

**QUARTERLY TASK ORDER  
PROGRESS AND  
COST REPORT**

**APRIL TO JUNE 2003**

**ALBANIA DECENTRALIZATION  
INITIATIVES**

Prepared for



Prepared by

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



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**ATTACHMENT**

Cost Report

**QUARTERLY TASK ORDER PROGRESS AND COST REPORT  
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ALBANIA DECENTRALIZATION INITIATIVES**

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

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

**Amount Obligated Under Task Order:** \$5,812,905

**Total Potential Task Order Amount:** \$5,812,905

**Dollars Expended To-date:** \$3,202,232

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**Task Order Description**

In September 2000, the 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 the 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**

- Obtaining agreement for local governments and selected ministries to discuss ways to improve own source revenues for the second year of implementation of new laws on local government revenues
- Implementation of "application programs" that links budget decisions with community service preferences and priorities

## II. PROGRESS OF MAJOR ACTIVITIES

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

2003 is the implementation year for a package of laws passed in the Fall of 2002 giving local governments own source revenues to add to the property tax that was designated several years (1999) ago as a local government tax. As might be expected, the implementation has experienced some difficulties; not only because there are new taxes for local governments but also because the system of collection requires new roles and reporting procedures. Thus, there is a growing demand on the part of local governments for accuracy of data and frequency of reporting and a more unified type of cooperation between local government entities and organs of the Ministry of Finance. Relevant Ministries failed to issue instructions to their field staff and the extent of cooperation was very much influenced by local personalities rather than by procedures comprising a system equally applicable to both levels of government. Where personal relationships were strong it was easier to resolve quickly many of the implementation issues. Nevertheless, the data being collected relating to local revenues demonstrates a significant increase as a percentage of local government budgets. The vast majority of this increase on a national basis is accounted for by a few of the larger cities, especially the city of Tirana.

This quarter the Urban Institute built upon the opportunities for improving the implementation of the new local tax laws that were identified last quarter. This was done by discussing with and obtaining agreement in principle among key stakeholders on establishing a discussion "platform" for resolving some of the problems identified during the first quarter. The main stakeholders to be assisted in this discussion by Urban Institute consultants are the Albanian Association of Municipalities, Association of Communes, Ministry of Local Government and Decentralization and the Ministry of Finance. Such a "platform", or forum of key stakeholders, will permit local governments to have timely formative input to the forthcoming budget and budget instructions. It will have to be established by the Government, most likely the Ministries of Finance and Local Government. The Urban Institute will assist in this dialogue among the interested stakeholders.

Possible topics for discussion: timeliness of budget instructions, in addition to the content; timely registration of small businesses; estimation of fiscal capacity; timeliness of fund transfers from central to local governments; a more accurate estimation of fiscal capacity; feasibility of turning over to local governments the collection of vehicle registration tax. In general, there is a need for improved cooperation with the district tax offices and the Ministry of Finance, to include transparency in formation of the funds for unconditional transfers, more accurate data and timely reporting and transfers of funds. If the funds for local urban roads are to be returned to the pool, then local governments will have to lobby for this. Another issue related to pool formation is the amount of funds to be removed for conditional transfer to policy clinics and primary healthcare units.

This year the formula for the transfer of unconditional funds received scrutiny from local governments since many did not receive anticipated amounts compared to last year. UI held discussions with specific municipalities, the mayors and finance officers, local government associations and selected ministries about possible fine-tuning of the formula. There is much satisfaction with having a formula because of the transparency. There is some degree of dissatisfaction because some current realities are



not taken into account by the existing coefficients. In addition, there is a growing opinion that the formula can be refined in its equalization aspect to address the poverty issue in the more remote areas of Albania that cannot benefit from small business tax collection.

One official of the AAM noted that the formula should recognize a difference between "urban" and "rural" cities. The formula uses population as a key variable. But how the population is concentrated or not concentrated in a city makes a difference in the service demands on the municipality according to this person. The specific example given was that of Patos and Kucove, which have about the same population (30,000). But whereas the former has many villages and therefore less service demands on streets, sidewalks, etc., the latter has all of its population located in the city center. Thus, more use of streets, a greater demand for garbage service, etc.

Another variable that has come up repeatedly are the expenses associated with schools and the demand to pay for student housing. Many cities have high schools with dormitories for students who spend the week in the city. The city is responsible for paying for food and lodging for these students out of the local budget. These cities have higher expenses than cities that do not have high school dormitories. Even some of the smaller cities, such as Rreshen, have this responsibility. Thus, some mayors want to see a variable in the formula that takes account of this reality.

Property transfer to local governments is moving very slowly. Many cities are in various stages of completing the inventory of property to be requested. Several pilot cities have had their inventory approved by the Council of Ministers and the list is now being reviewed by various ministries. The "independent" agency within the MoLGD that has been put in place to initiate the transfer still has no operating budget. The cities view the acquisition of property skeptically, as just another major expenditure burden due to years of deferred maintenance by the central government.

The transfer of water assets and service to local governments is moving slowly along with the slow pace of the transfer of property in general. The geographical boundaries of 37 water companies have been completed. The Council of Ministers has approved the policy paper on the transfer of water services to local governments. While some of the communes want the transfer to be completed, most cities don't because of existing liabilities of the water companies, deferred maintenance costs, revenues insufficient to cover operating costs and the enormous investments that will be required to meet standards that will come as the country moves onto an EU accession track.

### **Capacity Building (Training for Local Governments)**

With the approval of a one-year extension, the Urban Institute initiated a set of three activities designed to increase citizen involvement and enable participating local governments to be responsive to local preferences within the constraints of the local budget. These initiatives build upon training efforts over the past two years and add an element of "can do" so that the focus is on service improvement in terms that have impact. While the skill training has been technically correct, there was readiness on the part of cities to apply concretely what has been learned.

The first of the three expansion initiatives applied to different ways of “informing” budget decisions relative to service priorities. Eleven cities were invited to provide data on their expenses during the past three years. This information was then classified in ways that allowed the cities to identify where the expenses were occurring. Cities still use the budget format and chart of accounts from the line item budgeting practiced by the central government. This comes from the years when local authorities were spending agents of line ministries. With the establishment of a new legal framework in 2000, local governments can have their own budget format and budget development process.

The second way of “informing” budget decisions was to introduce citizens to the use of a survey to obtain citizen input on their priorities. Before the survey was implemented, staff members indicated what they thought were the priorities and what they would fund based on their knowledge of the community and the available funds. A survey was implemented in three cities and one commune. An Albanian company was hired to implement the survey, analyze the data and display the results. Then, staff members were challenged to factor the results of the survey into their recommendations for the proposed 2004 budget that would go before the Council. Two of the four cities using the survey had to rethink their recommendation based on the survey results and all four cities were challenged to rethink their recommendations.

The second activity addressed a delegated function in education, for which cities are responsible: the operation and maintenance of education facilities. The aim is to bring four stakeholder groups together to work as a community team and to identify at least one school that can be improved in 2004 in specific ways with funds from the local budget. Participants were introduced to a technique for systematically assessing the condition of school buildings – trained observer ratings – and applied this technique in a workshop setting.

The city teams consisted of representatives from the city, from the deconcentrated education office, a school director, and a parent. An action plan was devised at a workshop by each team and then they were tasked to identify at least one school that would be assessed, an improvement recommendation determined and a recommendation that the city set aside funds in the 2004 budget to effect the improvement. There are seven cities participating in this pilot.

The final initiative deals with the transfer of water assets and service to the local government. Even though by law this is a function of local governments, the central government continues to provide water service. The pilot is an attempt to break the impasse by bringing together all stakeholders to discuss and, hopefully, reach an agreement on the transfer. The Urban Institute, with the help of an Albanian subcontractor, will identify two water systems that are not part of a donor program at present, or a concession, or a management contract in order to pilot how such a process of transfer might work. The activity will focus on providing information on the policy paper, give the stakeholders an opportunity to express their concerns, provide examples of water systems from other European countries and offer a structured approach for analyzing issues related to the transfer of water service and assets to the local government.

A policy paper outlining the transfer process has been approved by the Council of Ministers. The pilot will give two cities the opportunity to work through the many decisions that must be made. This will permit the identification of those areas where consensus can be reached and those where no agreement is reached. A workshop will be held in July to initiate this process.



### **III. DELIVERABLES AND REPORTS**

None at this time

### **IV. PROBLEMS OR DELAYS**

Local elections are scheduled for mid-October and will create a "distraction" for local governments. It is anticipated that many current mayors will not recandidiate for election.

### **V. WORK PLANNED NEXT REPORTING PERIOD**

#### **Decentralization**

- Refinement of the budget formulation in light of the 2003 experience
- Assisting selected Ministries and associations to improve fiscal decentralization practice
- Assistance in drafting an organic budget law
- Assistance with MTEF
- Implementation of water transfer pilots
- Continued cooperation with AAM

#### **Capacity Building**

- Follow-up workshop on trained observer rating
- Provision of training materials to Peace Corp
- Continued implementation of Planning Guide for Investments
- Follow-up on new ways of informing local budget decisions
- Follow-up on education facilities pilots

### **VI. SPECIFIC ACTION REQUESTED**

None at this time.