

Maria C. Andrade-Stern
Senior Contract Administrator

Direct Dial: (202) 261-5396
FAX: (202) 728-0231
mandrade@ui.urban.org

October 15, 2002

Ms. Cathy Mallay
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, July to September 2002

Dear Ms. Mallay:

Please find enclosed *Quarterly Task Order Progress and Cost Report, July to September 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 (355-42) 568-323 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 (CTOW, 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**

**ALBANIA LOCAL
GOVERNMENT PROGRAM**

JULY TO SEPTEMBER 2002

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



THE URBAN INSTITUTE
2100 M Street, NW
Washington, DC 20037
(202) 833-7200
www.urban.org

October 2002
UI Project 06901-013

TABLE OF CONTENTS

I.	Highlights.....	1
II.	Progress of Major Activities	1
	Decentralization.....	1
	Capacity Building (training for local governments)	3
III.	Deliverables and Reports	4
IV.	Problems or Delays Affecting Task Order Performance	4
V.	Work Planned for Next Reporting Period.....	4
VI.	Specific Action Requested.....	4
	Attachment	
	Cost Report	

QUARTERLY TASK ORDER PROGRESS AND COST REPORT

JULY TO SEPTEMBER 2002

ALBANIA LOCAL GOVERNMENT PROGRAM

Contract and Task Order No.:	EEU-I-00-99-00015-00, Task Order No. 810
Date of Issuance:	September 25, 2000
Amount Obligated Under Task Order:	\$4,223,970
Total Potential Task Order Amount:	\$4,223,970
Dollars Expended To-date:	\$2,400,968
Key Personnel:	Bart Kennedy, Chief of Party +(355-42) 568323 +(355-68) 20239819 (cell)

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.

I. HIGHLIGHTS

- Completion of a unified law on local government taxes and fees at the request of the Ministry of Finance
- Conduct of workshops on solid waste cost and fees calculation in six regions

II. PROGRESS OF MAJOR ACTIVITIES

DECENTRALIZATION

This quarter saw the completion of a draft unified law submitted to the Ministry of Finance (MoF) that UI has worked on for over a year. It included a small business tax, which consists of a local government tax,

property tax and a tax on agricultural land. Upon submission to the MoF, the General Tax Directorate raised concerns causing additional efforts and attention to reconcile different views. This was done in cooperation with the Albanian Association of Municipalities (AAM), the Ministry of Local Government (MoLGD) and technical staff from the municipality of Tirana. Work on this continues as the quarter ends. It is anticipated that an approved version will be submitted next quarter to the Council of Ministers.

Identification and correction of errors were made in formula calculations by the MoLGD for unconditional transfers. 2002 is the first year for Albania to apply a formula for unconditional transfers.

UI responded to criticisms made by Ministry of Health and World Bank of underspending by local governments in primary healthcare. The analysis revealed that the criticism was unfounded and any underspending was due to failures of understanding and implementation by the Ministry.

The first month of the quarter saw yet another change of government with virtually all new ministers. The Minister of Finance was retained after the first choice—a banker—turned the position down. A few other ministers were retained but moved to different ministries. A new minister was appointed to the MoLGD, Ben Blushi, who is a former Minister of Education and former Prefect in the Korce region. UI held several meetings with him over the quarter to discuss various aspects of decentralization. One of these included an introductory meeting with USAID. The Minister is saying the right things regarding decentralization, but it is too soon to tell the extent of his commitment.

Programmatically, the decentralization component was focused on efforts to guide a draft unified law on local revenues through to positive action by the Council of Ministers. Much time and effort were spent in discussions with MoF, AAM, MoLGD and most, notably, the General Tax Directorate (GTD) in an effort to secure as much funds as possible for local governments from the small business tax (SBT). The GTD wrote its own draft of an SBT law after the unified law was submitted to the MoF. There are major differences between draft SBT law and the unified law version. As the quarter ended, discussions, drafting, and redrafting were still underway. This will finally be determined early to mid next quarter.

The next major task during the quarter was clarifying misinformation relative to underspending by local governments on primary healthcare (especially the polyclinics, which are the responsibility of selected municipalities) and clarification of delegations related to the shared functions. Shedding light on these areas was a total team effort and culminated in a document produced by Francis Conway that removes some of the mystery and paves the way for formal delegation of shared functions in the areas of health, education, and social assistance. The World Bank and International Monetary Fund as well as the Albanian Association of Municipalities have been involved and appraised of this effort all the way. It was especially gratifying to have a meeting with the USAID-funded primary health project, which agreed to play a lead role in facilitating the policy discussion on decentralization of this sector.

The project assisted the Mission in completing its Performance Monitoring Plan (PMP) by providing approved measures for the decentralization and capacity building components.

Also during the quarter, it was confirmed that all local governments received their estimated funds in unconditional transfers according to the budget distribution formula devised by the joint efforts of UI and

ISB. 2002 was the first year to apply the formula. Over the balance of the year the formula will be refined for application to the 2003 budget.

The first properties under the property transfer law were conveyed to local governments this quarter, specifically, the administrative building of some of the communes. Inventories are still being collected for the pilot local governments. The ministries had a deadline of August 15th to complete their inventories and none has met this deadline. The agency responsible for the transfers is still seeking funding from the MoF. One pilot city is requesting the transfer of water assets to the city in an effort to secure for the cities real responsibility over this sector in accordance with the law on local government.

CAPACITY BUILDING (TRAINING FOR LOCAL GOVERNMENTS)

Solid Waste Training

Workshops on total cost calculation for providing solid waste services and estimates on fees to cover the cost were held in six regions (Fier, Tirane, Shkoder, Peshkopi, Korce, Gjirokaster). 51 local governments attended, including representatives from bilateral donor projects—Dutch, German, and Swedish as well as UNDP and OSCE.

The initial draft of citizen involvement/participation handbook was completed. This is a cross cutting issue and can be used by cities in a variety of activities.

During this quarter, training on solid waste fee calculation in six regions was completed. The training enables participating local governments to calculate the total actual costs for providing solid waste service. Early next quarter, follow-up visits will be made to local governments to review and obtain the calculations in preparation for roundtables, which will be held in three regions.

The citizen involvement/participation handbook can be used by local governments in a variety of ways. It is directly applicable to current training in solid waste fee methodology, basic budgeting and capital improvement planning. It is scheduled for completion and testing next quarter.

The second round of budget TA visits was completed to assist cities and communes with the final preparation of their budgets for submission to the MoF. The approved budgets will be released in January and then local governments will make the final adjustments. The majority of a local government budget is still determined by ministry allocations.

The UI finance/budget staff participated in and made presentations at a two-day CoE seminar on local government budgeting. Material produced by UI on modern budgeting approaches was shared with CoE experts and seminar participants. It was the only non-Albanian organization included in the training.

UI conducted a joint follow-up meeting with World Learning for solid waste study tour participants to secure their use of techniques and procedures observed during the visit to selected small cities in Hungary.

Activities continued with participating cities in completion of their Capital Improvement Plans. This is done in accordance with the recommended timetable for the training completed earlier in the year. Follow-up roundtables will be conducted the last month of the year and continue into the first quarter of next year.

III. DELIVERABLES AND REPORTS

- Solid Waste Training Manual. Contact: Bart Kennedy +355-4-256832

IV. PROBLEMS OR DELAYS AFFECTING TASK ORDER PERFORMANCE

There were delays in completing a decentralization workshop this quarter. It was scheduled for July and September and had to be postponed both times. This is not a deliverable per se but it is an important activity in an effort to get decentralization back on track. The postponement in July was the result of a change in government; in September it was due to floods caused by heavy rains over three days. It has been scheduled for the first month of next quarter. The September floods also necessitated moving solid waste follow-up visits to October.

V. WORK PLANNED FOR NEXT REPORTING PERIOD

- Decentralization workshop designed to refocus on completing the transfer of functions to local governments; an important aspect of this is reaching an agreement on a policy development process in advance of drafting legislation.
- Revisions to the formula for unconditional transfers for the 2003 budget year.
- Efforts to effect formal delegated functions in selected social sectors within the 2003 budget law; this will require work with Ministry of Finance, Ministry of Local Government, and selected social sector ministries as well as with the World Bank.
- Preparations for work on the 2003 Medium Term Expenditure Framework that will be formalized the first quarter of next year.
- Completion of the follow-up visits with cities on solid waste fee calculation and the conduct of three regional roundtables related to this.
- Conduct of basic budget training workshops in two regions.
- Completion of the citizen involvement/participation handbook.
- Initial preparation of financial training materials for municipal council finance commissions .

VI. SPECIFIC ACTION REQUESTED

None at this time.