



Albania Local Governance Assessment

2010: Historical trends and emerging problems

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USAID LOCAL GOVERNANCE ASSESSMENT

Executive Summary

This report presents the findings of an assessment of local governance in Albania prepared for USAID. The assessment relies solely on published sources and on interviews conducted by the authors in country in September and October 2010.

This is the Executive Summary of the report, which presents an overview of key findings and recommendations. The main body of the report is in three sections

Part I Assessment of the Current Status of Local Governance in Albania

Part II Future Opportunities and Challenges for Local Governance in Albania

The report also includes annexes with the list of interviewees and a bibliography.

Summary of the Findings of the Assessment

1.1. Civil Society

There is widespread apathy towards “participation” by citizens partly a legacy of a cultural heritage, as a reaction against forced participation under communism, and because the organized CSOs are perceived as not responsive or representative of interests. Donor efforts to develop new participatory processes with local governments have had limited impact and more often than have not proved sustainable due to lack of local government support, apathy on the part of citizens, inadequate community support. Accountability, anti corruption and transparency have improved through the national regulations on public disclosure concerning e-procurement, business licensing registry and taxes. There may be room for new or expanded transparency and accountability requirements.

Donors have helped both the Association of Municipalities and the Association of Communes provide “services” to their members. These often have been donor-driven, based on operations of associations in Western countries and may not express member interests or be practical in the local context. That there have been two rather than one association of local governments has been unfortunate and has not helped to promote a unified, effective local voice to central government. The recent insertion of a third association is further eroding the potential for any organization to claim to be the legitimate voice of local government on decentralization issues. Under current conditions donors should be wary of supporting the Associations and should not provide grants to any of the three unless certain changes occur.

1.2. Fiscal Decentralization

Decentralization has been one of the major reforms in Albania in recent years. Following the legal reforms adopted in 2000, total local government expenditures grew dramatically from 0.2 percent of GDP in 1998 to 4.7 percent by 2009. Expenditures over which local elected officials have complete discretionary authority grew from 5 percent of total local government expenditures in 1998 to 57 percent in 2009. Local taxes have become an important source of revenues for local governments – in 2009 local taxes represented 61 percent of own source revenues and fees 28 percent. To date the focus has been on businesses taxes and fees. The largest untapped source of own source revenues is household taxes and fees. User fees do not recover the cost of providing the services, which limits expansion of coverage.

Local governments have been operating in a difficult macro-economic environment since late 2009. Restrictions on local borrowing consistent with efforts to reduce total public debt, reductions in State budget investment grants and in the unconditional transfer pool will cut back the resources available to finance local investments in 2010 and next years. With the notable exception of the limits imposed by the MOF on local borrowing, the introduction of the new Local Borrowing Law has been a success.

Concerns about the process of decentralization began to appear in 2005 when Parliament reduced by half the small business tax rate. It is common now to hear that decentralization has been overly politicized. Despite the role played by partisan politics in this and other decisions, it is an oversimplification to view them solely in those terms. For each decision there is an underlying national policy concern that explains the general thrust of the measures adopted by the Government. The problem is that the Government chose not to consult in advance with their local counterparts. As a result the measures came as a surprise to local governments. Similar central/local policy issues had been addressed in the past in Albania through timely consultation between the two levels of government. It may be time to return to that practice.

1.3. Local Management and Service Delivery

Local governments are engaged in providing a broad range of services that improve the local quality of life. Surveys conducted by USAID projects since 2005 show high levels of satisfaction with these services by citizens. An encouraging finding of this assessment is the extent to which local governments have implemented new IT solutions successfully. The most impressive is the E-Procurement portal. Support to implement additional IT applications was a frequent response when the team asked local officials to identify possible areas for future USAID assistance. Local governments are branching out into new areas of activity, such as social housing projects and industrial parks. There is a clear sense of local empowerment that stands in stark contrast to the restrained attitude of local officials just a few years ago.

There is broad recognition of the role that local governments in Albania play in poverty alleviation by identifying eligible beneficiaries and delivering cash benefits to the poor. There is far less recognition of the important role they play in poverty reduction through the basic services they provide. Access to water is probably the most significant of those services. However, the current ownership structure of the water companies is proving to be a challenge for the local governments. Those companies owned jointly by a large number of local governments are proving most difficult to manage.

There is a tendency to attribute staff turnover and the resulting lack of capacity to partisan politics. A new mayor is elected and proceeds to dismiss all the staff to make room for their own people. While this is true, it also may be an oversimplification of the causes. The extent to which there is or not an effective HR function in the local government also appears to play a role. It would be useful to prepare an extensive analysis of local capacity to target training that USAID or other donors might provide.

1.4. Planning and the Management of Urban Growth

Albania has experienced a wild west-type style of land development in prime urban areas. Current efforts to deal with land use and construction include the MCC funded national land registry and the USAID assisted Law on Territorial Planning effective in January 2011. The law imposes a number of new requirements on both national and local governments with all local governments required to make a general plan and detailed regulations within two years, and follow new standardized development and construction permitting processes using an internet and GIS based National Planning Registry. The newly established National Territorial Planning Agency (NTPA) must prepare a national territorial plan, coordinate all sectoral planning and provide regulations, guidance and training to local governments.

Within the NTPA current staff capacity to implement the new legislation is weak and the budget for 2011 is inadequate. Staff needs organizational assistance and guidance as well as co finance for training and national planning and coordination. At the local level, 15 high pressure development municipalities out of 373 local government units have urban plans pending, but a second group of municipalities and communes are susceptible to development pressure in the near term including communes close to Tirana that are experiencing overflow growth. Local planning departments are not ready to use the national registry system or capable of preparing plans without local budget financed consultant assistance.

1.5. Possible changes to the system of local government in Albania

The system of local government in Albania has grown and developed since 1998. Yet, ministries and donor complain that local governments are not helping to address pressing national problems in education, health, social assistance and the environment. This could lead to a claw back of local government authority in these areas. In such a scenario local finances are also likely to suffer through a redirection or earmarking of transfers from the State budget (as proposed in education) and, possibly, a shift of part of their resources and tax authority to a reinvigorated regional government level. Local governments need to engage actively in the ongoing discussion of these reforms. They need to show as well through concrete actions that they are part of the solution to key national problems.

Summary of Future Opportunities and Challenges

2.1 European Union Accession

The importance that Albania attaches to meeting EU accession requirements will impact both the national and local governments. The challenges include the cost to local government – and end users – of the investment in and operation of the facilities built to comply with the new EU standards; the future availability to local governments of regional development grants (former competitive grants) as they may be used for co-finance of IPA 3 investments. In the second cycle of IPA 3 funding – between 2014 and 2021 – local governments will be eligible for local infrastructure grants. Local governments will need to learn and apply EU rules and procedures for IPA 3 grants to take advantage of this opportunity.

2.2 Public finances and public debt – A challenging environment for local investments

The reductions in transfers to local governments from the State budget for capital expenditures and the limitation on local borrowing that began late in 2009 are likely to continue until the public debt to GDP ratio is closer to 50 percent and Government revenues recover. Given the dim prospect for investments, this might be a good moment to shift focus to maintenance of local infrastructure, such as roads, and of facilities such as schools that require lower levels of funding.

2.3 Trends in decentralization – challenges and opportunities for local governments

There are three trends in decentralization that may have a significant impact on local governments - the drive to “regionalize” certain local services, notably water; the discussion of increasing the functions of the regional council; and, proposals to modify existing local government functions, such as in education. These challenges also are an opportunity for local governments to become an important player in sectors that have the attention of the Government and the donor community.

2.4 The hardening of partisan political positions and their implications for prospects of the central/local dialogue and policy and legal reforms

There are many that question whether a national/local dialogue is viable today given the apparent hardening of partisan political positions. Those concerned point to a string of decisions taken unilaterally since 2005. Our analysis shows that for each decision there was a valid policy concern behind the measures adopted by the Government. It is the timing of the measures that created the problem for local governments. The analysis also shows that had Government consulted local governments in advance, it might have been more successful in achieving its policy objectives while also mitigating the damage to local finances. There was at least the prospect of a win-win scenario. This is a strong argument in favor of returning to the process of prior consultation used routinely from 1999 to 2005.

2.5 Institutional weakness for capacity development

As in every transitional country, there is a backlog in developing staff capacity to meet decentralization challenges. Trainers have mainly come from NGOs or private sector. The future challenge is to develop a sustainable training institution and training corps that is not susceptible to declining donor funds, and that can meet the large scale local government training needs.

I. Assessment of the Current Status of Local Governance in Albania

1.1 Civil Society

Overview of civil society /civic interaction and its influence on local government The latest (2009) civil society rating by the Freedom House “Nations in Transit” to Albania accords a score of 4.25, indicating that in their view, the status of civil society is far from perfect. All sources voice a negative view of the sector--- CSOs do not represent community interests or engage with the community, their agendas and activities are driven by donor funds, they lack internal transparency and democratic structures, they do not have an advocacy agenda ; their activities have limited impact and are mainly absent at the local –community level. There is widespread apathy towards “participation” by citizens partly a legacy of a cultural heritage, as a reaction against forced participation under communism, and because the organized CSOs are perceived as not responsive or representative of interests. There are no neighborhood- based associations that represent general citizen concerns to local government either on a permanent or occasional basis.¹

With the exception of some business groupings, CSOs are not membership groups, and tend to represent narrow sectoral interests such as handicraft production, the blind and other social issues. In recent years many CSOs disappeared due to drops in donor funding, and those that remain are based in Tirana. Donors with an interest in local participation often use Tirana based organizations to organize activities or manage their funds. The national business associations do not actively interact at the level of municipal affairs, judging that they exert more influence on policy at the national level. An exception to this rule are the several USAID sponsored small business associations which have found an area of joint concern between the members and the local government (business registry and business licensing and taxation) but it remains to be seen how they will manage once outside support is withdrawn and whether they prove an effective and sustainable interlocutor in local affairs. The issue- based CSOs seem to have limited agenda that interact with or influence the local government. For the most part the CSOs do not actively represent the interests and demands from citizens

Local Government-Citizen Consultations Even when there are structures to channel citizen input, it has been difficult to wean the public from preferring face to face contact with the Mayor or his representative when addressing requests , complaints, priorities or implementing simple administrative procedures applications for permits.. In small towns, citizens bypass information offices and insist on speaking directly with a representative. This is a gap that has not been filled either by CSOs or the local government. A number of municipalities have established citizen information tables or centers but these are not meant to be channels of interaction as such.²

The donor efforts to develop new participatory processes with local governments and to incite participation have had limited impact and have more often than not proved unsustainable due to lack of local government support, apathy on the part of citizens, inadequate community support which is revealed when donor funding end (for example, support for village elders, or community committees that review budget proposals). There are also issues of whom ad hoc donor funded “representatives” represent, or are they self-selected and transitory and neither reflect the interest of citizens or of the local government.

In the larger municipalities and where donors such as USAID and Swiss Assistance are actively engaged, the local administration has a more open attitude towards citizen participation. However, even the existing processes for consultation – regulatory requirements such as civic consultation on urban plan preparation or budget hearings – do not draw wide participation given the apathetic civic attitudes, which may be compounded by lack of adequate notification of events, or skepticism as to the weight that Local government attaches to them.

For these and other reasons, citizen surveys have reported mixed results rating of service performance or attentiveness of local authorities to their interests. The LGPA citizen perception survey did not indicate substantial changes in attitudes toward local government from one year to the next but did demonstrate that some local governments have been more effective than others in informing citizens about procedures and services and demonstrating interest and thereby gaining better marks overall.

Accountability and transparency at local government level: levels of disclosure and public access to information In general, citizens are aware of their right to information and transparency concerning regulations, procedures, services and costs. Some local governments have actively promoted transparent information flow through websites, information offices, and leaflets and provide clear instructions for permit and license applications, about complaints procedures, costs of services, and also are diligent in meeting mandated deadlines for dealing with requests. Tirana, not surprisingly has a well staffed citizen information and applications center, website, and free telephone hotline. But this is the exception rather than the rule, and smaller municipalities are less diligent about providing information, transparency and accountability for decisions. Their “Information office” is nonexistent, or simply refers inquiries to another city office that has no documentation on procedures and costs. Local websites are criticized for inadequacy –they do not provide information on processes and requirements, do not provide timely information on public events or local government decisions and activities, and are not interactive for complaints and applications. Better access to information for accountability and transparency is an area ripe for improvement but *not only* through web information as much of the population outside of major urban centers has no access to computers; better direct, user-friendly information is needed for the many who still expect to get information at the municipal offices.³

Accountability has already been positively affected through the national regulations on information. Transparency International’s analyses indicate major impacts on anti corruption and transparency due public disclosure regulations on e-procurement, business licensing registry and taxes. These rules have had a wide impact as they apply nationally, and for local government can be presented as win-win situations across party lines. There may be room for new or expanded transparency and accountability requirements for example to require not only publication of the annual budget but also a mid-year and end of year budget expenditure report.

Venues for public discussion of local issues are still lacking. Newspapers report national news and local TV stations, the main source of local news, with small staff for investigative reporting, may be a venue for politicking rather than serving as vehicles for objective information or debate.

Gender issues in local government Currently women represent less than 10% of local council members, and in some parts of the country they are entirely unrepresented. The Albanian gender equality legislation led to a election code provision that in local elections women must represent one out of every 3 candidates on party lists for council members; however, the penalty for non-compliance with the law is a mere \$300. This representational requirement ---and its enforcement---will be tested for the first time in upcoming local elections. If followed, it should result at a larger number of women legislators by forcing open the party selection of candidates. Generally, women are well represented in public administration at the mid-management and technical levels. On the civic society side, gender equality in Albania is not seen as an issue, and is expressed through activities and programs to reduce domestic violence, rather than equal representation of women’s concerns and interests.

Analysis of the local government associations Until this year there were two associations –the Association of Municipalities (AAM) and Association of Communes (AAC). Both received substantial donor support to their internal structure, activities, and ability serve as interlocutors with the central government. That there are two, rather than one Association has been unfortunate and has not helped to promote a unified, effective representational voice to central government. In addition, two associations have meant a weaker financial base as well as competition for donor funds. The recent insertion of third Association claiming legitimacy – the Association for Local Autonomy (ALA) – is further eroding the

potential for any organization to claim to be the legitimate voice of local government on decentralization issues. The ALA has siphoned off 100 communes and municipalities to what is regarded as a mainly political organization that is a proxy for national politics, leaving the AAM (and to some extent the AAC) as the grouping of the government party. The AAM has been seriously weakened financially and at the same time it is not involving its members in decision making and internal structures as required (the executive board has not met in over 6 months, and technical committees are non functional). Discussion or cooperation between the AAM and ALA is nonexistent presumably due to the party lines. The ALA claims that the AAM has abandoned its role of representing members on decentralization issues because of party affiliations.

Donors have funded both the AAM and AAC to provide “services” to their members. These often have been donor-driven, based on operations of associations in Western countries and may not express association member interests or be practical in the local context. Evidence from elsewhere in Eastern Europe shows that most Associations (with the exception of those in Poland) are not greatly interested in providing training, brochures, best practices, and similar “services” and immediately the donor grants terminate⁴ they desist from pretences of interest and retain only their core function; advocacy to central government regarding funds, authorities and legislation and requirements.

There are several risks and challenges for continued support to these Associations under current conditions; if the political leadership continues to use Associations as proxies, the donor will be seen as favoring politically motivated organizations?; will donors be getting good value for their money in using the Associations for services or should they not find other organizations more competent for these activities? Is there a risk in enlarging the void in representation of local government in the decentralization arena?

For several reasons, USAID should not support the current situation and should not provide grants to any of the three unless certain changes occur and criteria are met so that USAID can know that it is supporting a valid and useful NGO. Despite the desire of USAID (and other donors) to support a “voice” of local government, these organizations are not playing by donor rules.

Donors would be well served to develop a united front and use the joint financial leverage to force associations to (1) take steps to make one effective organization; (2) define a unified policy agenda (3) democratize the internal structures and decision making so that all members are involved and share power. It is very possible that the ALA will refuse, in which case it will have to go it alone as a minority group. Additionally, donors should also desist in using the Associations as paid organizers for information sharing and outreach, leaving them to concentrate on core advocacy function.

1.2 Fiscal Decentralization

Decentralization has been one of the major reforms in Albania in recent years. It became a focus of Government policy starting in 1998 when very small steps were implemented principally in budget and fiscal areas. An assessment of the system of local government in Albania prepared for USAID in 1998 found that “[...] in the aggregate, local governments have little financial autonomy and lack the authority to manage their funds in accordance with the best interests of the locality.”⁵ Following an extensive period of consultation among national and local stakeholders in 1999, the Government of Albania adopted the National Strategy for Decentralization in February 2000 and then Law 8652 “On the Organization and Functioning of the Local Governments” in July 2000.

Total local government expenditures grew dramatically from 0.2 percent of GDP in 1998 to 4.7 percent in 2009. In recent years local expenditures have grown at a slower pace than national expenditures that have been driven by very large investments in roads. As a result local expenditure in consolidated public expenditures is lower in 2009 than it was in 2006. Aside from the growth in total expenditures; the major qualitative impact of the reforms has been to provide greater fiscal autonomy to the elected local governments. As the table shows, own local government expenditures – those over which local elected

officials have complete discretionary authority – grew from 5 percent of total local government expenditures prior to the reforms in 1998 to 45 percent in 2005 and 57 percent in 2009 (the last year for which there is actual year end data). In a little noted aspect of decentralization own expenditures of smaller municipalities (other than Tirana and the next six largest municipalities⁶) grew from 17 percent of total local government expenditures in 1998 to 71 percent in 2009. Largely, this reflects the equalizing effect of the distribution among local governments of the unconditional grant from the State budget. As a result, the decentralization reforms have benefitted all the territory of Albania.

	1998	2001	2005	2006	2007	2008	2009
Total Expenditures of which	15,672,505	24,899,091	38,196,441	38,811,499	38,081,723	47,339,996	54,728,708
Own Expenditures	731,380	5,284,450	17,245,725	20,712,207	19,012,195	24,682,955	31,173,818
Share of GDP	0.2%	4.3%	4.7%	4.4%	3.9%	4.3%	4.7%
Share of Consolidated Public Expenditures	11.1%	13.4%	16.4%	15.0%	13.3%	13.5%	14.2%
Own as a Percent of Total	5%	21%	45%	53%	50%	52%	57%
Own Expenditures							
- Tirana	369,836	1,283,428		3,607,840	2,971,734	4,188,552	4,621,474
- Next Six Largest Municipalities	240,603	941,865	N/a	3,312,781	3,385,717	3,980,221	4,302,719
- All Other Local Governments	120,941	3,059,156		13,791,585	12,654,744	16,514,182	22,249,625
Share of Own Expenditures							
- Tirana	51%	24%		17%	16%	17%	15%
- Next Six Largest Municipalities	33%	18%	N/a	16%	18%	16%	14%
- All Other Local Governments	17%	58%		67%	67%	67%	71%

Local governments have more authority over their revenues and are less dependent on transfers from the State budget The following table shows in the first rows the overall division of local revenues between discretionary revenues whose use local governments control fully and those that are earmarked for specific uses by the Government. Discretionary revenues have grown from 7 percent in 1998 under the old system to 55 percent in 2009. The ratio of discretionary to earmarked revenues will remain more or less at this level unless there is a major change in the Government policy for allocating investment grants from the State budget to local governments. (For more on this see the discussion on local competitive grants below.) The second part of the table shows that the increase in local discretionary revenues came initially from the unconditional grant, which accounted for 66 percent of total discretionary revenues in 2001. That has changed so that in 2009 revenues from local taxes and fees account for 43 percent of local discretionary revenues and are roughly equivalent to the unconditional grant. Relative shares do not tell the full story. In absolute terms revenues from local taxes and fees in 2009 were nearly 100 times greater than in 1998.

	1998	2001	2005	2006	2007	2008	2009
Total Revenues	15,897,538	26,034,687	37,584,168	37,382,819	38,430,631	47,063,471	49,042,763
Discretionary	1,095,120	8,569,912	18,800,035	18,083,234	21,014,064	25,594,104	27,036,821
Earmarked	14,802,418	17,464,775	18,784,133	19,299,585	17,416,567	21,469,367	22,005,942
Share by type							
Discretionary	7%	33%	50%	48%	55%	54%	55%
Earmarked	93%	67%	50%	52%	45%	46%	45%
Discretionary Revenues	1,095,120	8,569,912	18,800,035	18,083,234	21,014,064	25,594,104	27,036,821
Local Taxes and Fees	119,217	1,884,411	7,310,125	7,732,332	8,033,308	10,504,908	11,535,952
% Of Total Discretionary	10.9%	22.0%	38.9%	42.8%	38.2%	41.0%	42.7%
Other Local Sources	551,394	681,376	875,305	550,902	943,625	1,689,455	1,502,834
% Of Total Discretionary	50.4%	8.0%	4.7%	3.0%	4.5%	6.6%	5.6%
Shared Taxes	424,508	345,272	3,314,605	0	1,437,131	1,069,741	1,075,035
% Of Total Discretionary	38.8%	4.0%	17.6%	0.0%	6.8%	4.2%	4.0%
Unconditional Transfers	0	5,658,853	7,300,000	9,800,000	10,600,000	12,330,000	12,923,000
% Of Total Discretionary	0.0%	66.0%	38.8%	54.2%	50.4%	48.2%	47.8%

Local taxes have become an important source of revenues for local governments The following table shows the evolution of own local revenues by the major categories – taxes, fees, all other – and within each those that have become the biggest contributor. Before the decentralization reforms on 2000, local governments had minimal own sources and those largely were from fines, donations and sale of assets. This began to change in 2003 following the reforms to the legislation governing local taxes and fees. By 2009 local taxes represented 61 percent of own source revenues followed by fees at 28 percent. Revenues from the small business tax at first grew quickly but have been fairly flat in the last two years, while those from the property tax and the infrastructure impact tax have grown more important. The apparent reliance on the impact tax is risky as it is tied to the rhythm of new construction and legalization of properties. Construction has tapered off and the impact tax on legalized properties was reduced effective in 2010, so this source may yield less this year. In addition, these resources in theory should be dedicated to the construction of infrastructure to meet the demand created by new construction. Local governments appear to be treating the impact tax as just another tax to fund general expenditures.

Evolution of Own Local Sources - 1998 to 2009 (thousand AI Lek)

	1998	2001	2003	2006	2007	2008	2009
Total Local Taxes and Fees	670,612	2,565,786	7,093,011	8,283,234	8,976,933	12,194,363	13,038,786
Total Local Taxes, of which	0	121,132	3,929,940	5,158,777	5,513,563	7,157,408	7,895,169
	0%	5%	55%	62%	61%	59%	61%
Property/building tax	0	0	728,042	1,268,840	1,328,446	1,569,300	1,501,053
	0%	0%	10%	15%	15%	13%	12%
Small Business Tax	0	0	1,376,180	699,826	1,837,208	2,424,377	2,258,145
	0%	0%	19%	8%	20%	20%	17%
Infrastructure impact tax for new constructi	0	0	1,760,144	2,296,025	1,908,348	2,418,381	3,283,289
	0%	0%	25%	28%	21%	20%	25%
All other local taxes	0	121,132	65,574	894,086	439,562	745,350	852,682
	0%	5%	1%	11%	5%	6%	7%
Total Local Fees, of which	119,217	1,763,279	2,145,177	2,573,555	2,519,745	3,347,500	3,640,783
	18%	69%	30%	31%	28%	27%	28%
Cleaning and solid waste collection fee	0	465,128	648,387	937,186	1,024,556	1,219,350	1,326,502
	0%	18%	9%	11%	11%	10%	10%
Fee for vehicle permit/license	0	8,223	2,826	405,913	458,806	760,885	661,512
	0%	0%	0%	5%	5%	6%	5%
All other local fees	119,217	1,289,928	1,493,964	1,230,457	1,036,383	1,367,264	1,652,769
	18%	50%	21%	15%	12%	11%	13%
Fines/Donations/Sale of assets	551,394	681,376	1,017,894	550,902	943,625	1,689,455	1,502,834
	82%	27%	14%	7%	11%	14%	12%

Although the aggregate data does not provide this breakdown the municipalities that the team visited recognized that they have been focusing on taxes and fees paid by businesses. Aside from the small business tax this includes most of the amounts that appear for the property tax and for a large share of revenues from fees. This suggests that the largest potential source of additional own source revenues is from taxes and fees paid by households. The residential property tax is perhaps the most underutilized source of own revenues of local governments. There is some evidence that the agriculture land tax also has been underutilized. While it will be feasible to expand the use of these taxes in the context of current issues regarding the titling of private property, there is no doubt that advances in registering private urban properties, as well properties in the rural periphery of towns and cities, would simplify and expedite efforts to raise additional revenues from the taxes.

User fees continue to be too low Senior local government staff that the team interviewed during visits to selected local governments agreed that user fees for services, such as cleaning, solid waste collection, public lighting, landscaping, are insufficient to pay for the cost of providing the services. The difference is subsidized by the general revenues of the local budget. In part this reflects the fact that most local governments are focusing on the taxes and fees paid by local businesses and otherwise making little effort to seek payments from households. In part it reflects a long-standing practice of setting fees that are too low. Given other demands on scarce general budget revenues this *de facto* policy constrains the ability of local governments to expand service coverage (adding more people increases the losses) and improve service quality (proper maintenance is the first to be cut when fee income is too low).

Recent concerns about the process of fiscal decentralization Notwithstanding these generally positive results, concerns about the process of decentralization began to appear in 2005 when Parliament reduced by half the small business tax rate, followed by further changes in 2006. This tax was and still is a major source of own revenues for local governments. As noted by the Council of Europe “It seems that this decision was taken without consultation with the local authorities and was applied during the 2005 fiscal year thus creating difficulties for the municipalities and communes. The same was true for 2006. The business tax is a particularly important tax for local authorities given its buoyant nature and it is important that this remains under their control.”⁷

Subsequent decisions in 2009 limiting all other local taxes and fees paid by small businesses to 10 percent of their small business tax payments and in 2010 limiting draw downs in local government loans to 5 percent of previous year expenditures – all done without prior consultation – have changed the general perception of the process of decentralization in Albania, especially among local government officials and the international community. It is common to hear that decentralization has been overly politicized.

Despite the role played by partisan politics in these and other similar decisions, it is an oversimplification to view them solely in those terms. For each decision there is an underlying national policy concern – the tax burden on businesses, public debt as a share of GDP – that explains the general thrust of the measures adopted by the Government. Most of these policies would not be viewed necessarily by local governments as being in their best interest. However, similar central/local policy issues had been addressed in the past in Albania through timely consultation between the two levels of government.⁸ Given this history it is not unreasonable to assume that something similar could have been achieved had the Government chosen to consult in advance with their local counterparts. They did not. As a result the measures not only came as a surprise to local governments but may have generated unintended consequences that undermine the policies that justify the actions of the Government. (See Text Box 1)

The difficult macro-economic situation in Albania is becoming a constraint on the availability of funding for local investments Albania largely was spared from the impact of the global crisis until 2009. In that year, large capital expenditures, mostly on national roads, and declining government revenues produced a deficit of 7.4 percent of GDP and increased public debt to 60 percent of GDP. The Government has set a target for the next years to bring the deficit down to 3 percent of GDP and ratio of public debt to GDP to 55 percent. The EC is pressing the Government to apply a revised definition of public debt that includes accrued loan interest payments and unfunded liabilities. If so, this will exacerbate the difficulty that the Government will face in meeting the target ratio of public debt to GDP.

This is the first time since the basic decentralization reforms were adopted in 2000 that local governments have had to operate in a difficult macro-economic environment. They already have suffered adverse consequences primarily in the availability of funding for investments. In 2010 the unconditional grant pool was reduced by 14 percent. According to the Ministry of Finance this was achieved by cutting back the component for own capital expenditures.⁹ In January 2010 the Public Debt Department of the MOF imposed a limit on draw downs on local borrowing to the equivalent of 5 percent of 2009 expenditures. As this was applied individually to each local government it constrained severely the amount of the draw downs in that year. Finally, the funding from competitive investment grant pool that is now managed out of the Council of Ministers was used to finance arrears in ongoing investment projects and a very small number of investments in schools. Otherwise, there appears to be no intention to allocate or disburse the balance. The effect will be a significant cut back in the sum of resources available to finance the investments of local governments in 2010.

Local Borrowing – With the notable exception of the limits imposed by the MOF on local borrowing (as described above), the introduction of the new Local Borrowing Law, with extensive support from the LGPA, has been a success. Local governments acted quickly to seek a loan, including all ten LGPA pilot cities.¹⁰ BKT reports that they have responded to 16 requests for an offer, including several of the LGPA cities, as well as Vlore and three communes. The offers made by the banks show that they consider local

TEXT BOX 1

Local taxes and fees paid by businesses

The policy justification –The Government has steadily lowered or eliminated national taxes and fees paid by business as part of a policy to stimulate the economy by reducing the overall tax burden on economic agents. National officials complain that local governments have been doing just the opposite by increasing local business taxes and fees. There is evidence that local governments are focusing on maximizing revenues from businesses, while paying little attention to alternative sources, especially taxes and fees paid by households. A very large share of revenues from local taxes and fees come from businesses rather than households. Fushe Kruje the assessment team was told that businesses pay 97 percent of local taxes and fees. Local officials in Shkoder spoke of the large “unfulfilled potential” for revenues from taxes on households.

To counter that trend Parliament amended the legislation governing local taxes and fees to reduce the small business tax rate, to require that all other taxes and fees paid by small businesses not exceed 10 percent of the small business tax and to reduce other local fees paid by businesses, such as for billboards. This is consistent with national policy on taxation of businesses. Some would argue that the Government has no right to impose national policies on local governments. Others would argue that it is not unreasonable for the Government to be concerned about conflicts between national and local fiscal policies. Whatever the merits of its position, the Government chose to act unilaterally.

Unintended adverse consequences: Local governments have been obliged to reduce the fees they charge for key local services on which businesses rely, such as cleaning, solid waste collection and lighting to ensure that they do not exceed 10 percent of the small business tax. Absent other sources of financing this will affect the coverage and quality of the services to the detriment of business interests. Had there been prior consultation local governments might have been able to obtain Government support to overcome legal and practical constraints to the full implementation of the residential property tax and to efforts to increase service fees paid by households. These additional revenues could have offset a reduction in local business taxes and fees without affecting local services.

Limitation on the draw downs from local loans

The policy justification – The realization by the Government of its difficult fiscal position late in 2009 coincided with the request by local governments for approval to proceed with their first loans. Concerned that total public debt, which includes local public debt, would exceed legal limits, the Ministry of Finance first considered stopping all local borrowing, then opted to impose strict limits on draw downs, although it had already issued its preliminary consent for several planned loans, which the local governments had then negotiated with lenders. Elbasan was the first to suffer the consequences when the new rule forced it to scale back its planned borrowing. Other local governments followed. The measures adopted by the Government reflect a valid concern based on public debt management policy. By law local borrowing must conform to the policy.

Unintended adverse consequences: As with the modification of local business taxes and fees, the action was taken without prior consultation. Only a small number of local governments have plans to borrow in 2010 and 2011. The ceiling of 5 percent of local expenditures in 2009 is far higher than the value of draw downs that will occur from the relatively small number of local loans. The Government could have accommodated these draw downs within its policy. Instead, by proceeding as it did, the Government established a precedent of not respecting loan agreements entered into by local governments with private lenders after having obtained preliminary approval from the Government. This is a dangerous precedent, especially in the early stages of the development of the municipal credit market. It is contrary to a policy that would seek to ensure that this market operates in strict adherence to the provisions of law and respect for the sanctity of contracts.

debt to be similar in risk to sovereign debt. Two banks – Raifeissen and PROCREDIT – have made offers priced at 50 basis points over the rate for GOA treasury bills. Banks have offered generous maturities – 15 years in the case of the ICB Bank offer to Librazhd.

The DCA guarantee has played a role in two deals to date, both involving BKT. In one case the bank asked for a 100 percent guarantee and for 25 percent in the other. It is possible that Raifeissen will make use of the DCA guarantee for one loan. This means, though, that as many as 13 loans have gone forward without recourse to the DCA, which raises questions about the need for the DCA.

From discussions with local government and bank officials it is apparent that the banks view the loans as a way of securing other business from the local government. The processing of the local payroll is a prime

example. Treasury disburses the full amount of the payroll to a bank, which then makes the payments electronically to the employees. Several loans include a covenant that the borrower – the local government – will maintain this service in the lending bank. Bank officials also mentioned that they have included a covenant that gives them the right of first refusal should the borrower – the local government – seek another loan while theirs is still active. Finally, although there are concerns that the mechanism may not actually work as expected when called upon, the loan agreements also include the use of an intercept of the transfer of the unconditional grant should the local government fail to make a payment on time.

At any other moment in the evolution of decentralization in Albania it is clear that local borrowing would have become a major and valuable source of financing for local investments. It is unfortunate that this initial implementation of the law has coincided with serious macro-economic and fiscal problems at the national level, which have limited severely the ability of local governments to draw down the loans. As explained further in Part II of this report, the expectation is that these limitations will continue for some years until the overall public debt to GDP ratio is well below the statutory limit of 60 percent. The turning point may be the moment when this ratio is back down to 50 percent. There is little prospect that this will occur in the next three years.

Local competitive investments grants The competitive grant mechanism was introduced in 2006 to provide financing for mid to large size investment projects in own functions of local governments (including regional councils). Funds originally used for the financing of local infrastructure in own functions – mostly road infrastructure – were taken out of the line ministry’s budget and a separate pool for the financing of investments in own functions was created as a new line item in the state budget.¹¹ The committee in charge of the awarding the grants consisted of the Ministries of Interior and Finance and representatives of local government associations. To ensure that the allocations were objective and transparent the state budget law of 2006 established criteria for the allocation of the grants, including:

- Expected impact on social and economic development; and the extent of alignment with local and/or regional and national development priorities
- Expected impact in poverty alleviation and increase in access to basic services
- Number of direct and indirect project beneficiaries
- Funds related to the financing of matching funds for foreign financing
- Ongoing projects, with contractual liabilities
- Quality of technical projects proposed by local government units

In 2007 the competitive grants scheme was slightly expanded and improved. The Albanian Development Fund, with expertise in municipal infrastructure financing and project implementation, was assigned the task of carrying out the preliminary assessment of project applications for the competitive grants. ADF developed a precise methodology for the evaluation of projects, by elaborating further on the general criteria set out in the law and assigning scores to each of the sub criteria. The evaluation of projects by the ADF brings added value to the process, not only due to the expertise of their staff, but more importantly due to the perceived objectivity of ADF. The list of projects evaluated and qualified by ADF has generally been approved by the Grants Award Committee without major changes.

The changes made in 2007 also include the addition to the process of investment funds for shared functions in education and health, as well as part of the water sector investments. Other sectors were included in 2008, such as agriculture and culture. In line with the State budget criteria the relevant line ministry is obliged to convene an inter-ministerial committee (not solely the ministry) and award the grants based on the sectoral objectives set by the line ministry. Local governments apply for funding separately to each line ministry. In budget year 2010, further changes were made to the competitive grant system, which was renamed as the “Regional Development Fund”. The system for the allocation of the regional development funds remains the same, with ADF in charge of evaluating proposal for general infrastructure projects, and line ministries in charge of sectoral projects. However, the Grant Award

committee for the Regional Fund is chaired by the Prime Minister and is composed of nine ministries and local government associations.

Evaluation of the local government competitive investment grants process Local governments are concerned with two crucial aspects of intergovernmental transfers, including the competitive investment grants: clear objectives shared in advance and predictability of funding. Timing of project submission occurs late in the preceding year and is inconsistent with the local budget cycle. Many local governments claim that the actual allocation criteria are not shared in advance of the budget year. Awards are announced often long after the budget year has begun further disrupting management of the local budget.

The average size of the projects, which is rather small, is inconsistent with the original justification for retaining the funds centrally rather than allocating them by some formula to each local government. The original concept was to finance larger-scale local infrastructure, which would typically be beyond the means of the discretionary local budgets. However, it appears that the process has succumbed to the pressure of trying to “satisfy” more units of local government as opposed to financing bigger projects in less units. The average size of project financed through the competitive grants has grown smaller each year (as shown in the table below). For example, the average size of projects for road infrastructure in 2009 is roughly 11.3 million lek, which is a modest amount for a road improvement. This fragmentation of funds raises concerns on the sustainability of projects as well as the efficiency of competitive grants.

No of project/beneficiary local units and average project value 2006 – 2009 (thousand lek)

	Water	Education	Heath	Roads	Total
2006					
No. Projects/LG	0	33	11	171	183
Average value	-	50,909	27,218	12,865	22,838
2007					
No. Projects/LG	88	81	243	206	327
Average value	13,030	19,004	6,569	12,580	21,021
2008					
No. Projects/LG	120	119	41	220	304
Average value	7,733	14,855	2,211	4,928	13,061
2009					
No. Projects/LG	153	128	0	159	261
Average value	7,836	13,598	-	11,294	18,751

The allocation of investment grants for education, health and for the water sector through the competitive grant mechanism has been slightly different from the allocation of competitive grants for own functions of local governments. The main difference lies with the ownership of the process, which remains very much dominated by the respective line ministries. In addition, the funding is still allocated to the budget of the respective line ministries, which have the right to define further criteria for the allocation according to the interests of the central government – in a similar fashion as with the conditional transfers. In that aspect, the competitive grant scheme for the shared functions and for water does not present major progress over the previous system.

The degree of transparency and consideration of local priorities in the allocation of investment grants in shared functions depends largely on the good will of the each respective sectoral ministry. In the case of education, the inter-ministerial committee is chaired by the Minister of Education, with members from

line ministries and independent technical experts.¹² The Ministry has made efforts to contact local governments to encourage them to submit applications. Upon issuance of the budget implementation instruction early in the year by the Ministry of Finance setting out the general criteria for the allocation of investments, the Ministry sends out a separate application call to all local governments with the criteria for the evaluation of projects. It has adopted the scoring system developed by ADF for the evaluation of the education projects. The process of evaluation takes place at the technical level, and until 2009 the recommendation of the technical secretariat for project selection have all been taken into account in the actual allocations – all projects were approved and just a few added. The Ministry is concerned that the priorities of local governments are at times in conflict with national policies. For example, the Ministry feels it is not advisable to commit scarce resources to a locality that is losing population, no matter how important a new school may be to that community. Further on, the capacities of data collection and analysis are limited even at the line ministry’s level, which results in the lack of a national inventory of schools, relevant conditions and capital investment needs, as well as expected demographic developments. A process of “school mapping” that will be carried soon out is expected to resolve some of the concerns regarding rationalization and efficient use of investments for pre-university education.

The changes made in 2010, with the renaming of the fund and the shift to the Council of Ministers presents several risks. The first is that the process of allocation will become more political. Another is the tension between the regional and local levels in competing for funds and the as yet undefined impact on the allocation of funds of the regional development strategies. Finally, the introduction of conditionalities linked with foreign financing instruments, such as in roads and water, will further limit the ability to respond to local priorities, which was the original intent of the competitive grant process. It is early to evaluate what actual changes these formal amendments have made to the system as in 2010 the fund only financed ongoing projects. The remaining part of the fund is reported to have been reallocated in the light of general cuts in budgetary expenditures. This is a major concern going forward as described in Part II.

Equalization in the distribution of competitive grants The analysis of the per capita distribution of funds on a regional basis shows that performance is not bad in terms of equalization over the four-year period from 2006 – 2009, despite allegations that competitive grants are heavily concentrated in just a few localities for political reasons. It may be that the uneven distribution is evident only when you look at the level of the communes and municipalities within a region. Unfortunately, the team did not obtain the data at that level. In any case, it is encouraging to see that at the regional level the system has performed much more equitably than it had in the 2002-2005 period, when the variations were much higher across regions with coefficient of variations in per capita allocation of close to 50 percent, versus 29 in 2009.

Region	Total funding (000 lek)	Population	Per capita
Berat	919,829	193,855	4745
Diber	1,582,457	191,035	8284
Durres	1,920,835	247,345	7766
Elbasan	1,647,937	366,137	4501
Fier	1,793,481	384,386	4666
Gjirokaster	1,267,685	114,293	11,092
Korce	1,921,081	266,322	7213
Kukes	979,632	112,050	8743
Lezhe	1,275,524	159,792	7982
Shkoder	2,332,355	257,018	9075
Tirane	3,065,479	601,565	5096

Region	Total funding (000 lek)	Population	Per capita
Vlore	1,196,483	193,361	6188
Mean			7,112
Standard Deviation			2,094
Coefficient of Variation			1.29

Options for strengthening the competitive grant mechanism While it is possible that all or a significant part of the competitive investment grant pool may be used as co-financing for IPA3 funding (see Section 2.1 for more information), it is nonetheless useful to consider how the existing process could be improved. Measures to consider:

- It is important to publish in advance a set of quantitative criteria – not only for general local infrastructure, but for sectoral projects as well; clear and transparent procedures for the application, evaluation and qualification of winning proposals.
- Special attention and support should be provided to some municipalities and communes that lack the capacity to prepare good proposals to compete successfully given existing criteria
- The average size of projects should be increased for better impact although it may be concentrated in few municipalities and communes. The aim should be to have equitable allocations in the medium term.
- Additional sources of financing for investments in own functions have consisted of donor grants that are expected to continue in the future. This situation calls for a better coordination and more transparency and equity over the long term in the distribution of the aggregate amount of all resources, whether from the government or donors.
- Finally, it is vital that this process be moved up in time ideally so that local governments are aware of the funding they will receive as they prepare the budget for the next year and in no case after the Local Council has adopted the annual budget.

Local assets and PPPs as sources of financing – The Deputy Mayor of Fier told the team that the municipality plans to generate most of its resources in the future from local assets and public private partnerships (PPP), rather than local taxes and fees. When asked for examples he mentioned rent or other fees generated by a locally owned theater. The enthusiasm for the potential to generate additional financing from these two sources, especially local assets, was evident in all the discussions with local officials. LGPA has provided useful assistance to the ten pilot municipalities in both areas and produced and disseminated a local asset management manual. The project also is helping register local ownership rights in the Public Property Registry. Korce, Lezhe and Pogradec are in the process of registering their assets. Gramsh completed the process. The focus is on those assets that are surplus to public needs (and thus available as a potential source of financing). The pilot municipalities have produced a catalogue of these assets. LGPA staff estimate they represent approximately 25 percent of all local assets.

Local assets and PPPs will be especially important in select cases involving large local investments. A housing project planned by Korce and industrial parks in Lezhe and Shkodra are prime examples of how the two can combine to provide financing for a priority local project. Both cases involve land owned by the local government and a PPP to raise part of the financing from private investors.

What is otherwise a useful and valid approach can become a problem if local government expectations extend beyond such cases. It is difficult to believe that locally-owned buildings and land will provide an important sustained source of financing for local governments. Current international best practice in countries such as Australia and Canada is to reduce the volume of fixed public assets in general and to divest land and buildings that are surplus to public needs as quickly as feasible without disrupting the real

estate market. When that may take a long time the preferred approach is to transfer the assets to a public entity established solely to dispose of the assets.¹³

The focus on surplus assets has created a second problem. Local governments reported to the team that the Government has been very slow in transferring assets to the local level.¹⁴ The reason they gave for the delay is that the Government wants to retain the assets that are surplus to public needs to address their own needs, especially the need to find ways to compensate owners of land with illegal settlements where the Government is granting title to the occupants. The main purpose of the 2001 Law on the Transfer of Immovable State Public Properties to Local Governments was to “lock in” the functions assigned to local governments by giving them the assets needed to perform those functions.¹⁵ It is not necessarily good that the transfers should be delayed by a disagreement on other assets that are surplus to public needs.

The delay has its costs. The project manager for the World Bank LAMP project at the Registry told the team that all assets controlled by the Government appear in their records simply as belonging to the State, a concept that includes both ownership and possession. This is a problem, which shows up among other things in new construction that encroaches the right of way of streets in urban areas. When asked for an example of the types of problems that the community brings to the attention of the Local Council in Fushe Kruje, a councilor talked about four families that came to him because the public access to their homes had been obstructed by new construction on part of a local street. The municipality will have to expropriate the properties because they have not established ownership of the right of way. Similar problems appear across Albania, such as in the Commune of Golem, where the problem is clearly evident just from visual inspection. Local asset management should be viewed first as an issue related to the services that the local government provides and secondarily as a source of financing.

1.3 Local Management and Service Delivery

Overview of local government performance The assessment of decentralization in Albania in recent years would be incomplete without looking as well at the achievements of local governments. There are no figures or numbers that can provide a picture of the achievements of local governments. They are nonetheless real. Visits by the assessment team to various municipalities confirm that local authorities are engaged in providing a broad range of services that improve the local quality of life. Streets and sidewalks are clean, in reasonable condition and well lit. Parks generally are well maintained and many now include equipment where children can play. The appearance of many cities and towns has been improved through extensive planting of trees and other landscaping. The coverage and frequency of services such as solid waste collection and potable water has improved. Surveys conducted by the USAID LGDA and LGPA projects since 2005 show high levels of satisfaction with local services by citizens. It is these services that consume the largest share of the local budget.

Local governments are branching out into new areas of activity. Korce is preparing a large social housing project that it will implement through a PPP. Lezhe and Shkoder are in advanced stages of developing an industrial park. Fier is designing a major flood control project. In the conversations by the assessment team with the mayor, local councilors and senior technical staff in a number of municipalities it was notable that no one even thought to mention the need to confirm with the central authorities before proceeding with changes in local services or with new initiatives. There is a clear sense of local empowerment that stands in stark contrast to the timid, restrained attitude of local officials just a few years ago.

The role of local governments in reducing poverty There is broad recognition of the role that local governments in Albania play in poverty alleviation, specifically in identifying eligible beneficiaries and delivering cash benefits to the poor. There is far less recognition of the important role that local governments play in poverty reduction through the basic services they provide. The World Bank 2006 Urban Sector Review found that the rapid urbanization of Albania had helped reduce poverty in the country, including a 43 percent reduction in the number of urban poor between 2002 and 2005.¹⁶ In part

this reflects the improved access to basic services for persons moving from rural to urban areas. These services largely are the responsibility of local governments.

Access to water is probably the most significant of those services. A World Bank report notes that “The GOA included water sector reform in its National Strategy for Socio-Economic Development (NSSD), the country’s Poverty Reduction Strategy Paper [PRSP]) to improve service provision efficiency and effectiveness, ensure access to basic infrastructure services, and improve the targeting of the poor.”¹⁷ The same document notes that tariff increases have had a negative impact on the poor, exacerbated by reliance on flat-rate versus metered billing, which limits the effectiveness of lifeline tariffs. Other factors affecting the poor include the policy to terminate illegal connections (with a higher prevalence of such connections among the poor) and the limited coverage of the water systems. Finally, there is no national program to provide targeted assistance to the poor to cover the cost of water services, such as there is for electricity. Local governments are responsible by law for addressing all but this last issue (social welfare is a responsibility of the national government). As noted below, though, local governments are facing serious challenges in assuming responsibility for managing the water companies that were transferred to them in 2007 and 2008.

The water sector Nominally, local governments are the owners of the water companies. In practice they have had little real authority to date to provide direction to the management of these companies. The Ministry of Transport (which retains responsibility for water at the national level) and the big water sector donors – World Bank, KfW and GTZ – are setting overall policy for the sector, which includes regionalization of the companies and places a high priority on building sewage collection networks and waste water treatment facilities. In the meantime, most water companies continue to incur sizeable operating losses. For the moment these are being funded by the State budget. On paper, though, these are locally owned companies. It is the local governments that are viewed as accountable when things go wrong. An incident in April 2010 illustrates the risk that local governments face. In aggregate the water companies had built up arrears of roughly \$22 million to the power company. The new Czech owners of the company came to the MOF asking to be paid. The initial reaction was to freeze all local funds in anticipation that these funds would be used to pay the arrears. After some analysis the MOF decided instead to use the State budget contingency funds this time. That may not happen again the next time.

The current ownership structure of the water companies is proving to be a challenge for the local governments. In 2007, the Government transferred ownership of 56 companies (of which two were still under the legal regime that applies to State companies and the balance were commercial shareholding companies) to 54 municipalities and 173 communes. Fifteen of the companies belong to a single local government. Another 20 are owned jointly by two or three local governments. Many of these are dominated by a large municipality. It is the remaining 21 companies, each owned jointly by a large number of local governments usually with no single local government in clear control, that are proving most difficult to manage. Among these the one serving the Tirana metropolitan area has potentially 16 co-owners.¹⁸ The municipality of Tirana could not reach agreement with the Government on a viable process to manage this company and refused to accept the transfer of ownership. Others, such as the Durres water company with 15 co-owners are now fully under local ownership. It is not yet clear how and whether the local governments co-owners will work out their differences and learn how to share their responsibility for the management of these companies.

Successful IT applications at the local level An encouraging finding of this assessment is the extent to which local governments have implemented new IT solutions successfully. The most impressive is the E-Procurement portal. The Public Procurement Office confirmed what the team heard in all the visits to local governments. All but five of the 374 units of local government are complying with the requirement to process through the portal all procurement of more than 400,000 lek (approximately \$4,000). The Public Procurement Office is planning to add features to the portal related to small purchases (less than \$4,000), which will make it even more useful and relevant to local needs. LGPA has had success introducing the use of tax administration software in its pilot municipalities. MCC Threshold Programs I

and II similarly implemented business registration and licensing IT applications at the national and local levels. Monitoring surveys show a high level of satisfaction (78%) related to the overall performance of service, including at eight municipal service window locations.¹⁹

Support to implement additional IT applications was a frequent response when the team asked local officials to identify possible areas for future USAID assistance. Requests included the expansion of the tax software to encompass other local taxes, GIS for planning and inspection purposes and IT solutions to inter-connect local governments with key government agencies, such as the General Tax Directorate and the Treasury. The Public Procurement Office indicated that there will be new features of the E-Procurement portal that will facilitate small purchases, which will make this instrument even more useful and relevant to local governments. Given the broad success of past and current IT applications at the local level this appears to be a promising area for future assistance.

Local capacity constraints There are significant differences in the capacity of staff across local governments. There is no comprehensive analysis of local capacity, although the National Decentralization Strategy adopted in 2000 called for one. The team had to rely on limited evidence available during visits to seven municipalities. Staff in Korce and Shkoder was professional and seemed experienced and competent. The opposite was true in Lushnja. Although we cannot claim any evidence except what we observed in seven local governments there appears to be a connection between the length of time that staff has worked in a local government and capacity. For example, in Lushnja, where staff seemed weakest, most senior staff had been in the job for no more than two years. This would be consistent with a pattern caused by high staff turnover. The opposite was true in Korce and Shkoder, where many of the staff had been working in the municipality for several years – 17 years in the case of the Director of Planning. There also was evidence of lateral movements into senior positions, as in the case of the internal auditor in Korce who had worked previously in the Finance Department.

There is a tendency to attribute staff turnover and the resulting lack of capacity to partisan politics. A new mayor is elected and proceeds to dismiss all the staff to make room for their own people. While this is true, it also may be an oversimplification of the causes. First of all, local governments compete with the national government and the private sector for the best employees. The extent to which there is or not an effective HR function in the local government also appears to play a role. In Korce the HR Director participated in the meeting with the team, explained that every employee has a written job description (which the other staff present confirmed), and described a staff training plan that the municipality prepares annually. This was true in Tirana as well. In Shkoder the Director of the Tax Department (the only person present that was relatively new) spoke of still being in an initial trial period after being hired recently through a competition. The opposite was true in Lushnja where the staff had trouble understanding the concept of a written job description (they kept confusing it with an organization chart). It may make sense to include some level of attention to building HR capacity and procedures in those local governments where a new USAID program will provide extensive training. It would be useful as well to prepare a more extensive analysis of local capacity to get a feel of whether what the team observed in the limited number of sites is valid or not. Such as study would help target training that USAID or other donors might provide.

1.4 Planning and the Management of Urban Growth

Overview of the situation of land use and construction and planning Albania has experienced a wild west-type style of land development in prime urban areas. Several issues underlie the chaotic land development : the difficulties in establishing and proving true ownership of land (communist seizure, unresolved restitution issues, divisions within families) and hence in obtaining legal planning permits; the Albanian predilection for investing savings /remittances in land and constructions, and lax control on illegal construction (estimated at up to 40% of buildings). Current efforts to deal with land use and construction include the World Bank- sponsored national land registry which is proceeding slowly through its branch offices (approximately 10,000 out of 500,000 parcels registered) and which yields a

certificate of ownership , key to a legal construction permit; a specialized agency to “regularize “ illegal settlement enabling property registration and development control, and now the Law on Territorial Planning of 2009 and its secondary legislation which will become effective in January 2011 and which should establish workable rules of the game and provide a stable legal framework for investors .

The new law and its immediate requirements The most salient aspects and requirements of the law impose a number of new requirements on both national and local governments.

On Municipalities and Communes equally:

- Every unit of local government is obliged to prepare a general plan and detailed regulations for its application within two years, consistent with a national land use plan and the general regulations
- An environmental assessment is required for such plans
- Where such plans and regulations have not been made or approved, standard regulations for development will apply, as defined in the secondary legislation .In the meantime, land development permission is restricted
- Local government development and construction permit processes will be standardized and their outputs (applications, permits, plans, etc) centralized in an electronic National Planning Registry
- Infrastructure impact fees based on construction value will be imposed in order to provide funding for local services and infrastructure²⁰

On the newly established National Territorial Planning Agency:

- Prepare a National Territorial Plan within two years to guide local plans based on GIS data
- Develop a list of areas of national priority requiring special reviews and special regulations
- Provide guidance and assistance to municipalities and communes to prepare plans
- Coordinate sector plans prepared by other ministries, and assure coherence with national and regional development strategies
- Manage the National Registry and use its information for national planning purposes
- Prepare additional regulations should they be needed
- Prepare plans for special development areas as they determine they are needed
- Review and approve all local plans.

Current capacity to implement the law on territorial planning at the national level The National Territorial Planning Agency (NTPA) was created in the spring of 2010. It has a staff of approximately 31 and its 2011 budget does not allow for additional staff or staff training to meet its mandated authorities and responsibilities. The structure consists of a GIS registry division, General Support and Administration, and the Planning Directorate. Tasks and job descriptions for existing staff remain to be prepared (for which the Council of Europe is providing a very minimal level of consultancy) as well as an internal action plan to meet its mandated responsibilities. While there is no detailed information on the 2011 budget, the NTPA claims that is not sufficient to fully equip its own new office with required computerization; does not include a budget for staff or equipment to establish the 12 regional offices planned for the National Register;²¹ has no funds for training in use of the National Register (training of central, regional or local planning staff) or to train local planning departments to comply with and implement the elements of the new Law on Planning; and finally, does not fund outside consultants. The tasks which are highest priority and for which assistance is needed to meet deficits in capacity and funding are:

- Design (or finance) a plan to ensure that local planning departments have the know-how to use the National Registry system in order to make it functional and useful;

- Design (or implement) a training and assistance plan so that local planning departments understand and know how to implement the new secondary legislation in the short term ;
- Develop internal staff understanding of the new secondary legislation so as to comply with their own oversight requirements
- Develop specific regulations to guide development in Zones of National Importance
- Prepare a national territorial development plan based on GIS that is coherent with other national plans (such as a regional development plan)
- Provide guidance to local planning departments to prepare local plans based on the national plan

Current capacity to implement the law on territorial planning at the local level Fifteen out of 373 local government units have urban plans with implementing regulations pending official approval, the product of donor funding of consultant assistance. The fifteen include many of the high pressure development areas of the country. None of the eight World Bank-funded plans have the ancillary environmental impact review needed for final approval, and four planning departments still lack the computer equipment necessary to manipulate and update the GIS based plans. Aside from the municipalities that have received plan preparation assistance it is not known how many others have GIS capacity. There is no plan to train planning departments in the secondary legislation once it is approved although they will be required to apply standard procedures for development and construction permits, and to apply standard planning regulations in lieu of approved plans. In addition, planning departments are not “ready” to use the national registry system. Many local planning departments lack necessary equipment and know how. MCC will train only key staff from 35 local governments, central government and regions. Specific capacity and planning law issues that can be expected to influence implementation issues include the following.

Planning departments do not have the capacity (or staff which may total 3 persons in small municipalities, less in Communes) to prepare required general plans, regulations for applications and possibly not detailed unit development plans without consultant assistance. Because plans are expected to be paid for by local government, consultant assistance will need to come from local budgets and the result may well be non-compliance with the requirements for some period, and possibly, in communes with little development potential, the result may be that the compliance with the standard regulations is the best that can be hoped for as there is no “sanction” in the law. The World Bank plans cost \$500,000 each (foreign consultants), while the USAID plans for small municipalities cost \$100,000 each (local consultants). It is not clear that government grants or any other monies would be available for all or part of the cost. No donors are proposing additional plan preparation for the moment.

Communes may opt to delegate responsibility to the regional council (Quark) against reimbursement of costs. Communes that experience growth as overflow from expanding municipalities will be in the most vulnerable position. There is a group of approximately 15 municipalities and communes lacking plans that are susceptible to development pressure in the near term including Communes close to Tirana.²²

As noted above, most planning authorities do not have access to GIS, and some lack computers, printers, scanners or internet. Thus, much will continue to happen on paper (plans, permits) for some interim period until a way is found to get equipment and this means less than full compliance with expectations about land use data, national registry of land use plans, permit applications and construction approvals. A large number of staff of planning departments (especially outside the initial 15 with plans) and regional council staff will need to be trained to apply the new systems of permitting, the concept and application of secondary legislation, and use of the registry.

A further issue is that of preparing and providing good explanations and information to the public on applicable local regulations to ensure that the new regulations reduce illegal constructions, and simplify

the permit and development process as was the objective of the law. It is also in the municipality's interest to prepare clear information for investors on where land development is allowed and encouraged.

The general consensus is that many aspects of the law cannot and will not be implemented immediately, or within the prescribed delays due to costs, lack of capacity, lack of structures and training and lack of enforcement and sanctions, and that a long phase in period is necessary. Potential unfortunate outcomes might include an increase in illegal, non permitted construction, or development permissions that do not conform to new regulations and plan requirements as the pressure to build continues. A very close monitoring of implementation is needed, and potentially adjustment of the laws or regulations to take account of realities and problems in implementation.

1.5 Ongoing discussions of changes to the system of local government in Albania

Shared functions in education and health The organic local government law defines a number of potential shared functions for local governments, but does not assign any specific authorities. During the first years of the implementation of the decentralization agenda, the areas of pre-university education, primary healthcare and social assistance emerged as the most prominent fields where joint efforts by both local and central levels of governments would be beneficial. From a local perspective the justification is that these are functions that provide direct services in each community. From a national perspective the involvement of the central government ensures uniform national standards and equal access to services.

Central government policies regarding the local role in primary healthcare have changed from year to year, with the function being decentralized and recentralized several times. In part this has been the result of structural reforms in the entire health sector. Whatever the reasons, the high unpredictability proved to be detrimental to the performance of local governments in the field. Today local governments do not exercise any authorities in primary healthcare.

Experience in the education sector has been slightly more positive. Although a clear definition by law of roles and responsibilities across levels of governments is still missing, the vision of the policy paper on decentralization of the education sector was enshrined in the annual State budget laws. Since 2003, the budget law has delegated to local governments the authority over the maintenance and operation of pre-university school facilities and execution of investments for which standards and financial resources are to be provided by the central government in the form of earmarked transfers. The performance of local governments is impaired to a certain extent by the lack of clear standards, as well as the lack of accountability. Local governments act as paying/or financing agents for school expenditures or improvements they do not actually manage or control. The actual managers of these facilities, school principals report directly to the central government's deconcentrated structures. This breaks the line of accountability, which is further reflected in a loss of effectiveness of the local government's role. Reported cases of irresponsible behaviors, such as repeated excessive utility bills, seem to support the case of local governments for the establishment of a direct link of management with schools.

A Sector Wide Approach Project supported by a variety of donors and currently under implementation in the education sector in line with the government's Strategy on Pre-university Education is looking at ways to improve the governance mechanisms for pre-university education, including decentralization of the education system management. The Ministry of Education is currently developing a new legal framework that would have an impact on Albania's ongoing decentralization efforts. This new legal framework will have major local repercussions by earmarking a fixed share of local own resources to the education sector. These reforms have not been consulted with local governments. It is not clear that the solutions currently under consideration would resolve the problem of the poor conditions of many schools, as they vary greatly across localities. In a large portion of the facilities there is a need for a one-time investment. Earmarking expenditures may simply not be the best solution. This argues for central/local consultation.

Shared functions in social assistance This may be the only “true” shared function, as local governments have a defined responsibility in determining eligibility for the allocation of subsidies based on objective criteria established by law. The National Strategy of Social Protection recognizes that local governments are better able to target and deliver to social assistance to beneficiaries because of their proximity to the community and knowledge of the local context. The main program under social protection services consist of cash benefits for the poor. It is financed by an earmarked block grant from the State budget to local governments and allocated to beneficiaries by the local governments. MoLSA has field inspectors who may conduct spot checks to ensure that assistance is well targeted and eligibility criteria met by all beneficiaries. The objective is to mitigate poverty and provide basic services and minimum living conditions for all individuals in need.

Several studies indicate that the current system has not been effective in targeting persons most in need. There are reported abuses by local government in the qualification of social assistance beneficiaries. According to MoLSA, there are no nationwide studies of the phenomenon; but for instance a recent inspection in a commune in the Elbasan region revealed that cash benefits had been allocated to all the members of the local council. Furthermore, the World Bank reports that according to the LSMS 2007 data only 22% of the poor actually receive cash benefits, which reveals poor levels of targeting. These issues, including the reform in the cash benefit scheme itself, such as the introduction of separate child benefits may lead to changes in the role of local governments in social assistance.

As of 2005, based on the National Strategy for Social Protection, a variety of social care services also were decentralized. These include specialized services such as orphanages, elderly homes and social centers. Local governments are responsible for the management and financing of such services although it is unclear how the financial sustainability of the system will be assured. Some of these facilities that were transferred to the local level, (including the right to ownership over the objects) are in deteriorated state and also have high operating costs. According to MoLSA, these facilities (26 institutions throughout the country, concentrated in larger municipalities) are currently being financed through conditional grants from the state budget, but the local governments were “unprepared” for the function. The transfer of this function to the local level was not accompanied with the definition of clear standards for performance and compliance monitoring. The lack of standards and issues about funding raise questions about the feasibility and sustainability of these newly initiated social care services.

Regionalization This term, which came up frequently in the team’s interviews, is used to describe three different trends that are loosely related:

- The longest standing use of the term in Albania refers to the efforts that began in 2001, shortly after the new local government law came into effect, to review the functions assigned to the regional councils with the intent of increasing regional functions and providing additional funding needed to perform them.
- The term also refers to the need to develop regions to meet EU requirements.²³ It has been used often in conjunction with the efforts centered on the regional councils.
- The most recent use of the term refers to proposals to deliver services, such as sewage treatment and solid waste disposal at a larger territorial scale to achieve certain EU environmental standards while also increasing efficiency and reducing costs.

The debate related to the first two trends has centered on two issues:

- The extent to which the language in the existing law that provides for expanded activities of the regional councils through delegation from both municipalities and communes and the central government are adequate and should be given time to develop²⁴
- The extent to which the regional councils in Albania would qualify to become the “regions” used by the EU mostly to implement its policies of cohesion and cross-border cooperation²⁵

The debate has been inconclusive and has not produced any reforms to the system of local government in Albania. The main products of the efforts are regional development plans, one for each of the twelve regional councils. These have not been implemented. Several donors, including the UNDP and the Austrians, continue to promote regional development planning through the regional councils. The question of regions as used by the EU is unresolved. Options that have come up in the discussions between the GOA and EUROSTAT range from treating all Albania as a single NUTS2 region to having three such regions. The problem with having a single region is that the population of Albania slightly exceeds the 3 million inhabitant maximum established by EUROSTAT.

Efforts to “regionalize” delivery of certain services for the moment are focused on inter-municipal cooperation as the preferred method to meet EU environmental standards. This includes creation of landfills jointly owned and operated by several municipalities and communes, as well as, the merger of two or more locally-owned water companies to form a larger one.²⁶ The objective is to end up with some 12 to 16 companies (versus 55 that exist today). There is significant donor support for the regionalization of water and sewage services. (See also the previous discussion of local water services.)

Local governments need to overcome doubts about their performance at the national level and among donors – The trends in fiscal decentralization and local management and service delivery show that the system of local government in Albania has grown and developed well beyond the “local governments [that had] little financial autonomy and [lacked] the authority to manage their funds in accordance with the best interests of the locality” in 1998.²⁷ In this sense the decentralization reforms instituted in 2000 have been a success. Yet, the previous discussions show that in the ministries and among donors there is a perception that local governments have not performed well in helping to address pressing national problems in education, health, social assistance and the environment. The advisor to the President on local government issues described local performance in the areas of social assistance and the environment as “modest at best.”²⁸ Staff of the Department of Strategy and Donor Coordination complained that there is no basis for monitoring, much less evaluating decentralization, noting that some issues should be addressed at the regional level.²⁹ The Deputy Minister of Interior responsible for decentralization made a similar observation, adding that there might be a need to reconsider some of the functions that have been decentralized.³⁰ The preceding discussion of shared local functions in education and social assistance describe doubts on local government performance among the donors involved in the education SWAP and in social assistance. Donors in the water sector are distrustful of local “politicians.”

Local elected officials can ignore these views at their own peril. Should the view prevail that they are part of the problem in key social sectors and are an obstacle to meeting new EU environmental standards related to waste water treatments and solid waste disposal, it would not be surprising to see a claw back of local government authority in these areas. In such a scenario local finances are also likely to suffer through a redirection or earmarking of transfers from the State budget (as proposed in education) and, possibly, a shift of part of their resources and tax authority to a reinvigorated regional government level. As further discussed in Section 2.3 local governments need to engage actively in the ongoing discussion of these reforms. They need to show as well through concrete actions that they are part of the solution, not part of the problems in education, social assistance, and the environment.

The role of the local council During the visits to four municipalities the team met with members of the local council representing both major political blocks. In three (Korce, Lezhe and Lushnja) the majority in the Local Council shifted from the Socialist Party and its allied parties to the Democratic Party and its allies as a result of the realignment of parties following the 2009 national elections. Since the mayor is elected directly the realignment had no impact on their political affiliation, which remained with the Socialist party in all three cases. The team heard many comments on the bitter political disputes this has generated. The examples given most often are those of Fier and Tirana where the mayor and council have been unable to agree on the budget for 2010 and are operating under a legal provision that limits monthly expenditures to 1/12 of the actual annual expenditures in the previous year (2009 in this case).

However, this was not the case in Korce, Lezhe and Lushnja, where the Council succeeded in approving the 2010 budget, with no votes against and only two abstentions in the case of Korce.

The problem of the change in the majority in the Local Council is a product of the mixed electoral rules that apply to the election of local officials. Council members are elected by proportional representation based on party lists. The mayor is elected directly and need not necessarily be nominated by a party. What happened in 2009 is a direct consequence of these mixed rules. However, it would be wrong to view the types of problems that are occurring in Fier and Tirana simply in political terms. The underlying issue is a broad disagreement over the respective roles of the local council and the mayor. Local government legislation establishes in Albania what in the U.S. would be called a strong council / weak mayor system of government. The council must approve all major decisions, such as the budget, borrowing, and the organization chart and staffing pattern. The mayor has a voice but no vote in these decisions. Contrary to these provisions, the actual practice in Albania since the new law came into effect in 2000 has been characterized by the dominance of the mayor. The quirk in the 2009 national elections that produced a split between a council dominated by one party and a mayor of an opposing party helped bring to a head the clash between what the law says and actual practice to date.

A member of the Local Council in Lushnja argued that the existing language in the local government law governing council/mayor relations is not sufficiently clear. As he put it, there is a “legal vacuum” on this issue. He gave as an example the case of Fier where the mayor is challenging in court the right of the council to amend the budget that he presented, claiming instead that the law allows the council to approve or reject his budget but not to amend it. This “legal vacuum” merits further discussion that could lead to new or amended legislation that provides clear guidance on council / mayor relations.

II. Future Opportunities and Challenges

2.1 European Union Accession

The importance that Albania attaches to meeting EU accession requirements will impact both local and central government in terms of priorities for investment and sources of funding. Co financing requirements will draw upon considerable central government funds for the large regional-type investments in transport and environment (and to a far lesser extent regional competitiveness) that are proposed as the target sectors for IPA 3 funds, which serve to raise standards to those required by EU. The first IPA 3 funds will be allocated in 2011 for projects that have significant regional impact in a target sector; such as national roads and sewage treatment facilities that serve a large area encompassing multiple communes and municipalities. Regional development plans will be needed to prioritize the investments once “regions” are defined. A later stage of IPA 3 starting in 2014 funds may finance smaller projects.

There are challenges and potential side effects to EU pre-accession. These include the cost to local government – and end users – of the investment in and operation of the facilities built to comply with the new EU standards; the future availability of “regional development grants” (former competition fund) to local government as the future of these funds is uncertain and they may be used for co-finance portions of IPA 3 investments, leaving little leftover for local governments. At some point in the second cycle of IPA 3 funding – between 2014 and 2021 – local governments will be eligible for local infrastructure grants. In order to benefit in the medium term from the opportunities and challenges presented by the EU and related donor grants local governments need to be made aware of standards and requirements and to incorporate these into their budgeting and planning, as well as learn how to plan structure and manage monies according to EU requirements.

2.2 Public finances and public debt – A challenging environment for local investments

The reductions in transfers to local governments from the State budget for capital expenditures and the limitation on local borrowing in 2010 are likely to continue until the public debt to GDP ratio is closer to 50 percent and Government revenues recover. In addition, as noted in Section 2.1 above, the Government may use all or part of the competitive investment grant pool (now called the Regional Development Fund) to provide co-financing for IPA3 grants. If so, this will reduce further the funding available to finance traditional local investments.

Local governments will need to take this into account as they prepare their medium-term budget program and capital investment plan. One risk to look out for is that a local government might sign a contract for a project that it then cannot fund fully, generating arrears that will exacerbate the public debt problem. Given the dim prospect for investments, this might be a good moment to shift focus to maintenance of local infrastructure, such as roads, and of facilities such as schools that require lower levels of funding.

2.3 Trends in decentralization – challenges and opportunities for local governments

There are three trends in decentralization that may have a significant impact on local governments in the immediate future:

- The drive to “regionalize” certain local services, notably water
- The discussion of increasing the functions of the regional council
- Proposals to modify existing local government functions, such as in education

All three involve specific ministries and the donors that support them. The first two also are being presented in the context of EU accession, which makes them automatically a priority of the Government. This was confirmed in the team's meeting with Department for Strategy and Donor Coordination. The best that local governments can do under the circumstances is to engage actively in the dialogue. Otherwise they run the risk that the changes may occur without much consideration or analysis of their impact on local governments, as discussed in Section 1.5.

As real as the challenges are, so too is the opportunity that local governments have to become an important player in sectors that have the attention of the Government and the donor community, such as water. There is nothing stopping local governments from seeking to exercise their ownership rights in the water companies and thus become an active part of the discussion on regionalization of services. This would counter the argument that local governments have failed to perform certain functions, such as water, that might be performed better at the regional level. Such initiatives will work only if local governments are perceived by the Government and the donors as wanting to improve the operation of the companies, reduce the operating losses and assist in meeting EU environmental standards.

As for the third trend, local governments cannot afford to wait either. A well-documented presentation on local government efforts and achievements in maintaining schools, for example, could lead to reconsideration, or perhaps a redesign, of the plan to earmark some part of the unconditional transfer to fund school maintenance and operation. Local governments cannot appear to be complaining. They need to be willing to engage in a constructive dialog and be prepared to argue their case objectively. At present there is no planned donor program to support local governments in either of these tasks.

2.4 The hardening of partisan political positions and their implications for prospects of the central/local dialogue and policy and legal reforms

USAID local government assistance programs in Albania have a long and successful record of supporting constructive center/local dialogues in advance of major decisions related to decentralization. The ongoing dialogue on the implementing regulations for the new territorial planning law supported by the LGPA is the latest example. As noted above, this approach continues to be important to the continued forward progress of decentralization in Albania. Issues ranging from fiscal to water sector policy will present both challenges and opportunities for local governments in the medium term. It is unlikely that these issues will be responsive to local needs unless they are resolved through a process of prior consultation and objective discussion of policy issues and options, such as those that have preceded every major decentralization reform in the last 10 years.

The question raised by many persons with whom the team met is whether such a process is viable today given the apparent hardening of partisan political positions. Of course, there is no certain answer to the question either way. Those concerned with the viability of the process of prior consultation –representing both sides of the political divide – point to a string of decisions taken unilaterally since 2005. The issue is not that the Government acted without cause. The analysis of these decisions presented in the first part of this report shows that in each case there was an underlying national policy concern – the tax burden on businesses, public debt as a share of GDP – that explains the general thrust of the measures adopted by the Government. It is the timing of the measures that created the biggest problem for local governments. It also appears that the hasty design of the measures may have generated unintended consequences that undermine the very policies that justify the actions of the Government. Had the Government consulted local governments in advance of the decisions, it might have been more successful in achieving its policy objectives while also mitigating the damage to local finances. In other words, there was at least the prospect of a win-win scenario. This is a strong argument in favor of returning to the process of prior consultation that was used routinely from 1999 to 2005.

2.5 Institutional weakness for capacity development

As in every transitional country, there is a backlog in developing staff capacity to meet decentralization challenges. This is made more acute at local level by the personnel turnover with local elections. Donors including USAID have trained in a number of necessary subjects but mainly only in project target local governments. Trainers have mainly come from NGO or private sector and are well paid. The challenge for the future is to develop a sustainable training institution and training corps that is not susceptible to declining donor funds, and that can meet the large scale training needs of the GOA and local government staff for the long term. USAID has encountered this challenge elsewhere in the region and has determined that to fill the gap, support for a government sponsored or funded institution can be useful and they cannot rely on NGO or private sector.³¹

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- ¹ Albanian law provides for Mayor-appointed “village elders” from villages part of municipalities, but it is debatable how much they represent concerns of the village or represent the local government.
 - ² At a meeting with 7 CSO representatives in Shkoder not one of them knew of a procedure to file an official service complaint-or would bother to do so were there to be a service deficiency. While this is anecdotal, it represents an attitude to institutional structures. In Tirana, on the other hand, there is a “consumer hot line” number” for service and other complaints as well as a web site, with follow up tracking.
 - ³ Similarly, the Freedom of Information legislation is not an effective and general tool for assuring individual citizen access to participation and as a means for accountability; while the law provides that government institutions must release information when asked for it, this is not relevant for the average citizen.
 - ⁴ USAID terminated all grant assistance in Romania when the fourth Association was created, and only resumed assistance when they all merged into one association; it terminated assistance in Hungary when clearly political entities were formed
 - ⁵ “Opportunities and Issues for Municipal Reform,” Pigeay, Juliana and Christopher Banks, the Urban Institute: Prepared for USAID East European Regional Housing Sector Assistance Project 180-0034 January 1998, page v
 - ⁶ The next six largest municipalities after Tirana are Durrës, Elbasan, Fier, Korçë, Shkodër and Vlorë.
 - ⁷ “Local and Regional Democracy in Albania,” Council of Europe, Strasbourg, 20th November 2006 CG(13)29PART2
 - ⁸ Starting with the 2001 budget cycle, the Government adopted fiscal decentralization as a cross-cutting issue in preparing the Medium-Term Expenditure Framework, later renamed as the Medium-Term Budget Program. Each year, the Ministry responsible for decentralization and the Ministry of Finance prepared a technical and policy note on the most significant fiscal decentralization issues anticipated over the medium term. These were discussed with local government representatives before the State budget was submitted to Parliament. The last of these were prepared in 2005 for the period from 2006 to 2008.
 - ⁹ The original unconditional grant pool was established with the funding that had been provided previously to the Ministry for the operating expenditures of the functions that were decentralized. In 2008, the Government added to the pool the equivalent of the funding that corresponded to the capital expenditures for those same functions. Although local governments are free to use the unconditional grant transfers as they prefer, the MOF is aware of the trends in the two historical components of the pool. In 2010 the focused on keeping the component associated with the original operating expenditures intact and cut back on the recently-added capital expenditure component.
 - ¹⁰ The staff of LGPA provided detailed information on local borrowing that was very helpful in preparing this report.
 - ¹¹ In 2006, the government developed a formula based unconditional transfer of Lek 1,5 billion (the pool that was formerly used for conditional transfers for capital investments in roads), which distributed funds to each municipality and commune on a per capita basis, with the objective of equalization of accumulative per capita transfers to correct inherited disparities. The separate pool was discontinued as of 2008 and was fully merged into the main unconditional transfer pool.
 - ¹² No local government representatives

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- ¹³ The following book describes the practices in several countries and includes limited examples of practices at the local level: *Managing Government Property Assets: International Experiences*, Olga Kaganova and James McKellar, Editors The Urban Institute Press, Washington, D.C., 2006
- ¹⁴ As of the writing of this report the Council of Ministers has approved the inventory for 187 local governments; assets have been transferred to 68 local governments.
- ¹⁵ This is evident in the Article 3 of the law, which lists the assets to be transferred to local governments. All are assets used to deliver local public services. Law N0. 8744, dated. 22.2.2001, Article 3, page 2
- ¹⁶ “Albania Urban Sector Review” Infrastructure Department, Europe and Central Asia Region, World Bank, September 2006, page iv
- ¹⁷ “Albania: Decentralization and Water Sector Privatization” by Sabine Beddie and Hermine De Soto, Chapter 9 in the book *Poverty and Social Impact of Reforms*, the World Bank, 2006, page 321
- ¹⁸ The data on the number of companies and the structure of ownership is from the report “Albania Water Sector Governance and Political Economy Note” prepared by Edlir Vokopola for the World Bank in June 2008
- ¹⁹ “Final Report: Monitoring of NRC Performance on Service Provision and Delivery” Partners Albania 2008, p. 5
- ²⁰ The level of tax is 1-3% of the value of investment, with the exception of Tirana, where it is 2-4% (law 9632/2006 as amended by 10146/2009), 0.5% for buildings under legalization process, and 0.1% for bigger works (infrastructure energy etc)
- ²¹ As the NTPA has no funding or staff to establish the required regional offices for national registry, and will need to ask for additional budget to set them up and staff them. It is being advised by MCC to use regional staff and computer equipment of the Agency for Regularization of Informal Construction as an interim solution, through an interagency agreement, both under Ministry of Public Works. However, it is not clear that these staff have the time or capacity to do so, or what must be done to add these tasks to their job descriptions, who would pay and how they will get sufficiently trained (since MCC only envisions training 75 users by the end of their contract and the NTPA has no training funds to hire trainers. If the system is to be made functional, a clear solution must be found that is more than temporary. NTPA is not equipped to play a role at this time in the management of register.
- ²² The law allows local authorities to request the Region to formulate inter-communal plans but it is thought unlikely that any would give up their own planning prerogatives or adhere to the plan of another jurisdiction.
- ²³ There are two concepts of regions in the EU. The first involves regions created for statistical purposes called NUTS 2 that are used in the context of EU cohesion policy. NUTS stands for “Nomenclature of Territorial Statistical Units”. It was established by EUROSTAT (the European Union’s statistical office) in order to provide a common format and comparability of regional statistics. NUTS 2 regions are traditionally defined on the basis of a simple threshold - less than 75% of the EU average GDP per capita. The second are the “Euro-regions” mainly used for cross-border cooperation.
- ²⁴ See for example: “The Role and Function of Regional Councils as a Local Government Institution in Albania,” by Jonas Reinholdsson of the Swedish Association of Local Authorities for the UNDP Local Governance Program, September 2002
- ²⁵ See for example Chapter IV of “Albanian Regional Development: Opportunities and Challenges” Report of a Mission to develop a Program Framework in support of regional development in Albania and in accordance with the UNDP Albania Country Program Document 2006-2010, September 2005
- ²⁶ There are landfills under development in the area around Saranda in the southwest, Shkoder in the north and Korce in the southeast. The only merger completed to date is of the water companies serving Berat and Kucova.
- ²⁷ See endnote 5
- ²⁸ Interview with Fatlum Nurja on September 28
- ²⁹ Interview with the Foreign Aid Coordinator and the Director of the Strategy Coordination Unit on October 12
- ³⁰ Interview with Deputy Minister Ferdinand Poni on September 28
- ³¹ The Training Institute of Public Administration (ITAP) is a government agency for training financed from the central government budget. It provides training mainly to central government but also local government on a variety of subjects using trainer-practitioners.

Annexes

Annex A –Existing and Planned Donor Programs Relevant to Local Governance

Swiss Agency for Development and Cooperation (SDC)

- With the support of other donors (Council of Europe, Austria)SDC is implementing a project in Lezhe and Shkoder regions to support citizen access to public services, and develop local and regional structures. There are three elements: Inter municipal cooperation, territorial planning legislation (both with assistance of the Council of Europe) and Human Resource Management. This three year program has completed its Phase 1 of capacity building for community driven priority planning as a preliminary exercise for regional planning and priority setting in conjunction with future EU regional funds, reaching 54 local government units. Phase 2 which began in 2010 will work with 8 local government units in the two regions to develop community defined projects that meet regionally priorities, with emphasis on inter-municipal cooperation projects. Grant funds range from 10,000-50,000 EU. Local governments have not yet been selected. Parts of this project are funded by the Council of Europe (below).
- With Austrian cooperation, a new regional development effort linked to the current UNDP project (below). The purpose of the project is to develop structures and capacities at the level of regional councils to develop and implement regional policies and strategies and projects, and assist these regions to access regional funds when available. The thrust of the project is to develop regional capacity and development plans.
- The Swiss are the lead for the donor coordination working group with the DSDC. They have expressed a desire to formulate joint policy recommendations to the GOA on decentralization.

Council of Europe

- In association with the SDC project, translate, adapt, publish and disseminate a training tool and manual on inter municipal cooperation through the AAM; develop training materials and implement a TOT course and organize a national conference on inter municipal cooperation.
- Fund experts to review the draft secondary planning legislation and to assist the NTPA in writing job descriptions for the Agency.
- As part of the SDC project for decentralization and local government, fund the Association of Municipalities to develop best practices case studies for replication and dissemination.

GTZ and KfW

- In collaboration with SDC on the project for decentralization and local government in Lezhe and Shkoder Regions, GTZ is supporting the capacity development of the regional councils in each region to design projects and apply for future EU funds (building upon prior SDC assistance in regional project priority- setting). Their goal is to develop the role of regions as intermediate forms of decentralized government and as potential structures for regional development. This effort is tempered by the limited implementation of EU regional development strategies (see UNDP), current indecision about regional fund operating structures and the role of the regional councils.
- GTZ is working on a water sector reform strategy with other donors at the national level (and will provide significant grant funds for water especially in rural regions).A pilot project is being implemented for low cost appropriate technology waste water treatment and disposal for peri-urban and rural areas.

- Provides advice to the Albanian Water Regional Authority on the network for safe drinking water and wastewater, tariffs, client participation, transparency, and water management training. It also trains the Water Management Association.
- KfW has made investments in several cities in the water and sewer sector. Two PPP projects have been financed; a concession in Elbasan and a management contract in Kavaja. KfW is interested in continuing in the area of PPP investments in water and other infrastructure.
- Revision to the National Civil Service legislation to improve the legal framework and civil service procedures
- Provides assistance for sustainable economic development to the cities of Korça, Shkoder and Tirana. The current focus is on small local touristic development.

Swedish International Development Assistance (SIDA)

- Assistance to the Association of Albanian Municipalities to support their activities and represent the membership in policy advocacy. The assistance is also meant to develop ability to apply for grants, and develop internal capacity. It is implemented by the Swedish Association of Municipalities. It may end in mid-2011 due to polarization of the organization and poor outlook for the future. A new strategy of local governance is in development and the DG/ LG program will probably change. Either SIDA will scale up and do large projects (as with USAID Serbia) or leave the sector.
- National waste management regionalization strategy and concept for 12 regional waste treatment plants as part of EU strategy
- Joint World Bank communal forestry ownership program for the transfer and management of former state property.

UNDP

The 5.2 million EUR EU-funded “Integrated Support for Decentralization” project assists the GOA to prepare the institutional and legal framework for managing EU IPA 3 regional development funds. It was planned to start in 2008 based on the 2007 GOA national regional development strategy but this as well as the 12 regional strategies are considered outdated and no longer form the basis for EU regional development planning since the regional councils do not correspond with the realities of decentralization and local capacities. The UNDP program has changed in nature since it was originally designed and tendered but currently has the following 3 components and activities which terminate at the end of 2012.

- Prepare for EU IPA 3 implementation through definition of national structures, an institutional framework and the inter-ministerial coordination mechanisms at the central government level for implementation of IPA. This will be provided in a strategic Coherence Framework Strategy for approval by December 2010. This component also defines the scope, scale and sectoral focus of IPA 3 funds, namely 68% for roads of national importance (connectivity via the north south axis) 30% regional environmental infrastructure (waste water treatment and discharge and solid waste treatment, and 10% regional competitiveness (IPA 4 addresses labor markets and education). During the 2011-2013 funding cycle, 5 large projects have been identified that will absorb the IPA funds estimated at 35 million EUR annually. The subsequent EPA 3 funding cycle will provide more funding and allow for smaller projects.
- Design of regional development strategies and plans for IPA 3 for four regions. Four regions corresponding to current the regional councils have been selected: Kukes, Diber, Elbasan and Berat. However, these regions and their borders may not correspond to a definitive definition of EU regions for EU funds and it is likely that in the future the regions will be larger and may include a number of regional councils.

- \$million fund for 10 qualifying projects that correspond to the regional plans (maximum 250,000 EUR each), within the 4 regions. Potentially these funds could go to finance projects that have been proposed to the Regional Development Fund. The UNDP project will not prioritize the projects or assist in implementation but aims to establish application processes and requirements that mirror IPA grant requirements.

World Bank

- Coastal zone management plan which ends in 2012.
- LAMP integrated planning project. The 8 land use plans and regulations have been completed although lacking environmental assessments. Assistance for property registration component is continuing for a national office and 10 branch offices and will take several more years. There are no plans to continue this work on the tax side.
- Sovereign Loan for Durres Water Company water pipeline.
- Tirana Durres corridor development strategy (sub national plan) which is currently in the tender stage. It will provide a long term strategic development framework with focus on a medium to long term Led strategy, an agenda and structures for intra and inter governmental coordination, a strategy for integration of informal settlements.

Organization for Security and Cooperation in Europe

- Local information centers in six small and medium sized local governments and train citizens on participation.
- Grants (to NGO Arhus Center to support civil society and public participation in environment impact assessments and strategic environmental assessments in Shkoder, and Vlore.
- With SDC funding, training program for local governments on messaging and media.
- With SIDA funding, national project to increase the active participation of women in electoral processes and fight the practice of family voting; increase the capacity of elected female officials and other women pursuing public leadership. This project is in an intense phase prior to the local elections.

Dutch Development

The Netherlands has mainly withdrawn from activity in Albania. Co-Plan has received MATRA funds for short term monitoring of the problems in implementation of the new territorial planning legislation, with a report due in early 2011.

Annex B – List of persons interviewed

US Government

USAID

Joseph Williams, Mission Director
Steven Herbaly, Program Officer
Suzana Cullufi, Local Governance Specialist
Virgil Miedema, Consultant

US Embassy

Paul Poletes Chief, Political-Economic Affairs

USAID Contractors

ARD Inc. /LGPA

David Smith, Chief of Party
Lori Mena, Citizen Participation
Silvana Meko, Local Government Specialist
Gentian Selmani, Grants Manager
Ornela Shapo (Kembora), Local Economic Development

Chemonics International/MCC Threshold Program

Richard Wolfe, Chief of Party
Patrick Lohmeyer, Deputy Chief of Party
Fadil Borishi, Planning Registry Advisor
Scott Thomas, Planning Registry Team Leader

Civil Society Organizations

Association for Local Autonomy in Albania

Bledar Cuci, Executive Director

Center for Contemporary Studies (ISB)

Artan Hoxha, Executive Director

Co-Plan Institute for Habitat Development

Dritan Shutina, Executive Director

IDRA Institute for Development Research and Alternatives

Auron Pasha, Executive Director

Institute for Democracy and Mediation

Scotiraq Hroni Executive Director
Erisa Cela, Head of LGID

Partners-Albania

Juliana Hoxha, Director

Tirana Regional Development Agency

Illir Rembeci, Executive Director

Transparency International

Lutfi Dervishi, Executive Director

Urban Research Institute

Zana Vokopola, Executive Director

Edlir Vokopola

Fabjola Zeqiri, Public Finance Expert

Donor Agencies and International Organizations

Council of Europe Albania

Edlira Muhedini, Local Program Coordinator

International Monetary Fund

Linda Spahia, Economist

GTZ German Technical Cooperation

Valerie Peters, Component Leader, Local and Regional Economic Development

Ismail Beka, Deputy Country Director

Organization for Security and Cooperation in Europe

Darcie Nielsen, Head of Governance in Economic and Environment Issues

Hartmut Purner, Head of Democratization Department

Swedish International Development Agency-SIDA

Britta Olofsson, Counsellor, Head Development Cooperation Deputy Head of Office

Swiss Agency for Development and Cooperation

Elda Bagaviki, National Programme Officer

Daniel Zust, Country Director, Counselor

The World Bank

Stephen Karam, Lead Urban Economist

UNDP

Vladimir Malkai, Project Manager

Government of Albania

Council of Ministers

Flamur Kuçi, Advisor to the Prime Minister

Department of Strategy and Donor Coordination

Azeta Xhafta, Foreign Aid Coordinator

Mrs. Rabi, Director Strategy Coordination Unit

Immovable Property Registration Central Office

Rezar Turdiu, Director of Project Planning and Monitoring Department

Angelo D’Urso, Consultant to the LAMP Project Unit

Ministry of Agriculture

Genc Ruli, Minister

Ministry of Education

Mimoza Agolli, Advisor to the Minister of Education

Ministry of Finance

Nezir Haldeda, Deputy Minister

Xhentil Demiraj, Director Public Debt Management Directorate

Mimoza Dhëmbi, General Director of the Budget

Fran Brahimi, Director Intergovernmental Fiscal Relations

Ministry of Interior

Ferdinand Poni, Deputy Minister for Decentralization

Ministry of Labor and Social Affairs

Ilda Bozdo, Director- Social Services

Ministry of Public Works and Transport

Taulant Zeneli, General Directorate of Policies in Water Supply, Waste Water and Solid Waste

National Territorial Planning Agency

Kreuzza Leka, Director

Parliament

Sherefedin Shehu, Member of Parliament (former Deputy Minister of Finance)

Presidency of the Republic

Fatum Nurja, Advisor on Local government issues

Public Procurement Agency

Klodiana Cankja Director

Training Institute of Public Administration

Fatmir Demneri, Director

Local Governments

Municipality of Fier

Baftjar Zeqaj, Mayor

Florjan Muçaj, Deputy Mayor

Municipality of Fushe Kruje

Ismet Mavriqi, Mayor
Samir Seferi, Information Office
Arban Dobrozi, Engineer Urban Planning Office
Musa Seferi, Director Tax Department
Anila Haxhi, Legal Office
Xhevahire Xhafa, Director of Finance Office
Engjell Çollaku, Chairman Local Council (DP)
Enver Kaloshi, Local Council member (PLL)
Ahmet Zeneli, Local Council member (PAA)
Auron Pashi, Local Council member (SP)

Municipality of Korca

Niko Peleshi, Mayor
Sotiraq Filo, Deputy Mayor
Sofjola Kotelli, Head of Economic Development, Marketing and Tourism
Vilma Petro, Director Strategic Planning
Petrika Tolkuci, Director Revenue Department
Valbona Ziko, Director Finances
Litian Broka, Director Human Resources
Mrs. Lubonja, Director Urban Planning
Benila Terova, Public Relations
Gjergji Pendavinji, Chairman Local Council (DP)
Elfrida Zefi, Local Council member (DP)
Raimonda Nase, Local Council member (former Council chair) (SP)
Olsi Ikonimi, Local Council member (SP)

Municipality of Lezhe

Viktor Tushaj, Mayor
Arjan Barbullushi, Deputy Mayor
Mark Lleshi, Director Urban Planning Department
Bib Gjoni, Director Tax Department
Preng Marku, Director Public Services
Preke Miraj, Director Finances
Frano Kulli, Chairman Local Council (Christian Democratic Party)
Agron Vraja, Chairman Economic and Budget Commission (Social Democratic Party)
Agustin Marku, Local Council member (SP)
Fran Lleshi, Local Council member (DP)
Laura Hammet, PCV

Municipality of Lushnja

Gazmend Koroveshi, Chairman Local Council (DP)
Isuf Marko, Local Council member (SP)
Pirro Jani, Local Council member (SP)

Pellumb Meco, Local Council member (BKD)
Leonard Goga, Local Council member (SP)
Eduard Shabka, Local Council member (DP)

Enselda Buzi, Director Urban Planning
Dhurata Korreshi, Director Human Resources
Evis Qyra, Lawyer
Mira Koçi, Inspector
Servete Gorovelli, Director Finances
Myftar Çela, Inspector
Agim Sema, Director of Taxation

Municipality of Pogradec

Artan Shkempi, Mayor

Municipality of Shkodra

Lorenc Luka, Mayor
Ridvan Troshani, Deputy Mayor
Aida Shllaku, Director of Urban Planning
Blendi Gjylbegaj, Director Tax Department
Alfred Luleta, Director Social Services
Ridvan Sokoli, Director Development Policies
Julia Cepi, Social Services Department
Artur Luka, Chairman Finance Commission (DP)
Diana Muriqi, Chairwoman Social Affairs Commission (SP)
Ferdî Fani, Chairman Urban Planning Commission (LZHK)
Sabri Bushati, Chairman Public Services Commission (DP)
Rasim Suma, Local Council member (PAA)

Kastriot Faci, the Door
Tiffany Priest, PCV
Anton Leka, Director Chamber of Commerce
Adnan Komi, Association of Handicrafts
Klaudia Darragjati, Swiss Development

Municipality of Tirana

Albana Dhimitri, Deputy Mayor
Majlinda Dhuka, General Director Development and Policy Planning
Vasilika Vjero, Director Strategic Planning
Joana Bushi, Information Office

Private Sector, Individual Professionals

BKT

Admira Llazari, Commercial Banking Department
Ardita Seknaj, Structured Finance Department

Marin Bicoku, former Director of National Planning, Ministry of Public Works and Transport

Jamarber Maltezi, former Director World Bank Coastal Zone Management Unit, Ministry of Public Works Transport

Annex C – List of documents reviewed

Albanian Laws and other documents of the Government of Albania

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- _____ “Law on the Transfer of Immovable State Public Properties to Local Governments,” No.8744, 2001
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