GAP | *Governance Accountability Project*
Projekat upravne odgovornosti

GOVERNANCE ACCOUNTABILITY PROJECT, PHASE II

COMPLETION REPORT

Partners:
VNG International
Urban Institute
Civil Society Promotion Centre
Swedish Institute for Public Administration

DECEMBER 2007 – DECEMBER 2012

This publication was produced for review by the United States Agency for International Development, the Swedish International Development Cooperation Agency, and the Embassy of the Kingdom of the Netherlands in Bosnia and Herzegovina. It was prepared by Chemonics International Inc.

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GOVERNANCE ACCOUNTABILITY PROJECT, PHASE II

COMPLETION REPORT

EXCELLENCE IN LOCAL GOVERNANCE

“With dedication and expertise, promoting excellence in local governance now and for the future.”

USAID Contract No. 168-C-00-08-00001-00
Sida Contribution No. 76003804
EKN Activity No. 15745

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ACRONYMS

BiH	Bosnia and Herzegovina
CDMA	Capacity Development Municipal Association, a Sida-funded project
CDP	community development planning
CDPC	community development planning committee
CIP	capital improvement project
CSC	Citizens' Services Center
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
GAP2	Governance Accountability Project, Phase II
IABS	integrated accounting and budgeting software
IDDEEA	Agency for Identification Documents, Registry and Data Exchange
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance
IT	information technology
KRA	key result area
LAN	local area network
LEAP	local environmental action plan
LSG	local self-governance
MAP	Municipal Action Plan
MCI	Municipal Capacity Index
MGCI	Municipal Gender Capacity Index
MUCI	Municipal Urban Capacity Index
MYCI	Municipal Youth Capacity Index
OHR	United Nations Office of the High Representative
OSCE	Organisation for Security and Cooperation in Europe
PBMP	performance-based monitoring plan
PCM	project cycle management
RS	Republika Srpska
RSNA	Republika Srpska National Assembly
SPIRA	USAID Streamlining Permits and Inspections Regimes Activity
UPC	urban permitting center

EXECUTIVE SUMMARY

The Governance Accountability Project, Phase II (GAP2) is a flagship democracy and governance project funded through an innovative tripartite structure comprising USAID, the Swedish International Development Cooperation Agency (Sida), and the Embassy of the Kingdom of the Netherlands. During the five-year project, GAP2 directly assisted 72 municipalities in Bosnia and Herzegovina (BiH), affecting the lives of 2.3 million people across the country through their daily interaction with local government. This interaction — both passive and active — represents the multitude of ways that people's lives are affected by the actions of local governments.

GAP2 worked directly with 72 partner municipalities to improve local government capacity to improve services delivered to their communities across a wide range of activities:

- Planning, including strategic and action planning and capital planning
- Financial management
- Urban planning
- Communal services
- Youth and gender

The project encouraged the exchange of best practices and expanded their use through a range of activities, including:

- *Workshops and training.* In 40 months, GAP2 provided more than 12,500 training man-days to more than 12,000 municipal employees (52 percent male and almost 48 percent female) on a variety of topics in more than 1,000 workshops and training activities.

- *Regional coordination meetings.* These gatherings served the dual purpose of enabling representatives of partner municipalities from both entities to share experience and information and assisting municipal officials to sharpen their presentation techniques and strengthen local ownership of reforms.

- *Inter-municipal visits.* These visits provided opportunities for peer-to-peer training and sharing of experiences across regions and entities between partner and non-partner municipalities. Study visits between and among municipalities served as a powerful tool to showcase the practical benefits of new systems. Although GAP2 did not organize these visits, it encouraged and promoted them among partner municipalities.

- *Events with non-partner municipalities, cantonal and entity planning ministries, parliamentary members or committees, working groups, advisory boards, and user groups.* These fora provided opportunities to develop mutually beneficial relationships that attracted support for GAP2 and, more importantly, the municipalities, from the higher tiers of government for their reform efforts. For example, in the area of urban planning, representatives of urban institutes and ministries learned about the reform proposals, including the new zoning methodology. Their involvement as strong and willing

partners in reforming urban planning demonstrates the value of exchanging best practices.

- *Publications targeted to all municipalities in BiH.* These serve as references and guides to implementing GAP2 initiatives and can be invaluable, lasting resources to partner and non-partner municipalities and other stakeholders.

In addition to the tangible results achieved under this component, some key achievements through GAP2 will endure beyond the life of the project. For instance, GAP2 ensured that planning project activities and assessing a municipality's needs occurred in close collaboration with municipal staff, helping them develop a real sense of ownership of the changes that would affect their work. The sense of ownership was enhanced by GAP2's requirement that municipalities share the costs for several activities. This is the partnership principle at work, as municipalities not only owned the benefits, but also shared the responsibilities.

In obvious contrast to prevailing opinions regarding the ingrained conservativism of bureaucrats, GAP2 observed that municipal staff and managers are highly enthusiastic about acquiring new skills and management solutions and appreciate the appropriately designed, tangible reforms that introduce improvements into service delivery and overall municipal performance. The many visits among GAP2 partners — for example, by Cohort 3 partners to "legacy" municipalities to learn about program interventions and their experience — cut across regional, cantonal, and entity boundaries and political differences.

Concurrently, GAP2 supported changes to the overall policy and legal environment under which local governments operate. Through its work with national- and entity-level ministries and organizations and with the municipal associations of the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS), GAP2 contributed to:

- Strengthened inter-governmental communication and municipalities' capacity to advocate collectively
- Electronic document exchange
- Sound legislative and policy reforms to support decentralized local government
- Comprehensive policy recommendations to improve urban planning and management of communal services
- Promoting a credible system of equitable property disposition to municipalities and improving municipalities' ability to use and manage municipal assets
- Improved financial management

The results of policy work are often intangible until a law or policy is formally adopted and implemented. Although GAP2's efforts may not have yielded as many new laws or policies as envisioned at the outset of the project, for a variety of reasons, there have nevertheless been key shifts in the way local governments operate or are perceived. The FBiH and RS municipal associations significantly increased their capacity to communicate with and advocate on behalf of their members — and entity and national government are taking notice.

A significant challenge that GAP2 faced was the impact of the worldwide economic crisis on project goals. The crisis resulted in lower revenues at all levels of government. The effect on the municipal level was significant, and project goals related to municipal budgets (such as achieving a specific ratio of capital investment as a share of total expenditures) became unrealistic. Nevertheless, GAP2 worked with partner municipalities and policy counterparts, including municipal associations, to impart the knowledge and skills needed to implement new local government practices when the legislative or economic environment becomes more conducive to these changes.

Every aspect of GAP2's approach was imbued with the goal of building institutional and technical sustainability. By placing the RS and FBiH Associations of Cities and Municipalities at the center of policy interventions, GAP2 systematically sought to build their legitimacy and technical capacity to drive the policy reform debate. At the local level, GAP2 worked hand-in-hand with municipal staff in all aspects of its work. This collaboration fostered local ownership of and accountability for the reforms carried out through their municipal action plans and capital improvement projects.

GAP2's significant support in the provision of material assistance, including IT hardware and software, has ensured that partner municipalities utilize and maintain their project-provided property — especially in the Citizens' Services Centers (CSCs) — as they should, instilling confidence that they will continue to do so after GAP2 ends.

This completion report for GAP2 details activities, results, and impact over the course of the five-year project. Section I describes the project's Local Interventions, and Section II describes the project's Policy Interventions. Subsequent sections provide information about GAP2's partner municipalities (Section III); resources produced by GAP2 that will continue to provide guidance and recommendations for the further development of local government capacity in BiH (Section IV); GAP2's collaborative efforts with other local, international, and donor organizations for the benefit of BiH local government (Section V); and project conclusions and next steps (Section VI).

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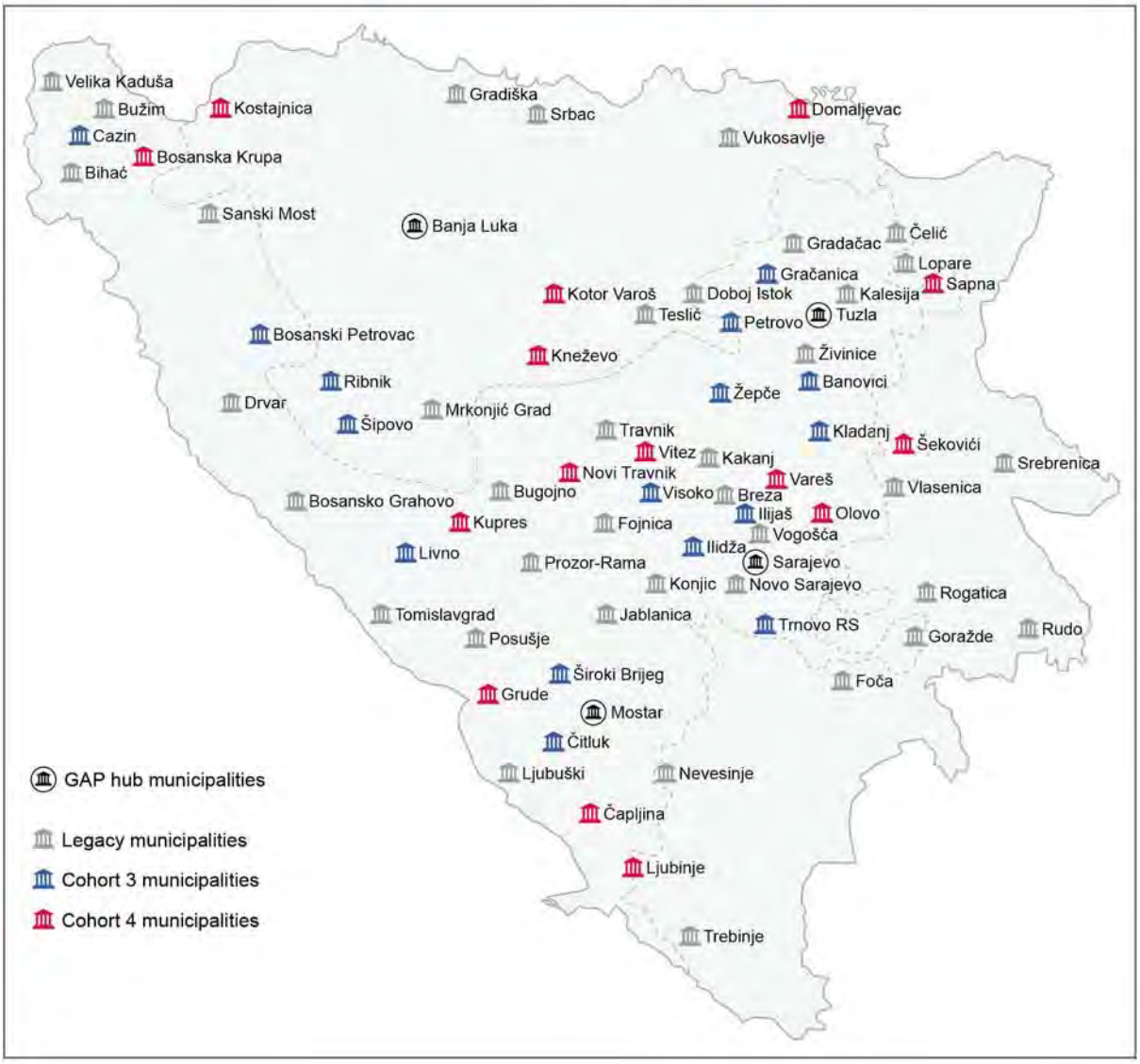
Impacting Citizens Across Bosnia and Herzegovina Through Broad Geographic Reach

- 72 municipalities
- 23 million people
- 70 percent of total land mass
- 66 percent of total population



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SECTION I. LOCAL INTERVENTIONS

Under the original GAP2 contract, six results were to be achieved under the Local Interventions component, with three others added as result of the February 2011 contract modification. Achievement of these results sought to improve municipalities' ability to deliver better services to citizens and to manage their human and capital resources more effectively. Over the past five years, GAP2 has developed and implemented a comprehensive program of training and technical and material assistance directly to 72 partner municipalities, with many more municipalities benefitting indirectly. GAP2 began work where the first phase of GAP left off with 41 "legacy" municipalities. Fifteen Cohort 3 partner municipalities and 16 Cohort 4 partner municipalities were phased into the project in 2008-2009.The GAP2 program delivered assistance in the following areas:

Local Interventions Component: Expected Results

- Legacy municipalities demonstrate substantial improvements in areas such as service provision, public utility management, financial management, human resource management, capital planning, and procurement
- Cohorts 3 and 4 achieve core service delivery and financial management performance targets, bringing them to the average level of the legacy municipalities
- All GAP2 municipalities increase own-revenue generation, measured in total own-revenues as adjusted for inflation
- All GAP2 municipalities devote a higher percentage of total expenditures to capital investments
- All GAP2 municipalities will have demonstrated collective ownership of reforms by their ability to instigate and sustain functional improvements of their own accord
- Selected GAP2 municipalities have urban planning departments that demonstrate improvement in their functioning
- Selected GAP2 municipalities demonstrate substantial improvements in implementing the State Law on Gender Equality
- Selected GAP2 municipalities demonstrate substantial improvements in implementing youth-related policies

Sub-component A. Improve service delivery in legacy and new municipalities (KRA 1.1)

- Activity A1. Enhance performance of municipal CSCs and urban permitting centers (UPCs)
- Activity A2. Improve municipal management of communal services in selected municipalities

Sub-component B. Improve administration, budgeting, and financial management (KRA 1.2)

- Activity B1. Maximize functionality and use of integrated accounting and budgeting software (IABS)
- Activity B2. Prepare selected municipalities for introduction of treasury operations
- Activity B3. Improve budgetary information for municipalities
- Activity B4. Transfer ownership of municipal revenue profile production and maintenance
- Activity B5. Support advanced program budgeting and public expenditure management

Sub-component C. Introduce modern planning principles to municipal development processes (KRA 1.3)

- Activity C1. Improve urban planning in selected pilot municipalities
- Activity C2. Support implementation of youth strategies in selected pilot municipalities
- Activity C3. Support implementation of State Law on Gender Equality in selected pilot municipalities

Sub-component D. Increase capacity of municipalities to administer capital improvement projects (KRA 1.4)

GAP2's material assistance included "core" assistance for Cohort 3 and Cohort 4 of up to $140,000 per municipality in order to bring them to the level of legacy municipalities and demand-driven assistance (MAP) of up to $60,000 per municipality for all 72 municipalities. As a result of GAP2's contract modification in February 2011, GAP2 was mandated to provide up to an additional $20,000 per municipality for pilot municipalities that were selected for urbanism reforms. The funds have been used for furniture, office equipment, IT equipment (hardware and software), trainings, etc. Over the life of the project, GAP2 has conducted 204 procurements, including the urbanism-related procurements. The approximate value of all procurements reached $7.7 million.

A. Municipal Action Planning

The Municipal Action Plan (MAP) is a concise three-year plan for the municipal development priorities aimed at managing the administration and quality of services delivered to citizens. GAP2 emphasized citizens' participation as key to the MAP process. Upon adoption of the MAP, each partner municipality worked closely with the GAP2 team to select projects from the MAP catalogue that it would implement with project assistance. The catalogue of 39 MAP projects was created with complementarity in mind. Each MAP project that a partner municipality selected included the expected results, means of measuring success, timelines, and deadlines. The design of these projects adhered closely to a simplified version of the EU's project cycle management (PCM) methodology to achieve a complementary goal of familiarizing BiH municipalities with the PCM process.

MAP Projects

GAP2 implemented 317 targeted, demand-driven, MAP projects in all 72 partner municipalities in areas including:

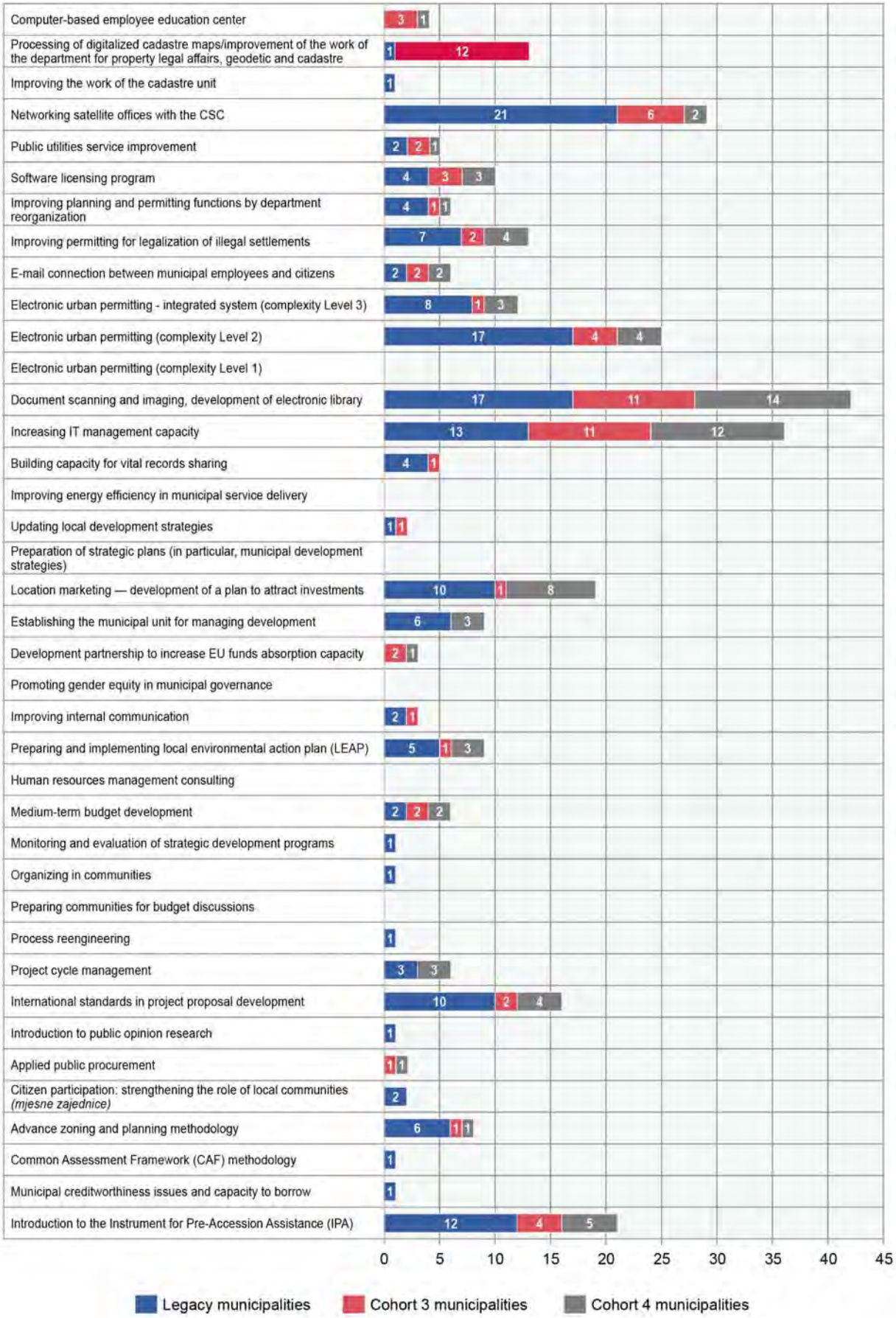
- Process re-engineering and customer service
- Local economic development
- Management streamlining
- Preparation and implementation of local environmental action plans
- Capital budgeting and project development
- Utility management
- Urbanism and zoning
- Cadastral improvements

GAP2 trained staff responsible for strategic development in PCM principles to develop their capacity to apply for and manage Instrument for Pre-Accession Assistance (IPA) and other pre-accession funding. Additionally, through specialized and more focused MAP project training and technical assistance, staff from 46 partner municipalities were trained in IPA, EU standards in project proposal writing, PCM, and partnership development with the aim of increasing capacity to absorb EU funds.

Citizen participation was a key driver in the MAP process, with public input obtained during both the priority identification and the project selection phase. In all 72 partner municipalities, public input was institutionalized in the MAP and strategic planning processes for improvements in service delivery and municipal management. About 7,000 citizens and almost 600 municipal MAP team members were directly involved in public consultations leading to the adoption of the first three-year MAPs. This transparency was vital to the planning process, as having public support for the selected projects firmed up the foundation on which GAP2 would work with the partner municipalities through provision of reform-enabling technical and material assistance.

Municipal action planning has been a central approach to GAP2's local interventions activities in both legacy and new partner municipalities, so municipalities are now familiar with utilizing MAP methodology to capture citizen input and prioritize municipal reforms. And, although the catalogue was developed to provide core and demand-driven assistance to GAP2 partner municipalities (the latter based on the actual needs of municipalities), it can serve as a useful tool for BiH municipalities, partner and non-partner alike, that want easily accessible ideas for reform, as it identifies close to 40 different areas/services for improvements. For example, building on the skills gained from MAP training and demonstrating true buy-in of the benefits of modern planning, the municipality of Novo Sarajevo completed two technical projects from the MAP catalogue of services that were not part of GAP2's original scope of work: public procurement in practice and strengthening local communities.

Exhibit 1. MAP Project Distribution in GAP2



Citizens' Services Centers

CSCs established by GAP2 have reengineered the way municipalities provide basic services to their citizens by responding more rapidly to requests for information, permits, and applications; providing information on the municipality and its services; and tracking the time taken to provide services. GAP2 CSCs embody a necessary shift toward customer-oriented municipal governments.

Results of CSCs and Related MAP Assistance

- Approximately 2.3 million people benefited from the 31 GAP2-assisted CSCs
- More than 2 million registrar data entries were digitized; continuous expansion until all registrar books are digitized
- 31 municipalities significantly enhanced their responsiveness to citizens by introducing complaints procedures
- CSC advisory boards established in all GAP2 partner municipalities
- Document tracking covering 400,000 administrative cases, with 3,000 to 5,000 added each month
- 49 municipalities improved service quality and employee efficiency by introducing the practice of scanning and optical recognition at the point of entrance of administrative case processing
- Coordinating closely with the Agency for Identification Documents, Registry and Data Exchange of BiH (IDDEEA), GAP2 equipped and connected 30 municipalities to IDDEEA's synchronous digital hierarchy network, allowing access to its document exchange system and the BiH vital records-sharing system
- Main CSCs networked with 112 satellite offices in 29 municipalities, bringing services closer to more than 150,000 citizens in remote municipal areas — in the words of one mayor, *"Now it's the data that travels, not the citizens!"*

GAP2 worked with 31 partner municipalities (Cohorts 3 and 4) every step of the way to establish, equip, staff, and operate new or improved CSCs. The CSCs have local area networks (LANs) that connect front-office desks with relevant municipal department back offices and also integrate the CSC with financial management and urban management systems; document scanning, imaging, and tracking systems to enable development of comprehensive electronic document libraries and quick access to information (including vital records sharing mandated by the Law on Vital Records); and e-mail systems that facilitate communication between municipal departments and directly with citizens. GAP2 material assistance to support the CSCs' operations included IT hardware and software, as well as furniture and office equipment. Training on the use of the IT equipment was an integral part of the provision of material assistance as it helped to ensure that municipal staff utilizing the equipment would make most efficient and effective use of it in the performance of their duties. In addition, GAP2 ensured that the CSC operations included and employed mechanisms for continuous review and improvement (e.g., public opinion research, oversight advisory boards, complaint procedures, surveys, performance audits). CSCs were networked with satellite offices to decentralize service delivery and enable citizens to interact with the municipality via offices in their local communities (*mjesna zajednica*).

Expanding on GAP2 assistance, the City of Banja Luka established similar mini-CSCs in another settlement, Borik, further improving citizens' access to municipal services, while the municipality of Kladanj financed a small CSC in the local community of Stupari following GAP2 CSC procedures.

The GAP2 *CSC Manual* provided detailed guidance on the CSCs' design, establishment, and operation. GAP2's methodology focused on building and

maintaining a complete understanding of and agreement on the desired outcomes and demanded active commitment and true ownership by municipal partners throughout the process. Municipal staff were trained in all areas relevant to the CSC's operations, including customer service, software applications, presentation and management skills, development and implementation of a complaints procedure, and internal communication functions. Processes employed by CSCs aim to facilitate ISO certification in the future. As proof of its accessibility, the *CSC Manual's* materials have been incorporated into the curriculum of the master's in public administration program at Sarajevo University (Political Sciences Faculty).

A Win for Government and Citizens Alike

"As GAP experience demonstrates, focusing time and energy in improving governance at the local level and ensuring citizens receive the services from government to which they are entitled is a win-win outcome for all concerned."

— *U.S. Ambassador Patrick Moon*

Urban Permitting Centers — Modernized Planning and Permitting Practices Using GIS Technology

GAP2 helped municipalities to streamline procedures for urban, construction, and land use permits through zoning and high-end software systems. These procedures contributed to improved municipal management of territory and, more importantly, a more business-friendly environment. New UPCs established or upgraded in all 31 GAP2 municipalities (Cohorts 3 and 4) have enabled faster and more transparent urban permitting, especially in selected pilot areas of their spatial plans for which more data are available. The UPCs are also important to reformed land-use control systems that are transparent and are founded upon digitalized and systemized information. Through GAP2 assistance, partner municipalities have been able to:

- Reform their internal and external administrative procedures
- Introduce zoning as a new planning methodology
- Introduce a more flexible regulatory option through zoning that is more responsive to free market system needs and includes the "development-as-of-right" principle, which is important to potential investors
- Introduce GIS as an urban land management technical tool and make a central, interactive GIS database accessible to all participants in the urban planning and permitting processes
- Link computer hardware and GIS and permitting software via LANs
- Establish agreements between the municipality and external participants in the permitting process, including water, sewage, electricity, and telephone utilities as well as other institutions relevant to the planning and permitting process, including urban institutes, municipal line departments, cadastre, housing, and public works agencies; and higher-level ministries (environmental, heritage protection, transportation, forest, and agriculture)
- Offer citizens and investors pre-application consultations with municipal planning and permitting experts

Additionally, GIS technology has been introduced or upgraded in 50 municipalities to provide better information on urban plans and permits, and 58 municipalities have established test areas for automated urban permitting (the majority for municipal development) with the municipalities providing investments in infrastructure and potential investors developing the contents of the plan. Building on GAP2's technical and material assistance and using its advanced UPC model, the municipality of Gradiška upgraded its urban planning and permitting functions. And Živinice established a UPC in line with the model that GAP2 introduced in other municipalities, although it was not among the highest implementation priorities as part of their MAP scope of work.

Technical and material assistance under this activity was delivered according to the methodology detailed in GAP2's *Manual for Improving Urban Permitting Procedures Through Permit Centers* (*UPC Manual*). The manual's materials have been incorporated into the academic curriculum at Banja Luka University (Faculty of Architecture).

Increasing Information Technology Management Capacity

Through reform-enabling material and technical assistance or as demand-driven follow-up assistance, GAP2 partner municipalities received state-of-the-art hardware and software solutions and training. Hardware delivered included as many as 1,200 computers, 680 printers, and 130 servers. Thirty-eight municipalities significantly increased their information technology (IT) management capacity, with relevant staff attending highly specialized IT system administrator courses. As a result, these municipalities improved their capacity to run and maintain the sophisticated hardware and software systems received from GAP2.

Placing such emphasis on IT infrastructure and management capacity has enabled partner municipalities to initiate further changes that have both increased staff efficiency and improved the provision of services to citizens. For example, 40 partner municipalities were provided with certified licenses for MS Office and Windows XP operating systems to replace previously installed illegal copies. Provision of this software contributed to awareness of intellectual property rights and software copyright laws and improved the effectiveness of the municipal administrations' daily operations. Four municipalities started to provide selected information and services to the customers via e-mail and text messages. Building on GAP2 assistance, the municipality of Teslić sought further system features; it is currently in the second year of a five-year initiative to create additional databases.

Fostering Local Economic Development

In addition to working with CSCs and UPCs to foster local development through more transparent and efficient permitting, GAP2 assisted several municipalities in areas more directly linked to the enabling environment for intensive local economic growth. Examples include updating existing local economic development strategies, assisting in the creation of municipal units to manage development, and developing and adopting investment attraction (location marketing) plans to attract investments. Under MAP's project-driven assistance, 20 municipalities developed technical skills in location marketing and municipal planning for investment promotions, with formal structures (e.g., working groups) formed and functioning. Nine municipalities adopted

solutions for sustainably and effectively managing development that resulted from GAP2's assistance in establishing municipal units for managing development. And, as a direct result of GAP2's MAP technical assistance, one municipal council (in Rudo) adopted an updated municipal development strategy.

Increasing Access to EU Cross-Border Cooperation Funds via the IPA

Although GAP2 did not initially plan to incorporate EU funding requirements in its MAP and capital improvement planning (CIP) training and technical assistance, partner municipalities expressed the significant need to align their practices with those of the EU and develop capacity to access and manage EU cross-border cooperation funds. To satisfy this need, GAP2 collaborated with the Dutch organization SNV to deliver training and with the United Nations Development Program to better understand the EU methodology. The training program provided municipal staff with the knowledge and skills to access the IPA; utilize the Common Assessment Framework methodology aimed at improving the performance of local municipal administrations, international standards in project proposal development, and project cycle management; and develop partnerships to increase EU funds absorption capacity. As a result, GAP2 was able to assist partner municipalities in improving the quality of their project proposals, thus increasing their chances of receiving EU funding and helping ensure that projects would be better administered.

Local Environmental Action Plans

GAP2 assisted nine municipalities in preparing and creating local environmental action plans (LEAPs). The project provided training and technical assistance to the partner municipalities (in particular to the LEAP working groups) to assist with the development and adoption of the LEAPs by the municipal assembly or council and the design and implementation of media campaigns. As a result, the nine municipalities now have strategic mechanisms for environmental protection in accordance with EU environmental requirements and internal capacity, including an institutionalized participatory process to refine and develop annual action plans to regularly tackle environmental issues. Building this capacity has been vital to local governments keeping pace with EU integration requirements.

Collective Ownership of Reforms

One of GAP2's expected key results was that municipalities would demonstrate collective ownership of reforms by initiating and sustaining functional improvements of their own accord. Over the past five years, the GAP2 team's efforts included providing the resources that local governments needed most and instilling in municipal leaders the confidence to initiate reforms and activities that demonstrated their commitment to accountable and transparent local government. In addition to more than 1,000 workshops, seminars, training activities, and coaching sessions attended by more than 12,000 participants (including approximately 48 percent women), GAP2 made available innumerable opportunities for partner municipalities to engage with specialists and mentors to build on its training and technical assistance.

For example, to contribute to the development of a consultancy market in BiH, GAP2 developed a database of local and regional experts available to local officials and the municipal associations. The database contains contact information; specializations,

qualifications, and work history to facilitate reference checks; and an expanded "yellow pages" of sources where local government can obtain assistance. The database is searchable by name, location, and specialization and contains more than 100 entries. Ownership of the database was handed over to the municipal associations upon its development, enabling them to pair municipalities with experienced consultants and organizations. In addition to their role in providing this service, this tool enabled the municipal associations themselves to access quality consulting.

In addition to the database, GAP2 organized and produced several key activities or deliverables to help institutionalize the reform mindset of local governments. Selected examples of these activities are detailed in the sub-sections below.

B. Financial Management

GAP2 focused heavily on improving local governments' capacity to manage their financial resources. Over the course of the five-year project, GAP2 has assisted partner municipalities in managing financial resources, particularly in times of economic crisis. Through upgrades to financial management software, introducing new budgeting practices and ways to increase and manage revenue streams to local budgets, and laying the foundation for treasury operations to help local governments manage expenditures more efficiently, GAP2 has changed the ways in which local governments earn, collect, manage, and maximize local revenues.

Customer Satisfaction with GAP

"...GAP has contributed tremendously to the improvement of municipal administrative procedures and the creation of an efficient, transparent, and accountable administration, serving its citizens and assisting the future development of our city."

— Mayor Albin Muslić, Municipality of Bihać

Integrated Financial Management System Software

Working toward realistic and accountable municipal budgeting and improved and transparent reporting on budget execution, GAP2 introduced or upgraded the 10-module IABS — a functional, reliable, and user-friendly software solution that enables municipalities to control revenues and expenditures efficiently. IABS was developed under the first phase of GAP; through a joint effort of GAP2 and the software provider, it was further tailored to meet evolving municipality needs. IABS has served as an essential tool used by key personnel in financial management processes and introduced several substantive improvements:

- Recording financial transactions daily, IABS presents and generates reports on revenues and expenditures that support decision-making.
- By generating and posting financial transactions from other modules to the General Ledger, IABS significantly improves efficiency, allowing municipal finance departments more time to analyze positive or negative trends in spending.
- IABS assists in revenue collection and identifying all municipal revenue sources. Accurate reports allow the management teams and municipal assemblies and councils to make decisions about revenues and collections based on accurate and timely financial information.

- Budget planning activities are based on timely and accurate information about revenue and expenditure collections and forecasts.

IABS was introduced to or upgraded in 51 municipalities. GAP2 closely monitored performance and use of IABS to maximize the system's functionality and utilization across the partner municipalities. GAP2 learned that the municipalities of Tuzla and Cazin have extended the use of IABS to users of the municipal budget; Buzim, Livno, and Travnik plan to do so in early 2013. In addition, municipal treasury tools were integrated into IABS and introduced to 20 municipalities as a demonstration version that can be activated once municipalities transfer to full treasury operations.

Treasury System in FBiH Municipalities

In a functional sense, treasury operations imply a centralized set of activities for planning, controlling the flow of funds at the disposal of a government, settling obligations undertaken by the administration, tracking receivables and property management, and reporting to management in a timely, clear, and exact manner to support more efficient decision-making. The concept of treasury operations is one of the basic premises that underpin current understanding of best practices for management of public funds in public administration.

The Advantages of Treasury Operations

- Rationalize limited budgets so budget spending becomes program-based, not institution-based
- Increase liquidity and decrease debts and overspending
- Reduce procurement costs through joint purchases rather than purchasing the same goods or services individually
- Increase transparency: it is easier to share information if all data are housed in one place
- Improve monitoring: it is easier to compare spending across budget organizations over time, by type of expenditure, and other criteria

The process of introducing treasury systems in BiH was launched in 2000 with a USAID-funded project, followed by the OHR-imposed Law on Treasury in 2002. While the treasury system became a requirement for local governments in Republika Srpska, in the FBiH only the cantonal level began to introduce treasury operations over the past decade. Delays in and proper guidance for introducing treasury operations at the municipal level in FBiH had left the FBiH further behind the RS in this area.

GAP2 significantly improved preconditions for the introduction of treasury systems to partner municipalities by providing assistance in developing framework documentation and guidelines that were endorsed by the FBiH Ministry of Finance and by helping the municipalities create and adopt documents necessary for introduction of treasury system operations at the local government level, such as the implementing rules and regulations for municipalities in accordance with the Federation Law on Treasury Decisions (establishing a general ledger, treasury single account, and register of budget users, circulation of documents, protection of information systems, instructions) and introducing new municipal budget planning methods by placing operational planning on the level of budget users and budget line items. The FBiH Ministry of Finance disseminated a letter of acknowledgement of the GAP2-supported treasury framework documents to serve as a guideline and basis for introduction of a treasury system in other municipalities.

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GAP2 ACHIEVEMENTS

Treasury Operations Launched in Four GAP2 Partner Municipalities

GAP2 partner municipalities Cazin, Gračanica, Tuzla, and Žepče introduced treasury operations starting in January 2012. GAP2's assistance laid the foundation for establishment of a modern treasury system that will help FBiH municipalities to create smarter budgets, reduce budget deficits, and increase the quality of services to their communities.

Municipal council session in Tuzla municipality

Advantages of Treasury Operations

- *Rationalize limited budgets.* Budget spending becomes program-based, not institution-based.
- *Increase liquidity and decrease debts and overspending.*
- *Reduce procurement costs.* Joint purchases, rather than each institution purchasing individually for the same goods and services, save money.
- *Increase transparency.* Housing all data in one place makes it easier to share information.
- *Improve monitoring.* Comparing spending across budget organizations by various criteria is easier.

In 2011, GAP2 worked with the FBiH Association of Municipalities and Cities and 10 partner municipalities to increase capacity for the introduction of treasury operations prior to the establishment of a full treasury system in these municipalities, in line with the entity-level Law on Treasury (passed in 2007) and supporting legislation adopted in 2007 and 2011. Although the FBiH has not yet introduced the entity treasury system or required implementation of the treasury law at the local level, GAP2 worked with 10 partner municipalities that were eager to introduce new practices that would lead to smarter budgeting, reduce budget deficits, and increasethe quality and quantity of services to local communities. GAP2 also worked closely with the FBiH Association to help position it to take the lead in supporting other municipalities that need to introduce treasury operations.

As a result of GAP2's efforts, the FBiH Association produced guidelines and a manual for establishing and operating a treasury system at the local level. These materials include model templates that municipalities can adapt. The guidelines define the methodology for establishing and maintaining the treasury single account and general ledger and specify the obligations and responsibilities of different budget users. The GAP2 partner municipalities — municipal administrations and working groups of municipal officials, budget user institutions, and community members — then used the model templates. With technical assistance from GAP2 experts, selected municipalities developed the templates to their specific needs, and four partner municipalities — Cazin, Gračanica, Tuzla, and Žepče — introduced treasury operations at the beginning of 2012. These efforts also created the preconditions for an operational treasury system.

As a first step, Cazin's mayor, Nermin Ogrešević, adopted the acts and documents on managing budget users' own revenues. During the second half of 2011, Cazin's finance and accounting department led preparations for the introduction of treasury operations. Supported by GAP2, the department organized presentations and workshops for all budget users, and training activities for who are responsible for implementing the treasury operations.

At the start of the 2012 budget year, Cazin established a single treasury account, aimed at ensuring ensure efficient allocation and management of budget resources, including a centralized set of processes for planning and controlling municipal resources.

In mid-2011, Tuzla's municipal council set the course for the municipality by adopting the Decision on Introduction of Treasury Operations and Decision on Establishment of Registry of Budget Users. In accordance with these regulations and with the assistance of GAP2 experts, a working group of municipal officials and representatives from budget institutions prepared Tuzla's 2012 budget, which the Municipal Council adopted on December

Meeting with budget users in Tuzla

Cazin working group

Žepče Municipal Council session

27, 2011. Finally, after the preparation and adoption of implementing acts, Tuzla commenced full treasury operations for all budget users on January 1, 2012.

With the assistance of GAP2, the Gračanica Department of Entrepreneurship, Local Development, and Finance organized a meeting with the representatives of the municipality's 21 local communities. The main topic of discussion was organizing local communities within the Department for General Administration. The meeting also served as an opportunity to educate the representatives on the use and value of the treasury system and to prepare for the transfer to the treasury operations at the start of 2012. Early in 2012, Gračanica established Treasury Single Account and began treasury operation in the municipal administration without budget users. Activities continued throughout 2012, and finalization is expected in 2013.

> "*[Treasury operations] will enable transparent use of funds from the budget and increase accountability in the collection of all revenues*"
> — Mayor Nusret Helić, Gračanica

Žepče municipality followed the same process. The municipality now employs treasury operations in its daily work.

All four municipalities expect these changes to enable them to work more effectively and transparently. They note that positive effects of the treasury system operations are already visible.

GAP2 provided assistance in organizing a number of treasury introductory working group workshops and meetings with representatives of municipal budget users (municipal departments and public institutions). The 180 municipal officials who participated included 110 females.

GAP2 was a five-year project co-funded by the U.S. Agency for International Development, the Swedish International Development Cooperation Agency, and the Embassy of the Kingdom of the Netherlands. The project aimed to improve the ability of municipalities to serve their citizens and to support a policy and fiscal framework conducive to accountable and democratic governance.

Of the 20 municipalities that received the demonstration version of municipal treasury tools incorporated into the IABS, 11 have transferred to treasury operations and are using the IABS treasury applications. Ten municipalities achieved formal-administrative, procedural, technological, and organizational preconditions for introduction of the treasury system. With GAP2's assistance these 10 municipalities prepared draft documents to fully introduce the treasury system of municipal financial and budget management. Four of these established a treasury system for all budget users, and three have partially established a treasury system — that is, involving only internal budget users.

Program Budgeting and Gender-Responsive Budgeting

GAP2 coincided with the global economic downturn, which adversely and significantly affected already fiscally challenged local governments in BiH. GAP2 understood that partner municipalities must be equipped with the skills and tools to plan and implement budgets that closely adhered to their most pressing needs, while still planning for future development. To that end, GAP2 expended significant effort to enable partner municipalities to transition from traditional line-item budgeting to a more efficient, participatory, and transparent program budgeting process. GAP2 provided 14 municipalities with hands-on training in improved budgeting processes using programmatic information and basic performance measurement and reporting. Each mayor appointed a program budgeting working group comprising key municipal staff from the general administration and budget and finance departments as well as budget users, grant user representatives, or both. The working groups also received training and technical assistance in modern project management, project monitoring and evaluation, modern expenditure management techniques, and use and advanced application of IABS for expenditure management.

The results of this intensive and demanding initiative were rewarding. Following the series of workshops and onsite technical assistance, all municipalities greatly improved their budget planning, monitoring, and implementation capacities; adopted new budgeting techniques; and demonstrated new skills by developing complex program documents and corresponding program budgets. Seven of the 14 municipalities that GAP2 assisted under the initiative developed program budgets for two sectors or programs, and the remaining seven developed program budgets for three sectors or programs. The municipalities incorporated their newly developed budgets for the selected sectors or programs into their overarching budget proposals for 2013. Funds for these sectors derive from the 2012 and 2013 budgets and were allocated following a transparent, predefined, and results-based procedure.

Complementing its program budgeting assistance, GAP2 introduced gender-responsive budgeting to 11 additional municipalities, which established working groups for this purpose. A particular challenge was that, with one exception, these municipalities had not started to restructure their line-item budgets to program budgets. GAP2 developed a methodology for introducing gender-responsive budgeting to local communities and delivered a series of training sessions to members of the 11 municipal-level gender-responsive budgeting working groups. The working groups developed socio-economic analyses of their municipalities, developed municipal action plans to introduce gender-responsive budgeting, and adopted mayors' commitments to gradual transition to gender-responsive budgeting.

Twenty-five partner municipalities are now committed and equipped to modernize municipal budgeting in at least two sectors or programs that directly affect citizens' lives, by establishing performance indicators linked to program objectives and that include information required for budget submissions in selected sectors or programs (usually in grant-based expenditures such as sports and culture).

Expenditure Management and Managing Under Revenue Constraints

While the economic downturn struck the municipalities in the early stages of GAP2, it somewhat steered the program's approach to addressing expenditure management challenges that local governments faced and promoting management under budget constraints as a focal area of assistance. GAP2 assisted municipalities in responding to the economic crisis through targeted training on budgeting in times of fiscal stress, identification and collection of own-source revenues, and management of municipal property. Additionally, GAP2 addressed concerns with the quality of expenditure management by increasing assistance in several areas:

- Developing graphs to visually represent quantitative information about municipal budgets and budget expenditure reports
- Building in-depth capacity in expenditure and results-based planning
- Controlling, monitoring, and evaluating project implementation
- Understanding and applying modern principles of project and activity management and control

GAP2 organized a series of workshops and conferences on expenditure management for 14 municipalities. The activity provided analyses of interested municipalities' current expenditure management techniques and suggestions for improvements. Exposure to modern techniques and new ideas enabled participants to more efficiently manage capital projects and improve public expenditure management. As a result of GAP2 assistance, at least 10 municipalities produced graphic overviews of the expenditure sides of their 2011 and 2012 budgets; even more are expected to do so with their 2013 budgets. This will allow citizens and decision-makers to view information that is usually quite complex in a more easily understood, transparent, and graphic way. Presenting budgetary information in a more accessible manner has great potential to provoke well-founded questions and suggestions.

Mid-term budgeting was also introduced to selected municipalities, six of which acquired or enhanced medium-term budget development skills, including revenue forecasting and program budgeting.

Revenue Maximization (Result 4)

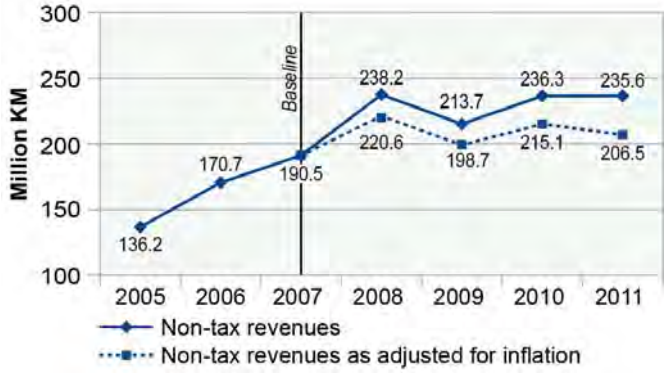
Based on a cross-sectional analysis of municipal revenues, GAP2 developed a revenue profile for each partner municipality to identify potential revenue sources and provide information on revenue utilization. This activity enabled municipalities to compare their municipal revenue collection trends with those of similar municipalities (for example, within the same entity or region or similar in size or other attributes) and identify areas of potentially underutilized revenue collection to provide baseline data for further actions. Through such analysis, municipalities can explore the potential for increasing own-source revenues (or other reforms such as right-sizing fee

revenue). The analysis also can provide a rough performance measurement over time through comparison with other municipalities and with past results.

Following the reform of the personal income tax law in 2009, GAP2 expanded the dataset to include new measures for analysis. Rather than taking into account only the non-tax revenue of each municipality, the revised dataset includes an analysis of personal income tax collections for the period 2005-2009. GAP2 developed internal rulebooks and policies that will enable partner municipalities to more effectively collect revenues from all possible sources. GAP2 provided each municipality a CD-ROM containing its own profile and instructions. The user-friendliness of the profiles also motivates the municipal associations to take ownership of and continue to update them.

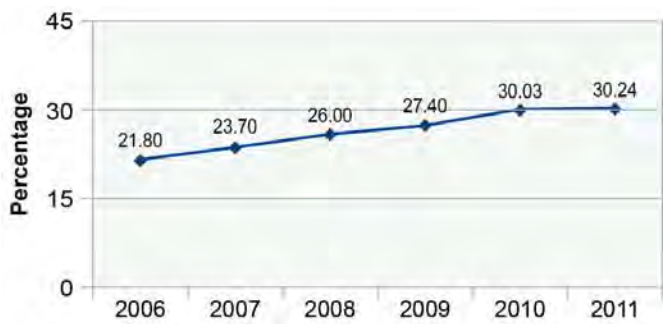
Non-tax revenues are the only source of income a municipality can directly collect and control. They represent a municipality's own-source revenue generation. However, although total budget revenues and tax revenues are below the baseline (budget execution for 2007), non-tax revenues are still nominally higher than the baseline by 24 percent and, as adjusted for inflation in the last four years, still higher by 8 percent. This illustrates that GAP2 municipalities were aware of the situation and took all necessary measures to maximize own-source revenue generation supported by GAP2 advice, guidance, and technical assistance in revenue maximization (Exhibit 2).

Exhibit 2. Municipal Non-Tax Revenues
All GAP2 Partner Municipalities



The percentage of non-tax revenues or municipal own-source revenue generation as a share of total municipal revenues has risen continuously since 2006 and, even during the global financial crisis, were 30 percent of total municipal revenues (Exhibit 3).

Exhibit 3. Municipal Non-Tax Revenues
In Total Municipal Revenues



Increasing Budgetary Information to Municipal Employees and Citizens

GAP1's comprehensive budget and financial management guide, which it developed as a reference for finance department staff, was revised to incorporate relevant new laws (for example, on treasury reform), and a chapter on introducing program budgeting at the municipal level was added. GAP2 transferred ownership of the guide to the two municipal associations.

To complement the guide, GAP2 developed a simple budget guide to improve municipal councilors' and the public's understanding of the municipal budget and budgeting process. GAP2 also developed the *Guide on the Production of Individual Municipal Citizen Guides on the Budget,* which it provided to each partner municipality, along with training.

Municipal Services Delivery Improvements (Results 1, 2, and 3)

The combined effect of GAP2's work with legacy and new partner municipalities over the past five years is evident in more efficient municipal administrative services and citizens' increased satisfaction with the provision of these services. Municipal staff are — and believe they are — providing better services, and citizens believe service provision has improved.

Based on the findings from the project's final Municipal Capacity Index (MCI), which measures the capacity of municipalities according to their overall performance overtime, Municipal Services Efficiency Index, which measures the level of efficiency in providing municipal services based upon the volume of services and average delivery time for these services over time, and annual attitudinal surveys performed by GAP2 in April, October, and July 2012, the final year of the project, GAP2 legacy municipalities significantly increased their efficiency in providing municipal services as measured by Municipal Services Efficiency Index. Cohort 1 municipalities increased their efficiency by 300 percent, and Cohort 2 municipalities by 50 percent. Waiting times for municipal services were reduced overall; for some types of services, such as issuing vital records, waiting times were reduced to four to five minutes on average compared to the baseline. Cohort 1 municipalities experienced a decrease in waiting times from the baseline of 32 minutes to 4.3 minutes, while Cohort 2 municipalities' waiting times fell from 18 to just 4.7 minutes. At the same time, complaints about municipal issues fell by 26 percent, while the percentage of complaints resolved increased from 26.2 to 57.9 percent, reflecting significantly improved accountability by local governance among legacy municipalities.

- The final MCI survey for legacy municipalities showed an increase in the composite average MCI rating to 67.6 points — almost 30 percent. In addition, citizens perceived that improvements have occurred in legacy municipalities. The final attitudinal survey that gauged the level of citizens' satisfaction with municipal service delivery showed an increase of almost 14 points, with 82 percent responding "satisfied" or "very satisfied."

- Cohort 3 municipalities increased their efficiency in providing municipal services by 30 percent. Waiting time for issuing vital records fell from 151.2 minutes in Q1 2008 to an average of 8.5 minutes in Q2 2012. Complaints about municipal issues declined 39 percent, and complaints resolved increased 14 points, reflecting significant improvement in the accountability of local governance among these municipalities.

- The last MCI survey for the 15 Cohort 3 municipalities showed that the average MCI rating increased to 69 out of 100 points (to the level of legacy municipalities), more than double that of the April 2008 baseline survey. Citizens perceived improvements in these municipalities as well. Citizens' satisfaction with municipal administrative services delivery increased more than 18 points, with 90 percent responding "satisfied" or "very satisfied."

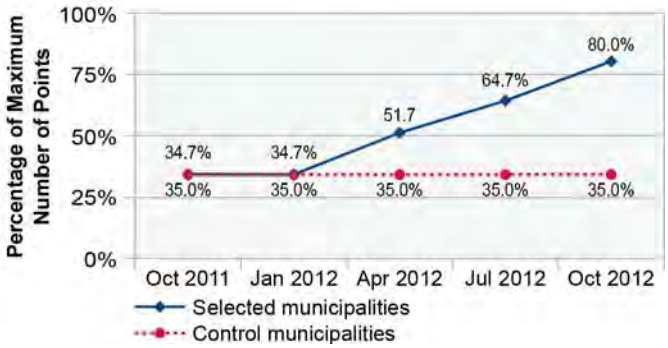
- Cohort 4 municipalities increased their efficiency in providing municipal services 30 percent. Waiting time for issuing vital records was reduced from 114.7 minutes in Q1 2009, to 7.4 minutes in Q2 2012. Complaints about municipal issues fell 19 percent, and the percentage of complaints resolved increased by 28 points. The last MCI survey for the 16 Cohort 4 municipalities showed an average increase in the MCI rating to 63.9 points, more than double the baseline in April 2009, bringing these municipalities to the level of legacy municipalities. Citizens' satisfaction with municipal administrative services delivery increased by more than 16 points and 90 percent responded "satisfied" or "very satisfied."

C. Urban Planning (Result 7)

Starting in Year 4, GAP2 worked with urban planning staff in 10 partner municipalities to increase their ability to conduct urban planning in line with modern urban and spatial planning principles and to contribute to better decision-making by municipalities on local economic development priorities. GAP2 interventions and outputs were based on customized, case-specific action plans that reflected municipalities' specific needs. Common to all participating municipalities was collaboration with GAP2 that focused on equipping municipal urban planning professionals with the knowledge and skills to update or introduce processes within their purview, including strengthening their human resource and organizational bases for performing their functions.

GAP2 created the Municipal Urban Capacity Index (MUCI) to measure progress under this result. The MUCI considers three indicators: modern organization of departments, staff knowledge and expertise, and IT support in the urban planning departments.

Exhibit 4. Municipal Urban Capacity Index Results



Baseline values were established for selected GAP2 municipalities and control municipalities. The average baseline rating was 34.7 percent of the maximum number of points for the selected municipalities and 35 percent for the control municipalities. After one year of GAP2 assistance, selected municipalities' capacity had increased to 80 percent, while the control municipalities recorded no improvements (Exhibit 4).

GAP2 conducted more than 60 workshops, seminars, and training and coaching sessions in Years 4 and 5. An average of five people attended each; about 60 percent of participants were women.

Providing the Tools to Complement New Skills

Complementing its training and technical assistance, GAP2 provided IT hardware and software to selected municipalities that enabled urban planning staff to:

- Introduce more efficient reporting abilities, which will improve decision-making in urbanism departments and municipal management
- Introduce more transparent and accountable management of municipal spatial information improve efficiency in planning municipal spatial management and growth by increasing the capacity of urban planning staff to gather, analyze, and generate relevant data; print maps, plans, and other information; and display them to relevant stakeholders and the public
- Enable more efficient and timely exchange of spatial information among relevant staff and municipal management

A condition for urban planning assistance was that the selected municipalities share more than 30 percent of the cost. This requirement was fully met, demonstrating the municipalities' commitment to improving staff capacity and the quality of services delivered to their communities.

As a result, GAP2 partner municipalities improved their ability to conduct and further strengthen their organizational and human capacity for urban planning. Through training and technical and material assistance, GAP2 enabled the selected municipalities to improve the organization and systematization of their municipal urban planning offices and increased the offices' IT capacity. Material

assistance provided under this activity included IT hardware and software, including GIS software and printers capable of producing maps, plans, and other information of interest to stakeholders and the public. Training on the use of this IT hardware and software was integral to the provision of this assistance to ensure that municipal staff utilizing the equipment would make most efficient and effective use of it in the performance of their duties.

The selected municipalities also conducted in-depth assessments of the existing spatial planning documentation and adopted action plans to update existing or create new spatial planning documentation. Where a decision of an elected municipal body existed, the municipality created a formal scope of work to develop specific planning documents. Selected municipalities also created the documentation basis (in the RS) and analytical-documentation basis (in the FBiH) for these planning documents. Municipal councils or assemblies from all 10 selected municipalities adopted relevant decisions to amend tendering procedures and allocate municipal funds for the development of regulatory plans, earmarked in the 2012 budget.

Building on GAP2 assistance in urban and spatial planning, as well as GAP2's emphasis on improving municipalities' overall organizational management capabilities, the municipality of Trebinje reorganized its internal departments to separate planning and permitting functions. The municipalities of Živinice, Livno, and Mrkonjić Grad developed proposals to amend the rulebook on internal organization for the sub-unit for spatial planning, urbanism, and environment.

D. Management of Communal Services

In Year 4, following its efforts to support partner municipalities in improving delivery of administrative services, GAP2 began assisting nine partner municipalities in improving municipal management of selected communal services, and increasing citizens' awareness of, access to, and satisfaction with selected communal services.

Improved Municipal Management of Communal Services

All nine selected municipalities significantly improved municipal oversight, management of, and access to selected communal services and increased citizens' awareness and satisfaction as measured by citizen satisfaction polls.

- The selected municipalities produced municipal action plans to improve municipal management of communal services; GAP2 assisted in implementing at least 45 activities stemming from these plans
- Municipal teams for communal services development and oversight of communal services were formally established and operating in the nine municipalities, which were better prepared and organized to approach further improvement of communal services systematically and strategically
- Communal services standards were developed in nine municipalities
- Eight municipalities launched "Less than 48 Hours" service as an important step toward responsiveness and customer orientation

GAP2 introduced a set of activities focusing on services within the municipal scope but not primarily administrative in nature. Introducing the concept of "citizen-centric governance," GAP2 followed up on the previous achievements in improved service delivery and utilized its own and the municipalities' capacity (including CSCs) to educate, disseminate, and collect information on line services and improve capacity to oversee delivery of communal services. GAP2's assistance focused on:

- Better access to information on the municipalities' communal services
- Increased citizen satisfaction with provision of communal services
- Better coordination and municipal oversight of the performance of communal service providers
- Increased access to statistical data
- A more professional approach to preparing plans and projects targeting material support to communal services providers

To evaluate impact, GAP2 conducted baseline and follow-up citizen satisfaction surveys in all partner municipalities. The surveys were based on performance indicators to measure the quality of service providers identified prior to implementation.

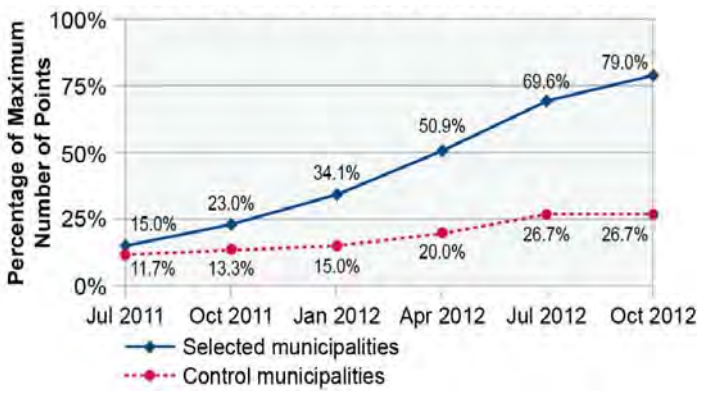
E. Youth and Gender

Municipal Capacities for Youth Policies (Result 9)

GAP2 spent 18 months developing and implementing progressive youth strategies in 20 partner municipalities. Through training, technical assistance, and the exchange of best practices, GAP2 encouraged youth to take part in shaping the way local governments service the needs and aspirations of young people in their communities. Each of the 20 partner municipalities has a functioning working group or advisory board (or both) that developed concrete action plans deriving from their existing or newly developed youth strategies. These groups participated in GAP2 workshops on youth policy, advocacy, lobbying, activism, budgeting, job search, project cycle management, and youth participation. More than 140 workshops, seminars, and training and coaching sessions were conducted in Years 4 and 5 for nearly 1,450 participants, of which approximately 600 (more than 40 percent) were women. Additionally, GAP2 fostered partnerships between local governments and youth, identifying sustainable mechanisms to increase their civic participation in public and political life.

GAP2 created the Municipal Youth Capacity Index (MYCI) to measure progress under this result. The MYCI considers three indicators: development of municipal youth strategies or policies, youth participation in youth policy development and implementation, and youth participation in some form of youth leadership and management skills training to improve understanding of project cycle management and fundraising.

Exhibit 5. Municipal Youth Capacity Index Results



Baseline values were established in Q2 2011 for the 20 partner municipalities and four control municipalities. Results were assessed quarterly. The MYCI rose by 64

index points among the 20 target municipalities, which was not the case in the control municipalities (Exhibit 5).

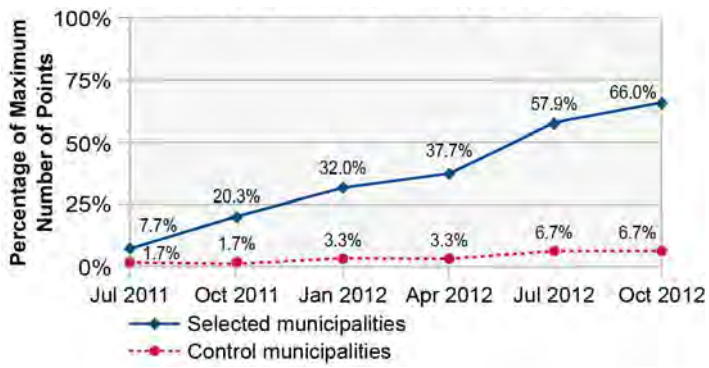
As a result of GAP2 assistance, all 20 selected municipalities initiated official youth working groups, revised several youth strategies and policies, and adopted youth action plans based on youth strategies and policies. At least two items from each action plan were implemented, demonstrating the municipalities' ability to address needs in project cycle management, roundtable discussions and public debates with political candidates, and establishment of youth councils and youth policies. For example, the municipality of Nevesinje's new youth policy reflects the needs of youth and commits to an annual increase of .5 percent in municipal budget allocations for youth. Young people from the municipality who attended several GAP2 training events on project cycle management are now able to develop and submit project proposals and apply for municipal funds as individuals or as a group and to address their issues. A system has been put in place to enable municipal authorities to review the proposals and approve the budget allocations according to established criteria. Municipal youth officers now have a mechanism to implement the FBiH Law on Youth and the RS Law on Youth Organizing. Members of the youth working groups understand their municipalities' responsibilities under these laws. The working groups have increased their capacities to engage youth in local-level decision-making, develop youth policy and action plans, ensure their needs are reflected in the municipal budgets, and lobby the government and advocate for youth-related interests.

Implementation of the State Law on Gender Equality at the Municipal Level (Result 8)

Through dedicated training and technical assistance and engaging the support and participation of the FBiH and RS Gender Centers, GAP2 enabled implementation of the State Law on Gender Equality in 20 municipalities. The project worked closely with the poorly functioning gender commissions within each municipal assembly or council to develop a detailed action plan, adopted by the mayor, outlining steps required to comply with the law and defining the municipality's top priorities, concrete targets, and timelines. Local gender advocacy plans were also developed to mobilize public support of the law.

GAP2 created the Municipal Gender Capacity Index (MGCI) to measure progress toward taking proactive steps in implementing the Law on Gender Equality, the National Gender Action Plan, or both; municipal capacity to manage implementation of municipal gender action plans; and understanding of gender-responsive budgeting.

Exhibit 6. Municipal Gender Capacity Index Results



Baseline values were established in Q2 2011 for 20 participating municipalities and four control municipalities. Results were assessed quarterly. The MGCI rose nearly 60 index points among the 20 target municipalities, while the control municipalities recorded only modest improvement.

GAP2 conducted more than 100 workshops, seminars, training activities, and coaching sessions during Years 4 and 5. Nearly 550 participants, including approximately 350 women, attended. Workshops focused on the Law on Gender Equality, development of strategic and action plans, gender-responsive budgeting, gender mainstreaming and equality, and advocacy. The training increased the capacity of municipalities to implement their action plans, two items of which have been implemented in each municipality, such as collecting statistical data necessary to perform municipal gender analyses, promoting the economic empowerment of women, adhering more fully to municipal obligations related to implementation of the State Law on Gender Equality, and organizing training for women interested in developing their project proposal writing skills.

F. Capital Improvement Planning

Large expenses demand careful planning, and one of the most important and expensive activities that a government undertakes regularly is planning for and financing major capital projects. From roads and bridges to water and sewer systems, these projects absorb many community resources, helping provide services that are critical to the health, safety, and wellbeing of residents. If planning is poor, scarce resources may be allocated inefficiently, and the community may suffer.

GAP2 managed a comprehensive CIP fund provided by Sida and designed to contribute to achieving overall results under GAP2 by responding to the needs of partner municipalities, their local communities, and citizens; strengthen community partnerships; improve outreach and advocacy capability; scale up innovative modes of communication to increase engagement between local governments and the community or business sector; develop institutional capacity to conduct policy studies, and promote other activities that supported GAP2 objectives. In this way, capital projects contributed financially to promoting and facilitating achievement of expected project results in a manner that complemented non-financial GAP2 contributions. The CIP fund provided a maximum of KM 125,000 for each GAP2 partner municipality while leveraging local resources and those of other donors. Partner municipalities were required to cover a minimum of 50 percent of the cost of the CIP project. Over four and a half years, GAP2 provided KM 8,544,597 in co-financing for 131 capital projects in all 72 partner municipalities (Exhibit 7).

Bihać

Legacy municipality Bihać enthusiastically accepted the CIP approach, and in doing so showed great understanding of its value. Following GAP2's initial presentation, the mayor stated that this approach was "excellent … exactly what we need," and went on to explain how Bihać has many ideas for capital projects but had heretofore lacked a mechanism for their selection and prioritization. The municipally appointed a CIP Coordination Team and in its first CIP year received and scored 180 project proposals. Bihać's coordination team further decided to include in its capital improvement plan all priority projects from the Municipal Development Strategy, adopted in July 2008, enabling the municipality for the first time to have one combined list of all capital project investments needed in the municipality.

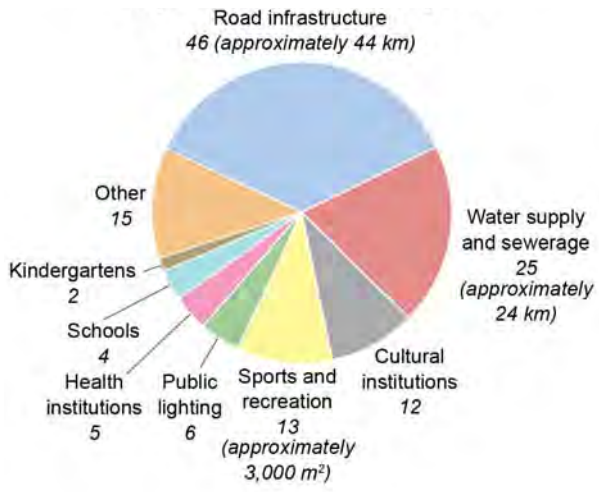
CIP program goals were to:

1. Provide funding for capital projects identified through community participation and help to improve municipal governance

2. Develop municipal government capacity in project cycle management and capital improvement planning to ensure well-administered programs and increase the knowledge needed to access EU pre-accession and other funding mechanisms and to improve the quality of municipal governance through better management of capital projects

3. Develop community and municipal government capacity in participatory planning and monitoring and evaluation, public procurement, and increasing political participation and access to improve the quality of governance

Exhibit 7. Capital Improvement Projects



GAP2's capital projects team worked with partner municipalities to develop a systematic approach to identifying, planning, implementing, and evaluating capital projects following international best practices, helping to ensure that resources are assigned where they are most needed. This methodology, commonly known as capital improvement planning, helps municipalities plan more effectively for future investments and, through a participatory approach that includes all major stakeholders, helps develop clear public understanding of and support for these priorities.

Velika Kladusa

Cohort 1 municipality Velika Kladusa had been implementing a non-GAP methodology on capital planning for seven years when it began working on CIP activities with GAP2. Using GAP's CIP methodology, with its emphasis on citizen participation, CIP coordination teams, and media outreach, Velika Kladusa implemented 25 of the 95 projects in its initial 2007-2010 CIP. The secretary of the CIP coordination team noted that, in addition to the regular media campaigns through which it collects applications for projects, it also holds annual meetings with all major stakeholders, including directors of schools and public institutions, company leaders, and key community representatives to elicit a broad offset of community priorities. In this way, Velika Kladusa plans to ensure that the priority projects listed in its CIP truly reflect the needs of the entire community. While working with GAP2, Velika Kladusa updated its CIP plan for 2009-2013.

GAP2 delivered CIP training to all 72 partner municipalities. However, due to the size and needs of some municipalities, not all adopted and implemented the CIP methodology. Twenty-two legacy municipalities and 38 from Cohorts 3 and 4 fully adopted and regularly implement the CIP methodology. Each municipality took the requisite steps in the process, and their municipal councils or assemblies adopted the enabling resolutions. The remaining 12 partner municipalities have institutionalized the principle of public inclusion through community development planning (CDP) and established CDP committees. The systematic use of CIP methodology has helped

create accountable and transparent municipal governments that have undoubtedly brought BiH municipalities closer to EU standards.

The CIP fund was intended to provide broad assistance to communities. GAP2 used the fund to facilitate rapid completion of high-priority projects that citizens' groups identified and developed in conjunction with municipal governments. As each GAP2 municipality was eligible for a maximum of KM 125,000 in funding, the types of projects selected for co-financing were modest investments that nonetheless provided visible outputs to citizens and created a context for deeper municipal government-community interaction in addressing local needs. The realization of some of the projects provided proof of municipalities' commitment to local development, leading to the attraction of additional funds from higher levels of government and from community residents themselves. For example, the Kakanj municipality project to install a heating system in the Doboj health clinic attracted funds from the Ministry of Physical Planning and Environment of Zenica-Doboj canton and local residents. The Prozor-Rama municipality capital improvement project on regulation of the Prozorcica Stream and construction of the sewer system was financed jointly by the municipality, GAP2, and the Cantonal Ministry for Agriculture, Water Management and Forestry.

Commitment to Cultural Heritage in Nevesinje Municipality

Kalufi necropolis and Ovciji Brod bridge, local attractions in Nevesinje, were not easily accessible and thus did not draw many visitors. The Necropolis — 468 medieval standing tombstones believed to be the largest group of the kinde — and the 68-meter long, three-meter bridge wide medieval stone bridge in Bratac village, were proposed for nomination to be placed on the list of UNESCO World Cultural Heritage sites. In 2009 and 2010, with GAP2 support, 1,358 meters of the road to necropolis and 2,014 meters of the road to the bridge were paved. The rehabilitated roads enable faster and easier access to the sites for tourists and local residents, some of whom were unaware of the history in their community.

GAP2 led municipalities through a participatory process of identifying projects to be supported by the CIP Fund, including establishment of CIPs, community development planning committees (CDPCs), or working with other groups. The groups went through an open, participatory process of identifying projects involving the broader community (sometimes through community-wide visioning exercises). Then the groups solicited applications from the community at large and publicized the solicitation through media campaigns. GAP2 worked with the groups to flesh out their proposals. Applications were scored and ranked by GAP2's CIP funding criteria and other measures.

Customer Satisfaction with GAP

"Capital projects including water management, traffic signalization, street lighting, IT equipment purchase, extremely useful education programs, etc., were invigorating for our community and have made us competitive on a social and economic scale among small municipalities in Bosnia and Herzegovina."

—Mayor Sead Muminović
Municipality of Čelić

CIP training included a strong emphasis on peer mentoring. At the end of training activities, GAP2 identified skilled municipalities that were interested in and willing to mentor less experienced ones and provide additional help, advice, and guidance.

GAP2 ACHIEVEMENTS

By constructing a secondary water supply system, GAP2 helped the Gradiška municipality raise living standards in Brezik-Laminci to a whole new level

The opening of the GAP2 co-financed Construction of the Water Supply System Network in Brezik-Laminci project on July 29, 2010, was a turning point in the development of this local community.

Left to right: H.E. Bosse Hedberg, ambassador of the Kingdom of Sweden, H.E. Sweder van Voorst tot Voorst, ambassador of the Kingdom of the Netherlands, Allan Reed, director of the USAID mission to Bosnia and Herzegovina, and Nikola Kragulj, mayor of the Gradiška municipality, at the opening of the project on July 29, 2010.

The village of Brezik-Laminci in the Gradiška municipality has a mixed Bosniac and Serb population of 1,500 residents. In spite of the effects of recent history on the demographics of the village, a large returnee population lives in harmony, as they did 20 years ago. Until recently, the village was unusual for another reason — although Gradiška has four wells supplying an entire network with good quality water, Brezik-Laminci did not have its own water supply system. This caused many difficulties for citizens, who had to use individual wells. In one instance, 40 percent of the village was flooded, and the water became unpotable. In addition, bacteria levels were not monitored, and the water was often contaminated by fertilizers.

The Gradiška Municipality Capital Improvements Project (CIP) team, established in cooperation with GAP2, selected Brezik-Laminci for implementation of a water supply system project in March 2009. The project's total cost was KM 329,000, of which GAP2 provided KM 125,000 and Gradiška and the Republika Srpska Ministry for Refugees and Displaced Persons funded the remainder. In return for contributing KM 500 per household, the citizens of Brezik-Laminci were exempted from paying connection fees once the network was completed.

A year after the project was successfully completed, some residents of Brezik-Laminci talked about the changes they experienced due to the project.

Dušan Mandić, whose household was recently connected to the primary water supply system, said that having water in his house, without having to operate a well-pump and paying for electricity, greatly improved his family's quality of life.

"I did not believe that I would live long enough to see this day. My family is experiencing a whole new way of living. This made a huge difference for me and my children, and it was absolutely worth all the hard work and money we invested in it. We feel like just now we are starting to live decently. We are very grateful to our municipality and donors, and I am sure that my neighbors, who are already connected to the water supply system, agree with me."

Since 2009, GAP2 implemented 18 CIP projects related to water supply:

1. Water treatment plant: Breza
2. Providing additional potable water: villages of Šibošnica, Nahvioci Gornji and Donji Humci, Čelić
3. Reconstruction of the water supply network: Šibovac-Gradačac
4. Purchase and delivery of sewage pipes and shafts for the sewage system: Lješevo and the local communities of Podlugovi and Misoča

New secondary water supply system at Dušan Mandić's house.

"It is hard to believe that we are so happy now to have something as simple as running water from the local water supply network. That is something that we should have had a long time ago, something that people take for granted!"

— Dušan Mandić
resident of Brezik-Laminci

Dušan Mandić, with local community representatives and the GAP2 CIP team, in front of his house in Brezik-Laminci.

5. Water supply: Zlaća Kladanj
6. Reconstruction of primary and secondary water supply network: Kladanj
7. Water supply network: Alicevica Cesma
8. Repair and reconstruction of water supply network: Petrovo
9. Water supply system: Kakmuz-Petrovo
10. Construction of a water supply system: Posušje-Vinjani
11. Building a secondary water supply network: Ribnik
12. Construction of a drainage system for precipitation water around the municipal building: Široki Brijeg
13. Secondary water supply system in south-east part of municipality: Srbac
14. Inventory, analysis, and protection of water wells: Srebrenica
15. Surveillance and management of water supply system: Trebinje
16. Construction of sewage network: Kula
17. Construction of sewage system: Semizovac-Vogošća
18. Construction of a water well and water supply network tank: Vukosavlje

GAP2 was a five-year project co-funded by the U.S. Agency for International Development, the Swedish International Development Cooperation Agency, and the Embassy of the Kingdom of the Netherlands. The project aimed to improve the ability of municipalities to serve their citizens and to support a policy and fiscal framework conducive to accountable and democratic governance.

SECTION II. POLICY INTERVENTIONS

GAP2's policy efforts were aimed at working with the two entity municipal associations to strengthen the legal and policy framework at the national and entity levels of government, specifically on issues that municipalities deemed most pressing. GAP2 supported the prioritization, development, adoption, and initial implementation of several legislative reforms that affect local governments' ability to serve their communities. Exhibit 8, at the end of this section, depicts the status of each GAP2-supported law at the end of the project (December 2012).

Policy Interventions Component: Expected Results

- Legislative frameworks in place and implemented in both entities to allow for electronic document processing
- A legal framework in place and implemented in both entities to enable transfer of relevant vital records among municipalities to lessen administrative burdens on citizens and businesses
- Mayors are an important part of the policy-making process; municipalities are able to effectively advocate collectively for necessary legislative and administrative changes
- Total public-sector revenue (excluding health and pension funds) accruing to the municipal sector increased from approximately 8 to approximately 10 percent
- The policy framework in both entities improved and implemented to allow for increased local autonomy in decision-making and clearer distinction of responsibilities, particularly in the Federation
- Associations strengthened to advocate effectively on behalf of local governments, disseminate practical information, and provide services of value to members

Complementing GAP2's work to develop the capacity of local governments to provide services to their citizens, its policy efforts sought to decentralize various aspects of governance, thus increasing local governments' responsibility and authority. Activities under this component included:

- Bridging the communications gap between local governments across entities and between local and higher levels of government
- Supporting and promoting the participation of mayors and municipal leaders to advocate for their interests through the municipal associations and working with the municipal associations to establish clear policy agendas
- Developing legislation to implement the FBiH Law on Principles of Local Self-Government
- Improving the operating environment for public financial management and increasing the ability of local governments to raise and retain own-source revenue and manage their financial resources and municipally owned assets
- Improving the policy environment for management of communal services and urban planning

Specifically,

Subcomponent A. Strengthen inter-governmental communication and the capacity of municipalities to collectively advocate (KRA 2.1)

- Activity A1. Support adoption and implementation of Code on Inter-Governmental Relations
- Activity A2. Foster sustainability of GAP2 activities through development and implementation of an exit strategy
- Activity A3. Cooperate with Sida-funded Capacity Development Municipal Association (CDMA) project to improve municipal associations' ability to advocate for reform
- Activity A4. Foster opportunities for mayors to discuss common municipal interests

Subcomponent B. Improve inter-municipal communication (KRA 2.2)

- Activity B1. Support adoption and implementation of Law on Vital Records and Law on Electronic Documents

Subcomponent C. Conduct policy initiatives to operationalize the Local Self-Governance Development Strategy (KRA 2.3)

- Activity C1. Support implementation of the Law on Principles of Local Self-Government
- Activity C2. Address key policy issues that impede modern urban planning
- Activity C3. Address key policy issues that impede efficient municipal management of communal services provision
- Activity C4. Support drafting of RS Law on Financing of Local Governments
- Activity C5. Support drafting of FBIH Law on Financing

Subcomponent D. Support policy reform for introduction of municipal treasury operations (KRA 2.4)

- Activity D1. Support drafting of treasury implementation guidelines

As with the Local Interventions component, the number and scope of the Policy Intervention component objectives changed as a result of contract modifications introduced in February 2011. The objectives and respective activities were increasingly directed toward sustainability of GAP2 achievements beyond the life of the project.

A. Strengthening Inter-Governmental Communication and Municipalities' Capacity to Advocate Collectively

GAP2 has helped to strengthen the role of municipal associations through initiatives aimed at supporting increased engagement between municipal associations and entity governments, and ultimately developing and implementing codes on inter-governmental relations that will institutionalize the role of local government in legal and policy changes that affect their work.

Associations' Annual Policy Agendas and Policy Priorities Cycle

Traditionally, municipal associations are well-placed to serve as key actors in inter-governmental policy-making. They have access to the knowledge of their members, who often share common interests; can pool resources for research, analysis, and

advocacy efforts; and can project the collective voice — and influence — of all of their members. The municipal associations supported by GAP2 have envisioned a set of reforms, developed priorities, conducted policy development and research, and set appropriate agendas. These processes occurred at intervals (often annually). Priorities were set after consideration of all available options, actions planned, and resources allocated over that period. By methodically setting policy agendas, municipal associations know where they are going and can determine how to take their members there.

Over the course of 2009 and 2010, as a first step in improving the capacity of municipal associations to help set the policy agenda, GAP2 organized workshops on the policy cycle for entity municipal associations' committees or boards. Participants were introduced to the policy priority development process and to policy analysis, research, and advocacy modules (with accompanying materials). Individual workshops guided each committee or board through each step of the policy cycle. GAP2's *Research and Advocacy Toolkit* accompanied the training. The toolkit covers all aspects of the policy cycle including research through policy priority questionnaires, policy analysis, definition of priorities, advocacy, evaluation, and the legislative process, and provides guidelines for legislative drafting.

GAP2 also organized approximately 15 focus group sessions for participants to identify and formulate their associations' policy agendas. Following the analysis of policy priority questionnaires, GAP2 worked with relevant committee members to define areas requiring policy changes through the above-mentioned focus groups. GAP2 also drafted a policy agenda work plan adopted by each municipal association for the period 2009-2010.

As a result of GAP2's efforts, the municipal associations received valuable tools for drafting high-quality annual policy agendas based on their priorities. The municipal associations continue to use the approach introduced by GAP2 and update their priorities and policy agendas annually without assistance.

Signing a Memorandum of Understanding with the FBiH and RS Associations of Cities and Municipalities

GAP2 worked with each association to establish consensus about the best ways to achieve common goals, which it formalized in a memorandum of understanding, signed with the FBiH association in June 2008 and with the RS association the following month. These formal partnerships enabled GAP2 and the associations to jointly promote and advocate the position of local governments on policy issues.

RS National Assembly Local Self-Governance Committee

The RS association requested GAP2's assistance in establishing a committee for local self-governance (LSG) in the RS National Assembly (RSNA), with the support of the Minister for Local Self-Governance. GAP2 organized a series of meetings between the general secretary of the association and the RSNA's president to specify actions and next steps towards accomplishing this initiative. After initial resistance — mainly due to political unwillingness to change the RSNA's rules of procedure in an election year (2010) — the committee was established following the elections. The RSNA's decision was published in *RS Official Gazette* No. 31/2011.

FBiH Coordination Committee

Building on previous efforts to implement the Law on Principles of Local Self-Government, GAP2 developed a list of sectoral legislation that needed to be harmonized to be favorable to local governance. This work was expected to be done through a coordination committee for Implementation of the LSG Law (as foreseen in conclusions of the July 2007 GAP1 conference on implementation of the law). The aim of the committee was to help higher levels of government, mayors and municipal officials, Parliament, and international organizations to jointly address further implementation of this law. GAP2 planned to use this coordination committee to promote and facilitate participatory dialogue to develop concrete reform proposals. Many stakeholders were to have places at the table, with representatives of entity, cantonal, and municipal level governments, and members of Parliament, local experts, and representatives of civil society. GAP2 also anticipated that the municipal associations will be key members of the committee and, as appropriate, may play leading roles in convening the meetings, establishing the agendas, and contributing to these discussions.

The coordinating committee was established, and it identified the priority areas where interventions were needed. All participating institutions expressed a strong commitment to contribute to its future work. GAP2 was given a major role in setting the agendas for the working groups and conducting the necessary research and analysis. The coordinating committee's first meeting, in September 2008, was chaired by the FBiH minister of justice, and all 10 cantonal ministries of justice were represented — four by a minister. Representatives from the FBiH municipal association, FBiH Parliamentary Committee on Local Self-Government, Organisation for Security and Cooperation in Europe (OSCE), and the Council of Europe were also present. GAP2 prepared the agenda and all materials for discussion, including reports on harmonization of cantonal LSG Law with the FBiH law, three templates of cantonal LSG laws illustrating how they could be harmonized, and analyses of sectoral laws that required harmonization with the FBiH LSG Law. The committee agreed to establish four working groups covering administration, property, social affairs, and finance.

The committee met again to accept the proposed action plan and discussed individual proposals, priorities, and timelines. Based on the action plan, each canton was tasked with preparing its own list of cantonal laws that should be harmonized with the Law on Principles of Local Self-Government.

The Federal Ministry of Justice sent an initiative to the federal government to appoint representatives from sectoral ministries to take leading roles in the work of coordination committee working groups, with no significant response. Although some ministries showed more initiative in contacting and involving the municipal association, no systematic approach was implemented.

Recognizing the need to establish a more binding and sustainable concept to further LSG reform, GAP2 and its partners ultimately decided that establishing a formal Code on Inter-Governmental Relations would be the most suitable instrument to spur progress in implementation of the FBiH Law on Local Self-Government, and thus further reform of local self-government in FBiH.

Code on Inter-Governmental Relations in RS and FBiH

In order for municipalities to effectively and collectively advocate for legislative and administrative changes, high-quality cooperation must be established between higher and local levels of government. GAP2 supported the drafting and approval of an official code on inter-governmental relations in each entity to enable municipalities to support their advocacy efforts and facilitate cooperation. The code, derived from the Law on Principles of Local Self-Government, serves as an agreement between the government of each entity and the respective municipal association that establishes a clear division of responsibilities and competencies regarding legislative and administrative changes. The code, which covers practical matters that are not regulated by the Law on Principles of Local Self-Government or its supplementing bylaws, is a critical part of the regulations necessary for full implementation of the law. GAP2 developed a basis for development of a code on inter-governmental relations for the RS and FBiH, based on the Dutch model, which has proven to be functional and efficient due to the clear division of responsibilities and authorities between different levels of government in issues not governed by any law.

RS efforts. A working group to develop the RS code met regularly starting in 2010. In 2011, the code was published on the association's web page, and municipalities were given one month to submit suggestions and comments. GAP2 engaged in ongoing negotiations with the RS association and RS government, and the RS association adopted the code on October 26, 2012. The code will come into force upon adoption by the RS government.

FBiH efforts. The FBiH Code on Inter-Governmental Relations addresses inter-governmental collaboration more generally, with annexes that will detail how the code regulates specific items such as fiscal policy and municipal resources. Although it was drafted early on in the project, negotiations on the final text were hampered by the political instability of the FBiH government. The negotiations continued throughout 2012, and the FBiH code was officially adopted in late September 2012.

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GAP2 ACHIEVEMENTS

Adoption of the FBiH Code on Inter-Governmental Relations

"We believe that the continuous, institutional communication and cooperation are important preconditions for the execution of the constitutionally foreseen and laws entrusted to the best interests of the citizens, and we are convinced that this document will reduce misunderstandings and disputes between the two levels of government."

— Signatories of the Code on Inter-Governmental Relations

GAP2's Policy Interventions component focused on strengthening inter-governmental communications and working with the municipal associations of the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS). This component, one of the project's most valuable activities, aimed to enable elected government officials to interact with one another, reduce the administrative burden on citizens, introduce high-priority reforms, and identify legislative improvements. The code will help establish a municipal role in the development of legislation and strengthen the voices of cities and municipalities.

To strengthen communication, effective cooperation between higher and local levels of governments needed to be established. To do so GAP2 supported the drafting and approval of an official code on inter-governmental relations.

The code recognizes that local government is one of the fundamental values of the constitutional order of Bosnia and Herzegovina and FBiH. It takes into account the constitutional position of the federation and its cantons, cities, and municipalities and determines the future development of local democracy in accordance with principles based on the Council of Europe's European Charter of Local Self-Government. In addition, it takes into account the need for a continuous process of decentralization of functions and, accordingly, creating a funding system that guarantees broad autonomy and a greater role of local government. Simply put, the objective of the code is to facilitate the development and adoption of policies and regulations in the federation.

In August 2012, GAP2 focused its efforts on helping the government of the FBiH adopt the code. GAP2 met with Vlado Alilović, president of the FBiH municipal association, to review, adopt, and sign the code. The team initiated a series of meetings with the FBiH Ministry of Justice, which has been in charge of the issue on behalf of the government of the with the goal of seeing the code adopted by the government of the FBiH. As a result of these efforts, FBiH Minister of Justice Zoran Mikulić, presented the code and asked for its adoption during a government session on September 27. Following the presentation, the government adopted the Code of Inter-Governmental Relations as proposed.

After being signed by the parties, the Code of Inter-Governmental Relations in FBiH will become effective and binding, marking a major achievement for GAP2.

GAP2 was a five-year project co-funded by the U.S. Agency for International Development, the Swedish International Development Cooperation Agency, and the Embassy of the Kingdom of the Netherlands. The project aimed to improve the ability of municipalities to serve their citizens and to support a policy and fiscal framework conducive to accountable and democratic governance.

B. Fostering Sustainability

In a step toward ensuring the sustainability of project achievements, GAP2 and each entity municipal association signed a protocol on the formal handover of several GAP2-initiated activities on May 11, 2011. In doing so, the associations assumed ownership of the budget guide, municipal revenue profiles, and LSG consultancy database that GAP2 had developed, and agreed to maintain and update them in the future. GAP2 subsequently monitored the use of the products and found that the associations were meeting their obligations under the protocol.

In Year 5, GAP2 developed an exit strategy that outlines a strategy to foster the sustainability of each technical activity. From the outset, GAP2 implemented its activities with sustainability in mind, and the exit strategy elaborated on those ongoing efforts and addressed more specifically how a number of the activities will continue to be carried out to some extent by local organizations. Concentrated implementation of the exit strategy started in late August 2012 and was intensified as the project drew to a close. Agreements on the transfer of activities and GAP2-developed materials were reached during preparatory meetings with the entity-level municipal associations in August. Full transfer of activities and materials to the municipal associations and other recipients (regional development agencies, NGOs, entity-level gender centers, UNDP, pilot municipalities for program budgeting, and UPC advisory boards) from both entities was completed in October. GAP2 is confident that the enthusiasm and commitment shown by recipients will help ensure a strong project legacy.

Cooperating with the SIDA-Funded CDMA Project to Improve Municipal Associations' Ability to Advocate for Reform

The Sida-funded CDMA project complements GAP2 by further strengthening each entity's municipal association, enhancing their capacity to act as legitimate, effective, and sustainable institutions. Many GAP2 and CDMA activities were correlated, and the projects coordinated closely to meet their complementary objectives. GAP2 signed a memorandum of understanding with CDMA on May 11, 2011 — a step forward in strengthening municipal capacity that also marked the completion of a deliverable outlined in February 2011 in the GAP2 contract modification.

In accordance with the memorandum, GAP2 and CDMA (in particular, CDMA-sponsored legal and financial advisors in both municipal associations), coordinated on a number of activities. In the FBiH, this cooperation was linked to implementation of the treasury system at the municipal level and to the proposed revisions of the FBiH Law on Financing, for which a CDMA-sponsored financial expert participated in analyzing and developing solutions that will articulate interests of LSG units. In the RS, a CDMA-sponsored financial expert performed a similar analysis and provided recommendations for revising the RS Law on Financing LSG. The joint mayoral meeting, described below, was also organized with the assistance of CDMA-sponsored legal advisors from both associations.

The CDMA project also supported the exit strategy implementation by easing the transfer of GAP2 products and helping both entity associations absorb them more easily. The two projects held a number of meetings to familiarize CDMA staff with GAP2 activities and tools to be transferred and help CDMA strategize and design future support to the associations in this area. CDMA pledged to work closely with

the associations to bolster their ability to carry on key aspects of GAP2's work, further enhancing the project's sustainability.

Fostering Opportunities for Mayors to Discuss Common Municipal Interests

Effective cross-entity and cross-party collaboration will maximize advocacy efforts when municipalities share common positions on various issues. Since its inception, GAP and, subsequently, GAP2 have been working (on and off) to support a venue for all BiH mayors — regardless of entity affiliation — to collaborate on topics of mutual interest. During phase I and the beginning of phase II, GAP worked to support the establishment of a joint coordination body encompassing both entity level Associations of Cities and Municipalities. However, due to political pressures, the efforts did not appear as though they would come to fruition. On several occasions, GAP2 tried to revive the issue, with limited success. Due to the general political situation in BiH and increasing political polarization, the coordination body has yet to succeed. Therefore, in its final year and a half, GAP2 gauged mayoral interest in participating in ad hoc meetings to discuss issues of common concern. As a result of this collaboration, GAP2 and the entity municipal associations organized a roundtable for mayors to discuss electronic document processing and concessions — both issues of common interest. Attendees included 25 mayors and 23 other experts from municipal administrations appointed by mayors, representing 28 municipalities (22 from FBiH and six from RS). The mayors found the meeting fruitful, which will hopefully spur them to continue to hold similar collaborative events in the future.

C. Improving Inter-Municipal Communication

Local governments have the closest communication with citizens and serve as the repository for many vital records and important documents that are often necessary for routine business in BiH. Pre-war legislation did not account for any aspect of electronic data processing, and as a result, citizens, many of which do not live near the municipality where they were born, faced an undue burden of having to travel long distances to retrieve copies of various vital records that were only available at the registrar where their details were first entered into the public record. Electronic sharing of vital records between local governments gives citizens access to this information regardless of their current place of residence. To enable that access and thus lessen the administrative burden on citizens and businesses, GAP2, with its counterparts, developed legislation and supported technical solutions to enable municipalities to share vital records. This was done through two broad activities: designing the legislative framework to enable electronic document processing and supporting technical solutions for sharing vital records.

Research, Analysis, and Technical Solutions

GAP2 analyzed the legal framework and actual practice in the country and international best practices, including the EU, to inform electronic signature and document exchange and development of security legislation. This analysis helped GAP2 identify the need for legislative amendments, including to the Law on Citizenship, Law on Electronic Signature, and Law on Protection of Personal Data. The report also explained the technical possibilities and recommended a simple, flexible information system that would interface with other systems. The report explained the system's structure and components, security issues, network

requirements, and personnel capacity, among other topics. GAP2, the municipal associations, and IDDEEA delivered a workshop to inform local governments of the implications of this system. In 2009, GAP2 partner municipalities were asked to comment on IDDEEA's concept of electronic document processing and vital records protection and sharing. GAP2 further assisted IDDEEA in identifying IT and connectivity capacity in all municipalities by distributing questionnaires designed by IDDEEA and collecting the responses.

By the end of GAP2, many technical solutions have been agreed upon, and GAP2 participated in a working group formed by the FBiH Ministry of Interior to finalize solutions for implementing the central register of vital records.

Developing the Legislative Framework

With GAP2 assistance, the RS Ministry of Governance and Local Self-Governance formed a working group to finalize an existing draft of the Law on Vital Records. The law was published in the official gazette and came into full effect in December 2009 as a result of a compromise between the joint committee of the RSNA and the RS Council of Peoples on an amendment proposed by the Bosniak Caucus. The amendment addressed use of language in vital record certificates; the compromise provides an option to choose the language and the Cyrillic or Latin alphabet for these documents.

For the FBiH Law on Vital Records to be functional, the Law on Electronic Documents, through which electronic vital records are validated, was needed. Therefore, GAP2 involved the same partners — IDDEEA and the FBiH Ministries of Justice and Interior — for both pieces of legislation.

The two laws were drafted in Year 3 (2010). As a result of GAP2's lobbying activities, the Law on Vital Records was presented to Parliament in 2011 and was adopted and published in the FBiH government's official gazette in December 2011. Local governments are still beginning implementation. The documents will be issued in a special digital format that will be protected and will have specific content required by law. Under the previous legislation, vital documents, such as birth certificates, were valid for a maximum period of six months. For any person needing to produce a vital record for any number of reasons, if the validity period had expired, the person would be required to apply for a new copy, resulting in high customer costs in terms of time and money spent. The new legislation does not stipulate any validity period for vital documents with the result that citizens spend less time dealing with the municipality.

Following the adoption of the Law on Vital Records, GAP2 continued to advocate for the electronic documents legislation. During the February 2012 session, both houses of Parliament adopted the draft Law on Electronic Documents; following standard procedure, a public hearing was held in May. The government adopted the law and forwarded it to Parliament as an official proposal for adoption.

The significance of the law relates primarily to the creation of equal conditions for electronic and hard-copy forms of documents, and in simplifying legal transactions between individuals and legal entities, between individuals or legal entities and public authorities, and between those bodies themselves. In simplest terms, the law

established the legal basis for electronic submission and provision of government services, enabling easier and faster communication between individuals or legal entities and government bodies. The result will be significantly reduced waiting times at service counters in municipalities and other institutions.

D. Legislative Reforms to Support Decentralized Local Government

Increased functional decentralization requires reform of the underlying legal and administrative framework. In FBiH, that framework is largely set out in the Law on Principles of Local Self-Government, which gives municipalities broad authority over all issues of local interest and clarifies the division of responsibilities between cantons and municipalities. Accordingly, the final provisions of the law require cantonal (and other) legislation to be harmonized with it. However, the fractured system of government in the FBiH has proven implementation to be excessively complex, demonstrating numerous deficiencies in the system. Harmonization of federation and cantonal legislation has not occurred, impeding progress in clarification of responsibility and authority among levels of government.

Throughout the five-year project, GAP2 supported efforts to make the Law on Principles of Local Self-Government operational. The project worked to enter several draft laws into Parliamentary procedure and lobbied for their adoption. GAP2 included FBiH municipal association committees in working groups and, with relevant experts, devised high-quality legal solutions which are detailed below.

FBiH Law on Employees of Local Self-Goverment

This law is part of a broader public administration reform effort underway in the FBiH. The cornerstone piece of legislation in this reform initiative is the new Law on Civil Service, drafted by the Civil Service Agency, which seeks to replace previous legislation that was ruled unconstitutional by the FBiH Constitutional Court. GAP2 and the FBiH municipal association capitalized on this opportunity and introduced the idea of simultaneously drafting much needed legislation that would resolve issues surrounding the status of local government employees. A working group comprising representatives of the FBiH municipal association, Civil Service Agency, OSCE, and GAP2 prepared the draft.

The purpose of this legislation is to regulate the legal employment status of employees in local self-government units based on the principles governing civil service rights. The law aims to standardize employment practices including hiring, performance monitoring and evaluations, promotions, professional training, and continuing education. The law effectively gives mayors more authority and responsibility over personnel decisions within the municipality, including more options for promoting and disciplining employees, as needed, through clear, fair, and justified procedures.

The law was finalized and sent to the FBiH government for approval prior to the parliamentary adoption process. Due to the current political crisis, the exact date for adoption is uncertain. If adoption has not occurred by the end of the project, it will be continued by the Civil Service Agency, Ministry of Justice, and FBiH municipal association, which partnered with GAP2 in this process.

Articles within both pieces of legislation (the Law on Employees of LSG and Law on Civil Service) outline the necessary steps required for implementation. One such requirement within the draft Law on Employees of LSG will be that all FBiH municipalities will have to develop a municipal rulebook governing disciplinary actions in accordance with the legislation.

FBiH Law on Concessions

Existing legislation governing the granting of concessions by BiH government authorities does not adequately involve municipalities in the process. As a result, higher levels of government, particularly cantons, ignore municipal interests and demands as they relate to concession granting. Local governments have no decision-making rights in the process, nor are cantons obliged to consult local governments when concessions are granted within their municipal jurisdiction. Local governments are obviously very interested in increasing their inclusion in the concession granting process and in increasing their share of the distribution of resulting benefits from any concession deals. Therefore, adoption of a new Law on Concessions has been a high priority for local governments and the FBiH municipal association. GAP2 and the FBiH municipal association thus formed a working group to draft the revised legislation.

The revised law — which governs the exploitation of natural resources and the distribution of resulting benefits to different levels of government — aims to provide a more efficient legal framework for concessions, increase the transparency of concession processes, and facilitate economic development. The law describes the economic use of natural resources, goods in general use, or other property, public works, and public service, and applies to the awarding of concessions for commercial activities and services and works on public roads, ports, airports, railways, water use and public water resources, utilities, maintenance, protection of water facilities or river bed, hydropower plants, drinking, medicinal, thermal, and thermo mineral water, irrigation systems, power plants, mineral resources, groundwater and geothermal energy, construction land, hunting, fishing waters, pipelines and terminals for storage and transportation of liquid and gas, agricultural land, cultural assets, activities involving waste management and harmless disposal of organic waste, ski resorts and ski lifts, river transport, and sport and tourism areas. Concessions may be given to other areas and activities.

Under the new legislation, the procedure for awarding concessions will be regulated by law rather than specific rules, as is the current legal practice. The process is led by the FBiH Commission for Concessions, an autonomous body within the FBiH. Its members are proposed by the Government, and appointed by the FBiH Parliament. Municipalities wanted to increase their involvement in the concession granting process, and the new legislation achieves this goal. Mayors and/or delegated municipal staff will be allowed to serve as ad hoc members of the Commission whenever a concession project is located within their jurisdiction.

The draft Law on Concessions was approved by the FBiH House of Representatives and House of Peoples, and was subsequently followed by a public hearing. GAP2 policy advisors were present at these events and were actively involved in providing advice and suggesting changes to the text. Following the public hearing, the FBiH municipal association organized a working group which analyzed and incorporated

the proposed changes to the text. The majority of the changes and amendments advocated by GAP2 and the FBiH municipal association were included in the revised legislation (now in proposal form), which was subsequently adopted by the House of Representatives on May 22, 2012. The law is currently awaiting a final vote by the House of Peoples and official adoption.

Upon adoption, the FBiH must develop its policy on the allocation of concessions by the FBiH Commission on Concessions, with each municipality then developing internal rulebooks and procedures regarding concessions. Education and training for local authorities on concession allocation processes and procedures will be important for successful implementation.

FBiH Law on Forests

Over 50 percent of the FBiH is forested, so sustainable management and exploitation of forests and forest land represent a vital interest for the entity and its municipalities. In April 2009, the Constitutional Court of the FBiH ruled that provisions in the prevailing Law on Forests violated the rights of municipalities. To ensure consistency with the Council of Europe Charter of LSG, the Constitution of the FBiH, and Law on Principles of LSG, new legislation was needed. To remedy inadequacies in the previous law, new legislation would aim to increase the involvement of local government in the decision-making process regarding use, management, and receipt of benefits from forests and forest land within their jurisdiction. With the support of GAP2, FBiH municipalities, through the municipal association, have worked on legislation to clarify municipal authorities and responsibilities vis-à-vis higher levels of government regarding management and financial benefit from forests and forest land. The draft law was passed by the House of Representatives and sent to the House of Peoples, which requested that the cantons review and provide opinions on the draft law. The Law on Forests should be on the House of Peoples agenda in 2013.

GAP2's partners in this process, the FBiH government and municipal association, plan to continue their efforts to see the law adopted. Due to the complex nature of this issue and the fact that the new Law on Forests establishes a completely new system of managing forests, including the establishment or reorganization of relevant governing bodies, there are a wide range of implementation requirements. The legislation includes at least 10 articles that outline what will need to be done upon adoption of this law, as well as 20 different bylaws that need to be drafted or verified by the FBiH Minister of Agriculture, Water Management, and Forestry. Additionally, local economic development strategies will need to be adapted to more adequately address forest usage and management. Representatives from each FBiH municipality will also need to be trained on their new responsibilities and authorities, which will increase substantially with the adoption of the law.

E. Policy Initiatives: Urban Planning and Management of Communal Services

Policy Issues that Impede Modern Urban Planning

GAP2's policy and local interventions teams jointly collaborated to assess problems in modern urban planning. Apart from the direct training and technical and material assistance provided to the partner municipalities to improve their urban planning capacity outlined previously in Section I, GAP2 produced a policy paper, "Urban

Planning in BiH: A Contemporary Analysis of the and Path to Progress." The paper underscores the complexity of reforming spatial and urban planning in BiH due to the number of institutions involved, the existing legal framework, and other challenges. The paper recommends ways to improve the current situation and enable modern urban planning in BiH that is compatible with EU standards.

The recommendations include improving laws and bylaws, introducing professional licensing, redefining urban planning and zoning standards, and introducing a more relevant legal system. The recommendations provide BiH legislators, governments, and international donors with an overarching plan for simplifying urban planning and permitting in a way that stimulates economic development. In reviewing GAP2's policy paper, the Commission of Spatial Planning, Urbanism, and Environmental Protection of the FBiH Association of Cities and Municipalities expressed the association's commitment to taking advantage of GAP2's achievements and tools such as the policy paper and the Spatial/Urban Planning manual also produced in 2012, and presenting them to mayors. The commission also noted the necessity of continuing to educate GAP2 municipalities in this area and to expand these activities to other municipalities. It recognized the need to update legislation in the field of spatial planning, with a focus on simplifying procedures and resolving the issue of zoning, and noted that reform efforts must connect all municipalities to one another and to higher levels of government to improve the exchange of information in this area. Finally, the commission acknowledged that the municipal association's working groups should include local-level representatives in work on legislation for spatial planning.

Policy Issues that Impede Efficient Municipal Management of Communal Services Provision

In Year 4 (2011), the GAP2 policy and local intervention teams conducted research in the 72 partner municipalities to identify policy issues and practical problems that municipalities face in delivering communal services and to assess municipal authority and responsibilities. The policy analysis initially focused on the primary legal framework that regulates communal services and then expanded to constitutional and local self-governance legislation, which also significantly affects municipal authority for communal service provision. None of the municipalities or citizens surveyed during the course of this research identified the lack of municipal authority to manage communal services as a problem to be addressed. GAP2 concluded that problems with communal services provision are not caused by insufficient or inadequate authority delegated to municipalities by relevant laws. Rather, the assessment found a need for municipalities to work within the existing legal framework to improve their capacity to organize service delivery and manage service providers.

F. Policy Initiatives to Operationalize the Local Self-Governance Development Strategy

Database for Revenue Reporting in the FBiH

Starting in late 2008, GAP2 developed a revenue reporting database through which the FBiH Ministry of Finance can request reports from municipalities, and municipalities can enter the information directly via a Web interface as a means of overcoming the lack of capacity with the ministry. Through the first quarter of 2009,

in response to requests from the ministry, GAP2 expanded the database to include the cantons. The ministry, with GAP2 assistance, conducted a successful pilot for municipalities of Tuzla canton in May 2009. Unfortunately, at the end of a protracted process, the database developer did not satisfy a formal requirement; therefore, the database was not put into use.

The predominant lesson learned from this process is that relatively basic software, such as this database, should be developed in-house with ministry IT staff, and that coaching should be part of the activity.

Revenue Allocation of Direct Taxes in the FBiH

In 2008, as the FBiH Ministry of Finance was preparing to introduce a personal income tax in 2009, GAP2 was asked to help determine revenue sharing between municipalities and cantons. GAP2 analyzed the allocation under the former and new tax regimes and proposed remedial changes reflecting the changed tax legislation and rules for direct taxes. The ministry then developed changes and amendments to the law that introduced personal income tax in revenue sharing, and introduced new sharing relations for the personal income tax that replaced the wage tax and a number of cantonal citizen taxes. The changes and amendments were adopted in 2008.

In late 2009, with GAP2 assistance, the FBiH Ministry of Finance produced a draft report on the effects of the Law on Revenue Allocation, addressing revenues of different government levels in the FBiH for the period 2005 to 2009. The FBiH government adopted the report in early 2010.

Costing and Transfer of Functions

In the area of fiscal reform, GAP2 staff delivered a two-part training activity on transfer and costing of functions for the FBiH Ministry of Finance fiscal department. During the first training session, ministry staff collected relevant data (such as adopted budgets of cantons for 2008 and data from the FBiH Statistics Institute). The training focused on sources for data on current expenditures within a function and how to organize the data into a database that can be used for analytical purposes.

The second part of the training used the data collected to examine different indices and determine what part of function funding could be tied to a particular index or cost estimate. Participants discussed options based on data and criteria that could be introduced to or amended in the revenue allocation model to reflect the shift in function. GAP2 then provided training in adapting the simulator to introduce these options and present scenarios for financial impacts depending on the chosen option.

Changes to the FBiH Chart of Accounts

GAP2 engaged in activities aimed at improving the FBiH chart of accounts, especially as related to the needs of municipalities. The chart of accounts did not truly reflect all the needs of its users, and required changes in reporting. GAP2 concentrated its activities on the chart of accounts, as a DFID project and the International Monetary Fund (IMF) were to address reporting issues.

Over the course of two years, GAP2 and the FBiH Association of Cities and Municipalities conducted substantial discussions with municipal finance officials and

collaborated closely to identify the changes the chart of accounts required. Modifications included removing superfluous or repetitive codes and adding several codes to help municipalities track their revenues and expenditures more transparently. GAP2 contributed to an analysis of the chart of accounts, which the association shared with its members to obtain feedback.

The approved report was submitted to the FBiH Ministry of Finance, where it was well received. The ministry requested GAP2's assistance in integrating the comments and suggestions of counterparts and committed to sharing its accounting policies with the municipalities (as an internal ministry document, it will serve as a guide for use of the codes) through the association. The IMF supported this by deploying an expert to work with the ministry and GAP2 on final changes to the chart of accounts. The amended chart of accounts entered into force in 2011.

Comments on Proposed RS Chart of Accounts

In 2009, the RS chart of accounts was reviewed and a report, with recommendations for improving the current chart of accounts, was jointly prepared by GAP2, the RS Association of Cities and Municipalities and the RS Ministry of Finance.

The RS Ministry of Finance requested GAP2's involvement in organizing workshops with the municipal association to gather municipal comments. The project worked with the ministry and the association to organize five workshops in Trebinje, East Sarajevo, Bijeljina, Doboj, and Banja Luka in 2009. The goal was to present the draft of the new chart of accounts and collect comments and suggestions from local government representatives. The 149 participants included municipal finance leaders, heads of municipality and city accounting departments, accountants, budget implementers, and representatives of the RS main audit office for the public sector.

The rules of budget classifications, the content of each account comprising the chart of accounts, and the user's guide to the chart of accounts for RS municipalities were published on September 16, 2010 (*Official Gazette of RS*, No. 90/10). The chart of accounts, which harmonizes closely with the International Public Sector Accounting Standards, has been in force since January 1, 2011.

Debt Database

In 2009, GAP2 developed a debt recording database at the request of and in close collaboration with the FBiH Ministry of Finance debt department. The database could easily track the relationship between the debt burden and the allowed legal ceilings for borrowing and oversee total municipal debt in the entity to support policy analysis.

GAP2 worked closely with RS Ministry of Finance budget department representatives to identify data required to design and develop a similar database for municipal debt reporting. During software development, GAP2 made numerous presentations to ministry representatives to determine the data to include and obtain relevant reports. GAP2 delivered the completed software to the ministry in 2009.

G. Managing Municipal Property

Equitable Disposition of Municipal Property — Promoting Changes to the Draft Law on Real Rights

The FBiH Law on Real Rights was intended to create the legal framework for property rights reform, completing the transformation of ownership in BiH and establishing the principles of uniformity and legal unity of property. The law was expected to define municipalities as sole owners of their property and to provide a sound basis for the creation of conditions for more equitable disposition of municipal property. By making municipalities the sole owners of their property, the law would have required corresponding changes in the collection of revenues from the use of that property.

From the beginning of the GAP2 project, a draft Law on Real Rights was slated for adoption in the FBiH. In November 2009, GAP2, with the GTZ/Sida/Austrian Development Agency Land Administration Project and the FBiH municipal association, held five workshops on the draft law and its effects on municipalities. The workshops were attended by 116 representatives from 62 municipalities.

In 2010, GAP2 refocused its policy activities on laws for which some impact could be achieved; at that time work on the Law on Real Rights was postponed as the Ministry of Justice had not finished drafting the law. However, in 2011, the new government sent the law to Parliament for discussion after which the law was subject to a public hearing process. In 2012, the Federation Parliament decided to adopt amendments to the Law on Land Registry, the Law on Cadastre, and Law on Real Rights as a package. The proposed Law on Real Rights was submitted to the House of Representatives on June 19, 2012. The next step, placing the three laws on the session agenda, has not yet occured. However, the FBiH government expressed its support of the legislation, and the FBiH municipal association and FBiH government will continue to negotiate passage of the legislation.

GAP2 met with property and geodetic issues departments of the municipalities of Mostar, Široki Brijeg, Jablanica, Konjic, Grude, Stolac, Ljubuški, Čitluk, Zenica, Stari Grad, Centar, Hadzici, and Novo Sarajevo and reviewed municipal initiatives on other property laws, collected through the FBiH association. Based on its meetings and research, the project provided the association with several documents produced in 2008 that should help with implementation and provide guidance for municipalities — an analysis of the effect of the draft Law on Real Rights in FBiH on local governments, an assessment of the need for significant transfers of responsibility over management and use of property, and guidelines to shape future reform of municipal property.

In combination with its work on municipal revenue optimization, GAP2 analyzed municipal property income in the FBiH and RS. This report discussed the significance of own-source revenue for municipal budgets and the need to improve collections, helping justify the efforts expended on the Law on Real Rights and related measures.

Unfortunately, the RS Law on Real Rights was not adopted, and GAP2 discontinued work in this area.

Law on Expropriation

A legal framework for expropriation of private property in the public interest (eminent domain) is critical for the proper functioning of local governments. Expropriation allows for the development of essential infrastructure such as roads, utilities, or other public projects.

In large part because of GAP2's work on municipal property, the FBiH association's property committee identified the Law on Expropriation as one of its key priorities in 2009 and established a working group to amend the law.

The working group produced amendments that GAP2 formulated based on discussion with and written comments from municipalities. The committee for economic growth and, later, the association's leadership adopted the amendments, which were submitted to the FBiH government as an official response to the draft law. The amendments were considered and included in part in the Law on Expropriation.

Assesment of Municipal Asset Management

At the outset of GAP2, under the expectation that RS and FBiH laws on real rights would be adopted and brought into force, GAP2 identified asset management as an area where local governments will face significant challenges in BiH. Improving municipal asset management while taking into account areas such as spatial planning, construction, environmental protection, and overall municipal development is a difficult but important task. If the legal framework became conducive, GAP2 expected that local governments would be in a position to manage assets in a more market-oriented manner, increasing their significance as a source of revenue, and improving their ability to create new management practices.

In 2009, GAP2 assessed the effects of current and future legislation on local asset management, presented best practices from other transition countries, produced policies for defining surplus assets and revenue generation from assets, and sought to match property portfolios transferred to local governments with functions that are the responsibility of those local governments. GAP2 also defined local land policies and provided guidelines on the asset management process, including improved land allocation procedures to act as guiding or binding documents for local governments.

GAP2 provided the findings of its assessment in a report on asset management that included land and property policy recommendations. In mid-2009, GAP2 and the municipal associations organized a series of workshops to present the report and recommendations. Approximately 160 municipal representatives attended.

H. Supporting Drafting of the RS Law on Financing of Local Self-Governments

Although the RS Ministry of Finance did not support reforms in LSG financing, the RS municipal association made this a priority issue and appointed a working group to draft new legislation on local government financing.

GAP2 prepared a first draft of the law which it submitted to the working group. Based on feedback, GAP2 developed a new draft that maintained the existing allocation model preferred by the Ministry of Finance. However, in response to the concerns of underdeveloped local governments that needed additional funds allocated, GAP2

analyzed the current indirect tax revenue allocation model and the effects of horizontal equalization and allocation of grants for underdeveloped local governments. The analysis informed GAP2's recommendations to ensure transparent and predictable revenue allocation in the future. The RS association will use these recommendations in its discussions with the Ministry of Finance on additional funding for underdeveloped local governments.

I. Introducing the Treasury

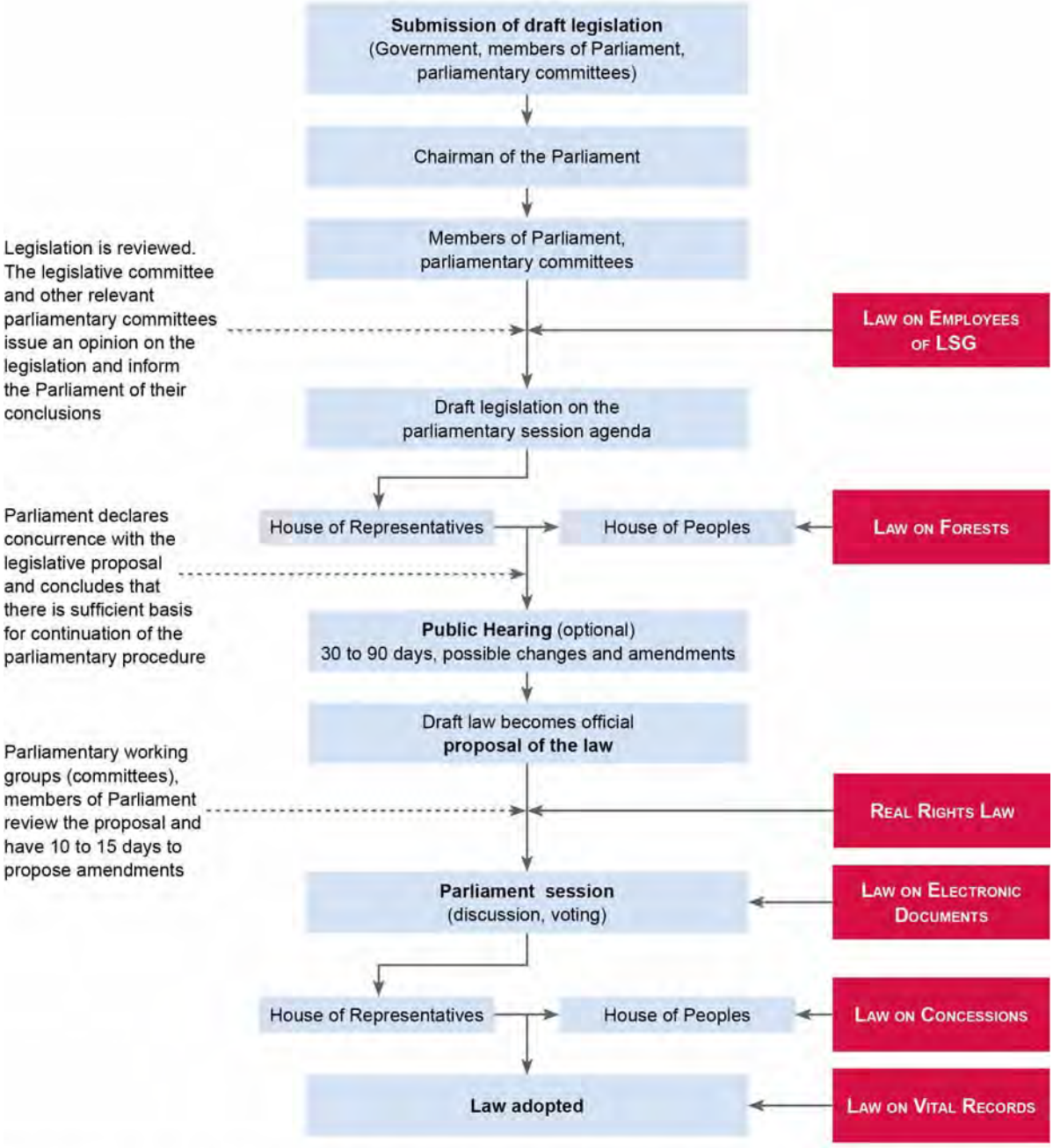
As mentioned above, treasury systems have several advantages to assist local governments in managing their budgetary resources, including increasing liquidity and decreasing overspending in particular areas or on large or regular procurements, and increasing transparency and monitoring of the budget implementation process.

The treasury system was introduced to BiH in 2000 through a USAID-funded project that aimed at introducing the system to state and entity levels of government. Subsequently, the United Nations Office of the High Representative (OHR) introduced the 2002 Law on Treasury which included a requirement that local governments establish a treasury system as well.

GAP2 was tasked to work in this area and was asked by the FBiH association to assist its working group on treasury to facilitate the introduction of the treasury system at the local government level. Despite shifting deadlines under which local governments should have a treasury system and a lack of guidance from higher levels of government, GAP2 worked with both the FBiH association and partner municipalities to increase their level of understanding of the treasury system and develop a set of procedural document templates to be used to set up treasury operations. In addition, GAP2 included a chapter of treasury operations in its revised Budget Guide for local government in 2009. A series of workshops on treasury operations organized jointly by GAP2 and the FBiH association in early 2009 were attended by 103 participants from 70 local governments.

In 2011, GAP2 began working with 10 partner municipalities to introduce treasury operations, described in more detail in Section I. And, in collaboration with the FBiH association, GAP2 built upon its previous efforts and produced a set of treasury implementation guidelines clarifying several issues relevant to local governments. The FBiH Ministry of Finance found that the guidelines would be of benefit to local governments introducing treasury operations. The association distributed the guidelines and supporting documents to municipalities in 2011. In 2012, GAP2 organized a joint workshop with the FBiH association in Fall 2012 to share the experiences of the 10 pilot municipalities with a broader audience of FBiH municipalities.

Exhibit 8. GAP2-Supported Laws in Parliamentary Procedure



Note: GAP2 has also worked intensively on the following legislation: *Changes and amendments to the FBiH Law on Revenue Allocation, RS Law on Financing of LSG, and FBiH Law on Cadastre.* All these laws were in the drafting phase as of December 2012.

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SECTION III. PARTICIPATING MUNICIPALITIES

The success of GAP2 has been founded on the commitment, perseverance, and enthusiasm of all 72 partner municipalities — from the mayors who demonstrated true leadership and served as role models for their administrations to the GAP2 coordinators who were the main conduits through whom training, technical assistance, and monitoring and evaluation were organized. Municipal staff from the administration, services, finances, urbanism, and other departments also demonstrated unwavering enthusiasm and commitment to often new, demanding, unorthodox, and complex, operating principles that GAP2 introduced.

Their wholehearted and unselfish involvement to implement and sustain the reforms included participating in working groups and committees and dedicating numerous municipal personnel-days to GAP2-related operations, such as data entry for financial management and GIS software.

Many municipal employees added value by serving as champions, mentors, and trainers on GAP2's workshops, training events, and conferences. More than 30 municipal staff members used their practical and technical skills and professional credibility to support GAP2 activities (involving municipalities other than those they come from), advocated for the goals of reform, and inspired their colleagues.

Legacy Municipalities		
Municipality	**Mayor**	**GAP2 Coordinator**
Mostar	Ljubo Bešlić	Predrag Šupljeglav
Jablanica	Salem Dedić	Miralem Hamza
Konjic	Emir Bubalo	Fadil Tatar
Trebinje	Dobroslav Ćuk	Dejan Janković
Tomislavgrad	Ivan Vukadin	Zdravko Protuđer
Posušje	Petar Polić	Mario Jukić
Prozor-Rama	Jozo Ivančević	Mato Marušić
Bugojno	Hasan Ajkunić	Dženana Abdalajbegović
Ljubuški	Nevenko Barbarić	Ankica Šaravanja
Nevesinje	Branislav Miković	Dragan Buha
Banja Luka	Dragoljub Davidović	Biljana Birač
Mrkonjić Grad	Divna Aničić	Milena Malešević
Sanski Most	Mustafa Avdagić	Behija Švraka
Srbac	Živko Mikulić	Dragan Tovilović
Bihać	Albin Muslić	Zlata Ibrahimpašić
Velika Kladuša	Admil Mulalić	Senad Šehić
Bužim	Mirsad Šahinović	Nedžad Kudelić
Gradiška	Nikola Kragulj	Vlado Sladojević
Bosansko Grahovo	Uroš Makić	Miroslav Bilčar
Drvar	Anka Papak-Dodig	Miroslav Jaglica
Teslić	Savo Kasapović	Drago Jazbec
Novo Sarajevo	Nedžad Koldžo	Gordana Pećanac
Travnik	Admir Hadžiemrić	Amra Đelilbašić
Breza	Seid Smailbegović	Faketa Hadžić
Fojnica	Salkan Merdžanić	Dženita Topalović Žolja
Kakanj	Mensur Jašarspahić	Medžid Bajrić
Rudo	Vitomir Ćirović	Slađana Lazović
Rogatica	Radomir Jovičić	Uzeir Kurtić

Legacy Municipalities		
Municipality	**Mayor**	**GAP2 Coordinator**
Foča	Zdravko Krsmanović	Bojana Marić
Goražde	Muhamed Ramović	Sanid Zirak
Vogošća	Edin Smajić	Zdenka Boričić Jagar
Lopare	Rado Savić	Željko Tešić
Tuzla	Jasmin Imamović	Safet Husanović
Čelić	Sead Muminović	Nermin Okanović
Gradačac	Fadil Imširović	Šefik Duraković
Vukosavlje	Elvir Hadžiomerović	Đorđo Martić
Doboj-Istok	Mehmed Mehinović	Adil Halilović
Kalesija	Rasim Omerović	Hajrudin Huseinović
Srebrenica	v.d. Ćamil Duraković	Ćamil Duraković
Vlasenica	Mladen Popović	Aleksandra Milanović- Lalović
Živinice	Hasan Muratović	Salkan Butković
Cohort 3 Municipalities		
Municipality	**Mayor**	**GAP2 Coordinator**
Bosanski Petrovac	Ermin Hajder	Senada Mehdin
Petrovo	Zoran Blagojević	Dragica Pejić
Ribnik	Neđo Stojaković	Goran Savić
Šipovo	Dušan Malinović	Milan Plavšić
Cazin	Nermin Ogrešević	Hamdija Ljubijankić
Čitluk	Ivo Jerkić-Ino	Mario Rozić
Livno	Luka Čelan	Renata Maglica
Široki Brijeg	Miro Kraljević	Monika Buhač-Glavaš
Trnovo RS	Goran Vujičić	Milojka Golijanin
Ilidža	Senaid Memić	Dženana Ćenanović
Visoko	Munib Alibegović	Amra Omerbegović
Ilijaš	Nusret Mašić	Emira Mešetović
Banovići	Bego Birparić	Fuad Brigić
Kladanj	Fuad Imamović	Ervina Avdibegović
Gračanica	Nusret Helić	Senaida Šaković
Cohort 4 Municipalities		
Kupres	Stjepan Herceg	Niko Ivić
Čapljina	Smiljan Vidić	Anđelka Udženija
Ljubinje	Vesko Budinčić	Milivoje Ćorović
Grude	Viktor Marić	Jozo Zadro
Kostajnica	Marko Čolić	Tanja Devetak
Bosanska Krupa	Armin Halitović	Elmedina Kavazović
Kotor Varoš	Dalibor Vučanović	Radenka Slavnić
Kneževo	Čedo Vuković	Ranko Tepić
Novi Travnik	Refik Lendo	Mirjana Blažević
Vitez	Vlado Alilović	Josip Silić
Vareš	Hamdo Fatić	Čedomir Jelić
Olovo	Alija Hadžiabdić	Merisa Kaljanac
Domaljevac/Šamac	Željko Josić	Miroslav Lucić
Žepče	Mato Zovko	Brigita Lovrić
Sapna	Ismet Omerović	Fatima Gušić
Šekovići	Momir Ristic	Ana Milojevic

SECTION IV. PUBLISHED RESOURCES

Over the past five years, GAP2 has developed a library of resource materials for use by all BiH municipalities to support their development and reform efforts. Some of these materials were developed in collaboration with other organizations or by GAP1 and were refined or updated during GAP2 to reflect new or amended laws or evolving municipal needs. Although producing manuals alone is not enough to improve various processes, these manuals provide information that can be incorporated into training programs.

As part of its commitment to sustaining the momentum of local government reform in BiH, GAP2 disseminated these materials to municipalities throughout the country and to relevant government and nongovernmental organizations and donor-funded projects, including the RS and FBiH municipal associations.

- In 2008 and 2010, GAP2 updated and modified the GAP1-OSCE *Budget and Financial Management Guide.* Nine chapters were revised, and two chapters were added on program budgeting and the municipal treasury system (specifically for FBiH municipalities). The new guide was distributed to BiH municipalities via municipal associations.

- In 2008, GAP2 produced a *Simplified Budget Guide* for municipal councilors and the public. The guide introduces the basics of program, results-based, and gender-responsive budgeting and discusses budgeting in times of fiscal stress. It provides important budget and accounting-related definitions in language that is accessible to non-experts, defines the budget calendar, and explains municipal councilors' roles and responsibilities in the budget process. Two municipal associations have taken ownership of the guide in the post-GAP2 period and disseminated it to all municipal councils in the country. The popular and useful guide was reprinted in 2009. Although it targets non-experts, municipal finance departments also use it.

- In 2009, GAP2 produced a comprehensive training module on budgeting techniques for municipal councilors that includes information on program budgeting. Municipal associations use the module during training events.

- In 2009, GAP2 developed the *Guide on the Production of Individual Municipal Citizen Guides on the Budget*, which was provided to each partner municipality, along with training.

- In 2008, GAP2 revised and updated GAP1's *Manual for Establishing a Citizens' Services Center in Partner Municipalities,* incorporating findings and best practices from GAP2 partner municipalities and new case studies and annexes. The manual provides instruction on establishing a CSC from the needs assessment phase through physical and conceptual design to the opening of the center and follow-up activities. The reader-friendly manual was distributed in CD-ROM form at the April 2008 Municipal Fair in Derventa.

- In 2008, GAP2 updated the GAP1 *Manual for Improving Urban Permitting Procedures through Permit Centers* and *Zoning Manual.* The two manuals serve as guides to improving urban permitting in municipalities and establishing

permitting “one-stop-shop” services for investors and citizens. They explain the essential activities, starting with an assessment of the current situation and needs, establishing relevant working groups and advisory boards and determining their tasks and the physical and IT conceptual design of the permitting centers, and provide revised and updated examples of best practice.

- In 2011, GAP2’s guidelines with framework documents for implementing a treasury system at the local level were endorsed by the FBiH Ministry of Finance and promoted and distributed by the FBiH Association of Cities and Municipalities to all 79 municipalities in the FBiH. The guidelines provide understandable and practical instruction on introducing treasury operations in an individual municipality. The procedural documents and templates serve as framework documents that municipalities can adapt to reflect their status and needs.

- In 2008, GAP2 developed a database of consultants with information about local and regional experts available to local officials and municipal associations. The database was transferred to the municipal associations in 2009, enabling them to pair municipalities with experienced consultants and organizations.

- In 2008, GAP2 updated the *Capital Improvement Planning in Municipalities* and *Financing Capital Projects* manuals. The purpose of these manuals is to set out the main guidelines and templates for developing a capital improvement plan and to provide terms and conditions for utilization of the funds provided on a cost-share basis to implement the selected capital projects.

- In 2008, GAP2 conducted research on the municipal loan market in BiH and produced the paper, “Research on the Municipal Loan Market in Bosnia and Herzegovina,” which provides guidance to local authorities in securing financing.

- In 2009, GAP2 developed the *Research and Advocacy Toolkit,* covering all aspects of the policy cycle including research through policy priority questionnaires, policy analysis, definition of priorities, advocacy, evaluation, and the legislative process; the toolkit also provides guidelines for legislative drafting.

- In 2012, GAP2 produced a policy paper on the state of urban and spatial planning in BiH, “Urban Planning in BiH: A Contemporary Analysis of the Challenges and Path to Progress.”

- In 2012, GAP2 produced a spatial/urban planning manual that was made available to all BiH municipalities. The manual provides guidelines for and practical examples of spatial and urban planning to assist municipal departments in correctly applying existing laws and supplementing regulations in this field.

- In 2009, GAP2 produced a report on its assessment of the state of asset management for local government that included land and asset policy recommendations.

SECTION V. EFFECTIVELY COLLABORATING WITH OTHER DONOR-FUNDED PROJECTS AND LOCAL ORGANIZATIONS

The effectiveness of GAP2 and its related programs was magnified significantly through relationships that were established and nurtured during the course of the project:

- Collaboration with the Gender Centers of the RS and FBiH, formalized through a memorandum of understanding endorsed by both entity governments, opened the door to extensive sharing of information and collaboration on various workshops and initiatives.

- GAP2 signed an agreement with UN Women to establish formal collaboration on introducing gender-responsive budgeting and implementing the Law on Gender Equality in BiH. GAP2 and UN Women jointly delivered training on gender-responsive budgeting in four of GAP2's 11 municipalities. GAP2's senior budget and finance specialist contributed to the development of UN Women's gender-responsive budgeting scope of work and its publication on gender-responsive budgeting in BiH municipalities.

- GAP2 organized a joint conference in Tuzla with OSCE on gender-responsive budgeting.

- The Netherlands' SNV provided detailed documentation on its selection methodology, criteria, and the data collected. This process greatly assisted GAP2 in planning for the selection of Cohort 4 municipalities.

- GAP2 and SNV jointly delivered training on project management and proposal preparation from the EU perspective. SNV's expertise in EU standards and requirements greatly increased the value of this training.

- GAP2 pooled resources with the USAID Streamlining. Permits and Inspections Regimes Activity (SPIRA) to draft permitting software and continue introducing the zoning concept to SPIRA's FBiH and RS working groups.

- GAP2 assisted the GTZ (now GIZ)/Sida Land Administration Project in BiH to harmonize its land administration reform activities with GAP2's urbanism reform, in particular in aligning the structure of its cadastre GIS database with that of the urbanism land and regulation database.

- GAP2 worked with the Agency for Identification Documents, Registry and Data Exchange of BiH — formerly the Citizen Identification Protection System (CIPS) — to improve implementation of vital record-sharing. Staff from partner municipality Srbac demonstrated electronic document processing and vital record storage procedures, developed with assistance from GAP2 and staff from local subcontractor ITINERIS, to agency representatives. The agency incorporated GAP2's solutions into its country-wide standards, preventing conflict, and helping ensure that GAP2's goals are met along with its own.

- As part of its efforts to assess municipal needs regarding introduction of treasury operations in the FBiH, GAP2 participated in a series of workshops on treasury introduction organized by the FBiH Association and GIZ. In addition to valuable information, GAP2 collected relevant treasury-related questionnaires from 46 municipalities which it used to tailor a series of training seminars for selected GAP2 municipalities.

- GAP2 signed a memorandum of understanding with the CDMA project. The purpose of the memorandum was to establish a cooperative relationship between the projects in their respective efforts to strengthen inter-governmental communications; introduce the treasury system at the local government level; assist in building the relationship between the two entity municipal associations; and support the transfer of GAP2 activities or materials to the municipal associations as part of its exit strategy.

- GAP2 signed a memorandum of understanding with the FBiH Ministry of Finance to work on public revenue allocation and establish treasury operations at the local government level.

- GAP2 formally transferred ownership of the program's local government consultancy database, municipal revenue profiles, Municipal Budget Guide, and numerous other training materials and manuals to the RS and FBiH Associations of Cities and Municipalities for their use and further development.

- The DfID Strengthening Public Expenditure Management project in BiH, UNIFEM (now UN Women), and the local NGO BH Experts delivered presentations on topics including program and gender-responsive budgeting at GAP2 Managing under Revenue Constraints conferences in 2009.

- GAP2's involvement in LEAP activities triggered interest from other partners in the international community in BiH. In particular, GAP2 cooperated with the Environment and Climate Change Project funded by the United Nations Development Program's Millennium Development Goals Achievement Fund. GAP2 provided information about the municipalities implementing or planning to implement LEAP through the project, as well other partner municipalities not working with GAP2 that could benefit from Millennium Development Goals Achievement Fund assistance in this area.

- GAP2 assisted Sida's People Empowerment in Rural Areas project, which has also undertaken small-scale capital projects involving cost-share financing.

SECTION VI. LOOKING BACK, LOOKING FORWARD

A project of the size and scope of GAP2 requires extensive coordination and commitment — not only by project staff, but also by project counterparts and beneficiaries. As detailed in this report, GAP2 was fortunate to collaborate with its partners to further the development of local government capacities in Bosnia and Herzegovina.

GAP2's results derive from a project design in which assistance has to a great extent been interdependent. Progress in one area relied on achievements in other areas; at the same time, when the project encountered obstacles, GAP2's work with different actors on the local government stage or in other activity areas of helped to address impediments. For example, the MAP process and projects helped improve municipal service delivery, while MAP process training and assistance improved partner municipalities' capacity to manage projects and access EU pre-accession funding. The same complementary benefits were observed for CIP training and technical assistance, which reinforced the importance and value of citizens' participation in community development.

As important, the synergy between GAP2's two main components — local and policy interventions — helped ease difficulties that one component might have experienced if the activities had been planned and implemented in isolation. In particular, work in the cross-cutting areas of urban planning, communal services, youth and gender, and treasury operations required the joint efforts of both component teams. A number of deliverables — such as the urbanism policy paper and the framework documents to facilitate treasury introduction of treasury in BiH — were produced collaboratively by the two teams,

At times, GAP2's local interventions efforts shed light on areas that were beyond the scope of the component but could be addressed through the policy interventions component — specifically, through GAP2's policy work with municipal associations. For example, partner municipalities expressed the need to identify and register municipal assets and corresponding revenues. The benefits of doing so include increasing revenues and connecting the databases to the Revenue Administration and Cadastral Services. Partner municipalities also requested GAP2's assistance in obtaining greater authority to manage and collect municipal own-source revenues. GAP2's assisted the associations in drafting procedures and strategies, acquiring or identifying equipment for database integration, and, importantly, advocating for passage of new or amended regulations at the national, entity, and cantonal levels of government.

One of GAP2's greatest achievements was helping to develop a stronger sense of a local government community in Bosnia and Herzegovina. There is still much work to be done, but many of GAP2's activities have encouraged and enabled cross-entity collaboration to resolve issues of common concern. Partner municipality mayors and staff have formed collaborative relationships to share success stories and advice on overcoming problems. GAP2's tradition of fostering cross-entity, topic-based inter-municipal cooperation also included study visits for representatives of the municipalities of Novi Travnik, Vareš, Vitez, and Olovo to CSCs in Rogatica, Goražde, and Foča. Motivated by their successes during GAP2, partner municipalities

have undertaken further initiatives to improve their communities. For example, the legacy municipality of Teslić introduced a new service, called Live Support, to improve citizen interface and access to information, while the municipality of Gradiška, motivated by GAP2's gender equality assistance, co-funded a regional safe house for victims of domestic violence in Banja Luka.

A. Lessons Learned and Implementation Challenges

One of the main challenges that GAP2 faced in local interventions involved implementing the capital improvement projects fund — in particular, helping municipalities balance their enthusiasm for progress with the financial and budgetary constraints they faced. GAP2 can share the benefit of their experiences over the last five years. In communicating its recommendations and lessons learned, the donor community , and BiH government at all levels themselves, can better prepare for future assistance, targeting those areas that constrain further reform of local self-government in BiH. The municipal associations have key roles to play as well. GAP2's lessons learned include the following:

- A truly participatory planning process is not a simple task. A realistic understanding of the time required to establish sustainable, transparent, and workable community groups and a participatory project identification process are essential.

- A thorough understanding of procurement law at every stage of the process goes a long way toward ensuring compliant and timely public procurements and increasing the confidence of local businesses in a reliable local government partner.

  Changes to the public procurement law are occurring at the state level, and municipalities have communicated to both entity-level governments and municipal associations the challenges they face under current legislation. In particular, municipalities are constrained by the current, overly complex appeals process, which results in decisions being made eight to nine months after the process is initiated. A solution has yet to be identified; this situation reduces the confidence of the private sector in working with governments. Reform of public procurement law and practice must be addressed and could be the focus of future donor-funded assistance.

- Capital planning must enable allocation of scarce funds to high-priority and realistically achievable projects. It is important to be prepared for unexpected events that further constrain the municipal budget.

  While GAP2's efforts have significantly improved municipalities' capacities for planning and financial management, local governments need to analyze the realism and feasibility of projects. Municipalities must accept the fact that they must balance high-priority projects of great benefit to their communities against scarce financial resources.

- Elections at all levels of government are disruptive to local government, so planning must work around campaign season and transition periods.

It is a fact of life that the general and local election cycle in BiH results in elections being held every two years. Donor-funded projects must take this into consideration during design and implementation to avoid derailment or delay in achieving project objectives. Further, the municipalities must incorporate the election cycle into their own work plans.

- Complying with environmental legislation is critical. As municipalities tear down old infrastructure to build new communities across the country, local governments and local businesses must remember that non-adherence to comprehensive environmental compliance has far-reaching effects.

  There is a serious lack of awareness about environmental compliance. Donor-funded projects must be mindful of this fact and reinforce the importance of compliance in any project activity that may have environmental impacts. The CDMA project's work with the municipal associations can build the capacity of municipal officials and implement awareness campaigns at the local level. The EU's existing environmental compliance requirements need to be integrated into municipal-level activities.

GAP2 faced challenges to policy interventions that were, in the main, beyond its control. While such challenges may appear to favor a less ambitious approach to future policy work, GAP2 believes that, despite setbacks in fulfilling its work plan objectives, a solid foundation has been established within BiH's municipal associations and within and among higher level government institutions. The lessons learned on the policy side and potential further efforts are not radical. We recommend several simple and achievable steps:

- Near constant political instability and uncertainty prevented the development of a sustained environment conducive to policy changes. This hampered project implementation. During the life of the project, general elections (2010) and local elections (2008 and 2012) adversely affected implementation of activities. In the election years, counterparts — mayors and higher-level government officials — resisted any actions that would result in significant changes in the legal and political framework that would lead to harmonization with the European Charter on Local Self-Government and relevant entity laws. This resistance was more complex in the FBiH, where political parties took six months to form a government in 2011. The conflicting political agendas of the major parties engendered a political crisis in the government and, more generally, in the FBiH in 2012.

  Political turmoil in the RS also made planning difficult. Constant personnel changes in the ministries and other counterparts in both entities, caused by elections or political conflicts, challenged GAP2's ability to sustain productive relations and achieve significant progress.

  After each election, it was necessary to rebuild the political will for reforms with new officials — a time-consuming process. At the beginning of 2008, all reforms were halted, including those related to EU accession arising from the Stabilization and Association Agreement, which was recognized by the European Union, World Bank, International Monetary Fund, and OHR. Under these circumstances, progress under this component was severely challenged, depending on the

willingness of entity-level governments to accept reforms designed and proposed by GAP2.

This question requires serious consideration: How can people be persuaded to accept and even pursue change? GAP2 and other projects have expended significant efforts in developing a framework and environment for policy dialogue and change. This work on policy development must continue, as it is vital to strengthening the legislative framework for local self-government in BiH.

- Counterparts' ability to absorb significant reforms and changes was insufficient. The municipal associations and relevant entity ministries were not always able to adopt or implement the changes that GAP2 introduced, because of a general lack of capacity, lack of funds to finance the change, or both.

  The CDMA project must continue to build municipal associations' capacity to engage effectively with the relevant ministries at the state and entity levels. Building the capacity of municipal associations not only allows for more practical progress in introducing legislative reforms to support decentralization, but also instills in the key actors a belief in the credibility of the associations.

- The global economic crisis had a negative impact on project goals. All levels of government in BiH were affected by the crisis, resulting in lower total revenues. Municipalities were particularly hard hit, and project goals related to municipal budgets, such as achieving a specific ratio of capital investment as a share of total expenditures, became unrealistic.

  As discussed earlier, the economic crisis affected municipalities' ability to increase revenues and pursue desired increases in capital investments to promote local economies and benefit local communities. However, GAP2 continued to emphasize to municipalities the need to adopt modern financial planning, management, and monitoring to reduce the potential impacts of this and any future economic setback.

- The lack of an FBiH ministry responsible for local self-government is a significant barrier to consistency and continuity in policy and direction. There is no body capable of representing or responding to the collective voice of local government in the FBiH. Jurisdiction over LSG issues is spotty and divided between different levels of government and different ministries. This situation impedes implementation of laws, reforms, and initiatives. Creation of such a ministry is a key item on the agenda of the FBiH Association of Cities and Municipalities. It is up to the municipal association to spearhead efforts and build momentum to effect this change.

B. Ensuring GAP2's Legacy and Sustainability

Despite some setbacks, GAP2 helped to instill the confidence, skills, and tools to implement some remaining changes and more importantly, to build on the successes each municipality achieved over the past five years.

As a result of GAP2's efforts, partner municipalities can exchange experiences and formulate and initiate approaches to address most municipal common interests and

ideas through municipal associations. At the same time, these interactions demonstrate the crucial role that well-functioning municipal associations play. In this regard, MCI findings on active municipal involvement in the work of municipal associations showed that 60 GAP2 partner municipalities were actively involved in the work of municipal associations — an increase from the 35 identified in the baseline survey.

In addition, GAP2's exit strategy provided direction for handing over its products. GAP2 transferred ownership of several of these products over the life of the project; the earlier the transfer, the better the recipient body has assumed responsibility for maintenance and further development. GAP2's published resources (which are now available to every municipality in the country), the project's monitoring and evaluation products (which helped document project results and impact), and the consultant database have all helped Bosnia's municipal associations become productive resource centers and advocates for local governments.

On the policy side post-GAP2, we recommend further actions to continue work toward the project's expected results:

- Continuing the legislative changes initiated by GAP2 — relevant ministries shall continue activities until laws are passed in the FBiH parliament.

- Creating a Ministry of Local Self-Government in FBiH. Entity and municipal levels of government, with the FBiH association, would be the primary beneficiaries. The creation of the ministry would improve communication and identification of problems, ease reforms, and maximize their impact.

- Increasing the entity municipal associations' capacity to take on the responsibilities conferred by the Law on LSG. The sustainability of GAP2 products depends to a great extent on the associations' capacity to continue and improve them. This particularly applies to implementation of the Code of Inter-Governmental Relations and development of relevant annexes in both entities. Future progress and development of LSG units cannot be achieved without the entity associations functioning effectively.

- Continuing with the spatial planning area reforms initiated by GAP2 through municipal associations. Spatial planning, with the land registry system and relevant property laws, is currently the greatest impediment to economic and social progress in BiH.

Political will to continue to develop local government capacity in BiH is essential to the sustainability of GAP2's efforts. However, the project was undoubtedly important to making local government in BiH more accountable and democratic. We are proud to have contributed to USAID's objective of supporting the development of increased accountability, transparency, effectiveness, and active citizen involvement in government institutions and processes.

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