

**QUARTERLY TASK
ORDER PROGRESS AND
COST REPORT**

**JANUARY TO MARCH
2001**

**CROATIA LOCAL
GOVERNMENT REFORM
PROGRAM**

Prepared for



Croatia Local Government Reform Program
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Cost Report

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Task Order Description

The purpose of this Task Order is to implement a Local Government Project that will work toward decentralization, transparency, and efficiency among municipal administrations. As required by Section F.5 of the Local Government Contract, below is a description of progress during the last quarter under the following Task Order.

Amount Obligated Under Task Order	\$1,915,953
Total Potential Task Order Amount	\$3,374,671
Dollars Expended to-date	\$472,368

Progress of Major Activities

The first quarter of 2001 saw an intensive re-engineering and acceleration of Local Government Reform Project (LGRP) activities in Croatia. Four local full-time staff joined the project and the Memoranda of Understanding (MoU) have been drafted for each of the four demonstration cities, and signed by the cities of Varazdin and Rijeka with the United States Agency for International Development (USAID).

The LGRP has been working closely with the four demonstration cities this quarter. Information management systems, an Intranet, and a webpage have been introduced in the city of Osijek, and a feasibility study of the information management system of the municipality of Crikvenica has been completed. As part of the Urban Institute's (UI's) technical assistance in municipal asset management, a report on the property of the City of Varazdin has been drafted, with a thorough analysis and priority recommendations for improved efficiency of the City's asset management. The LGRP economic development team has begun to prepare an economic development strategic plan (EDSP) with the cities of Rijeka and Varazdin and conducted the first workshop of the "stakeholders" task force. In collaboration with city of Crikvenica, the LGRP information management team met with two task forces, one to provide input to the information management system and other to address issues related to the economic development component of the information management system.

The LGRP also pursued several objectives at the intergovernmental, national, and association levels. The LGRP initiated a study of intergovernmental relations, visiting seven cities/municipalities to investigate the relationship between local



governments and counties, particularly focusing on service delivery. The LGRP evaluated the Association of Cities and Municipalities, and a workshop on association development and capacity building was conducted in March. The LGRP team submitted the revised draft of the diagnostic Review of the Legal Framework related to local government and decentralization issues to USAID in February, and the Local Government Advisory Committee was reconvened for the presentation of the Review.

Project Management—UI underwent a process of re-engineering the LGRP. One part of this process was a new staff plan design to include the hiring of four additional full-time local consultants, new (local and expat) short-term consultants, local subcontractors, and Central and Eastern Europe consultants and subcontractors. USAID/Croatia orally agreed to the new staffing plan. During February and March, USAID/Croatia approved the hiring of three full-time staff (Visnja Mrakovic, Damir Cvijanovic, and Hrvoje Bertovic). Maris Mikelsons will continue as Acting Chief of Party.

Peter Epstein (Deputy Director of the Urban Institute's International Activities Center) along with Rebecca Lawrence (the Urban Institute Research Associate) will provide home office support to the LGRP and contribute toward technical work under the project. Rebecca Lawrence was recruited to work in Croatia for a two-month period (March to April) to assist with the re-engineering effort and work on various components of the project.

USAID/Croatia agreed that a revised LGRP work plan (and budget) will be submitted to USAID/Croatia for consideration after the Task Order modification is completed.

MoU between the demonstration sites and USAID/Croatia have been drafted for each demonstration site: Rijeka, Osijek, Varazdin, and Crikvenica. In addition, the mayors of each demonstration site submitted to USAID/Croatia letters of commitment to show that they fully understand the work plan and commit resources to collaborate with the LGRP on the implementation of technical assistance. The MoUs were modified to include USAID standard provisions, guiding principles, and relevant strategic objectives. This quarter, MoUs were signed by USAID with the cities of Rijeka and Varazdin.

City of Osijek

Information Management—Miljenko Smit, LGRP resident advisor in Osijek, designed a series of questionnaires, collected data on information flows among the eight City departments and organizational structure of data bases used for the delivery of public services; (i.e., flow of information within a department, data that can be stored electronically and shared between departments). He has also collected information on linking the various settlements of the City of Osijek with an information management system to create a network of computers in each settlement.



Zoran Borovics, LGRP computer specialist, began work on a feasibility study of the computer infrastructure in Osijek (visual inspection of the hardware and software used by the City).

Miljenko Smit gave a demonstration of the information management system for Tom Rogers, LGRP CTO. This demonstration included a step-by-step demonstration of the various components of the information system that will lead to implementation of technological innovation for Osijek (such as establishing an Intranet, interactive Internet home page, and data organization and structure using software products tailored to the City's needs for its information system). The information management system is being implemented in Osijek and Crikvenica (with some modification to address economic development needs of the City).

City of Rijeka

Economic Development—Pat Dusenbury, LGRP lead economic development specialist, along with her team, began preparations to create an EDSP for the City by conducting the first workshop of the “stakeholders” Task Force.

After conducting several trips to Rijeka during February, Pat Dusenbury began developing guidelines for implementing an EDSP in collaboration with City staff. Furthermore, Pat wrote a framework for the EDSP model and presented it to the City. During February, she conducted interviews with local firms capable of providing facilitation services during workshops and to train trainers. Pat also interviewed prospective local candidates to work in the area of economic development.

During March, Visjna Mrakovcic was hired to assist with implementation of the EDSP model. In collaboration with City staff, she began the process of data collection (socio-economic-demographic) and implemented a short business questionnaire in preparation for the first economic development workshop (scheduled for March 30). Visjna also assisted the City with crafting invitations to the first workshop of key stakeholders to include businesspersons, county officials, labor leaders, bank representatives, and City staff.

The LGRP team worked to identify suitable local facilitators to work with Graeme Frelick, LGRP lead facilitator, during the first economic development task force meeting. The Urban Institute initiated a subcontract with the local firm SMART for the services of two facilitators (one for the work in Varazdin and the other for Riejka). However, the SMART subcontract was terminated at the request of SMART and a new firm (NIT) was hired to conduct the facilitation.

Prior to the EDSP workshop in Rijeka, the LGRP EDSP team met with numerous local stakeholders, including the Mayor, Vojko Obersnel, the Zupan of Primorsko-Goranska County, and business leaders (i.e., “Viktor Lenac” shipyard, “3. maj” shipyard,



"PIK" food processing industry, etc.). The aim of these meetings was to inform the stakeholders about the EDSP process, ask for their participation and conduct business surveys to get a better understanding of the business climate in the City.

The first EDSP workshop was held on March 30. Leading the workshop were LGRP EDSP team (Pat Dusenbury, Visnja Mrakovcic), training facilitator (Graeme Frelick) and NIT facilitators (Maria Rios, Danijela Babic). The goals of the workshop were to clarify the EDSP process, describe the steps of the process; the roles of the key actors; discuss a preliminary vision of economic development in Rijeka; analyze baseline data collected through a preliminary strengths; weaknesses, opportunities, and threats (SWOT) process; develop a draft list of critical issues; and define next steps and roles. About forty-five persons attended the first and, more formal, introductory part of the workshop; twenty-five task force members participated in the exercises that followed the introduction. The task force members showed involvement and interest for the process. Due to the shortage of time, the process for determining critical issues was only presented, not implemented. The media covered the workshop before and after the event.

Citizen Participation—The chief of staff of the City of Rijeka, Ms. Ksenija Cule was informed that the public participation component (related to a major capital project) of the LGRP would be conducted as an activity separate from the EDSP.

Financial Management/Capital Improvements Plan—Marina Kristek, LGRP finance specialist, traveled to Rijeka to begin work on implementing the financial analysis model (FAM) that will assist the city with prioritizing their capital investments. Marina will begin data collection (assembling historical budgets and data on planned capital investments) and input this data into the FAM.

City of Varazdin

Asset Management—In March, Olga Kaganova completed a draft report on the property of the City of Varazdin, including a thorough analysis and priority recommendation for improved efficiency of the City's asset management.

The City owns or controls many types of property that play a substantial role in the business and social life of the City. This includes vacant and agricultural land, rental housing, public office buildings, rental non-residential buildings, sports facilities, kindergartens, cultural facilities, such as museums, libraries, and theaters, and majority ownership shares in water and gas utilities. Property-related assets represent 85 percent of all of the City's assets and property-related revenues and expenses are large components of the City budget.

The report identifies several management problems that are unnecessarily costly to the City government and the local economy. The City's non-residential property



portfolio is extensive and exceeds the City's needs to perform its mandatory and discretionary functions. Only two of the City's ten property portfolios produced net income—land and cultural institutions—the latter due to subsidies from the central government. Ownership of residential properties resulted in the greatest portfolio-level net expense, with most expenses attributed to the construction or acquisition of residential properties. The existing system of renting non-residential stock, with extensive rent controls and artificial restrictions on property use, results in forgone revenue for the City, market distortions, and subsidies to tenants. Clearly, the City is not using property according to its "highest and best use." Furthermore, the City's ownership of the landmark Patacic Palace is imposing a significant financial burden on the City, without providing clear benefits. Finally, the report goes on to document that the City's asset management structure is divided among several entities, each of which has only a partial awareness of property performance. Additionally, the City lacks key information, analytical instruments, and well-articulated policies needed for efficient asset management.

The report recommends that Varazdin should conduct a detailed cost-benefit and financial analysis of its assets and then develop a strategic asset management plan that articulates the City's goals in terms of its assets, complete inventory and accounting of all City properties, and implement rational financial and management strategies. The report suggests that business rentals should be subject to market prices and that justification for the City's extensive investment should be re-evaluated. The City is advised to develop alternatives to their current practice of extensive property-related expenditures, possibly reducing these expenditures in order to be able to reduce revenues. For example, a cut in taxes and fees on local businesses would reduce the costs of doing business in Varazdin and might therefore improve Varazdin's comparative advantage among Croatian cities, boost its local economic development, and generate new jobs. The LGRP hired Hrvoje Betrovic to work on the asset management component of the project.

Economic Development—The first EDSP workshop for Varazdin took place on March 22. The LGRP EDSP team (Pat Dusenbury, Visnja Mrakovcic), along with a training facilitator (Graeme Frelick) and a local facilitator (SMART, Gordana Forcic) completed necessary preparation, and undertook meetings with the key players of the process in Varazdin (the vice-mayor of Varazdin, Mr. Tomislav Bogovic, President of the Chamber of Economy of Varazdinska County, Mr. Cedomil Cesarec) who demonstrated their commitment to the process of developing a EDSP. The goals of the first introductory workshop were to introduce to task force members the purpose of the EDSP process, recognize what had been done in the past, discuss the vision of economic development in Varazdin for the upcoming years, and to define the next steps.

The workshop gathered 25 members from the business community, labor, county, city officials, the Mayor and the President of the Chamber of Economy co-



chairing the first workshop. After the EDSP model was explained all participants recognized the importance of the process. The participants committed themselves to actively contribute to the process. The members at this workshop were not ready to participate in a facilitated visioning exercise. However they all spoke individually about their expectations of the EDSP: (e.g., growth of small and medium enterprises, tourism development, better coordination between urban planning at the city and the county level, etc.). The local media were informed about the workshop and a short press conference was held during the event with the Acting Director of the LGRP and Pat Dusenbury.

Municipality of Crikvenica

Information Management System—Miljenko Smit and Zoron Borovics, LGRP information management specialists, traveled to Crikvenica to conduct a feasibility study of the computing infrastructure and to gather information from surrounding local governments (Selce, Dramalj, and Jadranovo) as input to the information management system. The team designed a questionnaire for all City departments to ascertain the information needs of the City and to determine the organizational structure of the information system. The computing environment in Crikvenica will be upgrading by the LGRP with a new hardware (server) and software to meet the demands of the information management system at a cost of about \$6,000. In March, Miljenko Smit gave a demonstration of the Information Management System planned for Crikvenica to Tom Rogers, LGRP CTO.

National Policy Initiative

The Association of Cities and Municipalities—Enid Beaumont, LGRP Association Specialist, arrived in Croatia in March to begin work with the Association of Cities and Municipalities. She conducted an assessment of the Association that included analysis of its organizational structure, finances and capacity to provide services for Association members. During her two weeks in Croatia, Ms. Beaumont with (Rebecca Lawrence) conducted a workshop for 24 members of the Association (representing 21 cities/municipalities). The workshop addressed the information needs of the Association and covered the following areas: strengths and weaknesses of the Association developing a strategic plan and business plan to increase membership, financial resources, and lobbying and advocacy capacity. She also gave recommendations for future collaboration with the LGRP (joint publications, seminars, research and analysis, etc.) The workshop included several segments for informal working groups to produce a brief analysis of communication with the Association, potential mechanisms and focus points for Association advocacy, and objectives for future training and conferences. The LGRP will use these recommendations to further its work with the Association.



Intergovernmental Relations—As part of Enid Beaumont's technical assistance, she met with about 50 local government officials in seven cities/municipalities to investigate the relationship between local governments and counties as it relates to service delivery.

Collaboration with Zagrebacka banka—Zagrebacka banka is interested in the work of the LGRP especially in the areas of economic development, local government finance and asset management. Maris Mikelsons met with bank representatives (Ms. Radic Dragica, board member, Ms. Pattiera Mirjana, public relations manager, and Mr. Ljubicic, manager of the credit department) of Croatia's largest commercial bank, Zagrebacka banka. They informed the LGRP that their bank is interested in lending to local governments and has formed a division within the bank to address local government credit (the only bank in Croatia with such a division). Moreover, they would like to establish a working relationship with the LGRP to include collaboration on developing the financial analysis model, participation in workshops and seminars dealing with finance (budgetary impact of capital investment projects and long term planning), and economic development, participation in our economic development workshops and lending their database to us for research purposes. In addition, they would like to lend to the LGRP assistance with information technology (i.e., programmers) to convert our financial analysis model from the existing Excel software platform to Access. The bank representatives expressed a desire to exchange knowledge and data on an ongoing basis and to work with other LGRP partners (to include other commercial banks, HBOR, etc.).

Study Tour, National Association of Local Authorities in Denmark—Maris Mikelsons, LGRP Director, has completed extensive planning and training design for an April 2001 study visit to Denmark for 10 representatives from the Ministries of Local Government and Finance and the Association of the Cities and Municipalities. The tour is sponsored by the National Association of Local Authorities in Denmark (NALAD) and will be implemented with funding and logistical coordination by World Learning and the technical assistance of UI. The study visit is arranged on a direct request by the Assistant Minister of Local Government and the President of the Assembly for the Association of Cities and Municipalities to learn from the experiences of West European countries.

Training will address several main objectives:

- To demonstrate how service delivery is organized in other cities to increase efficiency and effectiveness. The training will expose participants to alternative metropolitan area models of service delivery in West Europe, including decentralized units, local/regional authorities, inter-municipal cooperation, and contracting out.



- To expose participants to alternative organizational models of local government associations in Western Europe. The organization of NALAD and other local government associations in Europe will be discussed. Mechanisms, roles and responsibilities for close cooperation between the central government and NALAD on behalf of the local governments will also be discussed.
- To expose participants to laws that governs inter-local government cooperation for public service delivery.
- To help facilitate communication between central and local governments of Croatia.

Review of the Legal Framework Related to Local Government (Diagnostic)—The LGRP team submitted the revised draft of the Review of the Legal Framework to USAID in February. On February 22, the Local Government Advisory Committee was reconvened for the purpose of presenting the Review of the Legal Framework. Juliana Pigey, the lead author of the Review, structured the presentation to include a chapter-by-chapter review of the approach to the analysis and key recommendations. Additionally, Mike Vlasisavljevic of Barents Group gave a presentation on the finance chapter of the report with contributions by Zdravko Petak and Maris Mikelsons. About 20 members of the Advisory Committee attended the presentation. The meeting of the Advisory Committee was concluded by short presentations of the technical assistance implemented by Pat Dusenbury (Economic Development) and Miljenko Smit (Information Management).

Following the meeting of the Advisory Committee, Juliana Pigey and Maris Mikelsons met individually with members of the Committee to discuss their information/analysis needs. Because of the length of the report and the short period given for review of the report, not all members had time to respond to the request for additional information or analysis.

UI and LGRP received a request by the Assistant Minister of Justice/Administration/Local Government, Teodor Antic, to comment on two draft laws related to local government. UI responded to this request within five days with comments on the draft Law on Elections of Local Government Representative Bodies. Following the submission of the comments, Maris Mikelsons attended a public debate on the Election Law held at the facilities of the Croatian Law Center (CLC). During the last week of March, the LGRP team submitted comments on the Law of Regional Local Self-Government to the Assistant Minister for his consideration. These comments were also forwarded to the Association of Cities and Municipalities and the CLC Decentralization Project.



Significant Findings and Delays

Findings and timelines of individual studies and meetings are outlined in the program activity section above. No significant delays are expected.

Work Planned for the Next Reporting Period

Osijek—Miljenko Smit and Zoran Borovics will continue with their work to implement the information management system. Miljenko will continue to link the City offices in each settlement of Osijek that will allow all residents to access the Internet and connect to the information management system. (Residents of Osijek may access their respective settlement office and use the computer facilities in each office.) After conducting an assessment of the City's computer needs, UI will initiate procurement processes to purchase a more powerful server for the City and related software components (estimated cost of these items is about \$6,000 for each demonstration site). The LGRP team will create a user' manual for the information management system as well as a training component for the City staff. A MoU signing ceremony is planned for the April 12 to include the US Ambassador and the USAID/Croatia Mission Director. The MoU ceremony is designed along the same format as the one held in Varazdin.

The LGRP plans to implement the financial management system/capital investment planing component. The LGRP team collected information on the historical budgets of the City and plan to implement the financial analysis model in the City along with providing training on financial management.

Rijeka—The LGRP economic development team plans to bring to Croatia one of Eastern Europe's leading experts on economic development and citizen participation, Krzysztof Chmura of Poland. At the request of the cities, he plans to conduct one-day presentations for the Cities of Rijeka and Varazdin on best practices in the EDSP planning process found in Poland. In addition, he plans to initiate work on the public participation model for the City of Rijeka.

Marina Kristek will continue to work with the City of Rijeka on implementing the financial analysis model and integrating their planned capital projects as part of the model.

The Chamber of Economy and the City will compile baseline data for the EDSP while LGRP staff with help from area volunteers will continue to work on the business survey. The next EDSP workshop is scheduled for early June.

Coordination with Regional Infrastructure Project will continue on the private-public partnership scheme for the water utility.



Varazdin—The economic development team's next steps in Varazdin will be to gather additional baseline data (with some assistance from the LGRP) and reach a tentative agreement to conduct the next full-day workshop SWOT analysis, critical issues, etc.) at the beginning of June. Krzysztof Chmura will present best practices models for implementing an EDSP.

Work will be initiated in the City on financial management system/capital investment plan during the next reporting period. Peter Epstein, Marina Kristek and Damir Cvijanovic will visit the City to discuss the approach to financial analysis. Olga Kaganova will return to Croatia during April to continue work on asset management with Hrvoje Betrovic.

Coordination with Regional Infrastructure Project will continue with consultants from this project expected to arrive in the City on April 16 to begin work.

Crikvenica—Work on the financial management system (to include implementation of the financial analysis model) will begin in April. Marina Kristek will meet with financial officers of the City to start data collection and discussions with the City on the approach to financial management. The LGRP information management team will create the optimal organizational structure of the information management system, incorporate the economic development component of the system, and start the hardware/software procurement process.

Peter Epstein plans to travel to Croatia in mid-April to begin preparations for financial management training to accompany the implementation of the financial analysis model. He will familiarize himself with the use of the financial analysis model while in Washington. Training materials for this work will build upon the experience of the Urban Institute in other transition countries. Additionally, the LGRP plans to hire a former HBOR (Croatian Bank for Reconstruction) senior credit officer to work (part-time) with other LGRP team members on the capital investment planning process and access to credit for local governments.

National Policy—Juliana Pigey will return to Croatia during the last week of April. As part of her visit, she will investigate the information needs of members of the Local Government Advisory Committee and conduct additional reviews of draft laws. Additional follow up meetings will be conducted. It is also anticipated that the draft Law on Financing Local Self-Government will be submitted to the Sabor (Parliament) during the month of April. UI has been asked by the Ministry of Justice/Administration/Local Government to comment on this law. The LGRP plans to hold another meeting of the Local Government Advisory Committee during April or May. The purpose of this meeting will be to inform members of the LGAC about the types of technical assistance implemented by the LGRP.



Association of Cities and Municipalities and Intergovernmental Relations—

Enid Beaumont will report on her investigation of intergovernmental relations and the Association for Cities and Municipalities. Damir Cvijanovic of the LGRP will work with the Association in Enid's absence to implement her recommendations.

Maris Mikelsons, LGRP Acting Chief of Party, will accompany the study tour to Denmark with the Ministries of Local Government and Finance and the Association of the Cities and Municipalities in April. The tour is sponsored by the NALAD and World Learning.

Zagrebacka banka—The LGRP will begin cooperative activities with Zagrebacka banka following the Bank's planned issue of an MoU that will define the scope and extent of the collaboration with the LGRP.

Specific Action Requested

Modification of task order is expected to be finalized in April.

Up-To-Date Schedule of Work

Work is proceeding on schedule. Pilot Cities have been selected and technical assistance to local governments has commenced.