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Central and Eastern Europe Local Government and Housing Privatization

Prepared for the Office of Housing and Urban Programs
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ICMA
Consortium Report

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**TECHNICAL ASSISTANCE STRATEGY AND WORK PROGRAM
FOR POLAND IN LOCAL GOVERNMENT
AND HOUSING PRIVATIZATION**

Poland

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**Prepared for the Office of Housing and Urban Programs
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ABSTRACT

This report proposes an A.I.D. strategy for providing assistance to six Polish cities and the national government of Poland in the areas of municipal development and housing privatization. This proposed strategy is based on reconnaissance visits to each of the cities (Cracow, Gdansk, Gdynia, Lublin, Poznan, and Szczecin) and discussions at the national government level with officials concerned with the structuring of national/local government authorities, responsibilities, and fiscal relations. The strategy would apply to assistance provided under the Local Government and Housing Privatization Contract.

This strategy report includes an overall approach to providing assistance. This includes selecting program activities, implementing these activities, disseminating information and analyses, and creating a network among cities undertaking innovative approaches to common problems. The report considers four important areas where assistance might be provided: land management, infrastructure finance and financial management, housing, and municipal management. In each of these four areas the fundamental characteristics of current systems are summarized, along with developments over the past three years. For each, the proposed general focus of an assistance effort is described, which takes into account the time frame of the project, overall level of funding, and A.I.D. policies in the sector.

Section IV of the report describes 12 specific technical assistance interventions recommended over the next six months in the six cities. These include assistance with strategic/economic development planning, management and maintenance of communal housing, geographic/land information systems, housing rehabilitation, regularization of informal settlements, downtown revitalization, and restructuring of communal enterprises. Section V of the report discusses areas for assistance to the national government. Section VI suggests an approach to coordinating assistance activities with the cities.

Reports on the findings in each of the six cities are attached as annexes.

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SUMMARY

This report proposes a strategy for providing assistance to six Polish cities and the national government of Poland in the areas of municipal development and housing privatization. This proposed strategy is based on reconnaissance visits to each of the cities (Cracow, Gdansk, Gdynia, Lublin, Poznan, and Szczecin) and discussions at the national government level with officials concerned with the structuring of national/local government authorities, responsibilities, and fiscal relations. The strategy would apply to assistance provided under the Local Government and Housing Privatization Contract (LGHP).

The strategy suggests that assistance be provided to projects that: 1) have concrete objectives, 2) are related to systemic problems, 3) are related to the transformation from a command to market economy, 4) respond to issues common to Polish cities, 5) where possible, are related to particular sites and construction, 6) the city has demonstrated a commitment to, and 7) build on a comparative strength of the city, as evidenced by strong skills, innovative approach, or allocation of city resources.

Based on reconnaissance trips to each city, the report includes a discussion of the critical issues in the areas of land management, infrastructure finance and financial management, housing, and municipal management. The critical conclusions in each of these areas are described below:

Land Management. Key issues are the lack of flexibility in current land use plans and the difficulties for small developers to work within these plans, the dispersal and poor accessibility to critical land information, inadequate systems for the disposal of public land, inadequate legal framework for controlling land on the urban periphery, and lack of skills and knowledge necessary for strategic planning. In this context, assistance could be provided in strategic planning, analysis of specific development opportunities, drafting development regulations, appraisal of specific private development proposals, geographic/land information systems design and development, and design and implementation of enterprise zones.

Infrastructure Finance and Financial Management. The report discusses current conditions and prospects for improvement in the areas of capital financing for infrastructure, budgeting, financial analysis, accounting, financial reporting, pricing and taxing policies, revenue collection, and administrative procedures. A major constraint to local government operations is the lack of a system, public or private, to provide long-term financing for capital development. Development of such a system is complicated by current economic conditions and high inflation. The report suggests interim steps that can be taken to finance

capital expenditures. It is suggested that technical assistance be concentrated in four areas: economic feasibility analysis, revenue analysis, development of financial management systems, and infrastructure financing systems.

Housing. Official responsibility for most aspects of communal housing is being transferred to the cities. This stock is characterized by: 1) a tradition of low controlled rents, 2) insufficient funding for maintenance, 3) inadequate legal structure for privatization of ownership and maintenance, 4) a large number of indigent tenants, 5) continued national policy that limits cities' efforts to increase revenue from residential properties, and 6) in many cases clouded ownership as the reprivatization process continues. Three areas for assistance are proposed. First, assistance could be provided in restructuring housing management and maintenance functions. A second area is housing rehabilitation, to develop new approaches that upgrade dilapidated stock while creating incentives for privatizing ownership. Third, assistance could be provided in housing construction, focussing on issues of housing affordability and standards.

Municipal Management. Until a few years ago, municipal governments generally played a role of implementing policies and programs dictated by the national government. Efficiency in the delivery of services was of less concern under the low wage/full employment regime that prevailed. Cities are now keenly sensitive to increased standards of accountability to constituents, the need to carefully consider revenue sources as resource flows from the national government are reduced, and the need to come up with efficient structures and procedures for service delivery as more responsibilities are passed from the national to the local level. Assistance in this area could focus on 1) determining more effective organization approaches to incorporating new responsibilities assumed by the cities, 2) devising appropriate criteria and policies for upgrading or expanding services, 3) analyzing the responsibilities of citizens, government, and other entities in specific areas in order to more effectively delegate authorities, and 4) helping to improve the systems by which elected and appointed officials communicate with citizens and involve them in the planning framework. Some limited training in organization development of a more generic nature could be considered later in the second year when patterns of skill deficiency are better revealed.

The report identifies 11 specific areas, listed below, for initiating assistance in these cities over the initial six months of the program:

<u>Cracow</u>	Infrastructure Finance Strategic Planning Management and Maintenance of Communal Housing
<u>Gdansk</u>	Implementation of Land Information Systems

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<u>Gdynia</u>	Economic Development Planning Tenant Management of Privatized Communal Housing
<u>Lublin</u>	Urban Upgrading
<u>Poznan</u>	Management and Maintenance of Communal Housing Regularization of Informal Construction Land/Geographic Information Systems
<u>Szczecin</u>	Restructuring of Communal Enterprises Strategic Planning for Revitalization of Downtown Areas

Important assistance is also recommended at the national government level, concentrated in the following areas:

- Analysis of options for further delegation of responsibilities to the municipalities.
- Analysis of alternative methods for mobilizing funds domestically for infrastructure investment.
- Development of standard accounting and reporting systems.
- Review of residual revenue and expenditure restraints placed on the municipalities by the national government.

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I. INTRODUCTION

This paper provides a strategy for A.I.D. assistance to the Polish cities of Cracow, Gdansk, Gdynia, Lublin, Poznan, and Szczecin. The strategy proposes a general framework for assistance, describes the types of assistance appropriate for these cities at their current stage of development, recommends specific assistance activities over the next half-year, proposes a longer term context for the assistance activities in each of the six cities, and suggests implementation arrangements for project activities. Annexes to this strategy include a report on team findings in each of the six cities.

This strategy is based on visits to each of the six cities by a team of experts in the fields of housing, planning, financial management and infrastructure finance, and municipal organization and development. During these visits, meetings were held with top political and technical personnel in each of these areas. As time permitted, site visits were also made. In Warsaw, the team met with national government officials to discuss issues pertaining to local government authorities and responsibilities. Discussions were also held with several other non-governmental organizations and consulting groups.

A key element of A.I.D.'s program in Poland is to provide technical assistance and training to help popularly elected local governments become more self-reliant, enabling them to play a stronger role in the process of economic and social transformation to a market economy. The Local Government and Housing Privatization (LGHP) contract is just one element of this program, but its areas of operation are broad, including:

- Land Development and Management
- Housing Privatization and Management
- Infrastructure Finance and Planning
- Municipal Management and Budgeting

For each of these four thematic areas a new set of skills, decision-making, and approaches to dealing with citizens and with the private economic sector are required, if the city governments are to support rather than impede economic growth.

While this strategy is specific to the six cities studied, it is intended as well to have general applicability for other Polish cities. The strategy is designed to narrow program options based on common characteristics of all Polish cities and focus on areas where some economy of scale can eventually be achieved in the provision of assistance. In order to achieve

this it may, however, be useful to work on different projects representing different solutions to a common problem (e.g. working on two projects that represent different approaches to financing infrastructure upgrading or expansion). In this way the process of learning from experience might be accelerated for Polish counterparts and A.I.D., and replicable approaches more quickly developed.

Recognizing the urgency of initiating assistance activities to these six cities, this document goes beyond a strategy to recommend specific activities. These program recommendations are found in three sections: 1) an overall approach for each substantive area in Section III, 2) specific initiatives to start during the next six months in Section IV, and 3) an initial listing of areas for assistance at the national government level in Section V.

II. ASSISTANCE STRATEGY

While local government is an old institution in Poland, the new social and economic characteristics of the Country make it essentially a new discipline. A strategy to provide technical assistance should be fundamentally grounded in the evolution at the local government level, which is far from over, in the basic functions of the municipality, its legal authorities and relationships to other governmental levels, fiscal relations with the central government, and relationships with constituents.

The economic variables add a dimension of uncertainty and risk in the transition to a market economy. In this context, the formulation of a strategy of technical assistance and training must be cognizant of the overriding concern for economic growth and employment generation. At the same time, it must seek to build managerial capacity to safeguard past public investment while redirecting the use of resources to meet local needs.

The approach presented in this strategy and the specific areas for assistance recommended are those that correspond most closely to the political and economic change going on in Poland. Specifically, the proposed strategy focuses on areas that are closely aligned with on-going political reform, privatization of state assets and functions, decentralization of authority, market-based transactions and decision-making, and capital expenditure policies that support private investment. The strategy does not recommend activities concerned primarily with carrying out existing city responsibilities better, unless this is to be done in the context of a new way of doing business. For example, assistance in housing management would have as its premise that the city wants to accelerate privatization, privatize management, or increase cost recovery and better expose residents to market conditions, rather than just improve overall management under existing structures and conditions.

The rationale for this approach is two-fold. First, A.I.D. and the cities, by and large, are following reform agendas, and given the complexity of the path ahead, this is where A.I.D. assistance under the LGHP contract can have the most lasting impact. Second, more general management training and administrative reform efforts are underway from a variety of other sources.

Each of the 12 specific areas for initial assistance described in Section IV builds on a city initiative that represents a new way of doing business. In each area the particular project for which A.I.D. assistance would be provided

fits within a longer term city goal of restructuring its own role. A.I.D. assistance is thereby to help with a discrete piece of a larger reform agenda.

In designing and implementing assistance activities with individual cities, it is proposed that the following principles apply:

1. Creating a Network of Innovation

The resources of the Program will be concentrated in the cities of Cracow, Gdansk, Gdynia, Lublin, Poznan, and Szczecin. It is recommended that steps be taken to create a network among these cities. This will start with the sharing of consultancy reports. In building on a body of knowledge and experience, any consultancy to a particular city will build on the experiences under this project in other cities from among the network. ICMA would ensure that the body of information and experience that will grow under this program is consistently brought to bear in individual assignments. Another aspect of this network would be periodic problem-oriented seminars, to involve all six cities, to review similar issues and municipal responses.

2. Selection of Program Activities

A. In the selection of assistance activities targeted to any one city, the following criteria are recommended:

- Specific and, where possible, quantifiable, objectives can be defined for the assistance.
- Any particular consultancy will ordinarily be part of a continuum of assistance to address a systemic concern.
- The assistance is related to the transformation from a command to market economy.
- The problem addressed is similar to those of other cities in Poland.
- Where appropriate the assistance can be anchored to a specific physical development project to which the city is committed.
- A.I.D. assistance is additive to the city's initiative to address a concern.
- Where possible the city has some existing comparative strength in the area as evidenced by strong skills, innovative approach, or allocation of city resources.

B. In selecting areas for initiating assistance during the next few months, it is recommended that:

- at least one activity be initiated in each city.
- to the extent feasible the early projects represent a variety of issues (e.g. capital finance, housing management, redevelopment).

C. Over the long-run, the Program should strive to provide assistance in all technical areas provided for under the LGHP contract.

D. The Program should seek to provide assistance to demonstration projects that can inform national decision-making.

3. Program Implementation

A. The reconnaissance for each city having already been carried out, each consultancy should produce a stand-alone product of immediate use to the city. No consultancy should be approved that results only in a descriptive product of no immediate use to the city client.

B. All consultancies should end with a written report with the client government as the prime audience. Depending on the nature of the consultancy this could range from a detailed analytical report on an issue to a short summary memo. A summary of findings and recommendations will ordinarily be prepared prior to departing Poland; the final report, translated into Polish, will ordinarily follow not more than two weeks subsequent.

C. All consultants should be prepared to offer concrete examples of the approaches of U.S. cities to similar problems.

D. A seminar of 1-2 days should accompany most consultancies if deemed appropriate by A.I.D. and counterpart staff of the city.

E. During the implementation of the Program, where at all possible individual experts should be used recurrently, expecting them to establish on-going collegial relationships with counterpart city staff. Consultants who make only one visit to Poland should be much more the exception than the rule.

F. Training interventions should ordinarily be organized around specific problems, leading to identification of solutions. Polish and Western examples would be used to facilitate the process of developing appropriate responses.

G. Limited broader skill training should be employed based on needs assessments. This training would ordinarily be done in collaboration with a Polish institution.

4. Information Dissemination

A. All reports of a technical nature should be promptly translated to Polish.

B. A.I.D. would ordinarily forward any consultancy report to the other five cities in the network (if acceptable to the client city).

C. A contract should be negotiated with the Association of Polish Cities, under which they will distribute additional copies of consultant reports to member cities.

D. Within each of the four themes of the Program, one 2-4 day workshop per year should ordinarily be planned. These workshops would attract professional personnel from all six cities (representation from other cities may also be encouraged, depending on resources and the role of the Association of Polish Cities), and will draw on project experiences to date.

5. Assistance to the National Government

This strategy is designed to facilitate the development of efficient cities capable of supporting private investment and market-oriented solutions to problems. The role of the national government in this process, particularly in the area of fiscal relations with the cities, is critical. As a result, assistance to the national government is especially important to the overall success of A.I.D.'s efforts in the local government field. Accordingly, the following considerations are suggested in considering provision of assistance at the national level.

A. Assistance should be available to the national government on matters pertaining to local government on a quick response basis. Special attention should be paid to opportunities to provide assistance in defining and putting into place new fiscal relations between the national government and local governments, and creating new structures for the financing of infrastructure.

B. All reports based on consultancies to individual cities should be distributed to key Government of Poland ministries and individuals.

C. Appropriate national government individuals should be invited to attend workshops and seminars.

6. The Role of Polish Institutions and Personnel

A. Polish institutions and personnel should play an integral role in all assistance efforts to not only strengthen and make more relevant technical assistance, but also to build up local capacity. On-going relationships should be established with one or more Polish consulting firms or institutions. Individuals not affiliated with firms should also be included on technical teams where appropriate. (ICMA has identified several organizations that could play an important role in this program -- see Section III. 50.)

B. Training activities should be conducted in collaboration with a local training institution in order to improve the quality of the training and develop the institutional capacity of the training institution.

7. Planning and Organizing Assistance

A. The initial assistance for each city should respond to immediate opportunities. However, subsequent to this first round of assistance, it is recommended that an annual or six-month workplan be agreed to with each city government. This workplan would identify the areas of assistance, the approximate levels of effort, and the objectives for the time period.

B. A.I.D. and ICMA would work with each city to establish a steering committee for Program assistance. This committee would ordinarily include representation from each department to be affected by the assistance effort. The committee would organize counterpart staff to work with particular consultancies.

III. FINDINGS AND PROPOSED PROGRAM OF ASSISTANCE

1. LAND MANAGEMENT

Background

The existing instruments for the management of land development (development permits and building permits) reflect centralized decision-making and patterns of urban growth where development occurred through a limited number of large scale projects (cooperatives, factories, infrastructure, housing estates, etc.). They are ill-adapted to the small-scale activities of a multitude of property owners subdividing land, building housing, or making additions, conversions, and repairs to existing structures. Such a system is bound to be overwhelmed by the dynamics of the free real estate market.

Land management is hampered by the dispersal of information regarding individual parcels among several agencies. Transactions and deeds are recorded in the courts, ownership, size, and locations are listed in the cadastral records of the voivods, and land development potential is designated in the city master plan.

Finally, the systems of the past 50 years were not designed for the disposal of public land to private interests within a market context. There are neither the appraisal skills nor, in many cases, the market history to effectively guide cities in the delicate process of using its land resources to spur private investment.

Recent Developments

Amid signs of growing prosperity in the cities, small scale rehabilitation is picking up. On the urban fringe informal development of land and housing is gaining momentum. Today urban growth is occurring on this privately held land through illegal subdivision of private agricultural holdings for sale as residential building plots and unauthorized building activity commonly referred to as "wild construction" on unserviced land relying on wells and septic systems.

Wild construction confirms the existence of an active land market, fueled by the accumulated savings of middle and upper income households seeking safe and lucrative investments in the face of economic uncertainty and high inflation. (Paradoxically, elected officials and professionals invariably hold that land

markets are still too undeveloped for transactions to provide a good indicator of real market value). It can be expected that demand for this land will remain strong and prices high for the foreseeable future because most housing (communal and cooperative) continues to be consumed in a "non-market" context. Inflation and relative underdevelopment of financial markets also serves to increase demand for physical investments, such as land and buildings.

Integrating development on the urban fringe within the formal planning process will make a greater and more lasting contribution to municipal revenue than small adjustments in rates and fees under the existing tax system. It will pave the way for the institution of an equitable property taxation system based on appraised values.

There is a pervasive feeling that existing laws impair the municipal capacity to derive revenue from real estate assets. Land within municipal boundaries is appraised by certified appraisers. Municipalities are empowered to adjust the assessed valuations on an annual basis. However, the extent to which municipalities have exercised their authority to adjust assessments is unclear. Few cities could muster the necessary manpower and budgetary resources to update appraisals in a dynamic market experiencing simultaneously structural change in patterns of ownership and use of property, and wide divergences in appreciation. Methods and techniques relying on computerized land information systems will make it easier for the cities to improve land management and hence property taxation.

Larger cities are finding it necessary and efficient to build a GIS/LIS capacity linked to the computerized cadastral records. The mapping of geographic information will be a tedious and expensive process requiring several years for the larger cities. However, the returns to the city in terms of improved land management, greater revenue from ground rents and property taxes, and enhanced planning and project development will ordinarily make the effort a worthwhile one.

The Anti-Crisis Act of 1991 instituted temporary regulations in anticipation of a more complete overhaul of land planning and management systems and the enactment of a new Spatial Economy Act. The Anti-Crisis Act authorizes municipalities to approve "Action Plans," which can amend, update, and substitute for the regulations specified in the regional and city master plans in order to:

- Facilitate the delivery of serviced land for private housing construction, with the municipality financing 50 percent of the cost. 1990 amendments to the Land Management and Exploitation of Real Property Act empowered municipalities to repossess land granted to

cooperatives if the land was left unvalorized. Despite the presence of sizable parcels in this category, municipalities, lacking the funds to service the sites, do not seem inclined to exercise this option. (This may change should serious investment proposals materialize).

- Allow for densification of the urbanized zone to capitalize on infrastructure capacity through infill of vacant plots and interior courtyards, story additions, and conversion of attic space into dwelling units.
- Accelerate the issuance of building permits to private investors.

The action plan has become the expedient legal method to circumvent the rigid controls of master plans and the time consuming procedures required to make changes in the plans, a process which, in practice, entails the adoption of a revised master plan. Action plans are a crisis management instrument that cannot substitute for a coherent legal framework for urban development. Rational development patterns cannot be implemented through ad hoc decision-making and chaotic spot zoning.

City officials exposed to concepts of strategic planning developed in the west during the 1980's to integrate economic targets, social needs, and environmental concerns in urban development are enthusiastic about this method as a framework for decision-making. Strategic planning would help municipalities to define development strategies in the context of economic realities and socio-political considerations that were never part of urban planning in Poland for the last 50 years. A sequence of flexible development frameworks could document alternative development options and their implications for different project areas and longer term spatial planning.

Coordinating the inputs of diverse interest groups, formulating integrative procedures to prioritize conflicting objectives, sorting out competing demands, and formalizing the tradeoffs underlying choices have been found by the cities to be time consuming and inefficient in the absence of a structured process. On the other hand, if a strategic planning process is in place, communication between the city council, the executive board, senior officials, professionals, experts, and the citizens at large will be enriched. Expedient methods to temporarily remedy data gaps and deficiencies can be devised while a rational framework for urban management and development decisions is being shaped. Setting up reliable information systems and compiling accurate data bases are a longer term task, which will have to take into consideration capacity to monitor and update the information.

Assistance Approach

Land management is a critical concern for municipalities, and no aspects of the current system are properly tailored to the needs of a market economy. Planning almost by definition is a long-term process with results that allow for a self-assessment of improvements often not possible for several years. That said, A.I.D. assistance must be focussed on some discrete aspects of land management that can demonstrate the effect of new approaches over the life of this Program. Where possible assistance in this area should be anchored to a priority development proposal under review, a critical tract of land, a redevelopment area, infrastructure investment decision, or a particular type of investment opportunity for which the city wants to position itself to attract.

With few exceptions, the approach would be to integrate the introduction of new planning tools and techniques with a city's current development objectives and efforts at coping with specific overriding concerns. This approach provides a powerful incentive to accelerate the building up of technical and managerial capabilities, the incorporation of new approaches to policy formulation, and the introduction of changes in operational strategy. Furthermore, this approach can aid in leveraging capital assistance funds at a later date. Utilizing this approach assistance would be offered in the following areas:

1. Introduction of concepts and methods of strategic planning.
2. Introduction of more flexible land use regulatory systems.
2. Impact analysis and evaluation of development options.
3. Drafting development regulations.
4. Project appraisal and evaluation of investment proposals.
5. Application of land information systems in urban management.
6. Planning and organization of large data bases for land management and strategic planning.

2. INFRASTRUCTURE FINANCE AND FINANCIAL MANAGEMENT

Background

The materials in this section are based on interviews with finance professionals in the six cities. The purpose was to develop an overview of current issues, prospects for improvement,

and the perceptions of local government officials on how the A.I.D. program might be of greatest assistance.

Caution is advised in drawing quick conclusions about the financial performance of particular cities at this stage. Detailed financial appraisal, even for specifically defined purposes, requires extensive analysis, calculation, and discussion. Even where financial statements have been prepared on the basis of some generally accepted accounting principles, statements for a multi-purpose entity (such as a municipal government) are much more complex than for an enterprise providing a single service. In contrast to financial statements for revenue-earning enterprises, which can demonstrate a "profit" or a "rate of return," those of entities providing tax-borne services yield a "bottom line" (fund surplus) which, taken alone, is relatively insignificant. In sum, it would be virtually impossible -- and indeed misleading -- to make assessments of how well or badly individual cities are performing overall, from brief overviews of their financial statements.

Capital Financing for Infrastructure

Municipal government operations are currently seriously hampered by financial limitations. Since the priority must be to keep existing services running, these limitations fall most severely on the funding for capital improvement. In principle, the most appropriate source for funding for capital expenditure is long-term borrowing, broadly related to the working lives of assets financed. This method is regarded as both financially efficient and socially equitable.

In Poland at present, because of high inflation and other national economic constraints that create uncertainty for lenders and borrowers, long-term borrowing is typically not available. The standard market solution to the interest rate problem is to add the expected inflation rate to the real cost of money. Within limits uncertainties can be allowed for by charging variable rates, periodically adjusted to allow for changes in both inflation and real money costs. One problem with this is that even when nominal interest rates include relatively low real interest components, they appear, to the average observer, unconscionably high. Banks and lending agencies are therefore often considered exploitative and borrowing is avoided.

The other objection concerns the effect on real cash flows. As stated, when inflation is high it can still be adjusted for in nominal interest rates. A standard level mortgage payment, inclusive of principal and interest components, is typical for long-term debt redemption, resulting in an annual payment in the first year much greater in real terms than the one in, say, the twentieth year. Variable interest rates do not allow for this,

but merely keep current nominal interest costs in line with the market.

These concerns can, technically, be overcome by indexation of either the principle sum or the annuity payments to the inflation rate. Alternatively, domestic loans could be linked to a stable foreign currency. These methods are understood in the Polish financial markets, but not common practice. It would be possible to introduce them to Polish cities with central government involvement.

In the absence of long term debt there will be a temptation to use short-term (e.g. commercial bank) debt as an alternative. In general this should be avoided. The only valid use of short-term borrowing by municipal governments is normally to cover temporary shortfalls in cash for working capital, repaid as soon as that working capital is restored, usually within a single accounting period. Even if attempted in Poland, such arrangements would require the existence of benign and experienced financial markets, as well as sophisticated debt management capability within the municipalities themselves.

When economic conditions improve in Poland, opportunities will almost certainly exist for a possible pooling of medium term and longer-term loan instruments. However, this too will require central government leadership, guidance, and participation.

It has been argued in the case of Poland that long-term debt should be secured only against so-called "own-source" revenues, such as property taxes. This appears excessively harsh, perpetuating the idea of revenues-sharing as "central government handouts."

There is no question that everything should be done to ensure that local governments are more accountable and financially autonomous. However, it must also be appreciated that they are legal entities, promulgated and administered by the central government, which allocates to them both responsibilities and resources. Thus, revenue sharing appears to be a recognition of the partnership status among various levels of government. Accordingly these revenues should normally be regarded as part of the resources for debt service. Within this context, there can be no objection to the central government withholding revenue shares from municipal governments in order to act as the agent of lenders in settling arrears of debt service obligations. Indeed, there is ample precedent for this in other parts of the world.

There is no fundamental reason why long-term debt should not become a mainstay of financing for the capital improvement programs of Poland's municipalities. Already initial steps are being taken by donors and Polish institutions to introduce long-term financing for municipal utilities. Until these facilities

are more widespread, however, recourse can only be to alternatives, some of which would continue to be appropriate even after longer term capital sources are widely accessible. These include:

- Using special funds, established out of regular or sporadic contributions from recurrent budgets.
- Using unapplied capital receipts, derived from the sales of public assets or from other "windfall" sources.
- Allocating planned or unplanned budgetary surpluses on recurrent operations.
- Generating internal funds within the framework of revenue-earning enterprises.
- "Earmarking" specially designated revenue sources for capital expenditures, sometimes of a particular nature (e.g. gasoline taxes for road construction).
- Negotiating with or requiring land developers to construct on-site infrastructure for their developments, together with related off-site connections to the main infrastructure.
- As a condition of zoning permission, levying development charges, or alternatively requiring private developers to provide (or add to) community facilities.
- Seeking tenders from private companies to build, maintain, and operate facilities such as toll bridges.
- Using leasing devices, whereby private suppliers undertake to capitalize the acquisition or construction of public assets, in exchange for some secure legal obligation of the local government to use them.
- Collecting one-time contributions from those assessed to be beneficiaries of public works improvements, such as hook-up fees for water and sewer systems and frontage charges for road improvements.
- Permanent re-assessment of properties adjoining specific public works improvements, permitting the collection of a "betterment levy."
- Using capital grants from the central government targeted to purposes in which the central government has a political or beneficial interest.

Many of the capital financing devices can be combined with the local government providing "orchestration" for public-private sector partnerships. This can sometimes be used for derelict sites, whereby a limited amount of capital investment by a local government to improve the site can increase its value and make it more attractive to private investors. A local government may be able to encourage private developers to combine efforts in a large development project so as to reach a "critical mass" of interlocking economic activity. In this way, more productive and coordinated use can be made of individual sites, which would otherwise be too specialized and too limited of access, to be valuable on their own.

Where this has occurred elsewhere it has usually required a broad array of skills for the design and implementation. These include strategic, spatial, economic, financial, and social planning; innovative and creative financing; flexible negotiation; advertising; public relations; public education; and strong budgetary management, together with competent accounting, financial reporting, and auditing.

Budgeting

Present budgetary management concentrates on the flow of funds. This must continue, but should be enhanced by analysis of the allocation and use of real resources. This must be done with reference to productivity, by improvements in the economy, efficiency, and effectiveness of service delivery. In cash-based budgetary systems, apparent "savings" can often mean poor or diminished service delivery. Thus there must be some transformation of the budgetary process from one which is cash-based to one which is cost-based. This will necessitate, in particular, establishing clearer distinctions between operations and capital investment in the accounting and budgetary process. It will also require a clearer differentiation and bounding of the financial operations of the communal enterprises.

There may well be opportunities to mould, modify, or augment the present system of budgetary management so as to provide information that is more consistent and builds greater confidence. It needs to be appropriate to the characteristics of the various operations, with clear distinctions between revenue-seeking enterprises and tax-based services. Budgetary management should distinguish clearly among the following: recurrent expenditures on service delivery and operation; capital expenditure and its related financing; and special funds, such as those that relate to the management of funds effectively held in trust for others, including:

- activities carried out (sometimes on behalf of the central government or other entities) for which special funds have been allocated.

- pension funds and social security funds.
- management of property expected to be reprivatized.
- enterprises and other communal services that are intended to be wholly or mainly autonomous.

Financial Analysis

Municipal governments are being given increasing responsibility for the management of both physical and financial resources. Clearly such resource use demands that there be efficient financial and economic analysis. Not only does this apply to individual projects but also to their strategic impact upon the financial situation of the municipality as a whole:

- Investigating options for contracting out certain services in order to reduce costs and/or improve the quality of the service.
- For services that are natural monopolies (or which must remain in the public domain for other reasons), determination of:
 - the least economic cost of project development or service delivery, with due consideration to intermediate technologies in cases of acute capital shortage.
 - whether all or parts of the service would be performed more efficiently by contracting out to private enterprise.

The internalization of specialist financial skills should provide a growing institutional memory for both financial and contract administration. Not least of all, improvement in skills will gradually encourage operating managers to become more trusting of the financial management process altogether, thus facilitating more productive design and decision-making on their own part.

Accounting

Strategic improvements to the overall financial accounting system must await a national consensus -- legal and professional. However, it should be possible to make improvements by augmenting present systems, and more clearly define the financial and administrative boundaries among different enterprises and budgetary units. It will also be advantageous to develop some form of cost accounting. These improvements would be expected to be only partial initially, gradually expanding to meet a growing appreciation of both needs and capabilities. A principal purpose

of the exercises would be to prepare more useful information for financial analysis. This must be applied both to individual projects and to the overall development strategies to which they relate.

Accounts and budgets for tax-borne services should, as far as possible, be presented so as to show the expenditures allocated to each service or program and sub-divided into activities. Any recurrent revenues directly earned by the service should be credited to it. The net result should be to show the extent to which the service expenditures are a net cost to the general revenues. Such developments would be an important step toward full program or performance budgeting. Cost-based (or expenditure-based) budgets and accounts, whether for enterprises or tax-borne services, should show the recurrent effects of capital investment activity. Depending on the characteristics of particular services, this might show, for example:

- cost-recovery, by depreciation charges;
- sustaining and renewal of assets, by renewal funds; or
- financing implications, by charges for debt service.

The accounting system should be developed, therefore, so that it can record income and expenditures to monitor current performance against budgets. It should also provide the data for future planning and programming. In addition, the system should develop adequate records of all assets and liabilities, so as to provide acceptable grounding for current and future costs and cash-flows. In addition, this will allow for the establishment of comprehensive periodic statements of overall financial position.

Financial Reporting

To enhance financial information systems as a whole, it is important that they become increasingly useful for effective action. They should eventually be designed to follow recognized standard principles and practices. However, beyond the present cash-based requirements, such practices still remain to be developed. This must be addressed nationally.

The development of financial information systems must serve two important concerns. First, they should be responsive to accountability for stewardship over public funds. This emphasizes the relationship of the municipal government to its external constituency, be it the city council, local electorate, or central government. It implies compliance with statutory and other requirements, together with external audit. It addresses, in effect, the acquisition, control, and use of resources.

Second, they should respond to the need for accountability for performance. This addresses mainly the internal constituency, especially the operational managers responsible for service delivery. It concentrates on actions taken by the municipality staff to fulfill its obligations with economy, efficiency, and effectiveness. For this role, financial information must be complemented by the use of operational information, including statistics on individual activities.

For the communal enterprises, it will be necessary to more clearly show the extent to which the enterprises are covering real and total costs from charges, or are being subsidized from general revenues. It should also provide data to facilitate the focus of subsidies away from entire services and toward deserving individuals.

There are cases where local governments feel it necessary to provide less than complete and transparent financial information. One example noted was the combination of several municipal enterprises under a single corporate entity, merely to offset "profits" and "losses." This was done in order to better the local government's overall position viz-a-viz the central government in the ongoing revenue-sharing controversy. Since this kind of activity adds virtually nothing to either economic production or productivity it might well be described as "directly unproductive administration." It is critical that the revenue sharing system be based on financial information systems that are transparent and trustworthy.

Pricing and Taxing Policies

There is a clear need for municipalities to increase their own-source revenues. This will more fully complement their revenue-sharing allocations, thus offering more autonomy over local decisions. The overall designation of specific revenue sources, as applicable to local government, is clearly a central government responsibility. However, once this has been done the local municipalities should be allowed to administer these resources with a minimum of central interference. This should include the setting of individual taxes and charges, together with the related registration and collection of the revenues.

However, the setting of taxes and charges is not just a matter of raising revenues. It will almost certainly in some manner influence the behavior of service consumers or taxpayers, through the action of market forces. Prices for public utility services will, almost certainly, influence the demand for these services. This, in turn, will affect supply to meet that demand. Thus if services are underpriced, in economic terms, more general tax resources may be drawn into their provision than is desirable or feasible. Unless there are compelling reasons for subsidy, prices should be set to recover full economic costs.

Taxes, depending on their characteristics, will also affect behavior, especially to the extent that they will be transformed into increased prices for goods and services. For individuals, property taxes are, effectively, increases in property rents. Under normal circumstances, both the tenants and the landlords will sacrifice a share of these to the government. For commercial and industrial entities, property taxes will need to be allowed for in the setting of sales prices for their goods and services. Depending on price elasticities, this will likely both increase consumer prices and decrease suppliers' profits.

Where subsidies are considered necessary, they need to be more sharply focussed toward the needs of poor or disadvantaged individuals, rather than, as now, toward entire services. In the latter case, broad-based subsidies lead to wasteful use of services, and bring about income-distribution inequities. In any event, redistribution through public utility services is not usually considered economically efficient, there being much better ways to redistribute income if this is determined a political objective.

Revenue Collection Effort

The designation of revenues and the setting of individual tax and charge rates will not by themselves bring in revenues. This will require the establishment and operation of efficient systems for identification, registration, assessment, billing, cash collection, and legal sanctions for non-payment. It is important, also, that these systems be operated in a smooth manner from one accounting period to another. Otherwise, revenue collections may initially lag, followed by special "drives" to collect the arrears. Not only does this provide uneven flows of revenue, it also plays havoc with the formation of consistent patterns of income, for purposes of forecasting and budgetary control.

Administrative Procedures

Efforts will need to be made to address the growing and already pervasive concern of "directly unproductive administration," something which a municipal government can ill-afford. Mention has already been made of efforts to circumvent either tax obligations or arbitrary curtailment of government financial support.

In addition, it might be useful to examine the necessity of administrative procedures used for purely internal purposes. It might well be found that regulation and licensing of a particular activity is not useful at all, costing too much, relative to either the public benefits or fees charged, or capable of being carried out more efficiently, to the benefit of both the public and the municipal government.

Recent Developments

The Government of Poland has been pursuing a process of decentralization and delegation to local governments. A turning point was the passage in 1990 of the Local Self-Government Act (LSGA), which pointed the way to local government as a structure accountable to constituents, rather than an implementation agent of the national government. Yet it is recognized that for several years Poland will be in a transition as a number of issues germane to municipal fiscal management and, importantly, resources for infrastructure investment, are being resolved.

The partial reforms that have been taken left serious contradictions in the system. For example, local governments are to have autonomous budgets based on own-source taxes, fees, and income from municipal properties. Nonetheless, the central government stipulates upper limits on local taxes and public housing rents. Local land management and regulation are considered to be local responsibilities under the LSGA, but other legislation provides for the central government to retain important controls in this area, in some instances affecting local authority to dispose of assets and properly plan for infrastructure expansion.

During this interim period cities have, logically, looked out for their immediate interests -- often through unusual arrangements that create economic inefficiencies. As noted, some local governments reportedly attempt to mask local revenues because they know that reporting higher own-source revenues may result in decreased fiscal transfers. Such efforts could grow as more responsibility for more urban services (e.g. education and health) are passed down to the municipalities.

One byproduct of this transition phase is an environment in which it is difficult for local governments to plan and budget. The level of the important block grant is typically set well after the beginning of the year and may change. Estimating the yield of the property tax is theoretically easier, but as noted these rates are now capped. Finally there are uncertainties on the expenditure side, particularly for public utilities where policies are to raise prices toward the market level but politics creates uncertainty as to the pace of these price reforms.

For long-term financing, systems will likely not be in place for some time to provide funding for capital improvements and infrastructure extension. Nonetheless, steps must be taken to prepare for this eventuality through developing the skills to properly assess capital investment options, and create standards of economic feasibility similar to those that would be required were funding sought from a private sector bond market.

Assistance Approach

Both the cities and the national government see municipal finance as a central concern. They recognize its relevance to all initiatives to improve service delivery and living conditions, as well as its vital role for expanding and upgrading infrastructure to serve private industry. They recognize that improved financial management is in many cases a prerequisite to the cities accessing longer term financing for capital investment.

Two approaches to addressing municipal finance are suggested. The first would seek to work intensively with one or more cities on improving their overall financial management. This would address broad issues of how the municipal financial management systems are structured, as well as how revenue is generated. The objective would be to create a more transparent financial system with a longer financial planning horizon, and to better expose policy makers to economic and revenue generation choices that must be made. This assistance might be concentrated in a city selected for participation in the World Bank urban program, and A.I.D.'s assistance would therefore be construed to enable the city to access the Bank financing. This assistance would also be concerned with structuring alternative capital financing arrangements for infrastructure while longer term facilities are being established by the central government (e.g. proposed municipal development bank) or the private sector.

A second approach is to focus on particular services or enterprises within a city. For instance, recognizing the financial drain that housing places on the municipalities, assistance would be provided to develop appropriate financial and management information systems for communal housing, and assist in determining more effective ways to attain the objectives that the city has established for the sector (e.g. privatization, management objectives). In each area, the approach would be to introduce issues of economic efficiency and financial management in the context of assisting a city toward achieving a particular outcome for the service or enterprise.

It is recommended that municipal finance assistance be designed around discrete objectives, rather than provided as open-ended assistance on financial management. For instance, design of a new accounting system for an enterprise might be an objective of a several-month project. Further work in this area would then await implementation of some or all of the system. Least cost analysis of delivery of a particular service might be a discrete outcome, based on the understanding that the city will use this analysis for decision-making.

3. HOUSING

Background

The cities of Poland have inherited a long line of responsibilities in the provision of housing for its citizens. The cities are the landlord for a substantial part of the housing stock, including much housing for which they are "owner of last resort" (e.g. abandoned housing, industry-built housing for which the industry no longer has the resources to maintain). In some cities, less than half of the communal stock or other housing reverting to city management was actually built by the public sector; most was nationalized, abandoned, or otherwise came to rest with the cities.

The particular condition or location of the bulk of a city's housing stock will oftentimes require unique approaches at the city level. Notwithstanding these differences, several common factors complicate the process of rationalizing the housing stock by enabling consumer preferences to emerge in size, location, and tenure arrangements:

- a tradition of low controlled rents.
- insufficient funding for adequate maintenance.
- insufficient legal structure to ease privatization and rationalize city maintenance responsibilities.
- a large number of indigent tenants.
- lack of city authority to set rents and terms for privatization.
- clouded ownership as a result of the on-going reprivatization process.

The cities in Poland have recognized that privatization of communal housing will be an incremental process and that a substantial portion of this stock may remain in public ownership for many years to come. In some instances a city will have other considerations altogether, such as historic preservation, to take into account in formulating a strategy regarding its communal housing stock.

Notwithstanding these difficulties, the cities must strive to 1) reduce public subsidy in the housing sector and better target it to the needy, 2) improve maintenance and rehabilitation of the stock, 3) where possible pursue housing strategies that reinforce economic development opportunities (e.g. downtown revitalization), 4) increase the efficiency of management and maintenance services, 5) offer innovative packages to support

homeownership opportunities, and 6) continue to ensure that housing needs of lower income families are met.

Recent Developments

The cities continue to face fundamental legal and financial barriers in the maintenance and privatization of communal housing. In three respects, central government action or inaction of the past couple of years has actually made matters worse for the cities:

- The Government severely reduced resource allocations to the cities for housing maintenance without giving the cities authority to set rents to capture more revenue from tenants.
- The Government has failed to pass condominium legislation, resulting in continuing city responsibility for maintenance of buildings with hybrid ownership.
- While officially transferring the communal stock to the cities, the government has failed so far to give these cities the full authority to devise innovative approaches, including appropriate incentives, to privatize units.

In one important area -- setting rents for commercial space in communal properties -- the cities do have complete authority. In the absence of other ways to increase resources from communal properties, this has become a particularly important source of city revenue. In fact commercial potential of a property appears to be the fundamental determinant of property value, and these properties are coveted both by the city and individuals who have claims to the property. On the other hand cities are anxious to dispossess themselves of buildings lacking commercial prospects, but claimholders to the properties often do not want to take them back since many carry negative cash flows. The result is a paradoxical situation where the cities continue indefinitely as landlords for substantial numbers of commercial properties in order to cross subsidize housing tenants, notwithstanding that privatization of commercial properties is ordinarily a first-line reform during economic restructuring.

It is recognized that privatization cannot continue to occur in a haphazard fashion without giving thought to an operational framework capable of ensuring private management of the privatized buildings (housing associations, small tenant or ownership cooperatives, or condominium agreements as soon as authorized by law). The communality of utilities and services, and the nature of structural problems and upkeep of exterior walls, roofs, staircases, and public space around the buildings

demand that such a framework be in place before the housing is sold. If privatization is to lead to better living conditions and stimulate private ownership of dwellings, then safeguarding the building and its environment is important.

Proposed legislation would institute a system of rent supplements, referred to as housing allowances in the pending Housing and Tenant Protection Act. The Act aims to simultaneously encourage sale of units by offering attractive terms, and raising rents over a three-year period, with rents reduced for those families unable to pay the new rent.

Municipalities can set water rates and solid waste collection charges. Centrally-set heating rates will be raised progressively to cover costs by 1994. Strategic decisions and technical considerations hinder the breakup of large heating and electricity systems and the assignment of managerial responsibilities. At this time plants, including waste treatment plants, are centrally managed and distribution networks (water, sewerage, power, and gas) are owned and managed by the municipalities.

A current priority concern of local governments is the management and maintenance of the housing stock. Municipalities see the need to rationalize and fully privatize this function. Also important is to improve the quality of maintenance services in order to make privatization a more attractive alternative for sitting tenants.

Assistance Approach

As noted, there are fundamental constraints to the rapid rationalization and privatization of the existing communal housing stock. In this context three areas have been identified where assistance now can be effective, and can be structured in a way to broadly demonstrate new approaches that can be undertaken today by other cities:

1. Restructuring of Housing Management and Maintenance. It will be imperative for the cities to develop much more cost effective ways to maintain communal housing that remains, at least for the next several years, in public hands. This function has been quasi-privatized through the housing enterprises, but further substantial restructuring is necessary to allow market forces to operate in letting contracts and exacting performance, and to empower tenants to take a stronger role in management and maintenance. This area is recommended because it relates to an efficiency consideration, and because it is part and parcel of the overall housing privatization process.

2. Housing Rehabilitation. Many cities have a substantial stock of communal housing that predates World War II. Much of this

housing is in poor condition and has outdated systems. Many of the tenants of this housing are lower income. Another piece of the puzzle in many cities is reprivatization; while return to original owners is sought, issues of rehabilitation and economic return on the property must be addressed. Cities need to devise approaches to this stock not only to improve housing quality for the tenants, but also because this housing is often in critical downtown areas where commercial investment must be encouraged. Assistance here would be designed to bring to fruition various approaches to housing rehabilitation/privatization/reprivatization.

4. MUNICIPAL MANAGEMENT

Background

Under the old regime municipal governments generally played a role of implementing policies and programs largely dictated by the national government. Likewise resource flows were largely dictated by the national government. The political system generally insulated city officials from constituent pressures in the provision of services. Efficiency in the delivery of these services was of less concern given the low wage and full employment policies dictated at the national level.

Recent Developments

In the past few years the context in which local government functions has changed fundamentally in three ways germane to the services that can be provided by the LGHP Project.

First, the further democratization of the political process brings with it a demand for greater accountability to constituents. This in turn requires that cities pay close attention to delivery of primary services, financial stewardship, and efficiency. It also imposes on the cities a growing pressure to conduct official business in a transparent manner.

Second, the growing independence of municipalities has a financial dimension as the central government reduces its financial backing of the cities. Careful attention to generation of financial resources locally becomes a prime consideration to all cities.

Third, the cities are on the receiving end of a broad policy of decentralization of service delivery. In the last two years, the cities have assumed official responsibility for most utilities, mass transportation, and housing. They are also expected to assume district heating, health, and education in the near term.

As a result of these changes, the cities of Poland will in many ways superficially resemble cities of the West. With these overall structures and responsibilities in place, the challenge will be to properly incorporate new functions by applying appropriate oversight, correct delegation, and standards of efficiency so that the end result is better provision of services and support for economic development.

Assistance Approach

Program assistance in municipal management should focus on helping cities adapt to their new responsibilities. There is likely to be no issue with which A.I.D. would be associated under this project that would not have an organizational and training component to its solution. Assistance in municipal development would be designed to be supportive of other efforts to assist on specific issues in land management, infrastructure, housing, and financial management. Within the context of technical assistance focussed on a city service, function, or enterprise, management assistance would be a supportive element, and would ordinarily address the following types of issues:

1. Determining more effective organizational approaches to incorporating new service responsibilities assumed by the cities.
2. Devising appropriate criteria and policies for upgrading or expanding services, based on institutional, technical, and financial considerations, and appropriately taking into account citizen views.
3. Helping to design or improve systems and procedures for elected and appointed officials to communicate with citizens and incorporate citizen participation in planning and decision-making processes concerning city policies, programs, and services.

5. ROLE OF POLISH ORGANIZATIONS AND PROFESSIONALS

ICMA reviewed various organizations and individuals for consideration as possible resources in carrying out this program. The purpose here is two-fold:

- To identify non-profit, non-governmental organizations, such as universities and professional associations, who could benefit from participation in the program. Their capacity to independently advocate and support improvements in the functioning of local governments will increase through participation in the program.
- Identify local talent within these organizations or separately who can make an immediate contribution as

team members, as ICMA is requested by A.I.D. to undertake various assignments.

ICMA has already developed working relationships, which will be sustained during this contract, with the Polish Association of Cities, the Cracow Real Estate Institute, the Foundation in Support of Local Democracy, and the Gdansk Polytechnic. ICMA is in the process of developing an agreement with the Gdansk Institute for Market Economics for on-going collaboration in carrying out various analytical and technical assistance assignments. Under this agreement the Institute would also provide field logistical support for ICMA work in Poland. Of the various other organizations reviewed by ICMA, the following appear to have the current staff resources, knowledge of local government issues, and commitment to the reform process upon which a professional relationship can be built as the A.I.D. assistance program to Polish cities expands:

Foundation in Support of Local Democracy
Graduate College of Public Administration, Warsaw University
Department of Architecture, Cracow University
Department of Urban Economics, Lodz University
Foundation for Economic and Social Initiative

IV. PROPOSED ACTIVITIES OVER THE FIRST SIX MONTHS

An immediate consideration in program planning is to establish the credibility of A.I.D. and ICMA in the six cities that have been targeted for this Program. In order to achieve this it is recommended that the priority interventions over the next six months include at least one activity in each of these six cities. Through these early assistance activities, A.I.D. and ICMA will also be learning more of other opportunities to provide assistance to each of these cities.

Below are listed the recommended activities over the next six months for each city. An asterisk indicates the activity in each city that is recommended for highest priority at this stage. In identifying these activities particular care has been taken to select a distribution of development issues and areas of assistance, consistent with selection criteria explained in Section II. Some of the areas for assistance noted in the city report annexes are not included here among recommended activities during the first six months. It is recommended that these additional areas be considered for start-up after the first six months of the program:

Cracow

1. Infrastructure Finance*

Concern. Cracow has been included in the planned World Bank program to finance infrastructure improvements and expansion. In order to equip the City to access this capital and prepare the City ultimately to attract capital from other sources, certain financial management systems will need to be substantially upgraded. The City will also need to improve its cost recovery from such services.

Longer Term Objective. Create a more useful and transparent financial management system for key infrastructure and service elements to enable the City to access long-term capital and appropriately increase revenue from service users.

Recommended Program Response. Under the overall coordination of the resident advisor municipal finance and accounting specialists to provide short-term technical assistance to upgrade financial management systems and explore alternative financing sources for upgrading and

expanding infrastructure networks. Efforts will be made to engage a local institute to contribute to this work.

2. Strategic Planning

Concern. Cracow faces profound development issues as it tries to restore its stature as a preeminent historic city, address severe industrial pollution concerns, and retain an employment base. The City needs to establish a process whereby future development opportunities can be better articulated, leading to a longer term strategic plan for the City.

Longer Term Objective. A strategic plan for the city that can support investment while reducing dependence on polluting industries.

Recommended Program Response. Resident advisor will arrive by March and initiate assistance in this area. He will be supported by a short-term specialists.

3. Management and Maintenance of Communal Housing

Concern. The organizational structures by which communal housing is managed and maintained do not promote efficiency in service delivery and competition. The City would like to reorganize these operations and fully privatize one district on a pilot basis immediately.

Longer Term Objective. Privatization of most housing management and maintenance functions.

Recommended Program Response. Short-term TA to review operations and identify options for moving toward an efficiency and competition-based system.

Gdansk

1. Implementation of Land Information Systems*

Concern. The Mayor's Office has taken the position, as evidenced by commitment of \$1 million of its own resources to date, that municipal management of real estate and promotion of foreign investment hinges on establishment of an integrated information system capable of monitoring and updating changes in ownership and use of real estate. A successful pilot GIS project has been undertaken for one area of the City. Given the cost involved in expansion, the City would like assistance in developing an approach to expanding this system in the most cost-effective manner.

Technical assistance under this Program may help the City to access EEC funds for further hardware purchases.

Longer Term Objective. Over the next five years, expand a GIS system to most of the City of Gdansk.

Recommended Program Response. Initial 3-5 day workshop, followed by consultations with technical personnel, to develop an effective step-wise plan to expanding the GIS system. The theme of this assistance would be the use of a GIS, which raises important issues of how the information is to be used, who the end users are, institutional arrangements for sharing information, and staffing implications. The focus would not be technology per se.

Gdynia

1. Economic Development Planning*

Concern. Gdynia's master plan was approved in 1988, and was drafted without reference to economic constraints, calling for massive development west of the City. With the political and economic changes since then, the City now recognizes that with 40 percent of the labor force employed in the maritime sector, a high priority must be placed on integration of this sector into City development plans, and the promotion of small enterprises. As a major port city, Gdynia needs to reassess its key assets in the context of the new market economy, and develop an approach to using key areas of the city and land parcels in a way that builds on Gdynia's unique characteristics.

Longer Term Objective. Improved spatial planning and specific programs in order to enhance Gdynia's economic development prospects.

Recommended Program Response. Technical assistance would initially be provided to review the process, organization, overall capacity, and existing data for economic development planning, and the integration of economic considerations into land use planning. This could be followed by assistance targeted to development or redevelopment of key industrial parcels and further development of the waterfront for multiple economic activities.

2. Tenant Management of Privatized Communal Housing

Concern. The City has taken an aggressive approach, through price discounts, to privatizing communal housing. As a result, 35 percent of the communal stock has already been privatized. In order for privatization to result in

improved housing quality at lower cost, new arrangements are needed to more directly involve the tenants in housing management. Gdynia needs assistance in developing tenants' associations, in some cases supported by City maintenance subsidies and other incentives for management of purchased flats.

Longer Term Objective. Creation of tenant organizations capable of handling maintenance responsibilities, and system for the City to incorporate rehabilitation funding in the course of privatizing communal housing.

Recommended Program Response. Initial technical assistance to develop options for model tenant associations, identifying legal and financial implications. Over the longer term assistance could be provided to selected tenant organizations on a pilot basis, as well as to the City.

Lublin

1. Urban Upgrading

Concern. The city architect has developed a detailed plan and strategy for a pilot project in the Bronowice area to upgrade this older and deteriorated sector of the City. The revitalization plan calls for re-use of vacant industrial land and relocation of some tenants to reduce density and privatize the structurally sound housing stock. The project area covers 80 hectares and has a population of 4,000. Having implemented little upgrading work in the past, the City could benefit from the advice of U.S. practitioners familiar with implementation and financing arrangements for such undertakings.

Longer Term Objective. (1) To rehabilitate the area and upgrade the infrastructure; (2) To provide decent living conditions for the elderly population; (3) To promote self-built and self-improved housing; (4) To promote community maintenance of public spaces; (5) To improve public security and change the area's image.

Recommended Program Response. Technical assistance to finalize the Bronowice project and prepare a detailed implementation and financing program.

Poznan

1. Management and Maintenance of Communal Housing*

Concern. In the management of its communal housing, the City of Poznan has determined that it must create new organizational structures and severely downsize the current housing enterprises. At the same time, the city must determine how best to concentrate limited resources to prevent the loss of stock through excessive deferred maintenance.

Longer Term Objective. A more efficient system for management and maintenance of communal housing through the private sector.

Recommended Program Response. Short-term technical assistance to develop a near-term strategy for reorganizing and downsizing communal housing management.

2. Regularization of Informal Construction

Concern. Much development is occurring on the outskirts of the City on formerly agricultural land. This development, which is largely by middle and upper income families is occurring outside building regulations, is not coordinated with the provision of infrastructure, and is not properly recorded for taxation purposes. The city wants to regularize development, while providing adequate structure for further growth in these areas.

Longer Term Objective. Develop a system to regularize existing housing on the urban periphery, and develop policies and procedures to appropriately accommodate further residential growth in outlying areas.

Recommended Program Response. Short-term TA to analyze economic, environmental, and land use implications of existing patterns of development, and describe the costs and benefits of alternative approaches that the City might pursue.

3. Land/Geographic Information Systems

Concern. The Geodesy Department has taken steps to improve land management despite limited resources. The Department appears well-organized and capable of expanding the scope of its activities. In expanding LIS/GIS activities to serve the needs of the City, it will be imperative to carefully examine the needs of the various potential users and determine how they can be accommodated in the most cost-effective manner.

Longer Term Objective. An enhanced LIS/GIS system appropriately designed and accessible for a variety of city management and development needs.

Recommended Program Response. An intensive work session of 2-3 weeks would focus on selected topics in data needs, collection, and management; choice of indicators; techniques of analysis; and design of applications. Follow-on assistance may have to await purchase of additional equipment.

Szczecin

1. Restructuring of Communal Enterprises*

Concern. The City is considering options for organizing key municipal services now carried out by communal enterprises. These include refuse collection, water, and sewerage operations. Assistance has been requested in analyzing alternative arrangements. In reviewing options, the City will need a better understanding of the extent to which the enterprises are currently covering costs from charges, or are being subsidized from general revenues.

Longer Term Objective. Improved and more cost-effective delivery of key municipal services.

Recommended Program Response. Initial technical assistance to assess alternative organizational structures under consideration, and to conduct preliminary analysis of key issues in privatization of these services.

2. Strategic Planning for Revitalization of Downtown Areas

Concern. Almost half of the housing stock of Szczecin dates to before the war. The bulk of this older stock is in communal ownership. Much of this housing is in the central part of the City, and consists of small units, which have not been upgraded and lack adequate sanitary facilities.

The City has embarked on a comprehensive program to renovate inner city housing, starting with a pilot program in the predominantly residential Turzyn area. To guide this process, the City Council created a task force under the deputy mayor with representation from various departments. A technical team is developing renovation strategies. Further assistance by American experts would be beneficial to accelerate the detailed design and implementation of this program. Of particular importance will be further assessment of various redevelopment options, new approaches to working with residential and commercial tenants, and

determining the replicability of the approach for other parts of Szczecin, as well as for other Polish cities with older communal housing stock.

Longer Term Objective. Develop a viable and replicable rehabilitation plan for the Turzyn area, and strategy to use this approach in other parts of Szczecin.

Recommended Program Response. Initial short-term TA to assess social, housing, and economic implications of current options for the Turzyn area. This will also examine how housing privatization objectives can best be incorporated into the redevelopment scheme. Initial TA will result in specific recommendations for project design and a detailed plan of assistance in discrete areas.

V. OPPORTUNITIES FOR ASSISTANCE AT THE NATIONAL LEVEL

The LGHP Program is geared toward targeted assistance to a limited number of municipalities, as well as the national government. Detailed planning for assistance specific to one or more cities would be carried out collaboratively by A.I.D. and the city. This approach of A.I.D. working directly with each city can support experimentation and innovation as cities come up with new solutions to problems and A.I.D. offers the advise and perspective of American practitioners to carry them out. These city activities can support national policy and program development as the lessons learned from new undertakings are shared with national government decision-makers.

The process of creating the legal, administrative, and fiscal structure to put into practice the policy of delegation and decentralization to make municipalities directly answerable to their constituents is far from over. Some of the issues ahead are among the more complex. For example, while accountability and local interest might dictate local control of education, the financial conditions and skills at the local level might suggest just the opposite as the right approach. It is recommended that the program provide assistance to the national government to respond to specific analytical needs in support of policy formulation. Areas for assistance would be identified by government officials. In addition, the Program itself can serve to highlight issues where action by the national government is particularly timely, through sharing information on local government developments where A.I.D. is involved. Following are the areas which at this stage would appear to be priorities for assistance at the national level:

1. Analysis of options for further delegation of responsibilities to the municipalities.
2. Analysis of alternative methods for mobilizing funds domestically for infrastructure investment.
3. Development of standard accounting and reporting systems.
4. Review of residual revenue and expenditure restraints placed on the municipalities by the national government.

VI. ICMA IMPLEMENTATION ARRANGEMENTS

The effectiveness of this Program will be largely dependent on the ability of ICMA to respond in a timely fashion to the evolving technical assistance needs of the client cities and national government. It is, therefore, suggested that the overall structure of the Program for each of the six cities be defined and agreed to through a series of workplans. Each workplan would refer to a specific area of assistance (e.g. communal housing management), rather than all activities on-going with the city during the time frame. A workplan would specify objectives over the planning period, explaining how these fit within the longer term goals that the city has set within this area. It would also describe the assistance activities to be undertaken, the levels of effort required, skills required of technical experts, and the working relationships with the city.

The best approach is for each workplan to be fully reviewed and approved by the city. The information provided in the workplan should be developed to a level of detail sufficient for developing a budget and preparing an RFS. This approach will allow ICMA to line up appropriate personnel early in the process, and the city to better prepare to work collaboratively with each consultant toward a specific time-limited objectives and products.

This proposed format for work planning with a city on a particular project is summarized below:

1. ICMA, in collaboration with the city and A.I.D., prepares a workplan.
2. The workplan is amended as necessary and adopted by A.I.D. and the city.
3. An RFS is issued that reflects the workplan.
4. ICMA responds to the RFS by proposing personnel and a budget.
5. Where necessary during implementation of the workplan, more detailed scopes of work for individual consultancies will be prepared by ICMA.

ANNEX I
REPORT ON ICMA VISIT TO CRACOW

REPORT ON ICMA VISIT TO CRACOW

An ICMA team visited Cracow December 14 - 17, 1992 to review various opportunities for A.I.D. to provide assistance to the City in the areas of urban development, housing, and municipal management. The ICMA team consisted of Peter Feiden, Renata Frenzen, David Jones, Mona Serageldin, and Jan winters.

I. BACKGROUND

Cracow displays the compact and concentric patterns characterizing urban growth from medieval times to the end of the 19th century. These patterns were disrupted after 1950 as a result of decisions to alter the city's function and structure. The Communist government, anxious to change Cracow's role and influence, constructed a huge steel foundry and other industries immediately adjacent to the historic city. Cracow grew from 250,000 in 1950 to over 700,000 as new workers migrated to the City for industrial jobs. The steel district of Nowa Huta, just east of the old city, today has a population of 350,000. The Communist regime left a legacy of environmental degradation. The steel foundry, aluminum smelter, and chemical plants are all major polluters. In addition, about 30 percent of the air pollution blows in from the heavy industry in Silesia to the west. The City's lack of proper sewerage and solid waste facilities also contributes to the area's pollution.

Cracow is bent on overcoming the damaging legacy of the post war era. It is pressuring the Government to close obsolete industrial plants, the major source of environmental pollution in the area. Several factories have shut down but the foundry is still active and contributes to the heavy smog which drifts over the city in the winter months.

Cracow also wants to reassert its role as Poland's cultural and scientific center. The City's objective is to build up a new economic base relying on tourism, trade, education and technology. The presence of two major universities, the famous Jagiellonian University and Cracow University of Technology, is a tremendous asset to the City. Technical and research institutes and scientific academies further enrich Cracow's cultural and educational functions.

Cracow has a tradition of leadership in city government. For example, some time before 1220 municipal government was already following Magdeburg Laws, which were common to western Europe. The charter of 1257 provided the legal, economic, social and architectural framework for the city and institutionalized a chief administrator and town council. During the period of partition, the Austrians introduced an efficient administrative

system and allowed some autonomy. The rivalry between Russia and Austria led to a "free city," the Republic of Cracow, from 1815 to 1846. Due to its experience in self governance, Cracow became a resource for political and administrative staff to the entire country following World War One. Following this tradition of leadership in local governmental affairs, Cracow is now creating the first professional city manager position in post-Communist Poland.

Cracow possesses several strengths that position it well both to benefit from a technical assistance program and in the longer run succeed in the transition to a market economy:

- It is widely recognized as the scientific, cultural, intellectual, and even spiritual center of Poland. Positive changes put in place in Cracow can be accepted as a model for much of Poland.
- The present Executive Board appears unusually bright, focused, energetic, and politically astute. They recognize both the magnitude of changes that lie ahead and the level of commitment that will be necessary.
- The World Bank has signed a Memorandum of Understanding with only three cities, one being Cracow, for the funding of infrastructure. Clearly a key to the provision of housing and creation of new employment opportunities necessary to make housing affordable is infrastructure funding. The World Bank is keenly interested in upgrading the financial and managerial skills of local governments to insure that the funding will be wisely used.
- The move to a city manager form of government introduces professional management with real line authority for the first time in post-war Poland. This approach is successfully used in the United States and parts of Western Europe, and is modeled after private enterprise with a CEO and a Board of Directors.
- The presence of outstanding universities and 50,000 students provides the potential training grounds for new governmental employees as well as a source of highly talented individuals from all over the country.

II. FINDINGS AND OBSERVATIONS OF THE TEAM

1. Housing

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Cracow's housing stock consists of 11,700 buildings containing some 228,000 dwelling units. Cooperatives account for 1560 buildings and 98,126 apartments; communal housing for 2010 buildings and 63,890 flats; private housing for 948 buildings and 54,768 dwelling units; and enterprise housing for 48 buildings and 11,416 apartments.

Half of the housing stock was built prior to World War II: Twenty-six (26) percent dates back to before 1918, and 24 percent was constructed between 1918 and 1945. Given the age of the stock it is not surprising that many buildings are in serious need of renovation. Many units lack basic modern amenities: 25 percent lack a toilet within the unit and 35 percent lack a bath. Apartments as well as commercial premises in older buildings typically rely on coal stoves for heating. Dwellings are overcrowded, with 22 percent of the units shared by two or three families.

Of the communal housing stock, 1,439 buildings are classified as needing major structural repairs. A total of 117 buildings are considered in a catastrophic state and are to be torn down, affecting 650 families. Another 300 buildings are in urgent need of extensive structural repairs but can be salvaged, and approximately 4000 buildings need various minor repairs.

The housing shortage is acute: there are currently 57,175 applicants on the cooperative waiting lists and 9000 on the waiting list for communal housing. The growing imbalance between the costs of cooperative apartments and the affordability of limited income families is forcing many registered applicants to drop off the cooperative housing list and apply for communal apartments.

New construction has of late provided 1000 - 1200 dwelling units annually. In 1992 cooperatives accounted for 60 percent of production, private owners for 26 percent and, the city for less than five percent. At this rate, it is obvious that the housing shortage cannot be significantly alleviated by new production alone. The City has advertised to build 2,000 units through public-private partnerships. Four developers who can finance the infrastructure to service the land have been selected. The city will finance housing construction out of its own budget and get in return a proportion of the units, but the bulk will be sold on the open market.

Renovation offers better prospects of meeting housing needs by preventing the loss of affordable units. However, funds allocated to renovation are earmarked for the completion of work on three buildings in key tourist locations. The Housing Enterprises have reportedly been allocated 38 B Zl. for regular

maintenance and repair work and only 6.8 B Zl. for urgent structural repairs.

Immediate housing needs are estimated at 5308 units to rehouse households living in dilapidated and shared units and in buildings in a catastrophic state, as well as families displaced by renovation and court ordered evictions.

Privatization of Communal Housing

Prior to 1990, 16,000 tenants had exercised the option to buy their apartment. Since then, 4,000 additional applications have been filed. The procedure is administered by the Geodesy and Property Management Department and requires three to four months to completed, inclusive of the mandatory posting of a public notice for a period of six weeks.

The Department uses certified appraisers to assess the market value of the apartments based on size, location, age of structure, landshare, and existing amenities and services (piped water, heating, gas, stove, elevator). An allowance is made for depreciation and a contribution to maintenance and capital renovation costs, estimated at two and one percent of appraised value respectively.

To date, 1,700 apartments have been appraised and 500 notarial acts signed and registered. Applications are still pending on 3,000 units. Tenants wanting to buy their units have to put a downpayment of 10 percent and settle the balance in installments over a maximum of 10 years. Prevailing interest rates of over 40 percent have understandably dampened sales. A discount of 20 percent offered to buyers willing to settle the sales price in one cash payment had been abolished in December 1990. In 1992, the city reinstated a 30 percent discount, which it would raise to 50 percent if all the tenants in a given building would buy their apartments, thereby allowing the City to legally turn over management of the property to unit owners.

Reprivatization

Three-thousand (3,000) applications have been filed for restitution of buildings, nearly all of which have commercial potential. In prime central locations, 500 buildings have already been reprivatized. Controversies in the City Council are delaying the reprivatization process.

Eligibility Criteria for Communal Housing

Criteria for the allocation of communal flats give priority to families with incomes below 30 percent of the average daily wage in Poland, and presently living in crowded and unsanitary

conditions. Length of time on the waiting list and social hardships are also taken into consideration.

Priority ranking is set through a point system approved by the Housing Committee of the City Council at the beginning of each year. The City is considering suggestions to introduce new criteria and limit the latitude of Housing Department officers in the allocation process.

The City cannot hope to replenish the stock of communal housing lost to demolition, removed from the rental market through privatization, or shifted upscale through restitution. Given the long waiting lists and the dearth of affordable units on the open market, demand on communal apartments will continue to be strong despite the obsolescence of the standing stock. Tightening eligibility criteria and prioritizing access has become mandatory in view of the onerous cost to the City of maintaining communal apartments. Initiatives taken in this direction should be pursued.

Housing Management

The communal stock under City management includes 3384 buildings, of which 2010 are City-owned, 948 are privately-owned, and 48 are owned by enterprises. The remaining 378 are in non-residential use. The older stock, concentrated in the historic center, suffers from serious deterioration. The communal stock includes 73,500 dwelling units accounting for 89 percent of the floor area and 4439 commercial premises accounting for 11 percent of the floor area. Yet the annual income derived from the commercial space is nearly twice that from the residential space, 160 B Zl. versus 89 B Zl.

The management of the communal housing stock is undertaken by four housing enterprises (PGMs) operating at the district level through units referred to as R.O.M.s. PGMs are independent legal entities with a large degree of autonomy. They view themselves as profit-making enterprises. The City has only limited oversight over their activities. It has little or no control over the level and quality of the services they provide, and finds it difficult to ensure that PGMs fulfil their obligations.

Paradoxically, the City has to subsidize PGM operations because rents do not cover maintenance costs. These transfer payments are accounted as income by the PGM. From the City's perspective, it is an uncontrollable outflow as PGMs refuse to disclose management information or back up their financial claims with hard statistics. Subsidies are directed to the overall budget of the enterprises, given the impossibility of determining maintenance costs for individual buildings. This further complicates privatization by forcing appraisers to rely on

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aggregate data on maintenance and repairs which may or may not apply to a particular building.

Buoyed by the market value of commercial space as the commercial sector grows, the commercial rents now cover close to 50 percent of City's expenditures on the communal housing stock. Utility fees and miscellaneous charges cover another 30 percent. The deficit is covered by the City and amounted to approximately 80 B Zl. in 1992. Transfers from the central government and the enterprises, mostly to subsidize heating and related repairs, represent about 25 percent of total expenditures and allow the PGMs to show a profit on their books.

Major repairs account for four 4 percent of total expenditures, other repairs and maintenance needs 17 percent, cold water six percent, sewerage two percent, central heating and hot water 39 percent, and solid waste and miscellaneous items four percent. The PGMs' own administrative budget consumes about 40 percent and includes 11 percent of repair work undertaken by the staff. Repair work contracted out accounts for nine percent.

The City Housing Administration complains bitterly of the inefficiency and high cost of the PGMs. The complaints are justified in the sense that the PGMs, as presently organized, do not have the incentive to improve their managerial efficiency or the productivity of their work force. The PGMs employ 2384 workers of whom 40 percent are building superintendents, 28 percent clerical staff, 21 percent maintenance and repair crews, and 12 percent janitors and miscellaneous workers.

Irregularities in work performance are reportedly commonplace and go unchecked due to lax supervision over maintenance and repair crews. Renovation tends to drag on as contracts for major repairs are awarded through work orders rather than tendering and competitive bidding procedures. PGMs charge administrative fees on work contracted out as well as work done by other enterprises, namely for water, sewerage, heat, and waste collection. They have little or no incentive to rationalize the programming of maintenance and repair activities. It is evident that PGM inefficiencies and profits are paid for out of deferred and low quality maintenance, which only serves to accelerate the deterioration of the housing they manage.

PGMs also perform administrative functions, including rent collection which suffer from the pervasive lack of incentives to improve performance. Three of the four PGMs have computerized records but will not release detailed information regarding rent collections and the comparative costs of managing different buildings. The City administration feels that PGMs are purposefully secretive, uncooperative, and inefficient to avoid a reduction in subsidy levels and allow them to keep redundant employees. Yet cost savings are desperately needed to enable the

City to reallocate funds toward urgent consolidation and repair of structurally damaged buildings. The City has decided to restructure its housing management services. The objective of the restructuring is first to separate the administrative functions, namely rent collection, superintendence, and contracting, which will be administered by the city's Housing Department, from the building maintenance services, which will be privatized. The City is negotiating with the repair workers to privatize their service in two stages whereby the City would provide support in the form of guaranteed work orders during the initial stage. Negotiations to consolidate the administrative functions are proving difficult as each PGM seeks to keep its own administration intact. Technical assistance is requested to help the City in this restructuring process.

2. Land Management

Since 1950, urban expansion has occurred through the development of large cooperative and enterprise housing estates on the City's outskirts. Inadequate transport resulted in traffic congestion along the main access roads. Infrastructure expansion has generally lagged behind as road networks could not well serve the scattered fringe settlements and public investment could not keep up with the requirements of rapid growth.

For its water supply, the City currently relies on a reservoir built ten years ago in the mountains. The economic crisis and the closure of obsolete plants has decreased industrial water usage. The yield of the reservoir is considered adequate to meet present and projected needs.

Sewerage, in contrast, is clearly inadequate. There is a primary treatment facility on the right bank of the Wisla. Sewage collected on the left bank is generally discharged untreated into the river. The level of discharge polluting the river is such that Cracow has been fined by the State 3 B Zl. per year (payable to the National Environmental Protection Fund). An environmental improvement program has been initiated focusing on upgrading of the sewerage system and solid waste disposal facilities. The Environmental Fund for Poland is a source of financing for these projects. The city has also received technical assistance under the PHARE program and an EPA grant to improve air and water quality.

The Infrastructure and Communal Services Department is well organized and efficient. The Department head has broad knowledge of European and United States practices. He has visited Sweden, Germany, and The United Kingdom. The Department has a clear sense of direction, a realistic outlook on needs and objectives, and well-structured programmatic priorities.

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Priority is given to the new sewage treatment plant in Kuyama on the right bank. The collector leading to the plant will open up presently unserviced land to new and denser development opportunities. In view of the inability to service large sectors of the urbanized zone, the Department also operates five sub-stations. However, private companies operating sludge pumping trucks dump waste on the urban fringe in vacant lots, unproductive fields, and other open spaces to avoid paying disposal fees. A similar pattern prevails among the private companies operating solid waste removal trucks seeking to avoid disposal fees at the land fill.

Vacant land in the City considered to be developable amounts to 2,810 hectares, of which 620 are designated for multi-family residential construction with a holding capacity of 80,700 dwelling units (The City currently lacks the funds to extend infrastructure to these areas). Cooperatives and Enterprises own serviced parcels, which are left unvalorized because of the inability to secure credit at terms affordable to their constituencies.

The structure of land ownership in Cracow is rather complex. The Church, the Army, and the Cooperatives are large land owners. Land in municipal ownership and state property being transferred to the City consist mostly of small and widely scattered lots. Private ownership is fragmented as a result of the Austro-Hungarian inheritance law which mandated the division of real estate among the heirs.

Excessive fragmentation eroded the profitability of smaller agricultural parcels driving their owners to seek employment in the City. Today, 30 percent of the land within the municipal boundaries is vacant and in private ownership. Owners are formally and informally subdividing the land and selling building plots. Over the past few years, violations have multiplied, prompted by the obsolescence of the development controls, lax enforcement, and inconsequential fines. New construction relies on wells and septic tanks or cesspits. Due to high operating costs, the septic tanks built are often not in use. Non-functional or overloaded wastewater disposal systems are often polluting groundwater resources.

Spatial Plans

Cracow's current master plan was completed in 1988. The plan's objectives are to contain the City's expansion and discourage low density residential development. Proposed new development is concentrated in the Nowa Huta suburb to house the labor force employed in the heavy industrial complex. The combination of detailed land use categories and maps at a scale of 1/2000, drafted on 1978 base maps, resulted in setting up an extremely rigid regulatory framework, which must remain legally

in force until superseded by a revised or new master plan. The area covered by the plan has close to 800,000 inhabitants today, and there is an urgent need to revise the document. Development decisions are delayed by a backlog of use designations, which require lengthy procedures to process.

The Urban Planning and Architecture Department is headed by an experienced professional with a staff of 76, of whom six are qualified urban planners. The staff is reportedly largely preoccupied with the day to day administration of development permits, building permits, inspection, and construction supervision. Given the urgency of revising the master plan, the Department has contracted the Cracow Institute of Physical Planning and Municipal Economy to undertake the task of revising the plan and coordinate the work of retained private consultants. The immediate objectives of the revision are:

- To legalize existing development that does not conform to the master plan.
- To identify sectors with sufficient holding capacity and access to infrastructure to absorb new investment without additional cost incurred by the City.

A longer term objective is to create a flexible instrument that could be linked to a strategic plan, once such a plan is formulated and adopted by the City Council.

The revisions do not challenge the basic premises of the 1988 plan in terms of containing Cracow's expansion and limiting industrial development. These premises fit with the growth management approach advocated by environmentalists and conservationist groups, a vocal and potent constituency in the City. The revised plan identifies two zones where new development is to be channeled. The criteria used to select the two zones are land value, distance from the City center, and infrastructure in place. The land use designations define boundaries for residential and commercial uses as broad categories enabling the city to accept "investor proposals." This approach lets private developers, foreign and local, drive the City's development and shape its character.

The revised plan has to be approved by the district councils as well as by the City Council. Elected representatives in the districts are asked to express an opinion without having been involved in the process. Lacking adequate knowledge of issues, priorities, and options, they may not be in a position to make a meaningful contribution to the process.

Marketing Land for New Housing and Commercial Development

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The Department has started work on twelve sector plans. Four private firms have been contracted to design detailed plans under the "action plan" provision of the Emergency Housing Act. The sectors concerned are located on the outskirts of the urbanized zone. Tract size, access, and infrastructure services are the determinants of locational choice. Typically, tracts cover 100 hectares and are wedged between two primary access roads. Services are to be provided incrementally in accordance with a program worked out with the Infrastructure and Communal Services Department. A typical detailed plan for a 140 hectare site in the Bronowice-Wielke district relies on three wells, 30 to 60 feet deep, for its water supply and on site treatment facilities to accommodate a target population of 7,200. A sewage collector and treatment plant are to be built later by the city.

Upon completion of a detailed plan, the City advertises, calling on interested investors to apply for permits to develop specific parcels. Contrary to the intent of the Emergency Housing Act, which aimed to promote multi-family housing, developers, to date, have focused almost exclusively on single family houses on plots of 300 to 500 m². This pattern reflects the strong and sustained demand at upper income levels for individual housing. Applications requesting change of land use designation from agriculture to urban use in anticipation of real estate development have reportedly been running at above 1000 per month in 1992. The Department has approved 30 percent and deferred 30 percent pending approval of the revised master plan. The remainder have been rejected because of conflicts with basic principles of the plan that remain unchanged.

The issuance of development permits and building permits is a subject of debate and controversy. Procedures are not structured to include public hearings. Decisions are highly politicized without the benefit of formal public participation.

Preservation and Renovation of the Historic Center

In view of the City's rich cultural and architectural heritage, historic preservation is a key concern in Cracow. The appreciation of the urbanistic and architectural qualities of the old town extend beyond professional circles. Civic minded citizens are actively engaged in advocating preservation as a priority objective. Crucial issues to be addressed include arresting deterioration, funding renovation, promoting adaptive reuse, and regulating new construction in the historic zone. Incentives, costs, and funding have to be worked out in order to formulate financially viable strategies and explore feasible options.

A pilot project has been designed with French technical assistance for the renovation of an area comprising 113 buildings and 1300 apartments housing 3300 inhabitants. The project draws

on French models emphasizing community information and the participation of owners and tenants in the rehabilitation process. The Urban Planning and Architecture Department is requesting technical assistance to:

- Institute procedures for public participation in the planning process. The Department is aware that the opposition that surfaces when plans are advertized is largely attributable to inadequate public information and lack of a mechanism for involving area residents in the formulation of plans.
- Identify data needs and structure a computerized data bank to support the planning and design process.

Promoting Economic Development

The Department of Strategic Planning is loosely structured and employs a staff of 30. A five-member team focuses on city development policy and the disposal of communal property. The team's objective is to market vacant city-owned land and promote foreign investment.

The overall development policies endorsed by the City Council aim to promote Cracow as an historic, cultural and scientific center. This is far too broad a mandate to provide effective guidance for the development of "land offers" for close to 5000 parcels. There is a continuing question as to whether obsolete land use designations on the master plan can be changed through the preparation of action plans for the sectors in question. Identifying alternative uses is another matter altogether. Team members intuitively acknowledge that conflicting views regarding the highest and best use of City assets must somehow be reconciled, namely:

- The City vision articulated by the Urban Planning and Architecture Department.
- The requirements of foreign investors in terms of land and supporting infrastructure.
- The City Council's expectations regarding financial costs and returns associated with offering packages attractive to investors. Land assembly to consolidate fragmented parcels into marketable properties is a concern on both political and economic grounds.

The Department is also expected to assist in the implementation of economic development strategies. The policy directives approved by the Council call for:

- Restructuring and privatization of state-owned enterprises. The list of 28 enterprises include three community building companies, one large bankrupt Kombinat with 700 employees, and four communal housing enterprises (PGMs), in addition to various industrial and commercial establishments.
- Development of tourism and promotion of tourism-oriented businesses.
- Reliance on public-private partnerships to help defray the cost of supporting infrastructure. With higher priority placed on meeting more pressing needs, City investment in supporting infrastructure needed to generate future economic activity has been curtailed or deferred until funding is secured. The Voivod has refused to fund the infrastructure needed to valorize unserviced parcels transferred to the City.

The Department lacks the administrative latitude and technical capacity to undertake the politically sensitive and technically complex task of coordinating the formulation and implementation of a strategic plan for the development of Cracow. Neither is it equipped to effectively discharge a mandate of promoting the City and marketing communal assets. Given its current structure and capabilities it is performing an administrative rather than a policy analysis function and requests technical assistance to help market developable tracts of land. To create a strategic planning capacity, the city would need a different structure cutting horizontally across departments and working closely with the Council, the Mayor and his deputies, the executive board, civic leaders, and citizens at large.

Linking Land Development to Economic Strategies

An overriding issue, not specifically raised by the head of the departments, is the lack of a coherent framework, identifying and prioritizing economic development objectives and strategies, to which the extensive spatial planning effort currently underway can be explicitly related and public investment in supporting infrastructure programmed accordingly. The lack of coherent development strategies impairs the City's ability to capitalize on foreign investment opportunities. During the past year the City turned down a Canadian proposal to develop a conference center on a scenic riverfront site on condition that land, infrastructure and access be provided free of charge to the developer. The City refused, reportedly because it wanted to preserve the parcel as an open space. While the validity of the ultimate decision is not at issue here, the lack of economic, environmental, and financial analysis on which the decision apparently was based is of concern, particularly since the City

is promoting tourism as the mainstay of its new economic base and seeks to become a convention center.

Because of the unique nature of the proposed development and its locational requirements it may be possible to renegotiate the offer. This will not be the case if the investor is operating within a rigorous time frame or if the proposed activity is relatively footloose and can locate just as advantageously elsewhere. In what may have been a somewhat similar case of an inability to properly negotiate due to lack of an articulated set of development principles, Coca Cola was unable to obtain a 10 hectare serviced site it wanted in the eastern suburbs, and located its plant in Niepolomice instead.

Geodesy and Land Management

The area within jurisdictional boundaries comprises about 100,000 parcels of which 68 percent are privately owned, 20 percent City-owned, and 32 percent currently in state ownership. The "communalization" process will transfer close to 30,000 parcels from the state to the City. An inventory of the properties affected started in 1990, and is expected to be completed by the end of 1993.

Since 1990, 10,108 parcels have been inventoried and the records sent to the Voivod for processing. The Voivod office has returned notifications affecting 8500 parcels of which 6500 are held by cooperatives and individuals under long term leaseholds (99 years); 1290 are held by the communal housing administration and 2000 held by other public agencies. The Voivod notifications are transmitted to the Court to register the transfer of the title to the City. The Court has thus far processed 40 percent of the cases transmitted.

The Department works closely with the Inventory Commission of the City Council. The Commission is trying, with limited success, to obtain the transfer of state property not on the original Voivod lists, including land belonging to the enterprises which is serviced but unvalorized, and which the Voivod has steadfastly refused to transfer. The Geodesy department wants to improve collaboration between the city, the Voivod, and the Court to facilitate and expedite transfer processes in order to clear confused tenure situations hampering City development and land offers. Major factors impeding transfers include:

- The inability to register unclear titles.
- The restitution claims that continue to be filed.

- The complications involved in the case of properties listed as assets on the enterprises' financial statements.

Cadastral records have been transferred to the City from the Voivod office where computerization was started in January, 1992. To date, 20 percent of the records have been entered, covering the Nowa Huta area. The City has worked out an agreement with the Voivod office to expedite work and complete the computerization process over a two-year period.

Geographic records present a greater problem. The Department refers to pre-World War I cadastral maps and a new mapping undertaken in 1970. Problems of inconsistency abound. Records have to be reconciled with actual field situations. Divergences regarding the boundaries and size of properties are a common occurrence resulting in competing claims and litigation.

Property-related matters consume an inordinate amount of time from City staff and citizens alike. The Geodesy and Land Management Department is involved in all transactions affecting City assets. In addition to the transfer of state property, these transactions include commercial leases, apartment rental and sales, and property taxation. Accordingly, both privatization and reprivatization transactions are handled by the Department, including privatization of the communal housing stock.

The bulk of the long-term leaseholds approved by the City relate to parcels allocated prior to 1990 or leased to abutters without auctions. In Cracow, as in other cities, commercial leases represent a significant component of long-term leaseholds and account for the bulk of short-term leases, numbering 2504 and 3510 contracts respectively. The Department has requested assistance in building up a computerized database for land management which could subsequently be integrated with a geographic information system based on a new photogrammetric coverage.

Property appraisal is an issue that could be considered for technical assistance and training, although it was not discussed on this visit. Current practices could be revised to improve assessment techniques, devise quantifiable formulas, and computerize records to ensure the expeditious updating of assessments. This would be required to implement the proposed reform of property taxation and the shift to an Ad Valorem system based on the pilot program sponsored by A.I.D. This pilot has demonstrated that in the central district the shift to a computerized tax system based on capital valuation of properties would enhance yield by nearly 50 percent.

3. Public Finance and Infrastructure

In Cracow, the mission visited the Finance Department, meeting the Director of Finance and officials responsible for budgeting and local revenue collection. Also visited was a district revenue collection office, to review the recent computerization of property tax records. Other meetings were held with the Geodesic Department to view and discuss computerization, and with the department responsible for the financing and investment of communal enterprises.

On the financing side, experiments are to be carried out to implement property tax valuation. It was also hoped that a betterment tax -- using special assessment districts -- could be introduced. It was suggested that urgent capital works (e.g. sewage disposal) might be financed from "credits" using the city property as security.

Other concerns voiced by City officials: the introduction of adequate computer systems, cost benefit analysis, internal pricing, centralization or decentralization of financial management functions, and development of an adequate staff salary structure. Of particular mention was the need to improve the use of public-private sector partnerships in the development of infrastructure.

The operation of the financial function, on both the revenue and the expenditure side, is fragmentary and somewhat haphazard. Revenues are fixed in various municipal departments and collected either at local districts or at the central offices. As is common in other cities in Poland, some local revenues are still paid to offices of the central government, and subsequently remitted to the municipality.

Revenues from property taxes were increasing significantly in 1991 and 1992 due to inflation and rate changes, as well as improved collections. Concerns were expressed that central government administrative functions relating to local financing were not being carried out promptly, with subsidies for various services being decided very late in the fiscal year. This made credible budgeting difficult and subsequent adjustments administratively painful. This has been particularly true with respect to the education service, recently delegated to the municipality and financed by equalization grants.

Accounting and reporting issues do not yet seem to have been addressed. Budgetary allocations are in a form prescribed by the central government. While most useful for central government statistics, they are less useful for local government management purposes, creating yet another source of discomfort in central-local government relations. Within this framework, however, there appeared to be fairly tight budgetary control, albeit cash-

based. In particular, it was observed that individual capital schemes were carefully managed with respect to their financing, using a quite detailed manual accounting system.

Partial computerization has been carried out and more is planned. It covers property tax as well as income and expenditure analysis and staff payrolls. Where land and property is sold to the public, the procedures and valuation methods appear to be exceedingly complex. Some technical assistance appears to be required in this domain.

Infrastructure Investment

Top priority for infrastructure improvement is the sewerage system, especially treatment works. This is especially important because the lack of treatment is a threat to the source of water supply. Protection is especially needed at the Dobczyce Reservoir. Also, in general, the sewer system is old and needs rehabilitation.

In general, there is a combined sewer system, including surface drainage. Some areas, however, have separate systems. In the old city, there is discharge to a separate mechanical treatment plant. In the Nova Huta area, there is a new sewage treatment plant under construction but it is less than 20 percent complete. Further construction is stalled due to lack of funding, and none of the system is operational. Because of the inadequacy of the core system, there are a number of small plants servicing individual housing estates.

The mechanical plant at Plaszow is overloaded. Its capacity is about 160,000 m³ per day, compared with a current potential load demand of 225,000 m³ per day. This has led to a peculiar situation where the central government is imposing fines on the City for pollution of the watercourse, yet is unable to assist the City with the financing of improvements to remedy the situation. Hitherto, capital funding had been provided by the Voivod. From now on it must by and large be met by Cracow and adjoining villages. Additional biological treatment is under consideration, although no designs have been prepared.

Depreciation for capital investment is reportedly included in the cost base for fee setting. Whether or not this is being consistently done with appropriate depreciation rates, new investment funding will need to come from the general funds of the municipality. At the Kuyane plant a Danish firm has designed a sludge-disposal system. However, no funding is available for implementation.

Solid wastes from households are managed by a combination of municipal service (80 percent) and private collection services (20 percent). There is public resistance to payment of the

necessary charges, despite the fact that significant capital investments are required at disposal sites.

As elsewhere, there is heavy subsidization of public transport, housing, and central heating operations. The bus system is being restructured into seven different enterprises.

4. Municipal Management

Organizational Structure

Cracow has 76 City Council members, who also form 17 subcommittees. These subcommittees meet weekly as does the City Council. The Council meetings reportedly last 10 to 13 hours. One major reason cited for the length of the meetings was the inability to forge lasting resolution to issues at the subcommittee level. The City Council selects a seven-member Executive Board. This Executive Board now meets three days a week. Cracow has experienced some instability in its local government and the City Council has recalled two Executive Boards in the past two years. Unique to the cities we visited, Cracow also has 18 regional councils with a total of 340 auxiliary councilors. These regional councils also meet weekly, and the length of these meetings ranges from two to seven hours.

The Town Hall has 1200 employees and the communal enterprises employ an additional 8000. The largest enterprise is mass transportation with 5500 employees (including repair and maintenance functions), followed by water and sewer with 1500 employees. It appears that City staff are very interested in understanding the proper operations of modern city management in market economies but lack familiarity with good examples.

Cracow Views on Current Shortcomings and Immediate Needs

Interviews were held with City Council members, members of the Executive Board, and top management staff. The areas of greatest need for improvement according to the perspective of these three groups are discussed below:

1. Needs Identified by the City Council:

A. Need to develop a common strategy for the development of the City. We were informed the Council had not yet adopted a long-term strategy even though the Executive Board had presented several proposals. This was viewed by some as a major concern for the community. The lack of a common or official vision and strategy contributed to the perception of unclear or changing directions and somewhat hindered long-term planning efforts for infrastructure.

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B. Need to improve the process of decision making. Many issues are debated at length before subcommittees and are then debated anew before the entire City Council. (Some Council members requested translations of Roberts Rules of Orders). There were also questions about the appropriateness of the types of issues addressed by City Council. It appeared that very little delegation was occurring and several told us that the focus was on relatively minor issues rather than broader policy issues.

2. Needs Identified by the Executive Board:

A. Concerns were raised by Board members about the types of issues that consumed their time. Apparently both the City Council and the Executive Board spent so much energy and time trying to resolve day to day issues that few policy guidelines or directives were formulated and virtually no evaluation of effectiveness was being undertaken.

B. Proper Incorporation of City Manager Position in Governing Structure. Although the department heads are not political appointees, individual Executive Board members set the tone or atmosphere for the department operations that they oversee. As turnover occurs at the top -- three Executive Boards during the past couple of years -- staff actions become more difficult and there is a tendency to avoid decisions at the staff level and return issues to the Executive Board and Council. The City Council, upon recommendation of the Executive Board, authorized a new position of City Manager, which will have line authority over all departments and a long-term employment contract. This new position is expected to provide much needed organizational stability and increased professionalism.

C. Clarification of Roles. Members of the Executive Board and City Council expressed concern about the types of issues they must deal with and the need for more initiative on the part of city management staff. The management staff, however, were unclear about their real role and authority, as well as specific policy guidance from Council. There were also questions about what constitutes excessive interference from Council and Executive Board members, reflecting a concern that these parties have too often involved themselves in staff-level issues.

3. Needs Identified by the City Management Staff:

A. Lack of General Management Experience. As with most Polish cities, the majority of department heads in office prior to the change in government in 1990 were connected to the Party, and have subsequently been removed from their positions. Few employees have experience in strategic work.

As a result the current structure typically has senior personnel with little or no municipal management experience supervising staff used to a task-oriented operational style with direction largely coming from political authorities at the central government level. The independent exercise of management authority for planning, coordinating, motivating, controlling, and evaluating is relatively new. When management positions become vacant they are difficult to fill due to widespread lack of training and experience relevant to the practices of modern city management.

B. Need for Greater Professionalism. A somewhat related issue to the lack of management experience is the need for increased professionalism in government and the elimination of the perception of favoritism or politization. The last forty years hurt the image of local government and actions occurring today are important in creating an improved model. Steps need to be taken to create greater transparency in City operations and respect and trust on the part of the citizenry. In some instances this will require examining current organizational structures in terms of their relevance to democratic processes, such as the unusual systems whereby several department directors are City Council members. In others, this will require changes in attitude and management style (For example, we are told that some managers are called "room supervisors" as they never leave their offices to see their own employees). The Executive Board members questioned the lack of performance innovation and the large amount of reverse delegation. Communication among directors is low and so is the sense of teamwork.

Team Perspective on Priority Concerns

1. **Recruitment and Selection of City Employees.** It appears a good part of this process in the past was done on the basis of personal relationships. Now there is a strong desire to find a more professional method that will lead to upgrading in the quality of staff. Presently, there are no written job descriptions or performance appraisals, and a general lack of official consequence for one's actions. The process to terminate an employee is considered very difficult. Terminating a position is complicated by the residual post-war tradition under the Communist system to guaranty job security. Efforts to date have met with frustrations as managers' decisions are turned around at higher levels. The Executive Board expressed interest in a performance incentive system with quarterly bonuses (assuming the budget can bear this amount). Neither this proposal nor a broader structure for evaluation and promotion of staff have yet been developed. The new mayor has, however, taken the critical step of requesting a detailed and precise analysis of all

positions to determine which jobs are necessary and which workers are performing satisfactorily.

2. Development of Effective Lines of Authority. Directors requested assistance in determining how a proper organizational structure should look. Several felt the communal enterprises, similar to state enterprises, were grossly overstaffed (one estimate was by 100 percent). We were told that these enterprises traditionally functioned somewhat as make work operations and were not held to the same standards as the Town Hall. We were asked to assist in the review and evaluation of the efficiency and effectiveness of communal operations. Computers were also being introduced and questions were raised about the most effective method of using computers in City government.

3. General Employee Skills. We were asked to help improve basic skills, especially problem solving and initiative. We were told that employee morale is low, but there is a general recognition of the linkage between morale and productivity, and the managers questioned how to best approach this issue. The lack of skills in working positively with the public was also cited as an area needing improvement.

4. Procurement. Similar to other cities, we were asked to help develop the process to request bids, evaluate offers, negotiate contracts and manage contracts.

5. Capital Improvement Programming. Partly due to the lack of a common or official vision and strategy, the long term planning process had suffered. We were requested to assist in developing a model of how City departments should work together in preparing, analyzing, and prioritizing an overall plan for infrastructure development. This was viewed as an immediate need. With the memorandum of understanding approved by the World Bank, the need is now urgent.

6. Economic Development. Because of the large emphasis in the past on heavy industry that was energy-consumptive, polluting, and relatively noncompetitive in world markets, the City recognizes the need to move quickly to diversify employment to cleaner industries more consistent with perceived locational, labor force, and historic strengths of the City. We were told on several occasions that economic development, notwithstanding the deep concerns about existing polluting heavy industry, is one of the City's highest priorities.

7. Permit Processing. We were informed that most sites suitable for new industrial development would take two years to move through the approval process. Staff requested assistance in developing a more proactive and streamlined approach to planning approvals.

8. **Environmental Concerns.** More than other cities, Cracow is very aware of the immense need for environmental remediation. The City has requested assistance in designing an approach to solve this problem and to develop new standards.

III. CONCLUSIONS AND RECOMMENDATIONS FOR ASSISTANCE

1. Context for Providing Assistance

Cracow has made a fundamental choice that further development should be consistent with the growth of the City as Poland's cultural and scientific center. The implications of this choice on the City's development strategies must be clarified. Building up an economic base relying on trade, tourism, education, and technology entails the valorization of the City's unique cultural and architectural heritage, the ability to capitalize on its longstanding links with other European centers, and the development of new contacts worldwide.

Because of Cracow's historic role, the City has received a great deal of attention from donors. Unfortunately, the results are not very clear. The Executive Board attributes this to the fragmentary nature of the assistance. From these experiences, key City officials now believe they need the continuity of assistance that could be provided by a long-term advisor who is an experienced professional in city management. The City has formally requested a long-term advisor. This is their top priority and the City has asked the position to be filled by March, 1993. They believe the advisor position must be staffed for at least two years during the critical that the City will be initiating a city manager form of government.

The City appears to be taking decisive steps to reorganize government to be more efficient and decisive. The gist of the reorganization is to reshape the managerial structure in order to avoid constant involvement of the City Council and the executive board in tedious and time consuming day to day administration. The City Charter had to be amended in order to enable the council to authorize the proposed changes. A new position of city manager is being created in order to provide stability and continuity in city administration. Potential candidates for the position were being interviewed in December, 1992. Another suggested amendment would repeal a requirement that deputy mayors be members of the city council thereby reaffirming their managerial role.

There is an analysis underway at the direction of the Mayor on the appropriateness of staffing levels throughout the City, especially in the communal enterprises. There is a belief that many of these established positions are not necessary in a city managed under modern principles. The ability to eliminate

unnecessary or lower priority positions would free up much needed financial resources for priority investment projects.

A recent and significant donor activity is the assistance of the World Bank in financing infrastructure. The World Bank has previously stated strong concerns about the ability of Polish local governments in procurement, financial management, and contract management. It is expected that in a number of areas technical assistance provided by A.I.D. can help to facilitate the implementation of the Bank-funded program.

2. Areas for Assistance

The Team has identified the following areas where A.I.D.-funded technical assistance could be effectively provided to the City of Cracow.

1. Strategic planning for economic development. The development of a physical and strategic plan for Cracow must inevitably include reference to infrastructure improvements and to general management concerns. There is clearly a need to elaborate an infrastructure investment program that can access World Bank resources in the context of a long-term strategic objective of the City to reorient its economic development to reduce reliance on polluting and non-competitive industries. In developing a strategic development plan, the City would need to give special attention to:

- Improving and safeguarding environmental quality to enhance the city's attractiveness.
- Developing human resources through education and retraining to insure compatibility between the skills of the labor force and the new employment profile.
- Keeping up with the time frame of private investors, which is far more constraining than the pace of public sector decision-making regarding offers and proposals.

Assistance provided in this area would be directed by a long-term advisor with special skills and experience in economic development planning. The special services of the Urban Land Institute might also be drawn on in carrying out relevant economic analysis of specific development options. Assistance would seek to build up an institutional capacity for strategic planning, and establish the horizontal linkages needed to involve the different departments, coordinate their activities, and create the channels for public participation. To orchestrate this work, a commission could be organized under the direction of the new city manager, with active support from the long-term advisor.

2. Reorganization of enterprises. The City is concerned about the cost, inefficiency, and lack of transparency in the current system of housing enterprises. One approach proposed is to fully privatize one or more ROM on a pilot basis to demonstrate cost effectiveness of market-provided services. The Housing Department has little experience in contracting out for these services, and no experience in financial analysis related to the provision of maintenance and repair services. Initial short-term technical assistance would be to assist the City to structure pilot private management projects, including developing bid documents, negotiating, and drawing up contracts, and to set up a rigid cost-accounting and performance monitoring system.

3. As with other cities there is a clear need for improvement in financial and cost accounting, budgetary management, and financial analysis. New financial techniques are being introduced and other aspects of financial management are being improved and upgraded. These include budgetary control, computerization, and network development. However, the work, so far is disjointed and fragmentary.

There is indeed a need for much greater cooperation between the financial function and operational units. The present financial management discourse is based on concepts of coercion and compliance. Yet the finance function should be serving as the lifeline of the municipality's operations.

4. General management support. A long-term advisor to Cracow would organize his activities in support of the new city manager. His objective would be to help institutionalize the professional city manager concept for Cracow. In working toward this objective, in addition to his work on strategic planning, his areas of involvement would consist primarily of the following:

- Provide ongoing technical assistance on the development of a Capital Improvement Plan. This includes identifying projects, coordinating areas for development and redevelopment, evaluating alternatives, soliciting community input, and analyzing financial options. This may include some conceptual work on evaluating options for expanding or replacing airport facilities.
- Provide ongoing technical assistance on the procurement process, negotiations, and contract management. A major obstacle to the infrastructure development that is necessary for new housing is the lack of skills in these areas.
- Provide ongoing technical assistance on organizational structure, lines of authority, levels of supervision, interdepartmental communications, and measuring

effectiveness and responsiveness. The lack of clarity and high performance in the organization impedes service delivery, including the provision of housing. One project currently under way is the assessment of staffing levels throughout the City.

- Provide ongoing technical assistance on personnel processes, including recruitment, selection, written job descriptions, written performance appraisals, promotions, terminations, employment climate surveys, and methods for improving morale and motivation.
- Provide ongoing technical assistance in management/supervision skills relating to performance planning, coordination, motivation, and evaluation.
- Provide coordinating role in clarifying roles and responsibilities of City Council, Executive Board and management staff, and in improving decision-making processes. It would be effective here to also bring in exceptional mayors from recognized cities for peer to peer interaction.

One area of initial organizational concern is the respective roles of the Urban Planning and Architecture Department, the Strategic Planning and Economic Development Department, the Institute of Physical Planning and Municipal Economy, the Real Estate Institute, and the private consultants involved in the drafting of the master plan, the detailed plans, and site plans need to be clarified. The ambiguities surrounding the inputs of these different parties in decisions regarding the development of specific parcels tend to hamper the workings of current processes, and may undermine the ongoing planning effort, adversely affecting the management of municipal assets.

ANNEX II

**TECHNICAL ASSISTANCE FOR THE CITY OF GDANSK
IN LOCAL GOVERNMENT AND HOUSING PRIVATIZATION**

TECHNICAL ASSISTANCE STRATEGY FOR THE CITY OF GDANSK
IN LOCAL GOVERNMENT AND HOUSING PRIVATIZATION

From October 7-13, 1992, an ICMA strategy team visited Gdansk to identify its major problems in housing and local government. As in the case of Lublin, the purpose was to devise a logical portfolio of technical assistance responses to such problems over the next three years. Because of its proximity, the team conducted its visits to Gdynia during the same period of time. Team visits were limited mainly to initial introductions to key city officials and final presentation of findings. In the interim, the team split into: municipal finance, urban planning and housing, and public management subdivisions for more intense meetings with line officials of city government.

I. Background

Gdansk is a city in Northwest Poland on the Baltic of 486,000 inhabitants. It is the largest part of the tri-city conurbation of Gdansk-Sopot-Gdynia. It is governed by the 7-member executive organ of the 60-member city council. While councilors have 4-year terms, they elect and may dismiss the Mayor at any meeting (1-2 times/month). There are 530 city staff excluding city enterprise employees.

Although laboring under the same enabling legislation and lack of familiarity with modern management practices, Gdansk differs greatly from Lublin and many other Polish cities in that it is the window to the outside world. Through its long history as a great port city, Gdansk has established ties with other cities throughout Europe. Gdansk is the historical core of a metropolitan area with a population of 1.2 million inhabitants. History and geography has forged strong ties between Gdansk and its neighbors in the Baltic region. These ties were reaffirmed in 1991 by the Union of Baltic Cities. Access to the Eurocities network has enabled Gdansk to expand its contacts with the rest of Europe.

City staff had familiarity with practices of other cities and had received a steady stream of visitors from abroad. Technical assistance is being received with additions planned. For example, the Nordic countries are considering some technical aid for local governments. The city has also established a link with Barcelona and obtained advice and training on modernizing its management structure.

Gdansk suffers from economic stagnation following the decline of shipbuilding which has idled shipyards and the shift to containerized shipping which is handled by the port in Gdynia. Economic revitalization hinges on the development of support infrastructure. A plan to transform the old harbor into a small

container port would still require upgrading of roads connecting the container storage zones to the port and strengthening the bridge structures to increase their load bearing capacity by a factor of 4 to 5.

The city is aware that its future will depend on its ability to attract private investment, diversify its economic base and develop its service sector. The presence of the Gdansk Technical university is a tremendous asset to the whole metropolitan area.

The university has developed a proposal for technical assistance and training submitted to USAID in 1991. It has requested assistance to develop a new city planning curriculum applicable to a market economy. In cooperation with the Foundation for the Recovery of Cities it will develop and offer development professional education to public sector officials and private practitioners. The University would offer a locale for the establishment of a permanent training center for professional development and technical assistance to smaller communes.

II. Issues Related to Housing Delivery

a. Urban Development

Urbanization is now occurring on farmland which remained in private ownership although holdings could not be subdivided. The development of the Port and the shipyards attracted labor which led to the abandonment of agriculture. The unassessed farmland is now on the free real estate market. Consequently, the rural communes in the metropolitan region are the most rapidly urbanizing zones. This underscores the need for metropolitan wide planning strategies, intercommunal cooperation and joint initiatives.

Urban growth is occurring in a haphazard fashion on privately owned land on the urban fringe, leap-frogging over parcels held by cooperatives. The sharp rise in real estate values since 1989 has outpaced high inflation.

Illegal subdivisions have proliferated as absentee owners capitalized on market demand to profit from the sale of unassessed farmland. The courts have adopted a lenient attitude towards unauthorized development fining violators only nominal amounts. Lot sizes are generous ranging from 400 to 600 sq.m. and eventually lead to further subdivision and densification.

b. Housing Conditions in Gdansk

1. The Housing Deficit. The housing conditions in Gdansk reflect the legacy of the explosive growth of the 1960's and 1970's when the deep water port and the refinery were constructed and population increased by 10% annually. Investment was

channeled to provide the infrastructure needed by the industrial zone. The development of new housing areas was neglected resulting in waiting lists of 10 to 20 years and a cumulative housing deficit estimated at 12,000 units, exclusive of 3,000 units needed to replace dilapidated pre-World War II wooden structures.

The present city Master Plan was approved by executive board in 1991. It provides the legal framework for land administration. It is an input into all land-related decisions including property valuation. To save on infrastructure costs, the Master Plan concentrates new development in the Southern sector. Construction was started on a collector from Migowo to the sewage plant to serve land allocated to cooperatives.

Industrial decline, exacerbated by the economic crisis and the credit crunch has affected the segmented housing market in different ways. For lack of affordable credit finance, large tracts of land allocated to cooperatives remain unserviced and unbuilt. Neither the city nor the cooperatives can afford to service the sites. The curtailment of subsidies to the cooperatives has resulted in an upward shift in the segment of the housing market they can reach. Consequently over 1,000 cooperative apartments are vacant while applications for communal housing continue to pile up.

2. Housing Management. Communal housing accounts for 40% of the housing stock. Since 1970, when the sale of units was authorized, only 20% of the apartments have been sold. The Housing Management Department is responsible for 7,450 buildings accounting for 57,392 dwelling units.

Demolition certificates have been issued for estimated 770 structurally unsound buildings. Residents in these pre-World War II, wooden structures are relocated when buildings are in imminent danger of collapse. Approximately 1,000 buildings are in need of major repair but can be salvaged if further deterioration is halted and maintenance initiated without delay.

3. Computerization of Cadastral Records. A data center has been established in city hall in cooperation with the voivod office. It will house the cadastral records obtained from the voivod, which the city is computerizing in accordance with the national system. The city Development, Land Management, Surveying and Architecture and Construction Departments will all be able to access this data base from their own terminals in 1993. This will greatly facilitate their day to day administrative tasks and expedite permitting procedures. Currently planning activities and permitting procedures are delayed by 3 to 4 months in order to document property ownership and tenure. A process ensuring that the data base is kept up to date through feedback from the different departments has yet to be worked out.

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4. Land Appraisal. The Land Management Department has completed a valuation of land in the city undertaken by a certified private appraiser contracted for this purpose. A basic price of land is developed for each of the 24 sectors/zones in the city and then modulated in accordance with location and land use including allowable multi-use of buildings. The basic prices are listed in a reference register for day to day use. Detailed appraisals of individual parcels are undertaken for transactions purposes. The basic price listed in the register is adjusted by applying coefficients reflecting the following parameters:

- * land use category in the Master Plan
- * geotechnical characteristics and special features
- * site improvement cost
- * availability of infrastructure (road, water, electricity, sewage, gas, heat, telephone, TV)
- * access to community facilities
- * neighborhood characteristics
- * prevailing conditions in the real estate market.

City-owned land is limited to a number of scattered small parcels and one large tract with a holding capacity of 200 lots located in Olszynka, which will not be serviced in the near future.

In the context of the current economic downturn, the land management department seeks to generate revenue by granting temporary development permits to commercial activities (in the form of 3-10 year leases) on land designated for other functions in the Master Plan with the understanding that tenants can be relocated at any time should investment opportunities involving a particular parcel materialize.

c. Gdansk Perspectives

The Deputy Mayor and other officials interviewed identified three major constraints to effective housing delivery:

1. Insufficient Infrastructure Finance. The City Development Department which is responsible for the preparation of the master plan and the development of public investment programs for infrastructure and community facilities considers inadequate infrastructure to be the major constraint on the delivery of serviced land and a major cause of air and water pollution.

Heat is generated by two large older plants and 600 small coal burning plants. Present capacity barely meets the requirements of the existing housing stock. All new housing has to rely on coal stoves and already 25% of existing apartments use coal stoves to supplement their defective heating systems.

The sewage treatment plant provides only primary treatment and is overloaded. Partially treated sewage is discharged in the Wisla River. New development in the rapidly urbanizing rural gminas relies on septic tanks and cesspits. Agricultural run-off and untreated sewage pollute the lake and the river. Good quality potable water can only be obtained from underground wells which tap deep aquifers.

More importantly, the Deputy Mayor identified financing of rehabilitation and the existing supply of appraised projects (in water and sewerage) as the major problem of Gdansk. He noted that available funds within the city budget are now wasted by poor organization and management. Poorly developed plans make it impossible for city officials to manage funds sensibly. Opportunities for Gdansk to become more financially "self-sufficient" (a goal he noted) are constrained by debt service obligations dating from the 1990 Local Self-Government Law which delegated housing functions to the gmina level and requires development of local land with on-site infrastructure.

The Deputy Mayor was interested in western techniques of financing infrastructure rehabilitation and new investment projects. At the same time, the Deputy Mayor was (a) skeptical of finding savings from more efficient service delivery that could be used for investment and (b) hesitant to pass on service cost recovery efforts to consumers with low and unstable incomes.

2. Inadequate Land Information Technology. The Mayor's Office stressed that municipal management of real estate and the promotion of foreign investment hinges on the establishment of an integrated municipal information system with a capacity to monitor and update changes in ownership and use of real estate property. He stressed that this was the second most important problem to infrastructure finance. Gdansk's cadastral records are kept in the city and are not computerized.

Following an agreement worked out between the Voivod and the city, Gdansk has obtained the records which it plans to reconcile with the deeds and enter into computerized data base linked to the LIS system. The city has invested one million dollars to create a land management and information system organized as an LIS technology unit attached to the Mayor's Office. The hardware and software needed was paid for by the city out of its current revenues. The present system consists of 4 computers, one scanner, a printer and 4 digitizing tables. The software used is Autocad 11. The city has contracted with 2 private firms to launch a pilot program for an area of 30 hectares in the city center. This pilot demonstrated the potential contribution of GIS systems to urban management.

The technicians wrote their own application to link land records in the data base to the digitized maps. This allowed the

identification of parcels with obsolete tax assessments. The revenue generated by correcting and updating property taxes, \$140,000 exceeded the cost to the city of implementing the pilot project \$60,000. Work has started on a second project area covering 161 hectares in the city center.

The land information technology group estimates that city-wide implementation of the system could generate substantial revenue to the city, to cover as much as 10% of the projected FY92 municipal budget deficit. This will require a shift to software capable of handling large data bases like Intergraph or Arc/Info. The city seeks sources of financing the acquisition of new hardware and software and for training in the management of large data bases, possibly combining grants from EEC programs with USAID funds.

3. Inflexible Planning. The Deputy Mayor felt that opportunities for investment were lost because the Master Plan could not be revised in time to capitalize on them. He stressed the need for Gdansk to develop a more flexible planning approach to promote private investment. He also noted the lack of cooperation between city planning and budgeting personnel as another major institutional problem that contributes to the noted problem of infrastructure financing (#1). These institutional constraints were the underlying rationale for the establishment of the Mayor's Office which at present has assembled a young dynamic and entrepreneurial management team of 7 staff members on contract from private sector firms.

The new management team is introducing strategic planning concepts copied on the Barcelona model. Clearly the new approach is badly needed to create a policy instrument focusing on economic development strategies. More importantly, a legal framework flexible enough to accommodate the pace of change needed to pursue strategies must be institutionalized if the reforms are to succeed.

The Deputy Mayor suggested that land management planning is now too complex. The building permit process requires multiple clearances and should be streamlined. Negotiations with potential investors are hindered by lack of competitive bidding and contract negotiation traditions as well as weak marketing capabilities. Some city obligations are imposed on the gmina by the Sejm, such as the current building approval process and the requirement that gminas enter newly received parcels into its mortgage books. But city officials believed that locally-developed administrative efficiencies would not continue to be illegal in the future.

d. Team Perspectives.

The strategy team generally agreed with the city's assessment but found additional subproblems within each category.

1. Land Management. First, land management needs to be modernized in the immediate term. As noted, a land use data center has been established in city hall in cooperation with the voivod office. It will house the cadastral records obtained from the voivod, which the city is computerizing in accordance with the national system. High priority must be placed on creating a capacity to monitor real estate transfers and transactions and update records during this transitional period where massive changes in the structure of property ownership are occurring.

The city proper covers an area of 26,000 hectares of encompassing 48,000 parcels and an estimated 60,000 buildings. The completion of a computerized GIS system is at best 4 to 5 years away. Thus, there is an urgent need to modernize land management in the interim. It is all the more important since the transfer of state property to the city has already affected 20,000 parcels in the past 2 years and is expected to affect a total of 30,000 plots. A large part of this stock will be privatized by the city and traded on the open real estate market.

2. Public Budgeting and Finance. Second, the team believed that inability to make the budget process more planning oriented is a key constraint to developing sources of infrastructure finance. Thus, problems need to be remedied in both recurrent and capital budgeting processes. The absence of budget planning was noted in three different areas of Gdansk public finances:

a. Gdansk operates on a mixed-accrual accounting system that records accrued or owed revenues as received for budgeting purposes and expenditures only when outlays are made or cash changes hands. This permits arrears financing of the budget. The team was told of this recurring practice but given no quantitative estimate of its aggregate importance. Nevertheless, several examples were provided. The Treasurer noted that debt service from a 170 billion sloty 1990 loan (at 70% interest rates) was not being paid by flat owners. It was also noted that 15% of flat tenants were not paying their rents because they lacked income. But for budgetary purposes, the city projects such revenues due as received. Similarly, the largest revenue item in the FY 92 budget (250 billion slotys) consisted of prospective sales of flats to tenants and accrued rents. In principle, constant flow revenue sources are generally accrued (e.g property taxes) while other more volatile sources linked to the economy (income taxes) are not. It should be noted that central government return of local income (15%) and corporate tax (2%) shares are based on actual monthly collections (not accruals).

On the expenditure side, the Treasurer has no direct authority to set cash limits in order to control expenditure outflows from exceeding revenues. But even if he did, the amount to be controlled would be unclear since expenditures are recorded on a cash basis. This means that commitments in the form of purchase orders and contracts are not recorded as obligations until cash changes hands. Such practices overestimate available funds and make deficits more likely.

Finally, cash-based expenditure accounting for investments ignores the changing value of assets (particularly relevant in housing maintenance, housing replacement and financing decisions). Accrual accounting would depreciate the life of the asset rather than writing off the entire expenditure in the year when the money is spent. Cash-based recurrent and investment accounting gives a false sense of sustainability to city financial policies.

b. The team also believed that increased revenues could be generated from efficiencies in tax and fee collection without the necessity of changing rates in the short term. As noted, the new land information technology group believed that by correcting obsolete tax assessments and updating property tax records, as much as 10% of the municipal budget deficit could be covered.

c. The short-term problem of infrastructure finance is one of freeing up resources within government in order to permit valid creditworthiness assessments by investors. Regardless of central legal constraints on modification of electricity and heating fees, for example, Gdansk needs to know the level of individual consumption (to avoid oversupply), costs of production (What costs are covered by fees? What costs are covered by subsidy?) and how to renegotiate contracts with suppliers (to prevent overpayment from the city budget). City officials noted that 60% of the costs of transit services are covered by the city budget. But they could not indicate which costs were fixed and which were variable. Nor could they tell which were for capital, capital maintenance or operations. Such figures need to be calculated and regularly available to the Mayor's Office to ensure fiscal transparency.

The team noted that generally most user fees (such as those on hot and cold water, sewerage, and waste collection) were not based on the metered consumption of each apartment tenant, but on the consumption of each building. Normally there is only one water meter per building. A typical residential building might have over 200 apartments in which consumption fees were divided in equal amounts. The incentive of this practice is to encourage over-consumption and waste; the current flat-rate structures discourage saving. Rich and poor tenants pay the same fee. Currently, no accounting system records or budget format aggregates costs and benefits of subsidies from the Gdansk city

budget.

In the longer term, city capacity to appraise and re-appraise investment projects needs upgrading. Gdansk is currently implementing an investment program appraised in the past under capital planning techniques that excluded both the economic value of land and discount rates to measure the time value of money. The result is that some water mains are now too large and some city heating networks are based on plans that did not materialize. There appears to be little city project appraisal or planning capacity.

The team was not given a clear picture of how investments were budgeted in relation to recurrent expenditures. But it is believed that there is no formal planning mechanism to coordinate the two kinds of expenditures. Without a formal capital budgeting process, city investments which are supposed to be carefully programmed, are really residuals that fluctuate with revenues after covering recurrent expenditures. This diminishes not only the importance of capital budgeting, but urban planning and city economic strategies as well. If investment projects are approved primarily on the basis of short-term financing availability, this means that long-term financing requirements and long run productivity of investments is not taken into account by the budget process. The team believes that efforts should be made to create a formal capital budgeting process tied closely to spatial planning and economic strategy-making.

3. Urban Planning. The team agrees with the city that the Master Planning process needs to be more flexible and accommodating to private investors. To introduce strategic planning concepts based on the Barcelona model, as noted, the Mayor established a special office composed of 7 staff members on contract from a private firm.

In many ways, the contrast between the high powered team in the mayor's office and the departments responsible for the day to day administration of the city and the affairs of its citizens can be disturbing. The team is concerned that experiences gained by the extra-governmental staff may not be easily integrated into the normal routines of existing public management. The necessity for creating a special staff to initiate change suggests an excessive degree of hierarchy and centralization even at the gmina level. Yet Gdansk in the short term had little choice given its reliance on in house staff for planning and management, a staff which resisted change. The new methods and instruments developed by the management team in the mayor's office must percolate to the administrative departments and be integrated into their procedures.

III. Technical Assistance and Training Priorities

The recommended framework distinguishes areas in which existing strengths (high absorptive capacity) may be supplemented from areas of existing need. It was found that where perceived needs existed, absorptive capacity was not necessarily low, rather assistance efforts required redirection of existing resources.

The methodology used by the team was as follows: Program priorities were identified after team discussions with city officials on (a) assistance available through this program by AID, (b) the need to avoid duplication with other aid donors to Gdansk, (c) city official assessment of their housing-related problems, and (d) team assessment of city needs. The following priorities and rationales were discussed with Gdansk officials:

In general, to be saleable and subject to financing, city housing stock and property resources must be validly titled and recorded in accessible planning information systems. It also must be readily available for approved uses to investors. Similar to the team's recommendations for Lublin, this is the first technical assistance priority since it recognizes the importance of defining the resource to be used and financed.

The second priority is to generate financing from improvements in management and budgeting of existing assets as well as improvements in the installation of market creditworthiness measures and concepts. These must be in operation prior to obtaining external credit for housing and related infrastructure.

The first priority applies to what the team feels is an existing strength in Gdansk. Progress in land use planning and information systems development is already underway and needs support in spreading a smaller pilot effort to other city departments.

A. Absorptive Capacity.

The assessment of absorptive capacity depends in large part on the selection of methods for the delivery of technical assistance and the build-up local managerial capabilities. The dynamic team in the Mayor's office has demonstrated the capability to absorb and utilize new concepts and methods to which they are exposed and their ability to adapt and implement the techniques they learn.

In the administrative departments the situation is more complex. Newly appointed department heads are eager to modernize management and introduce new technologies. A priority issue for all departments is to clarify their roles in the evolving

organizational structure of the city. In particular, clarification of the relationship between department heads and the executive board and their inputs into decision making processes would help department heads restructure their departments to meet new responsibilities. Since managerial efficiency requires that administrative functions work smoothly, technical assistance and training will have to be directed at the senior staff of the administrative departments as well.

In addition, the availability of local institutions offering advice and technical support may add to existing absorptive capacity and thereby increase the efficacy of technical assistance. This is an empirical issue. For, provision of aid to these institutions could unintentionally result in proliferation of decision centers, fragmentation and additional coordination problems that would diminish overall absorptive capacity. Having noted this, the availability of Gdansk University would seem to be a positive contributory resource, enhancing overall absorptive capacity of city institutions. For example, the Transport Economics Department is already evaluating subsidy accounting and cost-benefits for urban transport. They plan to use the same methodology to measure the subsidy costs of other city services in Gdansk. This effort would be of enormous assistance to city departments as counterparts to short-term advisors and to lead new initiatives after termination of AID assistance.

B. Existing Strength Areas

1. Land Management Information System. Based on the agreement with the voivod to access land records, the city created an FORMAL an contracted with private firms to run a pilot program for 30 hectares in the Gdansk city center. By correcting and updating property taxes, the project generated \$140,000 which exceeded the \$60,000 cost of implementing the project. Work has begun on a second phase of 161 hectares. As noted, the land information technology group believes that city-wide implementation of the system could generate substantial revenue to the city, some of which the ICMA strategy team believes could be earmarked for infrastructure financing. The FORMAL initiative is a major existing strength of Gdansk city management and phase two should be supported by AID.

C. Existing Need Areas

Support for Phase 2 of the FORMAL expansion effort will correct and update city-wide property taxes and generate more revenues. But in the interim, lack of a market-responsive planning system still impedes land management.

1. Urban Planning and Permitting Processes. The team found the capacity to assess current and future directions of the Gdansk economy, and to link such assessments with financial projections,

extremely low. As noted by the Deputy Mayor, weak planning impedes proper budgeting, while absence of budget planning impedes land use planning. Establishment of the mayor's office team was done in part to create a more flexible planning approach. However, the immediate connection between the two events is not clear. While the new team will spread the FORMAL if supported, new data alone will not change planning procedures. In the past 2 years, 20,000 state parcels have been transferred have been transferred to the city, the bulk of which will be privatized by the city and traded in the market. But permitting procedures delay approvals by 3-4 months in order to document ownership and tenure. Support is required to change planning procedures and to streamline the building permit approval process.

Specifically, the following actions of Gdansk city departments should be supported by AID:

a. Housing Administration Department.

- i. Continued clarification of legal status and revenue patterns in the housing stock.
- ii. Projection of budget expenditures and estimation of subsidy requirements of housing stock and services. The work of the Gdansk University Transport Economics Department on subsidy accounting should be expanded and integrated into Housing Department efforts.
- iii. Formulation of a longer-term policy regarding repair of communal buildings. Subsidies for repairs account for 25.7% of total maintenance costs. The balance of the subsidies (heat, hot water and public services) account for 17.5%. Completion of the above tasks would enable the department to develop options and present them to the executive board backed by statistics. Merging and computerizing the records of the Housing Enterprise and the Housing Administration Departments would enable the city to improve the management of its housing stock and enhance its ability to rationalize management practices.
- iv. Continued improvements in land appraisal. The communal housing stock was appraised in November 1991 in anticipation of initiating a large scale privatization program. The valuation was reportedly based on 4 sources of comparative information:

- * Prices of apartments in the same sector.
- * Assessed value recorded in the taxation office.
- * Data filed by Public Notary.
- * Estimates from private appraisers.

b. Economic Policy Department This department manages

communal assets for business activities; contracts out through a tendering process for infrastructure; sets economic development strategies for Gdansk; issues licenses for franchises and approves subsidy levels for city housing stock. The criteria used by this department is consistency of planned policies with current financial conditions of the city. The Department indicated that current data on financial condition is poor. The Department is in the forefront of housing privatization efforts and receives technical and organizational support from nearby Gdansk University. This department believes that continued housing management when the law prevents increasing rents is a poor financial strategy and should be remedied by privatization.

However, lacking land reserves and adequate support infrastructure, the city's capacity to have a direct impact on the housing market is limited. At this time, the best it can do is to facilitate the workings of the private real estate market by:

- i. Preparing action plans authorized under the new law in order to have a more flexible legal framework for private investment in the city's rapid growth sectors.
- ii. Streamlining procedures for the issuance of building permits.
- iii. Formulating a framework for the regulation of wild construction.

2. Public Financial Management The team believed that, consistent with the Deputy Mayor's and Housing Administration Department's assertions of the need to improve budgeting and to link it with improved physical and land use planning, basic improvements need to be made in current systems of preparing and implementing budgets and plans. Similar to our recommendations for Lublin (pp.11-13), the team recommends that assistance be provided to improve: (a) revenue and expenditure forecasting, (b) preparation of results-oriented budgets, (c) program analysis, particularly the costs and benefits of current levels of housing subsidies noted above, and (d) program implementation.

IV. Other Donor Activities in Municipal Development

The City of Gdansk has had periodic assistance in organizational development and training from Bremen, Germany (twining arrangement) and from its own Gdansk University faculties. The Danish company DAB has provided technical assistance to the Public Transport Department for goal-setting. City officials noted, however, that requested assistance in development of a tri-city transport master plan has still not been provided by DAB.

V. Work Plan

This section discusses the objectives of assistance in the two priority areas identified above (1) expansion of the FORMAL to city-wide usage, and (2) creation of a modern land management, development permitting and urban planning process. The team also recommends that public financial management systems and practices be improved to enhance creditworthiness and decision-making credibility through assistance in conjunction with local counterparts in such institutions as Gdansk University.

1. Delivery of Assistance

The team believes that assistance to Gdansk be limited to intermittent short-term consultants drawing upon local talent from the mayor's office and local universities in the Gdansk-Gdynia area. Indeed, none of the officials and department heads interviewed requested the presence of long-term, in-house advisors. Short-term consultants would deliver seminars to groups of cities and provide hands-on efforts in particular technical areas as well as developing case studies as needed.

A. Area of Existing Strength

1. Land Information Systems. The completion of the LIS (Phase 2 of the FORMAL expansion) is considered a prerequisite to the rationalization of land management, the promotion of private investment and the development of municipal revenue. The city would therefore like to obtain funding by USAID to leverage potential funds from EEC sponsored grants channeled through the central government in order to accelerate the completion of the GIS, including purchase of needed equipment.

B. Areas of Existing Need

1. Data Base Management. Workshops are needed on the management of large data bases and the operation of ARC/INFO or Integraph LIS systems. A U.S. computer firm has offered Gdansk 2 workstations on loan for 6 months in order to test the ARC/INFO. Based on the success of the Lodz pilot program, the city has accepted (no expenditure of city funds is involved).

2. Urban Planning. Training in the implementation of strategic planning concepts and methods through intensive workshops. Ideally the workshop could be supplemented by study tours. Building on its cooperation with Barcelona in the LIS field, Gdansk has extended the exchange to the strategic planning field. Experts from Barcelona have agreed to prepare a conference on this topic and the Barcelona 2000 document has been translated into Polish. The participation of experts from the U.S in this meeting would be greatly appreciated. In any case the city would greatly benefit from USAID sponsored workshops on the concepts and methods of strategic planning.

3. Public Financial Management. The Mayor's office feels that neither the officials in the city departments nor local planning specialists are adequately equipped (technically and attitudinally) to implement new approaches in urban management. Technical assistance is needed for the organization of workshops and study tours. The strategy team believes that short-term consultants should design and provide courses with local counterparts to enhance public expenditure management. The subjects and rationale for recommendations are contained in the Lublin city strategy report, pp.14-15. Specifically:

i. The Gdansk Development Department needs training in the preparation of operational strategies that focus on the financial analysis of development options. Again, based on its empirical work in the subsidy and public finance area, as well as its capacity to deliver training courses in these subjects, the Gdansk University Transport Economics Department should be included in this effort.

ii. The City Architect is an older professional who is semi-retired and will retire this year. The timely appointment of a successor to the post would enable the appointee to benefit from training in public financial management and planning. The department head has been exposed to strategic planning concepts through a study tour to Sweden but would like to learn from experiences more relevant to the situation in Gdansk. Assistance is needed to demonstrate models and identify data needs for appraisal, feasibility, marketability and financial analysis of urban projects. The preferred format is technical workshops and other short-term assistance.

iii. The City Management Department needs assistance in developing legal methods to promote the sale of communal property. This should include training and hands-on development of new tendering, procurement and contract management procedures.

iv. The needs of the Land Management Department can best be met by workshops on financial analysis project appraisal and marketability studies drawing on experiences in other cities with practical applications to selected local cases as a skill-building exercise.

ANNEX III

**TECHNICAL ASSISTANCE FOR THE CITY OF GDYNIA
IN LOCAL GOVERNMENT AND HOUSING PRIVATIZATION**

TECHNICAL ASSISTANCE STRATEGY FOR THE CITY OF GDYNIA
IN LOCAL GOVERNMENT AND HOUSING PRIVATIZATION

An ICMA strategy team visited Gdynia on October 8, 12-13, 1992 to identify major problems as well as accomplishments in housing and local government. As in the cases of Lublin and Gdansk, the purpose was to devise a logically consistent portfolio of technical assistance interventions from which AID can respond to local problems.

I. Background

Gdynia was founded in 1920's as a new growth pole and has evolved into a dynamic city of 250,000 inhabitants. As the region's container shipping harbor, its economic base is founded on associated maritime industries. 40% of Gdynia's labor force works in the maritime sector. Fierce competition with Gdansk to attract and retain investments in the declining port and shipyard industries has led the two cities to forego opportunities for mutually beneficial cooperation. Gdynia plans to build a regional world trade center, capitalizing on the tri-city Airport and good train connections in direct competition with the Gdansk Granary Island commercial and tourist development. It is unclear whether the regional economy can support the two projects.

Gdynia's leadership and elected representatives have embarked on the transition from central planning to a market economy with unwavering resolve. The bulk of the business activity and the majority of the real estate in the city is privately-owned. This gives Gdynia a comparative advantage since active private markets are already in place and ready to capitalize on free market mechanisms.

II. Issues Related to Housing Delivery

The team noted that in several areas of public administration (e.g. bonus pay for productivity) and housing management (e.g. shifting maintenance responsibilities to tenants), Gdynia's innovations could well serve as models for Polish municipal development. For this reason, the issues are presented as (1) constraints that need to be reduced or eliminated, and (2) opportunities created by local initiatives on which assistance might build. Both constraints and opportunities emerged from team discussions with Gdynia officials.

A. Constraints

1. Housing Needs

Gdynia's housing needs are estimated at 16,000 dwelling units distributed as follows:

* communal housing waiting list	11,000
* cooperative waiting list	2,500
* replacement dwellings for residents of dilapidated buildings	2,500

The Housing Administration Department recognizes the necessity of: updating waiting lists that date back 15 years or more, checking the status of applications, and reassessing tenure preferences and affordability in light of present economic conditions.

The city Architect/Engineer is deeply concerned about two communities: (1) Paryskiej, a dense informal settlement lacking paved roads and basic infrastructure, and (2) Meksyk, a chaotic settlement which grew on industrial land next to the harbor. The former can be upgraded but the latter suffers from environmental pollution and dilapidation. Prohibition of new construction and repairs to existing buildings have led to the transformation of the settlements into shantytowns. Housing needs for dedensification and resettlement are not included in the above estimates.

Gdynia's housing strategy gives priority to the completion of ongoing projects and reliance on the private sector in the delivery of housing. Yet the ability of the private sector to invest in housing is constrained by high inflation, tight credit and legal impediments. The city has used the land it owns as equity in partnerships. It is now proposing to sell shares to finance construction; each share would be equivalent to the cost of 15 sq. m. of floor area.

2. Land Delivery for Private Investment in Housing

Gdynia's trunk infrastructure has sufficient capacity to accommodate the additional load generated by infilling vacant and underused parcels within the urbanized zone. Land designated for residential development is presently unserved and requires the extension of existing networks with minor upgrading of system capacity. The Housing Strategy has identified 7 infill sites totalling 240 hectares of which close to 54 are publicly owned. Cooperatives own about 23 hectares and the remainder will have to be acquired from private owners.

The Strategy would rely on investment by small housing cooperatives, and construction by small and medium size private

contractors. Implementation of this strategy has been stalled by the curtailment of state subsidies in support of cooperatives and the refusal of private foreign investors to assume the cost of secondary infrastructure which they fear would erode the affordability of the housing produced.

3. Urban Planning

Gdynia's current master plan was approved by the city in 1988. Drafted without reference to economic or fiscal constraints, it calls for the development of a new suburb west of the city on tracts covering 800 hectares. The document can no longer provide a workable legal framework for the transition to a market economy.

A new city Architect/Engineer was appointed with previous work experience in Germany. This dynamic and qualified professional undertook the controversial task of completely overhauling the structure and operation of the planning department. The city's contract with the Gdynia Planning Bureau (a public enterprise) was not renewed, after which funds allocated to land planning were reprogrammed into the department's budget (6 bln zl in 1992/93).

A young team consisting of one senior planner and 2 assistants was hired to develop a new plan reflecting current economic realities. To prevent activities from coming to a standstill during plan preparation, private practitioners were contracted to design priority project zones and support the planning team. This was all the more important as Gdynia was one of the cities asked by IBRD to submit a Housing Development Strategy (in September, 1990) including a detailed description of proposed project to be undertaken as part of the Bank's Housing sector project. The city owned land in prime locations, but the sites were designated in the master plan for projects unfeasible without state financing.

A team of 10 young architects in private practice has been assembled to work on the development of alternative projects starting with commercial development and housing rehabilitation in the city center through infill and densification. The city center has experienced gradual depopulation as younger people left old-fashioned apartments for new flats in communal housing and cooperatives.

B. Opportunities

1. Land Management

An enormous development opportunity stems from the fact that 60% of Gdynia's land is privately-owned. This land represents 80% of the city's 50,000 parcels and can be freely traded on the real

estate market. 20% of the land area is in municipal ownership, consisting of one large unserviced tract of 100 hectares and smaller partially-serviced parcels dispersed within the urbanized zone. Some parcels located in the city center can be developed with little infrastructure investment and have been targeted as priority areas for development in Gdynia's Housing Plan. Because of their development potential, the city hopes to use the areas as its equity share in a public/private partnership project. State holdings being transferred to the city are mainly on the outskirts and account for 20% of land area.

Attracting investors has not been easy. Investors prefer to get land in fee simple ownership rather than under long term leaseholds, the standard practice in Poland regarding the transfer of publicly-owned land.

2. Housing Management

Gdynia is in the forefront of housing privatization in Poland. According to the Deputy Mayor and the City Services Department, the communal housing stock consists of about 17,000 units and houses 25% of the city's population (or about 64,000 out of 251,000, meaning an average of 4 people/flat). Close to 35% of the housing stock (6000) has been privatized by discounting appraised values by 25%. Although the legality of this procedure has been questioned, Gdynia is forging ahead with its privatization program.

The Housing Department is accepting applications from tenants desiring to buy their apartments. Generally speaking, Gdynia's communal housing is more recent and in better shape than Gdansk or Sopot. 23% of the housing stock is in good condition and 50% need only minor repairs. However 20% requires structural repairs but can be salvaged, while 7% is structurally unsound and should be demolished. Apartments in buildings for which demolition certificates have been issued are not offered for sale since the building is condemned. However some units in buildings which need major repairs have been privatized with the understanding that responsibility for the repairs remains with the city.

3. Public/Private Ownership for Urban Development

The chairman of the council city planning committee is particularly concerned about housing and feels that municipalities should not wait for central directives and programs to address the problem. He advocates that cities develop their own programs to revise spatial plans, rationalize infrastructure investments and land management and experiment with various housing solutions. Given this attitude, it is not surprising that Gdynia has taken the lead in terms of reliance on private sector participation and ability to use its land assets

to promote private development. In less than 2 years the city and the local developers have sharpened their project appraisal and marketing skills.

The Zielona project is being developed by a Polish Development Co. (Horus) in anticipation of World Bank Financing. The developer intends to sell 491 apartments and 8538 sq.m. of commercial space through subscriptions in order to help finance the project. Contrary to general expectations, subscriptions have been placed on 300 small and medium size apartments ranging from 30 to 90 sq.m. There is very little demand for larger units probably reflecting the impact of affordability constraints on consumption patterns. Based on this unexpected market response, Horus decided to redesign the project.

Gdynia also provides financing to cooperatives acting as "deputy investors" to build the infrastructure required to service the land and then turn it over to the enterprises responsible for management (roads, heating, water and sewage). This also is an opportunity in that the city is gaining valuable contracting experience in western-style "turnkey" arrangements whereby private firms build (and in some cases operate) facilities then turn them over to the city.

Until 1991 the Voivod used to reimburse the city for all or part of the works. These transfers have been discontinued. The cooperatives have to negotiate with the city and sign contracts setting down the infrastructure works to be undertaken on the city's behalf. Cooperatives have signed agreements obligating them to complete 897 apartments in 24 buildings.

Strapped for funds, the city has cut back on contracts which it considers too onerous. Consequently, cooperatives are finding it difficult to initiate new projects. This is particularly the case when the cooperative has to buy land on the open market. In Cechowa the Posejdon Cooperative is planning to build 99 new houses on a site of 6.2 hectares purchased at market price. Construction started on 28 units but with funds running out the cooperative has requested financing from the World Bank to complete the project.

4. Gdynia's New Method of Flat Sales

The city has devised a system for appraising apartments taking into consideration location, age, size, number of units per building, cost of repair and cost of maintenance. Finding that the appraisal of individual units would be too costly and time consuming, the city developed matrices for "typical units" based on sample surveys and statistical cost computations. The system has been sold to 40 gminas to date.

In another bold initiative, the communal housing enterprise ABK was broken down into 5 separate, independently managed units, one for each of 5 sectors in the city in March 1991. The 5 ABKs are responsible for operation and maintenance but not for major repairs. The impact of the dismantling of the Enterprise monopoly has been to encourage competitive pricing of services among ABKs and enhance the city's capacity to compare and negotiate prices. As a result the enterprises have had to improve their efficiency and slash their work force by 30%. Three of the 5 are no longer subsidized outside the general subsidies for communal services.

The Housing Administration Department would like to merge and computerize records on individual apartments kept by departments and enterprises. This will enable the administration to determine expenditures and subsidies and monitor collections and turnover.

The city is also exploring ways to shift management costs to the residents as soon as the majority of tenants in a building have purchased their units. Tenant's associations would be created and given the responsibility of managing the building. A maintenance subsidy, in the form of reduced rent, would be offered to tenants to help them cover maintenance costs. The Mayor and the executive board will have to decide on the amount of subsidy that the city can afford to offer tenants. No decision is likely to be taken before the passage of the proposed Housing and Tenant Protection Act.

5. Creating Capacity for Strategic Planning

Renewed ties to European neighbors and new links to the U.S. are exposing the city board members and the professional teams to western planning practices. Through the Eurocities network Gdynia has established exchanges with Sweden and Switzerland.

In May 1992 the city Architect/Engineer advertised for bids to develop a new general plan, 8 neighborhood plans and 2 detailed plans. Ironically, the winning team awarded the master plan contract consisted in large part of members of the defunct Planning Bureau. Discussions with the planning committee brought to the forefront the necessity to relate spatial planning to the city's economic development program and social objectives. The committee recognized the necessity to begin institutionalizing a capacity for strategic planning. Lacking objectives and strategies to give context and direction to development decisions, the city could only respond to needs and opportunities on an ad-hoc basis.

A committee of experts has been formed to work out the procedures required to operationalize the process. Time constraints dictated having 2 teams working simultaneously on strategic planning and spatial planning although the formulation

of development strategies should have preceded the preparation of the general plan. The teams have to closely coordinate their work in order to ensure coherence and to overcome organizational practices which impede horizontal linkages among agencies and departments.

The enthusiasm of the teams is tempered by the realization that the task is difficult, the linkages complex and the data needs daunting particularly in the economic and financial spheres. The group has started a process of meetings and consultations with council and board members, outside experts, business representatives, department heads and senior professionals to identify problems and set priorities for development. With assistance from the "overture" program a Unit of City Economic Development was established. The unit is understaffed and relies on local experts.

Limited resources have to be allocated to selected objectives. With 40% of the labor force employed in the maritime sector the city places high priority on the integration of the sector in city development and the promotion of small enterprises. Yet safeguarding employment in declining industries at a time of economic uncertainty is difficult and funds to redevelop unused industrial land are lacking.

d. Gdynia Perspectives

The Deputy Mayor and other officials interviewed identified the following constraints to effective housing delivery:

1. Urban Planning Officials believe that linkage of spatial to economic and financial planning according to an overall city development strategy is institutionally necessary. Current master plans are outdated and inflexible and improved databases are needed for enhanced urban planning.

What is important here is that city officials recognize these issues specifically and contrast needed improvements in urban planning with current expertise in budgetary planning. While the City Services Department complained about inability to estimate incomes, inflation and expenditures for projection purposes they had costed out both services and investments for the next fiscal year. In short, Gdynia officials want to transfer successful experiences in budget planning to the larger process of long-term urban planning.

2. Housing and Land Needs Lack of mortgage credit markets and available land with infrastructure services impedes land and housing development. Completion of the computerized titling and cadastral system (LIS) is also needed according to Gdynia officials to speed up land disposal. Financing is needed to cover such needs as (a) infrastructure extension for residential

development and infilling of vacant or underused parcels, and (b) coverage of the affordability gap between builder costs with infrastructure included and the inability of poorer groups to pay for the higher-priced housing.

3. Public Budgeting and Infrastructure Financing It was evident to the team that Gdynia officials had a clearer idea of constraints and possibilities in the public finance area than other cities visited. This was probably due to the beneficial effects of trial and error experience and the availability of a long-term technical advisor. For example, city officials mentioned two practices that put them at the threshold of resolving basic public budgeting problems common to this region.

First, flats held by individual departments and city enterprises are variously listed in extrabudgetary accounts. Officials noted this and their concern about the proper consolidation of budgetary accounts and their ability to determine the costs and benefits of subsidies from the city budget. Second, City Services Department officials noted that supplier payments are often withheld and paid after the fourth quarter in order to balance the budget (or reduce the deficit). Possible use of payments arrears to finance deficits is one negative effect of cash-based expenditure accounting systems.

Equally as important, city officials recognized infrastructure finance as a key constraint to housing delivery. But they recognized that the problem is more complex than simply the absence of funds. Gdynia is responding to this need by (a) use of betterment districts in selected neighborhoods, (b) market-testing services via contracting out (urban transport lines), (c) privatizing housing through discount sales, (d) linking subsidies to efficient performance (by kilometer of service in urban transport) to cut costs and (e) proposing maintenance subsidies for housing tenants. These practices provide either direct financing from the investment budget or access to a pool of saved resources (as yet not earmarked) applicable to investment projects.

e. Team Perspectives

As evident from the above discussion, it is difficult to speak of Gdynia problems without noting the city's energetic efforts to overcome them. The team concurs with Gdynia assessments of its major problems and offers additional dimensions to their importance.

1. Urban Planning and Land Information Systems

As indicated, the planning system needs to be modernized and the land information system extended to all titling transactions and cadastral information. Data needs to be improved for spatial,

economic and fiscal planning purposes.

2. Public Management

The team recognized that a critical element in local public entrepreneurship and institutional innovation was the positive climate found within city government. Uniquely here, officials had worked for other Polish city governments, the city had more professional employees, and the city's private real estate provided a stable source of tax revenue for the budget. These conditions permitted managers to develop new ideas, such as the salary bonus system based on employee tests and outside performance evaluations (base salaries are set in Warsaw) which contribute to stability both within government and among the electorate which has returned elected city officials to their posts with regularity. This generates interest among the best city employees elsewhere to work in Gdynia and the local institution-building process becomes cumulative.

Reliance upon the private sector for land and housing development also requires a commercially flexible public sector mind-set to deal with investors and businessmen, and a governmental mentality capable of tolerating ambiguity without reversion to bureaucratic and authoritarian rules that run up transaction costs. The team hopes that such a public management system can become a model for replication elsewhere in Poland.

3. Public Budgeting and Infrastructure Finance

The team identified a number of public finance sub-issues where current practices could be extended or modified.

a. Betterment Levies. As noted, cities can legally enter into agreements in which beneficiaries pay 50% of the total cost of specific physical infrastructure projects while the city pays the other 50% of the cost. Gdynia has completed about 19 small projects for streets, pipe lines for hot-cold water, gas connections, drainage and sewerage at a cost of about \$0.5 million. 12 more projects using this financial mechanism are under construction or about to be initiated.

Though betterment levies (or assessment districts which prorate infrastructure costs) bring new financial resources into the system or free public funds which may be allocated to other needs, their use is limited in practice to high-income neighborhoods. No use is made of cross-subsidies (income-elastic fees) which could allow expansion of coverage to a broader range of beneficiaries.

b. Local Capital Account. Gdynia does not earmark any revenue source to assist in infrastructure finance. Capital revenues from the sale of land is devoted to financing recurrent services. An

account should be opened in the capital budget to receive revenues from the sale of public assets. This would diminish the practice of paying for investments that benefit future generations with current revenues from the budget.

c. Public Service Pricing. Gdynia officials understand the difference between market and subsidy prices, as demonstrated by use of cost recovery techniques as contracting out bus lines to reduce unit costs of service. Nevertheless, most user fees (waste collection, sewerage, hot-cold water) are not based on individual consumption. Rather, housing complexes have one meter/building which divides payment into equal amounts regardless of consumption. For a given service, the flat fee encourages over-consumption and waste.

The implication of using flat service fees for infrastructure finance is twofold. First, infrastructure project planning which relies on current consumption as the measure of needed investment will be likely to overestimate both need and cost (because flat fees encourage overconsumption). This engineering approach to investment planning was used in the past under central planning rather than the economic approach which tries to measure real opportunity costs. The results were often unneeded and poorly located investment projects based on unrealistic budgets.

Second, using realistic cost-based fees can contribute to linkage of spatial planning with economic and fiscal planning. This would reduce a constraint to housing delivery noted earlier by Gdynia city officials. For example, garbage fees are included in monthly rents and they do not cover costs of service. Nor does the fee include an amortization charge for expansion of landfill capacity. By inclusion of landfill sites in the spatial plan with appraised project costs in an approved capital budget, incentives would be generated for the city to employ fees based on individual consumption and to build investment projects ahead of demand. Revenue from cost-based fees earmarked for investment would encourage modern spatial planning linked to fiscal and economic constraints.

d. Expenditure Analysis and Monitoring. As noted, Gdynia has a clearer picture of subsidy costs than other cities visited. For instance, 43.4% of the FY 92 budget for subsidies is for repairs, 37.8% for maintenance of public space and garbage collection, and 17.1% for heat. Gdynia also calculates the public subsidy costs/flat at 24 million slotys, and 80% of communal tenant costs. But the team noted that the annual budget simply reveals levels of cash-based expenditure outflows based on rather antiquated cost and notions.

A more serious problem is that some city enterprises and departments may use different data to operate services (such as

recorded purchase orders and other commitments) than the treasury needs for development of its annual budget (because the format is set by the central MOF). This means that assistance is needed in reconciling the accounting and budgeting practices of city staff and line agencies. Consistent information needs to be exchanged and utilized for decision-making.

While these examples suggest significant analytic capacities, Gdynia still needs to strengthen cost accounting with modern concepts and methods. For example, Gdynia estimates a 40% farebox coverage ratio of operating costs for urban transit. But without a clear conceptual distinction between capital and recurrent costs in the budget, the farebox may also be financing capital investment. If so, other needs as current maintenance have been shortchanged. City transport officials noted that current accounting practices prevent analysis of fixed-variable costs, which prevents assignment of management responsibilities for service performance.

Other major categories as transit maintenance (50% of recurrent costs) remain global and likely hide operating inefficiencies. City officials and team members agreed that assistance is needed for expenditure analysis of city services. The team believes that levels of actual financial needs and indebtedness capacities can not now be determined accurately. For creditworthiness assessments, investors will certainly want to know about Gdynia's levels of: direct expenditures versus subsidies or credit, and investment versus recurrent expenditures.

Additionally, the team believes that responsibility should be assigned by the Treasury Department for monitoring fee and local tax collection efficiencies.

e. Privatization of Services. As noted, in an effort to reduce operating costs, Gdynia contracted with 5 private firms to operate specific bus lines. In a corresponding effort to monitor performance, Gdynia provides an operating subsidy to them based on kilometers of service. These are significant efforts and should be expanded to other services.

The problem according to city officials is "Catch 267" or a Sejm law by that number which prohibits the city from implementing investments. The effect of the law has been to split legal and fiscal responsibility from operational responsibility. Under this role division, the city has often paid for shoddy construction and poor, high-cost service delivery by cooperatives and city enterprises. With virtually unsupervised use of guaranteed subsidies, city enterprises may actually subtract value from raw materials consumed to produce such services as heat and electricity. The city has no direct fiscal control over city enterprise costs or their use of materials. In short,

communal enterprises in water, heat, transit (excluding the services delivered by the 5 firms) and sewerage have little interest in controlling costs since the city must cover its book losses.

This institutional arrangement also discourages efficient fee collection by the enterprises themselves. Gdynia officials estimate about 10% of due payments from consumers are in arrears. As noted, unmetered consumption on the basis of flat fees already encourages waste by consumers for which the city must ultimately pay to cover reported city enterprise costs. Since heating and hot water fee ceilings are set by the central government, and the city cannot legally deliver the services itself, Gdynia can either (1) continue paying subsidies or (2) attempt to devolve fiscal responsibilities to private firms (through betterment levies or contracts for services as noted). Gdynia efforts to devolve fiscal responsibilities should be supported by external assistance.

III. Technical Assistance and Training Priorities

A. Methodology

The recommended framework distinguishes areas in which existing strengths may be supplemented by technical assistance from areas of existing need. Especially in the case of Gdynia with both high absorptive capacity and substantial existing strengths, assistance should be directed primarily extension of existing practices with modification of systems where necessary.

The methodology used by the team to develop priorities was as follows: Program priorities were identified after team discussions with city officials on (a) assistance available through this program by AID, (b) the need to avoid duplication with other aid donors to Gdynia, (c) city official assessment of their housing-related problems, and (d) team assessment of city needs. The following priorities and rationales were discussed with Gdynia officials:

In general, to be saleable and subject to financing, city housing stock and property resources must be validly titled and recorded in accessible planning information systems. It also must be readily available for approved uses to investors. Similar to the team's recommendations for Lublin and Gdansk, this is the first technical assistance priority since it recognizes the importance of defining the resource to be used and financed. But Gdynia has completed an inventory of land that would be privatized and city officials indicate that they now know who owns which parcels. While Gdynia has progressed further in this regard than the other two cities visited, it needs support for the next steps: (1) to extend its strategy of flat sales to more tenants and (2) to stimulate private housing construction.

The first priority applies to what the team feels are existing strengths in Gdynia. Progress in sale of flats and housing management is substantial and needs support through improved contracting procedures and development of incentives to form tenant's associations.

The second priority is to generate financing from improvements in management and budgeting of existing services as well as improvements in the installation of market creditworthiness measures and concepts. Improvements in economic development strategy-making and revenue generation from existing fee structures through metering and fee design are needed.

One lesson of western community redevelopment experience is that emphasis on homeowner incentives to stay and manage their own properties can produce dramatic results in rehabilitation of housing. Emphasis on individual or group efforts to manage properties, purchase flats, finance rehabilitation and revitalize neighborhoods is precisely Gdynia's current strategy and this should be supported by AID as top priority. Since funding for such efforts comes from current expenditures and some private funding, institutional changes are needed to generate better information on land and property resources to speed up land transfers and development. Efforts are also needed to improve public financial management to generate capital investment resources and reduce reliance on the current services budget.

Hence, the team believes that Gdynia's priorities are appropriate and should be supported by technical assistance to enhance its strengths: (1) individual and group incentives to manage flats and finance rehabilitation and ownership, and its needs (2) systemic improvements in planning and budgeting.

The sequence of assistance within these priorities is difficult to specify in advance because of unintended consequences and uncertainty on the time needed for assistance to take effect. Assistance efforts in both priority areas should not proceed simultaneously (because this would tax even the highest absorptive capacity). Individual and group housing choices should be expanded through systemic improvements in financing and planning. But the specifics of delivery should be refined further in the field based on the results of past activities. For this reason, the regional advisor should monitor short-term work closely to determine when, for example, spatial planning and budgeting have been linked properly so that financing generated by public finance reforms can be used for new investment and rehabilitation.

B. Absorptive Capacity

Gdynia illustrates one of the paradoxes of this concept. Where the recipient is able to absorb assistance quickly and

effectively, the assistance is almost by definition not necessary. Profit-oriented capital could likely do the work as well. As noted, Gdynia has been able to attract talented and enthusiastic young professionals and to draw on local expertise for its initiatives. Gdynia's high absorptive capacity is the product of historical factors (private property resources) and the availability of a highly-experienced long-term advisor from the Peace Corps for the past two years.

This has enhanced capacity to the point at which the current winning formula needs only reinforcing. For example, local spatial and strategic planning teams are now confident of their own capacities and no longer feel the need for a long-term advisor. Rather they seek short-term assistance to help them adapt concepts and methods to the particularities of the situation they face.

C. Existing Strength Areas

1. Economic Development Strategies The city has started on the process of defining development strategies which will provide guidelines to spatial planning. In turn the spatial plan has to respond to the economic strategy and will per force rely on new land management instruments for its implementation. Until this framework is in place, the city responds to decisions regarding investments in land and infrastructure on an ad-hoc basis as they arise. Hence the priority placed on building up the strategic planning and land management capacity in terms of evaluation of investment proposals, agreements concerning sale, lease and of auctioning land to private investors.

2. Management of Communal Housing While housing may no longer be a priority area for public investment, the management of the communal housing stock remains a priority where technical assistance is needed. As noted, Gdynia programs have restructured housing organizations, e.g. breaking them up into separately managed units to reduce operating costs, in order to make them more cost conscious and efficient. ~~Gdynia needs assistance in developing tenant's associations supported by maintenance subsidies and other incentives for management of purchased flats.~~

3. Privatization of Housing Progress in flat sales (via the Gdynia Method) and contracting with cooperatives as "deputy investors" has already been noted. Assistance is needed in more sophisticated competitive procurement and contracting methods to increase city leverage over costs and performance. Contracting assistance is also needed to overcome the legal constraint which inhibits city controls over utility and housing service delivery by communal enterprises. Western experiences with contracting that produce quality goods and services without governmental micromanagement and intrusion into contractor routines need to be explored with Gdynia officials.

4. Public Management Currently high quality management needs to be institutionalized and strengthened. Western public administration concepts of: (a) productivity compensation, (b) management without hierarchy, (c) program and performance budgeting systems, (d) alternative organizational structures, and (e) control of public participation in planning and policy-making need to be developed at local institutions, such as Gdansk and Sopot Technical Universities.

D. Existing Need Areas

1. Housing Needs Despite emphasis on private-sector financing, housing needs remain at 16,000 units. There are long waiting lists and emerging squatter settlements that demand public responses. In the short-term, existing Gdynia strengths in contracting and restructuring communal housing can help ameliorate the worst conditions. In the medium-term, systemic improvements in data and public financing are needed for improved policy decisions.

2. Spatial Planning and Budgeting The master plan is neither market driven nor sensitive to the need for long-term cost-effective service delivery. Spatial plans need to be tied to the economic development strategy and reflect costs of needed services. As noted, the current sanitation fees have not reflected growth needs and thus excluded investment in new landfill capacity. Field technical assistance advisors should determine if the absence of strategic planning is leading to poor budgetary planning or if hierarchical barriers are constraining communication of budgetary plans, leading to exclusion of the landfill project from the public agenda. Whichever empirical sequence is the cause, the two processes need to be linked. Assistance should be provided to develop a planning process requiring long-term cost of service data. This will also require database improvements in both spatial and budgetary planning.

3. Infrastructure Finance Financing is needed to cover infrastructure extension needs and the affordability gap, where production costs exceed limited income group affordability targets by a factor of 1.5-2.0.

The team believes that AID should provide assistance to Gdynia for (a) methods to finance extension of betterment levies and (b) means of improving pricing and metering. This assistance can generate needed revenues to finance both kinds of infrastructure needs.

a. Betterment Levy Extension The successful Gdynia program of assessment districts to prorate infrastructure costs should be extended beyond wealthier neighborhoods to poorer districts. This might be done through inclusion of cross-subsidies in the projects to be financed based on newly designed income-elastic

fees. Wealthier districts could pay an additional charge on planned projects to subsidize the infrastructure needs of poorer areas. Revenues from cross-subsidies and from sale of city assets could be earmarked into a local capital fund for this purpose. In the future, such a fund might be used to leverage additional public and private funding to finance infrastructure and housing rehabilitation and long-term credit on soft terms for poorer tenants seeking to purchase homes.

b. Pricing and Metering Assistance should be provided to develop transparent fees that are either market based, including a charge for amortization and projected growth of demand for services, or subsidy-based with clearly measured gaps between fee revenues and operating costs. Fee collection practices need improving to generate more revenues from existing fees. It should be emphasized that fee rate increases are not advocated--merely improved collection and administration which is both more equitable to those that pay and efficient from the systemic standpoint. As noted, utility and housing services consumption should be metered to avoid waste and generate revenues due from tenants. For these reasons, assistance should be provided in pricing and metering.

IV. Other Donor Activities in Municipal Development

The major donor influence at the municipal level has been the Peace Corps provision of a long-term advisor for the last three years. Gdansk University's Transport Economics Department played an important role in contracting out of local transit lines as well as designing the performance-based grant for kilometers of service.

V. Work Plan

1. Delivery of Assistance

The team believes that assistance to Gdynia should be limited to intermittent short-term consultants drawing upon local talent from the mayor's office and local universities in the Gdansk-Gdynia area. Indeed, none of the officials and department heads interviewed requested the presence of long-term, in-house advisors. Short-term consultants would deliver seminars to groups of cities and provide hands-on efforts in particular technical areas as well as developing case studies as needed.

A. Areas of Existing Strength

1. Strategic Planning and Economic Development The current master planning process is ad-hoc and needs a strategic underpinning to give context and direction to development decisions. AID should support the City Economic Development Unit with staff assistance to develop (a) a planning process, (b) develop databases for

planning, economic and fiscal spheres, and (c) a framework for economic development. Specifically, technical assistance should be provided for skills in: evaluation of investment proposals, development of sales instruments, and development of leasing agreements and property auctioning. A team of planning experts should spend one month with the Unit engaged in the above activities.

2. Housing Management Gdynia's efforts to devolve maintenance authority to tenant's associations with subsidy support should be strengthened. Institutions such as the Urban Land Institute should offer short-courses in: development of tenant's associations, design of maintenance subsidies, and design of incentives for tenant management of flats. These should be given on-site and case studies of similar western experiences should be provided while studies of the existing Gdynia experiences are utilized for new case studies of regional economic transformation.

3. Procurement and Contract Management Successful efforts to contract out bus routes have led to increased interest in privatization of other services as well. Gdynia would like to have AID support in developing skills to: design contract specifications, solicit bids from competitors based on cost and technical quality (which is often a 2-step process of competitive bidding), select bids and deal with loser protests, manage contracts without intrusion into contractor practices, and techniques to develop trust between public purchasers and private suppliers.

4. Public Management Technical assistance is needed here to retain existing absorptive capacity and Gdynia's high-quality staff. Gdansk University and Sopot Technical School could be used to found the core of a modern public administration education and training program. Such western organizations as: American Society for Public Administration's Section on Comparative and International Administration, and the National Conference on Teaching Public Administration could feasibly provide assistance in developing curricula and modern training courses using relevant case studies and other hands-on materials. Gdynia officials should receive training in: expansion of the present bonus pay system to pay for productivity systems, development of program and performance budgeting systems, development of alternative organizational structures (such as expanded use of cooperatives as deputy investors and nascent turnkey arrangements already used by Gdynia), and control of public participation in planning and policy-making (to prevent chaos during official meetings).



B. Area of Existing Need

1. Spatial Planning and Budgeting Assistance is needed to develop fee structures that are based on cost recovery criteria and include an amount for growth (amortization charge). Since all services have a capital component (sanitation--landfill; transit--rolling stock; water--water treatment plants, etc.), it is essential that public pricing skills be developed by Gdynia officials. Since valid prices must be based on real costs, it is also essential that market cost accounting concepts be imparted to local officials. Accrual-based revenue and expenditure systems should be linked to results-oriented budgeting systems. Gdynia transit officials already employ a performance formula to cut service delivery costs. This effort should be extended to other services requiring city oversight of departmental or contractor performance.

Accordingly, AID should provide short-term advisor and training assistance (2-month exercises) covering key problems as topics in the public financial management area. The assistance would attempt to reveal means to local practitioners to generate savings that could be applied to infrastructure and to ensure that proper planning is done for replacement of capital used in service delivery. The vehicle should be locally-developed case studies integrated with western materials, combined with counterpart practitioner exchanges and visits from European and US cities. Planners should be provided appropriate skills to develop income-sensitive fees (cross-subsidies) that can spread the benefits of existing Gdynia betterment district financing to poorer districts. This also can be accomplished through counterpart visits and local study-based training exercises. Thus, assistance should be geared to deepening the cost basis of spatial planning and linking it to fiscal and economic databases.

ANNEX IV

**TECHNICAL ASSISTANCE FOR THE CITY OF LUBLIN
IN LOCAL GOVERNMENT AND HOUSING PRIVATIZATION**

TECHNICAL ASSISTANCE STRATEGY FOR THE CITY OF LUBLIN
IN LOCAL GOVERNMENT AND HOUSING PRIVATIZATION

From September 30-October 2, 1992, an ICMA team visited Lublin to identify problems in housing and local government that both local officials and the strategy team believe should be addressed over the next three years of the project. This paper describes how technical assistance priorities were developed by the team for Lublin and based on an assessment of local capacity to utilize aid, suggests what we believe to be the most effective methods for delivery of that assistance.

Officials were found to be extremely competent at the senior staff levels but noted themselves how weaknesses in their mid-level management constrained effective service delivery. Lublin officials were generally receptive to the team's presentation of preliminary strategic priorities for the three years and requested immediate assistance from ICMA on design of two city land areas for development.

I. Background

Lublin is a city in southeast Poland of 360,000 inhabitants. The tenth largest city in Poland, it is governed by a 7-person management board which include the Mayor and 2 Vice-Mayors. The Mayor, who is also the chief executive officer, can be dismissed at any time by the 55-member city council. The city government has about 7000 employees, of which 200+ are in management positions. Officials interviewed included the treasurer, chief of project planning, city secretary (functionally similar to the US city manager), city architect-planner, and deputy manager for urban transport.

II. Issues Related to Housing Delivery

a. General

The delivery of housing via the policy options of privatization and management of existing stock will be affected by: the size of the housing deficit, available land, efficacy of the permitting process, the legal titling process, and land use data base capacities. Overcoming these constraints depends in turn on city government capacity to manage, budget and finance its services and capital assets efficiently and effectively. Assistance in overcoming these problems depends upon local will and capacity to utilize assistance.

b. Housing Conditions in Lublin

1. Housing Management. The housing stock under city management consists of 553 communal housing blocks comprising

15

15,183 apartments and 368 privately owned buildings comprising 4,130 dwelling units.

12,000 families meeting national income eligibility criteria for state housing are registered on the city's waiting list. Their numbers have swelled as inflation and the partial curtailment of subsidies to cooperatives have forced moderate income households to shift from coop to state housing lists.

The Housing Management Department estimates that over 50% of the communal housing stock suffers from various degrees of deterioration. With rents covering less than 30% of operating costs, the city is unable to refurbish buildings. Only 15% of the tenants have exercised the option to buy over the past 2 decades.

2. Housing Privatization. Sales have only affected the most attractive units. Certificates of demolition have been issued for 260 blocks considered structurally unsound, but the orders cannot be implemented for lack of replacement housing. 2,700 apartments are needed for relocation purposes of which 1,000 must be provided urgently.

1,000 buildings in need of major repairs are judged to be salvageable if funds can be found to undertake the repairs. The Department can only deal with "catastrophic" situations, temporarily consolidating buildings, moving residents to transient accommodations or vacant lots and demolishing the structure.

Rent controls and complicated ownership and tenancy patterns impede reprivatization of the old 19th and 20th century buildings under city management. As an incentive, the city grants owners up to 10 million zloty per building for rehabilitation. Between 1989 and 1991, 200 buildings were reprivatized all of which had commercial uses, where rents can be raised.

3. Housing Needs

Immediate housing needs are estimated to be about 6,250 units distributed as follows:

- Relocation of residents in unsound structures in "catastrophic" state 2,700
- State housing list allocations 3,000
- Court ordered evictions 500
- Private (property owner) eviction requests 50

c. Characteristics of Urban Development in Lublin

Lublin is characterized by the existence of strong private land market. Over 60% of the land within municipal boundaries is owned, 30% is owned by the city and 10% remain in State

ownership. Land available for development is on the urban fringe and consists of small private agricultural holdings: typically long narrow parcels ranging in size from 1 to 2 hectares.

Vacant developable land in public ownership is limited. The city owns a number of parcels imbedded in the urban fabric. Their location close to the city center could enhance their development potential. Topography and environmental considerations severely limit the economic use of some sites. Yet in the present economic climate pressure will mount to put to use tracts of public open space left unmaintained and neglected. The most appealing options would be to sell the land to private investors for any use in order to generate cash receipts to help reduce the budget deficit.

The environmentally conscious city Engineer/Architect and Planners worry about development on wetlands in the river valleys. In fact outside the context of the Housing Development Plan the city lacks an overall urban Development Strategy to provide the framework for land management and the disposal of public property. The Environmental Fund of Poland is a source of low interest loans which Lublin has tapped for a landfill project. The city also seeks to clean up and reuse 2 large parcels polluted industrial waste and currently occupied by dilapidated housing. The Fund has not agreed to provide financing for this project.

Recent urban expansion has been occurring mostly through semi-legal "wild construction" on privately owned agricultural land. Lax enforcement of regulations and nominal fines are unable to deter violators given the profits delivered from land subdivision and the appreciation in the value of real estate.

d. Lublin Perspectives

First, Lublin's mayor identified housing as the single most critical issue facing the city, followed by pollution of land and infrastructure finance.

The ranking was based on the fact that half of the citizens who come to city hall, come for housing related grievances and requests. The mayor and the board are under pressure to do something about the worsening situation noted above. In sum, the housing problems noted by Lublin officials are: (1) inflation and reduction of subsidies have increased waiting lists for communal housing, (2) absence of funds to repair deteriorated communal housing, (3) inability of the city to cover communal housing maintenance with rents, (4) lack of replacement housing prevents demolition of structurally unsound communal blocks, (5) rent controls and tenancy patterns impede reprivatization of buildings under city management, and (6) lack of coordinated departmental access to the land use data base.

Second, city officials cited the difficulty of managing resources under conditions of tenure uncertainty. The Mayor and City Secretary can be removed by the board at the weekly meeting which makes policy continuity and management control difficult.

Third, city officials cited the problem of a landfill site which they believe should be privatized. Officials would like to obtain World Bank funding but lack the planning capacity to prepare and appraise projects.

Finally, officials believe that if the method of financing infrastructure could be changed, the number of complaints to city hall could be reduced by 50%. Until recently, housing cooperatives financed up to 50% of new construction and cities financed on and off-site infrastructure. Cooperatives use bank credit at floating rates of 40% or more and officials claim this method financed 1800 flats in 1990. Foreign loans are not perceived as an option since interest rates cascade from Warsaw banks outward and become prohibitive by the time the loans reach Lublin.

In the budgeting area, officials perceived that some services were oversubsidized and underproductive (e.g. transit). They noted the lack of budget programming and analysis each year that permitted such services to remain inefficient. Services have not been costed out nor analyzed in relationship to measurable benefits. City officials believe that analytic capacity exists but is not used because of the pressures of preparing budgets with scarce and fluctuating resources. Analysis is excluded from the process of developing and executing budgets and this wastes funds according to officials.

e. Team Perspectives

The team generally agreed with the city's priority list of problems and stressed the need for skills and capacities that would generate funds needed to deliver housing.

First, the existing master plan which provides the existing legal framework for urban development is hopelessly rigid and obsolete. With excessively detailed land use designations and cumbersome procedures for change, the plan has become an impediment to urban development. The major issue is to modernize urban planning and link it to the investment budgeting process for a market economy.

Second, while Lublin has one of the first computerized cadastral systems in Poland, there is no system for sharing information with departments (located in 17 different locales) or updating records. Nor does the system contain information relating to built-up areas or connection to utilities. In short, the planning process and land use data system provide little

information for decision-makers on existing and future infrastructure needs. This, coupled with the incapacity to plan and appraise infrastructure projects noted below, constrain Lublin's ability to obtain financing.

Third, cumbersome development regulations are harmful to private investors and detrimental to the objectives of local self-government as well as to its finances. Flexible and streamlined permitting procedures are needed to cope with the rising number of applications. Filings have increased by a factor of 3 since 1990 and at present average 200/week. In 1993, Lublin expects to have to process 10,000 applications.

Fourth, the public financial management system should be improved to reduce loss of revenue and generate new funds for infrastructure financing. The team believed that local revenue collection and control efficiency could be improved on existing taxes, user fees, and licenses. Many current fees are either not collected efficiently (urban transport fee collection is estimated at 50% efficiency) or in arrears because of individual loss of employment or income (rents, solid waste).

There was no indication from city officials that they wanted to raise rents or fees or new taxes. But they were open to the suggestion that some funds were already due and not collected and that they could be earmarked for capital finance. This means that the printed budget is in part balanced by overestimating cash payments (payments arrears) and is therefore of little use in detailing areas for downsizing or adding resources to serve new needs. The inability to project revenues and expenditures accurately which is impeded by the existing budget structure and accounting system also generates fiscal uncertainty among departments which weakens service delivery.

Inability to appraise investment projects (identification, preparation, economic and financial evaluation and supervision of project implementation) also hinders efforts to obtain needed financing for housing-related infrastructure as well as support systems (land use data systems). The team found that these public financial management issues were largely unrecognized by top officials though clear evidence of such bottlenecks was provided by mid-level officials in city departments.

Fifth, a major source of savings that could be channeled into a local capital infrastructure fund to support financing of infrastructure was in the area of subsidies. The Mayor noted this problem in only one area, urban transit, which he believed was expensive to the city and provided only marginal service. Through proper review and analysis of the annual city budget, the costs and benefits of financing operating deficits from current funds would be evident to decision-makers. This transparency is now lacking because of needed improvements in both budgeting and

accounting systems.

Finally, while senior staff are highly competent, mid-level officials are new to government. In order to hold on to new employees and encourage their advancement, the team believes that the civil service needs professionalization via delegation of greater authority from the council over routine decisions (such as implementation of employee suggestions for improvement) and familiarization with basic practical concepts of: contracting, supervision, and budgeting.

III. Technical Assistance and Training Priorities

The recommended framework distinguishes areas in which existing strengths (high absorptive capacity) may be supplemented from areas of existing need. It was found that where perceived needs existed, absorptive capacity was not necessarily low, rather it primarily requires redirection of resources. Program priorities were identified after team discussions with city officials on (a) assistance available through this program by AID, (b) the need to avoid duplication with other aid donors to Lublin, (c) city official assessment of their housing-related problems, and (d) team assessment of city needs. The following priorities and rationales were discussed with city officials:

In general, to be saleable and subject to financing, city housing stock and property resources must be clearly titled and recorded in accessible planning information systems. It also must be readily available for approved uses to investors. This is the first technical assistance priority since it recognizes the importance of defining the resource to be used and financed.

The second priority is to generate financing from improvements in management and budgeting of existing assets as well as improvements in the recognition of market creditworthiness measures and concepts that must be prior to obtaining external credit for housing and related infrastructure.

The first priority applies to what the team feels is an existing strength in Lublin. Progress in land use planning and information systems development is already underway and needs support in this effort.

A. Absorptive Capacity

Lublin has a dedicated Mayor who is able to provide strong leadership to the municipal staff. Senior professionals in the technical departments are highly qualified. The architects in charge of architecture, urbanism and construction have traveled abroad in "study tour" programs to the U.K., Denmark, and the U.S.A. They have exposed to new different practices: strategic planning, demand driven urban development, and participatory

project design and implementation. They are eager to introduce these concepts to their municipality and to find methods by which they can be operationalized. The junior staff is a younger inexperienced group eager to learn the new methods and perform in the market oriented system. They lack technical skills and some thought must be given regarding improvements in their capabilities.

Lublin also is the locus for 4 major universities, one of which (Lublin University Business School) is the current focus of the Coopers and Lybrand municipal development project with the U.K. Local Cooperation Fund. This offers an important resource for training local and regional officials.

B. Existing Strength Areas

The team identified: land use planning and land management data systems as existing strengths on which to focus technical assistance for improvement. These strengths are indicated by the following city initiatives since 1990:

1. Architecture, Urbanism and Construction Department

In anticipation of the enactment of the spatial economy law the department would like to capitalize on the temporary regulations embodied in the in the Anti-Crisis Act enabling the municipality to develop "action plans" for the housing sector and to start revising the master plan. The architecture and construction division wants policies that emphasize private sector participation going beyond the serviced-site approach called for in the legislation. Specifically they want to pursue strategies promoting:

- Breakup of large communal and cooperative housing estates into smaller groupings as a prerequisite to a transition to private management by residents.
- Building rehabilitation by owners with appropriate incentives including tenant relocation.
- Housing and neighborhood upgrading with tenant participation.
- Valorization of architectural heritage in the old historic town by property owners capitalizing on the potential for commercial use of ground floors.
- Promotion of less expensive traditional construction methods suited to the character and scale of private development including smaller cooperative projects and the capacity of the local private builders.
- Applying participatory planning techniques learned in study tour.

The city architect has developed a detailed neighborhood plan and well thought out strategy for a pilot project in Bronowice to upgrade an older deteriorating area slated for redevelopment in the obsolete Master Plan though (1) the reuse of unused industrial land, through negotiations with landowners, (2) dedensification and relocation of some tenants and (3) reprivatization of the housing stock most of which is structurally sound. The challenge is to secure seed capital to start on the public works to rehabilitate the infrastructure on site thereby enabling house connections previously denied in condemned neighborhood.

2. Land Management and Surveying Department

The Land Management Department is concentrating its efforts on 3 major tasks:

a. The transfer of former state owned property which affects 8,000 parcels covering a total of 20,000 hectares and includes land designated for housing cooperatives. The tedious and time consuming process of clearing up titles, reconciling old deeds with current plot boundaries and land use, dividing and transferring ownership, started in 1990 and is expected to be completed by 1994.

b. Land assembly at the edge of the urbanized area to provide sites for multifamily housing as mandated by law. The Housing Development Plan guides the land acquisition program, and integrates it in a wider framework channeling urban growth in the desired direction, namely to the South/West where deep water wells tap higher yield aquifers.

Land is acquired at the appraised price of rural settlements or agricultural uses without a development permit. Rural inhabitants (if any) are relocated and provided a replacement dwelling unit.

c. Subdivision (survey and platting) of assembled tracts and sale of parcels by public auction. Plots range in size from 300 to 580 sq. m. and sell for 40 to 100 million zloty. Infrastructure services include water supply and drainage but not sanitary sewage. Applicants on coop waiting lists can get plots at the reserve price upon obtaining a certificate of eligibility from the Voivoda. They account for the lower end of the sales price range which is clearly below market value. The Land Management Department is able to market about 100 plots/year. In order to meet the requirements of growth and replacement it will have to increase production to 400 lots annually.

Lublin boasts one of the first computerized cadastral systems completed in Poland. It is set up in accordance with directives of the Chief Surveyor of Poland and is located in the

Voivoda office. The city has accessed these records and transferred the data base to the land management department. The Department has acquired a PC386 and will be installing an "Intergraph" LIS system in November. The Intergraph Co. will train 2 technicians to operate the program and the computerized cadastral records will be transferred to the Intergraph database.

City departments are proceeding independently to modernize and computerize their operations. The mayor feels that better coordination would be beneficial and more efficient, but rendered difficult by the physical dispersal of the departments in 17 different locales. However, given the magnitude of the investment required to install the GIS system. The Land Management and Survey Department and the Architecture and Urbanism and Construction Department which fortunately are housed in the same building will access the system from their own terminals. Technical assistance is needed to help the city structure its data base so that it can meet the needs of the various city departments and institute a system for sharing information with other departments and updating records. For example the cadastral records do not currently contain information relating to use of built-up areas and connections to utilities.

Senior staff are competent and should be considered a resource on which to build a professionally-managed government. Mid-level managers in the above departments should be encouraged through training and economic incentives to improve land use planning and information systems and to coordinate data access for users.

C. Existing Need Areas

Computerization and modernization of existing land use data bases builds on the existing strengths of Lublin government in land management and subdivision assembly noted above. However, as recognized by both city officials and the strategy team, weak urban planning and a cumbersome permitting process inhibit definition of property resources. These areas will require greater attention in the team's view because past governmental practices have not been client-oriented. Investors are clients whose economic costs increase along with the transaction costs of obtaining local permits. In addition, historically urban plans included costless land. Development of an urban planning process based on market land values will require techniques that change mentalities and rationales for past practices. This will take time and cannot simply be based on canned techniques from training manuals.

1. Urban Planning and Building Permit Processes

a. The current building permit process is incapable of coping with the rising number of applications. Lublin would like AID technical assistance to simplify procedures to issue building permits.

b. The existing 50-year master plan is rigid, obsolete and is an impediment to urban development. Lublin would also like AID technical assistance to develop a flexible regulatory framework for urban development.

Lublin officials also believed that savings and more efficient services could be delivered if the budget process could be improved for these purposes. They noted, for example, the inability to forecast revenues where state budgets were approved late and inflation estimates varied widely. Clearly, they also wanted assistance in finding new methods of financing infrastructure. The team believes that improved budgeting and infrastructure financing are related and should be approached as part of an effort to enhance public financial management techniques and processes.

2. Absorptive Capacity

It was evident from interviews with the City Treasurer that she and her staff were technically sophisticated and alert to the details of the latest legal changes from Warsaw, such as the new Gmina Finance Law draft. Evidence of this competence lies in the computerized city budget documents that contain both fiscal and narrative data on line-items. However, interviews with mid-level officials revealed inexperience with the basics of financial and economic project evaluation (essential for infrastructure planning and financing).

Review of the budget chart of accounts also revealed that the format does not reveal critical comparative information to decision-makers by fiscal years, and does not clearly distinguish recurrent from operating expenditures (1991 budget paragraph #36 is for "material services" which commingles the two concepts). Nor are costs distinguished by fixed and variable accounting categories that can enhance management control by fixing responsibility for variable costs and permit focus on reducing fixed programmatic costs. Finally, the budget format is input or line-item rather than output or results-oriented from which unit costs and performance evaluations are possible. Only some Lublin officials recognized these issues.

In short, the team believed that greater efforts to satisfy immediate needs in reform of urban planning and development permitting as well as the second priority area of public financial management area would be required than in the first

priority area of housing and land management areas where existing strengths need only be enhanced.

3. Public Financial Management

The team identified priorities in the following areas:

a. Revenue and Expenditure Forecasting. Lublin officials noted the inability to forecast accurately in either area but requested no assistance perhaps because of unfamiliarity with the many options available to western municipal governments. Since the property tax accounted for 26.6% of city revenues in 1991, it is important that the cadastral database be integrated with land use and utility connection data all of which can aid in moving toward ad valorem assessment systems that can stabilize revenue estimates for budgetary purposes.

b. Preparation of Results-Oriented Budgets. The Lublin budget consists of inputs, such as salaries and administration rather than outputs as bed-days of hospital care, operating costs/communal housing unit, or passenger kilometers for public transit. To do this, Lublin needs assistance in developing (1) a data base for unit cost and performance measures. The Treasurer has no information on service value for money. (2) an accrual accounting system. Under the current cash-based system, commitments/accruals in the form of purchase orders are not debited against annual appropriations which results in overestimation of available revenues. This contributes to expenditure forecasting problems. By contrast, budgets are balanced by including arrears as cash received (a de facto mixed-accrual system which accrues receipts but uses cash rules for expenditures) and (3) clear budget concepts. Clear distinctions between: direct expenditures, transfers and credits are not made which weakens the credibility of the budget as an accounting document for expenditure control.

Again, Lublin made no request for this kind of assistance. But fiscal managers need transparent information on the costs of services, the consequences of downsizing, and measures of operating deficits based on a clear distinction between recurrent and capital expenses. Interviews and documents obtained revealed that Lublin needs these basic ingredients of financial management.

c. Program Analysis

The team found three areas where financial management weaknesses will continue to impede infrastructure financing. First, analytic capacity is needed to review service performance. Fiscal performance (cost recovery of operating expenses) and physical performance (measurable outputs to beneficiaries compared to costs) of each budgetary expenditure need to be

examined to improve resource allocation. The Mayor noted that transit was heavily subsidized and nevertheless provided poor service. This suggests that operating costs/passenger kilometer need evaluation. Funds saved in this analytic process could be earmarked for investment via a local reserve fund.

Second, the team noted that Lublin was unfamiliar with cost-benefit and other project appraisal techniques. Since banks, investors and even the central government would not know the feasibility of projects, Lublin is unlikely to obtain any financing. This forces it to cover investments on a pay-as-you-go basis from current funds which is inequitable to present taxpayers. There are currently no off-shelf appraised projects that could be marketed to investors. The capital budgeting process is weak to non-existent. Lublin does not have the capacity to select which capital project proposals should be funded.

Third, city officials want financing and even speak of issuing long-term bonds to purchasers of government debt. But few officials had any concept of creditworthiness. For this, as part of creating a unit cost data base (#1 above), Lublin should also develop and maintain ratios from which credit ratings could be made by independent examiners. Time-series ratios are needed in such areas as: revenues and expenditures/capita; uncollected property taxes; one-time revenues as percentage of net operating revenues; operating deficits; property tax revenues; fixed costs as a percentage of net operating expenditures; fringe benefits, and so on.

d. Program Implementation

Lublin has very little control over budget implementation. Since many city enterprises are extrabudgetary items, accounts are not consolidated for purposes of monitoring expenditures during the year. The Treasurer indicated that while all units send in requests for annual funds, there is no comprehensive analysis of all expenditures (particularly investments). As noted, the costs and benefits of subsidies have not been calculated. Amounts spent for operating subsidies are not evaluated other than in the narrow accounting sense of closing the annual books. Thus, the team believed that Lublin needs assistance in consolidating the budget to assist implementation analysis. Once consolidated, the process of creating local reserve funds to receive earmarked revenues for investment will be much more transparent.

Second, historically Lublin is experienced in contracting with state enterprises. The bidding processes as well as the criteria for granting subsidies bear little relationship to cost effectiveness. Lublin officials recognized the need for competitive bidding procedures and increased capacity to

supervise contract execution. Officials also requested assistance in contracting out services to private firms and to privatize communal housing. The team agreed that such assistance was needed.

IV. Other Donor Activities in Municipal Development

The U.K. Local Government Cooperation Fund is funding a three-year program to train municipal officials in public management and finance through Coopers and Lybrand. No other major donor activity was evident from our visit. The City worked recently with the Association of Polish Cities on a project to create additional sources of local revenue.

V. Work Plan

This section discusses the objectives of assistance in the two priority areas identified above (1) creation of a modern land use management and planning system, and (2) creation of a modern public budgeting and accounting system that can enhance creditworthiness and capacity to finance infrastructure. We also outline to the degree now possible the nature of the work plan.

1. Delivery of Assistance

The team believes that intermittent consultants and Polish counterparts should be supervised by a regional long-term advisor that would serve a number of cities. The long-term advisor would be in the field and receive a continuous flow of information on local issues, new problem areas and new possibilities for technical assistance. This would allow program flexibility to respond to new needs and terminate other initiatives rapidly. Short-term consultants would deliver seminars to groups of cities and provide hands-on efforts in particular technical areas as well as developing case studies as needed. It is believed that this approach will maximize scarce project resources and remain sensitive to local gmina needs.

2. Types of Assistance

A. Areas of Existing Strength

1. Architecture and Construction Division. Lublin officials are anxious to develop private sector participation policies to, for example, break up communal and cooperative estates into smaller groupings as a transition to private management by tenants. The main purpose of providing seminars, hands-on technical assistance and training sessions would be to provide experience in housing privatization. In effect, Lublin officials would learn by doing, supplementing decision-making at each stage of privatization with opportunities to synthesize lessons and learn from mistakes.

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2. Land Management Department. Investors, tax assessors, developers, and city officials need integrated property information for planning and revenue forecasting decisions. Lublin officials requested aid in restructuring the current data base to increase access by city departments and to expand data coverage to include information on the degree of development, utility connections, and status of land titles. The main purpose of providing such assistance is twofold (a) to build the necessary foundation for a mortgage lending system (which requires a reliable recording system for property titles and land valuation) and (b) to build an information system integrating fiscal and physical data for urban planning. Intermittent, short-term consultants would be dispatched on an as-needed basis to deliver hands-on technical assistance and training to Lublin.

B. Areas of Perceived Need

1. Building Permit Process. The city building permit system needs to be streamlined to process the growing backlog of applications. The purpose of assistance would be to increase investor-developer appeal in Lublin which would expand the market for housing sales and finance.

2. Urban Planning. The planning process is inflexible with cumbersome change procedures; physical planning procedures have not oriented toward clients that can suffer financial losses from decisions based on planning designations that could later change to their detriment. Lublin needs assistance integrating planning and capital budgeting to stimulate urban development.

3. Public Financial Management. Assistance is needed on a wide range of particular topics. The purpose of this assistance is to improve the capacity to raise and spend revenues efficiently which can generate budgetary savings needed for infrastructure financing in the short term. The following needs do not represent an exhaustive list, and the regional field advisor would be likely to identify others.

Nevertheless, the team believes that almost immediate assistance is needed in training and hands-on assistance to:

(a) Improve revenue forecasting and collection systems (for service fees and local taxes) as well as expenditure forecasting and cash limit systems for monthly apportioned budgets. The Treasurer had no idea how much additional revenue could be gained from improved collections. The budget is now remade quarterly and monthly to correspond to widely fluctuating revenues. This requires cash limits to avoid overspending.

(b) Develop Results-Oriented Budgeting. Assistance should be provided to develop a functional budget classification that consolidates all revenues and expenditures (city enterprises and

other funds as well). This can provide the Treasurer with information on the unit costs of each expenditure by programmatic function as well as the costs and consequences of shifting and cutting expenditures.

Assistance is also needed in providing a picture of the city government's financial position. Seminars and hands-on assistance is needed to develop a new financial reporting system to value local assets accurately. Lublin should move from the current cash-based accounting system to an accrual system would permit the Treasurer to track the changing value of assets and liabilities. Capital assets such as land and communal housing would be depreciated over the life of the asset rather than all being written off in the year when the money is spent for purchase. The current cash-based system does not clearly distinguish between current and capital expenditures and takes no account of the cost to future generations of current policies.

(c) Program Analysis. Lublin officials need to translate urban plans into specific fundable projects of interest to banks and developers as well as external donors. Because of capacity limitations noted above, assistance should be provided via workshops, seminars and practicums on the financial and economic dimensions of project appraisal. Such projects as the proposed privatization of a city landfill site, the costs of Stare Miastro renovation, and sale versus lease of communal housing should be examined through western governmental analytic techniques as benefit-cost rate of return analysis. Short-term consultants can provide this assistance.

(d) Budget Implementation. City officials are not aware of variations between planned-actual results of service expenditures or project execution. No information monitoring system exists to provide data on the physical and financial results of public expenditures. Nor do Lublin officials know if contracts have been negotiated at the best possible terms for the city. Assistance should be provided to develop program reporting systems with data that can be developed into unit cost and productivity ratios for purposes of evaluating fiscal condition. The purpose of this assistance is to make Lublin creditworthy so that it can borrow for infrastructure financing

ANNEX V

REPORT ON ICMA VISIT TO POZNAN

REPORT ON ICMA VISIT TO POZNAN

An ICMA team consisting of Mona Serageldin, Renata Frenzen, Jan Winters, David Jones, and Peter Feiden visited Poznan December 11-13, 1992 to review opportunities for A.I.D. to provide assistance under the LGHP Program. Meetings were held with a variety of technical personnel and managerial personnel, including the mayor. Poznan is the headquarters of the Association of Polish Cities, and the ICMA team also had the opportunity to meet with the director of the Association and discuss some of the issues the Association is involved with.

I. BACKGROUND

The City of Poznan has a population of 600,000 and is located midway between Berlin and Warsaw on a historic trading route. The City was founded in the Ninth Century and was a Polish City except for about 150 years, beginning in mid-18th Century and lasting through the First World War, when it was a part of Prussia. During the Second World War much of the City was destroyed, but the Centrum with its old square was carefully restored.

A long tradition of industrial production and trade, reinforced by its well-known international fair, has shaped Poznan's current awareness of its links to the outside world. The city is now redefining its role in the context of Europe's new market structures and global systems of production and distribution of goods. Poznan is capitalizing on its location and established contacts to attract foreign investment, and revitalize and diversify its economic base. The increasing numbers of firms locating subsidiaries and branch offices in the City is a measure of its dynamism. Foreign companies and foreign-controlled joint ventures numbered 200 in 1992, second only to Warsaw.

Poznan today is relatively prosperous compared to other Polish cities. Unemployment is reportedly only five percent compared to a national rate in the vicinity of 15 percent. Poznan's per capita income is double the national average (this relative affluence is reflected in Poznan's distinction of having the highest number of cars per capita). Poznan is also the second largest financial center in Poland with the headquarters of 10 banks. In addition to a merchant tradition, Poznan is also considered an important scientific and culture center.

II. FINDINGS AND OBSERVATIONS OF THE TEAM

1. Housing

Housing Conditions and Needs

Communal housing accounts for 20 percent of the housing stock, cooperatives for 50 percent, and private single family homes for 30 percent. The communal housing stock consists of 2137 residential buildings. Close to 60 percent are pre-World War II structures. The bulk of the post-war buildings are located on the outskirts of the city and are not connected to the gas and sewerage networks.

The communal dwellings are generally overcrowded, with larger units often shared by two or more families. The older units also lack some modern amenities. Given the age of the stock it is not surprising that 700 buildings need major structural repairs. The City considers 180 of the buildings, containing of 2000 dwelling units, not salvageable. Demolition orders have actually been issued for 17 residential buildings, but lack of relocation housing prevents their immediate demolition. There are 492 buildings comprising 6500 units in urgent need of major structural repairs, but which can still be salvaged. In 1992, renovation started on 45 buildings at an estimated cost of 24 billion Dloty and by the end of the year work had been completed on 15 of them. Roughly 500 buildings need various minor repairs.

The Housing Administration focuses on the assignment of dwelling units to eligible applicants as well as relocation, interchanges and transfers of sitting tenants. Two-thousand (2000) applications are registered on the city's waiting list. The Administration is concerned about the rising number of poor families and elderly residents who can no longer meet their rent obligations and are facing eviction. One in four tenants are up to three months in arrears on rent payments.

The City estimates the overall housing shortage to be 34,000 units. Of immediate concern are the shelter needs of about 3000 families, consisting of the following:

Families living in buildings slated for demolition:	167
Families living in buildings in catastrophic state:	2000
Displacement and other urgent rehousing needs:	572
Families under court-ordered eviction notices:	
Private properties:	200
Cooperatives:	28

Housing Privatization and Reprivatization

Over the past 20 years, 3000 families chose to exercise their option to buy their flats. Recently, the City Council voted to encourage the sale of flats to sitting tenants by offering a 30 percent discount to buyers willing to make one lump payment in cash. The alternate option is to settle the purchase price in annual installments. Over 2000 tenants have recently expressed an interest in buying their apartments. The Housing Enterprise expects that transactions affecting 1000 units will be processed by the end of 1993.

There are 401 privately owned buildings comprising close to 7000 units under city management. Former owners are currently in the process of taking over 300 of these properties, the vast majority of which are financially attractive because of viable commercial space. The city is responsible for rehousing tenants displaced for renovation and those unable to pay the higher rents after renovation. In general, there is an interest on the part of private investors to buy buildings in prime central locations on the condition that the title is clear of future claims and any tenants in rent controlled units can be relocated by the City.

Tightened criteria give preference to families occupying less than five m² of floor space per person (in comparison to national standards of eight to 10 m²) for the 400 - 500 apartments that are vacated annually, as older residents die and younger people and better-off families secure modern accommodations elsewhere. As privatization proceeds, the City will have fewer units every year to make available for the rehousing, interchange and transfer needs of other citizens. Prioritizing access to communal housing has become mandatory. In this context, the initiatives taken by the city leadership to address these issues are timely.

Housing Management

The housing stock under city management consists of 33,539 dwelling units housing 115,000 persons. This housing is distributed among 2424 buildings that are communal property, 401 buildings that are privately owned, and 52 buildings that are owned by other public agencies.

Lack of funds is forcing the Housing Enterprise to set criteria and priorities for repairs and maintenance. Repairs have been discontinued on privately owned buildings under city management. Renovation of city property is concentrated in the old town area in support of the downtown development plan. Work has focused on the addition of gas flues, in compliance with the building code, to permit connection to the gas network (96 gas taps were installed in 1992 but 856 buildings still need to be fitted).

The Director of Housing Enterprise is particularly concerned about renovation in view of the rapid deterioration of the older stock. He has visited France and established a contact with the city of Rennes. This visit has sharpened his awareness of the complexities involved in the rehabilitation of older buildings.

Major repairs account for 21.9 percent of total expenditures on communal housing; other structural repairs, 7.5 percent; cold water and sewerage, 3.3 percent; heat and hot water, 25.0 percent; electricity, 4.4 percent; solid waste collection and miscellaneous items, 4.4 percent. The Housing Enterprise's own budget accounts for 33.4 percent and includes maintenance and repair work undertaken by the staff. The most common repair works are roofing, electrical systems, masonry and chimneys. In 1992, 333 roofing repairs were done and 869 gates and outside entrance doors were repaired to permit the future installation of intercoms.

The Housing Enterprise manages 1700 non-residential units of which 1437 are located in communal buildings, mostly in ground floor premises, and 3230 garages. The commercial units are distributed as follows:

small workshops, warehouses and service outlets:	39 percent
retail stores:	33 percent
offices:	15 percent
banks:	1 percent
miscellaneous shops:	12 percent

Monthly rents for commercial space range from 12,000 to 1,000,000 Zl./m², compared to apartment rents of roughly 100,000 Zl. for a 50 m² unit.

Total rental revenue from both commercial and residential units reportedly cover 56.3 of total expenditures on the communal building stock. Utility fees and charges cover another 27.2 percent. The deficit of 16.6 percent is covered by the city. Residential rents themselves cover no more than 35 percent of maintenance costs. To balance the housing maintenance budget, the Director wants to accelerate privatization and promote ground floor conversions to commercial use to compensate for inadequate apartment rents.

The Director of the Housing Enterprise wants to restructure the Enterprise, including contracting out the service delivery functions. The Enterprise currently employs a staff of 1860 which would be sharply reduced to about 600. The Director is satisfied with the renovation work done in 1991 and 1992 but feels that greater efficiency could be achieved through a reliance on the private sector for the delivery of specific services.

Technical assistance is requested to develop a two to three year action program to help the Housing Enterprise achieve its objectives of:

- Restructuring its management.
- Promoting privatization of the communal stock.
- Preparing a plan to privatize Enterprise Housing which will be transferred to the city in 1993.
- Formulating a strategy for the renovation of old buildings in the downtown area.
- Instituting methods for residents to participate in the maintenance of buildings.

2. Land Management

The Urban Planning, Architecture and Building Construction and Supervision Department is a large well-organized office with 60 staff members divided among different sections. Each section includes teams working on particular projects.

The Urban Planning Office is headed by an experienced planner who prepared the city's current master plan in 1975. He is convinced of the need to adapt planning instruments to the new economic and political realities and initiated a major update of City plans in July 1991. He is basing his revisions on the text of draft laws, on the assumption that key provisions are indicative of future policy directions irrespective of whether the acts get passed in their present form or with further amendments.

Work has started on a new master plan using western methodologies. A concept plan has been prepared with the assistance of a Dutch consultant. The plan minimizes public investment through the rationalization of existing infrastructure networks and an emphasis on the city's "compact" and concentric development patterns. The structuring elements of the urbanized zone are recast to obviate the need for expensive and unnecessary highway construction and promote the development of the public transport system relying on trams and buses. Since the future extension of the fast trams will continue to use the railroad right of way, land assembled for new highway corridors that has been cleared and lies vacant can now be re-used. This raises the issue of restitution of the land to previous owners from whom it was expropriated. It is a cumbersome process which will take a decade to implement. The planning office proposes that the city initiate the re-use and market the land.

Current Development Trends

The land in municipal ownership is limited and is primarily located in the urbanized zone within the "third" belt. The built up area is surrounded by unserved agricultural land in private ownership. This land is rapidly being urbanized in an informal and chaotic fashion, relying on wells and septic tanks or cesspits. Unprofitable agricultural uses give way to unauthorized but highly lucrative subdivisions. Demand pressure is greatest in the vicinity of large housing estates or suburban concentrations of employment.

Poznan wants to contain the haphazard spread of "wild" construction, which is wasteful of land resources and expensive to service. Tying these new zones to the existing sewerage network is difficult particularly in the southern sector, which is furthest away from the treatment plant.

Marketing Land for Private Investment

An inventory of vacant land in municipal ownership has been compiled by the Geodesy Department. The Planning Office prepares "offers" for parcels to be marketed by the Department of Information and Development. The offer contains a description of each parcel and an outline of the nature of the development suggested by the city and referred to as "investment features." Drawing on models from Hanover and other European cities, proposals for the location of commercial centers, hotels, and light industrial establishments are presented in separate brochures. The atlases list parcels in state or city ownership, as well as underutilized agricultural lots in private ownership and unvalorized lots held by cooperatives, thus covering a range of developable land suitable for various uses.

In drafting "offers" the Planning Office is keenly aware of the need to simultaneously safeguard the public interest and meet the requirements of private investors.

- Adequate land reserves for the future should be ensured.
- Development options currently under review for the new master plan should not be jeopardized by the premature commitment of key parcels in critical locations or sensitive zones.
- Rigid directives that could discourage private investment are avoided. The investment features outlined are intended to be suggestive of the development potential of each parcel. The city is ready

to explore with investors alternative options and negotiate conditions beneficial to both parties.

Renovating the Downtown Area

The Planning and Architecture Department focuses on producing detailed plans and site plans for the downtown zone. The urgency of the study stems from the need to rationalize the management of municipal assets and stimulate private development. The area is experiencing significant changes in the structure of ownership and management of real estate through:

- The transfer to the city of state property, including parcels in prime locations.
- Reprivatization of privately-owned property managed by Poznan's Housing Administration and the Housing Enterprise.
- Privatization of communal housing.
- Clearing and registration of titles and claims.

At present, 60 percent of the land in central Poznan is privately owned. This proportion would rise to 80 percent if the total area within the 19th century boundary is included and assuming restitution of the vacant land expropriated for the right of ways of planned public improvements not implemented for lack of funds. Consequently, the plan seeks to:

- Open up opportunities for small investors.
- Promote housing development.
- Safeguard historic monuments.
- Improve environmental conditions.
- Develop spaces for children's activities.

Transport is a priority sector as it affects existing activity as well as development potential. Repairs to existing bridges and roads and improvement of parking and traffic management are urgently required. Other infrastructure needs include upgrading telecommunications, installation of gas lines, and the construction of sewage treatment facilities.

Shaping Development on the Urban Fringe

On the urban fringe, the department recognizes the futility of trying to stop informal land development when market demand for building plots is strong. Rather, it is advocating the introduction of intermediate sanitation systems to enable the servicing of low density zones economically, and the regularization of the subdivision processes. An area of particular concern is Szczepankowo-Splawie south of the large

housing estates and the light industrial zone in Nowe Miasto. Old rural settlements are experiencing rapid and chaotic urbanization. Elongated agricultural holdings with narrow street frontage are subdivided into three to five plots accessed through narrow unpaved private ways perpendicular to the main street.

The 1989 aerial photo coverage was updated in 1992. Proximity to major highways and the industrial park contribute to the attractiveness of the location and promote the development of small industrial establishments and business offices interspersed among the houses. The new housing is built as additions to the old houses or as freestanding buildings on the same parcel. The quality of the materials and finishes are indicative of income levels well above the median.

International companies are locating in the industrial park and the new outer beltway will run adjacent to it, crossing the area. Enhanced development potential and the necessity to safeguard public rights of way are strong incentives to devise a framework for the regularization of informal development. A pilot project could test an integrated approach building on the complementarity of public and private investment, both foreign and local.

Computerization of Land Information

The Geodesy Department is in a somewhat unique position coming directly under the mayor's office. It enjoys a higher degree of latitude and more autonomy in decision making than is normally the case. The communal property section is responsible for all transactions affecting city assets. The transfer of state property to the municipality is rather complex in Poznan due to the extent and diversity of the assets involved, ranging from vacant land to functional industrial plants. The transfer affects an estimated 30,000 parcels. The process involves eight steps, starting with the department forwarding documentation on each property to the Voivod office and ending with modifying the cadastral registration upon being notified of the transfer. "Communalization" of 5000 parcels has been completed and 8000 are currently being processed by the Voivod office.

Poznan's cadastre dates back to the 19th century and includes both registers and maps. The cadastre lists 80,000 parcels. The department has started on the tedious task of computerization. Records are cross referenced to the deeds registered with the court. New subdivisions are registered first with the Geodesy Department. The department notifies the court and sends plot information to be recorded in the registry of deeds.

The department is using the equipment it can get and the computers it can access. The workstations are dispersed among

the different sections and include various types of hardware. The Geodesy Department has four workstations of which three are allocated for the computerization task. Records need to be checked with the Urban Planning Office and the Public Works Department in order to determine access to utilities and land use designation. To date, 30 percent of the records have been computerized. They cover mostly land on the periphery related to projects in Wilda and Ncwe Miasto districts. The Department projects that 80 percent will have been computerized by the end of 1993.

The existing cartographic coverage is considered obsolete and inadequate. Updating is done on an ad hoc basis as needs arise based on aerial photography of the area in question. Maps are prepared or corrected manually. A new photogrammetric mapping of Poznan has been requested from the National Survey Department through the Voivod office. The new coverage will provide maps of the quality needed to build a GIS capability in the Department.

The Communal Property Section collects rents on leaseholds granted by the city and charges an administrative fee of 3 percent to manage billings and collections. The Department handles 12,500 leaseholds (for land in residential use held by cooperatives and private individuals) and 6000 short-term leases for commercial and service uses. Computerization of these records is almost finished. It will take one to two more months to complete the remaining 500 records.

The Department would like to create a new database integrating property ownership and tax records with physical information on land, buildings, and premises, as well as infrastructure services. The data could serve as a basis for updating property valuations and official appraisals. The objective is to build, in time, a network of twenty workstations linking the different city offices involved in land and property management functions.

Technical assistance is requested to:

- Help design and set up the data base including procedures for updating the technical information.
- Build up a GIS capability.

3. Public Finance and Infrastructure

The finance department staff explained that there was a somewhat divided and fragmentary system for the collection of local revenues. Some were collected at head offices, some at local district offices of the municipality, and still others at

local offices of the central government treasury, subsequently transferred to local control.

In addition to Poznan's general fund services and communal enterprise operations, the municipality has taken over a number of delegated services from the central government. These are financed by specific allocations from the Voivods, which are subject to very strict budgetary control. Significant services taken over include hospitals, social assistance and civil defence inspection. Education services are not yet included but are planned to be taken over in the next fiscal year.

As with Szczecin, the general fund services are divided into budgetary units, with the revenue-seeking services operated as enterprises. Similarly, there is a good deal of overlap between budgets, with the general fund financing the capital expenditures of enterprises.

The solid waste collection service was recently contracted out to a German commercial enterprise (Retman), following economic and financial analysis by a local consultancy firm. The service operates a joint landfill operation with an adjoining municipality.

Poznan has significant concerns relating to unclaimed property that was earlier expropriated. It is operating a search procedure to establish titles for property which it holds, in effect, in trust. However, the cash-accounting system does not provide for an adequate earmarking of revenues derived from the holding of such properties, which are indiscriminately paid into general funds. Where titles are established and properties are not returned, compensation payments are also charged to the general fund. Thus, the limited availability of budgetary cash may force a delay in the compensation payments.

Poznan is in the process of creating a single municipal (holding) enterprise to encompass the operations of all its public utility services. The mission was dismayed to learn that the principle reason was not that of operational or managerial efficiency, but to resolve concerns about central government taxes and grants. This is a prime example of what was earlier described as "directly unproductive administration." The limited availability of financial management competence should surely be put to more productive use than mere "tax-avoidance" techniques, innovative and clever though they may be.

The main financial information and accounting system is not yet computerized. However, computers are being installed on an ad hoc basis for some financial work. Internal networking is beginning but is not yet satisfactory.

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Some of the concerns relating to financial operations relate to the need for greater autonomy from central government control, often considered stifling. Concentration is necessarily on urgent day-to-day concerns, with little opportunity or resource for reflection and planning.

On the basis of brief presentations by the communal enterprises, it is clear that many are operating under serious financial difficulties. There is very little capital investment, even for replacements. Priority is given almost exclusively to current preventive maintenance.

The hot water enterprise cannot make additions to its plant to serve new customers unless virtually the whole of the capital cost is paid up-front by the customers. This, it is claimed, deters customers, who are able to opt for cheaper systems, using oil and gas, which have lower initial charges.

It was claimed that if the nationally controlled price were to be allowed to cover capital costs as well as operations, the situation could be remedied. It was not clear to the mission, however, whether:

- A. the communal heating enterprise was operating in a sufficiently efficient manner to provide customers with a comparative advantage over alternatives; and,
- B. even if economic efficiency pricing were used, whether significant capital funding for expansion could be generated on a pay-as-you-go basis.

The water and sewer enterprise had been handed over from the central authorities with a legacy of years of under-investment. The result was a serious physical overload on the current system. Additional pipelines, as well as treatment works, were required for both water and sewerage, just to serve existing potential consumers. In addition, sewers in the old city, now over 100 years old, require rehabilitation.

It is claimed that even if prices are significantly raised, there will be an insufficient generation of internal funds to finance the necessary capital expenditure. It was claimed that to meet immediate concerns, about \$50 million was needed, probably from foreign sources.

An additional concern, with respect to water supply, is a possible intention to construct an international motorway right through a main treatment plant. Although in normal circumstances one could expect this matter to be resolved by appropriate monetary compensation or accommodation works, the present confused state of central-local government relationships together with financial constraints, does not engender confidence.

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The municipal government has a staff of about 16 officials dealing with the planning of capital investment programs, for the direct city services as well as for communal enterprises. However, for all practical purposes, capital investment is at a virtual standstill, because of the funds shortages.

Substantial reorganizations were taking place in the public transport and water supply enterprises. The transport system was leasing buses to private enterprise, claiming that this has improved productivity and also facilitated replacement of buses. Studies were also in progress to determine the extent to which the tramway operations could also be contracted out.

The water supply enterprise appeared to be embarked on a complicated and somewhat convoluted scheme of reorganization, mainly for fiscal reasons. It involves, among other things, granting title to various assets to individual municipalities involved in the service area, to then lease them back for operations. Once again, one can only despair of so much administrative energy and resources being consumed in these "negative-sum" games.

The current economic conditions create a capital shortage. Long-term borrowing is virtually non-existent. Thus, reliance for capital investment funding must be placed on a combination of pay-as-you go and innovative private-public partnerships. Land can still form a useful basis for funding. This can result from: fees (or related physical contributions) for planning approvals; sales and leases; contributions to joint ventures; and, security for any possible forms of innovative long-term financing. These financing techniques could be appropriate for the freeing up of land, and its appropriate planning, for housing and related commercial development. In addition they could assist in providing extensions to the necessary infrastructure.

Indeed, Poznan already appears to be embarking on a number of innovative and sophisticated techniques. Unfortunately, relatively complex decisions must, currently, be based on crude financial information. As elsewhere, strategic improvements to overall financial information systems must await a national consensus - legal and professional. However, tactically, it should be possible to make improvements by augmenting present systems. For example, it should be possible to more clearly define the financial and administrative boundaries among different enterprises and budgetary units.

It should also be possible to develop some form of cost accounting systems. Both these improvements would be expected to be only partial, initially, gradually expanding to meet a growing appreciation of both needs and capabilities.

A principal purpose of this exercise should be to prepare more useful information for financial analysis. This must be applied both to individual projects and also to the overall development strategy to which they relate. Among the goals of this analysis should be the following:

- A. Investigating the potential for the curtailment of public services where these can be more efficiently provided in other ways, including by private enterprise, with the objective of providing greater public satisfaction at lower overall cost;
- B. For services which are natural monopolies (or which for other reasons must remain in the public domain) determination of:
 1. the least economic cost of project development or service delivery, with an over-riding concern that acute capital shortages may predicate the use of (possibly economic "second best") intermediate technologies; and,
 2. whether all or parts of the service would be performed more efficiently by contracting-out to private enterprise.

For the Poznan situation, one or more of the above techniques could be applied to the housing, water, sewerage, solid waste and central heating services.

Efforts should be made to address the growing and already pervasive concern of directly unproductive administration, something which a municipal government can ill-afford. Mention has already been made of efforts to circumvent either tax obligations or arbitrary curtailment of government financial support. In addition, it might well be useful to examine administrative procedures which are used for purely internal purposes. It might well be found that regulation and licensing of various activity is: not useful at all; costing too much relative to either public benefits or fees charged; or, capable of being carried out more efficiently, to the benefit of both the public and the municipal government.

Coupled with the issue of unproductive administration is the whole vexed question of intergovernmental financial relations. As a principal aspect of the work of the Association, it will clearly figure prominently in the concerns of Poznan. Efforts to develop credible and reliable financial information systems should enhance the possibility of a definitive split between issues which are administrative and technical and those which are clearly political.

Support for the development and enhancement of new financial techniques could give a much-needed boost to the morale of the financial staff, currently operating in a situation of overwhelm. It should be possible to enhance their work-interest and enjoyment, especially if they are trained to take over functions which can, at present, only be done outside.

The internalization of specialist financial skills should provide a growing institutional memory for both financial and contract administration. Not least of all, improvement in skills will gradually encourage operating managers to become more trusting of the financial management process, thus facilitating more productive decision-making on their own part.

4. Municipal Management

Overall Structure

The City of Poznan has 65 City Council members who meet weekly in 12 hour meetings. In addition, Council members serve on 15 permanent subcommittees, which also meet weekly. The large number of meetings and their duration is reportedly due to 1) the large amount of authority centralized at the Council level in an effort to protect the new democracy, and 2) the Council is at an early stage of its development as an organization in terms of its efficiency in problem solving and decision making. The City Council selects a seven-member Executive Board, which in turn selects the City Secretary and City Treasurer.

General Observations

The present Executive Board enjoyed a fairly high success rate on its recommendations to the City Council. We were told this was due, in part, to the effort to meet individually with City Council members between meetings. Although these meetings involve a tremendous commitment of time, the City has experienced political stability and introduced some innovations. For example, the German Company's (Pitman) proposal for refuse collection and street cleaning that was turned down in Szczecin, partly because of difficulty in analyzing the project, was accepted in Poznan. In this case the City hired outside consultants to conduct financial cost benefit analysis, and then had the political courage to contract out in an effort to reduce its costs. In another example, the City Secretary introduced differential pay rates based on performance. Another example is the economic development program, which is advanced compared to the other Polish cities. The City has already prepared site inventories of suitable hotel and commercial locations, as well as a guide for doing business in Poznan.

The City government has 800 employees divided into 55 departmental or budget units. The median size of these units is 11 employees. We were told the average span of control is eight employees per supervisor. When the change in government took place in 1990, there was a 50 percent employee turnover. Annual turnover now is running at about 20 percent. There are an additional 7000 employees in the communal enterprises. Some of the enterprises, such as water and sewer, are not really attached to the City government structure because they provide regional service, but the City provides subsidies to cover the operating costs. The City is searching for a new method of structuring these enterprises so the smaller cities receiving services have some voice in the operations and participation in the subsidies.

The managers we met questioned the level of communication that occurred among separate departments and between the citizens and the City. The members of the Executive Board echoed the strong concerns for improved cooperation among departments. The Secretary, who frequently must intervene to force cooperation, requested assistance in group processes and team building. The Executive Board strongly supported this request. The Director of Department of Organization and the Director of the Bureau of City Council spoke of the large amount of public interaction with City staff. Most of this contact was initiated by the public and was placing great demands on staff with limited time or ability to respond. It appears the demand came from 1) permitting requirements, 2) questions about Council actions, and 3) dissatisfaction with conditions in communal housing.

There was a strong belief that the previous education system did not adequately prepare staff for the demands of current local government, especially in supervisor and personnel practices. Unfortunately, current education system, the training now available for existing employees, and the selection practices for new employees are still inadequate to deliver the skill levels the organization needs.

We believe the resolution of public management issues is a necessary component in the effective improvement of housing conditions. The Mayor of Poznan cited the present constraints in the division of responsibilities as a significant obstacle to organizational performance. Until these internal obstacles are removed, too much energy will continue to be diverted away from the major mission of local government, which is the effective and efficient delivery of critical services. And the provision of housing is one of the most critical services needed today in Poland.

City Perception of Critical Shortcomings

In discussions with City staff, the following areas were mentioned most often as the professional shortcomings most

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important to be addressed for the City to exploit its new authorities, respond to constituents, increase efficiency, and support the private sector:

1. Procurement and contract management and negotiation
2. Supervisory procedures
3. Personnel practices, including recruitment, selection, and evaluation
4. Group processes for department directors (communication, cooperation, and team building)
5. Group processes for employee work units in problem solving.
6. Group processes for City Council in problem solving, decision making, and conduct of meetings.
7. Organizational assistance in restructuring communal enterprises.
8. Management assistance in Department of Communal Assets.
9. Communications with citizens. The present approach is entirely reactive.
10. Customer orientation (e.g. understanding the needs of customer and questioning the purpose, value and method of the present permitting requirements)
11. Examination of possibilities for greater delegation of authority both to the City Council and from the City Council to Executive Board and City departments.

C. Areas for Immediate Intervention

Under the general heading of public management, the City is prepared to move immediately in four fronts: training programs of all kinds, workshop on group processes for department directors and for Council members, training in public communication, and exchange program for economic development.

III. CONCLUSIONS AND RECOMMENDATIONS

Stability in city administration and the ability of the Mayor and Board Members to view issues from a broad perspective underlie Poznan's dynamism and its capacity to successfully reform old practices and implement new initiatives. The involvement of the city leadership with the Association of Polish Cities has sharpened their understanding of urban problems in

their national context. The Mayor makes a clear distinction between issues that can be addressed locally and issues that have to be addressed at the national level at this time.

Poznan's leadership has been able to improve efficiency in city administration, giving departments some latitude to initiate changes in practices through a pragmatic mix of reform and innovation. The Mayor consistently stresses the necessity to streamline cumbersome procedures and create horizontal linkages to coordinate efforts in dealing with specific issues.

The constructive attitude adopted by the Urban Planning and Architecture Department is noteworthy and is a credit to the senior staff. This dynamic office is ahead of many other cities in:

- Changing old methods that are ill adapted to planning in a demand driven economy despite the ambiguities of current national frameworks.
- Supplementing capabilities by tapping local private expertise.
- Devising expeditious methods to respond to public and private needs in a period of rapidly changing institutional and economic conditions.
- Integrating formal and informal private investment in the new urban plans.

The Geodesy Department has taken steps to improve land management despite limited resources. The Department is well organized and the staff is capable of and eager to learn new techniques and apply new technologies. The Director of the Housing Enterprise is an energetic and able manager who is committed to reform. He has set clear directions for the Department in terms of restructuring management, reliance on the private sector to deliver services, reducing housing subsidies, and promoting privatization. He is well aware that decisions affecting housing, beyond financial considerations, have strong technical, social and political dimensions to them.

Restructuring may result in as much as a 60 percent reduction in the number of Enterprise employees. However, this cut will primarily affect the service delivery functions, which will be contracted out to the private sector. Employees currently responsible for these services may set up their own private company and bid on the tender, as has happened in other cities. Building up managerial capacity is critical to the success of the reforms and will require that training be directed at the senior staff.

1. Areas for Assistance

The Team has identified the following areas A.I.D.-funded technical assistance could be effectively provided to the City of Poznan:

Housing

1. Short-term assistance to the Housing Enterprise to help it restructure the management of the communal housing stock. This will include two major tasks:

- Developing operational strategies and an action program to accelerate the privatization process and institute private management of the housing stock.
- Evaluate alternative management structures and develop an implementation plan for the privatization of service delivery functions.

Technical assistance would be offered through two to three week working sessions with follow up visits by the experts to oversee implementation. The level of effort required is difficult to assess without more detailed information on the current practices and records of the Housing Enterprise. A preliminary estimate is four to six man months over a calendar period of 8 to 10 months.

Land Management

1. Short-term assistance to help structure a city database integrating the information needs of the departments of Geodesy, Urban Planning and Architecture, Information and Development, and the Housing Enterprise. The degree of cooperation already achieved between those departments is impressive and will facilitate this task. Poznan is well ahead of other cities in ensuring interdepartmental cooperation on key issues.

Intensive working sessions of two to three weeks duration would focus on selected topics in data needs, collection and management, choice of indicators, techniques of analysis, and design of applications. Follow up visits will help ensure smooth implementation and institute procedures to update information. Creating a city database will support and help build up institutional capacity to:

- Formulate development objectives.
- Develop property valuation methods.
- Prepare support documentation for land offers.

- Monitor the status of land transactions and respond expeditiously to inquiries regarding specific parcels.
- Monitor urban development.
- Improve revenue generation from real estate.

The level of effort required is on the order of four to six man months over a calendar period of 12 to 18 months. The purchase of additional equipment may be needed. Establishing a GIS capability should be considered in a second stage since it depends on the completion of the new photogrammetric survey. However, the process could start on a modest scale, as is the case of Gdansk, in the sectors covered by recent aerial photography.

2. Short term assistance to the Urban Planning and Architecture Department in the formulation of planning frameworks related to the city's economic development objectives. This will require building up institutional capacity to:

- Prioritize development options based on economic and financial appraisals.
- Link between land and infrastructure in the selection of proposed "development zones" where scarce public investment is to be concentrated.
- Assess the attractiveness of alternative locations to private investors and the marketability of "offers".
- Reconcile between the "compact city" approach and the integration of private low density development on the urban fringe.
- Evaluate land use decision and investment proposals taking into consideration infrastructure and environmental impacts.

Technical assistance would be provided through:

- Workshops to present western methods and experiences, discuss their applicability in Poland drawing on relevant local cases, and explore ways in which they could be adapted to the special situation in Poznan.
- Study tours and exchanges with U.S. and European counterparts.

The capabilities of the senior staff and the ability to access local expertise obviates the need for long working sessions. Follow up visits by experts in specific fields could

be scheduled as required. The level of effort required is on the order of two to three man months assuming two follow up visits. The calendar period covered is 8 to 12 man months.

Formulating development frameworks and building up the urban database could be focused on the Szczepankowo-Splawie district, a geographic zone of particular interest to the public and private sectors, including foreign investors. The city is marketing land offers for commercial developments in this area. The regularization of informal subdivisions is a challenging task but cannot be ignored for long in Poznan without risking to undermine the City's land development strategies. The 1992 photographic coverage will facilitate the updating of maps and records.

Public Finance and Infrastructure

1. Assistance would be especially useful at this stage in the following areas:

- improvement and expansion of computerization
- internal audit capability
- inter-departmental communications
- public education (relating to financial matters)

One appropriate form of technical assistance would be a part-time financial adviser, perhaps shared with Szczecin. He or she would provide guidance in the selection and development of appropriate financial management techniques and information systems.

In addition to on-site assistance, the adviser should develop specialist or multi-disciplinary workshops in specific techniques, as far as possible involving operational as well as financial, professionals.

2. There would also seem to be a useful opportunity to develop skills in financial and economic analysis within urban planning, business administration, and public administration courses at the Poznan University. It is understood that contacts have already been established with appropriate universities in the U.S. Both the Local Economy and the Economic Development program is strong, therefore, improvements to the program should be easily assimilated and can serve as a model throughout Poland.

Municipal Management

1. Assistance to help Poznan in the following three generic areas would be of greatest value to the City at this stage, and would directly related to improving service delivery and housing management.

- Procurement, financial and economic analysis, negotiating and contract management.

- Personnel practices including selection and evaluation of employees.
- Supervisory practices.

To create an ongoing capacity to support improvements in these three areas, one approach would be to enlist a team of public management practitioners and university professors to work with one of the universities. This could be initiated through a two-week session complemented by detailed written material for each of the three areas once a university is selected. A longer, more complete approach would involve an exchange program with university professors from the U.S.

2. A second approach to providing assistance would seek to effect improvements in the performance of specific departments carrying out specific responsibilities. This would include:

- Group processes for Department Directors in communication, cooperation, and team building.
- Group processes for employee work units in problem solving.
- Public relations/methods of communications.

Workshops would be provided by professionals experienced in facilitation. In a typical format, the entire assistance would take up to two weeks, including planning, interviewing staff prior to workshop, conducting a workshop, and assistance in designing organizational changes that are agreed to as a result of the workshop.

3. Promotion of economic development is a new function for Poznan, and therefore exposure to Western approaches to carrying out this responsibility would be particularly useful. This could be accomplished through professional exchange opportunities for economic development staff. A top city in economic development in the U.S. should be identified and their participation requested. The Poznan staff would spend two weeks observing U.S. practices and members of the U.S. city would spend two weeks in Poznan to review their program and to offer suggestions.

4. Poznan could also benefit from assistance in developing a customer orientation approach to how it interacts with its citizenry. This would include, for example, an examination of how permit requirements can be either fulfilled without trips to City Hall, or eliminated altogether. If successful in eliminating unnecessary administrative controls, staffing levels can be reduced relationships with the community improved. Improved community relations enables the city to make difficult

choices and continue on track with programs. The consultant services here would take approximately two weeks for two individuals to help staff analyze client needs and alternatives for meeting these needs.

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ANNEX VI
REPORT ON ICHA VISIT TO SZCZECIN

REPORT ON ICMA VISIT TO SZCZECIN

The ICMA team of Mona Serageldin, Peter Feiden, Jan Winters, David Jones, and Renata Frenzen visited Szczecin December 7-10, 1992 to review areas of technical assistance needs that might be addressed by A.I.D. During the visit, the team also made some site visits to priority development areas, and met with one private bank.

I. BACKGROUND

The City of Szczecin is a seaport community of 426,000 population located on historic trading routes connecting the Scandinavian counties with Central Europe. The City is somewhat unusual for Polish cities in a number of ways:

- The land area of 30,000 hectares is the second largest in Poland. The City includes a number of smaller towns which over the years have been aggregated into Szczecin proper. The City also contains a number of water bodies (the Oder River, numerous lakes, and inlets to the Baltic) and substantial forest land.
- The City has strong connections to Germany. Not only does it border Germany, but it was under German rule for about 400 years, ending after the Second World War. Szczecin is only 135 km. from Berlin and over 500 km. from Warsaw. Due to history and location, the influence of Germany's economy is very strong.
- Because it was German up to the end of World War II, there are few former Polish owners to make reprivatization claims on properties. As a consequence, the City of Szczecin now owns a large amount of the land within its boundaries.

As a border town, Szczecin is actively redefining its role and functions in a European context, capitalizing on its proximity to Berlin and the Baltic Sea, and its command of the Oder Estuary. Membership in the Union of Baltic Cities and the Eurocities network has enabled it to establish contacts with cities and institutions in Scandinavia, Germany, France, and the United Kingdom.

II. FINDINGS AND OBSERVATIONS OF THE TEAM

1. Housing

Housing Conditions and Needs

Housing conditions in Szczecin reflect the City's historic legacy and its postwar development patterns. Forty-three (43) percent of the housing stock dates to the pre-war period and 23 percent to the turn of the century. The bulk of this older housing is either in communal or private ownership. Until recently, cooperatives were playing an increasingly important role in housing provision. Since 1970, cooperatives have accounted for 37 percent of the units built, with the bulk of the balance built by private owners.

Total production has averaged 2000 dwelling units annually, barely five per 1000 inhabitants. Needs have outpaced supply by a factor of two, resulting in waiting lists of 10 to 20 years and a cumulative deficit of 17,500 units in 1991. There are currently 19,100 applications for cooperative housing on file, of which 14,800 have been on the waiting list for ten or more years. About 1400 applicants were allocated apartments in 1991.

Curtailement of credit subsidies and land allocation privileges has adversely affected cooperatives. Strapped for funds, many are unable to develop the land they hold. Enterprising cooperatives have resorted to subdividing and selling part of their land for single family housing on 500 m² plots for which demand is high on the open market. Proceeds are used to finance construction. Low vacancy rates and generous land allocations are sustaining this process, which enabled a 25 percent increase in production during 1992.

Smaller housing cooperatives appeared in the 1980s because of the hopelessly long waiting lists. Their strategy is to use infill sites and rely on self-assistance (in the form of unpaid labor) to increase affordability. The emergence of small-scale private building contractors has enabled the new cooperatives to negotiate lower prices, with some builders even willing to help finance start-up operations and share some of the risk. The activities of the small cooperatives and builders should be integrated in the City's housing strategy.

The communal housing stock consists of 5758 structures, of which 4696 are residential buildings comprising 53,713 apartments. Buildings dating from the turn of the century in the central zone account for 49 percent of the stock. Another 35 percent are pre-war structures 50 to 75 years old. Most of these dwelling units lack modern amenities: 28 percent do not have toilets within the unit, 39 percent lack private bathrooms, and 66 percent are not connected to central heating.

The units were allocated after the war to Polish families,

with one or more families sharing larger apartments. Despite their physical and functional obsolescence, the dwellings are still overcrowded. While younger and better-off families tend to leave as soon as they are able to secure alternative accommodations, there are still 10,000 applications on file for communal housing and the waiting period is close to ten years, a clear testimony to the shortage of affordable housing on the open market. City-wide, 30,000 families are living in shared dwellings.

The bulk of the communal housing is in need of major renovation. Demolition certificates have been issued for 124 dilapidated buildings in "catastrophic" condition, comprising some 600 apartments and affecting 1000 families. Another 280 buildings with over 1000 units are in need of major structural repair in addition to renovation. Residents have to be moved out during rehabilitation work. Units vacated by families who move out of communal housing are used as "transfer flats". At present, the Housing Administration holds 900 vacant units which can be used as temporary housing.

Funding is the major constraint to salvaging the structurally damaged stock. Expenditures on communal housing represent 20 percent of the City's budget, and repairs account for 19 percent of total housing expenditures. Despite the substantial income derived from commercial leases, the City still has to subsidize 25 percent of the cost of managing the communal housing stock. There is no way in which it could hope to fund repairs to salvage that part of the housing stock in seriously deteriorated condition.

Clearly, unless remedial action is taken, whole sectors of the central area will deteriorate into socially undesirable and economically detrimental slums, retarding efforts to revitalize the City center and damaging the City's image. Furthermore, while reprivatization is not an issue since there are no previous Polish owners, the condition of the housing stock is a major impediment to privatization.

The immediate housing needs of Szczecin are estimated to be 5800 units, distributed as follows:

- Relocation of families living in buildings in catastrophic state: 4800
- Displacement for dedensification and renovation: 970
- Temporary housing: 24
- Court-ordered evictions: 4

Housing Development

The holding capacity of land presently designated for residential use and serviced is estimated by City officials as

8330 dwelling units. Partially serviced land could accommodate another 9500 units. However, under current regulations it is difficult to transfer partially serviced land to private investors. The Housing Crisis Act has enabled such transfers conditional upon agreement between the parties regarding public and private obligations to provide services. The City would like to devise incentives to encourage developers to take on the responsibility of financing the City's share of the infrastructure against deductions on the price of land.

Cooperatives and applicants registered on the waiting lists for communal housing are entitled to acquire land at the reserve price in the auctioning of land for multi-family and single family housing. This gives them an advantage over private investors, which Szczecin would like to discontinue.

Not all building plots offered at recent "limited auctions" were sold, despite reserve prices set at "moderate levels." This has raised questions regarding the ability of registered applicants to benefit from preferential pricing. Some officials worry that investors may enter into agreements with eligible applicants in order to secure land at reserve prices. The extent to which this practice does actually occur or should be a cause of concern, is unclear.

The City can also repossess unvalorized land held by cooperatives. The City Council is reportedly prepared to exercise this preemption right in the event private investors come forth with proposals for the development of any parcel.

Privatization of Housing

The Szczecin City Council adopted a resolution in June, 1992 to privatize communal property. The housing stock was appraised to set the sale prices for different units. A base value was established for a fully equipped unit and the valuation was adjusted to reflect building conditions and amenities in the units. The resultant unit prices ranged from 1.5 to 4.2 M. ZI/m². Approximately 1000 apartments have been sold to date and applications to purchase 1000 additional units are being processed. The City Council is well aware, however, that over the longer term privatization and renovation are inextricably linked and cannot be addressed independently in Szczecin.

Renovation

The City has embarked on the development of a comprehensive renovation strategy for the City center with the assistance of a U.N. advisor. The central area consists of 60 blocks of 19th century buildings developed around central courtyards. The area encompasses 5700 buildings of which 2200 are over 75 years old. The 55,000 flats in the area differ according to location.

Those fronting the street average 100 m² and are usually shared by two or more families. Back units, particularly in the inner buildings, average 35 m² and share sanitary facilities at either end of the building. The condition of the buildings is viewed as a deterrent to foreign investment in a city seeking to build up its touristic, commercial and service functions.

A first project initiated in cooperation with a Norwegian developer covers two blocks and involves partial clearance, renovation, and new development of ground floor retail and services with offices, and luxury apartments on the upper floors. Former tenants are to be relocated in new housing built on an infill site. Many local shopkeepers reportedly opposed the renewal project and formed a group to press the City Council to ensure opportunities and safeguards for small investors. Subsequently, the shopkeepers were offered options to buy or rent premises in the new buildings, or participate in the project by pre-financing their new premises. The Norwegian developer has invested equity capital covering 40 percent of project costs and continues to seek financing for the balance.

The mixed success of this experience has led the City to reconsider its approach to revitalization of the central area. A task force with representatives from the different departments involved has been established under the City Council and chaired by the Deputy Mayor to ensure coordination and cut across departmental bureaucracy. The task force is charged with formulating regeneration policies. The small technical team is developing new renovation strategies with the assistance of the U.N. advisor. Drawing on the Berlin and Rotterdam models, the team has formulated a community-based approach working with tenants and shopkeepers. The strategy advocated focuses on the renovation of complete blocks rather than single buildings. A pilot project has been identified in the predominantly residential Turzyn area, intended to reinforce rather than compete with the Norwegian project.

The Turzyn project will affect 2400 households and 91 businesses. A typical block houses 1050 inhabitants in 380 flats, with shared occupancy of larger apartments. The inner blocks are in especially deteriorated condition. Fragmented tenure and physical obsolescence impede privatization and rehabilitation by the residents. The inability to raise rents severely restricts the ability of the City to address major repair and rehabilitation issues.

The feasibility of any rehabilitation strategy hinges on the ability to capitalize on the area's central location as a desirable residential and commercial area. Over the past two years commercial activities have increased in Turzyn. Shops in deteriorated buildings, which currently rent at 32,000 Zl./m²,

could be renovated at a cost of 2M Zl./m². Based on recent auction prices, they could then be rented for 100,000 to 300,000 Zl/m² or sold for 12M Zl/m². New development on infill sites and the addition of mansard apartments will help expand and upgrade the housing stock.

In-depth surveys and technical studies to assess renovation potential, estimate costs, and design the first block were completed in the fall of 1992. A parallel outreach effort has been launched to inform, consult with, and enlist the support of residents and shopkeepers. Their input is integrated in the renovation strategy. To avoid dislocating the community, tenants obliged to move out during renovation will be able to move back into renovated units under the same tenure arrangements. Dedensification and relocation will mainly affect residents in shared apartments, who will be offered alternative housing. The report of the Task Force was submitted to the City Council and approved this fall. Project implementation will start in 1993 with a first phase financed out of the city's budget. The project is expected to require five or more years to complete. The estimated cost of 310 B. Zl. includes relocation housing. Revenue from the sale of commercial space is expected to yield 97 B. Zl., leaving 210 B. Zl. to cross-subsidize residential uses.

The project's innovative approach to privatization is its most interesting feature. Blocks or buildings rather than single apartments would be privatized with ownership and maintenance responsibilities transferred to private investors or tenant associations. The potential for joint ventures will also be explored.

Housing Management

Szczecin's Housing Administration carries heavy managerial responsibilities. Communal housing represents 43 percent of the City's housing stock. The forthcoming transfer of Enterprise housing to the City administration will put an additional 10 percent of the stock under municipal management. Rents and utility fees collected from apartments cover 18 and 21 percent of total maintenance costs, respectively, while ground floor commercial uses, which number 10,290 premises but account for less than five percent of the total floor area, contribute 30 percent and four percent respectively.

Flexible commercial leasing agreements have enabled the City to capitalize on the revival of small-scale commercial and service activities. Recently auctioned premises have often fetched three to five times appraised values. To reduce the burden of housing subsidies on the municipal budget, the City is looking to the revitalization of the central area to accelerate further conversion of ground floors to commercial uses despite

the housing shortage and the long waiting lists.

To counterbalance this trend, the Housing Administration is promoting attic conversions (860 applications are pending). However, given the age and condition of the stock, it is clear that additions and attic conversions cannot make a significant contribution to the alleviation of the housing shortage. The Department is also advocating the reuse of abandoned army barracks for the relocation of families living in dilapidated buildings and to provide shelter for the homeless.

For the purposes of managing the communal building stock, the Housing Enterprise has the city divided into 15 districts and has set up separate ABK's in each district. The extent to which the ABK's are independently managed needs to be clarified since it can have an important impact on the pricing of the service delivered. The ABK's are responsible for operation and maintenance but not for major repairs, which are usually contracted out. Major repairs reportedly account for 19 percent of total expenditures; minor repairs, 15 percent; water and sewerage, 15 percent; solid waste collection, five percent; heat and hot water, 27 percent; electricity, two percent; and capital purchases, two percent.

The Housing Administration is undertaking a study to determine unit costs for the maintenance of the different categories of premises it manages, and to compare costs within the communal and private sectors. It wants to merge and computerize records of individual buildings and apartments kept by the Department and the ABK. This information will help the Department improve its operations and explore ways to shift management costs to the residents. Technical assistance is requested to help the department in this difficult task.

2. Land Management

Szczecin's economy has suffered from reliance on maritime and heavy industries, which have experienced substantial decline over the past decade. The shipyard has contracts covering the next two years. However, the steel mill has been liquidated, the paper mill is heavily indebted and may follow suit, and the sugar factory is not competitive on the open market.

In contrast to the depressed industrial sector, the commercial sector, including the informal component, is vigorous. The city is looking to tourism, trade, and services to diversify and shore up its economic base. It is estimated that 20,000 persons are engaged in informal commercial activities and 22 markets have mushroomed at different locations in the urban area.

Inadequate infrastructure is a major constraint hindering economic revitalization and land development. It is also a major cause of air and water pollution. Traffic congestion and bottlenecks in a city bisected by water bodies can only be alleviated by costly bridge and highway construction, which Szczecin cannot afford. Only 20 percent of the receipts from the road tax have of late been expended on road maintenance, which in part accounts for the generally poor condition of the circulation network outside the central area.

Post World War II sewerage works are confined to the right bank to serve the large cooperative housing projects, which have accounted for 90 percent of housing production over the past 30 years. The mechanical treatment plant is used at 40 percent of its design capacity because of the limited coverage of the collection network. On the left bank, wastewater is channelled to the drainage network and discharged in the river through three screened outfalls. Unserved areas and new development on the urban fringe rely on septic tanks and cesspits. Many of the older tanks leak. Industrial wastes from the plants stretching along the river are also discharged untreated into the water.

Heat generation relies upon multiple sources and networks: industrial establishments own and operate 400 heat generation facilities; enterprises run 132 generally inefficient heating plants; 35,000 dwellings use individual coal stoves as the main or supplementary source of heat. Plumes emanating from the power station, the heating plants and the chemical factory in the northern sector blow over the city adding to the air pollution.

Characteristics of Urban Development

The central zone encompasses the largest concentration of residential uses. It contains a number of vacant and underutilized parcels which can be valorized.

The southeast sector on the right bank of the Oder is a newer zone where 25 percent of the City's population live in large cooperative housing estates. However, there are few employment opportunities in the district, and residents commute to the left bank, creating severe traffic congestion. A controversy concerning the advisability of development on Pucka Island where housing is built on land held under long-term leaseholds is far from resolved; soil contamination by heavy metals is the major issue of contention.

With extensive areas covered by forests, water, open space and reserves, development pressure on agricultural land is high. Over 50 percent of the land on the northwest fringe is in private ownership. Urban development is occurring on this unserved land relying on wells and septic tanks. The housing shortage and the obsolescence of the communal housing stock contribute to the

profitability of informal subdivision and sale of building plots.

Planning and Land Development

Szczecin's master plan dates to 1977. It was revised in 1986 but without any change in development strategy. In 1992, a second revision affecting 300 parcels was drafted primarily to allow the City to promote private investment and respond to investor proposals.

Recognizing the need to establish a planning framework suited to the requirements of transition to a market economy, the Planning Department developed a new concept that updates urban development guidelines to incorporate changes that occurred since 1986, and to reflect current economic realities. A new master plan will be developed integrating three categories of change to enable:

- Legalization of existing conditions, including subdivisions, densification and conversions in violation of existing regulations.
- Approval of investor proposals requiring changes in current land use designation.
- Integration of decisions regarding primary infrastructure networks made by the Voivod central ministries.

The new master plan is expected to be submitted to the City Council for approval in 1994.

A detailed inventory of vacant parcels has been compiled outlining the characteristics of each parcel and the nature of the valorization sought by the city. This atlas of land "offers" is being marketed by the city.

Land Management

The management of municipal assets is critical given that over 65 percent of the land area and 50 percent of the housing stock are in public ownership. Municipal policy can have an impact on urban land markets and affect housing supply.

Szczecin's cadastre covers the total area within municipal boundaries. The pre-war records are updated on an ad hoc basis as needs arise. Cadastral records are kept in the Regional Geodesy office. The built-up area covers an estimated 1000 hectares comprising 15,000 parcels. Only 10 percent of the records are current, 40 percent date back five years, and 50 percent have not been checked for ten years or more.

Updating cadastral records entails reconciling them with usufruct titles registered with the court and checking them against actual conditions in the field. The Geodesy Department estimates that three to four years would be required in order to complete an update of the cadastral records. It took the Department over a year to compile an inventory of urban real estate partly from court records and tax rolls and partly from field surveys in areas experiencing rapid growth and transformation. The information has been computerized.

Land values are computed on the basis of an appraised base price for raw land modulated to reflect locational factors. A premium corresponding to 50 percent of the cost of existing and planned infrastructure is added to the base price. This appraisal reflects the cost to the city of delivering serviced land in particular locations and is used to estimate the reserve price of land to be auctioned for housing projects. It does not reflect the market value of land, which may be higher or lower depending on the characteristics or particular sites.

The City is also updating its cartographic information. An atlas of 89 maps at 1/5000 scale has been compiled for planning purposes. Maps at the 1/500 scale cover only parts of the City and need updating. The Geodesy Department would like to establish a land information system. The Department estimates that it would take three to four years for technicians working in two shifts to digitize the maps on file. For now, the Department is focusing its effort during 1993 on checking the information compiled in the inventory against cadastral records, and developing a building cadastre.

Public/Private Partnership in Urban Development: Marketing Land "Offers"

The City Council has decided that municipal land should be used as equity capital to promote investment through public/private partnerships. Szczecin would thereby contribute 10 to 12 percent of the development costs and the investor would be granted a long-term leasehold. This approach has not met with the anticipated response. Despite the fact that land held under long-term leasehold can be legally sold, subdivided, or sublet, investors are primarily interested in buying the land.

The "development potential" underlying the various land offerings grew out of an architectural vision, and does not necessarily reflect actual commercial viability of the developments that the City is interested in. Clearly, there is an urgent need to create a capacity for strategic planning and relate urban plans to an overall economic development strategy for the City, in order to rationalize the management and disposal of municipal assets. Until the new master plan is completed, Szczecin has suspended all land sales except for "justifiable"

partnership cases. To generate municipal revenue, vacant parcels are temporarily used under short-term leases for small-scale commercial activities and garages.

3. Public Finance and Infrastructure

In Szczecin, the Team met with the recently-appointed City Treasurer and other senior financial staff. Subsequently met was a university professor, clearly interested and knowledgeable on financial matters, and who is also a member of the City Council, responsible for financial management. Meetings were also held with departments dealing with the operation of municipal enterprises and with their capital financing needs, and with Bank Morski, in which it was understood the municipality was considering - or had already made - a financial investment. A tour of the City preceded a meeting with representatives from the Chamber of Commerce.

Revenue Generation

It was explained that an important source of the City's revenue comes from the revenue-sharing system applied throughout Poland. Under this arrangement, five percent of corporation and 15 percent of personal income taxes go into a central pool, to be reallocated, according to a formula, among local government units. The formula is biased in favor of municipalities determined to be less well-off. Szczecin claims to be one of the "losers" in the current revenue sharing arrangements.

Unfortunately from the City's perspective, the central government had, after the first quarter of the year, reduced the municipal share of corporation tax from five to two percent. This of course means a drastic reduction in the pool of funds available for revenue-sharing with the cities. As with other cities, it was observed that the revenue-sharing system provided a substantial proportion of local revenues. Thus this sudden reduction has been a serious drawback to sound financial management.

A large number of local tax and other revenue sources exist. Important among these is the property tax, albeit not fully developed as a substantial local revenue source. Local taxes appear to be levied on a somewhat hit-and-miss basis, without detailed impact analysis. It was even asserted that in some cases the marginal costs and losses from raising taxes in a particular area would actually exceed the marginal revenue to be gained.

The City has needed to make budget cuts during the past year to conform to the reduction in revenues. In addition to the effects of the lowered corporate tax receipts, the downturn in

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revenue projections is attributed to:

- lower revenues from other taxes;
- increases in tax defaults from both enterprises and individuals;
- poorer than expected results from revenue-seeking enterprises;
- shortfalls in expected revenues from leases and sales of land, often because bids by potential buyers or lessees were lower than original assessed values.

Income from Privatization

The City claimed to be in a dilemma, with respect to land sales. Because of the recession, it was concerned about selling off its property at what were regarded as deflated prices. However, because it needs revenue it often feels forced to sell rather than holding on to the land for higher prices in an economic recovery.

It was noted that receipts from land transactions, whether from sale or lease, were indiscriminately credited as operating revenues. This is one unfortunate outcome of using a cash-based accounting system.

Budgeting

Budgeting is done on an annual basis only, with little or no multi-year planning. There are, in general, three levels of budgetary management:

- core municipal operations;
- separate budget units, including nurseries, libraries, social assistance, and "drunk sobering," from which some revenue is derived -- the remaining costs being financed from the central budget; and
- separate communal enterprises delivering public utility services.

Of the communal enterprises, the water and sewerage service is claimed as "profitable," whereas transport and housing services are subsidized. The central heating enterprise, with centrally-imposed price controls, is reportedly operating at a loss and also performing with some degree of technical inefficiency.

Although operating costs of communal enterprises are being

covered -- wholly or partly -- from revenues, most capital investment is being financed from central budgetary sources. Thus, the extent to which there is real financial autonomy and profitability seems significantly clouded.

It was pointed out that any issues of long-term bonds might be supported by sales or leases of land. Given the German background of the City, it is considered less likely that claims could be sustained for reprivatization of land. Thus, the land, conservatively valued at five trillion zlotys, represents a substantial corporate asset that can be used in a number of ways. On the other hand, it is claimed that attempts to privatize community enterprises are inhibited by large debt burdens, coupled with poor profitability prospects. Although some new financial instruments are emerging as sources of finance for infrastructure, their widespread use would clearly need to await better economic conditions.

It is claimed by various City officials that the current accounting system is still based on control and repression, and is not in a format useful for effective analysis and decision-making. The budget format is apparently prescribed by the government. In principle, it appears to be sensibly designed around the following categories:

- operation and maintenance;
- capital investment;
- services delegated from the central government; and
- extra-budgetary activities, such as communal enterprises.

Whether there is detailed application of sound budgeting and accounting principles to these divisions is not clear. However, it does appear that, within current restraints, there are tight controls over the cash-based budget in the allocative sense.

Basic accounting systems are manual. There is some use of micro-computers for budgetary analysis, but this is not linked to the accounting system. There are also some attempts to use the developing geographic information system for property tax mapping, which possibly is too ambitious at this time.

The team noted a willingness by senior financial officials to enhance the present financial information system by using additional techniques. This should continue and be encouraged. It should be done, however, in a step-by-step fashion, rather than attempting to establish a fully integrated financial management system. In particular, caution should be used in attempting to link a computerized geographic information system

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directly to the financial information system.

In working to enhance the financial information system as a whole, it is important that it be useful for effective action, rather than merely following a stifling kind of control. Furthermore, it must attempt to follow some recognized standard principles and practices. However, beyond the present cash-based requirements, these still remain to be developed. This must be addressed nationally. However, despite constraints, there may be opportunities to mould, modify, or augment the present systems of accounting and budgetary management so as to provide information that is more consistent and confidence-building. It needs to be appropriate to the circumstances of the various operations, with clear distinctions between revenue-seeking enterprises and tax-borne services.

Infrastructure

Infrastructure systems, hitherto under the control and financing of the Voivodship, are now apparently the full responsibility of the Szczecin government. The City Engineer is the operational supervisor of the principal infrastructure units, other than housing and central heating.

The road system includes some national roads that still, at least nominally, are to be funded by the Voivod. In practice, funding has been low, causing driver complaints. Thus, the City is doing the best it can to pick up some of the funding from its own, already meager, resources. The road system, however, continues to deteriorate, overall.

Water supply operations are claimed to be going fairly well, contrasting significantly with sewerage operations. The latter showed serious shortcomings in treatment capacity, as well as the construction of new main sewers. Present sewerage capacity is insufficient for current needs. The right bank of the city has four operational treatment facilities (three Imhoff, one conventional), only one of which has been constructed since the war. The left bank had no treatment facilities except for three screened outfalls directly to the river. The unserved population is about 320,000.

The sewer network itself is not all-inclusive, leading to a combination of tanker removal and private crude disposal. Both were said to be poorly operating. There are no special facilities for industrial wastes.

Consumer resistance, based on a lack of both willingness and ability to pay, has limited opportunities for the establishment and sustaining of economic efficiency pricing. Thus, maintenance is preventative, at best, with little provision for replacement or expansion. Large capital improvement programs are simply

precluded by lack of funding. Very high nominal interest costs, to counter inflation, all but eliminates long-term borrowing in conventional ways, because of the gross uncertainty of the operation.

Until very recently, both operational and investment activity were driven by purely physical concerns. Financial or economic analysis hardly mattered at all. This is now changing, but there is much catching up to do. Rehabilitation is required of both the physical system and the financial management capabilities. Where subsidies are still considered necessary, they need to be much more sharply focussed toward the needs of poor or disadvantaged individuals, rather than, as hitherto, toward entire services. In the latter case, broad-based subsidies not only create wasteful use of services, but they also bring about income-distribution inequities. In any event, attempts at redistribution through public utility services is not economically efficient. There are much better ways to redistribute income, if in fact this is considered a political objective.

Privatization and Investment

The Szczecin Chamber of Commerce representatives are concerned about the potential loss of commercial activity to the City. They point especially to the loss of shipbuilding opportunities to other countries, together with the potential closure of the port because of failure to keep the waterways dredged. Very little privatization has taken place, leaving much commercial activity still subject to public sector restriction and bureaucracy.

Some agriculture has been "corporatized," but not really privatized. Industrial investment opportunities are generally seen as being related to the Baltic port location and proximity to Germany, especially Berlin. Tourism is also considered an opportunity for investment.

A final meeting was held with the management of the Bank Morski. It was understood that the municipal government had been persuaded to take an equity position in the Bank, by waiving rent receipts on certain property owned by the municipality and occupied by the Bank, in exchange for a right to participate in the Bank's management and to receive future dividends. The Bank claimed that it was in a position to provide significant support to the municipal government, particularly if the government would regard it as, in effect, a "municipal bank." It could also, it was claimed, provide short-term funding to the city government and act as an issuing house for bonds. The team was unclear, however, as to where the specific competence of the commercial bank lays at this time, in terms of its comparative advantage over the municipal staff and with respect to financing operations

as yet largely untried.

Notably cited by the City as an example of a credible investment that did not come off was the proposal of a German company to provide solid waste management services. The failure to consummate an agreement was blamed on a lack of professional competence to evaluate the proposal, as well as political concerns.

Although the demands for capital investment and service delivery in Szczecin are large, the funding of capital projects by long-term borrowing is largely precluded by the economic situation and a perceived lack of stability and creditworthiness. Thus, careful land use planning offers an opportunity not only to create physical development but also to provide funding towards the necessary supporting infrastructure.

Funding from land management can, for example, arise from direct sales, leasing, and fees (such as exactions or proffers) for rights to exercise planning options within the control of the municipal government. Indeed, the planning fees may take several forms, including undertakings by developers to directly finance infrastructure or related social assets. It is important, however, that one-time capital receipts from these activities be earmarked for capital investment and not, as now, contributed to general revenues.

Clearly, such resource use demands that there be efficient financial and economic analysis. Not only does this apply to individual projects but also to their strategic impact upon the financial situation of the municipality as a whole. Much of the public infrastructure is under the control of communal enterprises, many with precarious financial situations. Thus, there will be an inevitable spill-over from their operations, via operational subsidy or capital funding, into the general fund.

Present budgetary management concentrates on funds flows. This must continue, but should be enhanced by analysis of both the allocation and use of real resources. This must be done with reference to productivity, by improvements in the economic efficiency and effectiveness of service delivery. To achieve this, there must be some transformation of the budgetary process from one which is cash-based to one which is cost-based. This will necessitate establishing clearer distinctions between operations and capital investment in the accounting and budgetary process. It will also require a clearer definition and bounding of the financial operations of the communal enterprises.

For the enterprises, it will be necessary to more clearly show the extent to which the enterprises are covering costs from charges or being subsidized from general revenues. It should also provide data to facilitate a focus of the subsidies away

from entire services and toward deserving individuals.

Accounts and budgets for tax-borne services should, as far as possible, be presented so as to show the expenditures allocated to each service and program and any revenues directly earned by their delivery. The net result should be to show the extent to which the service expenditures are a net cost on the general revenues. Such developments would be an important step toward full program or performance budgeting.

Cost-based (or expenditure-based) budgets and accounts, whether for enterprises or tax-borne services, must show the recurrent effects of capital investment activity. Depending on the circumstances, this might address, for example:

- cost-recovery, by depreciation charges;
- sustaining and renewal of assets, by renewals funds; or
- financing implications, by charges for debt service.

Toward Improved Financial Systems

The development of the financial information system for Szczecin must serve two important concepts. First, it must be responsive to accountability for stewardship over public funds. This emphasizes the relationship of the municipal government to its external constituency, be it the City Council, local electorate or central government. It implies compliance with statutory and other requirements, together with external audit. It addresses, in effect the acquisition, control and use of resources.

Second, it must respond to the need for accountability for performance. This addresses mainly the internal constituency, the operational managers responsible for service delivery. It concentrates on actions taken by the municipality staff to fulfill its obligations, with economic efficiency and effectiveness. For this role, financial information must be complemented by the use of operational information, including statistics on individual activities.

The accounting system must be developed, therefore, so that it may record income and expenditures to monitor current performance against budgets and to provide the data for future planning and programming. It must also develop adequate records of all assets and liabilities, so as to predict current and future costs and cash-flows, as well as establish comprehensive periodic statements of overall financial position.

The team was concerned that Szczecin had chosen to invest scarce resources as capital in a local commercial bank. Even though there may be a need to establish a special relationship with one or more local financial institutions, the investment of

public funds does not appear to be the best way to achieve this. Banking services are -- or will eventually be -- market operations. The municipality should leave itself free to choose from any particular institution only those services and financial operations that provide the greatest specific benefits for the least cost. Indeed, the need for competent cash management would seem to demand that surplus funds be placed to their most productive short-term use, something which too close a relationship with one particular institution might well constrain or preclude.

4. Municipal Management

The top management team consists primarily of engineers with prior experience in the shipyards, and university professors. These individuals are bright and committed, but lack experience in the management of local government. There appears to be very little depth in the organization. Annual employee turnover is reportedly as high as 20-25 percent due to low salary and low prestige of working for government. The City has difficulty attracting university graduates skilled in financial analysis.

There are 60 members on the City Council. The Council meets once a month, and meetings typically last for 12 hours. The Council is also divided into 10 subcommittees, each subcommittee meeting a minimum of twice a month, and these meetings usually lasting four to six hours. The Executive Board, which is appointed by Council, meets weekly, and all recommendations must go to City Council for final approval.

The Executive Board members serve as super department heads, overseeing a cluster of city departments each. We were told that because of the lack of depth in employee talent, there is little effective delegation. Because of the lack of prior local government management experience, there is no clear view on how various parts of the City government organization should be structured. Consequently, strengthening public management is a necessary component to the delivery of housing.

Szczecin City Perspective on Management Shortcomings

The top management staff and members of the Executive Board listed the following public management areas as those that most affect provision of housing and the overall ability of the City to support development in a market economy:

- 1. Need for Priorities.** There clearly are inadequate financial resources to meet all of the pressing needs of the citizenry. Staff are interested in approaches to allow them to better understand if the City is spending its limited resources on the most important issues.

2. Need for Proper Organizational Structure. Staff described the problem of "duality of decision-making centers," resulting in the difficulty of coordinating responsibilities across separate departments. Departments did not have a history of cooperating with each other often. Staff asked for a conceptual model of how organizations should work. Staff also expressed a strong interest in reducing the employment in the General Fund (non-enterprise) from the present 605 to about 350. Although this downsizing could be extremely important because it would free up additional revenue, a clear approach had not yet been developed.

3. Need for Experienced Management Staff. Staff freely admitted that very little real management (planning, coordinating, controlling, evaluating, supervising) was being done. We were told employees needed help to "think economically and to take initiative." The difficulties in the transition from the command system are very evident here. Not only is training necessary, but also important are the introduction of professional personnel practices in recruitment and selection. The present practices lean toward nepotism. Staff requested an example of a more professional approach.

4. Need for Experience in Group Processes. The prior command system did not encourage group problem solving. The City Council was under the control of the Voivod Board, which was a creature of the Central Government. Some fear that the system could lapse back to more central control due to a lack of confidence in the present system to take decisive and timely decisions. Although staff expressed concern about the quality of Council interactions and decision-making, they were not sure that any sort of facilitated session could be particularly productive until there is a greater consensus about current shortcomings. They did request a review of their present procedures and written examples of other models for group problem solving, decision-making, and conduct of meetings.

5. Need for Skills in Financial and Economic Analysis. This issue was evident in several areas. One was the inability to evaluate tenders with a high degree of confidence. As noted, a proposal for contracting out refuse collection was not approved, in part because the benefits were not convincingly presented. The second example is the current struggle within the City on how to restructure the communal enterprises for refuse collection, water, and sewerage. The City is considering privatizing, contracting out, or continued City operation in a different form (e.g. employee stock company). The City has serious questions on the process of evaluating alternatives. The third example is the sale of City-owned properties. Although the Executive Board intuitively believes it would often be to the City's advantage to lower prices to facilitate new development, they lack the analytical tools to express the benefits of the price reduction, and therefore have been unable to convince the City Council to

lower prices.

6. Need for Improved Communication with the Community. At our final presentation, the Executive Board raised this issue as a major concern. Again, with only two years experience in a non-command system, the City readily acknowledges that they lack "methods and tools of social communication." Effective communication with the public will be essential to prevent frequent reversals in direction.

7. Need for a Viable Economic Development Program. The City staff recognizes that the low incomes and limited employment growth fundamentally limit the ability of the City to move toward market prices for housing and services. However, the economic development program is fairly passive, seemingly stymied by the large and the limited financial resources. For example, some believe a new airport should be built, reducing the travel time to the City center from 50 to 15 minutes. Others believe extending the four lane highway system north to the ferry with Scandinavia and west to the German road network would be the best investment. Staff appears to be in a reactive mode and we did not find evidence of quantifying costs and potential benefits of possible investments, rank ordering choices, developing consensus on alternatives, or actively seeking private sector involvement and investment.

III. CONCLUSIONS AND RECOMMENDATIONS FOR ASSISTANCE

1. Context for Providing Assistance

The City Executive Board and top management staff appear committed, diligent, and intent on taking advantage of the insights and skills of western specialists. The political leadership of the City has had little turnover, which also bodes well for an assistance program. We suggest that particular projects of keen interest to the City be selected as vehicles to introduce new skills or techniques, so that the benefits of new approaches or application of new techniques can be more readily observed.

One characteristic germane to the structure of an assistance program in Szczecin is the unusually large amount of land in City ownership. More so than in other cities visited, the land is a hard asset that could be used to induce spinoff economic development from the activities that are taking place nearby. The quantity of developable land also affords the City the opportunity to pioneer new approaches and techniques in using this asset to spur economic development generally.

The City's program for socio-economic development (1993-95)

lists areas in which foreign technical assistance is sought.

- The management of municipal assets.
- The management of public services.
- Privatization and restructuring of enterprises.
- Joint ventures and contract negotiations.
- Promotion of private investment.
- Formulation and implementation of a development strategy for the city.
- Instituting methods of economic and land use planning.
- Improving local managerial and technical capacity.

Szczecin wants to establish exchanges with counterparts in Europe and the United States, access urban information networks, and contract local and foreign educational institutions to provide training. The City did negotiate a collaborative agreement with the University of Szczecin in July 1992. It is seeking technical assistance from the United States, France and the United Kingdom.

In several areas we found City officials particularly keen to move forward with new approaches. The dynamic renovation team for the Turzyn area has demonstrated the capacity to apply the concepts and techniques, to which they have been exposed through the U.N. advisor, to project design and implementation. The head of the Planning Department has already taken steps to introduce new approaches to planning. The senior staff is well-qualified and the technical staff has the capacity to absorb and utilize new planning methods. The head of the Housing Administration is eager to modernize management and restructure current practices to improve efficiency and promote privatization.

2. Areas for Possible Technical Assistance

1. Short-term assistance to introduce concepts and methods of strategic planning. This would include assistance in organizing a strategic planning team and instituting procedures to coordinate their work with the spatial planning effort in time for the Planning Department to integrate this into the upcoming master plan. Procedures for public participation in the strategic planning process will have to be worked out. As part of this assistance effort, new, more flexible approaches to reviewing development proposals will need to be developed to enable the City to respond to investment proposals. Absent such a framework, the City will continue to respond to proposals, make offers, and take investment decisions on an ad hoc basis, foregoing opportunities and overvaluing assets to avoid politically-motivated criticism.

Given the importance and complexity of this task, the level of effort required would be up to six person-months over a two-

year period. Intensive workshops and longer working sessions on selected methods and procedures, including data needs and management, should be supplemented with follow up visits by experts to help the planning team implement the new techniques. Study tours and exchanges with U.S. and European counterparts would be highly beneficial.

Building up the strategic planning capacity could be focused on the revitalization of the central area; this is a priority concern for Szczecin at this time. Design, feasibility and marketability studies have been completed by the Norwegian developer. Offers prepared by the City for infill parcels, and the studies undertaken by the renovation team in the Turzyn area provide a good information base that the program can start with and build on. This revitalization project will require building up institutional capacity to:

- Formulate economic development objectives.
- Appraise projects and evaluate investment proposals.
- Develop incentive policies and property valuations.
- Package and market offers.
- Create spatial planning frameworks fostering private development activities.

2. Assistance to help the Housing Administration develop a framework for the privatization of housing ownership and management following renovation. Experts would help the Housing Administration to organize a housing database to provide the statistical information needed to develop and monitor the transfer of maintenance responsibilities from the public to the private sectors, evaluate the feasibility and cost of alternative management methods, and develop workable options for testing privatized management in structurally sound and renovated buildings. The pending Housing and Tenant Protection Act could significantly enhance the economic viability of renovation by enabling apartment rents to be raised to cover full renovation and maintenance costs, and the compensation of commercial tenants who undertake the rehabilitation of their premises through rent relief.

The downtown renovation plans of the City have opened up possibilities for the integration of rehabilitation with economic development and housing privatization policies. The renovation team will have to work closely with the housing administration to assess affordability, develop options to house elderly and displaced residents, and devise a framework for the management of the renovated stock. This coordinated effort is needed to safeguard the City's investment in renovation, which if properly done can ultimately result in significant additional revenue to the City.

Technical assistance could be focused on the Turzyn area

renovation project. The technical studies and outreach effort undertaken by the renovation team will help define a coordinated effort with the Housing Administration. Assistance would concentrate on helping the city formulate an appropriate framework to privatize ownership and maintenance, reflecting potential sources of finance and the participation of residents and private investors in the renovation process. The level of effort required is on the order of six to eight man months.

3. Financial management assistance. The most appropriate form of technical assistance would appear to be directed toward the use of a resident or visiting adviser, perhaps on a shared basis with Poznan. He or she would provide guidance to the financial specialists of the municipality in implementing ad hoc improvements to the financial management process.

The adviser would conduct or arrange seminars on specific relevant topics, wherever possible on a multi-disciplinary basis. This will recognize the need for operational, as well as financial, professionals to become aware of and commit to the need for improved use of financial information in the efficient delivery of services. The adviser would also be responsible for following up on the implementation of techniques developed, including coaching and on-the-job training.

The adviser would be expected to become aware of a number of concerns that will have to be addressed at a national level, by government or other institutions. He or she would therefore need to participate in conversations with these central entities concerning the implications of national policies and practices on local finances, and of the need for the national authorities to be responsive to local needs. It will also be important to have opportunities for the development of common standards and practices, for use in many or all cities, as well as a sharing of learning and experience generally.

The output expected from this level of technical assistance in the financial field would be expected to be reflected in improvements in:

- financial analysis capability;
- financial information systems;
- accountability for stewardship and performance; and
- internal and external confidence in the financial information and management process, as well as in those who are responsible for it.

4. Restructuring of Communal Enterprises. The City is presently considering what should be the proper form for the refuse collection, water, and sewerage operations. They have requested assistance in evaluating alternatives. Assistance in this area could demonstrate the skills and benefits of the analytical

techniques and organization practices used in the west.

5. Public Management. The following areas were identified where technical assistance could be especially appropriate in improving the overall management of the municipality:

- Training Program/Workshops on procurement, negotiation, and contract management.
- Workshop with written materials on personnel and supervisory practices, especially in employee recruitment, selection, and evaluation.
- Workshop with written materials on organizational structure and role clarification aimed at improving coordination and identifying opportunities for downsizing.
- Workshop and written materials on group processes, including goal setting, prioritization, problem solving, and conduct of meetings.

6. Community Participation. Szczecin is interested in learning more of how to structure a satisfactory approach for citizen interaction and involvement. This would encompass such issues as how to create an open environment for decision-making, how to efficiently funnel citizen input and criticism at the department level, how to better accommodate citizen comment on service issues, and how to create greater transparency in contracting arrangements.

ANNEX VII
LIST OF CONTACTS

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