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July 15, 2002

Mr. Andrew Holland  
Regional Contracting Officer  
US Agency for International Development  
Bank Center Building Granit Tower, 5th Floor  
Szabadsag Ter. 7-9  
1944 Budapest Hungary

RE: Contract No. EEU-I-00-99-00015-00, TO No. 810  
UI Project 06901-013, Albania Local Government Assistance and Decentralization  
*Quarterly Task Order Progress and Cost Report, April to June 2002*

Dear Mr. Holland:

Please find enclosed *Quarterly Task Order Progress and Cost Report, April to June 2002, Albania Local Government Assistance and Decentralization*. This report is required by Sections F.5 and F.6 of our Local Government Assistance Initiative Indefinite Quantity Contract.

Please direct any technical questions to Mr. Bart Kennedy at 355 4 256-832-3 or E-mail at BartKennedy@yahoo.com. Questions of a contractual nature should be addressed to me at (202) 261-5396.

Sincerely,



Maria C. Andrade-Stern

Enclosures

cc: Eric Richardson (CTO, USAID/Albania)  
Mike Keshishian (CTOMI, USAID/W)  
Bart Kennedy (CoP, UI/Tirana)  
USAID Development Clearinghouse  
IAC Deliverables File (06901-013)  
IAC Chron File

**QUARTERLY TASK ORDER  
PROGRESS AND  
COST REPORT**

**APRIL TO JUNE 2002**

**ALBANIA LOCAL  
GOVERNMENT PROGRAM**

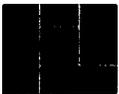
Prepared for



Albania Local Government Program  
United States Agency for International Development  
Contract No. EEU-I-00-99-00015-00, Task Order No. 810

Prepared by

Bart Kennedy  
*The Urban Institute*



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July 2002  
UI Project 06901-013

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**QUARTERLY TASK ORDER PROGRESS AND  
COST REPORT**

**APRIL TO JUNE 2002**

**ALBANIA LOCAL GOVERNMENT PRORAM**

**Task Order No.:** EEU-1-00-99-00015-00, Task Order No. 810

**Date of Issuance:** September 25, 2000

<b>Amount Obligated Under Task Order:</b>	\$2,800,000
<b>Total Potential Task Order Amount:</b>	\$4,219,617
<b>Dollars Expended To-date:</b>	\$2,036,844

**Task Order Description**

In September 2000, United States Agency for International Development (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.

**Summary of Progress in Major Activities**

During this quarter, the new Director and Deputy Director of USAID/Albania made an introductory visit to Tirane to meet Mission staff and contractors. The Director will return early next quarter and the Deputy in Director early September.

The Parliament of Albania elected a new President after an intense period of deliberation between the two major political parties. He will be sworn into office in late July. Further changes are anticipated in the government next quarter. Currently there is a contest as to whether the standing Prime Minister, who was just designated last quarter, will retain his post.

The draft law on local taxes, fees and charges was completed after a series of regional meetings to discuss policy issues and subsequent meetings in Lac and Tirane to discuss the draft. Work on the technical note for the Medium-Term Expenditure Framework (MTEF) 2003 to 2005 was initiated. The Ministry of Finance (MoF) and the Ministry of Local Government and Decentralization (MoLGD) have again requested UI assistance in preparing technical notes to the MTEF. During the last month of the quarter the change of government required intensive work with the MoLGD in support of the Prime Minister's initiative to reinvigorate

the implementation of the decentralization strategy. Procedures and forms for property transfers to locally governments were finalized and training scheduled for the national agency responsible for national implementation. Support to the IMC/GED continues in an accelerated matter due to the Prime Minister taking direct control of the IMC.

Capacity building activities brought to completion the leadership series this quarter with the provision of three separate sets of meetings in cooperation with other bilateral local government contractors. There were numerous site visits to participating local governments in modern budgeting and capital investment planning in anticipation of the 2003 budgets which cities and communes must have ready by the end of August. In April the manual on a full cost fee methodology for solid waste was introduced at a national conference. Coordination and cooperation with other projects continue at a high level.

#### **ADMINISTRATION**

The project completed the lengthy registration process in order to pay social tax contributions for employees. Bardha Ylli played a necessary role in this registration occurring as quickly as it did. Perparim Dervishi, our finance/budget specialist, was informed that he was the recipient of regional scholarship to participate in a two-week seminar on financial management and decentralization. The seminar will be conducted in Budapest early next quarter. Finally, UI signed another agreement with the Urban Research Associates (URI), an Albanian registered company, to provide support in various decentralization activities.

#### **DECENTRALIZATION ACTIVITIES (Legal Sustainability and Policy Framework)**

**Support and Cooperation with Ministries—**In cooperation with USAID, the Urban Institute had numerous discussions with Ministers of selected ministries and/or their deputies. Staff has met with Ministers of Finance, Local Government and Decentralization, Urban Development and Tourism. It has had discussions with key staff at the Ministry of Economy and Privatization, which now owns the State run water companies. At the end of the quarter UI staff with the now former USAID Director for Albania met with the Prime Minister to discuss the status of decentralization. UI staff continues to lend support to the GED and have attended numerous IMC meetings.

**Workshop for Parliament on Prefect Law—**Taulant Dedja, Chair of the Sub-Commission on Local Government and Decentralization in Parliament, requested the Urban Institute and ISB to design and support a single day meeting for selected members of Parliament on the Prefect law. This law has been approved by the Council of Ministers and is awaiting action by Parliament. It has been in Committee for a year and there are plans to act on it early next quarter. The single day meeting was designed to have better informed MPs on this law. Francis Conway played a critical role in the support of this meeting. Artan Hoxha of ISB, UI's principal subcontractor on decentralization facilitated the meeting along with Taulant Dedja.

The two main issues related to this law are 1) the extent of control Prefects will have over local governments, especially financial control, and 2) compliance of the law with Albania's civil service law.



**Fiscal Reforms—Formula to Distribute Unconditional Fund:** With the 2002 State Budget, Parliament adopted for the first time in Albania an allocation of the unconditional transfers to local governments (municipalities, communes and regions) with a formula based on objective, measurable criteria. The formula has experienced widespread acceptance by all stakeholders. One of the frustrations expressed, however, was over the amount of funds made available for distribution by formula. This complaint is not a criticism of the formula. There is a clear need for transparency in how the pool is calculated. There may be an attempt with the 2003 budget to have transparency in how the available pool of funds is determined. Some members of Parliament raised questions about this with the 2002 budget. MoF consultants are aware of this criticism and have held discussions with UI staff concerning the feasibility of addressing the issue through the budget instructions for the 2003, which will be submitted before the end of the quarter. Another concern is the timely release of unconditional funds to local governments. At the end of the quarter local governments had not received the second of three draws on the unconditional funds. This is aggravated by the fact that before any funds from any source are released to local governments by MoF district offices the Prefect must first sign off on the release.

**Fiscal Reforms—Medium-Term Expenditure Framework 2003-2005:** Following on UI's collaboration with MoF and MoLG&D for the MTEF 2002 and 2004 process, the MoF requested UI's assistance in preparing the two decentralization technical notes planned for the 2003 to 2005 MTEF: 1) Local government revenues and financing and 2) Financing of local government shared and delegated functions. The technical note on revenues and financing was submitted to MoF and the note on expenditures is being finalized. The UI team worked with Fran Brahimi of MoLG&D to help prepare a presentation on LG finance issues for the MTEF options budget workshop. The UI/ISB team attended and participated in the discussions of the MTEF budget workshop. Finally, UI is working with MoF to improve the revenue estimates of local governments, by type of tax, for the 2003 to 2005 MTEF document.

**Fiscal Reforms—Reform of Local Taxes, Charges and Fees:** The work towards developing the reform of local taxes, charges and fees, in order to implement Article 16 of Law No. 8652 on Organization and Functioning of Local Governments, continued. A series of *regional meetings* were held in May, using a guidance document prepared by the Urban Institute, following the methodology of questions What? How? Who?, as the basis for discussion of the specific options for local taxes, charges and fees. Meetings were held in Durres (May 3), Korçe (May 9) and Tirane (May 13). The consensus and options of the participants in the regional meetings were summarized in a policy document.

On the basis of the policy document, and the recommendations of the fiscal studies, Juliana Pigey and Artan Hoxha, with comments from Francis Conway and Richard Winnie, finalized the draft unified Law on Local Taxes, Charges and Fees (henceforth referred to as Law on TTT), and submitted the draft to Deputy Minister of Finance Luan Shahollari on June 1.

On June 12, the UI team met with Deputy Minister Shahollari and with the General Tax Directorate (GTD), and learned that the General Tax Directorate had prepared an alternate draft law, covering only the Agriculture Land Tax.<sup>1</sup> The GTD also appeared opposed to the transfer of the administration of the small

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<sup>1</sup> Passage of a law on the agriculture land tax by October 1 is a condition for release of IMF funds.

business tax to local governments? The first decision to be taken was whether the Government would follow with a unified Law on TTT or only a single Law on Agriculture Land Tax.

Over the period June 12 to 21, the UI/ISB team held meetings with five members of Parliament (Arben Malaj, Bamir Topi, Taulant Dedja, Zyhdi Pepa, and Dashimir Shehi), all of who confirmed support and interest in the option of a unified law. Discussions on the draft law were organized through the AAM, with both municipalities and communes in Lac and in Tirana. A meeting was held with the Ministry of Local Government and Decentralization as well as a GED meeting; the key concern expressed was the lack of any specific taxes or charges for regions.<sup>3</sup> A meeting was also held with the new IMF Resident Representative, Jan-Peter Olters, to provide him an update and information related to the draft Law.

A meeting was held with Minister of Finance, Kastriot Islami, who confirmed the MoF option to go forward with the unified law. UI/ISB submitted a revised draft, taking account of comments received, to the Minister of Finance on June 21, 2002. This draft is presently under review, and will be discussed by the IMC in early July. The GTD is still expressing a certain number of concerns and opposition on transfer of the SBT; however, the MoF has confirmed that it is important to respect the Law.

**Albanian Association of Municipalities**—Last quarter the AAM exercised its first major demand-side initiative when it held a press conference and subsequent meeting with the Prime Minister to encourage a more active implementation of the decentralization strategy. This quarter the AAM provide timely input on the law on Prefects and the draft law on local taxes, fees and charges. It participated in three regional meetings to discuss local tax policy issues and was instrumental in organizing two regional meetings in Lac and Tirane to discuss the draft law. It submitted comments on the draft law to the GED through the MoLGD support staff. It also, with the encouragement of the UI, which provided copies of the Prefect draft law and translated into Albanian assessments on this law by CoE and UI experts, organized a meeting to discuss the Prefect draft. The collaboration between UI and AAM has continued to increase since the beginning of the project year in the fall of 2000.

**Property Transfer Procedures**—The field-testing of forms and procedures with seven pilot units of local government—five municipalities and two communes—was completed this quarter. Preliminary results indicate the wide variation in degree of completion of the first registration of property at the Registration offices. The process of obtaining necessary information for the transfer of State immovable public property is turning out to be laborious even in the more advanced pilots. A draft of a manual of forms and procedures to be used by the MoLGD agency responsible for affecting the property transfers has been written and reviewed. The next step is to conduct a workshop for agency staff. One remaining difficulty is that the MoF has not provided a budget for the operation of this agency or for local governments who will receive the property. The MoF has promised to provide some funding in the 2003 budget. This will create additional delays in the property transfers.

**Regions**—In May the Council of Europe sent two legal experts to Albania at the request of the MoLGD to examine regions to determine if there were additional functions that they could/should assume.

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<sup>2</sup> GTD was not aware that the SBT had been defined as a local tax in Law No. 8652.

<sup>3</sup> Although such taxes should be directly related to functions of regions, which have not yet been defined.



They met with individuals from many different institutions. At the time of their arrival they were not acquainted with either the Albanian Constitution or the Organic Law on local government and consequently arrived in Tirane holding erroneous notions of regions in Albania. During the week they learned of both and were informed by mayors and Parliament that a law on regions was not needed. Chairs of the regional councils and some staff of the MoLGD took the opposite position. The experts are charged with drafting a law on regions by September. The CoE experts acknowledged that the Constitution and Organic Law comply with the European Charter on Local Self-Government. They remain skeptical of the Albanian model of regions as being effective or efficient, which is somewhat unique in the Balkans, and so stated this. The problem that the CoE involvement makes is that choices made two years ago have hardly been implemented and are now being challenged. The UI will prepare a guidance document on regions to facilitate a structured discussion on policy issues.

**Strengthening the Policy Analysis Process**—Until recently, Albania has followed a participatory process of addressing policy issues related to selected functional areas in advance of drafting legislation. This approach raises the probability of a wider range of choices and more informed decisions on critical policy matters. These choices have then been incorporated into the process of drafting laws. Currently there is a tendency of returning to the old way of drafting laws, then discussing them within the limited choices that have been tacitly made in the legislative draft. In May UI engaged a consultant to examine the reasons for the demise of the process that produced the Organic Law and other key legislation related to decentralization. A report has been produced and distributed to persons participating in the interviews. An action planning group will be formed to lay out a series of activities implementable in the next quarter.

## **MUNICIPAL DEVELOPMENT**

(Democracy and Governance)

**Leadership Series**—The Leadership and Governance Workshops continued throughout the quarter. The session in May was produced jointly by the UI and NDI. It focused on involving and educating citizens and how local governments can respond to grass roots organizations. The June session was conducted by MSI and presented issues associated with ethics in government, using ethics statements and processes to minimize the opportunities in the governance process through transparency. In July the UI partnered with Partners Albania to conduct a day on leadership, motivation and consensus decision-making, all as it relates to the previous four workshops. Participating projects include: UI, MSI, Kompas, SIDA (Sweden), NDI, Partners Albania, GTZ and Soros. UI is coordinating the project and funding is from all donors either in cash or in kind.

As a result of the success of the UI partnership in this series with NDI and Partners Albania, the three organizations are discussing a joint activity to provide training and information to some of the citizens' advisory groups that are being created as a result of each of these programs' individual activities. UI has a draft of a citizen's advisory handbook for mayors who wish to create such activities and we have been working with three cities that are forming these groups as a result of the solid waste pilot activities. This will be used as part of the series to support the local elected officials. NDI is developing materials for the citizen committees to assist them in organizing themselves to accomplish a task. No timetable has been set, but late fall will probably be the earliest for implementation.

The citizen's involvement techniques package is in the development stages. Examples of ways to involve citizens is being collected by URI from a wide variety of sources including UI materials, PAPA project self help papers, NDI, Partner's Albania, KOMPAS and other Albanian projects that work with local governments and/or citizens. These materials will be edited for brevity and individual "Tips" sheets prepared for each technique.

## FINANCIAL MANAGEMENT

**Budget Activities for Local Governments—**The focus of budgeting activities for local governments during the quarter was on two rounds of technical assistance to the 50 participating local governments. Site visits are being used as a way to provide direct technical assistance on the budget issues and to encourage participation in improving the budgets. The workshop had focused on establishing a budget process that was transparent and shared through the use of a budget calendar, increasing own source revenues, citizen involvement in the budgeting process, and balancing revenues and expenditures based on service levels that are set by the mayor and council. The first round of TA by the Albanian trainers reached 84 elected officials and 128 technical staff in 42 local governments. At that time 34 local governments had drafted a calendar of proposed budget activities; 34 had completed the process of estimating their Central government unconditional transfers based on the formula worksheets; and 45 had committed to include a message from their mayor and a budget in brief in the final budget. The second round of visits—30 days after the first round—also had encouraging results. Although only a few of the local governments had begun the process of calculating their own source revenues, approximately 40% indicated that they held some type of public meeting to elicit input for budget priorities, and about six of them have begun establishing some type of service level performance indicators. This is quite remarkable considering that Albania has been such a closed society. A "Tips" sheet on preparing for a public meeting and another for the moderator of these meetings were distributed during the technical assistance visits. Future assistance will focus on encouraging an increase in own source revenues and making the proposed budget open to the public. It will also include information on the draft law on taxes and fees that has the potential of increasing local government revenues.

**Capital Improvement Planning (Capital Budgeting)—** The CIP activities focused on site visits and assisting cities with completion of tasks covered in workshops and a follow on Roundtable. A sample kit of materials needed to implement the CIP process was produced and introduced at the technical assistance visits. Cities have been slow to complete the assigned tasks. Twenty-six of the 43 cities have appointed a working group to develop the CIP, but only 8 had developed policies for it, and 7 had done the financial analysis by the first round of technical assistance visits. There was little progress between the first and second visits. The consensus of the trainers is that more frequent follow-up is needed to encourage implementation. This is interesting since 35 of the 43 local governments are also involved in the budget activities, which seem to be having more success. During this quarter UI will explore alternative ways to motivate cities to become more engaged developing a CIP.

## MUNICIPAL SERVICES AND ASSETS

**Full Cost Fee Methodology for Public Services (Water and Sanitation)—** In early April a national conference was held on solid waste in order to introduce the full cost fee manual. It was attended by over

one hundred and 30 persons representing local governments—cities, communes and regions—and by technical staff of selected ministries. Howard Sumka, USAID Director, made opening remarks. Presentations were made by the Albanian trainers on economic and health issues of standing garbage. An overview of the manual and the calculations that it helps local governments develop was presented and an explanation of the potential savings of unconditional transfer funds that occurs when adequate fees are charged for the service. Each attendee was given a copy of the manual and encouraged to send their technical staffs to the workshops in July.

In June a very mixed group of elected officials, technical solid waste managers, two representatives of solid waste citizen advisory groups, individuals who have been active in the review and feedback of the new draft law on taxes and fees and the President of the Commune Association went on a Solid Waste study tour to Hungary. Of the group, four are trainers with the UI solid waste cost and fees activity. The focus of the tour was on collecting and disposing of household and small business garbage. Although two lined landfill sites were visited, the emphasis was on low-tech methods of collection, billing, and administration of the service.

Involving and educating citizens was an integral part of each of the site visits on the trip. Each city was required to complete the solid waste cost and fees manual before departing to assure that they had a firm understanding of their own service levels and costs. Two training sessions on the manual were held prior to departure.

The participating trainers will incorporate lessons learned into the July Solid Waste Cost and Fees Workshops. As a result of this pre-study tour training, the Mayor of Lac has turned the manual over to his staff and directed them to use the format for developing similar manuals for other services provided by his city. He plans to use this as part of the budget discussions with the Council. We will be following up with this in July and August.

#### **COOPERATION AND COORDINATION WITH OTHER PROJECTS**

UI decentralization and capacity building activities typically involve selected ministries and municipalities and other relevant organizations, such as other local government projects funded by donors. The Leadership series, referenced earlier in this report, is conducted with seven different donor contractors and is an excellent example of the UI approach to reaching out to include the talents and resources of others. These are MSI, Kompas, GTZ, NDI, SIDA, Partners Albania and Soros.

UI and World Learning designed and conducted two study tours this quarter. The first was on fees/taxes in anticipation of passage of a unified law on local taxes. The second was a study tour on solid waste activities. Both study tours went to Hungary.

USAID Albania is endeavoring to have the Peace Corps return to Albania. At the invitation of the Mission, UI staff participated in a small group discuss designed to assist Peace Corps consultants in their assignment of opportunities in Albania for the return of the Peace Corp.

UI continued its dialogue with Partners for Health Reform in an effort to facilitate their informed involvement in a policy analysis of healthcare reform, which is one of the shared functions of government in Albania.

UI continued its ongoing dialogue with representatives of the World Bank and the International Monetary Fund. Included in this was the discussion with UI's Jennifer Schwartz on a World Bank mission for Albania.

There were three different meetings in the quarter with UNDP staff heading the regional local government program in support of the MoLGD. Offers were made to include their field staff in training activities and to work with these same staff in organizing a structured discussion related to regions. In addition, a meeting was held with two SIDA consultants on a mission to assess an expanded strategy for commune training in the Korce region. UI staff met with Kompas Director, Jim Budds, to examine parameters related to future directions of the AAM and the Dutch pilot cities.

Staff assisted the PMP team in defining indicators for the Mission's Performance Monitoring Plan.

### **Significant Findings and Delays**

Project activities are fundamentally on schedule in spite of distractions created by the struggle over which political party controls the government. Fortunately, a compromise choice was made over a President and constitutionally mandated elections were avoided. Now there is a "negotiation" underway as to whether the current Prime Minister remains.

### **Work Planned Next Reporting Period**

#### **DECENTRALIZATION**

- Continued support of the Task Force on Decentralization
- Completion of agency training for immovable property transfers
- Regional meetings on property transfer
- Workshop on Decentralization for Prefects
- Workshop on strengthening/expanding the GED process of decentralization
- Discussion and recommendations on water transfer responsibility to local authorities
- Discussion of Intergovernmental Relations
- Support to MoF and MoLGD on the MTEF process
- Continued cooperation with AAM

#### **CAPACITY BUILDING**

- Summary document on impact of Leadership meetings
- Follow-up Roundtables to CIP workshops
- Follow-up Roundtables on budget procedures
- Regional Workshops on Solid Waste Fee Manual



**Specific Action Required**

None

**Up-to-date Schedule of Work**

On schedule

**Key Personnel**

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