

# **World Bank-Austria Urban Partnership Program (UPP)**

## **Improving Local Government Capacity in South-East Europe**

### **SETTING THE STAGE FOR UPP II**

The role of local governments has been evolving with increasing responsibilities and capacity gaps remain and need to be addressed. Local governments in South-East Europe (SEE) are particularly challenged by the status of decentralization, mismatch of revenue and expenditure management, absence of infrastructure investments, weak local institutions, weak mechanisms of social accountability, increased need to combat corruption, frequent shifts in political structures, and low speed of institutional reforms. The World Bank-Austria Urban Partnership Program (UPP) aims to strengthen the capacity of local governments in SEE region, and to equip local elected officials, city administrators and technical staff with practical tools for decision-making, to effectively manage urban development for inclusive and sustainable growth. While global in scope, this Program is targeted at the Western Balkan countries, including Serbia.

The first phase of the Program (2011-2014) focused on key dimensions of local government, including municipal finance, urban planning and land management, urban governance/ anti-corruption, and social accountability. UPP II builds on the successful first phase and includes:

- I. A comprehensive, three-tier approach to knowledge, learning, and innovation, combining: (i) e-learning to share global knowledge (facilitated by local experts); (ii) a series of City-to-City (C2C) dialogues for intensive peer learning from global/regional good practices, focusing on (iii) use of practical hands-on diagnostic tools and participatory processes. Annual mayors' symposia were also organized to let the mayors showcase their teams' achievements and commitments as well as to gain insights from international urban leaders.
- II. Capacity building activities focusing on four key dimensions of interest to local governments, including: (i) municipal finance, (ii) urban planning and land management, (iii) urban governance/ anti-corruption, and (iv) social accountability.
- III. Support to the Network of Associations of Local Authorities of South-East Europe (NALAS) to become a regional knowledge and e-Learning hub, to ensure flow of knowledge and sustained learning impact beyond the UPP.

**Early results from UPP I:** Through the sustained effort providing practical tools that met actual demand, the UPP Phase I achieved a strong take-up by municipalities in each of the four program areas. Several of the municipalities have moved towards integrating the Municipal Finance Self-assessment (MFSA) into their financial planning processes, adopting anti-corruption action plans, and taking further steps to increase transparency. Moreover, the program has helped build capacity in NALAS and the Serbian Standing Conference of Towns and Municipalities (SCTM) to deliver e-learning themselves (both associations have customized and translated WB e-Institute e-learning courses and are gearing up to become wholesale partners with the WB Open Learning Campus).

**Rationale for UPP II:** There is increased client demand to: (i) Scale up use of diagnostic tools for local governments and great momentum to replicate the LG tools in more municipalities throughout the SEE Region. The UPP platform for city to city peer learning has been appreciated by colleagues and partners, recognizing its unique value added in the Region; (ii) Provide capacity support to the SEE 2020 strategy would help SEE target countries and cities better manage the EU accession requirements and ultimately advance on their path towards the EU integration; (iii) Strengthen the central-local government dialogue for improved policy making.

The Program brought together over 60 SEE municipalities of all sizes from across the SEE region for city peer learning and knowledge exchange, as well as from other countries in Europe and further afield.

## **UPP I – CONNECTING CITIES AND CITIZENS IN SEE**

### **1. City to City Dialogues on Municipal Finances, Urban Planning and Land Management in South East Europe**

#### *The Journey: An Unlikely Conversation*

The unique idea of proposing a series of City- to-City Dialogues in South Eastern Europe (SEE) came at a critical juncture in the region's democratic, institutional, and financial development. The devastating civil wars which rocked the heart of Europe in the 1990's reshuffled political economies and geographic boundaries and just as these fragile economies of these new Balkan republics were beginning to show signs of wider institutional reform, they had to deal with the aftermath of the 2008 global financial crisis. Today, the region may be at peace, but many cities operate below full capacity and are not the engines of growth or innovation they could be. One reason for this is the slow learning curve in the evolution towards self-government. Beyond the historical capitals of Belgrade and Tirana, major cities like Podgorica became capitals only in the last decade and in doing so, acquired greater responsibilities, all stemming from laws first launched in the early 1990s. It was in this fluid institutional, economic and societal vortex that the idea arose to bring together municipalities from South East Europe for a series of shared conversations. These meetings, called City-to-City Dialogues, focused on problem solving through peer-to-peer knowledge exchange.

Seven countries took part in the City-to-City Dialogues (C2C) series, including Serbia. Starting in December 2011 municipalities from the seven countries came together to discuss and share issues of common interest. A total of seven C2C was organized by the World Bank in various locations in the SEE region which brought together more than fifty cities which embraced the idea of a joint platform where they could safely discuss topics of common interest. Elected mayors, municipal staff from financial and technical departments, city planners, representatives of central government ministries, national associations of local governments, local open-government activists, private sector operators could come together to share workable strategies designed to foster local partnerships and more efficient, self-sufficient, and transparent governance.

One of the key foci identified during early World Bank scoping missions was the recognition that (1) strong local leaders –versed in management and administrative skills – was key to creating cities that could function as incubators and economic engines of financial stability and innovation, but that (2) leadership alone was not enough and that it was crucial to address the needs of the technical teams equally essential for implementation and reform. Early on it became clear that, among a wide array of challenges currently faced by local governments, three topics clearly emerged as key priorities. These topics were related to (a) municipal finances, (b) land management and urban planning, and (c) service delivery. Finally, there was a consensus that these three key priorities, if correctly addressed, could have major transformational impact.

There were many challenges to structure and design the content and format of this conversation:

- A conversation that would bring to the same table unlikely table companions with a shared recent past of conflict and mistrust.
- A conversation among municipalities but also, equally importantly, a conversation within municipalities between various departments that did not talk to each other and did not coordinate and a conversation between municipalities and other stakeholders such as central government ministries and private sector.
- A conversation which, to be useful, needed to go beyond talking to walking the talk (action and reform). This is why the introduction of tools (Local Governments Self-Assessment Tools such as the MFSA, UPSA, Urban Audit) and the engagement of participating municipalities in the use and application of these tools was so crucial.

The journey started in Budapest, Hungary, in December 2011 for the first C2C dialogue. The Budapest workshop focused on improving municipal revenues. All SEE nations participating in C2C faced similar challenges. Second, the conversation moved to the need and ways to improve the management of local public expenditures (C2C2). Third, the issue of modernizing legal and regulatory framework on urban planning was addressed (C2C3). Fourth, came the need to look at ways of facilitating guided urban development which would take into consideration both public and private interests (C2C4). Fifth, endorsement by elected officials of the self-assessment process and validation of its contribution to the transparency and accountability agenda became the key topic of C2C5. Sixth, by then, twenty five municipalities (including capital cities) were actively engaged in the Municipal Finances Self-Assessment (MFSA), and fifteen others were doing their Urban Planning and Land Self-Assessment (UPSA) and an additional pool expressed strong interest in joining in, so it was time to take stock and review the self-assessments findings and improvement program of each participating municipality: this was the objective and scope of C2C6 which focused on the transition from LGs self-assessments to implementation. Seventh, by then, there was an understanding that, if it was great to understand the financial situation and the land /urban planning bottlenecks, it would be even better to see how local governments could improve the prioritization of their public spending: this was the topic of C2C7 which focused on the transition between MFSA and municipal investment programming (Urban Audit).

## City to City Dialogue Series

- **December 2011** – Budapest (Hungary) Improving Municipal revenues.
- **May 2012** – Mavrovo (Macedonia): Modernizing Local Public Expenditures Management.
- **June 2012** – Tirana (Albania): Modernizing Legal and Regulatory Framework for Urban Planning in SEE.
- **November 2012** – Budva (Montenegro) Guided Urban Development: Reconciling public and private Interests.
- **January 2013** – Vienna (Austria) Towards Greater Transparency and Accountability: A Mayors Dialogue.
- **June 2013** – Dubrovnik (Croatia) From Local Government Self-Assessment to Implementation.
- **December 2013** – Skopje (Macedonia) From MFSA to Municipal Investment Programming: The Urban Audit.

### MFSA Cycle



#### Legend

<b>1. City Profile</b>	<ul style="list-style-type: none"> <li>• Summarize through key data the institutional position of the city</li> <li>• Complete with preliminary data from Urban Audit methodology</li> <li>• List the main urban management &amp; development challenges</li> </ul>
<b>2. Basic database for MFSA</b>	<ul style="list-style-type: none"> <li>• Put together basic data to perform self-evaluation</li> <li>• Involve the different municipal departments</li> </ul>
<b>3. Generic Financial Framework</b>	<ul style="list-style-type: none"> <li>• Assess the ability to generate gross saving and operating surplus</li> <li>• Calculate capital investment effort</li> </ul>
<b>4. Historical Analysis</b>	<ul style="list-style-type: none"> <li>• Conduct a detailed analysis of revenues and expenditures composition and trends</li> <li>• Assess the level of financial autonomy</li> <li>• Assess the level of service provided</li> </ul>
<b>5. Ratio Analysis</b>	<ul style="list-style-type: none"> <li>• Review the economic &amp; financial performance through main indicators</li> <li>• Compare with benchmarks</li> </ul>
<b>6. Financial Projections</b>	<ul style="list-style-type: none"> <li>• Identify budgetary applications of the policy decisions (ex: investment plan, recurrent costs, tax pressure, etc.)</li> <li>• Fix the financing needs for investment</li> <li>• Identify the expected changes in existing regulation with impact on the city budget</li> </ul>
<b>7. Financial Management Assessment</b>	<ul style="list-style-type: none"> <li>• Review briefly budget credibility (Based on PEFA methodology)</li> <li>• And quality of the reporting: Comprehensiveness, transparency, predictability</li> </ul>
<b>8. Finance Improvement Plan</b>	<ul style="list-style-type: none"> <li>• List the key measures to adopt to improve financial management and financial performance</li> </ul>

## **Most common areas identified as part of MFSA Improvement Action Plans**

- Introduce financially sustainable capital investment planning
- Increase fiscal autonomy from the state government: more locally administered and controlled revenues
- Increase local tax collection and tax potential
- Set up functional asset management system
- Introduce program budgeting

## ***Diagnostic Instruments for Local Governments***

**Municipal Finances Self-Assessment (MFSA):** Its objective is to assess a city's financial health and to identify specific actions to improve mobilization of local resources, financial management, public spending, public assets management, investment programming and access to external funding. It performs several functions: (a) it reviews municipal budgets (revenues and expenditures), financial management practices, savings capacity, investments efforts, and financial projections for the next five years; (b) it provides some benchmarking through a set of simple and comparable key indicators and ratios; and (c) it defines key actions to be included in a municipal finance improvement plan aiming for greater accountability, visibility and efficiency in the use of public funds. The MFSA model is continuously evolving and we are currently thinking of developing two to three versions adapted to different users, including policy –makers who are not data crunchers but who want bottom-line stories and recommendations. We are also thinking about developing an APP that would take the calculations of the ratios to a different level and provide a city profile. <http://siteresources.worldbank.org/EXTURBANDEVELOPMENT/Resources/MFSA-Template.xlsx>

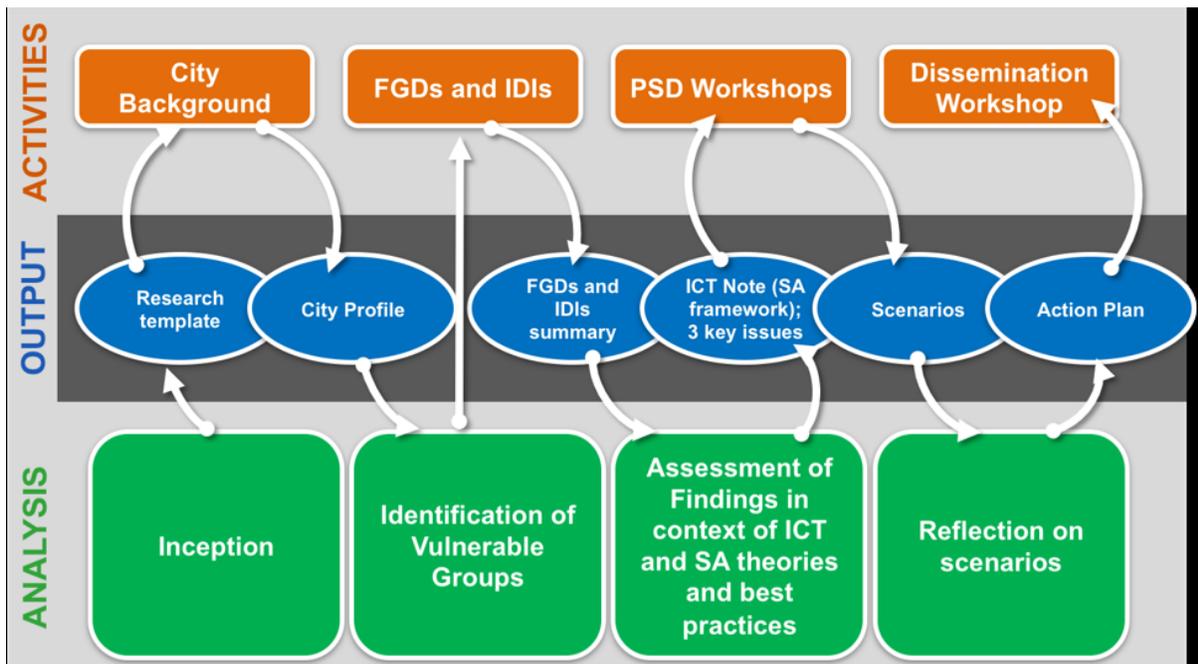
**Land Use and Urban Planning Self-Assessment (UPSA)** is a diagnostic tool focusing on land and urban planning regulations. It helps municipalities to compare their performance with that of other cities in the SEE region, both qualitatively and quantitatively, and to establish common ground for discussions and actionable ideas on how to modernize spatial planning and land management, support local economic development, and improve the quality of life of citizens. The UPSA is divided into two sections. The first covers technical areas such as urban planning systems, construction conditions for private developers, links between land use planning and infrastructure development, land management, street addressing, and informal construction. The second focuses on the development of action plans. The UPSA will be adjusted further to improve the connection with the MFSA and the Urban Audit, focusing on assets, revenues, building permits, and regulatory frameworks for land development and investments.

**Urban Audit:** The MFSA can be carried out in parallel with an Urban Audit which provides a snapshot of the level of services and infrastructure in the municipality. The Urban Audit has for main objective the gathering of baseline information of the existing location and condition of infrastructure and services, the identification of patterns of urbanization and pockets of poverty and underserved areas, and the spatial location and quantification of the gaps, leading to the identification of a priority investment program. The added value of an Urban Audit is that it should be carried out with (1) a full knowledge of the absorptive financial capacity of the municipality based on the findings of the MFSA (reality check) and (2) with citizen participation in the screening process of priority investments.

## 2. Social Accountability Initiative

Acknowledging the importance of both the supply and demand sides of governance, the UPP I included social sustainability assessments in five pilot cities in SEE. The aim was to increase knowledge and awareness about social accountability among stakeholders, to assess the current mechanisms in place, and to consult stakeholders on the potential to use information and communication technology (ICT) tools to improve collaborative governance.

### *Participatory process involving the citizens*



Focus Group discussions (FGDs) were organized with members of the identified vulnerable groups, as well as In-depth Interviews (IDI) with other stakeholders including representatives of national, regional and local government, NGOs and the business sector. City teams had an opportunity to listen to the perspective of residents and also gain the views of those involved in delivering public services. These focus groups and interviews revealed the current service provision levels and social accountability levels in the cities with respect to vulnerable groups, and provided an assessment of the use and availability of information and communication technologies (ICTs).

These cities' dialogues provided local government and civil society stakeholders a safe space for discussion on issues about public services, accountability, and social inclusion. As part of these dialogues, participants came up with possible solutions to increase social accountability mechanisms at the local level. From these findings a framework of social accountability was developed based on the three pillars of *Participation, Transparency and Feedback/Monitoring*. For each pillar, the Team defined an overarching issue relevant

to the five cities. These three issues were used as the basis for the Participatory Scenario Development workshops (PSDs) where all stakeholders came together to envision improved scenarios of social accountability that addressed the issues reflecting the three pillars.

A City Synthesis Report and City Note were drafted summarizing key findings of each step of the process and presenting the three proposed scenarios. Upon reflection of these scenarios, each city's local experts brought the stakeholders together to choose one proposal and develop an action plan. The final city outcomes including the action plan were presented and discussed at a Regional Dissemination Workshop, giving the city teams the opportunity to learn and be inspired by good practices from other cities from SEE region and fine tune their proposals.

While the methodology applied across all five cities was the same, the findings reflect distinct local features, owing to the extensive local knowledge and networks of the city teams. From an early stage in the process, the local city teams involved various interest groups in the city. The municipalities were involved from the initial inception phase, and various interest groups, vulnerable communities and representatives from the civil society were engaged during the focus groups and the participatory scenario development workshops. In Durres (Albania) for example, a broad range of interest groups cooperated with the local team, and the municipality expressed a strong interest in becoming part of the assessment process given that it coincided with the preparation of their City Development Strategy.

The process provided for a transparent Social Accountability Assessment and created a platform where communities, NGOs and municipal officials could come together to propose scenarios and solutions to commonly agreed upon issues. Previously these priority areas were not sufficiently discussed publicly with citizens, and there was limited awareness of problems, options and willingness to respond collaboratively and openly to address them. These actions also helped to overcome lack of trust in local government being open to citizen feedback on solutions. The process was especially important to involve marginalized groups with no legal regulation that ensured their representation on the local councils.

In addition to the city specific analysis and proposed action plans, the assessment process offers an adaptable methodology for municipalities to analyze different aspects of social accountability and develop programs to address key issues that arise as part of the assessment (Social Audit reports and findings can be accessed at <http://i2ud.org/2013/10/social-accountability-city-notes-and-reports>)

### ***Social Accountability Index – diagnostic instrument for local governments***

To gauge existing levels of social accountability in each city and to promote a dialogue on the key issues that need to be addressed in each city, the research team developed a Social Accountability Index as part of the study methodology that can be adapted to other assessments in the future. This index is organized around the three key pillars of the framework for social accountability--participation, transparency and feedback and monitoring—and is based on the following five dimensions:

- Participation - *engagement*: Initiatives taken by citizens individually or collectively to take part in civic life.
- Participation - *opportunities*: Local government's openness to citizen participation in decision making.
- Transparency - *information availability*: Disclosure of information related to local decisions.
- Transparency - *information access*: the City's readiness to make productive use of Open Government Data.

- Feedback: the *effectiveness of 2-way communication* between citizens and their local governments.

This index, using yes or no responses to twenty-five questions (five for each dimension), provides an easy to use measure of the effectiveness of existing social accountability practices and identifies areas that can benefit from improvement. The index does not intend to measure each city against an ideal. Rather, it was designed to compare cities with a common history and some shared characteristics. The format allows for the index to grow as do the cities and their social accountability practices. The concept behind the Social Accountability Index is based on the following principles:

- The choices of questions to address within each of the five dimensions reflect the issues that arose from the assessment across the five municipalities.
- Use of ICT is a cross-cutting theme.
- The possibility to integrate the development of the index into the assessment process and start with a simple approach that can be made more complex and precise over time.
- A flexible set of questions within each dimension that can be revised to reflect different priorities.
- Capture as best as possible both the availability of Social Accountability mechanisms and their effectiveness.

The present index can be a valuable tool throughout a social assessment process. The specific indicators and definitions can be adapted to each city or target group and used during the Focus Group Discussions and In-Depth Interviews and the responses averaged to gauge the key social accountability issues. The results can then be used during the Participatory Scenario Development workshops as a diagnostic tool to help the participants identify opportunities and challenges. In this way, the index becomes an integrated component of the Assessment process.

Furthermore, the index provides a monitoring tool that can be applied by a city's stakeholders to regularly evaluate progress over time. City authorities, or intermediaries such as universities, can potentially carry out an annual update of the index independently, thus building a track record of the city's work on social accountability. All cities highlighted the need for monitoring social accountability activities. The yearly index results can become a powerful tool in recognizing the efforts of city stakeholders every year and motivating all actors to contribute to strengthening social accountability in their city.

### **Some of the city Action Plans developed as part of Social Audit**

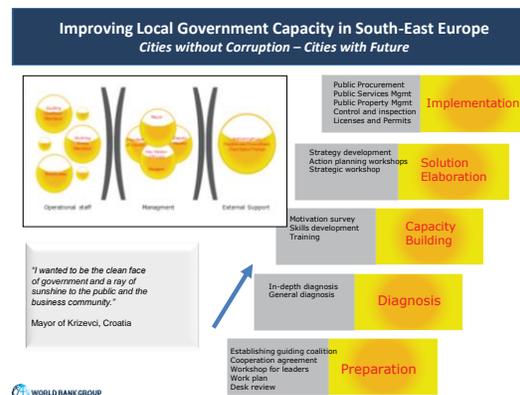
- *Skopje* proposed an Action Plan for improving access to information, e-services and improved feedback mechanisms by local government
- *Durres* agreed to set up website to facilitate engagement with residents and municipal departments
- *Ilidza (Sarajevo canton)* developed a citizen feedback system to improve management of the municipality and strengthen the partnership between the local authority and citizens (System 72)
- *Banja Luka* agreed to e-dignity plan for the elderly in rural area of Banja Luka city

### 3. Urban governance and Anti-corruption capacity building

#### Corruption – An impediment to sustainable urban governance

In many countries, corruption is one of the main obstacles on the path to sustainable social and economic development. A recent global survey by Transparency International (TI) identified corruption as a significant public concern in SEE<sup>1</sup> and curbing corruption has become a high priority for many of the region's national and local governments.

In May 2011 at the Vienna Symposium to launch the WB-Austria Urban Partnership Program, mayors met with civil society leaders and representatives of Local Government Associations (LGAs) to discuss the challenges they faced and opportunities going forward. They shared their aspirations for making municipal governments more transparent and accountable and, ultimately, better performers. Mayors and other municipal leaders expressed their concerns about the effects of corruption on the health of city governments: how it diminishes the trust and confidence of citizens and how it can undermine service delivery and the effective provision of other public goods.



In response to an expressed demand, UPP launched the Urban Governance and Anticorruption Capacity Building initiative in February 2012. Local governments from seven SEE countries applied for the program "Cities without Corruption–Cities with a Future" organized under the UPP by the World Bank Institute (WBI) and a Romanian NGO: Partners Foundation for Local Development (FPDL). Local governments participated in an innovative process to improve the quality of municipal services, to enhance the efficiency, transparency, accountability, and integrity of public service delivery, and to strengthen citizens' trust.

This participatory process starts by assessing the organization's vulnerability to corruption as measured by its level of dysfunction, and seeks to build local government integrity, transparency, and accountability—the very foundations of sustainable urban development.

The *participatory* process, which is conducted by the local governments, follows a strategic planning methodology, moving from diagnosis to solutions formulation and implementation. It focuses not only on identifying corrupt individuals but also on laying the foundations for changing corrupt organizational systems, and supports mayors as institutional reformers. The process involves city leaders, managers and staff, as well as external stakeholders, who diagnose their organizations' vulnerability to corruption analytically, and with the support of skilled anticorruption practitioners.

<sup>1</sup> The Survey found that high-profile efforts by governments to curb corruption have had a generally positive effect, although the results were mixed in certain areas. In Serbia, for example, a significant number of respondents said there was less corruption but an even greater percentage reported paying more bribes. In Bosnia and Herzegovina, 65 percent of those questioned said they believed corruption had increased in the previous two years although legislation and other actions taken upon Croatia's accession to the European Union have played a major role in reducing corruption. <http://www.rai-see.org/news/south-eastern-europe/3828-corruption-remains-a-worry-in-the-region-survey-finds.html>.

## ***Participatory diagnosis – coalition building with Mayors and their teams***

### **1. Preparation**

- ***Cooperation Agreement*** is signed between the mayor and the local anticorruption practitioner, stipulating the tasks and responsibilities of both parties. It commits the mayor and the local government to taking an active role and to following the work plan, to supporting APs during the information and data collection stage, and to naming the contact person responsible for project implementation and communication with the APs.
- ***Guiding Coalition (GC)*** is formed consisting of trustworthy officials who can contribute to the change process and who have sufficient authority, knowledge, and influence to make change happen inside the organization.
- ***Workshop*** for municipal leaders is conducted.
- ***Work Plan*** is developed.

### **2. Participatory Diagnosis**

- ***General Diagnosis***, which helps discuss corruption openly and analytically, is carried out by surveying employees and elected officials. The survey helps formulate the list of activities that are susceptible to corruption by using the well-known formula M (Monopoly) + D (Discretion) – T/A (Transparency and Accountability). The activities are then sorted into categories such as licenses and permits, public procurement, human resource management, and so forth.
- ***In-Depth Diagnosis*** is conducted with working group members to identify the causes of corruption, including surveys for each area identified as being vulnerable to corruption; and data from questionnaires, interviews, and expert opinions are collected and analyzed. Causes can be external such as difficult economic conditions or political situations, or internal such as not respecting laws, long and complicated procedures, or lack of knowledge. An In-depth Report is presented first to the mayor and then for discussion in the GC and the Working Groups. This document serves as a basis for identifying solutions.
- ***Working Groups*** on the various diagnostic activities are set up in parallel with the In-Depth Diagnosis. Representatives of Civil Society can join and contribute.

### **3. Strengthening the capacities of municipal leaders and staff**

### **4. Developing Anti-corruption Strategic and Action Plans**

- ***Strategic Plans*** are developed at the municipal level. This takes 8 to 9 months after which the Municipal Council reviews and, in the best-case scenario, approves the anticorruption strategy. Strategic Plan implementation which the mayor commits to monitoring and evaluating after the strategy is finalized and approved. Political support in the implementation of the plan is crucial.
- ***Action Plans*** include a timeline for implementation, responsibilities of different actors involved, resources required, and key results indicators, as well as monitoring/evaluation mechanisms.

## **Most common areas vulnerable to corruption identified as part of the Anti-Corruption Strategies**

- Issuing of licenses and building permits
- Public procurement
- Human resource management
- Financial management
- Control and inspection (mostly related to issuance of licenses and permits)