

Standard Summary Project Fiche – IPA Centralised Programmes

Project number 17: MEGLIP – Municipal Environmental Grant-Loan Investment Programme

1. BASIC INFORMATION

- 1.1 CRIS Number:** 2011/022-585
- 1.2 Title:** MEGLIP – Municipal Environmental Grant-Loan Investment Programme
- 1.3 ELARG statcode:** 03.27 European Standards. Environment
- 1.4 Location:** Republic of Serbia

Implementing arrangements:

- 1.5 Contracting Authority:** EU Delegation to the Republic of Serbia
- 1.6 Implementing Agency:** KfW – Delegation agreement (indirect centralised management)

1.7 Beneficiary (including details of project manager)

Ministry: NIPAC

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Steering committee: This will consist of the NIPAC/NIPAC TS who will chair the Steering Committee meetings and representatives of the Ministry for the National Investment Plan (or its successor), Standing Conference of Towns and Municipalities; Ministry of Agriculture, Forestry and Water Management; Ministry of Environment and Spatial Planning; Ministry of Economy and Regional Development and Ministry of Finance.

Finance

- 1.8 Overall cost:** EUR 147.7 million
- 1.9 EU contribution:** EUR 19.1 million
- 1.10 Final date for contracting:** 2 years after the signature of the Financing Agreement.
- 1.11 Final date for execution of contracts:** 4 years after the signature of the Financing Agreement.
- 1.12 Final date for disbursements:** 5 years after the signature of the Financing Agreement.

2. OVERALL OBJECTIVE AND PROJECT PURPOSE

2.1 Overall Objective:

The overall objective is to contribute to progress in the reform of local self-government as part of the decentralisation process; support local development policy consistent with the EU pre-accession strategy and a balanced territorial development by strengthening implementation capacities at local level, more efficient municipal planning, improving service delivery and local government asset management.

2.2 Project purpose:

The specific objective is to support the execution of municipal environmental development projects that will improve service delivery to citizens and compliance with the EU *acquis* in the environmental field, while building municipal capacity to plan capital investments, formulate and manage projects and operate and maintain installations.

2.3 Link with AP/NPAA / EP/ SAA

EP (European Partnership)

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

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

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

SAA

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

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

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

2.4 Link with MIPD¹

The project MEGLIP-Municipal Environment Grant-Loan Investment Programme falls under the Environment and Energy sector and addresses its objectives to help Serbia align with the

¹ Multi-Annual Indicative Planning Document

EU environmental *acquis*, improve the environmental infrastructure, strengthen regional and cross-border cooperation, and contribute to EU 2020 targets in energy and climate change.

Environment and Energy are key for Serbia but also for its neighbouring countries within and outside the EU. Serbia is the most industrialised country among potential candidates and has a key geopolitical role in energy, both for the region and for the EU overall. Support to this area in Serbia has a direct, potentially substantial impact in helping the EU meeting its 2020 targets in Climate Change and Energy. It also has an indirect impact on production, employment and living conditions.

2.5 Link with National Development Plan (where applicable)

N/A

2.6 Link with national / sectoral plans

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

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

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

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

National Programme for Integration with the European Union. The NPI highlights the importance of strengthening capacity on the local level in preparation and implementation of infrastructure projects and better coordination between local and central level, together with more investment in infrastructure and development projects in order to promote balanced regional development.

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

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

Needs Assessment for International Assistance 2009-2011 addresses support to local infrastructure development in areas of environment within the following sectors- public administration and local-self government units, regional development and agriculture.

3. DESCRIPTION OF PROJECT

3.1 Background and justification:

Background

Serbia's infrastructure is in poor condition and urgently requires improving, especially in small and mid-sized municipalities. As Serbia advances towards EU membership, the task becomes ever more pressing: weak or lacking infrastructure hinders economic competitiveness and thus risks being a blockage to Serbia in overcoming the trade deficit that constitutes its worst macroeconomic imbalance. In approaching membership, Serbian industry must become sufficiently competitive to survive in the single market, and improved infrastructure is one of the keys. Furthermore, Serbian environmental protection is well below EU standards and requires attention, while service levels to citizens fall short of the standards expected in EU member states.

The Serbian economy requires substantial continuous Foreign Direct Investments (FDI) to achieve minimum growth targets that have been set in recent years, but FDI inflows are considerably lower than the country's potential. There are several reasons for this, but two major ones are the condition of infrastructure in general, and the perceived risk of investment. Investors prefer countries that handle funds well, with transparent funds management and strong project preparation capacities and standards. Improving infrastructure is one criteria to lay a better physical and human resource basis for investment. Moreover, transparency and good practice in funds management need to be enhanced in order to increase the security of the investment environment.

Among the many types of infrastructure to be improved, water supplies and waste water treatment are among the most fundamental. Citizens and businesses in much of Serbia must contend with physical, chemical and bacteriological contamination of water supplies, outdated technical equipment and methods, poor efficiency in the management of investments and operations, and seriously polluted environments that often fall far below EU standards. Improving energy efficiency, in particular in the existing district heating systems, in public buildings and housing, is also of great importance to local governments all over Serbia. As a consequence of years of neglect and underinvestment, energy consumption in these areas is currently far too high, straining municipal budgets.

KfW's current and planned operations

KfW on behalf of the German Federal Ministry of Economic Cooperation and Development (BMZ) has for several years been implementing a broad programme of support to municipalities and public utilities.

KfW's programme in Serbia is open to small and medium-sized municipalities. It is intended to finance a wide range of infrastructure, contributing to sustainable development. It deals with infrastructure development in the municipal water and wastewater sector, solid waste and environmental management, energy efficiency and economic and social infrastructure. The goal of the programme is to contribute to investment in municipal infrastructure, improving service levels to citizens and helping to comply with the EU environmental *acquis*.

In co-operation with International Financial Institutions (IFIs), a grant co-financing mechanism is foreseen, with loans extended to increase the affordability of such investments for municipalities.

The KfW programme represents a continuation of EU-funded municipal development projects started under CARDS and continued through IPA, building on experience gained hitherto, and further driving progress towards EU standards.

The following two elements of the overall KfW programme are of special relevance for this application for IPA projects:

1) Rehabilitation of water supply and waste water systems in medium-sized Municipalities, Programme II.

A previous 'Programme I' is currently being implemented with 7 medium-sized municipalities (Kraljevo, Loznica, Pancevo, Sabac Smederevo, Sombor and Vrsac) and a total volume of EUR 58.8 million (including a multi-beneficiary IPA contribution of EUR 3 million). This programme enables lessons to be effectively transferred to KfW Programme II.

Programme II is open for participation of medium-sized municipalities in Serbia. It is currently starting with a preparation phase, for which 6 municipalities in Southern Serbia (Leskova, Vranje, Jagodina, Pirot, Aleksinac and Trstenik) have been pre-selected for participation by the Ministry of National Investment Plan (MNIP). The participating municipalities underwent an application and selection process in which all medium-sized municipalities were invited to apply. The selection criteria included, inter alia, the sector needs of the municipalities and their willingness to achieve key performance criteria (e.g.. collection efficiency, tariff adjustments) as a pre-requisite for programme participation. The projects planned in these 6 municipalities amount to some EUR 3-5 million per municipality for the identified projects, but the broader investment needs are far larger.

2) Municipal infrastructure credit line project, MICLP

This programme combines a credit line (total volume up to EUR 70 million) for municipal infrastructure investments via Serbian commercial banks with technical assistance (EUR 1.6 million) for local governments in developing, financing and implementing their projects.

Typical investments to be financed under the MICLP cover the extension, rehabilitation and modernisation of various types of municipal infrastructure investments such as water supply, waste water treatment, waste management, energy supply and distribution, public transport systems etc., but also, in the case of the ongoing programme, social services (e.g. education, healthcare, community centres, housing). The programme is directed to smaller investments of up to EUR 2.5 million (maximum sub-loan amount: EUR 1.2 million). Serbian banks are partner institutions (so far Banca Intesa, 2 more to join in 2011).

This project has already achieved EUR 30 million of loan commitments for more than 80 infrastructure projects in 31 Serbian municipalities. It has delivered 400+ days of specialist technical support for project development and preparation.

The Standing Conference of Towns and Municipalities is KfW's partner for technical support. For this project, the implementation consultant is contracted by SCTM with KfW's assistance.

KfW's existing arrangements, however, provide no specific incentives to finance projects in the field of environment which usually do not generate income but rather additional costs. Municipalities, while interested, are often unable to participate. For costly environmental projects, it is the experience of the ongoing MICLP that additional grant funding is required, so that the municipal leadership can justify towards its citizens the step of committing large sums to an investment that will provide no obvious short-term benefit. If grant money becomes available for these project types, there is usually a widespread interest among local governments, as they are perfectly aware of the massive need for investment in this field.

The proposed IPA-funded project

The above KfW programmes have limitations that can be overcome with a modest degree of IPA funding. The proposed IPA project will therefore build on the preparations made by KfW, incorporating these two programmes as components 1 and 2 of the IPA project.

Component 1

This IPA project will enable KfW Programme II to bring in a further EUR 71.1 million. (including EUR 14.1 million IPA 2011 contribution). It will allow expansion of Programme II from the currently envisaged six to a total of up to 12 municipalities with a stronger investment focus on waste water collection and treatment and thus lead to a considerable heightening of its impact.

For this component, the six already selected municipalities will take part, provided that they meet the agreed performance criteria, together with up to six further municipalities. For the new ones, an evaluation committee will be formed in collaboration with MNIP (or its successor) and SCTM in the same way as for the first six. The process will be coordinated with the Water Directorate of the Ministry of Agriculture, Forestry and Water Management. Eligibility rules and selection criteria will be agreed and all eligible municipalities invited to apply.

The implementation of projects in further municipalities is already being prepared, concentrating on investments in the municipal sewage sector).²

To implement these projects, a separate agreement will be signed between KfW and each municipality. The municipalities will act as Project Executing Agencies, as in Programme I, and they will delegate responsibilities to their public utility companies (PUCs) according to the Law on Public Enterprises and Performing Activities in the Public Interest. The municipalities/PUCs will be the contracting authorities. They will work on the basis of national legislation, applying as a minimum standard KfW procurement procedures as in

² The detailed economic assessment of municipal sewage projects of a larger scale (e.g. wastewater collection systems and waste water treatment plants) might result in the need of an increased grant portion. In these cases, the proportion between loan and grant financing will be proposed based on a "case-to-case assessment" for individual projects.

Programme I. Contracting will be monitored by an implementation consultant contracted by MNIP (or its successor) which will establish a programme implementation unit for this programme. MNIP (or its successor) will select the consultant by international public tender, and if requested by MNIP (or its successor), KfW may support the tendering process by a tender agent.

When the projects are selected and project documentation prepared, the municipalities/PUCs will prepare tender documentation and hold tenders. For all tender publications, tender evaluations, works and procurement contracts, the consultant must give approval and KfW non-objection before the municipality/PUC may proceed. Supervision of works is carried out by the consultant. Payments are made directly by KfW to the works contractors after disbursement requests from the municipality/PUC, to be approved by the consultant and non-objection by KfW.

The institutional and contractual arrangements have already been implemented during Programme I with the same stakeholders. There is therefore very little risk that one of the partners may not understand its roles and responsibilities.

The investment projects will be preceded by the preparation of Feasibility Studies supported by the consultant. For each of the 6 municipalities already selected, the preparatory phase has already started in June 2010 and will take 12 months. Feasibility studies have also been partly prepared with IPF assistance (for example for wastewater treatment plant Vranje). Additional feasibility studies and other documents will be elaborated during the first year, with implementation in years 2 and 3. During the existing Programme I an overall implementation period of 3-4 years has been proved realistic. During the first year, the sectors are analysed and the investments are planned in detail. The implementation is carried out in the years 2-3 years, depending on the complexity of the individual investment measures. Hence in some of the municipalities, the total duration of implementation will take 3 years, whereas in others (particularly in case of waste water investments) it may take up to 4 years.

During the preparatory phase the municipalities and PUCs are further supported in achieving key performance criteria. During programme implementation, the implementation team in the utilities will be supported by further technical assistance from the implementation consultant in the following working areas:

- 1) Preparation of feasibility studies for municipalities that have not yet completed by that time
- 2) Final designs
- 3) Preparation of tender documents for procurement and construction
- 4) Tendering and contract award
- 5) Construction and procurement supervision
- 6) Institutional strengthening measures will support the utilities in improving their internal organisation and their commercial performance. The required consulting services for the management consultant are financed from additional grant funds provided by the German government and IPA funds.

The EUR14.1 million IPA funds will be utilised for investments (EUR 12.5 million) and to a small part for investment-related consulting services (i. e. design and supervision,

EUR 1.6 million), reflecting the new priority on and the complexity of waste water projects.³ Out of EUR 14.1 million, EUR 600,000 is envisaged to cover the investment costs in South Serbia.

The bigger share of consulting services will be financed by the German Government.

In case further needs arise in the first 6 municipalities, activities can be expanded there also.

Source of Financing	Total EUR million
Grant of the German Government	11.00
Grant through IPA 2011	14.10
Loan of KfW/BMZ	46.00
Total	71.10

The signature of the Loan and Financing Agreements between KfW and the Government of Serbia for Programme II (Component 1) is scheduled for September 2011, the on-lending agreements can be signed immediately after. All contracts and agreements are prepared in a draft version and proved operational, as they are currently applied under Programme I (7 municipalities).

Component 2

Component 2 of the proposed IPA project is based on a combination of technical support funded by KfW (EUR 1.6 million grant provided by the German Government), additional grant funding and financing at concessional rates. It can be reasonably expected that this will lead to increased interest in investment projects in the relevant areas.

Component 2 will be implemented through the ongoing KfW MICLP programme. The IPA funds will be used as investment support (EUR 4.75 million) in the form of an incentive fund for municipalities intending to implement “environmental flagship infrastructure projects” which will have an exemplary character for other municipalities in approaching EU environmental standards. These projects will have a positive impact on the environment by promoting sustainable resource use on the municipal level, e.g. by inducing energy savings, reducing soil, air and water pollution and implementing sustainable solid waste concepts preventing of chemical accidents, reducing excessive noise emissions etc. EUR 0.25 million will be earmarked for supplementary consulting services for partner banks and beneficiaries, and targeted at the environmental flagship projects specifically (energy audits, impact monitoring, dissemination, etc.). These supplementary services are not included in the a. m. technical support as already provided through KfW by Germany.

Project applications under the MICLP need to fulfil certain eligibility criteria. These include criteria for borrowers (e.g. sufficient borrowing capacity and financial resources, sufficient planning capacity) and criteria for the projects (positive economic/social/environmental effects, cost effectiveness, affordability, positive economic cost/benefit analysis, return on investment).

Projects for funding using IPA resources will be selected using a transparent process. In collaboration with SCTM, an evaluation committee will be formed that will define the exact criteria to be applied. All eligible municipalities will be informed of the project and selection criteria, and invited to submit applications.

The loan components will be provided by KfW through commercial banks. Lending will be tendered by the municipalities through a public procurement process. Due to the innovative character of environmental infrastructure projects, IPA funds will be paid by KfW to the municipality via the involved banks as a fixed percentage of the loan amount (15-20%), but only after project completion and positive verification by KfW's consultant. Clear verification criteria for the environmental infrastructure projects will be defined within the framework of the consultancy services.

Source of Financing	Total EUR million
Grant of the German Government (TA)	1.60
Grant through IPA 2011	5.00
Subsidized Loan of KfW/BMZ	70.00
Total	76.60

Conclusion for both Components

IPA funding is thus being sought to complement the existing funds. This will enable a considerably expansion of the outreach and impact by covering additional municipalities (Component 1) and making loan financing for environmental infrastructure more accessible to municipalities (Component 2). A total of EUR 19.1 million, EUR 14.1 million for Component 1, and EUR 5 million for Component 2, are sought from IPA.

The IPA funds will be complemented by up to EUR 128.6 million from KfW/BMZ sources, of which EUR 12.6 million are provided as grants and EUR 116 million as subsidised credit lines either through direct lending to the municipalities / waterworks or through local banks.

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

Impact:

The output of component 1 will be the realisation of up to 12 water supply and wastewater investment projects in medium-sized municipalities, with associated capacity building for municipalities and PUCs.

The impact of component 1 will be improved service delivery to citizens and businesses, enhanced capabilities and thus autonomy of local governments, and an improved environment. In Serbian medium-sized towns, this will mean a smoother, more secure project environment attractive to investors. Serbia will be better able to demonstrate a transparent, well-administered funds-management environment so as to attract inward FDI. This will make Serbia better able to cope with EU membership and the single market, through improved competitiveness and better compliance with EU standards.

The output of Component 2 will be the implementation of 25 to 35 investment projects in the fields of waste water, solid waste management including regional landfills, closure of existing dumps, re-cultivation of closed dumps, remediation of contaminated sites, prevention of chemical accidents, improving the quality of ambient air, reducing excessive noise emissions, energy efficiency, renewable energies and environmental management in smaller / medium-sized municipalities in Serbia.

The impact of component 2 will be twofold: on the local level, the infrastructure projects will lead to improved service delivery to the citizens of the involved municipalities, and to improved finances of the local governments through energy savings and prevention of serious environmental damage (that would require expensive remedial action later on). The projects will also have a socio-economic impact, depending on their exact nature. At the same time, these infrastructure projects will have a strong demonstration effect, generating the motivation in other municipalities to invest in these sectors.

The two components will together address the development of the enabling environment for the municipal sector, establish the means for linking infrastructure programming and budgeting at the municipal and national levels, and build the capacity of local organizations and companies to provide a modern service.

The impact of the public awareness campaigns will provide citizens with a heightened knowledge of the issues at stake in providing and financing public services.

Catalytic Effects

- The main outcome of the infrastructure investments in the selected municipalities will be improved environmental and socio-economic development. State-of-the-art technology shall provide a demonstration effect.
- The projects in the municipalities will provide a vehicle for promoting institutional and management reforms at the local level and give local managers experience in EU standards and procurement practices.
- Supported by suitable promotion and communication strategies, these projects will have a strong demonstration effect on other local governments in Serbia, motivating them to develop and finance such projects on their own initiative and/or with suitable donor support.
- The public awareness initiatives will help sensitize citizens to issues in service provision and financing that are generally poorly understood, and that consequently hinder reform in the sectors concerned. The PA packages and results will be provided to the Standing Conference of Towns and Municipalities, who will be assisted in further dissemination throughout Serbia.
- New and improved environmental infrastructure will enable the creation of new jobs, promoting sustainable regional economic development
- The enhanced security and transparency of the investment environment will contribute to attracting foreign direct investment.

Sustainability:

Supported by the project, local government is expected to take on an increasingly active role towards establishing an enabling framework that promotes local economic growth through the private sector and encourages job creation while at the same time providing a clean and healthy environment through clean water provision and sanitation, as well as other infrastructure with socio-economic implications.

This project will boost social-economic and institutional development, and will increase the absorption capacity of local institutions for EU funds in preparation for eventual membership.

3.3 Results and measurable indicators

Component 1:

Result 1: Up to 12 water supply / sewage projects prepared, funded and completed

Indicators include:

- No. of projects identified
- No of feasibility studies completed
- No. of tender dossiers completed
- No. of projects with funding assured through signed agreements
- No. of tenders held and contracts signed
- No of projects completed

Result 2: Capacities of municipal directorates in up to 12 municipalities enhanced in the areas of investment planning and management

Indicators include:

- Increase in skills and knowledge of officials
- Ability of officials to apply increased knowledge in their work
- Quality of capital investment planning

Result 3: Capacities of Public Utility Companies in at least 12 municipalities enhanced in the areas of technical and administrative management and customer relations

Indicators include:

- Increase in skills and knowledge of PUC officials
- No. of FOPIP programmes prepared and agreed
- Degree of implementation of FOPIP programmes

- Increase in collection rates
- Proximity of tariffs to cost-recovery levels
- Decrease in Non-Revenue Water and similar parameters
- Increase in customer satisfaction

Component 2:

Result 4: *Approximately 25 to 35 environmental projects prepared for funding and executed*

Indicators include:

- No. of projects identified
- No of feasibility studies completed
- No. of tender dossiers completed
- No. of projects with funding assured through signed agreements
- No. of tenders held and contracts signed
- No of projects completed

Result 5: *Capacities of local governments / Public Utility Companies in the involved municipalities are enhanced in the areas of planning, project development, environmental management and service delivery to citizens*

Indicators include:

- Increase in skills and knowledge of PUC officials
- No. of FOPIP or similar programmes prepared and agreed
- Degree of implementation of these programmes
- Improvement in operating parameters such as collection rates
- Proximity to cost-recovery levels in planned projects
- Improvement in technical parameters (such as Non-Revenue Water)
- Increase in customer satisfaction

Component 1+2:

Result 6: *Awareness of citizens in at least 25-35 municipalities increased in their understanding of the socio-economic-environmental issues of service provision, such as the rational use of drinking water, tariff issues, environmental issues and other key issues*

Indicators include:

- Increase in awareness of all relevant issues

Result 7: *Further municipalities in Serbia are motivated to develop similar projects*

Indicators include:

- Participation in promotion events by municipalities not taking part in this project
- Number of applications / expressions of interest from other municipalities
- Number of proposed relevant projects for subsequent projects to fund
- Recommendations for funding mechanisms for these projects

3.4 Activities:

Component 1

Activities leading to Result 1: *Up to 12 water supply / waste water projects prepared, funded and completed.*

- 1.1 Identify priority investment needs
- 1.2 Prepare Feasibility Studies including Preliminary design
- 1.3 Prepare Final Design and Tender Documents
- 1.4 Ensure completed financing arrangements
- 1.5 Hold tenders, sign works contracts and supervise works

Activities leading to Result 2: *Capacities of the municipal directorates in up to 12 municipalities enhanced in the areas of investment planning and management*

- 2.1 In each municipality, perform a SWOT analysis of the state of functioning of the directorate responsible for investment.
- 2.2 Design and execute a training and OD programme in collaboration with municipal leaders
- 2.3 Evaluate the results and adjust the programme accordingly

Activities leading to Result 3: *Capacities of Public Utility Companies in up to 12 municipalities enhanced in the areas of technical and administrative management and customer relations*

- 3.1 In each PUC, perform a SWOT analysis of the state of functioning of the company
- 3.2 Design and execute a FOPIP programme
- 3.3 Evaluate the results and adjust the programme accordingly

Component 2

Activities leading to Result 4: *Approximately 25 to 35 environmental projects prepared for funding and executed*

- 4.1 In collaboration with SCTM, create an evaluation committee and determine eligibility criteria and project acceptability criteria
- 4.2 Publish the programme to all eligible municipalities
- 4.3 Identify suitable project proposals for financial and technical support according to eligibility criteria
- 4.4 Deliver technical support for project development (technical and tenders documentation) and implementation planning
- 4.5 Assist and monitor project implementation
- 4.6 Process grant applications after project completion and positive verification

Activities leading to Result 5: Capacities of local governments / Public Utility Companies in the involved municipalities are enhanced in the areas of planning, project development, environmental management and service delivery to citizens

- 5.1 Provide technical support to the planning departments and utility companies of the involved municipalities

Components 1 and 2

Activities leading to Result 6: Awareness of citizens in at least 25-35 municipalities increased in their understanding of the socio-economic-environmental issues of service provision, such as the rational use of drinking water, tariff issues, environmental issues and other key issues

- 6.1 In each municipality, design and execute a public awareness programme on all issues relevant to that municipality, including a basic package and a project-specific one.

Activities leading to Result 7: Further municipalities in Serbia are motivated to develop similar projects

- 7.1 Disseminate project activities to all Serbian municipalities
- 7.2 Identify willing municipalities with a potential for replicating relevant investment projects
- 7.3 Develop information packages for interested local governments, including the basic public awareness package developed in 6.1
- 7.4 Make recommendations as to how and in the framework of which project or funding these municipalities can be accommodated.

This project will be delivered through one direct – delegation agreement with KfW under indirect centralised management.

3.5 Conditionality and sequencing:

Conditionality:

The commitments of funds for Component 1 and 2 have already been made by bilateral agreements between the Governments of Germany and Serbia. Component 2 will be implemented and integrated within the ongoing MICLP. The implementation of Component

1 requires the conclusion of a Loan and Financing Agreement between the Republic of Serbia and KfW, and on-lending Agreements between the Republic of Serbia and the participating municipalities. As the previous Programme I has been implemented in the same legal and organisational framework, there are no major obstacles to be expected in implementation of Programme II of Component 1.

Component 2 is already operational, MICLP has been implemented since Oct 2009.

The Delegation agreement between the European Union Delegation and KfW will be signed on the basis of prior negotiations on management fee percentage, visibility and reporting measures.

Sequencing:

Within the framework of Component 1, participating municipalities and Public Water Utilities have to fulfil the performance criteria for programme eligibility as defined in the programme concept (e.g. collection efficiency, tariff increases, etc.). The results of the Feasibility Studies under preparation have to show investment projects to be agreed upon among the municipalities, the Public Water Utilities and the financing institutions. Participating municipalities under Component 2 are selected according to clear selection criteria and as per their capacity and capabilities for project planning and implementation.

3.6 Linked activities

Links to other IPA programmes

- The EU-funded MISP (CARDS, IPA 2008 and IPA 2010) is providing support to municipalities in similar areas, though without KfW loan financing. Close contact will be maintained with the MISP project management to avoid overlapping activities.
- Municipal Window- Multi-beneficiary IPA provided grants (24 million EUR) to Western Balkan countries for local investment projects funded through IFIs investments. The Republic of Serbia has already benefited from this programme. 6 million EUR grant was provided to EIB project Belgrade Urban Renewal. In addition, 3 million EUR was provided to KfW project- Improvement of Water Supply and Sewerage Systems in Medium-sized towns in Serbia, Programme I. European Commission recommended that further support to local investment projects should be continued through national IPA funds,

Links with CARDS programmes (ongoing and foreseen)

N/A

Links to other programmes

- KfW's support to rehabilitation of water supply systems in the 4 big cities of Serbia (Belgrade, Novi Sad, Nis and Kragujevac), which was concluded in 2009.
- KfW's Programme I - Rehabilitation of Water Supply and Waste Water Systems in seven medium-sized Municipalities (see 3.1 above) is a precursor nearing completion that has valuable lessons for the present and future projects.
- KfW's Programme of Rehabilitation of District Heating Companies which is currently ongoing in 6 municipalities and will be extended in 2011 to further 15 municipalities.

- GTZ supported project “Improvement of Municipal Services”, which elaborates project planning documents for energy efficiency and smaller water supply investments which are financed through KfW supported financing programme through the banks.

3.7 Lessons learned

The projects supported by KfW and implemented through MNIP/SCTM/Banks have led to the following key conclusions:

Component 1

- The municipalities and the PUCs are ready to work hard for the achievement of performance indicators, including the improvement of their internal organisation and their commercial performance (including tariff increases).
- The combination of grants with (subsidised) loans is acceptable for infrastructure financing in the Serbian municipal water and wastewater sector
- The MNIP has sufficient staff and qualifications for the overall programme coordination
- Financing concepts should be tailor-made for each municipality regarding their individual borrowing capacity and investment needs
- Initial investments should rather focus on network rehabilitation providing positive cross-effects on the utilities’ technical and commercial performance (e.g. water loss reduction and energy savings) than expansion of networks.

Component 2

On the implementation level, the experience of other grant schemes (e.g., energy saving facility of EBRD) with regard to administrative procedures, implementation monitoring and verification should be taken into account. It will be important to design procedures for the disbursement of funds under Component 2 that are practical, transparent and easy to administer, while at the same time achieving a seamless integration with the activities and procedures of the MICLP (that will be responsible for implementing the financing scheme).

The financing scheme should therefore be based on the following principles:

- grants will be provided for projects in the relevant categories (waste water, solid waste, energy efficiency, environmental management) that are eligible for technical support by the MICLP and for financing from the KfW credit line up to the availability of grants financial envelope;
- IPA grant will be a fixed percentage (15 to 20 %) of the loan amount sought from the KfW credit line, paid as a one-time subsidy to the municipality via the involved banks upon project completion. Proper completion will be verified by Consultants;
- project implementation in the municipalities will proceed as per the relevant Serbian laws and regulations for planning, public procurement / investment;

Indicative Budget (in EUR millions)

MEGLIP - MUNICIPAL ENVIRONMENTAL GRANT-LOAN INVESTMENT PROGRAMME			SOURCES OF FUNDING									
			TOTAL EXP.RE	IPA EU CONTRIBUTION			NATIONAL CONTRIBUTION				PRIVATE CONTRIBUTION	
ACTIVITIES	IB	INV	EUR	EUR	% (2)	Total EUR	% (2)	Central	Regional/	IFIs	EUR	% (2)
	(1)	(1)	(a) = (b) + (c) + (d)	(b)		(c) = (x) + (y) + (z)		EUR	Local	EUR	(d)	
						(x)		EUR	(z)			
						(y)						
Activity 1												
contract 1.1	X	X	147.1	18.5	13		87			128.6		
TOTAL IB			8.45	1.85		6.60				6.60		
TOTAL INV			139.25	17.25		122.00				122.00		
TOTAL PROJECT			147.7	19.1	13	128.6	87			128.6		

*** National co-financing can be differently arranged between KfW loans and Serbian budget funds in order to minimise the burden for the municipalities

** compulsory for INV (minimum of 25% of total EU + national public contribution)

* expressed in % of the Total Cost (a) for each line / activity / contract / totals

4. INDICATIVE IMPLEMENTATION SCHEDULE

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1	n/a	T+1Q	T+13Q

5. CROSS CUTTING ISSUES

5.1 Equal Opportunity

This project does not target women specifically, but any employment opportunities associated with this project will be open to all citizens, including minority groups and women. Further, the benefits accruing from this project in terms of services to citizens are often of relatively strong importance to women.

The republic of Serbia has adopted the fundamental principles of promoting equality and combating discrimination, participation in the project will be guaranteed on the basis of equal access regardless of, racial or ethnic origin, religion or belief, disability and age. Participation will be open to both: female and male personnel. Records on staff participating in training and other project activities (e.g. project progress reports) will reflect this statement.

5.2 Environment

This project, directly relates to environmental issues in Serbia, will lead to further protection of the environment by providing quality water systems and addressing the problems of lacking sewage treatment. All activities and projects carried out under this project will need to be in line with the relevant EU environmental *acquis*, in particular with Directive 91/271/EEC on urban waste-water treatment, Directive 98/83/EC on the quality of water intended for human consumption and the Directive 85/337/EEC on the assessment of the effects of certain public and private projects on the environment (EIA Directive).

5.3 Minorities

All minorities and vulnerable groups will benefit from this project, as its impact will help ensure a cleaner environment for all. Vulnerable groups tend to suffer disproportionately from environmental degradation and poor municipal services, and will thus benefit directly from their improvement.

ANNEX I: Logical framework matrix

LOGFRAME PLANNING MATRIX FOR Project Fiche	Programme name and number		
MUNICIPAL ENVIRONMENTAL GRANT-LOAN INVESTMENT PROGRAMME	Contracting period expires 2 years after signing of Financing Agreement	Disbursement period expires 5 years after signing of Financing Agreement	
	Total budget : EUR 147.7 million	IPA budget: EUR 19.1 million	
Overall objective	Objectively verifiable indicators	Sources of Verification	
The overall objective is to contribute to progress in the reform of local self-government as part of the decentralisation process; support local development policy consistent with the EU pre-accession strategy and a balanced territorial development by strengthening implementation capacities at local level, more efficient municipal planning, improving service delivery, local government asset management and improvements to the environment.	<ul style="list-style-type: none"> ▪ Degree of independence of LSG units ▪ Quality of LSG planning ▪ Quality of services to citizens ▪ Quality and price of drinking water ▪ Technical parameters e.g. Composition of waste waters discharged, energy saved, air pollutants reduced, etc. 	<ul style="list-style-type: none"> ▪ LSG units reports and assembly minutes ▪ Strategic documents and action plans produced by LSG units ▪ Surveys among citizens and LSG officials ▪ Municipal technical data 	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
The specific objective is to support the execution of municipal environmental projects, improving service delivery to citizens and compliance with the EU acquis in the environmental field while building municipal capacity to plan capital investments, formulate and manage projects and operate and maintain installations.	<ul style="list-style-type: none"> ▪ Levels of citizen satisfaction ▪ Improvement in municipal capacities ▪ Improvement in PUC capacities ▪ Impact on environmental indicators (water quality, air quality, energy efficiency) ▪ Hours of uninterrupted water supply ▪ % of households connected to water supply ▪ % of households connected to sewer 	<ul style="list-style-type: none"> ▪ Municipal assembly minutes ▪ Monitoring of project data ▪ Citizen surveys ▪ Monitoring of waterworks / municipal technical data ▪ Ministry of Environment and Spatial Planning data 	<ul style="list-style-type: none"> ▪ Municipalities / PUCs are willing and able to incorporate learning into institutional culture

Results	Objectively verifiable indicators	Sources of Verification	Assumptions
Component 1			
Result 1: <i>Up to 12 water supply / waste water projects prepared, funded and completed.</i>	<ul style="list-style-type: none"> ▪ No. of projects identified ▪ No of feasibility studies completed ▪ No. of tender dossiers completed ▪ No. of projects with funding assured through signed agreements ▪ No. of tenders held and contracts signed ▪ No of projects completed 	<ul style="list-style-type: none"> ▪ Project reports ▪ Steering Committee minutes 	<ul style="list-style-type: none"> ▪ Institutional capacities keep pace with infrastructure development
Result 2: <i>Capacities of municipal directorates in up to 12 municipalities enhanced in the areas of investment planning and management</i>	<ul style="list-style-type: none"> ▪ Increase in skills and knowledge of officials ▪ Ability of officials to apply increased knowledge in their work ▪ Quality of capital investment planning 	<ul style="list-style-type: none"> ▪ Survey of municipal employees assisted ▪ Municipal plans 	<ul style="list-style-type: none"> ▪ Enhanced capacity is exploited for citizens' benefit
Result 3: <i>Capacities of Public Utility Companies in up to 12 municipalities enhanced in the areas of technical and administrative management and customer relations</i>	<ul style="list-style-type: none"> ▪ Increase in skills and knowledge of PUC officials ▪ No. of FOPIP programmes prepared and agreed ▪ Degree of implementation of FOPIP programmes ▪ Increase in collection rates ▪ Proximity of tariffs to cost-recovery levels ▪ Decrease in Non-Revenue Water and similar parameters ▪ Increase in customer satisfaction 	<ul style="list-style-type: none"> ▪ Surveys of PUC officials ▪ Non Revenue Water levels ▪ Collection rates ▪ Level of cost-recovery rates ▪ Customer satisfaction surveys 	<ul style="list-style-type: none"> ▪ Enhanced technical capacities are made use of to improve efficiency
Component 2 Result 4: <i>Approximately 25 to 35 environmental projects prepared for funding and executed</i>	<ul style="list-style-type: none"> ▪ No. of projects identified ▪ No of feasibility studies completed ▪ No. of tender dossiers completed 	<ul style="list-style-type: none"> ▪ Project reports ▪ Official gazette etc. ▪ Reporting from KfW 	<ul style="list-style-type: none"> ▪ Efficiency and environmental gains are passed on to citizens

Results	Objectively verifiable indicators	Sources of Verification	Assumptions
	<ul style="list-style-type: none"> ▪ No. of projects with funding assured through signed agreements ▪ No. of tenders held and contracts signed ▪ No of projects completed 	partner banks	
<p>Result 5: <i>Capacities of local governments / Public Utility Companies in the involved municipalities are enhanced in the areas of planning, project development, environmental management and service delivery to citizens</i></p>	<ul style="list-style-type: none"> ▪ Increase in skills and knowledge of PUC officials ▪ No. of FOPIP or similar programmes prepared and agreed ▪ Degree of implementation of these programmes ▪ Improvement in operating parameters such as collection rates ▪ Proximity to cost-recovery levels in planned projects ▪ Improvement in technical parameters (such as Non-Revenue Water) ▪ Increase in customer satisfaction 	<ul style="list-style-type: none"> ▪ Project reports ▪ Questionnaires 	<ul style="list-style-type: none"> ▪ Officials with improved capacities are allowed to apply them in their work
<p>Components 1 and 2</p> <p>Result 6: Awareness of citizens in 12 municipalities increased in their understanding of tariff issues, environmental issues and other key issues for service provision in the field of water/WW</p>	<ul style="list-style-type: none"> ▪ Increase in awareness of all relevant issues 	<ul style="list-style-type: none"> ▪ Citizen surveys 	<ul style="list-style-type: none"> ▪ An inclusive, citizen-oriented attitude is adopted more broadly by municipal administrations
<p>Result 7: Other municipalities in Serbia are motivated to develop similar projects</p>	<ul style="list-style-type: none"> ▪ Participation in promotion events by municipalities not taking part in this project ▪ Number of applications / expressions of interest from other municipalities ▪ Number of proposed relevant projects for 	<ul style="list-style-type: none"> ▪ Project reports 	<ul style="list-style-type: none"> ▪ Financing for these projects can be identified at a later stage

Results	Objectively verifiable indicators	Sources of Verification	Assumptions
	subsequent projects to fund <ul style="list-style-type: none"> <li data-bbox="770 331 1431 405">▪ Recommendations for funding mechanisms for these projects 		

Activities	Means & Costs	Assumptions
<p>Component 1</p> <p><i>Activities leading to Result 1: Up to 12 water supply / waste water projects prepared and funded in municipalities pre-selected for programme participation</i></p> <p>1.1 Identify priority investment needs</p> <p>1.2 Prepare Feasibility Studies and additional technical documentation needed for construction</p> <p>1.3 Prepare Final Design and Tender Documents</p> <p>1.4 Ensure completed financing arrangements</p> <p>1.5 Hold tenders, sign works contracts and supervise works</p>	<p>Total IPA funding EUR 19.1 million</p> <p>Total KfW/BMZ contribution up to EUR 128.6 million</p> <p>COMPONENT 1</p> <p>Direct agreement with KfW EUR 14.1 million in IPA funding</p> <p>EUR 57 million in KfW/BMZ funding</p>	
<p><i>Activities leading to Result 2: Capacities of the PUCs in up to 12 municipalities enhanced in the areas of investment planning and management</i></p> <p>2.1 In each municipality, perform a SWOT analysis of the state of functioning of the directorate responsible for investment.</p> <p>2.2 Design and execute a training and OD programme in collaboration with municipal leaders</p> <p>2.3 Evaluate the results and adjust the programme accordingly</p>		
<p><i>Activities leading to Result 3: Capacities of Public Utility Companies in up to 12 municipalities enhanced in the areas of technical and administrative management and customer relations</i></p> <p>3.1 In each PUC, perform a SWOT analysis of the state of functioning of the company</p> <p>3.2 Design and execute a FOPIP programme</p> <p>3.3 Evaluate the results and adjust the programme accordingly</p>		
<p>Component 2</p> <p><i>Activities leading to Result 4: Approximately 25 to 35 environmental projects prepared for funding and executed</i></p> <p>4.1 In collaboration with SCTM, create an evaluation committee and determine eligibility criteria and project acceptability criteria</p>	<p>EUR 5 million in IPA funding</p> <p>EUR 71.6 million in KfW/BMZ funding</p>	

Activities	Means & Costs	Assumptions
<p>4.2 Publish the programme to all eligible municipalities</p> <p>4.3 Identify suitable project proposals for financial and technical support according to eligibility criteria</p> <p>4.4 Deliver technical support for project development (preparation of technical and tenders documentation)</p> <p>4.5 Assist and monitor project implementation</p> <p>4.6 Process grant applications after project completion and positive verification</p>		
<p><i>Activities leading to Result 5: Capacities of local governments / Public Utility Companies in the involved municipalities are enhanced in the areas of planning, project development, environmental management and service delivery to citizens</i></p> <p>5.1 Provide technical support to the planning departments and utility companies of the involved municipalities</p>		
<p>Components 1 and 2</p> <p><i>Activities leading to Result 6: Awareness of citizens in at least 25-35 municipalities increased in their understanding of the socio-economic-environmental issues of service provision, such as the rational use of drinking water, tariff issues, environmental issues and other key issues</i></p> <p>6.1 In each municipality, design and execute a public awareness programme on all issues relevant to that municipality, including a basic package and a project-specific one.</p>		
<p>Activities leading to Result 7: Further municipalities in Serbia are motivated to develop similar projects</p> <p>7.1 Disseminate project activities to all Serbian municipalities</p> <p>7.2 Identify willing municipalities with a potential for replicating relevant investment projects</p> <p>7.3 Develop information packages for interested local governments, including the basic public awareness package developed in 6.1</p> <p>7.4 Make recommendations as to how and in the framework of which project or funding these municipalities can be accommodated.</p>		

ANNEX II: amounts (in EUR million) Contracted and disbursed by quarter for the project (IPA contribution only)

Contracted	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Total
Contract 1	19.1													19.1
Cumulated	19.1													19.1
Disbursement														
Contract 1	8.1				5				5				1	19.1
Cumulated	8.1				13.1				18.1				19.1	19.1

ANNEX III: Institutional Framework – legal responsibilities and statutes

The Coordination Group for the support to development of Local Infrastructure (CG- LI) established in June 2007 includes number of the national stakeholders- Ministry of Public Administration and Local self Government, Ministry of Agriculture, Forestry and Water Management, Ministry of Environment and Spatial Planning, Ministry of Economy and Regional Development, Ministry of Infrastructure, Ministry of Finance, Ministry for National Investment Plan, Standing Conference of Towns and Municipalities, including international partners- the European commission, IFIs and bilateral donors. All these parties are jointly discussing and solving some of the key issues concerning local government reforms. The group meets every three months to define inter-ministerial priorities, taking into account local needs and available funding. Based on previous experience, this group should play a more active role in local development.

In Serbia, public utilities are mandated by their “founders”, the towns and municipalities, to provide important services to the citizens, like water and heat supply, street cleaning, waste disposal and others. Nevertheless, until now, in most cases Republic of Serbia owns the assets of the public utilities. Therefore, cooperation between all levels is a must for successful project implementation. Working Group for Transformation of PUC has been established and led by the Ministry of Economy and Regional Development. This Group includes all relevant national stakeholders and donor community. This Group works on the preparation of the Strategy for transformation of PUCs. KfW supports the work of this Group and strategic efforts of the Government of Serbia in reforming a system of public utilities. This programme will be following the progress on PUCs. The **Public Utility Reform Strategy**, which is being developed is planed to adopt the Strategy by end of 2010.

The Strategy on Public Administration Reform adopted in November 2005, sets out 5 key principles that should underlie the reform: decentralization, de-politicisation, professionalization, rationalization and modernization.

The Ministry of Public Administration and Local Self-Government (MPALSG) performs public administration tasks related to the system of local-self government units and territorial autonomy, election of local government bodies, territorial organization of the Republic of Serbia and work relations in local government units and Autonomous Provinces. The Ministry of Public Administration and Local Self-Government has the overall responsibility of initiating laws concerning local government. In 2007 four laws were adopted related to the accelerating decentralization process in Serbia: the Law on Local Self-Government, the Law on Local Elections, the Law on the Capital City and the Law on Territorial Organization of the Republic of Serbia.

In order to boost the decentralization process in Serbia, the Government of Serbia has formed the National council for Decentralization composed of representatives of central government and local-self government units with an aim to prepare the strategic guidelines on decentralization process in Serbia.

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

Ministry of Environment and Spatial Planning is responsible for spatial planning and town planning planning, waste management sector at national level (legal issues, approving regional plans and permitting). Also, protection of natural resources (air, water, soil,

mineral raw materials, forests, fish fund, wild animal and plant species) and prevention/protection of pollution are overall responsibility of the ministry.

Serbian Environment Protection Fund (further: SEPF) was primarily founded throughout Environment Protection Law in 2004, as independent body within the Government of Republic of Serbia, in order to gain financial resources to develop and protect environment, In 2009, a new Law on Serbian Environment Protection Fund was adopted , which regulates the establishment and operation of the SEPF, defines incomes of the SEPF, sets framework i.e. priorities for financing the projects (solid waste management, cleaning development mechanism, protection and improving of quality of air, water, soil and forests and amortizing climate changes and ozone layer, protection and sustainable use of nature goods and geodiversity, use of renewable energy sources, geological exploration etc.). Taxes and fees from polluters (polluter pays principle) go to the budget of the Fund, it retains 60% of the fees collected, while 40% is returned to the municipality in which the fee had been collected, to be used for environmental projects. The new Water Law envisages water fees from which the fee for polluting water is going to be used by the Fund, hence SEPF started financing activities related to water protection after adoption of this law.

The Ministry of Agriculture, Forestry and Water Management is responsible for the water sector as a whole. The Directorate for Water acts as the ministry's representative. The Directorate for Water under the Ministry of Agriculture and Water Management has overall responsibility for water management issues at the national level.

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

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

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

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

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

ANNEX IV: Reference to laws, regulations and strategic documents

Law on Public Utility Activities

Law on Public Companies and Performing of Activities in Public Interest

Public Debt Law

Law on Assets of the Republic of Serbia

Law on Local Self-Government

Law on Local Elections, the Law on the Capital City and the

Law on Territorial Organization

The Law on Environmental Protection (2004/ amended in 2009)

- Law on Strategic Environmental Assessment (2004/ amended in 2009)
- Law on Environmental Impact Assessment (2004/ amended in 2009)
- Law on Integrated Prevention and Pollution Control (2004)
- The Law on Air Protection (2009)
- The Law on Waste Management (2009)
- The Law on Packaging and Packaging Waste (2009)
- The Law on Chemicals (2009)
- The Law on Biocidal Products (2009)
- Law on Noise and Vibrations (2009)
- Law on Protection from Ionizing Radiation and Nuclear Safety (2009)
- The Law on Protection from Non-Ionizing Radiation (2009)
- The Law on Nature Protection (2009)
- The Law on Protection and Sustainable Use of Fish Fund (2009)
- The Law on Environmental Fund (2009)
- The Law on Water (2010)

The Law on Planning and Construction (2009)

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

Strategy of Public Administration Reform in the Republic of Serbia, Ministry of Public Administration and Local Self-Government, Belgrade 2004, stresses the importance of the decentralisation process and basic principles for its implementation. The fundamental objective of the reform is to provide a high quality of services for citizens through de-concentration of the state administration, delegation of power from the central toward lower levels and decentralisation. The Strategy also underlines the need for

securing adequate mechanisms by which local government representatives will be in position to coordinate and develop long term capacities in direct cooperation with the Government and corresponding bodies of the central administration, or through the national association of cities and municipalities. The purpose of the public administration reform process in the Republic of Serbia is to transform the whole system of administration (central administration and local self-government) in order to harmonize it with overall reform policy.

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

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

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

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

Strategy for Development and Encouraging Foreign Investments

Local Development Plans adopted by Local Governments /Municipalities across Serbia

National Employment Strategy 2005-2010

The National Programme of Environmental Protection (2010-2019) lays down a set of objectives for Government policy over 2010-2019 at three levels: short-term (2010-2014), which are considered the most relevant to this project; continuous (over the whole period of the National Programme); and medium-term (applying to the 2015-2019 period only).

The Waste Management Strategy (2010-2019) with Action plan define objectives, actions /measures that covers period 2010-2014.

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

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

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

ANNEX V: Details per EU-funded contract where applicable:

KfW and EU Delegation in Serbia will elaborate the terms and conditions of a similar delegation agreement for the above mentioned Project. In the past, there were many cooperation agreements between KfW and European Commission in managing various projects funded by the EU.

For example, In 2009, KfW/CoB have signed contribution agreement for a project *Improvement of Water Supply and Sewerage System in medium-sized towns in Serbia* supported through the grants of Multi-beneficiary IPA, *Municipal Window Programme*.

Also in 2009, KfW signed a Cooperation Agreement with EU Commission in the framework of the Neighbourhood Investment Facility.