

Northeast Bosnia
Local Government Support Activity
Contract No. 168-C-00-02-00115-00

Final Report and Annual Report for Year 3

Prepared for
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¹ As required by Contract No. 168-C-00-02-00115-00, Section C, “G.b. Reports.”

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Executive Summary

PADCO implemented the Local Government Support Activity (LGSA) for USAID from October 2002 through September 2005. The goals of the project were to help the municipal administrations improve their operational efficiency, increase the quality of municipal services to citizens and businesses, and dramatically raise levels of transparency and openness in local government.

Before the war, local government was merely an extension of the central system of government. Since the end of the war, the importance of the municipalities has changed, and more and more activities and services are controlled by the municipal assemblies. This transition has not been easy, nor has it been universally accepted. The nationalist parties have fought this change, which has led to some instability in local leadership. The LGSA project has strengthened local capacity and improved municipal services while building public trust in local government, thus helping stabilize democratic local governance in Bosnia-Herzegovina.

Under the LGSA, PADCO provided technical assistance and training to 11 municipalities across eastern and northern Bosnia and to the Brcko District. Working in a very difficult environment suffering from ethnic divisions, very serious poverty, and political paralysis, LGSA was able to establish partnerships with municipalities in the Republika Srpska and the Federation in its first two years and guide them through intensive capacity building programs in:

- municipal finance and budgeting;
- local economic development (LED);
- streamlined civil registry and other administrative processes; and
- improved citizen participation and services.

The results were excellent, though varied from municipality to municipality.

The municipal budgeting process was completely changed with LGSA support. The quality and quantity of budget analysis and reporting was substantially improved. Budget documents from LGSA partner municipalities are now a model for municipalities across the country. The first-ever public hearings on municipal budgets drew more than 1,800 citizens. Municipalities that had never before planned spending more than a year in advance prepared long-term capital improvement plans and began loan negotiations with commercial banks. A “Guide to Best Practices in Budget Public Hearings” and a “Guide to Budget Documents for Municipalities in Bosnia-Herzegovina” were prepared and disseminated.

LED strategies were developed through a community-based process that established unprecedented levels of openness and public participation in government, and which linked LED projects to each municipality’s capital investment plan. The municipal assemblies in every municipality adopted the LED strategies and have already started to implement them. Six municipal LED projects were completed with LGSA small-grant support.

Municipal services to citizens were improved through the construction and staffing of one-stop shops (OSSs) in 11 municipalities, and a program to extend those services into the villages was successfully demonstrated. As a result, local government responsiveness has improved, and permits and licenses are issued faster to citizens and businesses. LGSA delivered detailed manpower reduction plans to all municipalities to help lower the cost of government and guided the creation of communication plans to increase the transparency of decision making. An inter-city working group of OSS managers was formed to provide ongoing support to this progress. A “Guidebook to Process Engineering to Streamline Municipal Permits and Inspections” was prepared and disseminated.

LGSA also provided a Senior City Management Expert who gave intensive technical assistance and guidance to the District Mayor and Government of Brcko District and to the Office of the High

Representative Ambassador. A key focus of this activity was the provision of direct support to the department heads to assist with reforms and departmental reorganization that made the government more accountable, more efficient, and more transparent in its operations. Other initiatives included support to the first-ever outsourced audit of the Brcko financial systems, a comprehensive study of the District's wage, salary, and classification systems, and a feasibility study for a sewer system. Work performed by LGSA allowed Brcko to be used as a model for other municipalities in how to organize work and accomplish specific performance improvements.

A more detailed list of the accomplishments of the LGSA partner municipalities is included in Section 1.2.

The overall conclusion of the LGSA is that municipal governments in Bosnia-Herzegovina and the communities they serve are capable of making great improvements in performance and participation—and they are more than willing to put forth the effort needed to make such changes. Programs such as LGSA, which help communities design and implement changes that suit their needs and conditions, can be very successful.

1 LGSA Program Review

1.1 Introduction

PADCO implemented the 3-three year USAID Local Government Support Activity (LGSA) in Northeast Bosnia and Herzegovina (BiH) from October 2002 through September 2005. The program was designed to strengthen local governance in the aftermath of the war that destroyed a significant amount of the country's infrastructure, fractured the social structure, and devastated the economic base. The LGSA was designed to address five major problem sets that impede responsive, accountable local government:

- Weak professional capacity and poor management of local government administration
- Inadequate local government-citizen interaction, especially with business community
- Unstable fiscal context for local governments
- Inadequate communication between levels of government and the population
- Poor legislative framework for local government authority and responsibility

PADCO provided technical assistance, training, and grants support to 11 municipalities in support of the following project objectives.

Dramatically Improve the Customer Service Profiles and the Administrative and Management Systems of Local Governments

- Improve process efficiency by reducing waiting times, enhance input/output ratios, and improve quality control for customer services
- Improve the business environment by rationalizing the permit process, making local governments more business friendly, and developing a positive business enabling environment (BEE) for investment
- Promote entrepreneurial local governments, including public-private partnerships (PPPs)
- Raise levels of transparency and information flow within local government offices and to clients
- Empower local governments by expanding their control over revenues and expenditures and improving fiscal management

Provide Direct City Management Advice to the Brcko District and Assist Its Administration in Implementing Effective and Efficient Public Administration Systems

Initially, PADCO selected and assisted six municipalities plus Brcko district. Selection of municipalities was based on a number of critical factors elaborated in collaboration with USAID. In Year 2, five additional municipalities were added to roll out the pilot experiences from Year 1, while assistance continued with all Year 1 municipalities throughout the project. In Year 3, PADCO terminated assistance to Prijedor, and management assistance to Brcko was assumed by the High Commission in January 2005 (after the third month of Year 3).

LGSA Partner Municipalities

| Municipality or District | Republic or Federation | Estimated Population | Project Year in which Assistance Provided | | |
|--------------------------|------------------------|----------------------|---|---|---------|
| | | | 1 | 2 | 3 |
| Srebrenik | F | 45,000 | ✓ | ✓ | ✓ |
| Odzak | F | 29,000 | ✓ | ✓ | ✓ |
| Samac | R | 19,000 | ✓ | ✓ | ✓ |
| Derventa | R | 37,000 | ✓ | ✓ | ✓ |
| Zvornik | R | 70,000 | ✓ | ✓ | ✓ |
| Prijedor | R | 122,000 | ✓ | ✓ | |
| Orasje | F | 24,000 | | ✓ | ✓ |
| Prnjavor | R | 55,000 | | ✓ | ✓ |
| Lukavac | F | 57,000 | | ✓ | ✓ |
| Brod | R | 15,000 | | ✓ | ✓ |
| Modrica | R | 31,000 | | ✓ | ✓ |
| Brcko District | N/A | 90,000 | ✓ | ✓ | partial |

Location of LGSA Partner Municipalities



Based on a scan of municipal needs, and consultations with local staff and NGOs, PADCO defined a series of activities for the first six partner municipalities (outside of Brcko District). A Memorandum of Understanding (MOU) was signed with each municipality and briefing meetings were held with elected and appointed officials.

The LGSA technical assistance and training activities fall within five project components:

- Customer service and efficiency improvements
 - ▶ Establishing one-stop shops (OSSs) for permitting, civil registry, and other administrative requests (including satellite OSS)
 - ▶ Improving administrative organization and management of municipalities
 - ▶ Establishing Citizen Information Centers (CICs)
 - ▶ Redesigning a transparent complaints systems
 - ▶ Improving management efficiency to reduce time and costs
 - ▶ Installing computer networking for administrative and management systems
 - ▶ Planning manpower reductions
 - ▶ Introducing Total Quality Management (CAF/EFQM)
- Local economic development (LED) and business-government coordination
 - ▶ Establishing business/government working groups
 - ▶ Preparing business environment improvement plan
 - ▶ Preparing economic development strategic plans
 - ▶ Providing grants to launch economic development projects
- Public-private partnerships
 - ▶ Conducting scans of municipal assets
 - ▶ Establishing PPPs for municipal services
- Municipal finance and accounting reforms
 - ▶ Standardizing the annual budgeting process
 - ▶ Improving internal financial management
 - ▶ Promoting public disclosure of transparent budget documents
 - ▶ Projecting revenues and expenditures
 - ▶ Launching multi-year Capital Investment Plans (CIPs)
 - ▶ Improving municipal accounting practices to meet standards
- Citizen participation and public information
 - ▶ Obtaining public input and review of municipal annual budgets
 - ▶ Disseminating information to the public

1.2 Overview of Program Achievements and Successes

Customer Service and Efficiency Improvements

- ✓ OSSs were built and opened, and now provide accessible and comprehensive services in 11 municipalities, including pilot projects in Samac and Prnjavor, where five and six satellite offices, respectively, were set up. The OSS redefines the local face of government to be more transparent, efficient, and responsive to citizens.
- ✓ Speed in issuing permits, licenses, and civil registry documents to citizens has greatly increased as a result of automating administrative functions; moving the citizen interface to the OSS; and introducing new approaches, such as postal windows, photocopiers, and brochures to guide citizens.
- ✓ Customer ratings of the responsiveness of local government and customer orientation have improved in the partner municipalities.
- ✓ Transparent administrative procedures and relocation to the OSS reduce opportunities for corruption.
- ✓ Revamped citizen complaints processes attached to CICs provide transparency and accessibility to citizens.

- ✓ Computerization was introduced to manage and analyze administrative processes, allowing better monitoring and management control, and resulting in improved staff productivity and reduction in customer waiting times.
- ✓ CICs provide comprehensive information services, including brochures on procedures and requirements, fees, deadlines, and appeal rights for permits and actions; municipal budget information; strategic plans; and information about legislation and city planning documents.
- ✓ Manpower reduction plans were introduced in all municipalities.
- ✓ Model municipal reorganization plan and revised municipal job descriptions were introduced in Odzak.
- ✓ TQM concept and processes were introduced for administrative improvements.
- ✓ An inter-city working group for OSS managers was established and is providing valuable networking and support.

Local Economic Development and Business Coordination Results

- ✓ Dialogue between business community and municipal government was institutionalized through creation of Business Working Groups.
- ✓ Action Plans were prepared to improve the local BEE and eliminate business constraints in eight municipalities, seven municipalities implementing reforms.
- ✓ Business and economic scans were integrated into LED strategies in eight municipalities.
- ✓ Eight participatory LED strategies were prepared and approved.
- ✓ Priority project LED action plans were prepared in eight municipalities and 22 detailed LED project proposals were prepared for co-financing.
- ✓ Six LED projects were completed with LGSA small-grant support.
- ✓ Financing for LED projects was integrated into all 2005 municipal budgets.
- ✓ CIPs were integrated with LED objectives.

Public-Private Partnership Results

- ✓ Working groups developed uniform procedures for PPPs in compliance with Law on Concessions.
- ✓ Multiple factor scans were used to identify and assess potential PPP projects.
- ✓ Model performance-oriented service contract was introduced.
- ✓ Four service contracts and one concession was contracted.

Public Information Results

- ✓ Eight municipalities are using processes to incorporate public review of the prior years' capital investment into the budget planning for the next year.
- ✓ Seventeen public budget hearings were held for the 2004 budgets, and 59 hearings in 2005, including participation by 1,840 citizens in 2005.
- ✓ Ten CICs are distributing brochures of mid- and end-of-year budget execution summaries.
- ✓ Press releases and radio shows and reports follow public hearings and mid-year budget reports.
- ✓ Citizen information plans were adopted by 10 municipalities.

Financial Management, Budgeting, and Accounting Results

- ✓ Standardized modern budget manuals were adopted for budget preparation processes.
- ✓ Excel spreadsheets were used for multi-year revenue and expenditure forecasting.
- ✓ Seventy-three accounting improvements were implemented based on Action Plans tailored to the needs of each partner municipality.
- ✓ Seven municipalities established 5-year fiscal forecasts.
- ✓ Five municipalities developed multi-year CIPs.
- ✓ Line item costing for services was introduced to municipal organization units.
- ✓ The quality of financial reporting information was improved.

- ✓ A “Guide to Best Practices in Budget Documents” was prepared and disseminated.
- ✓ The frequency of financial reporting was increased to quarterly in all municipalities and monthly reporting in four municipalities.

District of Brcko Results

- ✓ PADCO assisted with major restructuring of Brcko District government.
- ✓ Responsibility for solid waste operations was relocated from Utilities Department to a redesigned Public Works Department.
- ✓ IT functions were centralized in the Administration Department.
- ✓ The Urbanism Department was reshaped into a Planning Department.
- ✓ PADCO supported the development of a Build-Own-Transfer (BOT) program for solid waste disposal.
- ✓ The Brcko District was assisted in contracting for an independent financial audit and an evaluation of human resources management systems.
- ✓ Daily management support was provided during the changeover of the Brcko Mayor.
- ✓ A new OSS and CIC was opened.
- ✓ PADCO advised municipal staff on numerous initiatives, such as upgrading the water treatment and distribution system, transferring nine large public enterprises to the private sector, initiating construction of a new library and records facility; expanding and modernizing the District Hospital, and launching a downtown revitalization program and pedestrian walkway.

1.3 Program Review

1.3.1 Laying the Groundwork in Year 1

In Year 1, project activities in the five initial municipalities focused on assessing municipal needs, selecting the first partner municipalities, and establishing the foundations for the project. Municipal working groups were established for each project component, composed of all concerned department heads in order to ensure effective coordination across division lines. PADCO Municipal Coordinators were named for each project municipality, ensuring coordination between project components and the smooth continuation of activities on the ground in between visits from project experts.

PADCO concentrated on establishing the OSSs, enabling the project to produce a quick and visible result that directly affected large numbers of citizens. By so doing, the LGSA assisted the mayors in achieving notable successes, securing their collaboration for further reforms and the dedication of significant staff time to project activities that initially resulted in less short-term payoff, but eventually in long-range results.

The approach to OSSs was designed to include a range of administrative tasks, including civil registry procedures, issuance of permits, and operating CICs. This involved management of grants for construction of OSS premises, acquisition of software and hardware (DataNova and DocuNova), installation of networking equipment, and training of municipal staff to use the software and interface with customers. Activities related to improving business-government relations and outsourcing to local businesses also made progress. Business working groups conducted dialogue with local officials to identify business obstacles, which led to later action plans. Training in the basics of PPPs enabled early identification and tendering of a first group of PPPs.

Three municipalities were assisted in selecting and installing computer-based accounting systems by the end of 2003, in preparation for significant assistance on accounting reform that began Year 2. Working groups in all five municipalities prepared to incorporate public review of past years’ capital investments in their 2004 budget planning and organized public hearings to review the proposed 2004 budgets.

In Brcko District, the project provided extensive assistance in the design, adoption, and implementation of a sweeping reorganization of the district government, and continued the earlier work of the USAID-funded DMT project. During the first project year, the Mayor and Director of Urbanism were indicted and tried for abuse of power and misuse of public funds, creating serious problems and delays. The purpose of the reorganization was to make the government more accountable, efficient, and transparent.

Not surprisingly, constraints and obstacles were encountered during the first project year, most of which were successfully overcome in Year 2. The municipal counterparts needed more continuous, hands-on assistance in carrying out the tasks than was expected. In some activities, there was a lack of continuity, in part because of the location of specialists and their travel schedules. Technical specialists needed to spend more time on-site providing guidance, playing a catalytic role, and assisting by providing innovative, comparative experience. Services and supplies provided by local subcontractors and vendors were not always delivered on time. During the first work year, it was found that counterparts were often not prepared for all the tasks, responsibilities, and hard work that would be required of them and the municipality. Turnover of expatriate advisors early in the project also introduced delays in the work plan.

1.3.2 Increased Pace and Expansion in Year 2

Considerable progress was made across the board in Year 2. In addition, five new partner municipalities were selected for project roll-out and were able to achieve results faster, based on experience gained in the first year. At the same time, support continued to the Year 1 LGSA municipalities, and in most areas LGSA was able to bring all project municipalities to substantially the same level of progress by the end of the second year.

At the same time, the revised staffing structure and management of the LGSA team permitted correction of Year 1 shortcomings.

- The LGSA staff Municipal Coordinators (MCs) in each partner municipality proved highly valuable in keeping activities moving ahead between the visits of technical staff who served multiple municipalities.
- The technical performance of most local staff subcontractor specialists was higher in Year 2 and proved to be well matched to the requirements of the LGSA activities.
- Scheduling, coordination, supervision, and performance of local subcontractors were greatly improved.
- Coordination among the different teams working in the municipalities was facilitated by the appointment of a senior MC.

During the second project year, the LED component was launched, meshing with the Business Coordination activities started in Year 1. LED strategic planning taskforces in 8 of the 10 municipalities,² assisted by Stakeholder Groups (SGs), drafted economic development strategies, selected priority projects, and developed action plans for implementation. These LED strategic plans provided a framework for integration of a number of project activities.

- The business working groups carried out scans of the business enabling environment and prepared preliminary action plans to improve the BEE.
- The PPP working groups used municipal asset scans and priority LED objectives to identify additional PPPs.
- Priority projects identified in the LED strategic plans were used to demonstrate and strengthen capital investment planning procedures.
- SGs were used to reinforce an LGSA theme of public participation.

² Two municipalities already had received other donor assistance to create strategic plans.

Already in Year 2, LGSA was planning for the integration of multiple project components, the focus of the strategy for Year 3 activities.

A important aspect of Year 2 activities was extension of modern approaches to local budget development. Basic competency in the use of Excel spreadsheets was established, enabling municipalities to better incorporate financial analysis in 2005 revenue forecasts and budget management. The LGSA partner municipalities developed plans for improving accounting practices, providing a foundation for the integration of financial analysis, budgeting, and capital improvements planning in Year 3.

Steady progress was made toward improving the frequency and sophistication of public information and participation. The LGSA strategy in Years 2 and 3 was to focus citizen participation, information, and outreach actions around the annual budget preparation. There were 17 public reviews of 2004 budgets in LGSA municipalities. Transparent and easy-to-understand Midyear Budget Execution Report Summaries were distributed to citizens in all CICs, reinforced by press releases and radio interviews.

In addition to constructing, equipping, and training staff for five new OSSs, more emphasis was placed on the development of service efficiency, customer satisfaction, and transparency of administrative processes, including a re-engineered complaints process.

Project assistance to Brcko District in Year 2 provided for the implementation of organizational restructuring in the Public Works and Safety Departments, and the first-ever outside financial audit of finances. The advisor also supported development of a BOT program for solid waste disposal and enhancement of the water treatment and distribution system. Regular assistance was provided to the mayor, staff, and the Office of High Representative (OHR) to launch and complete two major consulting contracts for an independent financial audit and for evaluation of Brcko District's human resource management system. Daily technical and management support provided by LGSA helped achieve smooth transitions of the Brcko Mayor and changeover to a new OHR Supervisor.

1.3.3 Achieving Results in Year 3

During the final year of the project, PADCO brought to fruition a number of project objectives, after more than two years of basic assistance and training.

- In financial management, new accounting practices were adopted by all municipalities and incorporated into annual budget planning.
- Action plans for public participation and information dissemination led to 59 public hearings focused on budget review and approval.
- Transparency of budget preparation and execution was formalized by the production and distribution of new and clear budget documents on a semiannual basis.
- In conjunction with budget preparation, municipalities used Excel templates for multi-year forecasting of revenues and expenditures.
- Seven of 10 partner municipalities prepared draft CIPs that are integrated with the budget and with the LED strategic plans.
- Further accounting improvements were made, which provide a base for eventual service-based costing and functional analysis.

All LED strategies were approved by municipal assemblies. As a means of jump-starting implementation of the strategies, LGSA established a competitive small grants program to co-fund LED projects. Municipalities presented 22 detailed proposals, of which 6 were funded and completed by the end of the project (see Section 1.4 on grants). At the same time, Business Working Groups presented detailed proposals to address specific obstacles to economic growth in line with LED strategies, and further analysis of potential for PPPs led to one new signed contract.

Communication with the public was extended from budget matters to encompass other areas, and each municipality developed a draft communications plan that brought the messages of all departments under the management of the mayor's office. This complemented LGSA's prior work on improving the "customer interface" through an OSS window or through the CIC. Early in Year 3, a review of the quality of customer interface reforms showed mixed results, leading to action planning and hands-on help to address outstanding customer service issues.

With the completion of preliminary data entry for the automated permitting and civil registry, LGSA applied process engineering methods to streamline procedures, resulting in manpower and cost savings and speedier processing. Two municipalities, Prnjavor and Samac, were selected for process engineering pilot projects in the Urbanism, Housing, and Public Works Department and the Economy Department. Nine processes, including permitting, were analyzed, and actions plans for streamlining were implemented, resulting in the need for fewer resources or employee person-hours, and decrease in the processing times. The exemplary results were documented in a case study distributed throughout BiH (see Annex 1).

Two other activities were implemented to improve municipal management in Year 3. Management consulting reports (MCRs) were prepared that addressed the need for manpower reduction and performance-based management. The reports were prepared following extensive municipal audits, and contained specific, plain advice on how to reduce the staffing costs of local government. Each MCR included concrete recommendations for staff reduction, with recommendations varying between 13 and 100 positions to be eliminated. The MCR echoed LGSA's Year 3 focus on completing, consolidating, and integrating work started in prior years.

To complement PPP activities, LGSA developed a template and methodology to follow for performance-oriented service contracts and established a methodology for performance-based decision making using one municipality as a pilot. The objective was not only to improve decision making but also to accelerate the use of service contracts as a means of diminishing full-time staff. This was presented to the other nine LGSA municipalities.

To help sustain the reforms introduced by the project, the PADCO team helped municipal counterparts to establish three inter-city working groups on Finance, OSS, and LED. These informal professional associations are facilitating the lateral sharing of information and best practices, thus enabling the members to become resources to each other after the conclusion of LGSA. This will also prepare them to serve as resources to other, non-LGSA municipalities, for example, sharing practices with GAP municipalities.

In Brcko, PADCO's city management expert began to report directly to the OHR Supervisor. While the work priorities remained the same, the emphasis of the day-to-day work focused on coordination of final award agreements between Brcko District Government and OHR. While the three years of advisory work did not result in the construction of major long-term capital projects, it did assist in the transition to an accountable, elected government, and better structured government.

1.4 Grants

Years 1 and 2. During the first two years, LGSA in-kind grants were used for three main purposes, mainly directed at setting up the OSSs: construction works, hardware and networking connectivity, and software. The PADCO team established requirements for the use of grants. Municipal proposals were reviewed to ensure compliance with the requirements prior to procurement and construction. LGSA provided "shadow management" to the municipal counterparts responsible for OSS procurement and construction oversight, resulting in improved procurement discipline, transparency, and more timely completion of works. One municipality paid for extra construction from its own budget, and all municipalities cost-shared through provision of furnishings and fixtures.

LGSA procured all hardware and software in BiH based on a needs analysis for OSS and the reorganized municipal Administrative Departments. The software, DocuNova, used by the OSS, and the financial software, FiNova, and their installation were part of the in-kind grants to municipalities. The entire procurement, delivery of goods, installation, and training was carried out with minimum paperwork and in a short timeframe.

In Year 1, grants for construction costs were capped at 40,000 KM per municipality (approximately US\$26,000). In Year 2, grants for construction were reduced to 30,000 KM per municipality (US\$20,000). As a result, the new Year 2 municipalities were required to shoulder a greater burden of costs to meet their desired standards. The municipal contributions ranged from \$147,400 to \$7,270. Putting aside Prnjavor's very high contribution, the average municipal contribution was \$6,700.

In Year 3, the grant program was redirected to support the implementation of LED strategies. The participating municipalities presented 22 grant applications for the LED activities they had designed. After extensive review, six grants were made for a total of 106,289 KM (about US\$70,850).

In total, the LGSA grant-making activity distributed US\$951,108 to the 11 LGSA municipalities, an average of US\$86,464 per municipality.

Allocation of Grants to Activities in LGSA Partner Municipalities

| Municipality | OSS Grants | LED Grants | Total |
|---------------------|-------------------|-------------------|-------------------|
| Brod | \$ 75,120 | \$ 5,900 | \$ 81,020 |
| Derventa | \$ 90,299 | | \$ 90,299 |
| Lukavac | \$ 92,596 | | \$ 92,596 |
| Modrica | \$ 86,779 | \$ 13,300 | \$ 100,079 |
| Odzak | \$ 77,254 | \$ 11,400 | \$ 88,654 |
| Orasje | \$ 79,045 | \$ 13,300 | \$ 92,345 |
| Prijedor | \$ 89,926 | | \$ 89,926 |
| Prnjavor | \$ 90,378 | | \$ 90,378 |
| Samac | \$ 86,357 | \$ 12,700 | \$ 99,057 |
| Srebrenik | \$ 27,771 | | \$ 27,771 |
| Zvornik | \$ 84,684 | \$ 14,300 | \$ 98,984 |
| Total | \$ 880,209 | \$ 70,900 | \$ 951,109 |

1.5 The Current Enabling Environment for Local Government

The operating environment for local government in BiH remains difficult, as it has been throughout the past three years. The two most significant changes effecting local government—new laws on local governance and the introduction of VAT—have or will soon have deleterious effects, and it is unlikely that either will show positive effects even in the medium term. Moreover, there remain administrative weaknesses in almost all municipalities.

The administrative law intended to make civil service more professional has created obstacles, as few municipal administration staff have the required university degrees corresponding to the prescribed requirements for department heads. This has led to significant turnover in municipal administration staff. Beyond the problems created by the loss of institutional memory, a shortage of qualified people has meant that the quality of department heads has diminished. The LGSA municipalities of Derventa, Orasje, Odzak, and Brod were especially affected.

The new VAT distribution and related changes to the tax system potentially could be beneficial to local government, yet the decision-making process excluded local government stakeholders. To some degree, the municipalities are at least partly to blame as they did not advocate for their interests. "Inertia" one observer said, "has been caused by decade's-long dependence on higher levels of government." An immediate consequence felt by the LGSA project is that revenue forecasting for 2006 will be little more than "best guesses," as there is still no VAT sharing formula.

Overall, municipal management and accountability remain weak in all LGSA municipalities. As an example, a 2004 Republika Srpska audit of Brod's finance and budget department found numerous problems, yet, in spite of heated assembly debates, no action followed for nearly a year because the mayor and Finance Director determined that it was "up to the prosecution to act, and if they didn't, there was nothing wrong after all."

Also affecting local government are the worsening socioeconomic conditions in the country. The Year 2 LGSA household survey revealed that only about one in eight expected improvement, while half said they expected the economy to get worse. A recent socioeconomic scan in Brod estimated that 48.4% of persons within the economically active age range were unemployed. This highlights the importance of the LED strategies, and renewed municipal interest in promotion of a BEE to stimulate investment and growth. Without new investment to generate revenues, municipalities will be unable to upgrade infrastructure and human resources.

The September 2004 elections were important to LGSA. The post-election period of forming new governments featured long delays in naming department heads, and staff turnover in the partner municipalities led to inevitable loss of institutional memory and knowledge. Many municipalities are still catching up.

On the positive side, the elections have clearly contributed to more open and responsive government, as demonstrated by elected officials' reactions to public hearings. Initially opposed to such hearings, the sitting mayors eventually realized the value of open dialogue. Incoming new mayors had also learned how to communicate with the public through the campaign process. The value of public participation and information dissemination was reinforced, and, as a result, every LGSA municipality held at least three public budget hearings.

1.6 Lessons Learned and Conclusions

PADCO's 3-year experience in implementing a diverse set of components has provided a wealth of experience that may be valuable for other USAID project implementers in Bosnia in future years. While it is not easy to achieve results in a short period of time, it is nonetheless possible to lay the foundations for changes that will inevitably occur as a result of external forces. As a guide for the future, we note the following lessons learned.

- The importance of elected officials' political will and commitment to change cannot be overstated; in municipalities where elections brought in new political leaders who lacked commitment, project activities slowed down.
- Reforms and progress are most successful when they lead to achievement of a clear goal and objective of the municipality. In this project the desire to attract investment and gain EU funding for economic development projects was a strong motivator for strategic planning and collaboration with the business sector.
- It was very important that some project activities produced highly visible results, as a means of garnering support for those reforms and activities that may be equally necessary but less obvious. The OSSs and CICs provided both a quick and a highly visible means of showing the benefits of undertaking difficult changes, and gained high marks from the mayors in part because they reflected well on the mayors.
- Think both long and short term; while substantial improvement in democratic governance must be built up step by step, it is important to find some "quick wins" to motivate elected and appointed staff. While the OSSs can be further developed, the fact that they opened after one year was a big win for project goodwill.
- Attempting to work on too many fronts can be counterproductive in small municipalities with limited staff resources and capacity.
- The promotion of sophisticated, new concepts and tools needs to be approached gradually, and implementers should not assume that they are well understood and can be quickly adopted. The

concept of PPPs, for example, has taken three years to understand, and will take longer to successfully implement.

- The business community has very limited time and will only participate when it is clear how the effort will positively affect them.

2 Year 3 Program Impacts and Successes

LGSA's strategy for Year 3 was to integrate the project components where possible and to assist the municipalities in applying the tools provided. In the first two years, LGSA was "an implementation project" that brought a variety of new processes and methods to the partner municipalities. Year 3 efforts took a more strategic view of management in an effort to coordinate and integrate different tools in the municipal administration system.

- Finance and strategic planning combined to identify investments in the strategic plan, the starting point for the projects in the CIP.
- The CIP team and the planning teams worked together on multi-year planning, incorporating other areas, such as health, water, sewer, and roads.
- Public hearings on budgets, the LED SGs, and the CICs' informational brochures, addressed independently in the past, were brought under one umbrella with the preparation of municipal communications plans.
- BEE improvement efforts led to offering additional services, such as business registries in the OSS, and other information was computerized and made available to the public.
- The inter-city working group of OSS managers persuaded mayors in 8 of 10 municipalities to cost share for new software to support the computerization of additional municipal records so that the databases of notary publics, the business registry, and urbanism records will now be available in the OSS.

This section details the successes and impacts of specific program components during Year 3.

2.1 Management and Efficiency Improvements

2.1.1 Efficiency and Productivity Improvements

By the beginning of Year 3, the DocuNova system had been installed in all municipalities, but it was not being used properly or frequently enough to allow the staff to reap the fruits of two years' investment, namely, using the software as a management tool for efficiency improvements that would save labor and speed up processes. Therefore, a first task was to motivate management to fully use the software to track and monitor cases. All municipalities were challenged to reach 95% usage. By the end of the third quarter, proper usage had risen dramatically, and DocuNova management reports were in regular use in three municipalities: Samac, Prnjavor, and Brod. Three more began using these advanced management tools in the fourth quarter. As a result, we were able to begin work on efficiency improvements in the municipalities of Samac and Prnjavor.

| Municipality | % of employees fully using DocuNova as of August 1, 2005 | % of employees fully using DocuNova as of December 1, 2004 |
|--------------|--|--|
| Prnjavor | 100% (36 out of 36) | 51% |
| Modrica | 100% (28 out of 28) | 66% |
| Samac | 100% (27 out of 27) | 84% |
| Orasje | 100% (25 out of 25) | 52% |
| Brod | 93% (28 out of 30) | 60% |
| Derventa | 88% (35 out of 40) | 45% |
| Odzak | 67% (18 out of 27) | 45% |
| Zvornik | 64% (40 out of 63) | 58% |

Efficiency Improvements in Departments of Urbanism, Housing and Public Works, and Economy

| Type of Case | Samac | | | Prnjavor | | |
|--|-------------------------------------|--------------------------------|-------------------------------------|-------------------------------------|--------------------------------|-------------------------------------|
| | Baseline Measurements April 2005 | Measurements September 2005 | Percent Decrease in Working Days | Baseline Measurements April 2005 | Measurements September 2005 | Percent Decrease in Working Days |
| Request for construction permit for building business object | 5 days | 1 day | 80 | 3 days | 1 day | 67 |
| Request for business license | 7 days | 2 days | 71 | 3 days | 2 days | 33 |
| Request for MTU | 7 days | 2 days | 71 | 3 days | 2 days | 33 |
| Request for intervention of the public works police officer related to misuse of public grounds and/or public premises | 4 days | 1 day | 75 | 3 days | 2 days | 33 |
| Request for occupation of the public grounds for retail business | 2 days | 2 days | 50 | 5 days | 3 days | 40 |
| Intervention of the public works police officer related to misuse of public grounds and/or public premises – government-initiated case | 2 days | 2 days | 0 | 2 days | 2 days | 0 |
| Request for deregistering all types of business | 2 days | 1 day | 50 | 2 days | 1 day | 50 |
| Sanitary inspection – inspection of the retail business that sells groceries and general usage products | 2 days | 2 days | 0 | 3 days | 2 days | 33 |
| Request for Urbanism Approval | 5 days | 1 day | 80 | 3 days | 2 days | 33 |

As a pilot demonstration of efficiency and productivity, nine processes within the Urbanism, Housing, and Public Works Department and the Economy Department were analyzed to determine efficiencies that would lead to greater productivity, meaning streamlining to reduce costs and decrease the waiting and processing time experienced by citizens. Five of the nine processes involved requests for business related authorizations or permits. The selected municipalities analyzed processes and then developed and implemented action plans for process improvement. The results demonstrated the potential for increased productivity through consistent use of the software as a management tool. This has been documented in a case study and presented at the Local Government conference.

2.1.2 Manpower Reductions and Staff Rationalization

Significant reductions in municipal staffing levels are necessary to reduce the percent of local budgets allocated to salaries. LGSA created the “Manpower Needs Assessment and Reduction Activity,” to contribute to the LGSA goal of “dramatically improving the customer service profiles and the administrative and management systems of municipal government,” consolidating work over the 3-year project period. Each municipality was subject of a management and manpower analysis, leading to MCR detailed advice on how to reduce the staffing costs. The reductions varied from 13 to 100 positions. Implementation of the recommendations will be a serious political challenge to councils, requiring mobilization of political will. In Brod, the mayor, following his re-election, downsized staff by some 50%, but as the table below shows, there are still as many as 20 positions that can be eliminated.

| Municipality | Positions to Eliminate | Municipality | Positions to Eliminate |
|--------------|------------------------|--------------|------------------------|
| Brod | 20 | Orasje | 35 |
| Derventa | 32 | Prnjavor | 42 |
| Lukavac | 100 | Samac | 21 |
| Modrica | 13 | Srebrenik | 53 |
| Odzak | 28 | Zvornik | 42 |

Because of the importance of manpower reduction, LGSA assisted municipalities with two additional related management tools as described below.

- Municipal services are a major expense. The 2005 budgets included service contracts ranging from 60,000KM in Prnjavor to over 700,000KM in Brod (about US\$40,000 and US\$476,000, respectively). Improving municipal service contracting represents an opportunity for significant reductions in personnel and costs, increases in transparency, and improvements in service effectiveness. Performance-oriented contracting can lower costs through more competitive bidding, improve service delivery through tangible outcomes, and provide a clear explanation of the expected results from budget expenditures. To improve use of outsourcing of services to reduce the number of full-time staff, LGSA worked in one municipality to develop a template for performance-oriented service contracts and established a methodology for performance based decision making.
- Many aspects of the current contracting procedures require improvement, particularly the use of a clear evaluation methodology to accurately assess the offers and to objectively award contracts. Current practice is to award service contracts with approximate promises of service delivery rather than contractual service performance based on clear performance criteria related to performance output objectives. As a result, tenders cannot be compared based on cost-effectiveness or quality of service. LGSA developed a model template for performance-oriented contracts and established an evaluation methodology for performance-based decision making. The template materials were presented to nine other LGSA municipalities along with recommendations on procedures, with forms for the service contract approval process. Recommendations on service contracting were linked to organizational changes recommended in the MCRs, namely, questions of responsibility and authority of different department and commissions.

2.1.3 Organization and Management Improvements

Two additional manpower reduction activities were added to the LGSA program portfolio late in the year. All municipalities were required to revise their municipal rulebooks and job descriptions as required by law, but Odzak is one of LGSA's most poorly managed municipalities and therefore became a model for organization and management improvements. Based on recommendations in the MCR, consultations and technical assistance led to revisions of job descriptions for all the major roles in the municipality so that they clearly indicate expectations and duties of the leaders, the way they are expected to manage their employees, lines of communication, and so on. This case study was presented to other municipalities at a meeting of the inter-city working group.

While LGSA has worked for three years to improve the quality and efficiency of municipal service delivery, it was necessary to institutionalize the process of quality management itself into the "culture" of local government. In September, we held a seminar modeled on the evaluation of municipal administrations, as designed within the "common assessment framework" of the European Institute for Public Administration (the CAF/EFQM Excellence model). The goal of CAF is to achieve consistency of direction and a consensus on improvements in nine areas: leadership, human resources, strategy and planning, partnership and resources, change management, people results, citizen-oriented results, society results, and key performance results. EDA, the Banja Luka-based consulting agency, will continue to provide EU-financed support in up to three municipalities after LGSA is closed, helping them to reach ISO certification.

2.2 OSS, CIC, and Customer Service

In Year 3, as the operations of the OSS became stable and sustainable, project attention focused on the following themes: opportunities for expansion of service, quality of service, and communication with the community.

Year 3 saw frequent changes in OSS managers, some politically motivated as new mayors installed members of their party in the office. Other changes were due to new civil service requirements. The turnover and resulting loss of institutional memory and trained staff required LGSA to devote far more time effort to OSS in Year 3 than was planned. Even so, there was terrific growth in the value of the OSS to the municipal administration itself, as LGSA promoted practical activities to develop the OSS and CIC as the municipalities' best tools to build an open government and improve transparency.

Orasje, for example, reports with pride that the OSS is "the most visible result of a new municipal approach to citizens," and Zvornik, which was expected to be a difficult partner when the project's work began there, has transformed itself into one of LGSA's best largely due to progress in the OSS, where, among other things, a public forum to promote a new complaints procedure appears to have truly changed public perceptions.

Evidence of the positive impact of the OSS is that eight municipalities agreed to pool funds to match LGSA's contribution for the cost of new software that will allow the computerization of additional municipal records. In the final quarter of Year 3, databases were being created for notary publics, business registries, and urbanism records. Potentially, cadastre and revenue office services can be added at a later date.

Improved quality of the municipal/customer interface and greater client satisfaction have been major project objectives. In Year 3, we performed an in-depth audit of quality, measuring the degree to which municipalities have achieved success in implementing the reforms promoted by LGSA. These included:

- systematizing new job duties;
- improving access to services in the OSS;
- establishing constant quality of OSS services;
- making remote access to services available;

- providing brochures at CIC and OSS windows;
- checking input documents;
- estimating completion dates;
- implementing the complaints process properly;
- computerizing the civil registry records;
- managing the quality of customer service properly; and
- publicizing the OSS and its services.

LGSA municipalities fell into three categories: the high achievers of Prnjavor and Modrica; medium achievers Samac, Orasje, and Zvornik; and lower achievers Odzak, Brod, Derventa, and Lukavac. MCs assisted our counterparts in developing action plans to address the audit findings and to meet deadlines for improvement through the remainder of the project. Reports were distributed at the local government conference and elicited great interest.

2.2.1 Citizen Information

The tactical approach to citizen information has been to build on LGSA's existing communications activities and to promote the CIC as the starting point of a new approach to the way local government works with citizens. Integrated budget documentation and promotion of the LED strategic plans were added to the CICs' information desk material, for example, expanding the range of information they provide to the public. The strategy was to promote an active approach to communication within the municipal administration.

Having established the concept of taking an active approach to managing the municipality's communication, work began on developing a municipal communication plan to facilitate and lead broader and more useful communication by all departments. Individually, public budget hearings, LED SGs, and the brochures produced by the CIC are impressive, but a more comprehensive communication plan was needed by the municipal administration. The LGSA team worked with municipalities to develop draft plans for presentation to the mayors. Each municipality now has a draft integrated communications plan. First implementation steps include LED projects for outreach to attract investment and publicizing the results of the process improvement pilot efforts in both Samac and Prnjavor to the general public and the business community.

Finally, LGSA promoted an inter-city working group throughout Year 3. The group, which consists of OSS managers and a few department heads (usually the head of general administration), met once a month throughout the year. The group held discussions about administrative procedures aimed at creating more user-friendly procedures and harmonizing those approaches with existing law. They hosted representatives of higher levels of government and discussed access to information. Most importantly, the members of the inner-city working group took ownership of the group. As the weeks passed, they began to prepare meeting agendas and deal with logistics. By the fourth quarter of Year 3, LGSA staff attended these meetings as guests not organizers. It is a sustainable legacy of the project.

2.3 Local Economic Development

2.3.1 Strategic Planning

Because of the political uncertainty that dominated local government following the elections in September 2004, the completed strategic plans were considered by municipal assemblies later than hoped for, but by the end of March all had been reviewed, debated, and approved.

Three activities in Year 3 supported implementation of the plans and their integration with other municipal management tools: small grants to support LED projects, the integration of planning and CIP, and guidance on revisions and updates to the plans.

At the same time, LGSA pursued its strategy of ensuring integration between LED plans and the capital improvement program. Using LED strategic plans and projects as the starting point, municipalities developed multi-year investment plans for capital investments, including other service areas, such as health. Starting with development of goals and objectives, essential projects were identified and prioritized, and meshed with the annual investment capacity forecast. Seven municipalities now have a complete multi-year CIP. It should be noted that the 2005 annual budgets of all municipalities included appropriations for specific projects identified and defined in their LED strategies.

To boost the continuity and sustainability of LED planning, LGSA assisted the participating municipalities in adopting a continuous process of revising and updating the strategic plans. The value of this was demonstrated through further assistance on two important topics that had not been adequately considered in the initial plans. First, municipalities needed to better understand the role of government in a market economy, ethical relationships, and the concept of government as supporter not of specific businesses (those with connections and a bribe budget) but of a BEE. With this increased understanding of the market economy and needs of employers, several municipalities made immediate refinements to their small and medium enterprise (SME) strategies. The second important topic was understanding entrepreneurship and the role of local government in supporting entrepreneurs; this led to refinement of strategies to more effectively incorporate business support programs.³

Modrica's plan's revisions demonstrate changes in perceptions about the strategies. They added an agricultural education center project to their plan, and SME projects were revised with the goal of creating an estimated 213 new jobs in Modrica in 2005. The assembly revised or passed several new decisions to stimulate business start-ups and legalize operation, again mainly focusing on SMEs. At the same time, the municipality is collecting and processing data for a new business registry, and three young university graduates have been hired specifically assigned to LED/BEE tasks.

2.3.2 Grants

The purpose of the grant program was not primarily to provide financial support, but rather to support the planning efforts of the municipal teams by showing a strong endorsement of local, open, and inclusive decision making and to kick-start implementation of projects that could quickly show results. LGSA offered cost-sharing grant funds on a competitive basis for projects that enabled implementation either of the LED strategies or an activity that supported the strategy. Twenty-two proposals were presented, and six grants were made for a total of 106,289 KM (about US\$70,850). The projects were as follows:

- Zvornik – GIS with Public Asset Database
- Orasje – Road to Industrial Zone
- Modrica – Renovation of Building for Business Incubator
- Brod – Economic-Social Map
- Samac – Municipal Potentials Promotion
- Odzak – Promotion of Economic Potentials

Municipalities experienced significant difficulties in preparing adequate proposals that related to priorities of their strategy, and a number fell short of requirements, signaling a need for future assistance in project preparation to access donor and credit funds. Grantee municipalities have been diligent in the tenders and bid reviews for the more expensive items supported by the grants, and LGSA has carefully monitored reporting and record keeping. The actual work supported by the grants was solid and all projects have been completed. For details of grants, consult Annex 4.

³ It is encouraging that among the proposals for the small grant program, two directly addressed problems in the BEE. Modrica planned work on municipal fees and taxes from a competitive perspective, and Brod identified training in business issues and management. Other proposals touched on these topics within broader projects.

2.3.3 Business-Government Coordination

Work continued throughout Year 3 to improve mutual understanding and collaboration between municipal government and the business community. Working groups had been previously developed in connection with the BEE scans that were conducted in Year 2. The working groups developed action plans for elimination of business obstacles. However, these required revisions, updated information, and support of the mayor to ensure implementation.

Many obstacles are created by higher levels of government (e.g., tax policy and the privatization process); the main thrust for local government is reduction of administrative fees, for example, fees for renting municipal land. As a result, Brod developed a “Business Coordination Plan.” The municipal assembly revised the fee schedule for urban construction land and passed revised procedures for legalisation of illegal construction. Better inspection procedures were implemented that improved market competitiveness and contributed to a notable increase in non-tax revenue in the first half of 2005.

2.3.4 Public-Private Partnerships

In Year 2, all municipalities completed a lengthy series of training sessions and exercises to learn and apply a formal PPP process. All announced tenders, and four signed contracts. In Year 3, municipalities improved their understanding of the various types of PPPs, addressed legal issues of PPPs, and initiated steps to make PPPs a normal asset and management tool and a means to promote investment in LED priorities.

Assistance was provided to Brod and Derventa to investigate the potential for PPPs that would provide for private investment to upgrade their municipal heating plants. In Derventa, however, progress depends on resolution of privatization issues by the Republika Srpska.

All municipalities considered PPPs as a means of promoting small business through partnerships. Odzak has subsequently given a service contract to a veterans group for a parking lot, and met a strategic plan objective by establishing a concession contract with a small business for restarting operations of the ferry across the Sava River to Croatia. Five more PPP tenders are in progress.⁴

2.4 Finance and Budget

The most serious obstacle to better financial management and budgeting has been the uncertainty surrounding the fiscal and legal context in BiH. With only a few months left before implementation of the VAT, municipalities did not know what proportion they would get to replace the sales tax that currently makes up 30% of their revenues. The preparation of many of the projections was extremely challenging given this unpredictable context. Continuing restrictive legal limits on debt financing have also meant that the main mechanism for funding capital investments is absent.

2.4.1 Information

The Year 3 citizen participation and public information activities focused on increasing the level of public input on municipal budgets, facilitating the horizontal sharing of best practices among municipalities, and raising the level of transparency in budget execution reporting.

As noted in Section 1.3, in Year 3, municipalities vastly improved public participation in development of the 2005 budget based on their public participation plans. Fifty-nine public hearings were conducted that attracted more than 1,800 citizens and represented a significant increase over the 17 hearings in 2003. Moreover, minutes and tape recordings of comments and questions enabled incorporation of reactions as the municipalities revised their draft budget plans. Six municipalities produced

⁴ Samac (cemetery), Lukavac (dairy, pool), and Srebrenik (parking, bus station).

and presented formal reports on the public hearings to the municipal assembly, and CICs distributed reports and summaries of changes to the draft budget.

The resulting best practices in budget participation were shared in a seminar in April and incorporated in the guidebook, “Best Practices in Budget Public Hearings,” which highlighted practices implemented by the outstanding municipalities.

2.4.2 Transparent Budget Execution and Reporting

During April, LGSA focused training on improved methods of informing citizens on budget executions. Subsequently, municipalities developed and approved action plans for budget participation in 2005. Municipalities will conduct public forums, surveys, and public hearings based on their individual needs for input on 2005 budget execution, 2006 draft development, and the 5-year capital plan. A major obstacle to increasing the level of citizen participation and public information on financial matters is the availability of finance department staff time.

Much of LGSA’s efforts in the first part of Year 3 focused on raising the quantity, quality, and transparency of municipal budget documents in five core areas.

- Communication of Strategic/Policy Direction (mayor’s message)
- Transparency of Financial Plan and Trends
- Performance-Based Expectations
- Citizen Input
- Comprehensive Accounting

A guidebook illustrating practices for improving municipal budget documents, the “Budget Documents for Municipalities in Bosnia Herzegovina,” was prepared to help municipal finance staff continue to improve future budget documents. The Guidebook provides multiple examples of transparent budget documentation using charts, tables, and narratives from the 10 LGSA municipal budgets of 2005.

2.4.3 Financial Management, Budgeting, and Accounting

Building on the foundations established in previous project years, municipalities made significant strides and met the programmatic goal of incorporating modern financial management practices into operating procedures.

The development of multi-year forecasts of revenues and operating expenditures provided the foundation for capital program development in Year 3. Using basic spreadsheets, 7 of 10 LGSA municipalities developed financial models using variables for expenditures and revenues, providing the basis for calculating the cash capacity for capital investments annually over five years. The cash capacity calculations were used to analyze the potential for debt service for credit finance of capital investments.

Section 2.3 notes the integration of LED goals and objectives with multi-year capital investment planning. Once the goals and objectives were developed, projects were identified and prioritized, and multi-year plans were prepared based on the financial capacity indicated in the forecast models. To bring municipalities closer to the next step (credit finance), four municipalities presented their financial forecasts and investment projects and proposals to representatives of three banks and are currently in the pre-application stage of discussions. By the end of the project, five municipalities had completed CIP drafts, while two more had completed either the project or financial plan but not the other; all are expected to continue and complete the CIP. The remaining three municipalities experienced personnel problems and lagged in the CIP development process.

Fourteen finance professionals participated in an 11-day study tour of municipalities in Poland in late February and early March. Funded by USAID and organized by World Learning, the study tour pro-

vided an opportunity for Bosnian finance professionals to learn about the Polish municipal budget improvements over the past 15 years. The study tour topics closely paralleled the Year 3 initiatives.

2.4.4 Accounting Improvements

All 10 municipalities made significant progress implementing their Year 2 accounting improvement plans. By July 2005, municipalities had implemented 73 of the 129 recommended improvements, enabling them to begin developing the foundations for more detailed line item budgeting, service-based costing, and functional level analysis.

2.4.5 Monthly Financial Reporting

Working toward the project goal of better financial management, LGSA worked to improve capacity to monitor budgets throughout the year. An Excel-based template for monthly financial reporting was introduced as the first step toward more frequent financial management and 10 municipalities developed action plans for improved monthly reporting. By June, four municipalities were producing monthly reports.

Annex 1. Year Three Benchmarks

Objective 1.4: Raise levels of transparency, information flow within local government offices and to clients

| Benchmarks | Month Achieved |
|---|--------------------|
| PR employee selected and trained at “Publicity Tools and Strategies” workshop | December |
| Communication plans developed and adopted | March & April |
| LGSA activities publicized to stakeholders/public according to communication plan | July |
| Form and convene regional working groups for PR staff | December & January |
| OSS/CIC services enhanced with new information sources and access to information | August |

Objective 1.1: Improve process efficiency (reduced waiting times, enhanced input/output ratios, improved quality control)

| Benchmarks | Month Achieved |
|---|----------------|
| Participating municipalities selected | February |
| Reporting recommending process/organizational changes to municipalities | June |
| Share recommendations, reports, and action plans with all LGSA municipalities | July |
| Deliver specific recommendations for staffing levels | April & May |

Objective 1.2: Improve the business environment by rationalizing the permit process, making local governments more business-friendly, and encouraging business migration from the gray market to the legal economy and

Objective 1.3: Promote entrepreneurial local governments

| Benchmarks | Month Achieved |
|--|----------------|
| Strategic plans completed in participating municipalities and submitted to public scrutiny | December |
| CIP annual preparation plan complete | May & June |
| Small grants selected, approved by USAID | March & April |
| BEE/obstacle plans reviewed by and revised with municipalities | June & July |
| Revisions to small business support strategies | July |

Objective 1.4: Raise levels of transparency, information flow within local government offices and to clients

| Benchmarks | Month Achieved |
|--|----------------|
| Quarterly participation events plans adopted by mayors | May & June |

Objective 1.5: Empower local governments through expanding their control over revenues and expenditures

| Benchmarks | Month Achieved |
|---|------------------|
| Finalize technical manual on modern budget document practices | March |
| Revenue enhancement plans developed | August |
| CIP annual preparation plan complete | May & June |
| 2005 budget accounting reports delivered | March |
| Develop template for monthly report with finance directors | February & March |

Objective 3: Provide direct city management advice to the District of Brcko and assist District's administration in implementing effective and efficient public administration systems (no benchmark)

Other LGSA Activities

| Benchmarks | Month Achieved |
|---|----------------|
| Briefing paper distributed to mayors | November |
| Best practices documented | January & July |
| Final LGSA information sharing workshop | July |

Annex 2. Consolidated 3-Year Indicators Table

Definition of Performance Indicators 1.1

| OBJECTIVE/RESULT | | ACTIVITY | INDICATOR | DEFINITION | YEAR 3 UNIT OF MEASURE |
|------------------|--|---|--|--|---|
| 1.1 | 1. Improved customer service efficiency 2. Increased customer satisfaction 3. Improved service delivery to customers | Activity 1: Establish OSSs | 1.1.1 Time to obtain documents decreases | Average time for delivery (wait time plus process time) of civil registry services; births, deaths, marriages | Decrease in time taken |
| | | | 1.1.2 Resident and customer satisfaction and approval rating increases | 1. Resident satisfaction with municipal issuance of docs/permits (HH survey) 2. Customer satisfaction with ease and availability of information prior to submitting a case (permit/license/document), compared to satisfaction with information prior to OSS system | 1. No HH Survey in Year 3 2. Percentage of surveyed OSS customers that claim OSS system is an improvement for receiving process information over previous non-OSS system |
| | | Activity 2: Reorganize administrative structure and rationalization of workforce | 1.1.3 Reorganization of Administrative Structure | 1. Administrative organization and staffing structure reorganized 2. Increased staff productivity in carrying out DocuNova tasks | N/A |
| | | | 1.1.4 Performance and efficiency improved in municipal administration | Staff time is used more productively in processing cases, as measured by increase in productivity or decrease in processing time or decrease in municipal staffing | 1. One measurement appropriate to selected processes in pilot municipalities to include: <ol style="list-style-type: none"> increase in # cases processed in given time decrease in avg. man hours to process given procedure decrease in avg.# of business days to carry out specific procedure reduction in # of employees who process cases 2. Productivity goals and standards defined and performance being measured in pilot municipalities |

Reporting of Baseline and Indicators Objective 1.1

| INDICATOR | BASELINE | YEAR 1 TARGET | YEAR 2 TARGET | YEAR 3 TARGET |
|---|--|----------------------------------|---|---|
| | | YEAR 1 ACTUAL | YEAR 2 ACTUAL | YEAR 3 TO DATE |
| 1.1.1 Time to obtain documents decreases | <p>Y1 Municipalities estimated at 15 minutes to process document + 120 to 180 minutes waiting time</p> <p>Y2 Municipalities Baselines: Orasje: Wait 1 Process 5.5 = 6.5 Prnjavor: Wait 6 Process 7.5 = 13.5 Lukavac: Wait 5 Process 1 = 15 Brod: Wait 3 Process 12 = 15 Modrica: Wait 4.5 Process 12.5 = 17</p> | 10% decrease in 5 municipalities | Average time for delivery (wait time plus process time) of civil registry certificates for births, deaths, and marriage reduced to 5 minutes for Year 1 municipalities | Average time for delivery (wait time plus process time) of civil registry certificates for births, deaths, and marriage reduced to 5 minutes for Year 2 municipalities |
| | | | <p>Year 1 Municipalities: Samac: Wait 3 Process 3 = 6 Zvornik: Wait 3.5 Process 6.6 = 10 Odzak: Wait 1.5 Process 6 = 7.5 Derventa: Wait 5 Process 4.5 = 9.5</p> | <p>Derventa: 5.41 min Modrica: 4.64 min Odzak: 6.7 min Prnjavor: 5.3 min Samac: 4.87 min Zvornik: 3.4 min Brod: They are in progress of entering data. Will not finish entering data before the end of LGSA project, but it is on track to finish by the end of calendar year. Lukavac: They are in progress of entering data. Will not finish entering data before the end of LGSA project, but it is on track to finish by the end of next calendar year. Srebrenik: Not participating in LGSA project since they are using other software solution. Orasje: Not participating in LGSA project since they are using other software</p> |

| INDICATOR | BASELINE | YEAR 1 TARGET | YEAR 2 TARGET | YEAR 3 TARGET |
|---|---|---|---|---|
| | | YEAR 1 ACTUAL | YEAR 2 ACTUAL | YEAR 3 TO DATE |
| 1.1.2 Resident and customer satisfaction and approval rating increases | <p>1. Year 1 Municipalities: 44% satisfied in Zvornik 19% satisfied in Srebrenik 22% satisfied in Samac 22% satisfied in Odzak 18% satisfied in Derventa 16% satisfied in Prijedor</p> <p>Year 2 Municipalities 13% satisfied in Brod 16% satisfied in Likavac 24% satisfied in Modrica 6% satisfied in Prnjavor 17% satisfied in Orasje</p> <p>2. Customer satisfaction with ease of processes Year 2 Municipalities Only Brod = 4.5 Lukavac = 3.9 Orasje = 4.8 Prnjavor = 4.9 Modrica = 4.6</p> | 5 municipalities raise approval rating by 25% | <p>1. Number of satisfied respondents increases in Y1 municipalities (HH Survey)</p> <p>2. Satisfaction with ease of process Y2 municipalities after OSS opened</p> | 70% of OSS customers in all municipalities say the OSS/ CIC system of relaying process information is better than the “old system” |
| | | | <p>1. Year 1 municipalities (Y2 muns. to report change in Year 3) 39% satisfied in Zvornik 15% satisfied in Sebnik 41% satisfied in Samac 14% satisfied in Odjak 41% satisfied in Derventa 15% satisfied in Prijedor</p> <p>2. Satisfaction with ease of process Y2 municipalities after OSS opened Brod: 4.9 Lukavac: 4.2 Orasje: 4.9 Prnjavor: 4.9 Modrica: 4.9</p> | <p>2. Satisfaction with ease of process Y2 municipalities after OSS opened Brod: 4.9 or 98% satisfied customers Lukavac: 4.95 or 99% satisfied customers Modrica: 4.95 or 99% satisfied customers Orasje: 5 or 100% satisfied customers Prnjavor: 4.65 or 93% satisfied customers</p> |

| INDICATOR | BASELINE | YEAR 1 TARGET | YEAR 2 TARGET | YEAR 3 TARGET |
|--|---|--|---|---|
| | | YEAR 1 ACTUAL | YEAR 2 ACTUAL | YEAR 3 TO DATE |
| 1.1.3 Reorganization of administrative structure | OSS did not exist, administrative functions scattered | 2 departments restructured in each municipality | 1 department restructured in each Y2 municipality | N/A in Y3 as all OSS were set up in Y1 & Y2 |
| | | 1 department restructured in each municipality (Admin) | 1 department restructured in each Yr. 2 municipality (Admin); all OSSs open | N/A in Y3 |
| 1.1.4 Performance and efficiency improved in municipal administration | Percent of “productive” staff time not measured in Y1 Y3 baseline average of time needed to issue permits. average over 9 permits Samac: 4.1 working days Prnjavor: 3 working days | Workforce rationalized in each municipality | No target set for Year 2 since performance efficiency reports depend on availability of DocuNova data | 1. Two pilot municipalities show 25% improvement in productivity in one targeted department for a specified process 2. Two pilot municipalities have defined goals and standards for productivity for targeted departments and are measuring performance |
| | | | | 1. Average decrease for issuing 9 permits (working days) • Samac: 1.5 days or 50.8% • Prnjavor: 1.8 days or 35.8% 2. Productivity standards and goals completed in July in two pilot municipalities and performance being measured |

Definition of Performance Indicators Objective 1.2

| OBJECTIVE/RESULT | | ACTIVITY | INDICATOR | DEFINITION | YEAR 3 UNIT OF MEASURE |
|------------------|---|--|--|---|---|
| 1.2 | 1. Improved waiting times for issuance of business permits and licenses | Activity 1: Permit process rationalization | 1.2.1 Time for issuance of business-related permits decreases | Average number of business days required to receive specific business-related permits is decreased | Decrease in average number of business days to receive permit (permit TBD in April-May) |
| | 2. Reduced barriers to business startups and expansion 3. Improved communication between municipal government and business community | Activity 2: LED/business information/coordination office/officer | 1.2.2 Increased communication and relations between municipal authorities and business communities | Business community participates in structured input to municipal decision making as measured by action plans to overcome business obstacles | Municipalities update and improve BEE audits and present revised action plans to mayors |

Reporting of Baseline and Indicators Objective 1.2

| INDICATOR | BASELINE | YEAR 1 TARGET | YEAR 2 TARGET | YEAR 3 TARGET |
|--|--|---|--|---|
| | | YEAR 1 ACTUAL | YEAR 2 ACTUAL | YEAR 3 TO DATE |
| 1.2.1 Time for issuance of business related permit decreases | To be measured | | | 25% reduction in business days to issue (TBD) permit in 2 pilot municipalities |
| | | | | Average decrease for issuing 9 permits (working days) <ul style="list-style-type: none"> • Samac: 1.5 days or 50.8% reduction • Prnjavor: 1.8 days or 35.8% reduction |
| 1.2.2 Increased communication and relations between municipal authorities and business communities | No municipalities with business coordination groups No enabling environment audits No business enabling projects | 5 municipalities have identified and reported obstacles | BEE audits conducted and reported in 8 municipalities | Eight municipalities have revised action plans |
| | | Obstacle reports completed and reported back in 5 Y1 municipalities | BEE audits completed in 11 municipalities; obstacles report completed for Y2 municipalities; 11 municipalities submitted business enabling action plans and project proposals to mayor | Eight revised action plans. Only Lukavac failed. |

Definition of Performance Indicators Objective 1.3

| OBJECTIVE/RESULT | | ACTIVITY | INDICATOR | DEFINITION | UNIT OF MEASURE |
|------------------|--|---|---|--|---|
| 1.3 | 1. Local government systematically facilitates opportunities for economic growth 2. Goal of economic growth is actively incorporated into municipal actions and plans 3. Improved cooperation between public and private sector 4. Improved efficiency and cost effectiveness of service delivery by contracting out municipal services | Activity 1: Strategic planning for LED | 1.3.1 LED working group has conducted scans and analysis reports | Strategic plan for economic development prepared in municipalities lacking strategic plans | Total points measuring progress: 1 if scan conducted 1 if plan presented to taskforce 1 if visioning and SWOT carried out 1 if groups developed prioritized projects 1 if strategic plan & action plan prepared & presented to authority 1 if priority activities of plan reflected in annual budget for 2005 |
| | | Activity 2: Formation of PPPs and potential for contracting out services | 1.3.2 Clear picture of services to contract out is achieved and firms available to manage such contracts identified | Y1: PPP lifecycle procedures prepared and all subsequent steps to identify viable projects are conducted Y2: scans of municipal assets and services identify potential for contracting out services Y1 & Y2: Training workshop | N/A in Y3 |
| | | | 1.3.3 Municipality provides opportunities for private sector participation in service provision | New PPP opportunities are created in the municipalities | Y3: Municipalities issue new or revised PPP tenders consistent with strategic plan |

Reporting of Baseline and Indicators Objective 1.3

| INDICATOR | BASELINE | YEAR 1 TARGET | YEAR 2 TARGET | YEAR 3 TARGET |
|---|--|---|--|--|
| | | YEAR 1 ACTUAL | YEAR 2 ACTUAL | YEAR 3 TO DATE |
| 1.3.1 LED working group has conducted scans and preparation of analysis report is in progress | No working groups at start of project | 1 point per municipality | 4 points per municipality in 8 municipalities | 6 points per municipality in 8 municipalities |
| | | Activity postponed until Year 2 | 4 points achieved in each of 9 LED municipalities by October 2004 | All eight municipalities have achieved this goal |
| 1.3.2 Clear picture of services to contract out is achieved and firms available to manage such contracts identified | Local PPP and procedures existing at start of project: 0 prior PPP in 1 Y1 municipality 1 prior PPP in 2 Y1 municipalities 3 prior PPP in 1 Y1 municipality 4 prior PPP in 1 Y1 municipality | All 5 municipalities | 11 municipalities | N/A in Y3 |
| | | 2 projects identified in 4 municipalities, 1 in Samac | Scans completed in 11 municipalities | N/A |
| 1.3.3 Municipality provides opportunities for private sector participation in service provision | Baseline N/A | N/A | 10 municipalities have selected PPP, 5 have implemented PPP | 3 municipalities issue new/ revised PPP tenders based on the adopted strategic plan |
| | | N/A | 11 municipalities issued tenders for priority PPPs: One PPP contract signed, 5 contracts in negotiation (see note) 4 signed | Four municipalities issue a total of six new tenders: <ul style="list-style-type: none"> • Samac (cemetery) • Odzak (signed ferry contract) • Lukavac (dairy and pool) • Srebrenik (parking and bus station) |

Definition of Performance Indicators Objective 1.4

| OBJECTIVE/RESULT | | ACTIVITY | INDICATOR | DEFINITION | YEAR 3 UNIT OF MEASURE |
|------------------|--|--|---|---|---|
| 1.4 | 1. Improved citizen access to information on public matters | Activity 1: Establishment of CIC | 1.4.1 Citizens have open and easy access to information on municipal services and assistance to facilitate their use | CICs opened and functioning and providing assistance and information on OSS processes | Number of processes for which information is systematized and available in writing |
| | 2. Improved channels for the expression of public participation in the municipal decision-making process | Activity 2: Establishment of functional complaints system | 1.4.2 Municipality has a system that enforces transparency, fairness, and accountability in service delivery and use of public revenues | Customer survey of complaints filers shows increasing share of customers believe their complaint or suggestion dealt with seriously | % complaint filers in municipalities with new complaints system who believe the municipality has seriously considered their complaint and acted appropriately, as measured by software used in Complaints Process |
| | 3. Clarified information flows and improved use of internal communication channels | Activity 3: Issue-driven public participation process | 1.4.3 Municipality actively solicits public input on service delivery and use of public revenue | Municipality solicits input from public on budget priorities during budget preparation cycle | Number of public hearings held during budget preparation process |
| | | Activity 4: Press and public information | 1.4.4 Municipality improves frequency and diversity of information provided to public using appropriate channels and tools | Municipality provides up to date information to public on use of public funds at regular intervals | Municipality publishes budget summary brochure semi annually |

Reporting of Baseline and Indicators Objective 1.4

| INDICATOR | BASELINE | YEAR 1 TARGET | YEAR 2 TARGET | YEAR 3 TARGET |
|--|--|---|---|---|
| | | YEAR 1 ACTUAL | YEAR 2 ACTUAL | YEAR 3 TO DATE |
| 1.4.1 Citizens have open and easy access to information on municipal services and assistance to facilitate their use | 1. No OSS or CIC open prior to LGSA assistance 2. No useful written information available on processes prior to LGSA assistance | OSS/CIC open in 5 municipalities | OSS/CIC open in 10 municipalities Y2 municipalities add info on 5 processes | Minimum of 20 processes described in writing for each of 9 municipalities |
| | | OSS/CIC open in 5 municipalities | 10 CICs open | Number of Processes described in writing exceeds goal in eight municipalities Orasje: 26 Zvornik: 41 Prnjavor: 41 Odzak: 6 (all of their processes) Lukavac: 45 Derventa: 38 Brod: 35 Samac: 30 |
| 1.4.2 Municipality has a system that enforces transparency, fairness, and accountability in service delivery and use of public revenues | All municipalities had complaints processes before LGSA that lacked transparency, fairness, and accountability (Satisfaction could not be measured because of issues of confidentiality.) | 5 municipalities adopt new complaints process | New complaints process proposed and adopted in all municipalities | 75% of complaint filers in all municipalities are satisfied that their complaint was handled fairly |
| | | Complaints process moved to new OSS/CIC in 5 municipalities | 5 Y2 municipalities moved complaints to new OSS/CIC; proposals for new complaints process endorsed by all mayors (as of 2/05, three had adopted); staff trained in September 2004 | Not enough complaints were filed, so an adequate measure cannot be taken |

| INDICATOR | BASELINE | YEAR 1 TARGET | YEAR 2 TARGET | YEAR 3 TARGET |
|---|---|---|---|--|
| | | YEAR 1 ACTUAL | YEAR 2 ACTUAL | YEAR 3 TO DATE |
| 1.4.3 Municipality actively solicits public input on service delivery and use of public revenues | 1 Y1 municipality held hearing 2 Y2 municipalities held hearings before LGSA with some form of public participation (Prnjavor and Modrica) | 3 municipalities hold hearings | Average of 2 hearings per municipality | Total of 40 public hearings held, at average of 4 per municipality |
| | | Zvornik: 5 hearings Samac: 5 hearings Srebrenik: 6 hearings Odzak: 0 hearings Derventa: 1 hearing | Hearings reported in Y1 took place between October and December 2003 as part of budget cycle Average of 4 hearings/municipality expected Oct-Nov. 2004 | Goal exceeded; total of 59 public hearings held on 2005 budgets; average of more than five hearings per municipality |
| 1.4.4 Municipality improves frequency and diversity of information provided to public using appropriate channels and tools | 0 press releases, 1 Y1 municipality had less formal mechanism for narrative explanation (newsletter) | 10% increase | 2 reports per municipality | 10 municipalities publish brochures semiannually |
| | | 100% was achieved for press | 10 municipalities produced 1 public report each 8 municipalities used some form of media for information dissemination | All 10 municipalities publish at least two budget brochures per year |

Definition of Performance Indicators Objective 1.5

| OBJECTIVE/RESULT | | ACTIVITY | INDICATOR | DEFINITION | YEAR 3 UNIT OF MEASURE |
|------------------|--|---|---|---|--|
| 1.5 | 1. New and approved budget process reflects citizen priorities and inputs | Activity 1: Budget execution analysis | 1.5.1 Findings of analytical reports incorporated into policy setting by leaders | Analysis of budget execution report with revenue and expenditure evaluations | Municipal assemblies presented analysis of budget execution report |
| | 2. Internationally accepted budget and accounting practices adopted to reflect true financial status of municipality | Activity 2: Fiscal discipline and budget reporting | 1.5.2 Comprehensive fiscal information provided on regular basis to all decision makers | Budget execution report available to citizens and decision makers at CIC | Frequency of availability of narrative and simplified financial reports at CIC |
| | 3. Municipalities have enhanced tools for informed decision making | Activity 3: Introduce modern budget process techniques | 1.5.3 Budget process, format, and disclosure practices improved | Budget officials use new modern financial principles throughout budget process | 1. Number of subcategories of expenditure line items in budget 2. Draft multi-year capital plans developed 3. Revenue improvement plans produced |
| | 4. Municipalities have maximized potential sources of revenues available to them | Activity 4: Improve accounting practices | 1.5.4 Municipality has taken steps to implement recommended accounting review recommendations | Municipality implements recommendations that result from accounting review (as presented in report) | Number of recommendations implemented by municipality |

Reporting of Baseline and Indicators Objective 1.5

| INDICATOR | BASELINE | YEAR 1 TARGET | YEAR 2 TARGET | YEAR 3 TARGET |
|--|---|--|---|---|
| | | YEAR 1 ACTUAL | YEAR 2 ACTUAL | YEAR 3 TO DATE |
| 1.5.1 Findings of comprehensive analytical reports incorporated into policy setting process by leadership | Y1: All prepared mandated quarterly reports of financial results, but none included analysis. Y2: all prepared mandated quarterly reports of financial results, but none included analysis | All 5 municipalities | 2 times per year | 5 municipalities deliver 3 analytical reports to the assemblies |
| | | All 5 municipalities submitted mandated quarterly reports, including 1 report in each municipality with analysis | 10 municipalities prepared mid-year analytic reports for mayor and assembly approval in July/Aug/Sept (second report in each municipality will be at end of calendar/budget year); 4 federation municipalities prepared simple quarterly budget reports | Ten municipalities deliver three per year (end of year, half-year, and one quarterly) |
| 1.5.2 Comprehensive fiscal information provided on regular basis to all decision makers | 0 | Quarterly in 5 municipalities | Quarterly in 9 municipalities | Brochures available in 10 municipal CICs semiannually |
| | | Quarterly in 5 municipalities | 10 municipalities made mid-year synthesis of budget execution report available in CIC | Semi-annual brochures on adopted budgets available in 10 CICs |

| INDICATOR | BASELINE | YEAR 1 TARGET | YEAR 2 TARGET | YEAR 3 TARGET |
|--|--|------------------|--|---|
| | | YEAR 1 ACTUAL | YEAR 2 ACTUAL | YEAR 3 TO DATE |
| 1.5.3 Budget process, format, and disclosure practices improved | Odzak (Y1) = 36 Zvornik (Y1) = 61 Samac (Y1) = 60 Derventa (Y1) = 30 Srebrenik (Y1) = 96 Orasje (Y2) = 48 Brod (Y2) = 17 Prnjavor (Y2) = 68 Modrica (Y2) = 53 Lukavac (Y2) = 38 0 spreadsheets Y1 municipalities 1 Y2 used spreadsheets (Lukavac) | 5 municipalities | 1. 5 new line item subcategories added within economic classification scheme of the national chart of accounts 2. One quarterly report | 1. 7 municipalities have added an average of 5 sub-categories of line items in any of three accounting classification schemes (economic, organizational, and functional) 2. 5 municipalities develop draft CIP 3. 3 municipalities produce revenue improvement plan (RIP) |
| | | 5 municipalities | 1. Number of new line item subcategories from 2005 budgets will be reported based on delivery and analysis of final adopted budgets 2. All 10 municipalities completed 2004 semi-annual execution report and developed 2005 budget using spreadsheets | 1. Average increase of 77 additional subcategories of the line items across the 3 classification schemes from 10 municipalities; average of 10 more economic, 60 more organizational, and 7 more functional sub-categories 2. Four municipalities have drafted CIPs; Srebrenik is expected to complete its shortly 3. 1 RIP complete, 2 RIPs in process |

| INDICATOR | BASELINE | YEAR 1 TARGET | YEAR 2 TARGET | YEAR 3 TARGET |
|---|----------|---------------|---|--|
| | | YEAR 1 ACTUAL | YEAR 2 ACTUAL | YEAR 3 TO DATE |
| 1.5.4 Municipality has taken steps to implement recommended accounting review recommendations | 0 | N/A | One recommendation in each municipality | Three additional accounting recommendations implemented in 10 municipalities |
| | | N/A | 7 municipalities had taken steps to implement at least one recommendation by the end of September | At least 5 recommendations implemented in 10 municipalities |

Annex 3. Monitoring and Evaluation

Summary Indicator Table Notes

Indicator 1.1.1 – Y1 baseline was estimated based on direct observation during a busy month, hence very long waiting periods. In Y2 municipalities, using a questionnaire of first-time applicants for issuance or change of a civil registry document, both the baseline average time for waiting and processing the document or change is reported. We believe that there was significant under-reporting of waiting times recorded as a baseline in the Y2 municipalities, based on direct observations.

Comparative data for wait and processing times in Y1 municipalities, with measures taken after they completed entering all their records, confirms that there has been a substantial improvement in processing times since the opening of OSS. Waiting times vary considerably during the year, as some months and days are busier than others, and measurements are taken over a 2-month period, not over the course of an entire year. The number of clients during measuring periods is beyond the control of LGSA, and we assume that wait time is only relevant inasmuch as it is a multiple of processing time, which is diminishing.

Reporting of comparison data for Y2 municipalities will be submitted in Y3 when the OSS has completed entering records and collected sufficient data.

Indicator 1.1.2 – The Household Survey was not repeated in Y3.

Customer Satisfaction Questionnaire. In Y2, LGSA initiated a customer satisfaction survey of all first-time clients requesting permits or processes in Y2 municipalities in order to compare change in satisfaction with the ease in learning about the process before and after the establishment of OSS. Customers used a rating scale of 1-5. However, the baseline data gathered is questionable for the following reasons:

- statistically insufficient number of replies about specific departments in small municipalities where many processes are done infrequently;
- bias/inaccuracies on the part of government workers who recorded answers to the questions asked; and
- hesitation of clients to give true opinions for fear of retribution against those who express dissatisfaction because the forms were filled out in presence of municipal agents.

At mid-year, we held discussions with the municipalities emphasizing the importance of objective assessment and confirming that there would be no penalties/punishments connected with the survey results. However, we were obliged to rely on the municipal staff whose performance is being judged to process the questionnaires.

The follow-up questionnaire was administered since the opening of Y2 OSS/CIC to determine if citizens perceived an improvement in ease in learning about the processes. The question was rephrased to capture the degree to which customers perceive a change in the ease of getting information since the OSS opened.

Beginning in Y3, a confidential follow-up questionnaire was administered to all current customers who had filed a case before the OSS was opened, to obtain a statistically viable and objective measure of changes in customer satisfaction with information about the processes. This survey had at least 120 data points entered for each municipality.

Indicator 1.1.3 – No departments will be restructured in Y3; all OSSs/CICs were opened in Y1 & Y2.

Indicator 1.1.4 – During Y2, all Y1 municipalities were equipped with the latest DocuNova software and trained in using it to measure productivity. However, adoption of the software for performance monitoring has been slow, incomplete, and inadequate. Many departments are hesitant to measure and monitor performance because they fear this to lead to downsizing. Before further activities can take place on workforce rationalization, municipalities must produce the monitoring reports that will serve as the basis of analysis and comparison of productivity and permit further work in process engineering. This requires that, for every case processed, the employee must accurately record the time spent on the case. Only then will the reports be of a quality that permits their use as planned.

As of the end of Y2, the following municipalities provided reports using software:

- 2 of 3 departments in Samac
- 2 of 5 departments in Zvornik
- 1 of 3 departments in Odzak
- 0 of 5 departments in Derventa

Two departments in each of two “pilot” municipalities were selected for productivity improvements. Baseline measurements for selected processes provided input for report on process efficiency based on current performance data, and for comparisons. The indicator used is an average reduction in work days for nine different permits and requests.

Indicator 1.2.1 – Five of the nine permits or requests measured in Indicator 1.1.4 are municipally controlled business-related permits.

Indicator 1.2.2 – As of October 1, 2004, a combined “Obstacles and Business Enabling Environment Action Plan” was submitted to and discussed with mayors of 10 municipalities. The Action Plan proposes steps to be taken, and the approval process has begun within the municipalities. In Y3, we measured completion of revised action plans, with a target of eight municipalities. Seven of eight municipalities have completed a revised action plan to eliminate obstacles.

Indicator 1.3.3 – Some Y1 and Y2 municipalities had previously done small contracting out of some services either without competition or by contracting to other government units. Those prior activities did not correspond to the PPP objectives of the LGSA project. Eleven participating municipalities launched a total of 16 tenders following a standardized and competitive process. All but three tenders received bids, but some bids were judged inadequate. In Y2, four contracts were signed. In Y3, one additional contract was signed and five others are in process.

The revised means of measurement of this indicator for Y3 will assess the ability of municipalities to prepare adequate PPP projects as elements of a quality LED strategic plan.

Indicator 1.4.2 – LGSA originally attempted a customer survey of complaints filers to determine their satisfaction with actions taken. Because few complaints had been lodged and they were anonymous, it proved impossible to follow up on satisfaction of action taken. The measurement was revised, because in any case the current complaints procedures were inadequate and needed revision. LGSA has assisted the municipalities in designing new processes that meet requirements for transparency and responsiveness. These were formally adopted in all municipalities. Staff is being trained in the new processes. However, only a total of 10 complaints were filed in Y3.

Indicator 1.4.3 – Citizen participation activities are linked to the budget preparation and review cycle, which extends until the end of the calendar year. Therefore, public hearings mainly took place after October 2004 and are reported in Y3. Despite the fact that the RS no longer requires any public participation in the budget process, we exceeded the expected an average of four public hearings per municipality.

Indicator 1.5.1 – The RS now only requires semiannual reports, while the federation still requires quarterly reports. The target established for Y3 is for three reports annually in five municipalities.

Indicator 1.5.2 – An easy-to-read, easy-to-understand version of the semiannual report was prepared and distributed through the CICs. Y3 increases the target to two reports per year in this format.

Indicator 1.5.3 – Budgets are classified according to three dimensions: economic, functional, and organization. Baseline data is reported for the economic dimensions in the budgets. In most municipalities, LGSA will recommend adding economic line items. Prnjavor, for example, already has adequate subcategories. We have recommended adding functional and organizational subcategories where needed and these appear in the 2005 draft budget and are reported in Y3.

Additional Y3 measures for this indicators look at the degree to which modern budget practices and tools are being employed to improve fiscal potential of municipalities.

Indicator 1.5.4 – In Y3, the target has been raised to implementation of an additional three accounting recommendations in their budget.

Annex 4. Local Economic Development Grants

Zvornik's "GIS with Public Asset Database"

This grant created a municipal real estate asset register. The database was digitized and consolidated information about location, ownership, and use of land. It also includes information about utilities, urban plans, and mines. The goal is have information to enable the municipality to use their property better to increase revenues. It is not really a GIS, though if expanded to include private land it could be the basis for one. If Zvornik can follow up on this database and complete a GIS, it will be an outstanding example of sustainability of foreign assistance. Total project cost: 50,000 KM, grant funding: 21,400 KM (about US\$14,300).

Orasje's "Road to Industrial Zone"

This grant contributed to establishing an industrial zone on Orasje's east side. Specifically, the municipality received funds to pay the cost of a macadam road approximately 1.27 kilometers long. The selection of this activity was based on Orasje's priority strategic goal #4, "Develop a dynamic and integrated sector of small and medium-sized businesses oriented to the production sector." The plan specifically identifies this area as a site for a business park. The municipality has already provided partial infrastructure servicing to the land. It is planned that 10 businesses will occupy the park—some new, some not, allowing for a 30% increase in number of their employees. The proposal notes that 150 people will be employed in constructing the roads and buildings. Total project cost: 59,924 KM, grant funding: 20,000 KM (about US\$13,300).

Modrica's "Incubator"

This grant supported the renovation of a building in the MZ of Koprivna. The building is approximately 440 square meters and will house 3-5 new businesses with expected initial employment of 12-17 new workers, with that number expected to reach 60. Koprivna contributed the building (valued at 250,000 KM), and the municipality contributed 25,646 KM for the renovation. This is a high-profile business development activity in Modrica, and this building is only part of a much broader program. In conjunction with this, there will be an extensive campaign to promote small business development in the municipality. Public meetings, posters, brochures, and press briefings will be part of a campaign developed and executed by a newly created "SME Support Institution." Total project cost: 295,646 KM, grant funding: 20,000 KM (about US\$13,300).

Brod's "Economic-Social Map"

This grant helps set the basis for further LED actions. LGSA was pleased to see this approach from Brod, which had problems organizing its implementation of the approved LED strategic plan. The modest size of this first project and its focus of such a critical issue indicate that the LED team had recognized its limits and its opportunities and is now on course. The project addresses a problem common to all LGSA municipalities: the lack of reliable demographic and economic data for the municipality, which forestalls accurate planning. The most recent data available is pre-war, from 1993. Total project cost: 20,000 KM, grant funding: 8,800 KM (about US\$5,900).

Samac's "Municipal Potentials Promotion"

This grant provides funds to address the first strategic objective of the Samac strategy: establishing a business-friendly environment by promoting investment in the municipality. Specifically, the grant supported the implementation of a multimedia campaign to attract new investors. The program includes print, radio, trade show participation, and the Internet. The messages are informative and action-oriented. The themes are promoting the resources and assets of the municipality and business registration guidance. The target audience is regional businesses and investors. This grant supported production of the campaign materials—brochures, radio spots, etc.—as well as participation at regional investment forums. Total project cost: 39,800 KM, grant funding: 19,000 KM (about US\$12,700).

Odzak's "Promotion of Economic Potentials"

This grant project addresses the goal of a developed entrepreneurial sector and development of SME business, improving the BEE through more proactively and effective communication with the business community and potential investors. Specifically, the grant supported the implementation of a multimedia campaign to attract new investors. The program will include a variety of print, trade show participation, and Internet presentations of both the general merits of the municipality and information about specific aspects: hunting and fishing guides targeted at sport-tourism and complete listings of businesses. This grant supported production of the campaign materials and participation at regional investment forums. Total project cost: 45,049 KM, grant funding: 17,089 KM (about US\$11,400).