

**PROGRESS REPORT  
US-MONTENEGRO PARTNERSHIP  
FOR MUNICIPAL DEVELOPMENT**

PERIOD OF PERFORMANCE  
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AMY OSBORN  
USAID COGNIZANT TECHNICAL OFFICER  
PODGORICA, MONTENEGRO

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## QUARTERLY PROGRESS REPORT

*U.S. Montenegro Partnership for Municipal Development*

**USAID Grant No.:** 170-G-00-00-00100-00

**Grant Period:** November 8, 1999 – December 7, 2002  
*Extended to end date of February 28, 2003*

**Reporting period:** October 1, 2002 – December 31, 2002

**USAID Cognizant  
Technical Officer:** Amy Nolan Osborn (Podgorica)

### I. INTRODUCTION

#### Goals/objectives:

The International City/County Management Association (ICMA) established the *US – Montenegro Partnership for Municipal Development* in November 1999, initially under a one-year grant from the U.S. Agency for International Development (USAID). Phase I activities were designed to assist local governments in responding more effectively and efficiently to increased demands on municipal services due to the influx of internally displaced persons from the Kosovo conflict. ICMA received a modification to Phase I, which has expanded and extended the program through a grant until December 2002. It now serves as the technical and operational hub for USAID assistance to the local government sector in Montenegro.

During Phase II, ICMA offers an integrated package of training and technical interventions designed to:

- A. Develop and promulgate a new legal framework for fiscal and democratic decentralization and devolution of authority and resources
- B. Improve municipal financial management skills and practices
- C. Develop a local government in-service training delivery system to insure sustainable implementation of enacted reforms
- D. Increase citizen involvement and collaboration in the local government reform process and community affairs

#### Counterparts:

Principal counterparts include: (1) the municipalities of Tivat, Kotor, Ulcinj, Cetinje, Niksic, Pljevlja and Berane; (2) Ministries of Justice, Finance, Urban Development and other Republic agencies including Departments of Revenue, Public Works, and Real Estate, (3) the Union of Municipalities of Montenegro and (4) the Agency for Local Democracy and Partnership.

### II. ACCOMPLISHMENTS:

<p><b>( A ) Building And Implementing A Legal Framework For Fiscal And Democratic Decentralization And Devolution Of Authority And Resources</b></p>
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**ACTIVITIES:**

*Legislative Development:*

**LAW ON LOCAL GOVERNMENT FINANCE**

The Law on Local Government Finance was approved by the Government of the Republic of Montenegro on July 16, 2002 and forwarded to Parliament. However, Parliament has not yet taken action. In early November ICMA was asked by USAID and the Ministry of Finance to prepare an evaluation of the proposed law, including a fiscal impact analysis. The evaluation commented on the law's consistency with the Council of Europe Charter on Local Self-Government and USAID conditionality criteria, as well as UOM opinion of the law. It also highlighted positive provisions of the proposed law followed by a positive fiscal impact analysis. The evaluation and fiscal impact analysis represented the informal opinion of ICMA based on available data.

**OUTPUTS:**

- ICMA evaluation of proposed Law on Local Government Finance
- Fiscal impact analysis of proposed Law on Local Government Finance
- Official request to UOM to prepare position paper on proposed Law on Local Government Finance, to include suggestions and opinions from 21 municipalities

**IMPACTS:**

- MOF provided with succinct technical analysis of proposed Law on Local Government Finance
- Strengthened MOF capacity to defend proposed law in Parliament.
- Strengthened UOM capacity to advocate in its interests

**(B) Improve Municipal Financial Management Skills and Practices**

**ACTIVITIES:**

**Municipal Budget Software II Development**

Municipal Budget Software II was delivered as final product on October 30, 2002. The final workshop on MBS II was held on November 8, 2002. Representatives from 18 municipalities attended the training workshop. The aim of the workshop was to acquaint municipal officials with the basic functions of the software and to provide a screen-by-screen overview. Participants were trained in using the planned budget screen, budget rebalancing procedures, as well as budget reporting (i.e. the comparison between planned and actual reports). After the hands-on workshop, ICMA provided additional on-site training and MBS II installment in each of 18 municipalities, which was completed by December 31.

## **OUTPUTS:**

- Final MBS II software delivered on October 30, 2002
- MBS II training workshop held on November 8, 2002
- MBS II installed in following municipalities: Bar, Berane, Budva, Bijelo Polje, Plav, Pluzine, Podgorica, Ulcinj, Andrijevica, Danilovgrad, Mojkovac, Niksic, Pljevlja, Savnik, H.Novi, Kotor, Tivat and Cetinje.

## **IMPACTS:**

- 18 municipalities able to prepare 2003 budgets in accordance with international standards

### **Municipal Software for Investment Planning (OSIP)**

The final version of the Municipal Software for Investment Planning (OSIP) was delivered on October 11. The presentation workshop was the following week. Representatives from 15 municipalities attended the workshop, which provided an overview of multi-year financial analyses, investment screens, capital improvement plans, and debt-repayment schedules. After the workshop ICMA hired a local consultant to continue with on-site training and installment in the 14 municipalities, which concluded mid-November.

## **OUTPUTS:**

- Final OSIP software delivered with 20 copies of the CD software
- OSIP training workshop held on October 18, 2002
- OSIP Users Manual completed
- OSIP installed in the following municipalities: Pljevlja, Bijelo Polje, Plav, Berane, Andrijevica, Pluzine, Tivat, Kotor, Cetinje, Ulcinj, Bar, Podgorica, Danilovgrad, Niksic 14 municipalities received additional on-site training, with CD copy upon installation

## **IMPACTS:**

- Fifteen municipalities able to produce and manage capital improvement plans

### **Municipal Infrastructure Support Program (MISP) Briefing on CIP**

As MISP will organize a Session with Mayors in the next quarter, the ICMA Program Coordinator for Local Government Finance worked with MISP staff to harmonize the public procurement requirements and capital improvement plan procedures and highlight their significance. The Partnership Program Coordinator briefed MISP engineers on CIP training and OSIP software that have been developed by the Partnership. The importance of linking public procurement procedures in the Procurement Law with the CIP process was also highlighted. It was noted that the necessity of CIP enactment by a Municipal Assembly is provided for in the proposed Local Government Finance Law, and that an approved CIP is a prerequisite to receiving conditional grants from the central government.

## **OUTPUTS:**

- CIP Power Point Presentation for Session with Mayors
- Briefing of MISP engineers

## **REAL ESTATE TAX IMPLEMENTATION**

### ***Update on Policy Environment***

According to the Law on Real Estate Tax, MOF is obliged in Article 19 to promulgate the valuation methodology for determining real estate market value by September 30, 2002. ICMA has provided on-going technical assistance to Deputy Minister Koviljka Mihailovic in regard to the valuation methodology. A draft was first presented to the Ministry on September 10, 2002. Since then, ICMA has had a series of meetings with Ms. Mihailovic in which ICMA responded to requests for further detail, definition and clarification. To date MOF has not promulgated a valuation methodology.

In the Law on Real Estate Tax, municipalities are still obligated to take responsibility for property taxation for the year 2003, even in the absence of mandated guidance from MOF. The lack of a valuation methodology will force municipalities to postpone full implementation (i.e. preparation of a tax bill based on market value) until 2004. In 2003, municipalities will have to rely on existing data and print tax bills based on nominal value.

Due to its analysis of available data and its reliability, ICMA believes the only data municipalities can use for the purpose of property taxation in 2003 is the data from the Department of Public Revenues (DPR). ICMA recommended to MOF in September that this be an exception for 2003, so municipalities can mail property tax bills by May 31, as required in the Law. The Ministry of Finance agrees in principle to permit this exception for 2003, but this agreement is not yet officially recognized.

The Real Estate Tax Software (RETS) ICMA is preparing will be programmed to produce a bill based on DPR's "tax decision" from 2002. However, the software is flexible and will allow municipalities to enter data from tax applications in the future.

ICMA continues to encourage municipalities to estimate the market value of real estate through whatever information is available to them, organize a Real Estate Tax office, and build property tax registers using market values as the basis for assessment and tax bills in 2004.

### ***ICMA Technical Support to Municipalities***

To build upon the previous quarter's work in these efforts, State of Massachusetts Assessor Donna Putt returned to Montenegro in October 2002. Putt trained municipal officials on assessing techniques in the market-based approach, both in regional workshops and at a national conference. She also met with Barents and Ms. Koviljka Mihailovic on implementation issues of the Law.

ICMA's second national conference on implementing the Law on Real Estate Tax was held on October 16<sup>th</sup>, 2002. The conference was attended by 44 people from 18 Municipalities. The goals of the conference were to (1) inform municipal officials about the current status of the valuation methodology, (2) present model tax applications and encourage officials to consider additional information that may be utilized in the establishment of accurate property values, and (3) organize the regional technical assistance to be provided by Donna Putt.

The following regional workshop were organized:

Municipality of Kotor October 17 – 18, 2002

*Attended by: Kotor, Herceg Novi, Tivat and Budva*

Municipality of Bar October 22 – 23, 2002

*Attended by: Bar, Ulcinj, Cetinje and Podgorica*

Municipality of Niksic October 24 – 25, 2002

*Attended by: Niksic, Danilovgrad and Pluzine*

Municipality of Zabljak October 28 – 29, 2002

*Attended by: Zabljak, Pljevlja, Kolasin, Berane, Plav, Andrijevica and Mojkovac*

Certain discussion topics were common to all workshops:

- Staff organization of a typical assessors and tax collectors office
- Determination of a tax rate based on the levy required for the funding of all operations within each municipality;
- Explanation and application of the valuation methodology to establish property values based on the Sales Approach, the Construction Cost Approach, and the Capitalized Income Approach
- Application and installation of ICMA's RET Software
- Clarification of law and potential amendments
- Conducting a site visit to see practical assessing techniques
- Formulation of a *hypothetical* property value during the site visit
- Defining ordinances and decrees that must be adopted by local governments to implement the assessing function, the establishment of the office of the assessor, its staff and the role of that staff
- Identifying local resources to fund assessors office and its staff by the local municipalities for year 2003
- Discussing why Assessor's and Tax Collector's offices should be separate

In all workshops the level of enthusiasm and energy to conduct Law on Real Estate was high. The eagerness of all participants was evident at the outset of each meeting, and the quality and diversity of the questions encouraged ICMA that officials have made the firsts steps in the RET implementation program. **This is a significant achievement as such commitment has not been evident in the recent past.**

In November, ICMA met with the European Agency for Reconstruction and Development, which is working with several municipalities on the real estate tax, including Podgorica and Bijelo Polje. ICMA continues to share information with other international organizations and municipalities not directly supported by ICMA.

#### **OUTPUTS:**

- ICMA delivered model tax applications to all municipalities
- Second National Conference on Real Estate Tax Implementation held in October
- Four regional workshops held to focus on practical issues of RET implementation
- Technical assistance provided to MOF on valuation methodology

#### **IMPACTS:**

- A core group of municipal officials continues to be trained in real estate valuation to best prepare for new local responsibilities in the Law on Real Estate, demonstrating initiative despite continued delays by MOF in promulgation of the valuation methodology
- MOF has the necessary technical information and feedback to promulgate the valuation methodology

<p><b>( C ) Development Of Local Government In-Service Training Delivery System</b></p>
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**Assistance to the Union of Montenegrin Municipalities (UoM)**

*ICMA assistance to the UoM is designed to ensure an institutional outreach to the Montenegrin Municipalities, and increased advocacy in the development of a new legal framework.*

**ACTIVITIES:**

UoM Communications

ICMA continues to work with the UoM in improving member communication and promoting its activities among NGOs, governmental organizations, donors, and other interested parties. UoM issues the newsletter *Nova Lokalna Samouprava* (New Local Self-Government) to reach this target audience.

UoM also updates its website regularly. The most recent update included information on an additional 14 municipalities, which will be translated into English and posted.

ICMA financially supports above activities as part of its on-going capacity building for UoM.

UoM Database

ICMA developed and installed a user-friendly and flexible database that has evolved from Beta 1 release to Beta 3, incorporating suggestions for a better sorting and saving function. This database will enable the UoM to have access to as much contact information as possible, and create a tracking mechanism for municipal activities, donor programs in local governments, and other areas of interest.

**OUTPUTS:**

- Final version of UoM database program deployed December 9
- Database training completed
- September and November newsletter issued
- Technical assistance provided for UoM website

**IMPACTS:**

- UoM's capacity to engage members enhanced, as well as ability to serve as clearinghouse for local government issues

**(D) Increase Citizen Involvement And Collaboration In The Local Government Reform Process And Community Affairs**

**ACTIVITIES:**

**Citizen Participation in Municipal Budgeting Process**

After well-received support to citizen participation in the municipal budgeting process in 2001, ICMA continued such support for the 2002 budget cycle. In November ICMA invited local governments to submit proposals to participate in the Open Budget Hearings Project. After a competitive selection process, technical and material assistance was awarded to Pljevlja, Kotor, Tivat, Danilovgrad and Bar.

The objective of the project is to maximize citizens' involvement in the municipalities' 2003 budgeting process so there will be a demonstrable impact on resource allocation decisions made by municipal assemblies. Financial assistance is directed toward production and printing of budget-in-brief brochures, supporting informational /educational activities, and organizing public hearings.

In 2002, ICMA decided to reduce funding from 2001 levels to avoid creating municipal dependency on foreign aid monies. It is hoped that municipalities will continue to organize open budget hearings without material and technical assistance from international donors.

ICMA conducted a one-day workshop in November to develop action plans for the five selected municipalities. While each municipality's budget hearing plan differs, three key components are common to each:

- Media campaigns to increase public awareness of the proposed 2003 budget
- Production and distribution of Budget-in-Brief brochures
- Public budget hearings conducted by municipalities, where citizens can ask questions and make proposals in regards to taxes, fees, and expenditure priorities

ICMA updated the Citizen Participation & Budget Tool Kit for last year, which consists of various documents related to all aspects of this project.

The municipalities of Kotor and Pljevlja finalized their action plan in December, and the remaining three municipalities will adopt municipal budgets in early 2003. A summary of activities in December for Kotor and Pljevlja are below:

- Media campaigns on municipal budgeting, the importance of citizen participation, and roles and responsibilities of both citizens and municipal officials in the process.
  - Kotor organized four radio shows, three radio jingles, and two advertisements—advertisements were broadcast several times a day for two weeks during the campaign
  - Pljevlja produced four radio jingles and two advertisements- advertisements were broadcast several times a day for three weeks during the campaign. Six radio shows were broadcast during the campaign altogether
- Round-tables and meetings

- Kotor organized one meeting with the media and two round-tables, one with NGOs and one with public enterprise and community leaders.
- Pljevlja organized a press meeting and round-table, which was directly broadcast on radio and included a call-in section for the community. Budgets-in Brief brochures published and distributed by municipalities:
  - Kotor – 2,000 copies
  - Pljevlja – 4,000 copies
- Posters – published and distributed:
  - Kotor – 100 copies
  - Pljevlja – 100 copies
- Direct telephone lines – Kotor and Pljevlja established a call-in service for citizens to voice their concerns
- Press releases on campaign activities resulting in two print articles in Kotor and five in Pljevlja
- Public hearing
  - Kotor organized one public hearing in the town center attended by 15 citizens
  - Pljevlja organized four public hearings– one in a suburban community, two in remote villages, and a final hearing in the center of Pljevlja which drew more than 55 participants

#### **OUTPUTS:**

- Application process: application forms, proposals, Memorandums of Understanding for five municipalities, procedural guidelines
- Budget-in-Brief brochures for Kotor and Pljevlja, including English translations
- Press releases and media clips of news coverage

#### **IMPACTS:**

- Improved citizen participation in the budgeting process
- Outreach activities undertaken on counterparts’ own initiative
- Increased community stake and motivation in local government decision-making process
- Municipal officials’ information outreach skills improved
- Heightened public awareness of local government reform and operation

<b>E. Other Activities</b>
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#### **Cooperation with International and National NGOs**

*Assistance to the Agency for Local Democracy and Partnership (ALDP)*

ICMA assistance to ALDP is designed to ensure promotion of local democracy development in Montenegro and training for citizens and local government officials.

#### **ACTIVITIES:**

After review of a grant proposal and provision of technical assistance to ALDP in September, ICMA awarded a \$20,000 grant to ALDP in October to support the NGO's transition from a voluntary organization to a professional one. Financial support is further designed to build programmatic and operational capacity.

ICMA will also grant ALDP access to the membership database developed for UoM to increase ADLP's outreach capability.

#### **OUTPUTS:**

- Operational grant signed in October between ALDP and ICMA, to conclude early February 2003

#### **IMPACT:**

- Provided immediate operational support for ALDP to ensure it can function effectively and in a transparent manner in its training activities
- Installed members' database and trained ALDP personnel in its use to maximize ALDP's ability to be a leading resource for the local government sector

### **III. CHALLENGES AND ISSUES**

#### **Overall Political Environment**

Parliamentary elections in October 2002 led at some level to resolution of the political stagnation in Montenegro that has lasted since summer. As municipalities are still making their political and staffing adjustments, the negative impact of these elections continues. The program was also affected by presidential elections scheduled for late December, which has led to paralysis of some parts of the central government. In late December presidential elections Montenegro, like Serbia in the fall, did not achieve the mandatory voter turn-out of 50% which meant the election results were invalid. Montenegro will go back to the polls in mid February to try a second time to elect the president.

The Government of Montenegro's verbal commitment to local government reform is belied by its lack of action on key components of the reform process. The draft Law on Local Government Finance was submitted to Parliament in July, but has not been reviewed. In November, ICMA prepared parliamentary presentations for the MOF, but no action has been taken to date. It is unlikely the law will be considered and debated before the end of the cooperative agreement.

#### **Implementation of Property Tax**

As alluded to above, ICMA also faces obstacles in implementation of the Law on Real Estate which has impacted the types of technical assistance that can be provided. These obstacles will likely continue into USAID's future work in the local government sector.

To date, the MOF has not promulgated the valuation methodology. The Law on Real Estate requires promulgation by September 30, 2002. ICMA has provided on-going technical assistance to MOF, and ICMA feels it has provided substantial information to MOF to promulgate the valuation methodology. This lack of action by MOF cripples most local governments' ability to affect reform, as they are not empowered to take initiative and instead choose to wait for direction from MoF. It is also a clear indication of the GoM's willingness to implement this law and to local government reform in general. ICMA is providing technical guidance where it can, and is working with motivated local governments to the extent possible, but the prognosis for implementation of the Real Estate Tax in 2003 is bleak.

### **Personnel Update**

In December Nicole Barnes assumed the role of Chief of Party to replace Kristine Powers, and translator Uros Zekovic accepted a position with ACILS, the American Center for International Labor Solidarity, another USAID implementer. Both Powers and Zekovic have been valuable members of the ICMA Montenegro team.

### **Contract Update**

On November 12, 2002 ICMA received a no-cost extension of the Partnership program until February 28, 2003.

## **IV. MAJOR ACTIVITIES PLANNED FOR THE NEXT QUARTER**

### **( A ) Building And Implementing A Legal Framework For Fiscal And Democratic Decentralization And Devolution Of Authority And Resources**

- Assist the MOF in presentation of the proposed Law on Local Government Finance to Parliament, as needed
- Disseminate ICMA's institutional memory and resources. This will be disseminated as an electronic library and will be housed at the UoM.
- Continue to cultivate new relationships with counterparts at all levels of local government

### **( B ) Improve Municipal Financial Management Skills And Practices**

- Training on MBSII and OSIP as needed.
- Assist municipalities in restructuring 2003 budgets

### **Implementation of Real Estate Law**

- Establish local education program for assessors – Biljana Vusurovic, ICMA Property Tax Coordinator will attend IAAO course “Fundamentals of Real Property Appraisal”, in the United States from January 13-17, 2003. After the course Mrs. Vusurovic will return

to Montenegro to intensively train municipal officials from all municipalities on fundamental assessing theory and practice through on-site training in January and February.

- Establish a data-collection training program– Donna Putt will return to Montenegro to assist Mrs. Vusurovic and provide further training on data collection and verification. Mrs. Putt and Vusurovic will travel together for one-day trainings in 14 locations nationwide and in all municipalities.
- ICMA will encourage assessors to establish a professional association to share common problems and find common solutions. ICMA will encourage the association to join an international association for the purpose of seeking professional support and education.
- Deliver computer equipment installed with RETS software and populated with DPR's data.

### **( C ) Development Of Local Government In-Service Training Delivery System**

- ICMA staff will continue to work with the Union on development and design of a newsletter for member outreach and communication in January.

### **( D ) Increase Citizen Involvement And Collaboration In The Local Government Reform Process And Community Affairs**

- Technical and material assistance to the municipalities of Tivat, Bar and Danilovgrad in planning and conducting informational/educational campaigns in the process of adopting the budget for 2003.
- Enhancing two-way communication between municipalities and citizens at hearings conducted in December.
- Final report emphasizing best practices and lessons learned in the Open Budget Hearings Project.
  - Kotor has planned to give feedback info on the decisions of the municipal assembly in January 2003.
  - Pljevlja plans to have a radio show with the assembly members after adoption of the budget, in which the citizens will be informed about the campaign results.

### **E. Other Activities**

- ICMA staff will continue to provide in-house technical assistance to ALDP through end of operational grant