grant projects in the environmental and economic sector. In annual external performance reviews, municipalities are assessed according to 15 jointly developed and agreed on KPIs. The amount of co-financing provided by the Project was tied to performance improvements within the set KPIs as well as population size. Municipalities could receive up to CHF140,000, there the amount is reduced to CHF90,000 or CHF 0 if lower to no performance improvements were achieved. The overall funding available for performance-based financing during the first phase is approximately CHF 4 million.

Co-financing investment projects. This financial support comes in the form of grants: municipalities have to submit a sounds project proposal for an investment in the environmental or economic sector in line with their development plan. The focus of this investment was set by MEG on the water sector in the First Phase, so that mainly projects such feeder pipes or water tanks were implemented.

Co-financing grant schemes. This financial support comes in the form of grant programs: end users (businesses) can apply for financial support (i.e. a grant) from the municipality. The Project requires municipalities to design grant schemes (e.g., for start-ups, for employment creation, for input purchases), advertise calls for application, assess applications, and account for the money spent to MEG (i.e. UNDP).

Scope

Two focus clusters. Within the Terms of Reference for the MEG Project, the Government of Switzerland pre-defined priority geographical areas for intervention. This selection was based on previous experiences of Swiss-funded projects. As a result, 31 potential municipalities were identified, situated in two clusters: the North-West (Una-Sana Canton and the Prijedor region) and the North-East cluster (wider Doboj-Tuzla area).

Complexity

Themes. The project takes a lateral approach to local good governance by targeting the utility companies as well as environmental and economic departments of municipal administrations. Through technical and financial assistance, good governance practices are envisioned to be anchored, creating spill-over effects across the entire administrative body, leading to efficient and effective municipal service provision. At the same time, the Project aims to increase business and citizen participation in local decision-making processes. Finally, the Project aims to facilitate changes and adjustments to the regulatory framework.

Stakeholders. The complexity of themes is reflected in the engagement of a large number of stakeholders. In order to effectively influence processes and strategies on all levels of government, the following stakeholders are included in the MEG project:

Project Partners	Direct Beneficiaries	End Beneficiaries
Associations of Municipalities and Cities (AMCs)	Mayors and Local Administrations	Citizens
Entity ⁴⁸ and Cantonal Ministries	Local Government Councils	Businesses
Local and regional development agencies and professional thematic networks	Local Utilities	

Selection Criteria

Selection Process. Out of 31 municipalities pre-defined by the Swiss Government, the 18 top-ranked Local Governments were determined according to selection and adjustment criteria developed by the MEG-team: Environmental Governance Performance, Economic Governance Performance, and Commitment and Motivation. The detailed selection methodology is documented in *Methodology and Report Outlining the Selection of Partner Local Governments* (MEG, 2016).

Project Implementation

Local Administration

Good Local Governance Model (GLG). The underlying concept for MEG's interventions regarding Good Governance has been formulated as GLG model for BiH.⁴⁹ The GLG model comprises 8 governance principles, of which 3 are value-based and 5 have an operational focus. While the principles are clearly described and analysed, the concept is vague in how it would exactly influence the improvement of governance in BiH.

Performance Management System (PMS). The PMS is based on an indicator system, calibrated towards MEG's objectives. It measures 4 aspects of MEG's governance interventions, namely development orientation, citizen participation, sectoral governance in water services management, and economic governance. Capacity or recurrent performance of the municipal administration are not measured by the instrument. Based on the performance assessment, participating municipalities are eligible for performance-based financing support.⁵⁰

Bottom-up Approach to Good Governance. The logic behind identifying the environmental and economic sectors as entry points for municipal good governance is built on spill-over effect. The Project assumes that supporting the improvement of service provision and the organisation of administration departments in these areas causes a ripple effect and inspires changes in other departments, if not the entire municipal administration, in the long-run.

⁴⁸ In BiH: The Ministry of Foreign Trade and Economic Relations of BiH; in FBiH: The Ministry of Development, Entrepreneurship and Crafts, The Ministry of Environment and Tourism, The Ministry of Agriculture, Water Management and Forestry, The Ministry of Justice; in RS: The Ministry of Physical Planning, Civil Engineering and Ecology, The Ministry of Agriculture, Forestry and Water Management, The Ministry for Administration and Local Self-Governance

⁴⁹ MEG (2017): Good Local Governance Model for BiH.

⁵⁰ MEG (w/o year): Methodology for Performance-based financial support to partner local governments, p.4

Relevant Outcome 1. According to the MEG planning documents, e.g. Annual Work Plan 2019, regarding the strengthening of municipal capacities, the relevant outcome focused on the implementation of the performance management system (1.1) and citizen participation and accountability.⁵¹ The Mid-Term review, conducted in December 2018, found that most objectives had made a strong progress in its achievements (efficiency), although it was documented that the GLG framework had not yet been country-wide (that is, beyond the MEG's partner municipalities) promoted.⁵² However, the review did not comment on the effectiveness of the PMS itself for strengthening municipalities.

The **list of technical assistance activities** in the field of local administration is quite long. However, the interventions include as well interventions regarding the sectors of water and LED:

Environmental Governance

Concentration on water services. The MEG project concept concentrates the environmental interventions on the subsector water. This is, for example, expressed in the formulation of the relevant result of Outcome 2: "...more operational, effective, and efficient water utility companies (WUCs) ..." are established.⁵³ With that, the MEG project is equipped with a well-defined, measurable target.

Concentration on strengthening utilities. While the management of public water resources, and their provision to citizens is in the first place the responsibility of the municipality, MEG interventions concentrated on the level of the service provider – the WUCs. The approach focuses on strengthening the management capacity of the WUCs, and their effectiveness. Policy advisory addressed mayors and municipal management in regard to tariff formulation as well as staffing of utilities.

Financial and Operational Improvement Programme (FOPIP). FOPIP determined the approach of the Project in working with utilities. After a thorough assessment of the local utility company, an Action Plan was developed as a foundation for tailored support to partner utilities. The implementation

Technical assistance	
<ul style="list-style-type: none"> - Technical assistance (TA) to strengthen municipal performance management system, design and deliver assistance for LG leaderships, as well as to LG economic and environmental departments. - TA to prepare technical documentation for IMC infrastructure projects. - Assessment of needs and expert support to mainstream DRR within local strategies and operational framework. - Analysis of value chains in priority economic sectors. - Introduction of innovative IT solutions. - Support to design of water supply master plan, and urban/spatial planning. - Expert support to design the LG performance benchmarks. - Facilitation of public discussions and citizens meetings on priority matters, as well as of networks events (workshops, roundtables) - TA to design citizen satisfaction survey, as well as to conduct analysis to identify possibilities for decentralizing local public services to MZs. - TA to utilities in terms of organizational, management and financial capacities and introduction of PSAs. - TA for technical twinning. - TA to improve administrative services for business conducive environment, prepare promotional materials and improve web presentation. - Support for participation in business fairs. - Expert support for market intelligence. - TA to design and deliver incentives for economic development and employability. - TA to design BDSs for local/regional development agencies. - Facilitation of public-private dialogue 	

⁵¹ MEG (2018): Annual Work Plan 2019, p. 4ff.

⁵² MEG (2018): Mid Term review report, p. 9

⁵³ MEG, 2018, Annual Work Plan 2019, p. 8

modality of the Action Plan is the Plan-Do-Check-Act (PDCA) cycle, from which the Project expects to achieve sustainable results and long-lasting change in the operation and organisation of utilities.

Model of indirect management through Public Service Agreements (PSAs). In order to manage the principle-agent relationship between municipality as politically and administratively responsible institution, and the utility company, MEG applied a contractual management model. Through PSAs, municipalities define service levels, which the utility company is bound to comply with.

The **list of activities** includes both technical and financial assistance:

Technical assistance	Financial Assistance
<ul style="list-style-type: none"> - TA to prepare technical documentation for key infrastructure projects. - TA to manage and provision of on-budget support. - TA to support the drafting and adoption of PSAs 	<ul style="list-style-type: none"> - On-budget support for priority infrastructure investments

Economic Governance

Economic Good Governance. In order to enhance the business environment and address obstacles to growth in priority economic sectors, the MEG project aims to apply the principle of Economic Good Governance, which they define as *‘an effort where various actors share the evolution of the local economy, acting in close interaction not define problems, look for solutions and implement actions.’*⁵⁴ Specifically, good governance in the economic sector was approached through:

- improvement regulatory processes and administrative services
- provision of business development services
- development of economic infrastructure
- inclusion of business perspective in public policy making

Success Indicator. The relevant indicator included in the overall monitoring matrix measures the volume of annual private sector investments in target localities as a result of direct project interventions.

List of Activities. In accordance with the LED approach, detailed strategic plans were developed based on the individual need of each participating municipality. An overall set of activities was devised at the start of the project. These include:

Technical Assistance	Financial Assistance
<ul style="list-style-type: none"> • Support to improve administrative services for business conducive environment • Preparation of promotional materials and improved web presentation targeting investors • Support for participation in business fairs • Expert support for marketing intelligence • Support to design and deliver incentives for economic development and employability • Support to design Business Development Services for local/regional development agencies • Facilitation of public-private dialogue • Support to manage on-budget support 	<ul style="list-style-type: none"> • Grant scheme for employment-conducive measures, purchase of raw materials, and start-up procedures

Regulatory Reform & Professional Networks

⁵⁴ MEG, 2016, Project Document, p. 33

Advocacy Strategy. At the beginning of the Project, MEG performed an analysis of sectoral regulations according to 9 criteria for determining priority legal reforms. The main output is a list of reforms the Project aims to tackle which, in short, produce maximum impact for local governments while being achievable during Project lifetime.⁵⁵

On-demand technical support. In working with legislative actors, specifically the AMCs and cantonal/entity ministries, the project adopted an on-demand model. This meant that support in drafting laws and by-laws was mainly provided where the project was approached by partners. At the same time, MEG offered suggestions for amendments to key legislation, but these were rarely taken up by legislative actors.

Set-up of and support to Professional Network. The network of Local Economic Development Professionals was set up in 2017 and held four thematic sessions and 21 members. Collaboration with Aquasan to organise a conference for water utilities was attempted.

Gender Equality and Social Exclusion

Gender Equality and Mainstreaming Concept 2017. The UNDP Regional Gender Advisor prepared this concept to provide the Project with an overview of current gender issues relevant to Project implementation, and devised recommendations for potential gender mainstreaming opportunities and actions. As a result, the Project advised Local Governments to *'pay special attention to gender equality in access and participation in public actions, to the extent possible.'*⁵⁶

Following the Gender Equality and Mainstreaming Concept, the Project mainstreamed gender equality principles in most of the relevant indicators, which has become visible in the OMS. Furthermore, the Project provided Gender Mainstreaming training for all hired Project consultants working with municipal councils and local governments.

Subsidy Scheme in water supply. In order to address the exclusion from access to water for the economically weak, MEG has requested municipalities and WUC to provide subsidy schemes within their tariff methodologies.

⁵⁵ MEG, Advocacy Strategy for Legal Reforms

⁵⁶ MEG, 2019, Annual Work Plan 2019, p. 16

Annex IV: List of Interviewees

Name	Position	Organisation	Date
Srecko Bajic	Senior Program Officer	Swiss Embassy	01.07.19
Barbara Dätwyler Scheuer	Director of Cooperation	Swiss Embassy	01.07.19
Patrick Egli	Deputy Director of Cooperation	Swiss Embassy	01.07.19
Dimka Stantchev Skeie	Head of Governance Domain and Regional Policy Adviser Social Inclusion	Swiss Embassy	01.07.19
Goran Stefatic	MEG Project Manager	UNDP MEG Kick-off	02.07.19
Anesa Dizdarevic	MEG LG	UNDP MEG Kick-off	02.07.19
Sasa Kotlica	MEG LED	UNDP MEG Kick-off	02.07.19
Alen Robovic	MEG Environment	UNDP MEG Kick-off	02.07.19
Branko Vucijak	MEG Environment	UNDP MEG Kick-off	02.07.19
Ida Cico Lucic	MEG	UNDP MEG Kick-off	02.07.19
Arijana Drinic	MEG	UNDP MEG Kick-off	02.07.19
Dr. Matthias Schmidt-Rosen	Director KfW Office BiH	KfW	02.07.19
Samir Halilovic	Project Coordinator	KfW	02.07.19
Igor Palandzic	Water and Sanitation Specialist	World Bank	02.07.19
Mate Zovko	Mayor	LG Zepce	03.07.19
Branka Janko	Local Development Agency	LG Zepce	03.07.19
Namik Malicbegovic	Municipal Council	LG Zepce	03.07.19
Mirko Sunjic	Utility Director	LG Zepce	03.07.19
Berina Grahic	Local Development Agency	LG Zepce	03.07.19
Anitonija Ravnjak	Business owner	Zepce Community	03.07.19
Anita Marincic	Business owner	Zepce Community	03.07.19
Dominik Jukic	Business owner	Zepce Community	03.07.19
Elvedin Miljkovic	MEG Coordinator		03.07.19
Danijela Miletic	MEG Coordinator		03.07.19
Zinajda Hosic	MEG Coordinator		03.07.19
Nijaz Lipovaca	MEG Coordinator		03.07.19

Suad Rosic	MEG Coordinator		03.07.19
Aleksandar Pasic	MEG Coordinator		03.07.19
Darijan Babic	MEG Coordinator		03.07.19
Esma Hergic	MEG Coordinator		03.07.19
Milovan Stankovic	Deputy Mayor	LG Teslic	04.07.19
Dragisa Kovacevic	Water and Sanitation Specialist	LG Teslic	04.07.19
Samira Zelenbabic		LG Teslic	04.07.19
Slavko Jovic	Rep. of local community	Mladikovine Village	04.07.19
Milos Bukejlovic		LG Doboj	04.07.19
Rado Djurdjevic		LG Doboj	04.07.19
Dragan Vasilic		LG Doboj	04.07.19
Jelena Misic		Doboj Community	04.07.19
Zorica Davidovic		Doboj Community	04.07.19
Bojan Nakic		Doboj Community	04.07.19
Milena Loncar		Doboj Community	04.07.19
Rado Djurdjevic		Doboj Community	04.07.19
Mladen Gavric		Doboj Community	04.07.19
Nevzet Delic		Doboj Community	04.07.19
Dusan Jevtic		Doboj Community	04.07.19
Nebojsa Janjic		Doboj Community	04.07.19
Mladen Malesevic		Doboj Community	04.07.19
Aleksandar Cvijanovic		Doboj Community	04.07.19
Mladen Rasevic		Doboj Community	04.07.19
Ognjen Mitrovic	Director of Water Utility	Doboj Utility Company	04.07.19
Daliborka Lukic	Water utility employee	Doboj Utility Company	04.07.19
Zeljko Miletic	Water utility employee	Doboj Utility Company	04.07.19
Nebojsa Vujic	Water utility employee	Doboj Utility Company	04.07.19
Miso Ilic	Water utility employee	Doboj Utility Company	04.07.19
Suad Huskic	Mayor	LG Tesanj	05.07.19
Hamzajlija Hojkuric	Mayor Assistant on LED	LG Tesanj	05.07.19
Azra Muslija	Mayor Assistant Social Inclusion	LG Tesanj	05.07.19

Fuad Mesic	Director of Water Utility	LG Tesanj	05.07.19
Meho Alic		Tesanj Community	05.07.19
Mirsada Brkic		Tesanj Community	05.07.19
Almir Muminovic		Tesanj Community	05.07.19
Ferida Begovic		Tesanj Community	05.07.19
Haris Menhodzic		Tesanj Community	05.07.19
Mensur Beso		Tesanj Community	05.07.19
Edina Zahirovic		Tesanj Community	05.07.19
Adnan Sejmenovic		Tesanj Community	05.07.19
Adem Sacirovic		Tesanj Community	05.07.19
Samir Golubovic		Tesanj Community	05.07.19
Zeljko Simic	Municipal Assembly President	LG Prnjavor	05.07.19
Besima Musanic		LG Prnjavor	05.07.19
Zorica Solajac		LG Prnjavor	05.07.19
Danijela Milic		LG Prnjavor	05.07.19
Milanka Lazarevic		LG Prnjavor	05.07.19
Miso Vujic		LG Prnjavor	05.07.19
Amel Kebic		LG Prnjavor	05.07.19
Vladimir Mupa		LG Prnjavor	05.07.19
Dalibor Preradovic		LG Prnjavor	05.07.19
Aleksandar Njegomirovic		LG Prnjavor	05.07.19
Nenad Neso	Owner (AgrPharma)	Prnjavor Community	05.07.19
Suhret Fazlic	Mayor	LG Bihac	08.07.19
Nijaz Lipovaca		LG Bihac	08.07.19
Damir Ruzdijic		LG Bihac	08.07.19
Nedžad Dervisevic		LG Bihac	08.07.19
Jasmina Coralic		LG Bihac	08.07.19
Damir Stambolija		LG Bihac	08.07.19
Jasmin Felic		LG Bihac	08.07.19
Nihad Susnjar	Cantonal Ministry	Una sana canton	08.07.19
Nijaz Kadric		Una sana canton	08.07.19

Suad Rosic		LG Cazin	08.07.19
Admir Pjanic		LG Cazin	08.07.19
Hamdija Ljubijankic		LG Cazin	08.07.19
Zajko Catkovic		Cazin Community	08.07.19
Esma Mahmutovic		Cazin Community	08.07.19
Elvedin Miljkovic		LG Velika Kladusa	08.07.19
Husein Delic		LG Velika Kladusa	08.07.19
Sabina Basic		LG Velika Kladusa	08.07.19
Vesna Muslic	Bihac Aquasan	Bihac community	08.07.19
Sandi Zulic	Bihac Unaconsulting	Bihac community	08.07.19
Amer Mezetovic		LG Sanski Most	09.07.19
Faris Hasanbegovic	mayor Sanski Most	LG Sanski Most	09.07.19
Emir Seferovic	Utility company	LG Sanski Most	09.07.19
Emir Kocan		LG Dubica	09.07.19
Sasa Sipka		LG Dubica	09.07.19
Zeljko Dragicevic		LG Dubica	09.07.19
Zoran Adzic	Mayor Gradiska	LG Gradiska	10.07.19
Miodrag Babic		LG Gradiska	10.07.19
Danijela Miletic		LG Gradiska	10.07.19
Danilo Sobot		LG Gradiska	10.07.19
Branislav Savic		LG Gradiska	10.07.19
Dragana Ilic		LG Gradiska	10.07.19
Bogdan Isakovic		Gradiska community	10.07.19
nada Gavric		Gradiska community	10.07.19
Dragoslav Catic		Gradiska community	10.07.19
Ivan vastanin		Gradiska community	10.07.19
Miodrag Jokic		Gradiska community	10.07.19
Bojan Starcevic		Gradiska community	10.07.19
Aco Pantic		AMC RS	11.07.19
Sretan Cemalovic		CRS	11.07.19
Nicolas Maloudi		CRS	11.07.19

Sejla Hasic	AMC FBiH	11.07.19
Bosko Kenjic	MOFTER	11.07.19
Elvis Bebakovic	Ministry of Finance FBiH	11.07.19
Slavica Buntic	Ministry of Finance FBiH	11.07.19

Annex V: Sustainable Development Goals Indicators

Goal 6: Ensure availability and sustainable management of water and sanitation for all

- Proportion of population using safely managed drinking water services
- Proportion of population using (a) safely managed sanitation services and (b) a hand-washing facility with soap and water
- Proportion of wastewater safely treated
- Proportion of bodies of water with good ambient water quality
- Change in water-use efficiency over time
- Level of water stress: freshwater withdrawal as a proportion of available freshwater resources
- Degree of integrated water resources management implementation (0–100)
- Proportion of transboundary basin area with an operational arrangement for water cooperation
- Change in the extent of water-related ecosystems over
- Amount of water- and sanitation-related official development assistance that is part of a government coordinated spending plan
- Proportion of local administrative units with established and operational policies and procedures for participation of local communities in water and sanitation management

Goal 10: Reduce inequality within and among countries

- Growth rates of household expenditure or income per capita among the bottom 40 percent of the population and the total population
- Proportion of people living below 50 percent of median income, by sex, age and persons with disabilities
- Proportion of population reporting having personally felt discriminated against or harassed in the previous 12 months on the basis of a ground of discrimination prohibited under international human rights law
- Labour share of GDP, comprising wages and social protection transfers
- Financial Soundness Indicators
- Proportion of members and voting rights of developing countries in international organizations
- Recruitment cost borne by employee as a proportion of monthly income earned in country of destination
- Number of countries with migration policies that facilitate orderly, safe, regular and responsible migration and mobility of people
- Proportion of tariff lines applied to imports from least developed countries and developing countries with zero-tariff
- Total resource flows for development, by recipient and donor countries and type of flow (e.g. official development assistance, foreign direct investment and other flows)
- Remittance costs as a proportion of the amount remitted

Goal 11 Make cities and human settlements inclusive, safe, resilient and sustainable

- Proportion of urban population living in slums, informal settlements or inadequate housing
- Proportion of population that has convenient access to public transport, by sex, age and persons with disabilities

- Proportion of cities with a direct participation structure of civil society in urban planning and management that operate regularly and democratically
- Total expenditure (public and private) per capita spent on the preservation, protection and conservation of all cultural and natural heritage, by type of heritage (cultural, natural, mixed and World Heritage Centre designation), level of government (national, regional, and local/municipal), type of expenditure (operating expenditure/investment) and type of private funding (donations in kind, private non-profit sector and sponsorship)
- Number of deaths, missing persons and directly affected persons attributed to disasters per 100,000 population
- Direct economic loss in relation to global GDP, damage to critical infrastructure and number of disruptions to basic services, attributed to disasters
- Proportion of urban solid waste regularly collected and with adequate final discharge out of total urban solid waste generated, by cities
- Annual mean levels of fine particulate matter (e.g. PM2.5 and PM10) in cities (population weighted)
- Average share of the built-up area of cities that is open space for public use for all, by sex, age and persons with disabilities
- Proportion of persons victim of physical or sexual harassment, by sex, age, disability status and place of occurrence, in the previous 12 months
- Proportion of population living in cities that implement urban and regional development plans integrating population projections and resource needs, by size of city
- Number of countries that adopt and implement national disaster risk reduction strategies in line with the Sendai Framework for Disaster Risk Reduction 2015–2030
- Proportion of local governments that adopt and implement local disaster risk reduction strategies in line with national disaster risk reduction strategies
- Proportion of financial support to the least developed countries that is allocated to the construction and retrofitting of sustainable, resilient and resource-efficient buildings utilizing local materials

Goal 16 Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

- Number of victims of intentional homicide per 100,000 population, by sex and age
- Conflict-related deaths per 100,000 population, by sex, age and cause
- Proportion of population subjected to (a) physical violence, (b) psychological violence and (c) sexual violence in the previous 12 months
- Proportion of population that feel safe walking alone around the area they live
- Proportion of children aged 1–17 years who experienced any physical punishment and/or psychological aggression by caregivers in the past month
- Number of victims of human trafficking per 100,000 population, by sex, age and form of exploitation
- Proportion of young women and men aged 18–29 years who experienced sexual violence by age 18
- Proportion of victims of violence in the previous 12 months who reported their victimization to competent authorities or other officially recognized conflict resolution mechanisms
- Unsentenced detainees as a proportion of overall prison population
- Total value of inward and outward illicit financial flows (in current United States dollars)

- Proportion of seized, found or surrendered arms whose illicit origin or context has been traced or established by a competent authority in line with international instruments
- Proportion of persons who had at least one contact with a public official and who paid a bribe to a public official, or were asked for a bribe by those public officials, during the previous 12 months
- Proportion of businesses that had at least one contact with a public official and that paid a bribe to a public official, or were asked for a bribe by those public officials during the previous 12 months
- Primary government expenditures as a proportion of original approved budget, by sector (or by budget codes or similar)
- Proportion of population satisfied with their last experience of public services
- Proportions of positions in national and local institutions, including (a) the legislatures; (b) the public service; and (c) the judiciary, compared to national distributions, by sex, age, persons with disabilities and population groups
- Proportion of population who believe decision making is inclusive and responsive, by sex, age, disability and population group
- Proportion of members and voting rights of developing countries in international organizations
- Proportion of children under 5 years of age whose births have been registered with a civil authority, by age
- Number of verified cases of killing, kidnapping, enforced disappearance, arbitrary detention and torture of journalists, associated media personnel, trade unionists and human rights advocates in the previous 12 months
- Number of countries that adopt and implement constitutional, statutory and/or policy guarantees for public access to information
- Existence of independent national human rights institutions in compliance with the Paris Principles
- Proportion of population reporting having personally felt discriminated against or harassed in the previous 12 months on the basis of a ground of discrimination prohibited under international human rights law

Annex VI: Portfolio of SDC – Synergies with MEG

Project	Implementation Period	Budget	Objective	Synergies with MEG
Youth Employment Program (YEP)	1.4.2016-31.3.2020	CHF 4,8 Mio	Support employment bodies in BiH to improve their services and introduce youth friendly services	LED
Strengthening the Role of Local Communities	1.11.2013 - 31.10.2019	CHF 4,8 Mio.	Empowering Local Communities (Mjesna Zajednica) to raise citizens' responsiveness, participation, and social inclusion in local development processes.	GOV
Strengthening Associations of Municipalities and Cities (AMCs) in BiH	01.01.2018-31.07.2021	Not known	Enhancing AMC's capacities to actively support local governments in the provision of efficient services to their citizens, and to improve LGs role, status, and position towards higher levels of government in BiH.	GOV
Institutional Support to Network of Associations of Local Authorities in South East Europe (NALAS)	1.1.2018 – 31.12.2022 (exit phase)	Not known	NALAS continues to provide knowledge, policy advice, and smart services to local authorities in 12 countries in SEE to promote sustainable, inclusive, and resilient communities in the region.	GOV
BiH – contribution to UNHCR for health care for refugees and migrants	1.1.2018 – 31.12.2019	Not known	Switzerland supports around 1.000 migrants / refugees in providing them access to health care.	GOV / MIG
Market Makers in Bosnia and Herzegovina	01.06.2017 – 31.05.2021	Not known	To contribute to reduction of youth unemployment, the project aims at systemic changes in four economic sectors, leading to their growth, more investment, and new job opportunities.	LED
Bosnia and Herzegovina: Integrated Local Development (ILDP)	01.03.2017 - 28.02.2021	Not known	Support to establishing a modern development planning system country wide which responds to citizens' needs and allows	GOV

			efficient use of budgets and external funds.	
Mainstreaming the concept of Migration and Development into Strategies, Policies, and Actions in Bosnia and Herzegovina: Diaspora for Development	5.12.2016 – 31.12.2020	Not known	Support to BiH in creating a favourable environment for leveraging diaspora's human and financial capital for the development of the country, thus contributing to economic growth, employment and income.	LED
Wastewater Collection and Treatment in Zenica	30.11.2017 – 30.05.2022	Not known	With co-financing of KfW, the project entails the construction of a wastewater treatment plant, and necessary measures for the municipal wastewater network. Additionally, activities for corporate development of the public utility and minor urban development measures are planned.	WAT
Proposal: Strengthening regional cooperation on migration in the Western Balkans	Planned: 01.01.2020 – 31.12.2017	Not known	The proposal seeks to promote coherent and effective regional governance of migration in all its multifaceted dimensions to greater social cohesion and integration in the region.	GOV / MIG

Annex VII: Overview of Progress in Regulatory Change

Annex VIII: Numbering of Evaluation Questions

1. Relevance

- 1.1 Are the Project's objective and its theory of change still relevant, taking into account the current context and its trends?
- 1.2 To what extent is the Project complementary to other local governance and local economic development projects, and donors' interventions (multilateral and bilateral)? Is there scope for improving synergies?
- 1.3 Did the selection criteria for the 18 municipalities prove to be the right ones? Should the Project continue to work in Phase 2 in the same municipalities?
- 1.4 Are the business incentives and employment-conducive measures applied in the Project relevant and effective? (e.g. grants scheme for private sector development and competitiveness). Is the logic of subsidy to the private sector legitimate in the context of this Project?

- 1.5 To what extent does the Project contribute to Sustainable Development Goals (SDGs) 6 (Clean Water and Sanitation), 10 (Reduced Inequalities), 11 (Sustainable Cities and Communities) and 16 (Peace, Justice and Strong Institutions)?

2 Effectiveness

- 2.1 To what extent have the Project's results and outcomes been achieved? Are there any unintended results?
- 2.2 Are the Project goals realistic or are they too ambitious? Is the comprehensive (complex) approach of the Project an enabling or a disabling factor for reaching results? If a project component had to be left out, which one should it be?
- 2.3 What is the perspective to achieve the results as set for Phase 1?
- 2.4 What are the main changes in people's lives and on the system/policy levels?
- 2.5 What are the main changes for businesses? Does the support to businesses through Business Development Services (BDS) providers address adequately market-failures and are there implications towards market distortion?
- 2.6 To what extent were root causes of gender inequality and social exclusion addressed in the project design and implementation?
- 2.7 To what extent have the Project interventions promoted gender equality and increased social inclusion?

3 Efficiency

- 3.1 Have the Project's resources (financial, human, technical) been used efficiently to achieve the planned results? (this should include a comparison/benchmarking across selected municipalities)? To what extent have synergies and linkages to other projects supported by the Swiss government in the local government domain been utilized to deliver results?
- 3.2 Was the M&E function systematically applied, and was it delivering information on the outcome level?
- 3.3 Are there any weaknesses in the implementation modalities (approaches, management, human resources skills and resources) to reach the objective?
- 3.4 Are there any gaps in the Project approach and mechanisms that expose it to corruption, in particular conflicts of interest, including the understanding of the roles and responsibilities of the MEG Project team? How is the topic of anti-corruption and ethical behavior addressed in the project after the "Kalesija case"?

4 Impact

- 4.1 What is the level of satisfaction of the citizens with the quality of, and coverage by municipal services (change over time)?
- 4.2 Do the participative processes promoted by the project deliver better results and address the needs of excluded categories of citizens over time?
- 4.3 To what extent does improving water services and engaging in local economic development yield results in improving local governance?

5 Sustainability

- 5.1 To what extent is the project embedded in a wider strategy or reform process backed-up by adequate budgetary commitments?
- 5.2 To what extent has the Project managed to increase budgetary allocation for water services and local economic development?
- 5.3 Have new legislation promoted by the Project been implemented, thus supporting sustainability of results?

- 5.4 Are the capacities of the Project's beneficiaries (at municipal and public utility companies' levels) sufficient to maintain the achieved level of performance in the future?
- 5.5 What are the prospects of scaling up the MEG modality/approach with the World Bank, e.g. through the new program for modernization of the water sector?