

**TASK ORDER PROGRESS
AND COST REPORT**

**LOCAL GOVERNMENT
PROGRAM**

ALBANIA

APRIL - JUNE 2001

Prepared for



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**TASK ORDER PROGRESS AND COST REPORT
ALBANIA LOCAL GOVERNMENT PROGRAM
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DESCRIPTION

In September 2000, USAID contracted the Urban Institute (UI) to implement a three-year local government project in Albania. This project will assist the government of Albania in implementation of its decentralization strategy and in building capacity of local government units to fulfill their newly mandated responsibilities. It will also support association development and focus on increasing citizen participation in targeted units of local government. The project builds on UI's two previous projects in Albania that fostered the environment for ongoing reforms.

PROGRESS OF MAJOR ACTIVITIES

Administrative

There were a variety of administrative activities during the quarter. Some were personnel changes. Most important among these was the addition of two Albanian staff to the Local Government Assistance and Decentralization (LGAD) roster of professionals. Perparim Dervishi will fill a vacancy in municipal finance and Silva Braculla will provide support for local government TAT. Sherefedin Shehu, our municipal finance specialist, emigrated to the United States. There are plans for his return as a short-term technical advisor. Albana Dhimitri, a former UI Albanian staffer on leave studying under a Fulbright scholarship, completed her studies at Syracuse University. She intends to return to the project in early September to assist with decentralization.

In anticipation of an ambitious capacity building program, an office space was converted into a conference room. A conference table and chairs were purchased along with chalkless boards and flip chart stands. A high-speed printer was purchased as a replacement for a model that could not be repaired further. The conference room often is used by advisory working groups providing input on budget training and fee methodology workshops.

Quicken software was introduced in May as the means of maintaining and reporting project financial information. This now makes possible a convenient way to analyze project expenditures from a variety of perspectives. In addition, meetings were held with specialists on Albanian labor laws in order to look at the possibility of updating personnel documentation requirements.

Preliminary discussions were held with two Albanian NGOs that may become service providers for future program activities. Agreements were reached during the quarter with two of UI's primary Albanian consulting firms: ISB and ValuAdd. The former provides services related to decentralization and the latter, at least initially, will provide assistance with capacity building initiatives related to water and sanitation.

UI's decentralization and capacity building advisors provided much needed assistance during the past quarter. Decentralization consultants continued their work with the Group of Experts (GED), the Ministry of Local Government (MoLG) and the Ministry of Finance (MoF). They brought into clear focus the cross cutting issue of decentralization within the Medium Term Expenditure Framework



(MTEF) and the undeniable opportunity to increase fiscal decentralization. In addition, they successfully enabled the GoA to remain focused on the decentralization schedule of the water sector as provided for in the Local Government law.

Capacity building consultants Ted Siegler and Bob Sanders initiated key activities during May that will continue through the final quarter of the fiscal year. Ted launched fee methodology analysis in selected demonstration cities for sanitation and water. This is the opening phase for the development of fee methodology manual for these sectors. Bob Sanders' efforts were focused on the development of a budget training and technical assistance initiative. His efforts culminated in two pilot workshops for demonstration cities in the Berat and Sarande regions.

Decentralization

Legal Sustainability and Policy Framework

The "Task Force"

The main decentralization issues during the quarter were: the ongoing work of the GED, or "Task Force"; decentralization as a cross cutting issue for MTEF; property transfer procedures; Prefect law; continuation of GoA fiscal initiatives for decentralization.

By the beginning of the quarter the new GED had organized into three working sub-groups to address three areas of work. While there are still laws which need to be drafted and passed to further decentralization, the GED focused primarily on decentralization implementation as provided in the new law on the organization and function of local governments. There was also a decision to delay an extensive examination of the intergovernmental relations draft law because of issues being raised by the analysis under the MTEF study.

The first of these groups focused on an examination of legal/sublegal acts for the implementation of the law on local government, especially the functions, competencies and managerial capabilities; second group, fiscal decentralization with an emphasis on legal acts related to local finance; and, the third group, policies of regional development concerning functions of local government. This last area was added with the insistence of Minister Fino who has been instrumental in sponsoring a Prefect law. Priorities established were the 2002 budget circular which provides directions to local governments for completing their part of the State budget; review of the draft Intergovernmental Relations law; development of implementing procedures for the transfer of immovable public property to local governments. It was decided early in the quarter to delay review of the draft Intergovernmental Relations law until the third quarter.

The GED and IMCD (Inter-Ministerial Committee on Decentralization) experienced varying degrees of active participation. It is not clear the cause of this but two seem to be the more credible. One is that the Ministries have become clearly aware of the impact decentralization will have on their operations. The impact may have been vague until the MTEF meeting in Durres in mid-April. At this meeting, any ambiguity was dispelled by tables presented by the MoLG showing what should have been unconditional transfers for budget years 2000 and 2001 according to the new Local Government law. But, secondly, the GED is now more of a MoLG controlled effort than it has been in the past. There may be some resistance to this among the ministries.



A roundtable seminar on the property tax study conducted by Violeta Bendo with the support of USAID organizations World Learning and Urban Institute was held in early April. Participants came from several municipalities, the MoF, MoLG, NAAM and several NGOs such as the SOROS Foundation. A draft of the study was distributed and participants engaged in discussion on the issues and recommendations of the study. One concrete result of the seminar was a meeting with leaders of the General Tax Directorate of the MoF. Plans are to form a working group of local and national technical staff to discuss tax policy issues. It is anticipated that the manual will be printed next quarter and distributed nationally by either the MoF or MoLG.

In any case, the general elections in late June brought the work of the Task Force to a halt for all practical purposes even though final preparation on property transfer procedures continued under the direction of UI's Edlir Vokopola. The Chairman of the GED, Blendi Klosi who is Vice Minister of Local Government, resigned from the Ministry. He is now a confirmed member of the new Parliament and is not expected to return to the GED. Since Albanian law requires Vice Ministers to resign during a general election it is possible that the GED, as well as the IMCD, will be comprised of new members. It will certainly take time for new members to be designated, especially if there are many changes at the Ministerial level.

Medium Term Expenditure Framework

The tables and charts showing the financial impact of decentralization on line ministries was graphically illustrated at a Ministry of Finance/World Bank meeting in Durres in late April. The data, presented by the MoLG as developed by UI staff/consultants, illustrated the amount of money transferred to local governments for fiscal year 2000 and compared it with how much should have been transferred by following the provisions of the recent law on local governments. This information generated a lively discussion from the MoPW representative. But all ministries represented at the conference found the information very interesting. As a result of this data, the MoF has stated that it will take a nominal percentage of funds going to local governments through the ministries and transfer it directly to municipalities for fiscal year 2002. This will be done through budget instructions without the necessity of a new law.

The data tables at the conference resulted from the close collaboration of UI consultants and staff with budget specialists in the MoF and MoLG. A meeting with the MoF Budget Director was held several days prior to the Conference for input and confirmation of the approach. Juliana Pigey, Sherefedin Shehu and Fran Brahimi worked tirelessly in order to meet the deadlines that this presentation required.

Property Transfer Procedures

By the end of the quarter a set of draft transfer procedures for the transfer of public property to the ownership of local governments had been developed for consideration by members of the GED and, ultimately, the IMCD. Edlir Vokopola and Olga Kaganova worked closely with specialists of the MoLG to produce the draft in a timely manner. Consultations were held with the Land Tenure Center and selected registration offices to obtain input for forms and procedures and provide a reality check. Plans were also finalized to test the forms and procedures in a few selected cities starting with Kucove.

The procedures were reviewed by the IMCD in early June. It opted to defer recommendation of the procedures to the CoM until a matter related to a last minute addition by the MoLG could be clarified. This was the addition of a "coordinating structure" within the office of the Prefecture. The addition was revealed at the IMCD meeting to the surprise of those who had been advising the GED. An objection was raised by OSCE as to the constitutionality of the addition. MoLG and OSCE attorneys held a subsequent



meeting to clarify the constitutionality issue. At the end of the quarter the IMCD had taken no action on proposed transfer procedures, perhaps because of the elections as much as the constitutional issue which had been raised over the addition of a coordinating structure in the Prefecture. OSCE's position is that local governments can apply for the transfer of property 90 days after the effective date of the property transfer law. This would be in early July.

Prefect Law

The draft Prefect law, which consumed much of UI attention last quarter, was acted on favorably by the Council of Ministers. The legal department within the CoM has held it up due to concerns related to compliance with civil service law. This law, if enacted, will focus all State programs at the regional level within the office of the Prefecture. It also gives the Prefecture a strong oversight role for local governments. Assuming that the civil service issue can be addressed, it is anticipated that this law will be passed over to Parliament after the new government is formed in mid-summer.

Fiscal Decentralization

The primary focus here was on drafting a 2002 budget circular for the MoF. This is released by the MoF in mid-July and provides directions to local governments that must provide their budgets to the district offices of the MoF by the middle of August. Sherefedin Shehu collaborated with Fran Brahimy to produce the draft for this circular that was forwarded to the MoF. Subsequently, the MoLG produced a set of compatible instructions that go to local governments. The circular is expected to be released soon after the runoff elections in early July.

The Small Business Tax (SBT) is defined as a local government tax in the Local Government law. The present structure of collecting the SBT requires some adaptation and analysis before the transfer of administration to local governments can take place. In 2001, the MoF indicated that the full revenues of the SBT would be transferred to local governments and distributed through the block grant. This option will be retained in the 2002 budget.

At present, the General Tax Directorate does not report collections of the SBT by point of origin, but by district level only. This reporting level is not sufficient to carry out the detailed analysis recommended by an MTEF policy note. Moreover, an analysis of administrative issues related to transfer of SBT collection to local governments should be completed as there is a strong link between this tax and VAT. UI staff will undertake the requisite tasks to complete such an analysis.

UI consultants learned late in the quarter that there is a plan to reintroduce the tax on agricultural land during 2002. This tax has been in abeyance since the early 1990s. At the present time it is not clear the degree of commitment to reintroduce the tax. In the next quarter UI will ascertain any timetable for reintroduction of this tax and undertake a preliminary analysis of the agricultural land tax should it be appropriate.

As noted in the last Quarter's report, a part of the Task Force work plan is to develop a formula for use in distribution funds to local governments. The development of the formula was delayed because of time constraints related to testing such a formula. This task will be reviewed in light of the reconstitution of a new Task Force and its work plan. The MoF is taking steps in the direction, however, by agreeing to distribute some funds directly to local governments using a "quasi-formula".

The General Tax Directorate (GTD) had plans to draft a tax instruction for local governments by the end of June. This was discovered in early April at the seminar on property tax conducted by UI's Violeto



Bendo. UI met with the Deputy Director of the GTD and obtained an agreement in principle to share the draft with local government technical staff for their input. UI would convene the roundtable and facilitate the discussion. At the end of the quarter the draft was not ready. We will monitor this during the coming quarter.

Municipal Development

Democracy and Governance

Municipal development this quarter focused on the initial activities for developing training packages for budgeting and for fee methodologies of selected public services. There was also a study tour for elected officials from five cities and a commune which will become the basis for developing mayor-council training.

Approach to Technical Assistance and Training for Capacity Building

The first year emphasis of capacity building focuses on the “money aspect” of local government. This is done primarily for two reasons. First, this emphasis is consistent with the decentralization priority of fiscal decentralization. It is important that the capacity building efforts be linked with the implementation of decentralization. And second, it is imperative that local governments demonstrate early their ability to handle money effectively and efficiently in order to provide good public services within a transparent environment.

The approach, or model, used by LGAD to target 40-65 municipalities/selected communes for competency acquisition relies on a combination of workshops, group technical assistance and on-site technical assistance. It will rely also on the deployment of peer practitioners as trainers/advisors in selected competency areas. And it will utilize study tours to advance the vision and accelerate the application of new techniques for providing services to local communities.

The model begins the process of skill building in a group workshop setting in which exposure to modern ways of governance is shared. This will be done for specific skill areas such as budgeting and service fees, for example. During three to six week intervals after the completion of the skill building workshop, there will be a combination of site visits for hands on assistance, and Round Tables in which there will be show-and-tell from the demonstration cities. At these “group TA meetings”, Demonstration cities will have the opportunity to discuss their progress, problems and solutions with peer practitioners and UI staff/consultants.

The UI technical staff developed plans for conducting a basic set of capacity building workshops over the past three months. The initial pilot workshop regions and the initial set of workshops to be developed were identified. UI local staff assisted by expat personnel then developed the vanguard workshops in budgeting and fee setting methodologies. Later this calendar year, steps will be taken to develop skill-building materials in capital budgeting, fee setting and collections, local taxes, revenue databases, and municipal council-mayor training.

The capacity building workshops are based upon an understanding of group facilitation principles and techniques. Selected peer practitioners are provided with a one-week training to become aware of these principles and to obtain practice using techniques for obtaining active participation in a workshop setting. An Albanian training organization has provided the training in group facilitation skills and also assisted



in the design of workshops. Albanian practitioners in fields that reflect the target training topics were trained in basic participation learning techniques.

The workshops were conducted by ANTTARC, a professional Albanian training company. Two Workshops were held. Twenty Five individuals were trained including members of the Ministry of Local Government, Water Regulatory Commission, Ministry of Finance, Ministry of Public Works, municipal finance directors, former mayors, deputy mayors, economic development directors, and public works managers. These individuals can be engaged to deliver future workshops as the training is expanded over the coming years.

Mayor-Council Training

The overwhelming majority of mayors are new to their positions. It is important after they have had an opportunity to settle into their responsibilities that some direction be provided in what is a new role for mayors and for city/commune councils in Albania according to the local government law passed last year. In anticipation of formal training for local elected officials, a study tour was conducted for pairs of Mayors and City Council Chairs from five municipalities and a commune (Shkoder, Pogradec, Korce, Lezhe, Delvine, Maminas). In addition, the Chair of the Tirana Regional Council participated in the tour to Hungary.

The aim of the tour is to increase awareness of techniques for inter council communication, transparent decision making and citizen involvement in the council decision making process. They covered such topics as city council structure and functioning; roles of mayor, council and staff support; conducting city council meetings, including agenda setting, minutes, communication of decisions and follow-up on implementation of decisions; dealing with the media and communicating with the public. This group will become the basis for additional training to be developed over the coming quarter and implemented in the new fiscal year.

At the follow on meeting with World Learning, the participants said that they would like to meet again to discuss their action plans and progress toward them. The group also said that they would be willing to work with UI on the development of the workshop on Local Governance for Elected Officials—but not until after the last of the Parliamentary elections in July.

Outlines and suggested participants were presented to World Learning for a tour on Modern Budgeting scheduled for July 13-20 and on Data Base development and record keeping for tax collection to be held in late July.

Municipal Services and Assets

Ted Siegler traveled to Albania to begin work with Marilynne Davis and Edlir Vokopola on the cost and fee setting manuals for water and solid waste. During the course of the trip, the municipalities of Shkoder, Himare, Serande, and Gjirokaster were visited to ascertain their interest in participating as pilot municipalities, and to learn about their current waste management and water supply systems. Detailed information was gathered as background data for the manuals and administrative techniques. All of the municipalities were interested in participating, and provided descriptions of their current systems.

A potential list of pilot municipalities was developed and contacted, with verbal commitments received from all contacted municipalities. Meetings were also held with ministry officials responsible for



overseeing municipal water and waste systems, and with the Urban Institute's partner, ValuAdd, to discuss potential roles as the project developed.

A draft of the manual for costing out solid waste and municipal cleaning services and developing a fee for those services was completed and translated. The water manual is scheduled for completion in July.

Plans were made for pilot skill workshops in July to introduce the manuals to policy makers and technicians in the selected municipalities. Where applicable, the workshops will include representatives of the companies which hold the service delivery contracts. These workshops will be used to test the manual to assure that the data and processes are workable for Albanian municipalities under Albanian law. During the workshops, the law and its implications will be presented to provide a framework within which the costs will be allocated and fees set. The use of focus groups to gather citizen attitudes toward fees and the service delivery will be included as will the use of citizen advisory committees and citizen education campaigns. This aspect of the fee methodology training will provide a basis for introducing Performance Management to pilot cities during the next fiscal year. UI has conducted in Albania during 2000 pilot Performance Management training in four different local governments and four different services. Two of these service areas were water (Korce) and sanitation (Lushjane).

Water service delivery issues were identified for inclusion in a guidance document. These issues were prepared by STTA Ted Sieglar and delivered to Francis Conway and Juliana Pigey. The issues will be included in a guidance document for use by the Task Force in discussing water related devolution issues.

Financial Management

The pilots for the Modern Budgeting Workshop were developed and delivered with the assistance of STTA Bob Sanders. A Budget Working Group, consisting of four Urban Institute local staff, the designated local professional trainer from ANTTARC, and the STTA, met three times, held a meeting with five local officials and Ministry of Finance staff, and conducted field interviews. As a result of the meetings and interviews, four topics were chosen for the budget policy workshop and 14 topics for the budget skills improvement workshop.

The topics for the policy/decision makers were designed to educate them to the new laws that have been passed affecting the budget process, and how municipalities can meet their new responsibilities. Plans included mini-lectures to explain the budget process in detail, using flow charts and other techniques to explain the role of the budget process and its value in the process. Citizen Participation was presented as a tool to enhance communications with citizens, using it for more open and transparent government and to encourage the citizens to become part of the solutions.

The budget skills implementing workshop gave the technicians the same insights as presented to the policy makers, and then provided education on many of the essential functional tasks involved in managing a local government budget in Albania: information gathering, development, implementation, monitoring, and reporting. Team building, consensus building, identifying resources, and a primer on a potential financing tool for the future, capital investment borrowing, completed the intensive two-day workshop.

Trainers will be making technical assistance visits to the participating municipalities in July and August and the first Budget Round Table is scheduled for mid-July.



The workshop is currently under revision to include additional practical exercise work. It will be taken to more municipalities beginning the first of next year in a series of workshops to be planned for various regions of the country.

CO-OPERATION WITH OTHER PROGRAMS

The close cooperation with OSCE continued into this quarter and evolved in responding to two significant decentralization matters. In addition, by the end of the quarter OSCE decided to bring a focus to decentralization in their coordination efforts. This has solidified an already close working relation between UI and OSCE.

UI and OSCE teamed to call attention a “last minute” addition to the property transfer procedures by the MoLG. The ultimate fate of this addition is undecided, but for the moment it appears that it cannot go forward until constitutional and, perhaps, civil service issues are addressed. A second matter that was addressed was the rumored plan for the MoPW via the Water regulatory Commission to introduce a bill to defer/derail local government rate setting authority and water service responsibility. The World Bank sent a letter to the MoPW urging restraint in any actions that would delay the decentralization schedule for water according to the Local Government law. USAID, OSCE and UI met to discuss and agree upon a course of action to maintain the decentralization schedule for water and the rate setting authority of local governments.

In June UI facilitated an informal meeting of several local government projects. The need for such an information exchange is clear since two major European initiatives with local governments have been initiated recently. GTZ has both a municipal and a commune program. SIDA, the technical assistance arm of the Swedish government, launched a commune project in the Korce region. Other European countries have similar projects. Several projects are now working with the same municipalities. So recognizing this, and with the concurrence of USAID, UI called an informal meeting of local government project personnel from GTZ, SIDA, MSI, SNV, Kompass and UI to exchange information in an unstructured format. There was no agenda except to exchange information and become better acquainted. Projects exchanged information on activities of their projects, the locations and some provided a brief indication of future directions. There was also a brief discussion on the benefits of identifying an area or areas in which all local government projects could work together on the same thing in anticipation of producing an impact. One such area that received instant acceptance by members of the group as being a possible area where all could work together was orientation/training for local elected officials. UI and Kompass volunteered to look into this. Another meeting will be held in July or August with the purpose of exchanging information.

UI and WL continued their close cooperation. One study tour on municipal councils was completed during the quarter. A follow-up meeting was held with study tour participants to gain commitment for next steps after the elections in June-July. In addition, plans were completed during the quarter for two others to occur early next quarter. One will be budget training to Bulgaria. The second will be a record keeping/mapping study tour to Poland.

UI continued its work with WB and MoF on the MTEF. Juliana Pigey and Edi Joxhe participated in a WB sector meeting for Albania. Also, in June USAID and UI met with the Minister of Finance to take note of the continued close cooperation with the MoF. In addition, work was completed on the draft budget circular for the MoF. This was done also in cooperation with the MoLG.



UI's Edlir Vokopola worked closely with the Land Tenure Center and the Property Registration offices to ensure that draft forms and property transfer procedures took account of current law and practices.

Several miscellaneous meetings with other organizations have occurred over the quarter. These are more of the nature of "one time" cooperation but deserve to be noted as they may lead to future systematic cooperation. Meetings were held at the invitation of UNDP twice to advise about a new local government initiative which it will undertake next year. UI encouraged it to provide assistance to Regions. ABT associates requested and received several meetings with UI staff on local government issues. They were on a mission to draft a strategy for primary health care, which will become a local government function. UI met with SOROS to agree in principle on several cooperative initiatives. Two of these are possible joint efforts in budget training and a water project. Follow-up meetings will be held with SOROS next quarter.

Finally, UI staff participated as election observers for OSCE/ODIHR during the parliamentary elections.

SIGNIFICANT FINDINGS AND DELAYS

There were no significant findings or delays during the quarter. However, several issues were noted again as being pervasive in Albania. One is the distinct reluctance for local government to make any moves without prior explicit direction of a Ministry. There are good reasons for this given the extent of budgetary dependence on the Ministries and the history of only acting once an explicit directive is given. Then, too, most of the mayors are new to government and have neither experience in public administration or organization management. The latitude for local authorities to act in the Local Government law is for all practical purposes non-existent. The City of Tirana is the exception to this.

On a more positive note is the outstanding support for decentralization from the MoF and the MoLG. The MoF has consistently led the way in decentralization initiatives. The willingness to provide a nominal percentage of funds to local authorities via a budget instruction is a recent example of this leadership. And the MoLG appears intent on pressing forward with decentralization in spite of mixed signals sent with last minute additions to draft legislation.

WORK PLANNED FOR NEXT REPORTING PERIOD

Administrative

Acquisition of equipment to support training; e.g., overhead projector, etc.

Secure Albana Dhimitri as full time local staff and Dr. Shehu as an STTA

Decentralization

Assist the reconstituted GED after the elections

Assist the MoLG and IMCD with a Fall Conference on GoA decentralization

Complete a draft of the study on the Small Business Tax

Print and distribute the Guide on the Local Government law



Facilitate a working group for input to 2002 tax instructions of the General Tax Directorate within the MoF

Conduct pilot property transfer procedures testing with selected local governments

Continue assistance to the MoLG on property transfer procedures

Propose formulas for unconditional transfers and investment block grants

Assist with draft instructions on 2002 budget implementation

Capacity Building

Begin draft of training for municipal councils and organize an advisory group for it

Continue the informal meetings with other local government projects

Form a Partner Advisory Team

Continue TA to budget demonstration cities

Complete development of the capital budgeting workshop (CIP)

Conduct initial CIP workshop

Study tour on modern budgeting practices

Study tour on record keeping/mapping/data bases

Conduct policy and technical workshops for water and solid waste

Provide follow on TA for water and solid waste training

SPECIFIC ACTION REQUESTED

None.

UP-TO-DATE SCHEDULE OF WORK

Project implementation is approximately one month behind the schedule for Year 1 activities.