

FINAL REPORT

ASSESSMENT OF THE MONTENEGRO COMPETITIVENESS PROJECT AND THE COMMUNITY REVITALIZATION FOR DEMOCRATIC ACTION – ECONOMIC PROGRAM

Submitted to USAID/Montenegro

By

**Stephen C. Silcox, Team Leader
Senior Enterprise Development Advisor
EGAT/EG & E&E/EG
USAID/Washington**

**Judith D. Hansen
Senior Municipal Development Consultant**

**Dragana Radavic
Executive Director
Center for Entrepreneurship and Economic Development**

**Natasa Obradovic
Local Government Development Specialist**

March 15, 2008

ACKNOWLEDGEMENTS

The Assessment Team would like to thank Vladan Raznatovic and Savo Djurovic, the Cognizant Technical Officers for the CRDA-E and MCP projects, respectively, for their assistance and over direction on the design and execution of this assessment. Their assistance in arranging logistics and meetings with the various parties necessary to conduct this assessment was invaluable. We would also like to thank Sanja Nikolin of the Program Office of USAID/Belgrade and Joseph Taggart, Officer-in-Charge, and Vesna Brajovic, program coordinator, of USAID/Montenegro for their inputs and guidance.

We would also like to thank the implementation team of Booz Allen Hamilton for their guidance on the MCP Project and the implementation teams of CHF and IRD for their guidance and assistance on the CRDA-E Project. Their explanations of the history of the various projects and their transformations over time helped to give this assessment a good historical perspective. We also appreciate the time they spent with the team as well as their provision of the background documents on the projects and help in arranging meetings with their project clients and partner organizations.

Finally, we would like to thank the representatives of the various agencies and ministries of the Government of Montenegro, local government officials, private businesspersons, NGO staff, and other clients of the MCP and CRDA/CRDA-E projects. Their insights into the projects and their impressions of the strengths and weaknesses of the projects made this assessment possible.

The opinions and observations expressed in this assessment are those of the assessment team members only and do not necessarily reflect the official position of USAID.

Stephen C. Silcox
Team Leader

TABLE OF CONTENTS

	<u>Page No.</u>
Acknowledgements	i
Table of Contents	ii
List of Acronyms and Abbreviations	iii
Executive Summary	iv
Purpose of the Assessment	1
Background	1
Context for Economic Impact	
Context for Increased Public Participation in Local Government	
Project Descriptions	
CRDA/CRDA-E	
MCP	
Methodology of the Assessment	8
Findings	9
Economic Impact – CRDA/CRDA-E Projects	9
Strengths	
Weaknesses	
Economic Impact – MCP Project	15
Strengths	
Weaknesses	
Citizen Participation Impact – CRDA/CRDA-E Projects	23
Strengths	
Weaknesses	
Conclusions	27
Economic Impact	
Citizen Participation Impact	
Programmatic Recommendations for Future Activities	31
Annexes	
Annex A – Statement of Work for the Assessment	
Annex B – List of Persons/Organizations Contacted/Interviewed	
Annex C – Documents Reviewed	
Annex D – Discussion Paper Presented at the Team Debriefing	
Annex E – Discussion of the Transition from CRDA to CRDA-E	
Annex F – Influence of External Changes on Achievement of Results	

LIST OF ACRONYMS AND ABBREVIATIONS

BAH	Booz Allen Hamilton, Inc., implementer of the MCP project
BGI	Business Growth Initiative Project
CAC	Community Action Committee
CDC	Community Development Committee
CHF	CHF International, an implementer of the CRDA/CRDA programs
CRDA	Community Revitalization through Democratic Action program
CRDA-E	Community Revitalization through Democratic Action – Economic
CSTI	Centre for Sustainable Tourism Initiatives
ERA	(Montenegro) Economic Reform Agenda
EU	European Union
FORS	Foundation for the Development of Northern Montenegro
GLG	Good Local Government program
GoM	Government of Montenegro
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (a German donor agency)
HACCP	Hazard Analysis and Critical Control Point
IMEX	A global exhibition for the meetings and incentives travel industry held each spring in Frankfurt
IRD	International Relief and Development, an implementer of the CRDA/CRDA-E programs
ISO	International Standards Organization
LEDC	Local Economic Development Councils
LEDPT	Local Economic Development Planning Teams
M&E	Monitoring and Evaluation
MCP	Montenegro Private Sector Development and Competitiveness Project
MHA	Montenegro Hotel Association
MICE	Meetings, Incentives, Conventions and Exhibitions
MOTEP	Ministry of Tourism and Environmental Protection
MNTO	Montenegro National Tourism Organization
NGO	Non-Governmental Organization
PR	Public Relations
RCC	Regional Cluster Committee
SME	Small and Medium-sized Enterprises
SMEDD	Directorate for the Development of Small and Medium-sized Enterprises
USAID	United States Agency for International Development
Web-PRS	Internet-Based Project Reporting System
WICM	Wood Industry Council of Montenegro

EXECUTIVE SUMMARY

PURPOSE OF THIS ASSESSMENT

The primary purpose of this assessment was to provide USAID/Montenegro with an objective, external, economic impact assessment of two key, but different USAID/Montenegro programs that will be closing, to apply experience to the next generation economic growth programs including Local Economic Development project, as well as to higher level (national) interventions. For the purpose of this assessment, economic impact was defined as changes in economic activity within each CRDA Region and/or Montenegro Private Sector Development and Competitiveness Project (MCP) sector, resulting from investments and activities under these projects in combination with other major events identified. To the extent possible, USAID was interested in better understanding and quantifying the ‘value added’ of the two activities to be assessed in terms of their relative merits against opportunities lost and unmet needs.

Given the broader original conceptual design of the Community Revitalization through Democratic Action (CRDA) program, the secondary purpose of the assessment was to examine efficiency, sustainability and relevance of CRDA as a vehicle for citizen participation and to include specific areas jointly covered with a prematurely closed local government activity (Good Local Government (GLG) Program), which had planned overlap on certain participation functions/outcomes.

CONTEXT OF THE PROJECTS ASSESSED

Various factors go into producing economic growth within a country. The CRDA and MCP projects have impacted on some of those factors, in conjunction with other USAID projects in Montenegro that deal with other factors critical to economic development. This assessment addresses how these two projects have had economic impact in Montenegro as well as how the CRDA and CRDA-E projects have increased citizen participation in local government.

Citizen participation is a key element in promoting democratic governments. This participation is strongest at the level of local government, since average citizens are usually in a position to make greater impacts on local government as a result of its proximity and relationships with local leaders. Local government also has greater ability to impact directly upon the lives of local citizens. Community groups and NGOs frequently can exert greater pressure on local leaders than on public officials at district and national levels. The key to this participation is citizen recognition that they can actually affect local government decisions and organization of community groups to promote their interests through local governmental bodies.

Community development was a broad term that was used in the CRDA context to describe a variety of activities at the local level in which communities drive and control the decisions and actions that affect their lives. In other words, community development was seen as a mechanism for active citizen participation and local collaboration in the selection and implementation of activities that have tangible community-level benefits. Through this approach, various sectors of the community were brought into productive partnerships. The scope of such projects within CRDA was very broad and it focused on local infrastructure rehabilitation, job creation, support to micro entrepreneurs, capacity building and networking of cooperatives and associations, reproductive health problem solving, and more generally leveraging of resources through public private partnerships.

This assessment compares the citizen participation impact of the original CRDA Project and the CRDA-E project that followed. The change in the structure of the local community groups from CACs/CDCs to LEDCs/LEDPTs and its impact on citizen participation as well as on the economic impact of the projects is also analyzed.

The Assessment Team drew upon an excellent previous assessment of the CRDA project conducted in August and September 2004. The team agrees with those findings and has both built upon those findings as well as considering how the change from CRDA to CRDA-E impacted upon those findings.

BRIEF DESCRIPTION OF THE PROJECTS

The original CRDA Project was designed as a \$47 million USAID program to be implemented by two implementing organizations in 21 municipalities throughout Montenegro from April 2002 to August 2008. It was designed as a three-year program with an option to extend for two additional years. The project was awarded to CHF International and International Refugee Development (IRD) in April 2002 and CHF was given responsibility for the northern area of Montenegro and IRD for the south. At the time of the consideration of the awarding of the option years, the U. S. Embassy shifted programming priorities to focus almost exclusively on economic development and renamed the project CRDA-E. Following that shift, implementing partners committed anywhere in the range from 75% – 90% of resources to economic development. The projects were extended for an additional two years in April 2005. At the time of this assessment, CHF had been awarded an extension for an addition year for its work in the north and IRD was closing down its operations. Total funds expended over the life of the two projects through 2007 were slightly over \$50 million.

The Montenegro Competitiveness Project (MCP) was a three-year program funded at \$4.3 million and awarded to Booz Allen Hamilton, Inc. in late June 2004. It was designed to provide technical assistance to the Montenegrin private sector in the tourism, agribusiness and wood industries sectors. MCP's mission was increased economic growth resulting in a broader-based prosperity for the people of Montenegro.

FINDINGS

ECONOMIC IMPACT – CRDA/CRDA-E PROJECTS

Strengths of the CRDA/CRDA-E Projects

- CRDA laid the foundation for local economic development
- Public-Private partnerships and funding/in-kind services from the private sector were encouraged
- Action Plans developed by the Local Economic Development Councils/Planning Teams are currently being used and updated by the municipalities
- Business barriers were reduced through the opening of One Stop Shops
- Business Associations and Municipal Tourist Offices have been fostered and/or strengthened
- Targeted trainings and education benefited a variety of business stakeholders.
- More transparent, and likely, more cost-effective, local procurement
- Some CRDA-developed projects were eventually funded with non-CRDA funds, demonstrating the ongoing usefulness of the CRDA planning process
- CRDA-assisted organizations generated jobs and income through profit-making enterprise spin-offs
- Local municipalities formed CRDA-funded local enterprises
- CRDA established two local NGOs to provide long-term development assistance to northern Montenegro

Weaknesses of the CRDA-E Project

- Limited communication/collaboration took place between the CRDA-E implementers and the implementers of MCP and GLG
- Sustainability of the NGOs and business associations that received CRDA funding is uncertain

ECONOMIC IMPACT – MCP PROJECT

Strengths of the MCP Project

- “Opened the minds” of Montenegrin entrepreneurs to new markets and the potential for exports – coupled with increased expectations in terms of meeting the demands of those markets
- Strengthened selected business associations and the formation of new associations, such as the Montenegro Wood Industry Council
- MCP contributed significantly to development of the tourism sector and, to a lesser extent, the wood products industry
- Strengthened the capacity of the Montenegro Tourism Organization, the Faculty of Tourism at the University of Bar, and trained local tourism organizations and travel agents/hotel staff in tourism management and marketing
- Supported efforts to extend the tourism season through the development of the Meetings, Incentives, Conventions and Exhibitions (MICE) market

- Provided assistance to the GoM on tenders for sale of Sveti Stefan and other privatizations of tourism properties
- Improved marketing/branding/packaging of firms assisted
- Introduced and provided assistance to targeted Montenegrin enterprises on HACCP and other international standards
- Improved the capacity of enterprises to prepare for and participate in trade shows through cost-share arrangements with the firms, including collaboration with the Directorate for the Development of Small and Medium-sized Enterprises (SMEDD), the Ministry of Agriculture and the Ministry of Tourism

Weaknesses of the MCP Project:

- Lack or shortage of project impact data and targets agreed upon by BAH and USAID
- Work in the agribusiness sector was more focused on firm-level assistance and had less impact on the sector as a whole
- The sustainability of the Wood Industry Council of Montenegro (WICM) is still in doubt
- Although some collaboration between MCP and CRDA occurred, it could have been expanded and greater synergies developed
- There were no local business service provider spin-offs

CITIZEN PARTICIPATION IMPACT

Strengths of the CRDA and CRDA-E Projects

- The CRDA established a formal process for citizen participation; citizen participation methodology and processes by both CHF and IRD were very successful
- The CRDA Project increased trust by citizens in local government
- The CRDA Project improved citizen participation in local government
- CRDA identified and developed new local leadership
- LEDC/LEDPT training helped local leaders to consider and analyze economic issues better than in the past through an objective decision-making framework
- As mentioned under Economic Impact, the citizens involved in the CRDA process in some cases found support and funding for priority projects when CRDA funding was not available
- CRDA-E regional working groups, projects and advocacy efforts were undertaken in both northern and southern Montenegro

Weaknesses of the CRDA and CRDA-E Projects

- As noted above, there was limited communication and collaboration between the implementers
- Although the citizen groups created under the CRDA Program produced substantive positive results, the evidence of the sustainability of the actual committees and councils was not encouraging

CONCLUSIONS

ECONOMIC IMPACT

- Both the MCP and CRDA/CRDA-E Projects had a significant impact upon economic development in Montenegro
- The use of grants by the CRDA/CRDA-E projects to promote local economic development projects was a reasonable approach in a post-conflict environment
- The MCP Project produced greater economic impact in the tourism sector where it took a comprehensive approach to affect improvements in the sector
- The enterprise development approaches used by both the MCP and the CRDA/CRDA-E projects were appropriate and in accordance with the project designs. While the MCP project focused more on private firm development, the CRDA/CRDA-E projects also helped to develop private firms within the context of the overall community development purpose of those projects
- The MCP project could have done more in the areas of policy reform and developing the capacity of local business service providers that would have helped to increase the sustainability of their firm-level assistance activities.
- The sustainability of the activities of the CRDA-CRDA-E project implementers in the area of business association development and BSP spin-offs is still in question

CITIZEN PARTICIPATION IMPACT

- Increased citizen participation in local government as a result of the CRDA/CRDA-E projects led to increased trust by citizens in local government and the process for community decision making
- The CRDA/CRDA-E projects both identified and developed new local leadership that helped to broaden the base of active community participants
- The actual community development committees and councils established by the CRDA/CRDA-E projects will probably not be sustained after the CRDA-E project comes to a close. However, the skills developed by those committee and council members will remain and can be tapped by the same communities and municipalities in the future
- The transition from the CRDA to CRDA-E projects created some confusion and negatively impacted on project performance for the first year of the CRDA-E project. The limited project coordination between the GLG and CRDA projects also caused some overlap and duplication.
- The monitoring and evaluation system established by the CRDA/CRDA-E projects was extensive and appears to have permitted both project implementers and USAID to effectively track results of the projects

PROGRAMATIC RECOMMENDATIONS

- Future projects should build on the successes of the CRDA/CRDA-E and MCP projects, both in terms of citizen participation mechanisms and to strengthen sectors in which the projects have been successful to date
- The geographic and somewhat political isolation of the North, as well as its limited resources argue for more assistance to increase their economic growth prospects
- To maximize the impact of local economic development and job creation, USAID must clearly identify obstacles, and develop realistic opportunities that enhance the chance for competitive local economic growth
- Further capacity building should be provided to targeted businesses, business service providers, and associations to encourage local investment and leverage other donor and GOM funds

PURPOSE OF THIS ASSESSMENT

The primary purpose of this assessment was to provide USAID/Montenegro with an objective, external, economic impact assessment of two key, but different USAID/Montenegro programs that will be closing, to apply experience to the next generation economic growth programs including Local Economic Development project, as well as to higher level (national) interventions. For the purpose of this assessment, economic impact was defined as changes in economic activity within each CRDA Region and/or Montenegro Private Sector Development and Competitiveness Project (MCP) sector, resulting from investments and activities under these projects in combination with other major events identified. To the extent possible, USAID was interested in better understanding and quantifying the ‘value added’ of the two activities to be assessed in terms of their relative merits against opportunities lost and unmet needs.

Given the broader original conceptual design of the Community Revitalization through Democratic Action (CRDA) program, the secondary purpose of the assessment was to examine efficiency, sustainability and relevance of CRDA as a vehicle for citizen participation and to include specific areas jointly covered with a prematurely closed local government activity, the Good Local Government (GLG) Program, which had planned overlap on certain participation functions/outcomes.

In order to achieve the purposes of the assessment, the assessment team sought to capture effective approaches, analyze utility of performance monitoring efforts and consider respective outcomes and results, and influence of internal and external changes on achievement of results.

BACKGROUND

Context For Economic Impact

Most U. S. assistance to Montenegro is funded by the SEED Act, the purpose of which is the transformation of Eastern European countries to market-oriented democracies. USAID, the World Bank and other donors, as well as world-renowned economists, have long stressed that Eastern Europe and countries from the former Soviet Union need to build an effective policy and regulatory environment for private sector development as well as the physical infrastructure to support economic growth. These countries must also build and develop the capacity in critical government, financial and private sector institutions to develop and grow the private sector in those countries.

Western market economies have had hundreds of years to develop their policies and institutions as well as their physical infrastructure to arrive at their current stage of modern economies that can compete in the current global marketplace. Eastern European countries must accomplish this feat within a couple of decades if their economies are to grow and develop enterprises that can compete in products and services that will generate

jobs. Thus, it is important to realize that job creation is a long-term objective of USAID assistance, but unless the policies, institutions and infrastructure are in place to create the enabling environment for effective job creation, short-term jobs created by enterprise development projects will not be sustainable over the long-term. Projects that assist enterprises to compete in the modern global marketplace through training, technical assistance and finance will help to develop the human resource base for growth as improvements to the enabling environment expands prospects for that growth.

A quote from the May 2003 Connecticut Economic Digest is instructive on this issue.

It is important to realize that a principal reason for doing many economic and community development projects is to achieve public policy objectives other than job creation and retention, such as, brownfield remediation and redevelopment, urban revitalization, infrastructure improvements, job training, cultural/quality of life improvements, promoting economic diversity, and maintaining and expanding the state and local tax base. While job creation and retention is certainly one of the more important goals of a government's economic development efforts, it is not the only goal. The other socio-economic benefits derived from economic and community development investments must not be overlooked. And to ensure that public funds are appropriately directed, government has at its disposal numerous tools in which to gain insight into the needs of its citizenry and to construct and test public policy alternatives. (From "Estimating the Impact of Public Policy and Investment Decisions" By W. Michael Regan, Deputy Director and Mark Prisloe, Chief Economist, DECD)

The following factors are important in increasing productivity within an economy, which is what drives economic growth in market-based economies.

- Political Stability
- Macro-Economic Policies
- Micro-Economic Policies and Regulations
- Democratic development of governments and citizen participation
- Institutional Development in both the Private and Public Sectors
- Workforce Development
- Physical Infrastructure
- Financial System Development
- Business Services Development
- Technological Advances
- Access to New Markets
- Increased Employment with Greater Productivity
- Increased Incomes
- Gender and Vulnerable Group Access to Economic and Political Opportunities

In sum, various factors go into producing economic growth within a country. The CRDA and MCP projects have impacted on some of those factors, in conjunction with other USAID projects in Montenegro that deal with other factors critical to economic development. This assessment addresses how these two projects have had economic

impact in Montenegro as well as how the CRDA and CRDA-E projects have increased citizen participation in local government.

Context For Increased Citizen Participation in Local Government

Citizen participation is a key element in promoting democratic governments. This participation is strongest at the level of local government, since average citizens are usually in a position to make greater impacts on local government as a result of its proximity and relationships with local leaders. Local government also has greater ability to impact directly upon the lives of local citizens. Community groups and NGOs frequently can exert greater pressure on local leaders than on public officials at district and national levels. The key to this participation is citizen recognition that they can actually affect local government decisions and organization of community groups to promote their interests through local governmental bodies.

Community development was a broad term that was used in the CRDA context to describe a variety of activities at the local level in which communities drive and control the decisions and actions that affect their lives. In other words, community development was seen as a mechanism for active citizen participation and local collaboration in the selection and implementation of activities that have tangible community-level benefits. Through this approach, various sectors of the community were brought into productive partnerships. The scope of such projects within CRDA was very broad and it focused on local infrastructure rehabilitation, job creation, support to micro entrepreneurs, capacity building and networking of cooperatives and associations, reproductive health problem solving, and more generally leveraging of resources through public private partnerships.

This assessment compares the citizen participation impact of the original CRDA Project and the CRDA-E project that followed. The change in the structure of the local community groups from CACs/CDCs to LEDCs/LEDPTs and its impact on citizen participation as well as on the economic impact of the projects is also analyzed.

The Assessment Team drew upon an excellent previous assessment of the CRDA project conducted in August and September 2004. The team agrees with those findings and has both built upon those findings as well as considering how the change from CRDA to CRDA-E impacted upon those findings.

Project descriptions

USAID/Montenegro provided the following descriptions of the two projects in the statement of work for this assessment.

The original CRDA Project was designed as a \$47 million USAID program to be implemented by two implementing organizations in 21 municipalities throughout Montenegro from April 2002 to August 2008. It was designed as a three-year program with an option to extend for two additional years. The project was awarded to CHF and to International Refugee Development (IRD) in April 2002 under a full and open

competition Request for Assistance. CHF was given responsibility for the northern area of Montenegro and IRD for the south. At the time of the consideration of the awarding of the option years, the U. S. Embassy shifted programming priorities to focus almost exclusively on economic development and renamed the project CRDA-E. Following that shift, implementing partners committed anywhere in the range from 75% – 90% of resources to economic development. The projects were extended for an additional two years in April 2005. At the time of this assessment, CHF had been awarded an extension for an addition year for its work in the north and IRD was closing down its operations. Total funds expended over the life of the two projects through 2007 were slightly over \$50 million.

CRDA/CRDA-E Basic Facts

- 1,161 projects worth \$50.6 million implemented in 21 municipalities throughout Montenegro from 2002 to 2007.
- Designed as a three-year program that was extended for an additional two years.
- Two regions served by a different implementing partner. North by CHF and South by IRD
- Objective: “a community development program aimed at promoting citizen participation in and between communities to identify and address the critical needs of the economic and social revitalization of community life”.
- Communities’ cost share contribution higher than 50%
- Project categories: Social (151 project worth 1.1 million); infrastructure (252 projects worth \$24.7 millions); health (45 projects worth \$1.5 millions); environment (67 projects worth \$2.01 millions); education (149 projects worth \$4.01 millions); additional economics (283 projects worth \$6.2 millions); agriculture (110 projects worth \$6 millions); tourism (104 projects worth \$4.8 millions)

Description of CRDA Approach to Citizen Participation

The CRDA “Community” element evolved from 2002-2005, undergoing a number of transitions while retaining a basic modus operandi: communities prioritize projects for implementation using shared resources of CRDA implementers, the community and local government. The implementation started in a post-Milosevic period as the major programmatic element in USAID’s response to a perceived need for quick and tangible improvements that would inspire hope among broad citizen groups and mobilize them for support of a comprehensive reform process in the context of weak institutions, deeply felt mistrust of citizens in institutions, and unrealistic expectations of the population. Although the building blocks and sequencing varied between implementers, both had community mobilization teams, Community Development Committees (CDCs) or Community Action Committees (CACs). CDC/CAC members were elected in public meetings and were responsible for organizing meetings and spearheading projects. Beginning in 2003, Regional Cluster Committees (RCCs) determined regional priorities while local communities prepared proposals that were evaluated by CRDA implementers. Special Interest Groups, including youth, women, disabled, minorities and environmental groups were encouraged to form so that their special interests could also be addressed.

Description of the CRDA-Economic Approach

The shift to CRDA-Economic in 2005 implied changes in the Workplan structure for both implementing partners. At the same time, CRDA was extended until April 2007. The implementers were focused on agriculture and tourism sector development, SME development, economic environment, trade and promotion and market access, and special initiatives not associated with economic development.

CRDA Key Indicators

CRDA partners used a standardized set of indicators and report on a CRDA-wide M&E system known as Web-PRS (Project Reporting System) developed and administered by CHF. Generally speaking, the database is capable of effectively capturing and reporting the data; however, data entered into the system were subject to errors in measurement. Key performance data tracked for CRDA include: 1) person months of employment generated; 2) additional income generated; 3) number economic development activities initiated, other indicators include: 4) total number of CRDA projects; 5) number of direct beneficiary impacts of CRDA projects; 6) number of citizens actively participating in CRDA process; 7) percentage of community contribution for all projects; 8) percentage of minorities or women participating in CRDA process; and 9) Number of civic participation, civil works and environmental projects initiated

Montenegro Private Sector Development and Competitiveness Project (MCP) Basic Facts

The Montenegro Competitiveness Project (MCP) was a three-year program funded at \$4.3 million and awarded to Booz Allen Hamilton, Inc. in late June 2004. It was designed to provide technical assistance to the Montenegrin private sector in the tourism, agribusiness and wood industries sectors. MCP's mission was increased economic growth resulting in a broader-based prosperity for the people of Montenegro. The project was closing down as this assessment was undertaken.

Description of the Montenegro Private Sector Development and Competitiveness Project (MCP) Approach

MCP worked at the firm level, helping individual firms find competitive traction and supporting the private sector-led economic growth objectives of Montenegro's Economic Reform Agenda (ERA). MCP provided this assistance on three levels:

- To improve and expand organization and industry-wide access to both domestic and foreign export markets through enhancement to operations, manufacturing, and overall product quality. This was achieved through training in market research, marketing, branding, international certification, customer services, quality assurances, and packaging. MCP also helped high potential local firms compete for, and attract, foreign and domestic investment.
- MCP partnered with local organizations and business service providers to provide training, improve understanding and develop specific skills required to thrive in a market-driven economy.

- With vital input from the private sector, MCP worked in coordination with other USAID and donor programs to improve and institutionalize reforms already underway. MCP also worked with the Government of Montenegro to remove barriers to conducting business, and achieve harmonization with EU criteria

Montenegro Private Sector Development and Competitiveness Project (MCP) Key Results

Tourism

Transaction Counsel: At the invitation of the Ministry of Tourism, MCP played an instrumental role in the 30-year lease of Sveti Stefan and two adjacent properties, to the renowned Aman Resorts. This transaction is expected to be substantial in scale, with incremental investment of over 40 million Euros, and nominal revenue of over several hundred million Euros during the term of the lease, as well as to have a significant multiplier effect through new employment and the stimulation of incremental investment and tourism development. This transaction is also expected to result in the creation of further resort destinations that will demonstrate the high level of product that can be created and operated in Montenegro, and the type of upscale consumer that can be attracted to Montenegro if the appropriate product and infrastructure is developed. MCP has provided expert advice on the sale/lease of tourism assets on an ongoing basis.

MICE Market: The MICE (Meetings, Incentives, Conventions and Exhibitions) market offers particular promise for Montenegro, given its potential to build incremental revenues for the tourism sector during shoulder and off-peak periods. Working in close partnership with both the public and private sectors, MCP performed a comprehensive market analysis, as well as implemented several initiatives to support the industry in moving towards a viable MICE-focused industry marketing and sales effort. As a result, under the umbrella of the Montenegro National Tourism Organization, and with support from MCP, six Montenegrin companies exhibited for the first time at IMEX in Frankfurt, Germany in April '07, the premier trade show for the meetings and incentive travel industry. The National Tourism Organization estimated that the presence at this show could result in Euros 5.6 million (US\$ 7.5 million) in direct revenue to Montenegro. In addition, substantial firm level assistance has been provided, in order to help firms connect with potential buyers of the Montenegrin meetings and convention product.

Training/Knowledge Transfer: MCP worked extensively with small, medium and larger firms in the tourism sector to provide technical assistance in areas as diverse as tourism management, international electronic distribution and booking systems, internet marketing, basic computer skills, graphic design and brochure production, HACCP certification, food safety, and food and beverage marketing. Project focus was on practical assistance to allow firms to operate more efficiently, be more effective operators and marketers, and compete more effectively, both within Montenegro and in the international marketplace. In total,

over 50 trainings were provided by MCP in the tourism sector to over 1,400 participants, 40% of whom were women.

Agribusiness

Expert Advice: MCP provided expert advice to Montenegrin SMEs in order to improve their business knowledge, market research, branding, packaging, labeling, production processes, etc. For example, MCP identified an expert for herbs and medicinal plants, a sector that was a strong export sector before the war, and had significant potential. The expert, who came to Montenegro four times, counseled local firms on harvesting, storing and processing herbs, established business contacts in the U.S. and promoted Montenegrin herbs through articles in a number of technical publications in the U.S.

- 19 trainings were provided to agribusiness firms by MCP to date, with a total of 416 participants, 148 of them women.
- Trade Show Support: MCP supported Montenegrin companies' trade show participation by cost-sharing expenditures. The focus was on fostering business relationships in the region. As an example, in May 2007, MCP supported the participation of 12 Montenegrin agribusiness companies at the Agriculture Trade Show in Novi Sad, Serbia, by cost-sharing space rental, booth design, and construction. This trade show is the largest in its sector in the former Yugoslavia. The participating companies received over 150 quality awards for their products. Several exhibitors are now in negotiations with prospective clients, primarily from the region.
- Food Safety Certifications: The implementation of food safety and quality systems was one of MCP's priorities. MCP supported Montenegrin companies wishing to become HACCP certified. This food safety certification called Hazard Analysis and Critical Control Point or HACCP serves as a production quality seal and is a prerequisite for exporting to the EU. Before MCP became active in this area, only one company in Montenegro was HACCP certified. With MCP's help, 20 firms have now acquired or are in the process of acquiring HACCP certification.
- As a result of MCP's support to the agribusiness sector, exports of over Euros 3 million (US\$ 4.1 million) were generated since project inception.

Wood/Furniture

- Trade Association Building: One of MCP's strategic objectives was to organize the private sector under a formal legal entity to represent the commercial interests of the wood industry and implement strategic initiatives to improve the business environment. MCP helped create the Wood Industry Council of Montenegro (Savjet Drvne Industrije Crne Gore – SDICG), which currently has 21 members.
- Access to New Technology and New Markets: Attendance at international wood processing machines, tools, and furniture trade shows and symposiums exposed Montenegrin wood processors to global leaders in technology. MCP assisted Montenegrin firms on a cost-share basis to attend trade shows in Turkey, Italy, Montenegro, Bosnia-Herzegovina, Germany and Russia, and to

attend technical symposiums for the forest products industry in Austria and Serbia. In October of 2006, MCP assisted five Montenegrin producers to exhibit at the International Furniture and Interior Decoration Fair in Zagreb, Croatia. The objective was to access potential buyers in the international market for hotel refurbishment and construction. MCP also assisted a producer of curly maple and spruce planks used in making high quality string instruments, to exhibit at the 16th International Exhibition of Musical Craftsmanship Instruments and Violin Accessories – Mondomusica 2006, in Cremona, Italy. Euros 50,000 in export sales was a preliminary result of MCP companies' participation in the Zagreb and Cremona trade shows alone. MCP also assisted furniture producers to exhibit at a regional trade show in Budva, Montenegro, in March 2007, and in Banja Luka, Bosnia-Herzegovina in June 2007.

- MCP provided 13 trainings in the wood sector, including sessions on new designs, windows and door manufacturing. A total of 272 company representatives attended, of which 62 were women.
- MCP client companies in the wood sector registered 50% employee growth, 100% sales increase and 141% export growth between 2004 and 2006.

METHODOLOGY OF THE ASSESSEMENT

This assessment was conducted in August 2007 by a team consisting of the following:

- A Senior Enterprise Development Advisor provided by USAID/Washington,
- A Senior Municipal Development Specialist provided by the Business Growth Initiative (BGI) Project from USAID/EGAT/EG,
- A Montenegrin Economic Development Specialist provided by USAID/Montenegro, and
- A Montenegrin Local Government Development Specialist, provided by USAID/Montenegro.

The team reviewed various background documents provided by USAID/Montenegro, including project statements of work, regular project reports, previous project evaluations, Government of Montenegro documents, and other relevant USAID documents. These were reviewed both prior to and during field research in Montenegro.

The team spent fifteen days conducting field research in Montenegro from August 1st through August 15th, 2007. Field research included a number of interviews with project staff, project clients and other recipients of project services. These clients included national and local government officials, community groups, local businesses and business associations. The team interviewed clients in and near Podgorica, Budva, Danilovgrad, Berane, Bijelo Polje, Niksic, and Cetinje. Prior to the departure of the expatriate members, a team debriefing was held at the USAID offices in Podgorica with participation by all key USAID/Montenegro staff and a member of the Program Office in the regional USAID Mission in Belgrade via telephone. A discussion paper with the key findings of the team was reviewed during that debriefing.

The statement of work for this assessment is found in Annex A to this report. The list of persons/organizations contacted/interviewed is found in Annex B and the list of documents reviewed is found in Annex C. The discussion paper presented to USAID/Montenegro at the conclusion of the fieldwork is found in Annex D to this report.

FINDINGS

ECONOMIC IMPACT – CRDA/CRDA-E PROJECTS

Strengths of the CRDA/CRDA-E Projects

- **CRDA laid the foundation for local economic development.**

The previous assessment of the CRDA Project stated that, “CRDA has made a legitimate contribution to jobs and income through the creation of new economic opportunities that have directly resulted from the completion of infrastructure projects with significant economic impact.” CRDA reports, government and local government representatives, NGO’s, media groups and citizens from both southern and northern Montenegro with whom the team met gave examples of how improvements in water systems, roads and electrical services financed in last 7-8 years led to more jobs in the community, both during the implementation of the projects and after, as well as increased incomes. Community representatives pointed out that these infrastructure improvements were essential to develop tourism and the agricultural and business sectors. In addition, Mr. Velizar Vojinovic, Deputy Minister of Agriculture for Water Management, stated that infrastructural developments performed under CRDA created conditions and encouraged the GOM to issue subsequent loans for agricultural developments in rural areas, in order to develop businesses in these localities. He said that as a result of the CRDA project, Montenegro has four successful dairies and meat production plants. According to Mr. Vojinovic, thanks to CRDA implemented projects, agricultural workers have become “modern farmers” who make a good living from their work and pay taxes. He said that this has not always been the case in the past.

Local government officials that the team interviewed agreed that there would not have been the same level of buy-in from the citizens and local government officials if CRDA had been unable to fund infrastructure projects. These types of projects were clearly the citizens’ top priorities and once these priorities were realized, they were convinced of the effectiveness of the CRDA program. These projects also received a great deal of media attention.

In addition, local government officials of Danilovgrad, Berane and Bijelo Polje all stated that the CRDA-funded infrastructure projects resulted in an unexpected benefit, i.e., less people left the villages in search of jobs elsewhere. According to Mr. Sreten Radonjic and Dragoljub Pavicevic, citizens of Municipality of Danilovgrad, CRDA implemented infrastructure projects led to an increase property values at those locations, people

became more interested in running small businesses, migration from those areas to nearby cities was reduced and projects such as water-supply systems, schools, and kindergartens have made great direct impact on citizens' life styles. The Deputy Mayor of Danilovgrad, Mr. Zoran Boskovic, elaborated that one of the most significant preconditions for local government to be able to create a friendly business environment were infrastructure improvements made through CRDA projects. The Mayor of Bijelo Polje, Tarzan Milosevic, pointed out that only 35% of his citizens live in the municipality and the infrastructure projects helped create a more stable economic environment, resulted in increased incomes (e.g., with an improved road farmers could more easily get their products to the market), generated employment and gave his citizens hope for their economic future. He specifically mentioned a new dairy that produces 2 million liters of milk annually and the successful meat company "Mesopromet." (Mesopromet actually received extensive technical assistance from the MCP project.)

Branimir Vujacic, the Secretary of the Ministry of Agriculture, observed that the CRDA implemented projects had numerous benefits – they resolved numerous communal and infrastructure problems in remote areas, developed democratic principles in rural areas of Montenegro, stimulated and encouraged creativity of producers and small businesses. Apart from agricultural development, modern management systems were introduced in small businesses, tourism in villages has been developed and the link between agriculture and tourism has been established. All of these contribute to further economic development.

- **Public-Private partnerships and funding/in-kind services from the private sector were encouraged.**

Particularly under CRDA-E, the Local Economic Development Councils/Planning Teams included municipal government representatives and often had representatives from businesses involved in the targeted sectors. Prior to the CRDA program, public officials and organizations rarely worked with the private sector. An added benefit of this collaboration was the occasional funding or provision of an in-kind service for a CRDA or CRDA-E project by a business. Representatives from Danilovgrad Municipality, who were members of the CDC under CRDA, reported that their role, among other activities, included the mobilization of private capital and establishment of public-private partnerships for the project implemented under CHF. They established cooperation with two private companies – "Elevator" from Podgorica and "Autocesta" from Ljubljana – and obtained in-kind construction materials and financial contributions for local projects. IRD reported that under CRDA-E, private sector participation in IRD implemented projects was 21%, but actually comes to 40% when one includes private contributions incorporated in different business associations. In another example, Tanja Kazanegra, Director of the Local Tourist Organization of Budva reported the establishment of strategic partnership with a private bank, Prva Banka Crne Gore.

- **Action Plans developed by the Local Economic Development Councils/Planning Teams are currently being used and updated by the municipalities.**

The Good Local Governance Project staff and the implementers of the CRDA Program collaborated on the development of five-year Strategic Plans for their municipalities. In turn, CRDA's LEDCs/LEDPTs based their Local Economic Development Action Plans on these Strategic Plans. Local Government Managers, such as Ranko Raicevic in Berane, confirmed that Berane's Action Plan is one of the most important documents that the municipality relies upon to develop its capital budget and economic development activities. Several LEDC/LEDPT members also mentioned that the Action Plans are being revised as circumstances change. The local officer of the Municipality of Ulcinj reported that action plans developed by the LEDC are still in use.

- **Business barriers were reduced through the opening of One Stop Shops.**

IRD established three one-stop shops in Kotor, Tivat and Podgorica, thereby reducing a significant barrier to business in those municipalities. Registering a business in these communities became less time consuming, more efficient and lessened the possibilities for corruption. The following activities were part of this effort:

- Shortened and simplified company registration procedure and collection of final documentation needed to start business;
- Instructions or brochures have been issued to show simplified process, including all the actions by which an individual could save his/her time during business registration;
- Improved cooperation between municipal and national government departments through establishing rules and procedures or instructions to the public officers on how to be sensitive to the needs of entrepreneurs;
- Different offices were consolidated for the simultaneous examination of business premises, in order to reduce repeated time-consuming inspections;
- Shortened the time required for obtaining approvals and limiting their issuing to the period of 4 days maximum.

CHF's reports indicated the establishment of two one-stop shops. However, upon inspection of those localities, it appeared that they were citizen information centers that provided citizen services for other government functions other than business registration, per se. Although CHF's reports discuss the identification and reduction of barriers to business, the team did not encounter any actual examples of this.

- **Business Associations and Municipal Tourist Offices have been fostered and/or strengthened.**

CHF gave grants to several business associations and municipal tourist offices in the start-up phase. Collaboration between the MCP Project and CHF occurred when CHF provided a grant to the Wood Industry Council, which was a recipient of technical

assistance from MCP. CHF provided a six-month grant to pay salaries and utilities, and to purchase computer and office equipment. In addition, CHF funded the participation of Wood Industry Council members as well as representatives of the Prava Mjera Company in the Cremona Mondomusica Fair. Prava Mjera established contacts with various customers and sold wood products worth approximately 10,000 Euros as a result of participation in that fair. In Berane, CHF provided funds for a local NGO to train Romas as licensed chimneysweepers, to outfit them and to form a chimney cleaner service and association. This NGO is currently negotiating permanent jobs for these individuals.

The “Law on Local Tourist Organizations,” a national law adopted in 2004 required all municipalities to create a local tourist office, and in Niksic, Pluzine and Danilovgrad, CHF provided grants to facilitate the establishment of these offices. IRD staff indicated that they also gave start-up grants to local tourist offices. During the first year of their work they supported local tourist offices in Bar, Budva, Kotor, Cetinje and Tivat. The principal support was for IT and office equipment. However, in Cetinje, Bar and Budva they also financed the construction of 8 tourist info-offices. (Cetinje-1, Bar-4, Budva-3). IRD also funded a brochure for the Budva Tourist Office. According to Zeljka Radak of the Ministry of Tourism, CRDA implementers consulted with the Ministry when making final decision on project priorities in tourism, such as designing a web portal for the local tourist organization in Tivat. According to Jovan Martinovic, Director of the Local Tourist Organization of Cetinje, that office opened courtesy of an IRD-financed Information Center that provides free tourist brochures and other information. The Information Center generates revenues from a parking lot and currently employs 6 people. Tanja Kazanegra, Director of the Local Tourist Organization of Budva reported that an IRD-financed regional project published tourist brochures for 7 coastal municipalities. IRD reported other associations that were formed or assisted as a result of regional working groups, including a wine growing association in Nahije, an olive growing association in Boka, restructuring of the Montenegrin Hiking Association, a regional fisherman’s association "Juzni Jadran", an agricultural association "Donja Gorica", and an association of meat-processors from Cevo.

- **Targeted trainings and education benefited a variety of business stakeholders.**

The lack of business knowledge and skills was identified by associations, agricultural producers, entrepreneurs, as a need and resulted in more than ten different training sessions including: beekeeping techniques, berry and fruit cultivation, medicinal herbs production, English language and hospitality training for tour guides, e-business and strengthening women’s business skills. These targeted trainings benefited more than 650 economic actors. Sreten Radonjic and Dragoljub Pavicevic, members of CDCs in Municipality of Danilovgrad, reported how valuable CHF trainings were on how to create rules and procedures for prioritizing and selecting projects, as well as education on how to prepare projects, how to involve media, and other topics.

- **More transparent, and likely, more cost-effective, local procurement.**

Dragoljub Pavicevic, a CDC member in Danilovgrad, among others, noted that all the bids from competing firms were opened and discussed in front of the CDC members. This transparent procurement process was the first time such a system was used and CDC members felt that this resulted in less favoritism and more cost-effectiveness. Zoran Kapisoda, of the Local Tourist Organization of Cetinje, also cited the transparency of the procurement process when he was a member of a CAC and attended the opening of the bids.

- **Some CRDA-developed projects were eventually funded with non-CRDA funds, demonstrating the ongoing usefulness of the CRDA planning process**

Projects adopted by the Community Action Committees, Community Development Councils and Local Economic Development Councils/Planning Teams could not always be funded with CRDA monies because of higher than expected costs or other problems. However, in some instances these citizen members either convinced the municipal officials to fund it, or found other sources of funds from other donors, banks, or private sector sponsors. IRD reports that in Year 2 of CRDA-E alone, five projects were implemented without CRDA-E funding but were generated within the CRDA-E process. These included a village road in Vladimir, Municipality of Ulcinj; a workshop for agricultural implements in Ulcinj; a sidewalk beside the highway from Lastva Grbljanska to Jaz, Municipality of Kotor; a power plant in Blizikuće, Municipality of Budva; a parking lot in Herceg Novi and paving the road in Zupci, Municipality of Bar; and the construction of information centers in the Municipality of Tivat. CHF reported that 18 projects were planned and implemented by its LEDCs that received funding from other sources than CRDA-E.

- **CRDA-assisted organizations generated jobs and income through profit-making enterprise spin-offs**

Both IRD and CHF gave funds to a broad variety of new or existing NGOs, some of which spun off profit-making businesses. Three examples, among many, are as follows. According to the President of Agro Grupa, Ratko Batakovic, the association publishes a magazine for farmers, focusing on improvement of agriculture and sustainable development. The seven employees of the association also work with the local unemployment agency to train its clients in the agricultural field, with all eleven of the trainees so far being employed. The Lim Fishing Association in Berane received funds to construct a guesthouse next to a popular fishing site on a river to serve house fishermen mainly from Montenegro and Serbia and now has three employees. The association plans to build tourist cottages around the guesthouse. The Center for Development of Entrepreneurship of Women has conducted training of local women to improve their computer literacy, provided English language lessons, and sewing courses. The center has also provided training on how to start a business. 185 women have attended the various courses and 80% of them have found jobs, either seasonal or permanent.

- **Local municipalities formed CRDA-funded local enterprises.**

In Montenegro, local municipalities have facilitated the establishment of private businesses in the public interest. For example, the team visited a recycling center in Kotor that is being built by a private company with support from the local Public Utilities Department of the municipality. The center will collect and process glass, plastic, metal and paper and sell the recycled materials for a profit. To encourage recycling, the company has already planned a PR and education campaign, directed towards schoolchildren and housewives.

- **CRDA established two local NGOs to provide long-term development assistance to northern Montenegro.**

CHF established two NGOs, as spin-offs utilizing ex-CHF CRDA staff, to achieve sustainability of its efforts while assisting Montenegro now and in the future. FORS Montenegro, the Foundation for the Development of Northern Montenegro, is a regional development agency that is focusing on sustainable economic development, including regional competitive advantages in encouraging entrepreneurship, facilitating investment and increasing civic participation to improve living standards and support environmental protection. FORS has received funds from CHF, Caritas Luxembourg and the European Agency for Reconstruction for various projects.

The Centre for Sustainable Tourism Initiatives (CSTI) is focusing on the development of sustainable tourism in northern Montenegro. In addition, it is increasing the number of tourists through the provision of tour packages and services by Montenegro Adventures, a travel agency founded and trained by CSTI. CSTI also facilitated the signing of a Memorandum of Understanding between the MCP project and Montenegro Adventures to target the MICE (Meetings, Incentives, Conferences and Exhibitions/Events) market, and was invited to participate in strategic planning workshops with the Ministry of Tourism and other stakeholders.

Weaknesses of the CRDA-E Project

- **Limited communication/collaboration took place between the CRDA-E implementers and the implementers of MCP and GLG.**

Other than a few examples noted above, and CHF encouraging their participants to attend MCP training, there was little communication and collaboration, particularly during the CRDA-E phase. Joint implementer and/or Chief of Party meetings were rare, and there seemed to be little effort on the part of all implementers to work together. However, MCP staff did recognize and take advantage of CHF's presence and connections in the municipalities. Given the limited communication and collaboration, there were most likely some missed opportunities, particularly at the sector level. The Mayor of Bijelo Polje, Mr. Tarzan Milosevic did not consider the CHF and GLG projects to be related and

coordinated, but rather interpreted them as completely separate efforts. He seemed to be unaware of the MCP project activities in his region.

- **Sustainability of the NGOs and business associations that received CRDA funding is uncertain.**

Though some NGOs and business associations are currently thriving after having received CRDA funding, there is a real question as to the sustainability of many of these organizations. A few that we met with have other sources of funds, but as with the Wood Industry Council, the active members have dwindled, membership dues seem difficult to collect and other donor funds are limited. It was also pointed out to us that under CRDA-E there were no funds available to train these groups to help them build their capacity. FORS is beginning to attract donor-funded projects, but it has yet to receive funding from the municipalities as anticipated. And many NGOs which received funding in the past may need further expert advice and assistance to become fully established. Ms. Zeljka Radak-Kukavicic, Secretary with the Ministry of Tourism and Environmental Protection, expressed her disappointment that the CRDA-funded project to encourage the handicraft industry, Golden Hands in Cetinje, had no overspill effect on the region. Golden Hands is operating and remodeling its premises. Concerns were also expressed about a woman's NGO in Ulcinj that has no continuous source of funding and depends mainly on the support/finances provided by the Municipality of Ulcinj. The municipality pays for its facilities and it has no permanent employees so far. While the NGO is considering employing one staff person, it is envisaged that her salary is envisaged will be paid by the municipality. The NGO has received some free promotion services from local media.

ECONOMIC IMPACT – MCP PROJECT

Strengths of the MCP Project

- **“Opened the minds” of Montenegrin entrepreneurs to new markets and the potential for exports – coupled with increased expectations in terms of meeting the demands of those markets**

After almost a decade of isolation and absence from international market, MCP project strongly contributed to (as one MCP client stated during an interview) “opening the minds” of entrepreneurs to new markets and the potential for exports. In that sense, preparing for and attending various domestic, regional and international trade shows not only helped Montenegrin companies in all three sectors covered by the Project to re-establish former linkages and establish new contacts, but also helped them to understand market changes in terms of the needs and requirements of potential international customers. Marc Yanofsky, the senior tourism advisor for MCP mentioned that the project introduced international brands to the Montenegro tourism industry so that Montenegrin companies could compare their products and define benchmarks for future development. In addition, technical assistance provided during the course of the project by different short-term consultants brought a wider perspective to Montenegrin companies to help them frame their growth and development objectives. Violane Konar-

Leacy, the former MCP Chief of Party confirmed this assertion when she said that helping Montenegrin companies to achieve “international visibility” was the greatest achievement of this Project.

As MCP reports stated and as shown in the project description in the previous section of this report, the economic impact of the project was substantial with increased revenues and exports by MCP client companies in the three sectors in which the project worked as well as increased employment in many of the companies assisted.

- **Strengthened selected business associations and the formation of new associations, such as the Montenegro Wood Industry Council**

MCP supported the establishment of the Wood Industry Council of Montenegro (WICM) through technical assistance and trade show organization. As previously mentioned, MCP also collaborated with CHF through a grant from CHF to the WICM to provide for some start up costs. WICM was set up with the idea to organize that industry through a formal legal entity that would represent the commercial interests of the wood industry and implement strategic initiatives to improve the business environment for the industry. As stated by WICM Executive Director Ms. Jelena Dragovic, the association currently has 30 members, including three local associations composed of small companies involved in wood processing. A core group of six leading wood processing companies are represented on the WICM Board of Directors. Mr. Baco Bujsic, the general manager of the Bambis company and who was one of the founders of WICM and on its Board of Directors, stated that a number of the key wood processing companies were more active in WICM during the course of the MCP Project. He emphasized that the project had helped the GoM to start to treat private wood processing companies as partners, especially since major privatizations of state-owned wood processing companies occurred during the course of the project.

One of the WICM accomplishments was a decision by the Education Ministry to establish a class teaching wood processing skills in the High School for Machinery in Podgorica starting in September of 2007.

MCP also supported Montenegro Hotel Association (MHA) through the provision of technical assistance and training to members, and through joint activities with the association on collective marketing and sales efforts at trade shows and on other activities. MCP also arranged for a representative of Expedia, a major international travel booking website, to hold a presentation for MHA members on the use of online booking systems generally and how to encourage Expedia to promote Montenegro as a destination and help them book rooms in their hotels.

- **MCP contributed significantly to development of the tourism sector and, to a lesser extent, the wood products industry.**

It was clear that MCP utilized a sector approach to promote the tourism industry. The project assisted the GoM in planning for tourism through assistance supplementing the GTZ-led tourism strategy formulation. It also provided considerable support to the

Montenegro National Tourism Organization through assistance on marketing materials and marketing efforts. Training was provided to local tourism organizations, tourist agencies and hotel owners to help them understand the needs of European and other international tourists, in conjunction with the CRDA-E project implementers. Assistance was provided in designing and promoting tenders to privatize Sveti Stefan and to plan other privatizations and land-use planning for tourism sites. Finally, MCP helped to bring Montenegro to the attention of foreign travel agents and other travel professional as a tourist destination, not just during the high summer season, but also during the shoulder seasons.

Although the assistance to the wood-processing sector was also focused on helping to improve the situation of the industry, structural problems in the wood industry as a whole limited the impact that MCP was able to achieve in the sector. Nevertheless, some significant results were achieved with specific wood processing companies and through support to WICM.

- **Strengthened the capacity of the Montenegro Tourism Organization, the Faculty of Tourism at the University of Bar, and trained local tourism organizations and travel agents/hotel staff in tourism management and marketing**

As stated by Ms. Zeljka Radak, Deputy Minister for Tourism, Montenegro was recently cited by the World Travel and Tourism Council as the destination with the highest potential for annual growth in tourism worldwide over the next ten years. In order to achieve this, overall coordination of projects and activities will be necessary, involving a “bottom-up approach” with more initiatives coming from the local government level. Local tourism organizations play a crucial role in this process and the development of their capacity is required for them to be effective in this role. MCP provided technical assistance to the Montenegro National Tourist Organization (MNTO) and helped to organize experts to train local tourism organizations and travel agents in collaboration with the CRDA-E implementers. Sasa Radovic, the Director of the MNTO, stated that he appreciated MCP support very much in developing the MICE market project.

- **Supported efforts to extend the tourism season through the development of the Meetings, Incentives, Conventions and Exhibitions (MICE) market**

MCP initiated and supported the sector’s first efforts to create an integrated and viable approach to the MICE market. MCP partnered with both the public and private sectors to implement several initiatives to support the industry in moving towards a viable MICE-focused industry marketing and sales effort. Under the umbrella of the MNTO and with support from MCP, six Montenegrin companies exhibited for the first time at IMEX in Frankfurt, Germany in April ‘07, the premier trade show for the meetings and incentive travel industry. Ms Kirsi Hyvarinen, a GTZ advisor to the National Tourist Organization, stated that, using conservative assumptions, it is anticipated that over 5 million euros of incremental business will be produced for Montenegro as a result of the MNTO’s participation in the IMEX fair. Snezana Vojnovic, director of Talas M tourist agency that

received MCP assistance, stated that the MICE market has potential in Montenegro though additional efforts are necessary in order to improve the quality of accommodations especially in the Northern Montenegro.

- **Provided assistance to the GoM on tenders for sale of Sveti Stefan and other privatizations of tourism properties**

In the tourism sector, the MCP's highest profile achievement was its assistance to the GoM to facilitate the lease of the Montenegro landmark resort island of Sveti Stefan by the renowned Aman Resort Company, a luxury resort company based in Singapore. The agreement involves the 30-year lease of Sveti Stefan and two adjacent properties, the Villa Milocer and Queens Beach Hotels, with a binding commitment by Aman to invest over 40 million Euros. It is anticipated that this investment will result in revenues of over 700 million Euros during the term of the lease. MCP played a central role in facilitating this transaction, from the development of the initial Invitation to Bidders to transaction structuring and negotiations. The agreement was formally signed on January 31, 2007 and Aman Resorts is expected to initiate the renovation process at the conclusion of the current tourist season. MCP was also involved in organizing the Tivat Arsenal transaction, a real estate development, with MCP providing suggestions to the GoM on modifying the original developer's proposal to create a more environmental friendly and sustainable project, consistent with good tourism project development standards. MCP will continue through the end of the project to provide expert advice to the Ministry of Tourism on the sale, lease, or alternative disposition of other key tourism assets such as the Ada Bojana property.

- **Improved marketing/branding/packaging of firms assisted**

MCP improved the marketing, branding and packaging of all of the firms it assisted through both short-term experts and local staff. During the life of the project, MCP supported seven agribusiness firms helping to design 42 new labels and/or packaging, with firms covering half of the cost and the project covering the other half. Mr. Dejan Radovic from Ital Product said that MCP was very useful in developing new packaging and promotional material for their mozzarella cheese. The new logo was design as well as the new modern packaging highlighting an Italian style was a big improvement over the very simple and unattractive packaging that they used before. The company is currently investing in new production facilities so they can meet HACCP standards and start exporting. From their point of view, the current packaging and logo design can fully meet the needs of international market.

Technical assistance was provided to wood processing companies as well, especially in creating promotional materials. For example, MCP supported the furniture producer *Mi-Rai* with the development of a promotional movie and two commercials. The movie and commercials will be broadcast during 2007 on several national TV stations. MCP also supported the production of a new brochure for *Mi-Rai* and edited the English language version of the text. Again, MCP covered 50% of the total costs with the firm covering the rest. Interestingly, when asked by the team during the interview, Mr. Vlado

Barjaktarovic, the Mi-Rai Technical Director, did not have an idea as to their market share in Montenegro. On the other hand, the principal owner of Bambis Window and Door Company told the Team that he estimated that his company produced 70% of local door and window production, but that 60% of doors are still imported.

- **Introduced and provided assistance to targeted Montenegrin enterprises on HACCP and other international standards**

In order to increase the competitiveness of the wood processing and agribusiness sectors to be able to achieve quality standards and meet the requirements for exporting to the EU, MCP cost-shared HACCP and ISO certification with their clients. During the course of the project, 20 firms were supported to introduce HACCP certification. One of the companies visited by team that introduced HACCP standards with project support was Pirella, a juice producing company in Niksic. Pirella also benefited from attending trade shows including Gulf Food in Dubai and the United Arab Emirates in 2006 and 2007. During one of the trade shows, Pirella met a buyer from Singapore and signed a contract for export of pure pomegranate juice. The exports to this buyer will take place later this year. Slavko Petricevic, the founder and director of this family-owned company, stated that a significant barrier to his business development is ineffective implementation of free trade agreements by the GoM and neighboring countries. He hopes that the upcoming ratification of CEFTA will eliminate subsidies that juice producers in other countries in the region, particularly Serbia, receive from their governments. During a previous visit to Montenegro the Team Leader visited the Mesopromet meat processing company in Bijelo Polje, which also received technical assistance from MCP on meeting HACCP standards. A tour of the production facilities and sampling the meat products demonstrated the modern processing methods that the company was using was helping it to compete with meat imports from other countries and would improve the companies prospects for exports.

Mr. Milan Markovic, former Deputy Minister for Agriculture, though commenting on lack of the sector level impact of MCP, considered that MCP involvement in promotion and implementation of HACCP standards was one of the best achievements of the project. It helped to change the mentality of producers who now realize that they have to improve their standards to match the international market and the EU, if they are going to be successful in expanding their businesses. He supported the project approach of working only with the companies that showed a commitment to working with MCP as serious partner.

- **Improved the capacity of enterprises to prepare for and participate in trade shows through cost-share arrangements with the firms, including collaboration with the Directorate for the Development of Small and Medium-sized Enterprises (SMEDD), the Ministry of Agriculture and the Ministry of Tourism**

MCP provided assistance to client firms to help Montenegrin firms to gain a better understanding of modern marketing methods and product presentation, through assistance on preparing for and presentations at industry trade shows. MCP cost-shared the attendance and exhibits at trade shows in Montenegro, Bosnia, Serbia, Germany, the United Emirates and Russia. These trade shows had very positive results not only in export sales realized as a result of contacts at the shows, but also in competitor analysis and market intelligence gathered. Another example of sales resulting from attendance at a trade show, the Mi-Rai company sold furniture in the value of €50,000 to Croatian hotels, and the Doding company sold €15,000 for interior design to contacts made at the Ambianta Furniture Trade Show in 2006 in Zagreb.

In promoting trade shows and encouraging Montenegrin companies to offer their products to regional and international markets, MCP cooperated with the Directorate for SME Development, the Ministry of Agriculture and the Ministry of Tourism. Ms Milica Devic from SMEDD emphasized the excellent cooperation with MCP and mentioned that MCP cost-shared a booth for twelve Montenegrin exhibitors in 2006 resulting in over 350 business contacts with importers from the region and the EU and that exhibitors had received over 150 quality awards for their products at the trade fair.

Weaknesses of the MCP Project:

- **Lack or shortage of project impact data and targets agreed upon by BAH and USAID**

Interestingly, the Team was not shown any agreed upon Project Monitoring Plan between Booze Allen Hamilton (BAH), the MCP implementer, and USAID/Montenegro. It is not clear why this was not done, since this is a usual requirement of USAID projects. As a result, there were no agreed upon indicators to track during project implementation and to demonstrate project success or failure.

The Task Order (TO) for this project, which was procured using the SEGIR GBTI IQC mechanism. That Task Order states the following under Section 1.5 Results and Benchmarks.

Results will be tangible outcomes leading to GOM success in reaching its goals related to business regulatory reform and sector reform and increased competitiveness and economic activity. The exact results and methods used by the contractor to reach these results will be proposed by the contractor in coordination with the USAID technical office. Some examples include:

- Improved employment, revenues and/or exports in the targeted sectors;
- Regulations which protect the public and environment in the target sectors, but are as easy as possible for companies to comply with;
- Decisive action taken to bring assets tied up in state or former state companies in the target sectors into maximum productive use. This may occur through voluntary restructuring, in or out of bankruptcy proceedings, or liquidation. Action will result from the contractor playing a key advisory role;
- Establishment of critical skills within companies and company associations. The target industries all lack key customer outreach and marketing skills. The project will assist in developing these skills within the sectors. This may be done directly or as a result of grants to institutions.

The Task Order goes on to say, under Section 1.7 Measures of Success: Specific and objective performance measures will be established for a component of the work-planning process. Performance measures will be developed and agreed upon with USAID, and the host-country counterparts.

BAH undertook three strategic plans in each of the three sectors during the first six months of project implementation and published them in December 2004. These strategic plans are quite comprehensive although they are somewhat uneven. All three plans provide a good description of the competitiveness of Montenegro products and services and detailed descriptions of programmatic actions to be taken to address issues in each sector. The tourism and wood sector plans also suggest some indicators and targets as well. While some of these might have been used as key project indicators, no formal indicators seem to have been proposed by BAH or agreed upon by USAID during the term of the project.

- **Work in the agribusiness sector was more focused on firm-level assistance and had less impact on the sector as a whole.**

It seems that Project cooperated mainly with SMEDD while little evidence of cooperation with the Ministry for Agriculture was found. Mr. Markovic, former Deputy Minister for Agriculture was not aware of any significant collaboration between MCP and his ministry. In that sense, the Project may have missed some opportunities to impact on sector constraints, even though MCP had some excellent firm level impacts in the area of HACCP standards introduction and improved marketing. Mr. Markovic also mentioned that had the project used a more effective sectoral approach, it might have tried to assist agricultural producers in cultivation techniques and the selection of vegetables varieties that could have extended the growing season and linked them with local agro-processors. Also, he expressed concern that the projects that dealt with agriculture in Northern Montenegro seemed to leave behind the municipalities of Pljevlja, Savnik, Pluzine and Zabljak.

- **The sustainability of the Wood Industry Council of Montenegro (WICM) is still in doubt**

Ms. Jalena Dragovic, the WICM Executive Director, stated during a meeting with the Team that there are currently 30 members in the council – about 15 are active and the other 15 are smaller wood processors. Private company members pay monthly fees of EUR30 and members of three smaller wood processor associations pay EUR20/month. The MCP provided technical assistance to the council and CHF provided a grant to assist in the establishment of the council to provide staff salaries and office rental and equipment. The office was formerly in Kolasin, but there was difficulty staffing the office, so it was moved to Podgorica. The six members of the Board of Directors provide additional funds to cover staff salaries. It is not clear that the WICM would be sustainable in its current form if the Board members stopped providing most of the finance for the council. It was noted that some state companies in this sector have been privatized, but not yet restructured. Regardless of the future sustainability of the WICM, the Team visited two very successful wood processing companies (Bambis and Mi Rai) that are doing very well and are producing furniture and doors/windows for the local market. In recent years, much of these products were imported. Participation in trade fairs with MCP assistance may result in some regional exports in the future.

- **Although some collaboration between MCP and CRDA occurred, it could have been expanded and greater synergies developed**

MCP reports mention a number of activities that were implemented in cooperation with CRDA implementers – IRD in South and CHF in the North of Montenegro. For example, MCP worked with IRD on ‘Regional Initiatives in Tourism’. A roundtable was organized to identify three larger potential economic projects which would include SMEs in the tourism industry as a joint initiative among two municipalities and several SMEs. MCP and CHF also collaborated with CHF providing a grant to WICM of EUR 20,000 to support the establishment and start-up costs of the WICM in its six-month start-up period.

Nevertheless, during interviews with IRD and CHF staff, little was mentioned as to collaboration with MCP. It would seem that there could have been more cooperation between MCP and the CRDA implementers, especially during the CRDA-E phase since MCP and both CRDA implementers were focused on tourism or agricultural development during that phase of project implementation.

- **There were no local business service provider spin-offs.**

The Task Order for the MCP project did not specifically mention the development of local capacity to provide technical assistance to targeted businesses after the project came to an end. However, the project did provide for “sub-grants to local organizations and institutions to improve the understanding of and training in particular skills required for a market economy.” The work with the Faculty of Tourism at the University of Bar was a good example of their work in this area. Nevertheless, MCP missed some opportunities to work more closely with local business service providers to train them in how to

provide direct firm-level technical assistance as provided by the project. This would have helped to promote greater sustainability of project services.

CITIZEN PARTICIPATION IMPACT

(This objective related only to the CRDA and CRDA-E Projects. The MCP Project did not involve the achievement of this objective. Consequently, this section of the report focuses only on the strengths and weaknesses of the CRDA and CRDA-E Projects in this area. The SOW for this assessment stated that, “a secondary objective is to assess impact of citizen participation efforts in CRDA and the discrete overlap between CRDA and GLG activities.” Consequently, although this assessment did not deal with the GLG in any detail, this section also looks at the interplay between the CRDA and GLG activities. One of the assessment team members worked on the GLG project and her experience was drawn upon to deal with issues relative to that project.)

Strengths of the CRDA and CRDA-E Projects

- **The CRDA established a formal process for citizen participation; citizen participation methodology and processes by both CHF and IRD were very successful.**

As pointed out in the *Assessment of Strategic Objective 2.1 Local Development and Governance*, CRDA “created an environment where citizens understand and believe in their capacity to make positive change in their communities, through their organized activity” and “successfully created a substantial degree of change in the political landscape...”. During roundtable discussions with various members of the Community Action Committees (CACs), Community Development Councils (CDCs), and Local Economic Development Planning Teams/Councils (LEDPTs and LEDCs), there was unanimous praise of the CRDA training, particularly CRDA’s emphasis on how to choose, implement and monitor the projects. (Indicated by the members of the CDCs of the Municipality of Danilovgrad).

- **The CRDA Project increased trust by citizens in local government.**

Others echoed the statements of a Berane CDC member, that CRDA rules “prevented politics”, and most importantly, “changed the way we think; our confidence and faith in ourselves and the municipal officials have returned”. A Nikcis CDC member, related that “some doubted that anything would come out of the CRDA program” but now everyone has become “more knowledgeable about how to approach local government officials, are more bold and motivated to do something about their problems, and municipal officials are much more receptive.”

- **The CRDA Project improved citizen participation in local government.**

From encouraging citizens to attend town hall meetings, vote for their representatives on the CACs, CDCs and the LEDPTs and LEDCs, and provide in-kind and monetary

contributions, volunteerism became an accepted norm in the CRDA communities. Zoran Boskovic, Vice President of Danilovgrad, also pointed out that one of the most important results of the CRDA project was the “successful cooperation with the citizens” -- citizen participation “increased, was more intensive and more direct”. He concluded that, “all of us have been democratized.” Ranko Scekcic, a member of the CDCs reported on great cooperation of Municipality of Berane with GLG and CHF on drafting a “modern local strategic plan” supplemented by local action / investment plans. The effect is multiple, financial and visual, he stated. Now, the citizens are more encouraged and willing to access local government for funding priority projects especially those listed in their activity plans. Mr. Petrovic, former member of the CACs, and currently working as the member of the Council of the Radio Bar, and journalist of the Newspaper “Vijesti” reported significant improvements in cooperation of citizens and local government. In addition, he stated: organization of citizens at local level under CRDA, identification of problems and volunteerism, had made citizens work on more general, public interest, rather than focusing on small, individual interests, as it was the case before. As a result, citizens now make more efforts than ever to produce impact on their lives and their way of living.

The GLG Project report from December 2005 stated the following task: *Build citizen participation into a continuous process that leads from strategic planning to application for CRDA grants by municipalities; Establishment of a process jointly designed by GLG, CHF, and IRD for citizen participation in strategic planning.* The objective was met. GLG Report further stated: *Citizen forums, conducted prior to strategic planning workshops served to collect citizens’ development priorities that were to be included into strategic plans. Citizens’ representatives were elected at the forums and recruited as members of the Strategic planning teams (three in each municipality). Draft plans were presented to citizens at the second forums; suggestions for strategic plan changes assembled and project priorities for CRDA funding identified.*

- **CRDA identified and developed new local leadership**

Link and continuity between CACs and LEDCs, as IRD staff reported, was established through representatives of CACs who were members of LEDCs who could contribute to local economic development and planning. Active leaders created under CRDA added great value and contributed to successful implementation of CRDA-E. In the last year of implementation, focus has been made on establishing associations and groups that were growing and becoming strong partners with public/municipal sector.

- **LEDC/LEDPT training helped local leaders to consider and analyze economic issues better than in the past through an objective decision-making framework**

Zeljko Popovic, Manager of the Municipality of Niksic, emphasized significance of citizens being educated under CRDA on how to identify and apply with specific projects, and indicated clear procedures in identification and project selection process, by which

citizens became more motivated and encouraged to take part in resolving economic issues of their communities.

- **As mentioned above, under Economic Impact, the citizens involved in the CRDA process in some cases found support and funding for priority projects when CRDA funding was not available**

These successes indicated the increased power, determination and commitment of these new community leaders and the receptivity of the local government officials, as well as the private sector, banks (such as the Opportunity Bank, Prva Banka Crne Gore/First Bank of Montenegro), NGOs and fellow citizens.

- **CRDA-E regional working groups, projects and advocacy efforts were undertaken in both northern and southern Montenegro.**

Under IRD, citizen participation went beyond the municipalities to encompass regions. Twelve working groups, comprised of CAC members and sector experts, were established around common interests, e.g., water supply systems, tourism and business. Some associations also grew out of these initial collaborations and continue to work together. During CRDA-E 204 regional meetings were held regarding development and implementation of regional projects. Advocacy activities were used during implementation of many projects especially during fundraising activities. Under CHF, 20 regional meetings were conducted (six in the agricultural sector, seven in tourism, and seven in other sectors), 17 regional projects have been approved and implemented (six in the agriculture sector, four in tourism, and seven in other sectors), and advocacy efforts are underway, including a MSME assessment and lobbying of the Ministry of Tourism by CSTI for improved regulations and processes.

Weaknesses of the CRDA and CRDA-E Projects

- **As noted above, there was limited communication and collaboration between the implementers.**

Both the Good Local Governance Project, implemented by Urban Institute, and the CRDA Program focused on citizen participation. And though the GLG staff took advantage of CRDA's more numerous staff and contacts in the municipalities during the training on strategic plans, there was no or very little other collaboration. CHF in fact had experience, knowledge and understanding of projects defined as priorities at the community level, which could have been used while drafting strategic plans. However, CHF reported their coordination with GLG only existed in providing logistics for trainings. GLG reports indicated that monitoring and evaluations systems for the strategic plans were entrusted to CRDA. However, CHF could have been used more extensively by GLG to identify manageable and meaningful groups to target citizens' participation efforts due to CHF's extensive knowledge of the demographic characteristics and organizations/institutions of the localities in which they worked.

Furthermore, there seems to be have been overlap of the two projects in the area of “improvement of business conditions”, the task that GLG only partially met. The GLG December 2005 Report stated the following in regard to this objective: *“Objective partially met. In order to assist implementation of the parts of the strategic plans, GLG developed the procedures for conducting self-help projects, as well as assisted improvement of business conditions, establishing business council in Bijelo Polje for supporting local economic development.”*

- **Although the citizen groups created under the CRDA Program produced substantive positive results, the evidence of the sustainability of the actual committees and councils was not encouraging.**

CHF and IRD did an excellent job of creating, training and using the CACs, CDCs, LEDCs and LEDPTs. But with the advent of CRDA-E the CACs and CDCs disappeared. CHF seemed to make little effort to retain some of the more active CDC members, so in many communities there was little carryover of community leaders into the LEDCs. Then in the past year CHF decided to increase the role of FORS and CSTI in economic development activities, which greatly reduced the LEDCs’ role in reviewing and recommending new projects. According to Mr. Vlatko Pekovic, former member of both CDCs and LEDCs, official of the Municipality of Berane, CRDA had higher impact on citizens working closely with the on infrastructure development projects, versus CRDA-E that was focused mainly on work with local NGOs.

In contrast, IRD determined that the new LEDPTs would operate more effectively and efficiently with the addition of some of the more active CAC members, particularly those with sector experience, and IRD have continued to use the LEDPTs. However, once the CRDA-E project ends, there is little reason to expect the CHF or IRD supported citizen groups will continue. However, the individuals who served on these entities received important training and experience on how to operate in local government and can bring those skills to bear in future municipal governance and development efforts.

CONCLUSIONS

ECONOMIC IMPACT

- **Both the MCP and CRDA/CRDA-E Projects had a significant impact upon economic development in Montenegro.**

While the MCP project concentrated on a few sectors and had a demonstrated impact upon some of those sectors, the principal function of the CRDA and CRDA-E Projects was to involve local citizens in the economic development of their communities. The evidence described above clearly indicates that those projects had a positive impact on the economic development of the communities and sectors in which they worked. While some sectors and some communities had more successes than others, the overall impact of both projects was significant. While there were some differences between the two implementers of the CRDA/CRDA-E projects in terms of the processes used to organize the communities, both contributed similarly to the economic development of the communities in which they worked. In addition, those projects had a major impact on improved transparency of local public procurement. They also contributed to the reduction of business barriers at the local level (e.g., through the establishment of One-Stop-Shops). The CRDA Project Assessment in September 2004 also observed that CRDA had made a legitimate contribution to jobs and income through the creation of new economic opportunities that have directly resulted from the completion of infrastructure projects with significant economic impact.

- **The use of grants by the CRDA/CRDA-E projects to promote local economic development projects was a reasonable approach in a post-conflict environment.**

While the use of grants for economic development projects is sometimes criticized and has potential pitfalls that loans and other types of finance do not have, their use in post-conflict environments is often justified. The procedures put in place to assure that the funds from the grants were used in accordance with the wishes of the communities targeted were well designed and implemented. As economies advance, however, it is important to recognize the limitations of grants in terms of developing on-going, sustainable sources of finance for future economic growth. These can be either from private or public sources, but a system must be put in place that will permit those sources to continue for the indefinite future, as foreign donor programs close down. Work done by other USAID and other donor programs to develop sources of public and private finance have helped to build this capacity to finance future enterprise development and community economic development has already begun to bear fruit and will help to replace the grants provided by the projects assessed in this report.

- **The MCP Project produced greater economic impact in the tourism sector where it took a comprehensive approach to affect improvements in the sector.**

It was clear that the approach used by the MCP project in the tourism sector to address improvements in the policy and institutional environments for tourism as well as to increase the capacity of both public institutions and private firms active in the sector resulted in a greater impact in this sector. While the work of the project in the wood sector also attempted to address some of the enabling environment issues, there was less success in this sector due to some lingering structural problems in the wood sector. However, there were some successes at the enterprise level. The efforts of the project in the agribusiness sector had some substantive successes at the enterprise level, but project activities that impacted upon the overall environment for agribusiness development were rather limited. The technical assistance and training provided by the contractor was appropriate and well implemented and can be credited with the success of the project. The cost-sharing approach used by the project, particularly to improve the capacity of targeted enterprises to prepare for and participate in trade shows assured that the grant funds disbursed under the project were used in an efficient and transparent nature and appeared to produce positive results.

- **The enterprise development approaches used by both the MCP and the CRDA/CRDA-E projects were appropriate and in accordance with the project designs. While the MCP project focused more on private firm development, the CRDA/CRDA-E projects also helped to develop private firms within the context of the overall community development purpose of those projects.**

The CRDA/CRDA-E projects laid the foundation for economic growth through infrastructure, economic and social activities. They generated a lot of short-term construction jobs and some longer-term jobs and helped to create public-private partnerships at the local level. As part of its focus on building local organizational capacity, the project has strengthened some sectoral and trade/business associations and other NGOs. The project has also created some spin-off organizations that will have longer-term economic impact. The MCP project was clearly focused on improving the operations and marketing of the firms with which it worked. As previously stated, the work of the project in the tourism sector was most successful since it dealt with all levels of the sector, from the policy environment to institutional development to improved firm-level performance. The introduction of international standards for the firms assisted has helped them to both compete with international products in the domestic market as well as to enhance exports.

- **The MCP project could have done more in the areas of policy reform and developing the capacity of local business service providers that would have helped to increase the sustainability of their firm-level assistance activities.**

Outside of the business associations mentioned above, the MCP project made very limited efforts to develop local BSPs, especially in the agribusiness sector. More could have been done to collaborate with local BSPs developed by USAID and other donors under other projects. Project efforts to reduce business barriers also appeared to be limited to meetings with industry groups and working groups including SMEDD, the Ministry of Tourism and other donors. The lack or shortage of project impact data and targets left this area, in particular, without any real measurable results.

- **The sustainability of the activities of the CRDA-CRDA-E project implementers in the area of business association development and BSP spin-offs is still in question.**

Very few of the business associations with which the project implementers worked have hired professional staff. Their financial base is also limited. The development of the FORS and CSTI spin-offs by CHF is to be commended. However, their sustainability is also still in question. Time will tell if these organizations will be able to market their services effectively to client firms or local governments. Other donor programs may permit them to continue to keep valuable staff members while they develop their financial base.

CITIZEN PARTICIPATION IMPACT

- **Increased citizen participation in local government as a result of the CRDA/CRDA-E projects led to increased trust by citizens in local government and the process for community decision making**

The CRDA/CRDA-E projects substantially increased citizen participation in local government through providing financial resources to implement concrete community projects and providing a democratic framework for the selection of citizen participants in the process. The participants in the various localities visited by the Team repeatedly expressed the experience gained and confidence established in the process. Synergies between the GLG and CRDA projects in terms of relating local strategic plans (developed with assistance by the GLG project) and use of same in selecting CRDA projects was cited on a number of visits. The CRDA/CRDA-E projects also encouraged volunteerism in terms of participation of citizens in the CACs, CDCs, LEDPTs and LEDCs. The projects helped to establish a formal process for citizen participation that appears to have been accepted by the communities and municipalities served by the projects. The CRDA Project Assessment in September 2004 observed that, “the CRDA project had successfully created a substantial degree of change in the political landscape at the municipality level. CRDA has created an environment where citizens understand and believe in their capacity to make positive change in their communities, through their organized activity.” This Assessment Team agrees with those assertions.

- **The CRDA/CRDA-E projects both identified and developed new local leadership that helped to broaden the base of active community participants.**

In addition to the establishment of formal processes for citizen participation, training by the project implementers helped local leaders to consider and analyze economic issues better than in the past through an objective decision-making framework. This process often increased cooperation among the various stakeholders in the community development process and a number of public-private partnerships were cited in meetings with the various localities visited by the Team. The CRDA Project Assessment in September 2004 also stated that CRDA was the catalyst for a number of breakthroughs at the local level, where common ground and shared interest was found across community lines and politically, between pro-government and opposition interests. It went on to say that CRDA was a catalyst for the emergence of new community leaders

- **The actual community development committees and councils established by the CRDA/CRDA-E projects will probably not be sustained after the CRDA-E project comes to a close. However, the skills developed by those committee and council members will remain and can be tapped by the same communities and municipalities in the future.**

Donors often look to the sustainability of institutions established by donor projects as evidence of the success of their efforts. However, this ignores the ever-changing institutional environment in countries and localities. While the continuation of institutions after a project is completed can positively impact societies, what is more important is the ability of persons trained by those projects and who participated in project activities to be able to utilize those skills effectively in other institutions that might take the place of the project developed institutions. In these terms, the CRDA/CRDA-E projects were a success even if the specific committees and councils established by the projects do not continue in the communities and municipalities. The biggest challenge to the continuation of the project activities will be the ability of the communities and localities to develop local state and private financial resources to continue to make economic and social improvements to those communities. This will take time, but evidence observed by the team showed that Montenegro is well on its way to achieve these ends. It is a demonstrable fact that the CRDA/CRDA-E projects were a major factor in helping to establish these long-term impacts.

- **The transition from the CRDA to CRDA-E projects created some confusion and negatively impacted on project performance for the first year of the CRDA-E project. The limited project coordination between the GLG and CRDA projects also caused some overlap and duplication.**

As mentioned in the findings above, the change in the local organizational arrangements between the CRDA and CRDA-E projects created some confusion in the minds of local citizens and the experience gained by citizens in the community councils was not always

taken advantage of under the new project. In addition, the project implementers and the local citizens had problems understanding how their projects and processes should be changed under the new project. The GLG and CRDA projects could have collaborated better in their training programs. There often seemed to be some overlap between the two. Better management of the projects by USAID staff and improved coordination among the project implementers could have helped to lessen these problems.

- **The monitoring and evaluation system established by the CRDA/CRDA-E projects was extensive and appears to have permitted both project implementers and USAID to effectively track results of the projects.**

The monitoring and evaluation system established by the CRDA/CRDA-E projects showed considerable forethought and was managed well. Unlike the Serbia CRDA/CRDA-E projects that had five different implementers, the Montenegro projects benefited from a clear conception of the objectives, results, indicators and targets of the projects and easier implementation of the M&E system since there were only two project implementers. The systems and reporting requirements were known and understood by both implementers well and the reporting system allowed interested parties to track results of the projects. A common definition of jobs created as well as common understanding of other definitions and formulas for calculating how the implementers had achieved project targets on the various indicators led to an effective M&E system and reporting process. The use of the Web-PRS (Project Reporting System) that was developed and administered by CHF for both implementers facilitated the effectiveness of the M&E system. The Assessment Team found that the well-designed and implemented M&E system for these projects contrasted with the lack of an effective M&E system to report results for the MCP project.

PROGRAMATIC RECOMMENDATIONS FOR FUTURE ACTIVITIES

- **Future projects should build on the successes of the CRDA/CRDA-E and MCP projects, both in terms of citizen participation mechanisms and to strengthen sectors in which the projects have been successful to date.**

In the communities where CRDA worked, citizens are confident in their ability to solve their problems and create positive change in their communities. Local government officials value the citizens' opinions and priorities and understand the benefits of partnerships with the citizens. And involved NGOs, associations, businesses, etc. have learned that their interests are taken into consideration.

In addition, the Local Economic Development Councils and Local Economic Development Planning Teams should be part of a follow-on project, even if new alliances are formed. These Councils and Teams have a proven record, and the respect of their fellow citizens as well as the local officials. To increase the sustainability of these groups, serious consideration should be given to capacity-building training in

locating/encouraging non-project funds, analyzing donor proposals, and reducing barriers to local economic development.

Training of municipal officers for IPA (pre-accession funds) arrangements is emerging issue and has been indicated as a requirement during the interviewing process.

Both the CRDA-E and MCP projects had clear successes in the tourism sector. Future efforts should try to fill in gaps that MCP or CRDA-E were not previously able to fill or to help organizations such as CSTI to become self-sustaining and provide services to areas that have been previously underserved. Likewise, the agribusiness sector has a good track record on which to build. The wood sector has less potential at this time and, unless the GOM makes some positive reforms in this sector, should not receive as much attention as the other two sectors in future projects.

- **The geographic and somewhat political isolation of the North, as well as its limited resources argue for more assistance to increase their economic growth prospects.**

The North has considerable deficiencies in terms of infrastructure (the major road from the South to the North is in severe need for upgrading) and economic growth potential. It also is more rural and has a smaller revenue base. Nevertheless, there have been some limited successes there in both the CRDA-E and MCP projects. FORS, the spin-off organization from CHF is focusing on the North and has good potential as a local partner to help municipalities and private firms/associations to develop the local economies there. FORS has already taken steps to obtain other donor funding and to provide continuing services to local municipalities to help upgrade community facilities and increase growth among SMEs in the North.

Tourism organizations in the North will require more capacity building and USAID can collaborate with other donors active in tourism development there, notably the Austrian aid organization. Assistance in developing artisan and handcraft services in the North that can provide products and services to the tourism industry in the country as a whole should be pursued.

In expectation of reducing level of subsidies provided by the local and central government, local governments and entrepreneurs should be trained on how to access banks for short and long term loans and how to manage debt. There are a number of sources of finance for agribusiness and SMEs (including some funded by USAID, such as Opportunity Bank, and other donors) that could provide finance for ongoing community income generation efforts and private business development.

- **“To maximize the impact of local economic development and job creation, USAID must clearly identify obstacles, and develop realistic opportunities that enhance the chance for competitive local economic growth.”**

This recommendation from the *Assessment of Strategic Objective 2.1 Local Development and Governance* is as true today as it was in 2004. Local governments and the national government have responsibilities and opportunities to provide a favorable economic enabling environment, and USAID can and should assist these entities, including in the legal and regulatory environment. The existing policy reform project implemented by Bearing Point is an asset that can work with any future projects to promote economic development and a good local enabling environment. This could include assistance in creating municipal participatory forums to review the status of implementing regulations for local self-governance as well as further building of citizen participation and information vehicles in terms of creating improvements in the local business environment. This could also include training of local government officials and citizens on how to improve and institutionalize information sharing among stakeholders.

- **Further capacity building should be provided to targeted businesses, business service providers, and associations to encourage local investment and leverage other donor and GOM funds.**

As part of any future project efforts to promote economic development, major actors in the priority sectors should be identified and provided training and technical assistance to help ensure their sustainability. A cost-sharing arrangement should be utilized to assure that local investment in promoting improved business products and services is tapped. CRDA-type grants are no longer feasible within the context of a substantially diminished USAID budget for Montenegro. Ways to leverage funds with local sources of investment, both public and private, and with other donors should be pursued.

ANNEXES

ANNEX A

USAID Montenegro Assessment

Economic Impact of Community Revitalization through Democratic Action (CRDA) and Montenegro Private Sector Development and Competitiveness Project (MCP)

Statement of Work

I. PURPOSE OF THE ASSESSMENT

The primary purpose of this report is to provide USAID/Montenegro with an objective, external, economic impact¹ assessment of two key, but different USAID/Montenegro programs that will be closing, to apply experience to the next generation economic growth programs including Local Economic Development project, as well as to higher level (national) interventions.

Given the broader original conceptual design of the Community Revitalization through Democratic Action (CRDA) program, the secondary purpose of the assessment is to examine efficiency, sustainability and relevance of CRDA as a vehicle for citizen participation and to include specific areas jointly covered with a prematurely closed local government activity (Good Local Government (GLG) Program), which had planned overlap on certain participation functions/outcomes.

In order to achieve the purposes of the assessment, the assessment team will seek to capture effective approaches, analyze utility of performance monitoring efforts and consider respective outcomes and results, and influence of internal and external changes on achievement of results.

The results of this assessment will provide feedback to USAID/Montenegro for any lessons learned that can be incorporated into relevant on-going or new activities. A summary report will be shared with the Government of Montenegro and the donor community. The results will also be used by the Business Growth Initiative (BGI) Project of EGAT/EG (CTO, Steve Silcox) to disseminate lessons learned and best practices in enterprise development

¹ For the purpose of this assessment, economic impact is defined as changes in economic activity within each CRDA Regions and/or Montenegro Private Sector Development and Competitiveness Project (MCP) sector, resulting from investments and activities under these projects in combination with other major events identified. To the extent possible, USAID is interested in better understanding and quantifying the 'value added' of the two activities to be assessed in terms of their relative merits against opportunities lost and unmet needs.

II. BACKGROUND

Whereas the assessment takes into account two activities, CRDA and Montenegro Private Sector Development and Competitiveness Project (MCP), it is not envisioned as a formal ‘final’ assessment of those activities. Instead, the Mission is looking to capture key areas of overlap of importance to the Mission. CRDA is a very broad program with two implementers, each working in a discrete geographic area and using a variety of approaches. However, economic development/revitalization was a connecting theme for a majority of CRDA resources, especially in the second part of its implementation.

At the same time, the Mission wants to capture the impact of CRDA on citizen participation as a secondary theme because it was the original primary purpose in CRDA and it remains an important theme in Montenegro. In the assessment, the Mission is also looking for specific overlaps with GLG that were part of the original CRDA design and that have relevance to the secondary assessment theme of citizen participation.

1. Information bases/foundation:

Given breadth of information to cover – in addition to making choices (and eliminating certain activity areas, to facilitate review, the Mission has:

- 1.1. For CRDA - created matrices to help catalogue/synthesize/inventory numerous activities, and provide easier foundation for understanding/review/identifying data sources;
- 1.2. Detailed project descriptions and performance data are available in CRDA and MCP project databases.
- 1.3. The assessment team will also have access to mid-term evaluation of CRDA as well as implementer reports, studies, assessments and other available materials

2. Activity descriptions:

2.1. CRDA Basic Facts:

- 1,161 projects worth \$50.6 million implemented in 21 municipalities throughout Montenegro from 2002 to 2007.
- Designed as a three year program that was extended for an additional two years.
- Two regions served by a different implementing partner. North by CHF and South by IRD
- Objective: “a community development program aimed at promoting citizen participation in and between communities to identify and address the critical needs of the economic and social revitalization of community life”.
- Communities’ cost share contribution higher than 50%
- Project categories: Social (151 project worth 1.1 million); infrastructure (252 projects worth \$24.7 millions); health (45 projects worth \$1.5 millions); environment (67 projects worth \$2.01 millions); education (149 projects worth \$4.01 millions); additional economics (283 projects worth \$6.2 millions);

agriculture (110 projects worth \$6 millions); tourism (104 projects worth \$4.8 millions)

In order to maintain its primary focus on economic impact and the secondary focus on citizen participation, the assessment will not concentrate on successes in environment, social infrastructure, reproductive health etc.

2.2. Description of CRDA Approach to Citizen Participation:

The CRDA “Community” element evolved from 2002-2005, undergoing a number of transitions while retaining a basic modus operandi: communities prioritize projects for implementation using shared resources of CRDA implementers, the community and local government. The implementation started in a post-Milosevic period as the major programmatic element in USAID’s response to a perceived need for quick and tangible improvements that would inspire hope among broad citizen groups and mobilize them for support of a comprehensive reform process in the context of weak institutions, deeply felt mistrust of citizens in institutions, and unrealistic expectations of the population.

Community development was a broad term that was used in the CRDA context to describe a variety of activities at the local level in which communities drive and control the decisions and actions that affect their lives. In other words, community development was seen as a mechanism for active citizen participation and local collaboration in the selection and implementation of activities that have tangible community-level benefits. Through this approach, various sectors of the community were brought into productive partnerships. The scope of such projects within CRDA was very broad and it focused on local infrastructure rehabilitation, job creation, support to micro entrepreneurs, capacity building and networking of cooperatives and associations, reproductive health problem solving, and more generally leveraging of resources through public private partnerships.

Although the building blocks and sequencing varied between implementers, both had community mobilization teams, Community Development Committees (CDCs) or Community Action Committees (CACs). CDC/CAC members were elected in public meetings and were responsible for organizing meetings and spearheading projects. Beginning in 2003, Regional Cluster Committees (RCCs) determined regional priorities while local communities prepared proposals which were evaluated by CRDA implementers. Special Interest Groups, including youth, women, disabled, minorities and environmental groups were encouraged to form so that their special interests could also be addressed

2.3. Description of CRDA-Economic Approach

Shift to CRDA-Economic in 2005 implied changes in the Workplan structure for both implementing partners. At the same time, CRDA was extended until April, 2007. The implementers were focused on agriculture and tourism sector development, SME development, economic environment, trade and promotion and market access, and special initiatives not associated with economic development.

2.4. CRDA Key Indicators

CRDA partners used a standardized set of indicators and report on a CRDA-wide M&E system known as Web-PRS (Project Reporting System) developed and administered by CHF. Generally speaking, the database is capable of effectively capturing and reporting the data; however, data entered into the system were subject to errors in measurement. Key performance data tracked for CRDA include: 1) person months of employment generated; 2) additional income generated; 3) number economic development activities initiated, other indicators include: 4) total number of CRDA projects; 5) number of direct beneficiary impacts of CRDA projects; 6) number of citizens actively participating in CRDA process; 7) percentage of community contribution for all projects; 8) percentage of minorities or women participating in CRDA process; and 9) Number of civic participation, civil works and environmental projects initiated

3.1 Montenegro Private Sector Development and Competitiveness Project (MCP) Basic Facts

The Montenegro Competitiveness Project (MCP) provides technical assistance to the Montenegrin private sector in the tourism, agribusiness and wood industries. MCP's mission is increased economic growth resulting in a broader-based prosperity for the people of Montenegro.

Results Summary:

MCP activities to date have resulted in

- ▶ Several hundred million US\$ in revenue to the Government of Montenegro through the lease of the iconic hotel island of Sveti Stefan;
- ▶ Over US\$ 4 million in agribusiness exports as a result of MCP support;
- ▶ The creation of the Wood Industry Council of Montenegro, a private sector industry representation;
- ▶ 100% sales increase and 141% export growth in client wood processing companies;
- ▶ Over 30 STTA interventions through workshops and one on one counseling;
- ▶ 51 trainings to approximately 1,400 company representatives (40% women).

3.2. Description of Montenegro Private Sector Development and Competitiveness Project (MCP) Approach

MCP works at the firm level, helping individual firms find competitive traction and supporting the private sector-led economic growth objectives of Montenegro's Economic Reform Agenda (ERA). MCP provides this assistance on three levels

- Improve and expand organization and industry-wide access to both domestic and foreign export markets through enhancement to operations, manufacturing, and overall product quality. This is achieved through training in market research, marketing, branding, international certification, customer services, quality assurances, and packaging. MCP also helps high potential local firms compete for, and attract, foreign and domestic investment.

- MCP partners with local organizations and business service providers to provide training, improve understanding and develop specific skills required to thrive in a market-driven economy.
- With vital input from the private sector, MCP works in coordination with other USAID and donor programs to improve and institutionalize reforms already underway. MCP is also working with the Government of Montenegro to remove barriers to conducting business, and achieve harmonization with EU criteria

3.3. Montenegro Private Sector Development and Competitiveness Project (MCP) Key Results

Tourism

- **Transaction Counsel:** At the invitation of the Ministry of Tourism, MCP has played an instrumental role in the 30-year lease of Sveti Stefan and two adjacent properties, to the renowned Aman Resorts. This transaction will be substantial in scale, with incremental investment of over 40 million Euros, and nominal revenue of over several hundred million Euros during the term of the lease, as well as a significant multiplier effect through new employment and the stimulation of incremental investment and tourism development. This transaction is expected to result in the creation of further resort destinations that will demonstrate the high level of product that can be created and operated in Montenegro, and the type of upscale consumer that can be attracted to Montenegro if the appropriate product and infrastructure is developed. MCP is providing expert advice on the sale/lease of tourism assets on an ongoing basis.
- **MICE Market:** The MICE (Meetings, Incentives, Conventions and Exhibitions) market offers particular promise for Montenegro, given its potential to build incremental revenues for the tourism sector during shoulder and off-peak periods. Working in close partnership with both the public and private sectors, MCP performed a comprehensive market analysis, as well as implementing several initiatives to support the industry in moving towards a viable MICE focused industry marketing and sales effort. As a result, under the umbrella of the Montenegro National Tourism Organization, and support from MCP, six Montenegrin companies, exhibited for the first time at IMEX in Frankfurt, Germany in April '07, the premier trade show for the meetings and incentive travel industry. The National Tourism Organization estimates that the presence at this show will result in Euros 5.6 million (US\$ 7.5 million) in direct revenue to Montenegro. In addition, substantial firm level assistance has been provided, in order to help firms connect with potential buyers of the Montenegrin meetings and convention product.
- **Training/Knowledge Transfer:** MCP has worked extensively with small, medium and larger firms in the tourism sector to provide technical assistance in areas as diverse as tourism management, international electronic distribution and booking systems, internet marketing, basic computer skills, graphic design and brochure production, HACCP certification, food safety, and food and beverage marketing. Our focus has been on practical assistance that allows firms to operate more efficiently, be more effective operators and marketers, and compete more effectively, both within Montenegro and in the international marketplace. In total, over 50 trainings have been provided by MCP in the tourism sector, to over 1,400 participants, 40% of whom were

women.

Agribusiness

Expert Advice: MCP has been providing expert advice to Montenegrin SMEs in order to improve their business knowledge, market research, branding, packaging, labeling, production processes, etc. For example, MCP has identified an expert for herbs and medicinal plants, a sector which used to be a strong export sector before the war, and has significant potential. The expert, who has now been to Montenegro four times, counsels local firms on harvesting, storing and processing herbs, has established business contacts in the U.S. and is promoting Montenegrin herbs through articles in a number of technical publications in the U.S.

- 19 trainings have been provided to agribusiness firms by MCP to date, with a total of 416 participants, 148 of them women.
- Trade Show Support: MCP has been supporting Montenegrin companies' trade show participation by cost-sharing expenditures. The focus has been on fostering business relationships in the region. As an example, in May 2007, MCP supported the participation of 12 Montenegrin agribusiness companies at the Agriculture Trade Show in Novi Sad, Serbia, by cost-sharing space rental, booth design, and construction. This trade show is the largest in its sector in the former Yugoslavia. The participating companies received over 150 quality awards for their products. Several exhibitors are now in negotiations with prospective clients, primarily from the region.
- Food Safety Certifications: The implementation of food safety and quality systems is one of MCP's priorities. MCP supports Montenegrin companies wishing to become HACCP certified. The food safety certification HACCP (Hazard Analysis and Critical Control Point) serves as a production quality seal and is a prerequisite for exporting to the EU. Before MCP became active in this area, only one company in Montenegro was HACCP certified. With MCP's help, 20 firms have now acquired or are in the process of acquiring HACCP certification.
- As a result of MCP's support to the agribusiness sector, exports of over Euros 3 million (US\$ 4.1 million) have been generated since project inception.

Wood/Furniture

- Trade Association Building: One of MCP's strategic objectives was to organize the private sector under a formal legal entity to represent the commercial interests of the wood industry and implement strategic initiatives to improve the business environment. MCP helped create the Wood Industry Council of Montenegro (Savjet Drvne Industrije Crne Gore, SDICG), which currently has 21 members.
- Access to New Technology and New Markets: Attendance at international wood processing machines, tools, and furniture trade shows and symposiums expose Montenegrin wood processors to global leaders in technology. Over the past year, MCP assisted Montenegrin firms on a cost-share basis to attend trade shows in Turkey, Italy, Montenegro, Bosnia-Herzegovina, Germany and Russia, and technical symposiums for the forest products industry in Austria and Serbia. In October of 2006, MCP assisted five Montenegrin producers to exhibit at the International Furniture and Interior Decoration Fair in Zagreb, Croatia. The objective was to access potential buyers in the international market for hotel refurbishment and construction, one of MCP's strategy initiatives. MCP

also assisted a producer of curly maple and spruce planks used in making high quality string instruments, to exhibit at the 16th International Exhibition of Musical Craftsmanship Instruments and Violin Accessories – Mondomusica 2006, in Cremona, Italy. Euros 50,000 in export sales is the preliminary result of MCP companies' participation in the Zagreb and Cremona trade shows alone. MCP also assisted furniture producers to exhibit at a regional trade show in Budva, Montenegro, in March 2007, and in Banja Luka, Bosnia-Herzegovina in June 2007.

- MCP has provided 13 trainings in the wood sector to date, including on new designs, windows and door manufacturing. A total of 272 company representatives attended (62 women).
 - MCP client companies in the wood sector registered 50% employee growth, 100% sales increase and 141% export growth between 2004 and 2006.

III. PROBLEM STATEMENT

Considerations for the assessment team:

1. Economic Impact

- 1.1. Measurements far from perfect and some inconsistent across partners
- 1.2. Results that are difficult to quantify may be still important to 'value' but under-reported (e.g. business enabling environment and regulatory work, training and capacity building of business/ag. associations, etc.)
- 1.3. Because of data availability, there are tradeoffs between efforts in the realm of data collection vs. using available data. Could these tradeoffs lead to skewing the design?
- 1.4. Ambassador focus almost exclusively on 'job creation' may be premature.
- 1.5. Need to examine if distinction between improved livelihood and economic growth is blurred and whether M&E data can be grouped in a way that helps better relate and understand respective impacts.
- 1.6. Need to be mindful of overlaps between CRDA and Montenegro Private Sector Development and Competitiveness Project (MCP) (e.g. tourism sectors, forestry)

2. Citizen Participation

- 2.1. CRDA shift in external direction – from primary focus on participation and secondary on economic development to primary on economic and secondary on participation
- 2.2. Output-based measurements for citizen participation.
- 2.3. Impact of the shift on sustainability of structures and mechanisms created
- 2.4. Difficulties in capturing results in the realm of promoting gender equality (all CRDA implementers) and inter-ethnic cooperation

The assessment team will examine whether the following assumptions that informed activity design can be validated by evidence:

Economic Impact

1. A shift in focus from the original CRDA program scope to a more economic growth oriented program is an appropriate response to changes in the operating environment and citizens priorities articulated as jobs and economic growth (CRDA)
2. Economic improvement is a precondition of further democratic development in Montenegro (CRDA).
3. Real engines for economic growth are investments – primarily FDI - at the local level

Citizen Participation

1. Tangible improvements in target communities lead to greater popular support for national reforms (CRDA)
2. Practice of democracy relies more on local governments than on the national government (GLG)

IV. OBJECTIVES AND QUESTIONS TO BE ANSWERED

1. Objectives

The primary objective of this activity is to conduct an *ex post* economic impact assessment of two USAID Montenegro activities – CRDA and Montenegro Private Sector Development and Competitiveness Project (MCP). A secondary objective is to assess impact of citizen participation efforts in CRDA and the discrete overlap between CRDA and GLG activities. A third objective is to assess the approaches and interventions used to develop enterprises in both projects and to draw lessons learned in regard to best practices in enterprise development. In order to achieve the objectives of the assessment, the assessment team will seek to capture effective approaches, analyze utility of performance monitoring efforts and consider respective outcomes and results, and deliberate influence of internal and external changes on achievement of results.

The assessment team will examine project-level and broader contextual data, fill in the important data gaps and relate project approaches, outcomes and results to similar experiences in other countries in the region and more broadly, if relevant.

The team will:

For Economic Impact:

- Ascertain status of performance data and attribution models and practices and verify input-output multipliers in CRDA and Montenegro Private Sector Development and Competitiveness Project (MCP)

- To the extent possible, establish backward linkages for CRDA and Montenegro Private Sector Development and Competitiveness Project (MCP) results
- Examine differences in CRDA implementer approaches
- Capture results in leveraging local resources and donor cooperation
- Fill in data gaps for economic impact assessment (e.g. beneficiary/firm-level interviews, representatives of relevant local/national institutions and other stakeholder interviews)
- Identify effective models and best practices that can be replicated
- Indicate whether any clear and important opportunities for economic development and/or citizen participation were missed based on the approaches utilized.
- Draw conclusions regarding implementer-specific and aggregate economic impact of CRDA and Montenegro Private Sector Development and Competitiveness Project (MCP) projects
- Determine if particular enterprise development interventions were more successful than others and why

For Citizen Participation:

- Verify citizen participation data and results in CRDA and GLG respectively, and establish appropriate cross-references and overlaps between the two activities
- Examine differences in CRDA implementer approaches
- Fill in data gaps for citizen participation (interviews and/or focus groups with CDC members, youth, women, minorities and key stakeholders)
- Identify effective models and best practices that can be replicated
- Draw conclusions regarding activity-specific and aggregate impacts of CRDA/GLG on citizen participation

2. Illustrative Assessment Questions

2.1. Economic Impact:

2.1.1. What do performance data and fieldwork say regarding the circumstances under which local economic and/or sectoral development projects are likely to be most effective in achieving economic impact?

The assessment should identify where and why different approaches and combinations of approaches have been successful/unsuccessful. The fieldwork shall help determine those differences in the context of regional/sectoral differences. The fieldwork should assess how the results of specific implementation activities vary (and are explained) by a host of variables, including the following:

- Area of Responsibility (sub-national economic indicators, evolution of local government efforts to support businesses, level of economic development, ethnic composition, number and type of private sector companies; key sectors and role of agriculture and tourism) for CRDA
- Community/municipality (infrastructure, economic activity, level of development, character of associations, quality of local governance);

- Sector selection, strategies and steps taken for penetration into local and international markets;
- Objectives pursued (type of economic infrastructure rehabilitation, local/ sectoral economic development, income generation, job creation);
- How an approach was implemented (case selection, comparison with any control cases, role of private and public sector institutions, size of project, type of project, case studies/success stories);
- Roles of associations and clusters;
- Enterprise development approaches and interventions utilized;
- Are additional efforts needed to consolidate the work on completing the sector-level and regulatory development work? If so, what kinds of efforts might be needed in terms of highest/quickest return on investment? Why?
- Can any specific models be drawn to inform economic growth activities focusing on high potential sectors and municipalities vs. focus on economic security?

2.1.2. What are the main breakthroughs and dead ends, based on project performance data and fieldwork?

- Where have CRDA and/or Montenegro Private Sector Development and Competitiveness Project (MCP) projects most successfully contributed to economic development/competitiveness? What evidence was gathered to show how we know the projects/approaches were successful?
- Why were these projects or approaches successful? What conditions were present that contributed to the success? What evidence was gathered to show how that we can credit these projects?
- What approaches do not work? Why?
- Which approaches have given the largest return on investment? What are the common denominators for those projects that have been most successful at generating sustained economic impact?

2.1.3. Which of the grant disbursement approaches lend themselves to employment generation with reliable attribution?

- What evidence is there that grants are an effective tool for employment generation? What specific pre-requisites and/or criteria help amplify that impact?
- Other approaches beyond grants? Are there important tradeoffs between them?
- What does local and international evidence say about when and under what circumstances grants are an effective tool for income vs. employment generation? How? To what degree? Are there particular elements of CRDA and Montenegro Private Sector Development and Competitiveness Project (MCP) projects that are more/less related to employment generation?

2.2. Citizen Participation:

2.2.1. To what extent has CRDA contributed to community revitalization in Montenegro?

- To what extent was CRDA, successful in mobilizing citizens, increasing and sustaining their participation in community development activities and municipal affairs? Are structures and mechanisms for community participation that were introduced and/or used by CRDA sustainable?
- Are conditions for sustainability met with regards to citizen participation in municipal affairs?
- Are additional efforts needed to consolidate the work on developing bottom up democratic systems and structures? If so, what kinds of efforts might be needed? Are there some areas of the country where such an effort is particularly needed and why?
- To what extent was monitoring, results measurement and performance management of CRDA adequate and able to capture intended results, including major mid-course changes?

V. ASSESSMENT TEAM TASKS AND DURATION OF TASKS

The assessment team will review relevant documents. Based on the secondary research, the team will develop a methodology to collect additional quantitative and qualitative information on the USAID projects to be assessed.

1. Phase 1: Review of Secondary Data and Fieldwork Planning (3 days)

As a first step in the assessment process, the Assessment Team shall review USAID project documents and summaries of relevant country-level strategic objectives and program summaries, as well as contractor/grantee databases, reports and documents on CRDA/GLG and Montenegro Private Sector Development and Competitiveness Project (MCP) programs.

The Assessment Team will use this secondary data review to set forth the proposed methodologies to help identify major data gaps and data collection methodologies, and to structure fieldwork. USAID will review and approve the methodology and plan prior to the Assessment Team undertaking the fieldwork.

2. Phase 2: Conducting Fieldwork (15 days in Montenegro – from August 1 to August 15, 2007)

The Assessment Team will be responsible for refining the data collection and stakeholder consultations plan that discusses the objectives, the sampling and data collection methodology to be employed, and the most salient issues and aspects that will be examined based on USAID's feedback on the initial draft. The Assessment Team will be responsible for providing a debriefing following the fieldwork.

During the fieldwork, the assessment team will collect additional data including but not limited to:

Views of key stakeholders, including project participants, beneficiaries, relevant local and national government officials and donors regarding the impact of CRDA and Montenegro Private Sector Development and Competitiveness Project (MCP) on economic growth and, in the case of CRDA, citizen participation.

Field verification of and follow up on performance data, including status of businesses supported through CRDA and Montenegro Private Sector Development and Competitiveness Project (MCP) and developments in the enabling environment

Other investments contributing to continued impact of CRDA and Montenegro Private Sector Development and Competitiveness Project (MCP) and sustainability of project efforts

Differences in actual AoR-level impacts due to specific approaches taken by the CRDA implementers and/or AoR contextual differences

Montenegro Private Sector Development and Competitiveness Project (MCP) sector-specific impacts

Examples of best practice and success stories

3. Phase 3: Final Assessment Report – Conclusions (30 days)

The final phase of this assessment will require that the Assessment Team carry out data analysis and submit a draft and a final assessment report for USAID Mission comment and review. USAID will provide written comments on that draft report within 15 days of receiving it from the Assessment Team. The Assessment Team, in turn, shall revise the draft report to reflect USAID's comments and suggestions within 15 days of receiving USAID's written comments. Following official acceptance of the report by USAID (CTO), the Assessment Team will then provide USAID with an electronic copy and (2) bound copies of the final report.

VI. METHODOLOGY

The Assessment Team will 1) carry out comprehensive desk research described above; 2) identify data gaps and prepare data collection tools and field work plan; 3) conduct field research in Montenegro; 4) provide a verbal debriefing at the end of the field work to Mission management and technical teams; 5) analyze data and compile key findings; 6) produce draft assessment report and submit to USAID for comments, and 7) revise the draft report as necessary and submit a final report to USAID/Montenegro for acceptance.

VII. USAID'S ROLE IN THE ASSESSMENT

The USAID Mission in Montenegro will:

- organize a small USAID advisory group for implementation of this scope of work;
- provide programmatic and budgetary information to the team;
- provide project documents and evaluations to the team;
- facilitate additional information-gathering;
- facilitate obtaining USAID/Mission input;

- arrange USAID/Montenegro meetings.

In some instances (although the Assessment Team should not depend on this), an additional USAID staff person may join the team during the field visits/stakeholder interviews in Montenegro. USAID Mission staff and/or the USAID team members will be available to assist the Assessment Team to provide in-depth knowledge of the various projects and activities that are being evaluated.

VIII. USAID/MONTENEGRO CONTROL OFFICER

The USAID Serbia and Montenegro officer, Vladan Rad will serve as the Control Officer for this task and must approve all experts and workplans for this assessment.

IX. DELIVERABLES

The Assessment Team's deliverables shall include:

- Conducting a comprehensive review of performance reports and other materials;
- A written methodology plan (research design and operational work plan);
- Refining key research questions and identification of key informants/stakeholders and/or samples;
- Developing appropriate research instruments for field work;
- Debriefing before departing Montenegro;
- Analyzing data and identifying and summarizing key findings;
- Submitting a draft report (electronic and hard copy) to USAID in Montenegro within 15 days after completing the fieldwork for comments of USAID. USAID will be responsible for compiling Mission comments for inclusion and submission to the Assessment Team. USAID/Montenegro will provide the assessment team with a summary of such written comments within fifteen days of having received the draft report. The Assessment Team will submit a final report to USAID/Montenegro within fifteen days after USAID's comments are provided to the Assessment Team.

X. TEAM COMPOSITION

The team for this assessment will consist of Stephen Silcox, Senior Enterprise Development Advisor of EGAT/EG, who will serve as Team Leader, and a local government development specialist provided by the Business Growth Initiative (BGI) Project, (CTO – Steve Silcox) of the EGAT/EG Office.

Local experts and support staff:

USAID/Montenegro will provide the following local staff and logistical support for the assessment:

1. Private sector development expert – 1 position for 15 days of fieldwork and five days of desk research. Strong research skills and conceptual understanding and

- experience in analyzing enterprise development and local economic development are required.
2. Municipal government development expert – 1 position for 15 days of fieldwork and five days of desk research. Strong research skills and conceptual understanding and experience with public participation and local government are required.
 3. Interpreters/Admin Assistants – 2 positions for 15 days of field work
 4. Drivers – 2 positions for 15 days of field work

XI. LOGISTICAL SUPPORT

USAID Montenegro will be responsible for all in-country logistical support. This includes responsibility for scheduling, hotel accommodations, arranging for all in-country transportation (including vehicle rental and drivers), arranging for interpreters/translation services, and attending to all other administrative issues.

XII. ILLUSTRATIVE SCHEDULE

It is anticipated that fieldwork on the assessment will begin on August 1, 2007 and be completed on August 15, 2007 and that the final report will be submitted by no later than September 15, 2007.

XIII. RESPONSIBILITY FOR ASSESSMENT TEAM COSTS

EGAT/EG will cover the costs of the salary and related items for Stephen Silcox and the BGI Project will cover the cost of the salary and related items for the Local Government Development Specialist under the BGI project. USAID/Montenegro will pay the costs for travel from the USA to Montenegro and the return to the USA of the two expatriate team members, per diem while on travel status and in Montenegro, local travel and other logistical costs during fieldwork in Montenegro.

USAID/Montenegro will contract directly with local staff to assist the Assessment Team as described in Section X above and pay for those costs.

ANNEX B

List of Persons/Organizations Contacted/Interviewed

USAID

Joseph Taggart, Officer in Charge
Vladan Raznatovic, CTO for CRDA-E Project
Savo Djurovic, CTO for MCP Project
Vesna Brajovic, Program Coordinator
Ana Drakic, Program Specialist
Sanja Nikolic, Program Office, Belgrade

IRD

Predrag Jankovic, COP
Aleksandar Baric, Advisor
Suzana Miljevic, PR/Media Specialist
Enesa Tausan, Administrative & Finance Manager
David Matic – Engineer, Team Leader
Nikola Tausan-Project Development Advisor

CHF

Chris Brown, Country Director
Igor Noveljic, Program Manager
Vladimir Novovic, IT/Reports Coordinator
Vanja Perovic, Finance Manager, CHF

Centre for Sustainable Tourism Initiatives

Slavica Vukcevic, Director

FORS Montenegro

Veselin Sturanovic, Executive Director
Emil Kocan, Team Leader, Agro Sector

Booz Allen Hamilton

Violane Konar-Leacy, former COP
Andrija Draskovic, current COP and Tourism Advisor
Marc Yanofsky, Senior Tourism Advisor
Milic Curovic, Forestry

Government of Montenegro

Branimir Vujacic, Secretary of the Ministry of Agriculture, Forestry and Water Management
Velizar Vojinovic, Deputy Minister of Water Management
Zeljka Radak-Kukavicic, Secretary of the Ministry of Tourism and Environmental Protection
Goranka Lazovic, Ministry for Tourism and Environmental Protection, Senior Advisor

Milica Devic, Deputy Director of Directorate for Development of SME (Small and Medium-Sized Enterprises)

Natasa Batricevic, Advisor, Directorate for Development of SME,

Milan Markovic, Former Deputy Minister for Agriculture, currently engaged in EU negotiation process on behalf of the Ministry in the area of agriculture

National Tourism Organization of Montenegro

Sasa Radovic, Managing Director

Maja Lijesevic, Deputy Director

Kirsi Hyvarinen, CIM Senior Advisor

Local Government & Agency Officials

Tarzan Milosevic, Mayor, Bijelo Polje

Ranko Raicevic, Manager, Berane

Nikola Zecevic, Advisor, Berane

Ranko Scekcic, Advisor, Berane

Mileta-Mikan Bulatovic, President, Kolasin Local Community

Tanja Kazanegra, Director, Budva Tourism Organization and LEDPT member

Jovan Martinovic, Director of the Local Tourist Organization, Cetinje

Ivan Mijanovic, City Manager, Cetinje

Nikola Djuraskovic, PR Manager, Cetinje

Zoran Boskovic, Vice President, Danilovgrad

Zeljko Popovic, City Manager, Niksic

Nebojsa Lekic, City Manager, Andrijevica

Milos Dzeverdanovic, Finance Advisor, Kotor,

Tvrtko Crepulja - Director of the Utility "JKP" Kotor/ Recycling Center

Mehmet Tafica-LEDPT chairman/ Senior Advisor for Water Management, Ulcinj

Members of CAC/CDCs and LEDC/LEDPCs

Zoran Boskovic, Vice President, Danilovgrad Community

Ratko Batakovic, President, Niksic

Dragoljub Pavicevic, member of CDC Orja luka, Danilovgrad

Sreten Radonjic, member of CDC Slap, Danilovgrad

Jovanka Popovic, member of LEDC Danilovgrad

Darko Buric, member of LEDC Danilovgrad

Ljubo Vujadinovic, member of CDC Vidrovan

Rajo Djuric, member of CDC Rastoci/Uzdomir

Zeljko Drincic, citizen not member of CDC nor LEDC

Ana Dragicevic, member of LEDC Niksic

Jovo Radulovic, member of LEDC Niksic

Milos Raicevic, member of LEDC Berane

Vlatko Pekovic, member of LEDC Berane (and now government official in Berane)

Danko Orovic, member of LEDC Berane

Milos Simonovic, member of LEDC Berane

Ljubomir Ralevic, member of CDC Berane

Nastimir Ralevic, member of CDC Berane

Nastimir Ralevic, member of CDC Berane
Tomo Knezevic, member of CDC Berane
Fahrudin Dervisevic, member of CDC Berane
Salko Selmanovic, member of CDC Berane
Jelena Rmus, Cluster Council member, Berane
Dragan Radic, Cluster Council member, Berane
Sadeta Skrijelj, Cluster Council member, Berane
Milinko Rmus, member of CDC Berane
Milija Guberinic, member of CDC Andrijevica
Zoran Kapisoda, member of CDC and LEDC in Cetinje
Vesko Mitrovic, Seoce MZ President
Ranko Scekcic, Berane
Radomir Petric, Berane (and journalist)
Ivan Mijanovic, Manager of Visitor's Center, Lovcen

Company Clients of MCP or CHF/IRD

Snezana Vejnovic, Director, Talas-M
Sanja Vlahovic, Vice Dean for Education, Bar Faculty for Tourism Hospitality and Trade Management
Boris Mardjonovic, Executive Director, Montenegrin Hotel Association
Andrija Mickovic, Director, EKO Hrana
Nazif Cungu, Manager, Cungu & Co., Ulcinj
Ivona Savic, Deputy Manager, Wood Industry Council of Montenegro
Jelena Dragovic, Wood Industry Council of Montenegro
Slavko Petricevic, General Director, Pirella beverages
Dejan Radovic, Production Manager, ITAL cheese and dairy Products
Baco Bujisic, Manager, BAMBIS Podgorica wood products
Svetislav Pupavac, Technical Director, Javorak Niksic
Vladimir Barjaktarovic, Technical Director, MiRai
Ratko Vujosevic, President of the Association of Green House Producers
Ratko Batakovic, NGO Agro Group
Miroљjub Scekcic, Association of Cattle Growers, Berane
Radoman Scekcic, Association of Fruit Producers, Berane
Jelena Scekcic, Association of Fruit Producers, Berane
Zeljko Obradovic, Sport-fishing society "Lim", Berane
Avdul Adrovic, Cooperative Vrbica
Hidajet Pepic, NGO Enfants
Helena Filipovic, Center for Women Entrepreneurship, Ulcinj
Hatodza Djoni, Women Association of Ulcinj
Ljutvija Hadzibrahimi, Women Association of Ulcinj
Slobodan Jankovic, Association of vine producers "Nahije" Boro Pejovic, Association of wine producers "Nahije"
Brano Kadic, journalist (Danilovgrad)
Budimir Jovetic, director of Radio Bar
Vesna Soskic-TV Montenegro journalist; (Bar)
Radomir Petric-Newspaper "Vijesti" journalist (Bar)

ANNEX C

Documents Reviewed

USAID Documents

Levinson, Mark & Ted Priftis, USAID, and Bonnie Walters, PADCO, Assessment Of Strategic Objective 2.1 Local Development And Governance, September 1, 2004.
Urban Institute, Montenegro Good Local Governance Project, Final Report: September 2003 – February 2006, February 28, 2006
USAID/Montenegro, Performance Management Plan, Revised November 14, 2006
USAID, Request for Applications No. 169-01-24/Montenegro Community Revitalization through Democratic Action (CRDA), February 1, 2002.

MCP Documents

USAID/Booz Allen Hamilton Task Order for the MCP Project (Contract No. PCE-I-00-98-00013-00, Task Order No. 816), June 30, 2004.
MCP Tourism Sector Strategy, December 2004.
MCP Agribusiness Sector Strategy, December 2004.
MCP Wood Sector Strategy, December 2004.
Balkan Market Demand Survey for Agricultural and Agribusiness Products from Montenegro, September 2005.
Annual Project Reports for Years One, Two and Three.
Monthly Project Reports for September 2005 and for January – June 2007.
MCP Client Company Statistics on employees, wages, sales and exports for the Years 2004-2006 for the Agribusiness and Wood Sectors
Issues paper with an overview of the issues associated with the entry of low cost carriers to the Montenegrin market, August 2007.

CHF Documents

USAID/CHF Award for the CRDA Activity, Award No. 170-A-00—02-00102-00, April 25, 2002 and Modifications Nos. 1 & 2.
Modification No. 7 of the CRDA Award to change the SOW to focus on economic activities (CRDA-E), April 24, 2007 and CRDA-E Program Description.
Semi-Annual Project Reports for the periods: October 2005-March 2006, April 2006-September 2006, and October 2006-April 2007.
CRDA-E Year One Workplan, May 2005-April 2006.
CRDA-E Year Two Workplan, May 2006-April 2007 and GAANT Chart
CRDA-E Newsletters: Volume 1, Issues 1 and 2
FORS and CEED, Survey of Micro, Small and Medium Enterprises Needs in Northern Montenegro, August 2007.

IRD Documents

IRD CRDA-E Program Description
Annual Workplan for Year One of CRDA-E, April 2005-April 2006
Semi-Annual Performance Reports for the periods: April 2005-September 2005, October 2005-March 2006, April 2006-September 2006, and October 2006-March 2007.

DISCUSSION PAPER ON PRELIMINARY FINDINGS

MONTENEGRO CRDA AND MCP PROJECT ASSESSMENT

PRELIMINARY FINDINGS

Economic Impacts

Accomplishments of the CRDA and CRDA-E Projects:

- Laid the foundation for economic growth through infrastructure, economic and social activities
- Helped to create public-private partnerships at the local level
- Some CRDA-developed projects that did not receive CRDA funding were later funded from other sources obtained by CAC/CDCs
- Generated a lot of short-term construction jobs and some longer-term jobs
- Improved transparency of local public procurement
- Reduced business barriers at the local level (e.g., One-Stop-Shops)
- Created spin-off organizations that are having and could have longer term economic impact
- Strengthened sectoral and trade business associations and other NGOs
- Data collected on jobs created and economic factors was generally good

Weaknesses of the CRDA and CRDA-E Projects:

- Concerns about grants and subsidized loans made during the first three years
- Difficulties in transitioning from a community development process to an economic development focus as CRDA projects moved to CRDA-E projects
- Although some collaboration occurred, communication and cooperation between the CRDA and MCP projects could have been improved
- There are some concerns about the sustainability of business association activities from both a financial sustainability and institutional development standpoint
- CHF developed two local NGOs to work as regional development organizations and business service providers. However, the sustainability of FORS and CSTI is still in question. On the other hand, IRD did not seem to have any local Business Service Provider or NGO spin-offs

Accomplishments of the MCP Project:

- “Opened the minds” of enterprises to new markets and exports – coupled with increased expectations in terms of meeting the demands of those markets
- Introduction and assistance to targeted Montenegrin enterprises on HACCP and other international standards
- Improved marketing/branding/packaging of firms assisted
- Strengthened selected business associations and formation of new associations, such as the Montenegro Wood Industry Council
- Assistance to the GOM on tenders for sale of Sveti Stefan and other privatizations of tourism properties
- Improved the capacity of enterprises to prepare for and participate in trade shows through cost-share arrangements with the firms. This activity also included cost-sharing collaboration with SMEDD, the Ministry of Agriculture and the Ministry of Tourism.
- Strengthened the capacity of the Montenegro Tourism Organization and trained local tourism organizations and travel agents/hotel staff in tourism management and marketing
- Assisted in the privatization of the wood sector and developing the capacity of private sector companies in the sector
- MCP contributed significantly to development of the tourism sector and, to a lesser extent, the wood products industry.

Weaknesses of the MCP Project:

- Did not do an effective job of developing local BSPs, especially in the agribusiness sector
- Although some collaboration between MCP and CRDA, it could have been expanded and greater synergies developed
- No real impact on the reduction of business barriers in the targeted sectors (outside of internal barriers to specific firms as a result of firm-level assistance)
- Sustainability of the Montenegro Wood Industry Council is still in doubt
- Work in the agribusiness sector seemed more focuses on firm-level assistance and had minimal impact on the sector as a whole
- Lack or shortage of project impact data and targets agreed upon by BAH and USAID

Citizen Participation Impacts

Accomplishments of the CRDA and CRDA-E Projects:

- Increased trust by citizens in local government
- Improved citizen participation in local government – the emphasis on volunteerism through serving on the CRDA community groups without pay appears to have been a new aspect of local citizen participation in Montenegro
- Established a formal process for citizen participation – the citizen participation methodology and processes by both CHF and IRD were very successful
- Identified and developed new local leadership
- LEDC/LEDPT training helped local leaders to consider and analyze economic issues better than in the past through an objective decision-making framework
- Increased cooperation among various stakeholders and public-private partnerships
- Public-Private partnerships and funding/in-kind services from the private sector were encouraged
- Encouraged and achieved regional cooperation and collaboration among municipalities
- Action Plans developed by the Local Economic Development Councils/Planning Teams (based upon the Local Strategic Plans developed with GLG assistance) are currently being used and updated by the municipalities
- Targeted trainings and education benefited a variety of business stakeholders

Weaknesses of the CRDA and CRDA-E Projects:

- Cooperation between GLG and CRDA projects could have been improved, especially to correct some overlap training programs
- IRD seemed to link CAC members to LEDPTs better than CHF linked CDC members to LEDCs
- There appeared to be less citizen participation during CRDA-E in comparison to the original CRDA project
- The change from a broader community development approach focusing more on villages and neighborhoods with considerable emphasis on infrastructure projects to economic development only at the municipal level seemed to have a negative impact on broad-based citizen participation

NOTE: THESE FINDINGS ARE PRELIMINARY AND SUBJECT TO MODIFICATION, BASED ON DATA AND INFORMATION YET TO BE RECEIVED. THE DRAFT REPORT WILL HAVE THE FOLLOWING FORMAT:

- **INTRODUCTION – INCLUDING BACKGROUND/CONTEXT AND METHODOLOGY OF THE ASSESSMENT**
- **FINDINGS**
- **CONCLUSIONS**
- **RECOMMENDATIONS**

FINDINGS OF THE CRDA PROJECT ASSESSMENT (SEPTEMBER 2004)

- CRDA has made a legitimate contribution to jobs and income through the creation of new economic opportunities that have directly resulted from the completion of infrastructure projects with significant economic impact.
- CRDA has successfully created a substantial degree of change in the political landscape at the municipality level.
- CRDA has created an environment where citizens understand and believe in their capacity to make positive change in their communities, through their organized activity.
- A significant number of active citizens have the skills necessary to engage local government and the social capital necessary to mobilize community resources to continue CRDA-type civic activism. Most however are not confident that they can “go it alone”. Nevertheless, though citizen activism has not yet become institutionalized and has not yet reached the level of sustainability, there is concrete evidence that communities are becoming capable of replicating the CRDA process and undertaking projects in partnership with municipal government without CRDA program funds.
- CRDA has been the catalyst for a number of breakthroughs at the local level, where common ground and shared interest has been found across community lines and politically, between pro-government and opposition interests.
- CRDA is a catalyst for the emergence of new community leaders.

ANNEX E

THE TRANSITION FROM CRDA TO CRDA-E

(This annex discusses various issues related to the transition from the CRDA to the CRDA-E Project in order to understand some of the dynamics in this transition and how it impacted on project performance.)

- **There was less citizen participation during CRDA-E.**

The total number of citizen participants per year in CRDA-E, as per IRD Project, has significantly decreased from 10.825 to 4.895. This reflects a common perception among the CRDA and CRDA-E implementers that fewer citizens and local officials benefited from the citizen participation activities under CRDA-E as compared to the original CRDA project.

- **Many of the persons interviewed considered the change in focus from community development at the village level to economic development at the municipality level as having a negative impact at the local level.**

The major infrastructure projects that were so important to the community ended. Though job creation and increased incomes were important to the citizens, and they were often a secondary benefit to the infrastructure focus. The priorities of the CDCs and CACs were infrastructure projects – roads, water systems and electrical service – and the success of the CRDA program was built on its responsiveness to these needs. Almost all of the local officials we met regretted the passing of CRDA, and it was also mentioned at higher government levels. Several government and local officials expressed continued strong interest in funding for infrastructure projects to support agriculture, businesses and tourism.

- **Valuable time was lost as the CRDA staff retooled for CRDA-E.**

The CRDA staff members were, by and large, community development experts, not economic development experts, per se. The shift from a primary focus on citizen participation and a secondary focus on economic development to the obverse was a major shift for project staff. How to promote economic development was new to many and required new training, new approaches, and new thinking. However, the respect for CRDA, coupled with their broad network of local stakeholders, helped CRDA implementers to make this shift to the municipal level.

ANNEX F

INFLUENCE OF EXTERNAL CHANGES ON ACHIEVEMENT OF RESULTS

(This analysis was requested by USAID/Montenegro in order to understand how governmental policies external to the CRDA/CRDA-E and GLG projects influenced project performance and operations.)

Fiscal decentralization, with the transfer of fiscal and management responsibilities to democratically independent lower levels of government is exemplified by the new reform-oriented, ambitious set of laws that established the framework for decentralization and local government autonomy (including Organic Budget Law/2001, Law on Local Self Government/2003, Law on Local Government Finance/2003, Law on Real Estate/2001). Specific taxing, spending and regulatory functions are therein assigned to municipalities.

Organizational requirements for fiscal decentralization are set in the law, providing political decentralization through locally appointed chief officers and assemblies composed of members freely elected. However, election of assemblies through party lists prevents citizens from directly voting for their representatives. Direct elections are not yet established, and elections are made through party lists, with members accountable to parties not electorate. Obstacles to complete and successful implementation of the Law on Local Self Governance include: legal confusion and requirement to harmonize laws which are dealing with both revenue assignments and authorities of national vs. local level; lack of understanding of regulations by both citizens and local government officials; lack of implementing capacity; lack of coordination; low level of citizen awareness and lack of an adequate body (Union of Municipalities of Montenegro does not strongly represent municipal interests and needs further capacity building!)

Fiscal decentralization involves revenue and expenditure assignments to municipal levels: Tax and revenue arrangements should be in conformity with expenditure assignment, and take into account efficiency issues in tax administration. (The issue of administration of surtax on income tax, and beverage tax closely tied to VAT, but poorly administered by municipalities). Such arrangements include: (i) assigning certain taxes to local governments –such as real estate tax; (ii) tax sharing agreements, as for personal income tax, tax on sales of property; (iii) unconditional grants or transfers from the central government-equalization grants; (iv) conditional grants or transfers that are subject to certain conditions-requires government approval; and (v) targeted grants for specific purposes or projects. (As issued by the Ministry of Agriculture for agriculture developments and country tourism)

1. Although the law gives discretion to municipalities to raise revenues, municipalities should aim at improving collection and increase reliance on own-source revenues.

(The culture of non-payment still exists and collection is largely a passive municipal activity. Municipal property rights are not established. Most municipalities are still burdened with poor data, weak assessment software and poor billing and collection practices.)

2. Fiscal and revenue sharing arrangements between the central and local governments should be stable and predictable. Equalization grants from government level are open to complaints of bias and manipulation, and the methodology for calculation has room for improvement.
3. Assigning expenditures amongst levels of government requires administrative and compliance costs to be taken into account. Revenue assignment should be fully consistent with expenditure assignment. Sufficient resources should be assigned to municipalities in order to allow them to fulfill their duties. When new duties or responsibilities are transferred to municipalities, supplementary funding should be provided, as set in the Law. E.g. Law on Education attempted to mandate municipal education expenditures without commensurate municipal authority or compensating revenues.

Transparency and efficiency of management: The framework that governs the relationships between the central and local governments and arrangements for budgeting should be clear and efficient. Conflict resolution mechanisms are important to ensure smooth intergovernmental fiscal relations. (Ex: local own source revenues not being implemented -Tourism Tax -revenue set by the law as own source revenue, but turned into shared 80%-20% revenue with secondary regulations)

Budget autonomy and budget constraints: Legally municipalities have significant budget autonomy, but budget practices need improvements, as they are ineffective. Experiences show less than 50% enact their budgets and final statements on time, insufficient reporting to municipal assemblies for their review and monitoring, budget amendments mostly made at the close of the year.

Timely and transparent financial reporting for expenditure control: A sound reporting and accounting system is critical. With treasury implementation, municipalities improved reporting to municipal assemblies and Ministry of Finance. Reports to central level have become mandatory by the law and enacted sub-regulations, which provide standard accounting codes and rules for whole public sector. For the purposes of policy analysis (as well as setting fiscal targets at the government level), it was necessary to consolidate the expenditure of the different levels of government. For this purpose, a common Chart of Accounts, based on international standards, has been introduced. Yet, the lack of capacity at local level introduces the need for further training of municipal staff for compliance. Standard uniform budget preparation rules are yet to be enacted as essential for sound financial management.

Special mechanisms are needed to control municipal borrowing: In the case of municipal budget overruns or the accumulation of arrears, sanctions or emergency measures should be implemented. Since municipalities have their own budgets, the central government

needs generally special instruments to control any deficits that municipalities incur.

Decentralization in Montenegro is generally desirable from the viewpoint of efficiency and local accountability, but these criteria must be balanced with other elements, such as diversification in regional development (South and Central region more developed than the North, business barriers reported by business community, including political issues and ethnic or minority groups' problems.)