

**QUARTERLY TASK ORDER
PROGRESS AND COST
REPORT**

**CROATIA LOCAL
GOVERNMENT REFORM
PROGRAM**

**OCTOBER TO DECEMBER
2001**

Prepared for



Croatia Local Government Reform Program
U.S. Agency for International Development/Croatia
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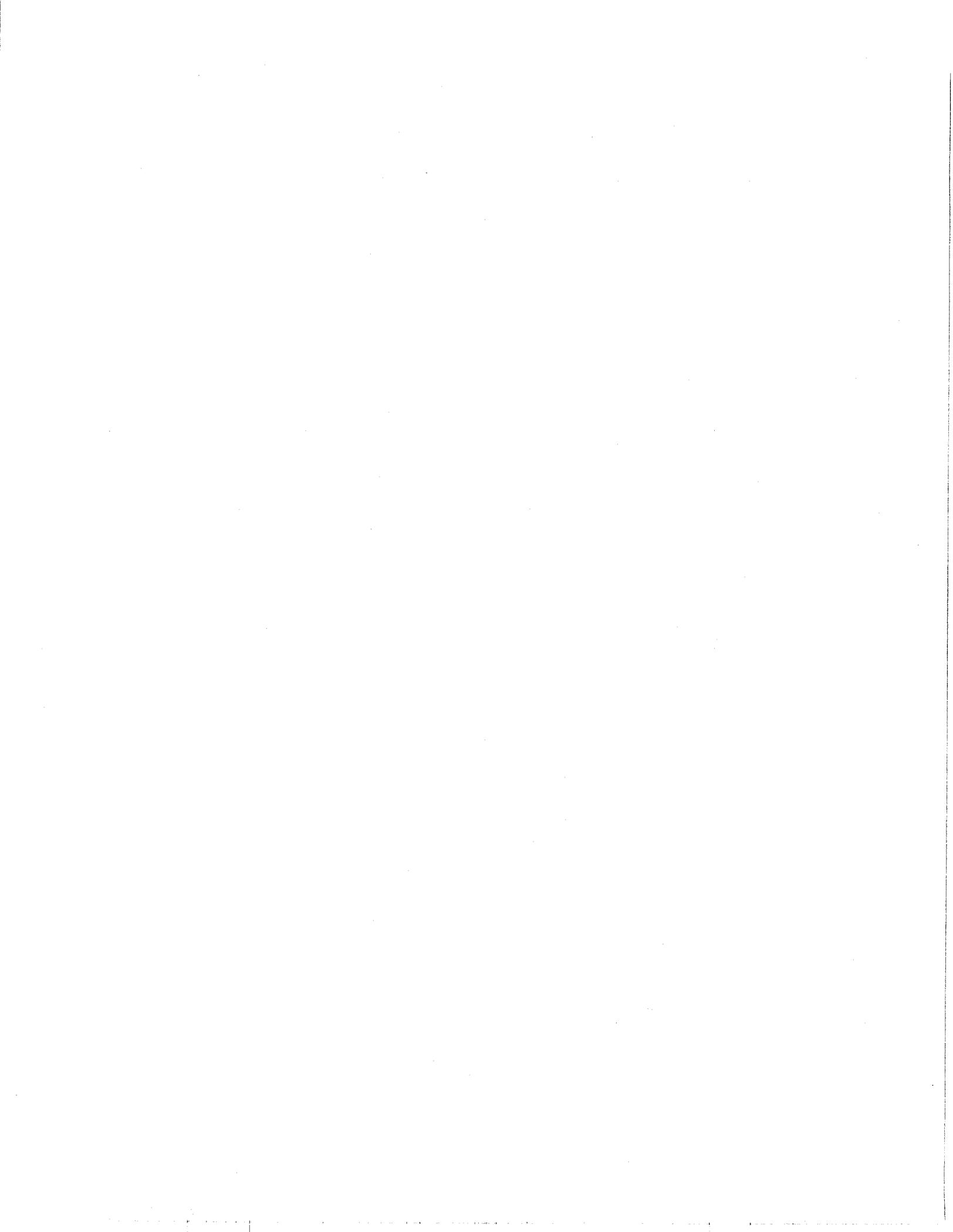
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Cost Report



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CROATIA LOCAL GOVERNMENT REFORM PROGRAM

Task Order No.: EEU-I-00-99-00015-00, TO 808

Date of Issuance: May 24, 2000

Task Order Description

The purpose of this Task Order (TO) is to implement a Local Government Project that will work toward decentralization, transparency, and efficiency among municipal administrations. There are five programmatic components: demonstration sites, improving fiscal and management efficiencies, improving investment opportunities, improving citizen participation in local governance, and strengthening organization and advocacy by the Association of Municipalities.

Amount Obligated Under Task Order:	\$3,374,671
Total Potential Task Order Amount:	\$3,374,671
Dollars Expended To-date:	\$1,579,951

Progress of Major Activities

The purpose of this report is intended to provide the United States Agency for International Development/Croatia (USAID) with an overview of the events that took place during the fourth quarter of 2001 under the Local Government Reform Project (LGRP).

This report is structured to include a section on *major accomplishments* ordered by substantive topics for each project component. The report includes a section that identifies *next steps* for the project as whole. The LGRP technical staff includes five full time local experts (Marina Kristek, finance expert, Miljenko Smit, information management specialist, Visnja Mrakovcic, economic development specialist, Hrvoje Bertovic, asset management specialist, Damir Cvijanovic, finance and credit market specialist). Jasna Rodman manages the LGRP Zagreb office with translation/interpreting support from Dario Runtic and Sanja Spoljaric. In addition, about 16 part-time (local and expat drawn from the Urban Institute (UI) or its U.S. based subcontractors: Training Resources Group (TRG) and Institute of Public Administration (IPA)) consultants contribute toward the project's goals as well as local firms subcontracted to work on the project (including NIT and PULS). The LGRP's Chief of Party (CoP) is Mr. Maris Mikelsons and the Deputy CoP is Krzysztof Chmura.

Work Performed October through December 2001

Highlights

This last quarter of 2001 saw a continued acceleration of Local Government Reform Project (LGRP) activities in all areas of work. Work in some technical assistance areas neared completion as the project staff/consultants prepared for implementing a LGRP dissemination/replication strategy in the Year 2002.

- After LGRP information management staff/consultants installed new servers and software (in the Cities of Osijek and Crikvenica), training began for the officials on the use of the information management system. Additionally, the City of Osijek (at the City's expense) secured a high-speed telephone line to connect the system to computers located in neighborhood council spaces and at the Center for Peace (local non-government organization (NGO)). The Cities of Osijek and Crikvenica adopted a resolution to use the information system as part of their daily work and to commit to using the information system to facilitate public participation in local governance.
- During the reporting period, the LGRP World Wide Web (WWW) home page (www.urban-institute.hr) was updated with new information related to project activities. The LGRP issued two "LGRP Newsletters" to local government officials and other interested parties as part of its dissemination strategy.
- The LGRP asset management team along with City of Varazdin officials continued to implement the recommendations found in the report on the property of the City of Varazdin by completing a comprehensive inventory of all city property. Additionally, the City of Varazdin advanced in its implementation of many of the procedures necessary to carry out sustainable asset management based on LGRP standards. A new asset management ordinance was adopted by the City of Varazdin that included recommendations put forth by the LGRP.
- The LGRP economic development team along with members of the economic development task forces in the Cities of Varazdin and Rijeka finalized the economic development strategic plans in each City. The City of Rijeka added another critical issue related to re-development of bankrupted properties as part of the strategic plan. Additionally, the City of Rijeka agreed to fund many of the interventions (projects) identified in the economic strategic plan as part of the 2002 budget. The Mayors of Varazdin and Rijeka committed to put forth the economic development strategic plans for adoption by city councils during the first part of the year 2002.
- Working with the City of Rijeka, the LGRP public participation team finalized a draft report on the public opinion survey results and began preparations to present the report to the City (to take place during January 2002). During October, the survey was administered to about 400 respondents in the City of Rijeka by the local firm PULS with tabulations of the survey results taking place during November. This "public opinion" survey related to delivery local public services is the first of its kind in Croatia and serves as a valuable tool for resource allocation



and informing local governments about residents of the community as consumers of public services.

- The LGRP public participation team prepared a draft report on “A Comprehensive Public Participation Plan” for the City of Rijeka. This plan was based, in part, on the public participation tools/methods introduced to the City/community by the LGRP over a six-month period (formation of a public participation task force and through four workshops) and will be used by the City to implement new public participation strategies, e.g. closer collaboration with NGOs, better use of the media to communicate to citizens, public opinion surveys, etc.
- At the request of the Ministry of Finance (MoF)/State Treasury, the LGRP agreed to distribute the budget preparation/reporting module of the FAM to all local governments in Croatia. The LGRP agreed to collaborate with the Ministry by conducting a series of seminars for representatives of all cities and counties in Croatia on the use of the FAM. Representatives of cities and counties began implementing training for officials from their respective municipalities to further distribute the FAM. Staff from the LGRP and MoF trained officials from over 100 cities/counties on the use of the budget/reporting module of the FAM (with the expectation that cities and counties will train local municipalities on the use of the FAM). LGRP continued to work to finalize all other modules of the FAM related to creditworthiness, local government budget institutions, and asset management.
- The LGRP also pursued several national level objectives by linking its work in demonstration sites to national level institutions. Under the asset management component, the Ministry of Public Works created a task force (at the initiative of the LGRP) to develop a new strategy on the communal economy (mandated public services). The Ministry of Public Works appointed one member of the LGRP to the task force that is lead. The Ministry organized the first meeting of the task force to set the agenda for future meetings.
- Staff from the LGRP and the City of Varazdin worked together to prepare the budget for 2002 utilizing the LGRP FAM. The Mayor of Varazdin presented the draft 2002 budget to the City board (as well as select representatives of the City council and LGRP) through a mayor’s budget message format introduced by the LGRP. The budget differed from previous budgets in that it no longer contained line items categorization of expenditures but showed expenditures by economic and functional classifications as well as organization (department and within departments by project). This type of budget preparation was made possible through the use of the FAM. Representatives of the LGRP were asked to attend the Mayor’s presentation of the budget to the City board, which included select council persons.
- In line with LGRP’s recommendation, the City of Varazdin issued a budget-in-brief document to inform and educate citizens on the 2002 budget. The City printed about 10,000 copies of this document and distributed it throughout the City. Varazdin’s budget-in-brief document is a model other local governments will adopt.

- The LGRP mandate to build the capacity of the Association of Cities and Municipalities was advanced by the LGRP agreeing to distribute a "Local Government Handbook" to all local governments in Croatia. Select representatives from local governments have finalized ten chapters of the handbook along with a contribution by the LGRP. The Association will reconstitute itself during February 2002 and has asked to the LGRP to assist with devising a new strategy for the Association.
- Following the submission by the LGRP of comments on two new laws that regulate local government civil servants (*Law on Local Civil Servants and Laborers* and *Law on Obligations and Rights of Public Officials in Local and Regional Self-Government*), the LGRP was asked to provide additional inputs to these laws by the Ministry of Justice/Administration/Local Government. The Ministry requested translated copies of two existing civil servant laws (from the Czech Republic and Italy).
- The City of Bjelovar was added to the list of LGRP demonstration sites. During late November, the Mayor of the City and U.S./USAID representatives (including U.S. Ambassador Rossin and Pamela Baldwin, USAID/Croatia Mission Director) signed a memorandum of understanding (MOU). The LGRP will implement a comprehensive work plan for the city that will focus on financial management practices (budget preparation and capital improvement plan). The LGRP collaborated with the City of Bjelovar representatives and USAID's Competitiveness Project to design its work plan for the City.
- Win Evans and Peter Epstein conducted a series of workshops for representatives of LGRP demonstration sites. The purpose of these workshops was to re-visit the homework assignments given during the LGRP financial management seminar in September on the topic of public participation in the budget process. Additionally, the second topic of the workshop was capital improvements planning, a topic that will set the foundation for cooperation in 2002 with LGRP demonstration cities.
- USAID/Croatia approved an LGRP-designed study tour (implemented by World Learning) for the members of the finance management task forces (with additional representation by mayors and council persons) in each LGRP demonstration site. The study tour will take place in Poland (over the January 21 to 25, 2002 period) and focus on model capital improvements planning processes as well as asset/information management practices. The study tour will lay the foundation for implementing modern management practices in LGRP demonstration cities during 2002. The LGRP Deputy Director (Krzysztof Chmura) and local finance specialist (Marina Kristek) will accompany the study tour to facilitate the learning process for study tour participants and link the outcome of the study tour with LGRP financial management training.
- The LGRP assembled a team of experts to draft a study on territorial reform (at the request of the Local Government Advisory Committee). The study team is composed of Juliana Pigey, Inga Vilka, Jelena Ladovac, Damir Cvijanovic and Maris Mikelsons. Work on the initial draft of the study continued with a presentation of the study to take place during early 2002.



- During December, at the initiative of the LGRP, the City of Crikvenica held a public hearing on the draft 2002 budget—the first of its kind for the City. Over 50 citizens along with representatives of neighboring cities/municipalities attended the public hearing on the draft budget. Also at the initiative of LGRP, the cities of Crikvenica, Rijeka, and Osijek plan to issue budget-in-brief document following the adoption of the 2002 budget by the councils. The City of Varazdin issued its budget-in-brief brochure to over 10,000 residents, including schools and other education institutions.

Project Management—During November, LGRP staff/consultants gave a presentation to USAID that showed how the LGRP responds to (draft) intermediate results (Irs) and included an overview of the results achieved under the project to date. Additionally, the presentation included the framework of LGRP's approach to its dissemination/replication strategy. The presentation was conducted for the USAID/Croatia Mission Director as well as select representatives of USAID/Croatia.

During this reporting period, the LGRP CoP and the Deputy CoP devised a comprehensive dissemination/replication (of pilot technical assistance activities related to all LGRP components) plan for the LGRP. The plan was presented to LGRP staff/consultants in detail and in framework format to USAID/Croatia as part of the November presentation on the LGRP. The plan relies on dissemination of LGRP technical assistance components through a concerted effort to inform and educate local governments about the availability of LGRP models, methods, and processes developed as pilot activities in demonstration sites. Further, the LGRP will work with existing organizations (national level as well as local level) to disseminate LGRP products and eventually replicate these in other local governments in Croatia (replication methodology will vary by LGRP component). The plan will be included as part of the revised LGRP workplan.

Description of LGRP Activities by Component

Information Management—Miljenko Smit, LGRP information management specialist, finalized the process to implement the information management system in both Osijek and Crikvenica. Both Cities have adopted a resolution to use the information management system as part of everyday work in all City departments. Moreover, the City of Osijek has agreed to fund the cost of a high-speed telephone line to allow citizens of Osijek to access and utilize the full capacity of the information system. The City of Osijek will purchase computers for its neighborhood council offices so that more citizens can access the information system. A local NGO in Osijek, the Center for Peace, will also be part of the information system since it will dedicate one computer in their office for access to the information system. The City of Crikvenica is in the process of applying for a discounted high-speed telephone line from local telecommunications providers and plans to link its information management system to available computers.

Miljenko Smit and Zoron Borovics, LGRP information management specialists, worked with officials from the Cities of Crikvenica and Osijek to develop a marketing strategy for the information system. The marketing strategy will inform and educate citizens on the availability and use of the information management system. The marketing strategy will rely on the use of local media and printing/distribution of brochures at the expense of the City of Osijek along with a grand opening ceremony of the information

system. USAID/Croatia representatives will be invited to attend the “ceremony” during early 2002 to contribute to marketing the information management system to the public.

Economic Development—Pat Dusenbury, LGRP lead economic development specialist, along with her team (Krzysztof Chmura, Visnja Mrakovcic and Oliver Travis), worked with the task forces in the communities of Rijeka and Varazdin to finalize their economic development strategic plans. The task forces and LGRP staff fielded final comments to the economic development plans from the mayors of each city and citizens (utilizing the www home pages of each city). The Mayors of each City committed to present the economic development plans to their respective City boards and councils in early 2002.

During October/November, the LGRP held several meetings of an economic development task force working group to develop an action plan on re-development of bankrupt properties in the City of Riejka. Concurrently, the Mayor of Varazdin requested that more detail be added to the economic development strategic plan to reflect growing demand to develop a technology park in the city.

Both requests from the mayors were met positively by the LGRP. In the case of Riejka, a redevelopment subgroup was created and began work on finalizing an action plan. The LGRP will provide additional support to this re-development subgroup by a consultant familiar with waterfront economic redevelopment issues in Europe. LGRP has contacted a City in Wales (Swansea) to identify a candidate from this local government for the purpose of traveling to Croatia to conduct workshops on the topic of redevelopment for the City of Rijeka. In the case of Varazdin, the LGRP staff conducted a literature review on technology park development (drawing from existing materials produced by other USAID projects and other sources in the U.S.). These materials will add detail to the economic development plan for Varazdin and be used as information bases for a newly formed Parliament committee assigned to promote technology park development in Croatia (headed by the Mayor of Varazdin).

During the reporting period, the work of the LGRP Economic Development Team centered on the following activities:

- Producing draft strategic plans suitable for distribution.
- Developing strategies to obtain public comment.
- In Rijeka, participating in the first meeting of the working group addressing the issue of redeveloping obsolete industrial properties.

Agendas for the Task Force meetings in Rijeka and Varazdin combined the activities of what are two separate meetings in the LGRP local economic development model. This was done to speed the process so that proposed interventions would be “on the table” during budget deliberations. Combining two meetings into one limited time for the Task Force to integrate action plans into an EDSP and increased the burden on LGRP staff. Indeed, by the end of the year, the Cities of Rijeka and Varazdin had committed funds in their 2002 budgets for proposed interventions (projects) identified in the economic development strategic plans.



Economic Development—Rijeka in Detail—After presentations from the working groups, discussion focused on the vision for Rijeka. A subgroup volunteered to meet and finalize a statement incorporating the ideas put forth during the discussion. The Task Force also discussed implementation options, and Mayor Obersnell, who participated throughout the afternoon session, agreed that the City was the logical implementing entity for the economic development strategic plan. The Task Force also suggested three broad strategies for implementation - (1) linking to EU programs, (2) strengthening NGOs, which can receive funding from the EU programs, and (3) using modern information and communication technologies wherever appropriate.

LGRP staff developed a draft EDSP from the working group products, meeting discussion, and explanatory text. This draft is being distributed to Task Force members, city and county officials, and posted on the Rijeka web site for public review and comment. Public input is being sought through the mass media as well. Local and regional television covered the Task Force meeting. Visnja Mrakovcic-Supac, LGRP economic development specialist, was interviewed about the EDSP on local radio and mentioned the on-line opportunities to comment as well as a suggestion box in City Hall. The LGRP Public Participation component in Rijeka included recommendations from the working groups in a survey of Rijeka residents taken during October. The survey results, which were overwhelmingly supportive, will be cited in the EDSP.

At the urgent request of the city, the critical issue, re-development of bankrupted properties was added to the EDSP. The city's immediate concerns centered on the following issues:

- Treatment of communal fees incurred after declaration of bankruptcy, which is apparently unclear in the law.
- Treatment of the bankrupt property in the Urbanistic Plans, including protection of ecological and cultural heritage resources.
- Marketing the properties to potential investors.

Economic Development: Varazdin in Detail—After presentations from the working groups during a November meeting of the economic development task force, discussion focused on the EDSP process itself. The Mayor questioned the value of strategic planning when financial support was the city's greatest need, followed by the need for very specific technical assistance. In response, Task Force members eloquently defended the EDSP process, and LGRP staff agreed that provision of technical assistance to support implementation of specific proposals was part of the EDSP partnership with the City of Varazdin.

At the follow-up meeting, the Mayor suggested that he could provide a letter setting out the ongoing and planned city activities relevant to EDSP recommendations. A draft EDSP was developed from the working group products, meeting discussion, the Mayor's letter, and an explanatory text. This draft EDSP is being distributed to Task Force members, city and county officials, and posted on the Varazdin web site for public review and comment. A Task Force member from the Informatics Faculty has contributed significantly to public outreach efforts using the Internet and the web site to invite public comment.



The LGRP will modify the LGRP strategic planning model to reflect lessons learned and to integrate the tools prepared for the LGRP economic development workbook. This will be used for LGRP training during the second year dissemination/replication process. The LGRP staff/consultants began to package the materials produced under the economic development component of the LGRP. Staff/consultants drafted an outline for the local economic development workbook to be used for the dissemination/replication strategy of the LGRP. LGRP coordination with relevant efforts at the national level (Ministry of Economy and Ministry of Small Enterprises and Crafts) and with other donor programs was an ongoing activity.

Citizen Participation—At the request of the City of Rijeka, the LGRP designed a public participation component that would help the city better communicate with its citizens. Krzysztof Chmura is leading this activity for the LGRP with a two-prong approach. One path would introduce new public participation tools to the city, such as neighborhood meetings, a general citizen' opinion survey and other methodologies that lend to citizen involvement in local governance. The second path would introduce a comprehensive public participation plan to the City of Rijeka through the establishment of a public participation task force. The LGRP aims to institutionalize public participation as a mode of operation for all City activities and use the output of its work with the City of Rijeka as a model for other local governments in Croatia, to be implemented during the dissemination/replication phase of the project.

During the months of October, November, and December, four public participation workshops were held in the City of Rijeka. The workshops were directed to members of the public participation task force (representing neighborhood councils, local NGOs, and the City). The goal of the workshops was to define a strategy for citizen involvement in local governance that focused on four areas:

- Citizens better informed on local issues and communicate more frequently with the city
- Higher level of participation in budget preparation process
- Increased role of neighborhood councils in local governance
- Increase the number of civic initiatives

The approach the LGRP used to address these four topic areas was based on prioritization of public participation tools using defining criteria such as effectiveness, simplicity, resources, and leadership. The selection of public participation tools (methodologies) was finalized to include a diverse range of approaches (such as the cooperation of local NGOs and neighborhood councils, the distribution of brochures, the expansion of local media channels, etc.).

Based on these four public participation workshops, the LGRP wrote a draft "Public Participation Plan for the City of Rijeka". The document was submitted to the City for review and comment at the end of the year.



Victor Welksberg, consultant to the LGRP, working with city officials and the local NGO, RI Center, designed a public opinion survey questionnaire. A local firm, PULS, was contracted to implement the survey in Rijeka to about 400 respondents during October. This survey methodology of gauging public opinion on a variety of topics related to public service delivery will be used by the City to make resource allocation decisions. A presentation of the results of the survey is scheduled for early January followed by a press conference. This type of survey for a local government is the first of its kind in Croatia.

Financial Management Systems—The present system of local financial management provides little fiscal accountability or useful information to public officials, managers or citizens. Most local governments in Croatia have yet to fully understand and embrace budget development as a policy-setting process by adopting more informative budget documents, or becoming more responsive to public participation.

Moreover, local governments lack an integrated system of budgeting, accounting and financial reporting based upon a rational chart of accounts (with international standard economic and functional classifications). These remain the first priorities for technical assistance under the financial component of the LGRP.

More advanced financial management concepts have begun to be introduced to representatives of LGRP demonstration sites. These are included in the mix of training related to the FAM development:

Capital Improvements Planning:

- Better integrate capital project selection and execution with overall local government systems for financial management, and asset management. The first step is to separate the capital from the operating budget as part of the annual budgeting process (on average, about 72 percent of local government expenditures are attributed toward current expenditures, another 23 percent toward capital expenditures and the remainder for debt liabilities).
- Introduce multi-year, capital improvement planning (the CIP). For larger local governments that have the greatest potential to access government credit or commercial sources as a major source of investment planning, the CIP and capital budget anchor the city's debt management upon a solid footing of mutually linked financial and physical planning.
- Use systematic procedures and analytic tools such as the FAM to assess and prioritize capital investment opportunities.
- Assess the ability to incur debt to finance long-term capital investment.

As part of this activity, the LGRP will train local counterparts in the use of the FAM and help them refine and adapt it for specific applications. FAM is a Croatian language, Access-based software program designed to help a local government assess its borrowing capacity and program its capital investments (through forecasting) and was adapted to budget preparation and reporting as part of LGRP collaboration with the MoF.



At the conclusion of the LGRP financial management workshop held in September, participants from demonstration sites were asked, on return to their cities, to secure commitments to introduce the following improved practices during 2002, in conjunction with execution of the 2002 budget and preparation/adoption of the 2003 budget:

- The improvement of the budget as a *policy document* to guide allocation of scarce local resources and as a *communication device* to better involve the elected council and the public in making these allocations. This would include development of an annual budget message, the preparation of a "budget-in-brief" document for the public at large, some better presentation of the budget in functional terms, and some expanded public participation in the budget process itself (most desirably, the convening of a public hearing prior to formal council action on the plan).
- The introduction of program budgeting concepts on a pilot basis for one department or function.

Based on interviews with finance directors in the Cities of Osijek and Rijeka, Win Evans (consultant) prepared an Assessment of Budget and Financial Management Practices in those two cities and added the City of Bjelovar as part of the Assessment during his trip in November. The Assessment identifies some other priorities for improved finance practices including:

- Better integration with the local budget of budget information for semi-independent budget institutions and local enterprises and budget transfers to NGOs.
- Treatment of prior year unpaid liabilities in the budget.
- The lack of separation of debt service accounts from current expenditures.
- The absence of encumbrance controls as part of budget execution.
- The desirability of establishing reserves (for liquidity, contingency, emergencies, and debt service).
- The desirability of moving to modified accrual accounting.

In order to advance the likelihood of implementation of budget reforms during 2002, Win Evans (financial management consultant) and Peter Epstein returned to Croatia during November and December for short trips to better educate key local officials (mayor or deputy mayor, council members most engaged in financial management) to key concepts related to citizen participation in the budget process. The LGRP financial management team held follow-up workshops in each demonstration site (including one for the City of Bjelovar officials and the City Council in Osijek). These workshops centered on the budget preparation and the issuance of a budget message and conducting public hearings on the budget in advance of adoption by the city council. An additional topic was added to these workshops; that of capital improvements planning.



The work conducted under the financial management component of the LGRP has resulted in two demonstration cities issuing a mayor's budget message (Varazdin and Crikvenica). One city conducted a full public hearing on the budget, with three other cities holding hearings at neighborhood council facilities, and all cities committed to issuing a budget-in-brief document following the adoption of the 2002 budget.

Financial Analysis Model—Work is still continuing on programming the output side of the FAM and completing the additional modules (asset management, credit analysis, and city owned enterprises) for the FAM. Completion of this work has been complicated by the pending substitution of IMF accounting classifications for the Book One and Book Two accounting codes. The LGRP will complete the necessary programming by end of the year, including conversion of FAM reports to the new IMF codes. However, this will not delay the use of the FAM in any city since these modules and accounting codes information can be added a later date without disrupting work with the FAM. As part of this work, the LGRP will build into the program a conversion of historical information from the old classifications to the new to allow comparison with prior budget years and satisfy the reporting requirements for the MoF. Peter Epstein, Juliana Pigey and Maris Mikelsons have contributed toward this work along with Marina Kristek and Damir Cvijanovic.

Over the next year, the use of the FAM in demonstration sites will become institutionalized. Moreover, the LGRP will build upon its relationship with the MoF/State Treasury to distribute and train local governments (in addition to LGRP demonstration sites) on how to use other modules of the FAM. A follow-up workshop for demonstration site participants in the Poland study tour is planned for mid-February to focus on improved capital improvements planning.

Work with the Ministry of Finance—The LGRP entered into a partnership with the MoF to distribute the FAM (budget module) to all local governments in Croatia. During November, LGRP (Marina Kristek and Damir Cvijanovic) and four MoF staff members conducted a series of seminars for over 100 cities and counties to educate local government officials on the use of the FAM for budget preparation and reporting. At the request of the Ministry, the LGRP produced 600 CD ROMs that contained the budget module of the FAM for distribution to local governments in Croatia. The MoF established a technical unit within the Ministry to field questions on the deployment of the FAM and monitors the implementation.

The LGRP and Ministry expect cities and counties to educate local municipalities on the use of the FAM through regional workshops. At one workshop that was held on December 10, 2001 the LGRP was invited to conduct training similar to the training on the use of the FAM conducted in Zagreb for representatives of cities and counties. Damir Cvijanovic led the training session for representatives from twenty smaller municipalities located in Krizevaska Zupanija (county) on the use of the budget module of the FAM. This training will serve as model for other counties and larger cities to follow should they chose to train near-by municipalities on the use of the FAM. The LGRP is waiting word from the MoF on how many local governments (both cities and municipalities) will adopt the FAM for 2001 budget reporting purposes. Additionally, the LGRP plans to build upon its relationship with the MoF to distribute other modules of the FAM (related to asset management, budget institutions, and creditworthiness assessment).



Asset Management—Asset management represents an opportunity for the LGRP to demonstrate better management practices among local governments. These practices can augment local government revenues, promote private investment in urban development, and advance the values of transparency in local government operations. The following are a list of the asset management practices that are part of LGRP recommendations for the City of Varazdin:

- Creating the organizational capacity within the local government for ongoing asset management.
- Preparation of market-oriented Asset Management Plans, which in turn can involve procedures for inventorying municipal assets for market-oriented management purposes.
- Evaluation process for clearly distinguishing between properties that are public in nature and should remain under local government ownership and those properties which can in some sense be viewed as “surplus”, and made available for private sector use and/or ownership.
- Systems and methods for developing detailed disposition programs—that is, for prioritizing “surplus” properties for disposition, and for choosing among modes of disposition (various forms of leasing, privatization, and joint ventures). The output of the Asset Management Plans would provide inputs to applications of financial planning and budget preparation work done under the financial management component of the LGRP.
- Methods for appraising the market sale and lease value of individual properties.
- Procedures for asset disposition: advertising, promoting, and conducting disposition by open, competitive means; structuring and negotiating sale and lease agreements.
- Treatment of public assets on the local government balance sheet and using the capability of the FAM to integrate asset management with the overall budget.

During this quarter, the LGRP worked with the recommendations found in the LGRP-produced asset management report for the City of Varazdin to implement concrete processes/steps to advance the asset management reforms.

Olga Kaganova, working with Hrvoje Betrovic, prepared comments to a draft asset management ordinance/statute at the request of the City of Varazdin. The LGRP asset management team reviewed a wide range of legislation concerning ownership issues, cadastre, planning, lease of business premises, housing, and communal economy to ensure the draft asset management ordinance complies with existing laws and regulations. The draft ordinance contains explicit recommendations for the implementation of a strategic approach to asset management for the city. The work of the LGRP contributed toward setting the framework for the asset management ordinance adopted by the City Council of Varazdin council this quarter.



LGRP staff supported the City of Varaždin staff throughout the process of creating a comprehensive inventory of property that included analysis of subcontracting sport facilities, costs and revenues of business properties, indirect subsidies, incremental fixed capital investments, cultural institutions and premises (maintenance costs), land, cemetery, parking lots and miscellaneous properties. LGRP also assisted the city on the identification of critical issues related to restitution, appraisal, financial objectives and principles, and legislation concerning property consumption. The result of this collaboration with the city yielded an inventory of assets that serves as a basis of implementing all other LGRP recommendations related to implementing the asset management methodology. The Mayor of Varaždin has used this information to better inform the City Council on the disposition of assets and the extent of implicit subsidies allocated by the city.

The LGRP staff also supported the implementation of asset management reforms in activities related to the review of denationalization and property classification issues, the responsibilities of city departments in asset management, the regulatory framework concerning property consumption, the identification of all the local government functions, and the identification of related relevant laws and by-laws as a basis for further work in setting standards and developing city ordinances.

Three other discrete activities under the LGRP asset management component contributed to advancing the work in the City of Varaždin and the LGRP dissemination/replication strategy. First, Hrvoje Bertovic, LGRP asset management specialist, attended a Council of Europe sponsored "Regional Workshop on Management of Property and Service Delivery" in Budapest, Hungary (November 19 to 23, 2001). The Workshop was a good learning ground to gain information on other country practices related to property management at the local level and integrate these practices as part of the LGRP asset management methodology. Participants at the workshop (from Bulgaria, Romania, Bosnia and Herzegovina, Albania and FRY) shared experiences in the area of asset management at the local level.

Secondly, Hrvoje Bertovic participated in the two day "Real Estate Management" workshop held in Plitvice. There, he gathered materials on application of the law on ownership, cadastre and land books, maintenance of buildings, applicable asset management software availability. For the purpose of promoting the LGRP dissemination/replication strategy, he established contact with potential counterparts in Croatia, including the Association of Real Estate Managers.

Thirdly, LGRP staff supported the USAID-sponsored energy efficiency (weatherization) project (implemented by NEXANT) to gain insight to energy efficiency measures implemented by Local Governments in Croatia. In this regard, the LGRP arranged for a meeting with City of Varaždin officials to discuss their requirements to address energy efficiency in city-owned properties and extent of data availability for assessing energy efficiency.

National Policy Initiative—The Government of Croatia is in the process of re-examining the overall legal framework for local self-governance in the context of moving towards an enabling framework for decentralization and intergovernmental relations consistent with EU standards and practice. In Croatia, as in many other transition countries, the creation of a non-political and permanent local public administration is necessary in order to move away from a system in which public employment was not based on merit but on political or other reasons, and dismissals were not based on objective professional



grounds. At the request Ministry of Justice/Administration/Local Government, UI submitted translations of two civil servant laws (Czech Republic and Italy) that were identified in the comments submitted to the Ministry on two draft laws (*Law on Local Civil Servants and Laborers and Law on Obligations and Rights of Public Officials in Local and Regional Self-Government*).

The LGRP assembled a team of experts to compile a study that will address issues related to territorial reform including ones that relate to inter-government public service delivery. The study team is comprised of five individuals: Juliana Pigey (UI staff), Inga Vilka (consultant and director of the Local Government Academy in Latvia), Damir Cvijanovic (LGRP staff), Jelena Ladavac (consultant from the Economics Institute), and Maris Mikelsons. The team worked on the initiate draft during the reporting period and plans to make a presentation to the Local Government Advisory Committee in early 2002.

The Croatian Law Center's "Decentralization Project" submitted a written request to the LGRP to collaborate on the establishment of field offices. The field offices would promote information exchange among local governments and the two projects, as well as in assisting with dissemination of information to local governments. During the reporting period, CLC representatives, LGRP staff, and USAID met to discuss the proposal. The LGRP submitted a counterproposal that would call upon the CLC project to collaborate with both the LGRP and the Association of Cities and Municipalities to issue the Local Government Handbook and organize a seminar series for newly elected local government officials in the spring of 2002.

The LGRP mandate to build the capacity of the Association of Cities and Municipalities was advanced by the LGRP agreeing to collaborate with the Association on the issuance of a Local Government Handbook. Work on the Handbook continued during the reporting period and it is expected that the final draft will be finished in January. The LGRP along with Association plans to distribute copies of the Handbook to all Local Governments in Croatia.

Significant Findings and Delays

Findings of individual studies and meetings are outlined in the program activities section above. During the previous reporting period, some delays were encountered due to the reconstitution of demonstration site local governments, through the hiring of new department heads and election of a new mayor in one of the demonstration sites that took place after the spring local government elections. The delay caused by these events carried over to this reporting period.

Specific Action Requested

USAID/Croatia issued the revised scope of work for the project and UI responded by submitting a revised budget for the project. To-date, the modification to the Task Order has not been finalized by USAID. USAID/Croatia and UI/Washington/Zagreb are waiting for CO/USAID/Budapest approval. In addition, the project lacks a defined set of IRs.



Up-To-Date Schedule of Work

Work has been somewhat delayed by the process to constitute new executive bodies in demonstration sites (hiring of new department heads and other administrative personnel). A revised work plan for the project will be submitted to USAID/Croatia once the Task Order is modified by USAID.

Key Personnel

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ATTACHMENT
Cost Report