

QUARTERLY PROGRESS REPORT
Municipal Infrastructure Support Program

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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. The ICMA grant, which expanded and was extended until December 2002, now serves as the technical and operational hub for USAID assistance to the local government sector in Montenegro.

The Municipal Infrastructure Support Program (MISP) was conceived as support to the Partnership for Municipal Development to accomplish several goals:

- Sustain the reforms once the local government laws are enacted
- Provide projects by which to demonstrate transparent municipal finance policies, systems and practices
- Provide opportunities for increased citizen participation
- Improve capacity of local governments to respond more effectively and efficiently to increased demands on municipal services

Seven municipalities have been designated “Centers of Excellence” and will receive infrastructure grants to undertake specific capital investment projects as a training tool to refine and leverage Partnership policy reform and capacity building activities. In addition, the program will assist municipalities to develop their capabilities in the areas of multi-year financial planning and Capital Improvement Planning (CIP). The technical assistance component of the project is intended to enhance the capabilities of municipalities to assume responsibility for their own infrastructure development.

ICMA/MISP offers an integrated package of training and technical interventions designed to:

- A. Improve the municipal project planning and design process
- B. Improve municipal financial management skills and practices

- C. Familiarize municipalities with the new Public Procurement Law (PPL), and provide active municipal project management pursuant to the new law
- D. Improve Municipal Constituency Outreach Skills

Counterparts:

Principal counterparts include: (1) the municipalities of Tivat, Kotor, Ulcinj, Cetinje, Nikšić, Pljevlja and Berane.

II. ACCOMPLISHMENTS:

(A) Improve Municipal Project Planning And Design Capabilities

- Recruited and hired MISP key personnel: Howard Shapiro, MISP Project Director; David Guier, Contracts & Procurement Advisor, Justin Evens, Chief Engineer.

Development of municipal projects:

Under MISP the municipalities play the lead role in planning, proposing, designing, and undertaking the work. ICMA/MISP provides technical assistance (TA), training, and review. Projects are to be developed in three rounds, to provide multiple opportunities for hands-on experience by the municipalities.

- ICMA/MISP conducted reviews of 1st round municipal proposed infrastructure projects and assisted municipalities in assembling draft proposals to USAID.
- ICMA/MISP presented the concept of an environmental assessment for each project and the need to define each project with regard to a Problem Statement, Project Objectives, Project Description, and Project Benefits.
- MISP progress meeting with mayors, deputy mayors and officials from municipal finance, urban planning and public works departments from all seven MISP-designated municipalities. The goals and criteria of the program were reiterated, and problems and concerns were discussed

FIRST-ROUND PRELIMINARY APPROVAL

First round projects for all seven municipalities were approved in concept by the former CTO in an earlier approval process administered through USAID-Kosovo. The former CTO directed that during the first round, no training was to occur and that ICMA was to bid the Works, rather than tendering by the municipalities as originally envisioned. Since the original approval several municipalities have altered the priority of projects, or ICMA/MISP has revised project acceptance recommendations.

Review of projects:

- Hired 2 short-term engineers to work on-site with the municipalities to further develop and refine preliminarily approved proposals.
 - ICMA/MISP and the municipalities jointly reviewed each proposed project with regard to status of planning and design, project justification, environmental effects, and joint financing responsibilities: ICMA/MISP discussed each of these with the municipalities and provided guidance and assistance to the municipalities to help them maintain the lead role.

OUTPUTS:

- Draft Project Implementation Agreements signed with each counterpart municipality.
- Draft project proposals prepared and submitted to USAID-Montenegro

RESULTS/IMPACTS:

- Projects identified for further development and final submission.
- Review and approval procedures formalized to expedite submission of future proposals.
- Identified probable obstacles to rapid implementation encountered in working with municipalities. Remedial measures developed and assistance targeted to ensure a more effective and efficient process going forward.

(B) Improve Municipal Financial Management Skills and Practices
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MISP worked closely with the Partnership in several areas

Capital Budgeting and Capital Improvement Planning (CIP)

Seven demonstration municipalities are being fully trained to be able to implement multi-year financial analyses and capital improvement plans (CIPs), enabling these municipalities to serve as centers of excellence and a source of best practices for other less-trained municipalities in Montenegro. ICMA short-term consultants from CityProf Consultants of Krakow, Poland visited seven municipalities from October 10-19 in order to provide additional assistance in preparing CIPs. Training was provided in the use of the CIP software program OSIP, production of the CIP document, and completion of the multiyear financial analyses.[Cross-Reference Partnership 4th Quarter Report]

- Assisted seven municipalities to produce their first-ever capital improvement plans and Multi-year financial analyses. Development process included:
 - Citizen participation and prioritization of CIP projects.
 - Estimation of costs and description of investments.

- Ranking of investments, most often based on criteria established by Assembly members.

OUTPUTS:

- Seven CIPs
- Prioritization of capital projects based on need and citizen input
- Signed CIP development agreements with seven local governments
- Computerized CIP databases partially completed for seven local governments
- Consultants' site visits report

Municipal Budgeting

ICMA designed and established an expert-working group, comprised of officials from MoF and seven municipalities to design Municipal Budgeting Software (MBS) tool to assist municipalities with compliance with the proposed General Budget Law as well as with international standards for budget preparation, execution, and classification of revenue and expenditures.

ICMA short-term consultant Winston Evans assisted in developing materials and conducting a four-day workshop for finance officials from five MISIP municipalities (Kotor, Tivat, Pljevlja, Ulcinj, Niksic) in order to assist local governments to develop 2002 budget structures that are consistent with the international standards and the recently-enacted General Law on Budget, and to design budget-in-briefs to be distributed to citizens in advance of first-time ever public budget hearings. (Cross-Reference Partnership 4th Quarterly Report)

- Provided follow-up direct technical assistance to five municipalities to develop 2002 budgets using the Republic's new classification system and new functional and economic classification systems.
 - New structures separate the operating and capital components of the budget, include budgets of municipal entities that have formerly been off-budget, and provide more comprehensive information in regards to personnel requirements.
 - These five municipalities utilized the new budget structures to develop their 2002 budgets and Budget-in-Briefs. (*See Section D*)
- Produced working version of municipal budgeting software (MBS)
- Three-day workshop conducted on use and operation of MBS Beta 3 for members of working group. Basic computer skills included in workshop.

OUTPUTS:

- MBS Beta 2 and 3 versions
- Five local government 2002 budget structures consistent with international standards and the *General Law on Budget*

RESULTS AND IMPACTS:

- Five local governments with 2002 budgets in which:
 - Revenue and expenditures are presented using the new, internationally compliant budgetary classification system.
 - There is a clear distinction between the operations and capital budget.

Municipal Services Cost Recovery

During the 4th quarter, ICMA initiated a project to assess and improve cost recovery for municipal services. Consultants from CityProf Consulting conducted an assessment of existing cost-recovery ratios, collection performance, municipal budget subsidy levels, organization structures, and staffing levels of water/sewer utilities services from seven municipalities. Although there has been some progress in implementing more rational pricing for some municipal services, under-pricing continues to be a problem. As a result, local governments are unable to finance capital projects through recovery of full costs from user charges. Local governments are compelled to subsidize capital assets and infrastructure development of their utility enterprises using limited general budgetary resources. [Cross-reference Partnership 4th Quarterly Progress Report]

- CityProf consultants visited seven municipal water/sewer utilities October 10-19 in order to:
 - (1) Apply a Diagnostic Protocol to assess existing cost recovery ratios, collection performance, organizational structures, and accounting and financial reporting practices for selected municipal services and utilities;
 - (2) Develop a simple Excel software tool that will assist municipalities to analyze and simulate cost recovery scenarios; and
 - (3) Develop training materials and conduct a cost recovery workshop.

OUTPUTS:

- Final cost recovery report: *Municipal Utility Cost Recovery in Montenegro.*

RESULTS/IMPACTS:

- In addition to establishing the baseline for water and sewer pricing and cost-recovery ratios for seven municipalities, the Diagnostic Protocol identified factors that impede better cost recovery performance. Some of these identified factors are pricing policies that encourage over consumption, deficient accounting and financial reporting practices, lack of metering and leak detection programs, organizational constraints, overstaffing, and other managerial constraints. The final cost recovery report concluded that the utilities recover less than half of their costs through user charges.
- The assessment will be used as a basis for developing cost-recovery software, implementation of a cost-recovery training workshops for local officials, and the development of a set of recommendations that, if implemented, would lead to achievement of full cost recovery within three-five years.

(C) Familiarize municipalities with the new Public Procurement Law, and provide active municipal project management pursuant to the new law

In August 2001, the Parliament of Montenegro enacted the Law on Public Procurement (PPL). The Law provides a comprehensive, rules-based, procurement system for the Republic, 21 local governments and other public entities. This Law is intended to conform to international standards and to "...make provisions for the public procurement of goods, works and services; to introduce greater transparency and integrity; to establish entities having responsibilities and authorities to administer the system efficiently; to offer equitable access to the private sector to government contracts and, to render corruption more difficult."

In November 2001, accompanying public procurement rules and forms were approved. Together with the Law, these rules and forms represent a new procurement system that significantly departs from current local government procurement practices. For example, the Law establishes a Public Procurement Commission, which is charged with rendering procurement law interpretations, overseeing local government procurement activities and making judgments on breaches of the Law. Local governments are also required to appoint a Public Procurement Officer. These Officers are charged under the Law with: (i) issuing solicitation documents, (ii) prequalifying suppliers; (iii) supervising standardization of goods; (iv) delegating powers of negotiation and powers to enter into contracts; (v) issuing letters of acceptance for goods and works; (vi) signing purchase orders, and (vii) appointing coordinators and staff for procurement committees.

MISP Prequalification of Contractors

Under direction from USAID, ICMA/MISP will directly tender the 1st round project for each counterpart municipality.

- To provide for tendering in a timely and efficient manner, ICMA/MISP initiated a contractor pre-qualification exercise, in accordance with the new PPL and accompanying rules and standard forms. The process is structured to actively and responsibly involve municipal Public Procurement Officers and other qualified municipal officials in the selection of contractors.
- The process will select pre-qualified contractors suitable for the five MISP functional work areas:
 - Water systems
 - Sewage and wastewater systems
 - Roads, streets, and street lighting
 - Solid waste collection and disposal
 - Parks and municipal infrastructure

Contract Tendering

- MISP began review of the accompanying PPL rules and standard forms, e.g., Contract Conditions, Contract Data, Invitation to Bidders, Bid Data, and met with the Public Procurement Commission to discuss these documents and the PPL in general.

Procurement Training

- MISP met with the Public Procurement Commission to discuss harmonization of training programs. Barents, in cooperation with the Institute of Comparative Law, will conduct a ten-module PPL training program over two and one half months beginning mid January and lasting through the end of March. The Commission requested that MISP coordinate its training sessions to begin after April 1st.

(D) Improve Municipal Constituency Outreach Skills

Citizen Participation Project Design:

Through the Partnership, a comprehensive citizen participation component has been designed to build awareness among our counterparts of the advantage and necessity of creating 2-way communication between government and its citizens and to build capacity and provide training for government officials to sustain an open and transparent system of government, which allows, encourages and empowers citizens to participate in decision-making at the local level. While serving to complement and reinforce existing activities, this citizen participation component will enrich democratic development of citizens and government officials and ultimately facilitate sustainable implementation of policy reforms.

- On-going monitoring of municipal activities to involve citizens in their final submission of Capital Improvement Plans to assemblies.

Citizen Involvement in CIP Development:

Several of the 7 MISP municipalities have invited delegations from their neighborhood districts (*Mjesna Zajednice*) to review the list of municipality developed CIP projects. The citizens have then worked with municipal officials to develop prioritization criteria and apply those criteria to the project list. Projects were ranked, using CIP software, according to the factors and weightings that the citizen representatives had developed. Local radio stations have publicized this process and according to finance officers, the results have been both enlightening and beneficial.

OUTPUTS:

- Citizen Participation Project Design for MISP
- DAMAR Poll data
- Documentation of citizen involvement in municipality development of CIP

RESULTS/IMPACTS:

- A strategic framework has been established to coordinate MISP and Partnership activities and objectives.
- Counterparts are aware of the importance and benefits of actively involving citizens in policy decisions, which affect them and have expressed a willingness to work in partnership with ICMA to develop further activities to strengthen participatory processes.
- Poll Results were used to evaluate selection criteria for MISP projects so that project selections reflect community priorities.
- Baseline established on citizen satisfaction with municipal services and infrastructure to measure MISP project results.

Citizen Participation in Municipal Budgeting Process

ICMA selected five MISP municipalities (Pljevlja, Niksic, Kotor, Tivat and Ulcinj) to serve as pilot municipalities for holding public budget hearings. The project combined technical and material assistance, and was awarded on a competitive basis. ICMA recruited 3 local NGO activists to be trained and work as Citizen Participation Consultants. They providing technical assistance to their assigned municipality and served as ICMA's citizen participation representative for the project. The objective of Consultants' work was to maximize citizen involvement in the municipality's 2002 budget-making process, especially as it related to capital improvement projects, so that there will be a demonstrable impact on resource allocation decisions made by the Municipal Assembly. [Cross-Reference 4th Quarterly Partnership Report]

- Training workshop for consultants in which public education and outreach techniques were presented and discussed.
- Two-day workshop conducted for finance officials from the five municipalities in order to assist local governments to design budget-in-briefs to be distributed to citizens in advance of first-time ever public budget hearings. (See Section B)
- ICMA developed Citizen Participation & Budgets (tool kit for the municipalities and consultants) consisting of various documents related to all aspects of the project.
- Kotor held a public budget hearing that lasted 2 ½ hours. It was broadcast over the radio.
- Pljevlja conducted 4 hearings in villages and suburban communities in the municipality and held a final public hearing in the center of town.

Kotor and Pljevlja decided to finalize the project by the end of December, the remaining 3 municipalities decided to use the legal possibility to postpone the adoption of the budget until the end of May in order to conduct a more extensive public education and outreach campaign.

III. CHALLENGES AND ISSUES

PERSONNEL

At the beginning of this quarter, MISP lost two key personnel. The MISP Project Director, Rafael Martinez resigned from the project and returned to the United States. The MISP Procurement Specialist, Ron Lovell, had a family emergency in the United States and was eventually forced to resign to care for a family member.

The loss of these two key personnel had a tremendous impact on the project. ICMA immediately began recruiting for replacement staff, and hired new Procurement Specialist, David Guier in October and Project Director, Howard Shapiro in December. In the interim, MISP worked to mitigate project delays by engaging a series of short-term consultants. Although this was not an ideal situation, these staffing actions maintained project development, and submitted final project proposals notwithstanding minimal resources.

MISP also encountered difficulties identifying qualified local engineers for the project. The decision was made in December to expand the search from Montenegro to a broader regional area. As of the end of the quarter, ICMA has received several resumes of qualified applicants, and we are confident that we will be able to complete our hiring during the next quarter.

PROJECT DESIGN & SUBMISSION OF PROJECT PROPOSALS

In order to expedite the first round of projects, USAID-Kosovo directed ICMA to waive the training component, submission of cost recovery plans and CIPs normally required from MISP project proposals. Although this was deemed necessary in order to initiate the first round of projects before the end of the construction season, the omission of these program components has had ramifications on the municipalities' capacity to submit adequately prepared project proposals.

Further, municipalities and their designers are ensconced in over 5 decades of minimalist project development processes and design practices. These processes and practices are no longer suited to the requirements and practices under the new PPL. Current design practice is predicated on the former 'Direct-Agreement' model of construction contracts. Under this model, a designer would design to the level whereby a contract could be tendered through a 'direct agreement' process with a contractor, the selected contractor would then complete the design process and negotiate a final cost. In many respects it had aspects of a 'design-build' (two-stage bidding/turnkey) delivery mechanism but with out a transparent two-stage bidding process or formalized design-build conditions of contract.

Although ICMA/MISP is to, per early program direction, directly tender the 1st round Works, it is still the municipalities and their designers who have the lead and are responsible for the timely development of suitable designs and adequate design documents. The problem is further compounded by designers historically being given low design budgets by the municipalities, and then tailoring the level and quality of design to the budget, rather than to project needs. This has proven to be the greatest obstacle to providing adequate tender documents

MISP is not structured to provide design monies to municipalities to relieve the inadequate design problem – MISP can provide only construction monies. However, MISP plans to use in-kind counterpart contributions as an inducement to encouraging municipalities to fund and require of their designers adequate designs. Reasonable up front design and associated costs will be allowed as in-kind counterpart contributions, thereby reducing municipal construction cost joint financing burdens. Additionally, MISP will undertake, during the 1st round only, 'design enhancements' of several, but not all municipal project design documents, in order to accelerate the design completion process and allow project tendering under the PPL. The 'enhanced' designs will also function as training guides.

Similar problems are anticipated during the construction administration phase of each project. The new PPL assigns, through Project Managers and Supervisors, significant administrative and technical oversight responsibilities to Contracting Authorities (in this case the municipalities). Historically, municipalities did not provide the level of oversight inherent in the PPL Contract Conditions and associated documents, and the law per se. To help overcome construction oversight difficulties MISP will prepare a set of procedures and forms to be used by each Project Manager and designated inspectors. MISP will also reevaluate its local staff requirements.

IV. MAJOR ACTIVITIES PLANNED FOR THE NEXT QUARTER

(A) Improve municipal project planning and design capabilities

- Conduct a training session for high level municipal staff to discuss project development procedures
- Begin identification of 2nd and 3rd round projects
- Assist municipalities with preparation and submission of final 1st round project proposals
- Assist municipal counterparts and their designers to finalize design documents for 1st round projects
- Provide technical assistance guidance memoranda (TAGMs) on environmental assessments and cost estimating
- Begin preparation of a construction oversight field guide manual
- Develop overall MISP training framework and schedule

(B) Improve Municipal Financial Management Skills And Practices

- Finalize cost recovery improvement report and software
- Approve final software design and begin programming
- Convene a roundtable in order to present cost recovery report to local government officials.
- Develop cost recovery training
- Review newly proposed municipal projects for conformance with CIP, and develop procedures for amending CIP, including citizen participation

(C) Familiarize municipalities with the new Public Procurement Law, and provide active municipal project management pursuant to the new law

- Conduct full contractor prequalification for each of the five functional areas
- Actively involve municipal procurement officers on prequalification selection committees
- Conduct several procurement training seminars
- Involve municipal staff in discussions with designers pertaining to needed design quality to support the new PPL

(D) Improve Municipal Constituency Outreach Skills

In conjunction with Partnership:

- Review adequacy of CIP citizen participation efforts for each municipality and request corrective actions as necessary
- Confer with municipalities on their citizen participation needs and assist with further efforts
- Review CIP and municipal project recommendations with regard to citizen input
- Assist and support budget hearings in remaining pilot municipalities.