

Brief note:

dldp contribution in drafting a policy reform on public finance management at local level as part of a new law on local finances

Introduction

The Albanian Government started the decentralization reform in 2014 and is now implementing the Administrative and Territorial Reform by organizing local governments into 61 municipalities. The new territorial organization aims to empower the new municipalities by enhancing their capability to provide high quality and timely services to citizens and increasing the efficiency of local governments' resource management. The Administrative and Territorial Reform will lead to more professional governance at the local and regional level, more efficient service delivery and more effective collection of taxes and fees by local governments, and greater ability to promote and encourage sustainable local economic development.

The Cross-Cutting Strategy of Decentralization and Good Governance which was reviewed last year, expressing the willingness to increase the role and responsibilities of local governments, along with a new law on local self-government and a revised governmental grant distribution formula, are among others the most important policy instruments dedicated to improve the functioning of the local level in Albania, including the management of local finances. In addition, new functions were allocated to local governments since the beginning of this year.

Currently, a long list of legal acts does address local finances¹; however, the legal framework is not user-friendly. The Government of Albania envisages new legal measures in order to strengthen the local finances. The Ministry of Finance and PLGP/USAID are the leading stakeholders in the implementation of this initiative, and an Action Plan has been prepared to bring this process forward, where dldp is assigned to cover the PFM part of the law. It is foreseen that a group of

¹ The following is a list of Laws considered in developing a PFM model for AI context:

Law on Management system No. 9936/2008 / and new amendments proposed

Local Self Governance Law No. 139/2015

Law on Local Government borrowing, No. 9869, date 4.02.2008

Law on Public Procurement, No. 9643, date 20.11.2006

Concessions and Public Private Partnership, No. 125/2013

Law on Financial Management and Control, No. 10296/2010, as amended in 2015

Law on the Internal Audit in the public sector No. 9720/2007

Law on Territorial planning and development, No. 107/2015.

A more comprehensive analyse, you find in *Annex 1*

experts will prepare the reform proposal, which is expected to be finalized and approved by the Parliament within 2016.

The Decentralization and Local Development (www.dldp.al), a program implemented by Helvetas Swiss Intercooperation (www.hsi.org) and financed by the Swiss Agency for Development and Cooperation, responded positively to such assignment². The PFM is one of the core working areas of dldp since 2007. There is a common sense that strengthening local finances should be the next steps of the decentralization reform.

Rationality

Local government financial issues are not appropriately treated by the existing Albanian legislation. Actually more than 17 laws³ (and many by-laws and other acts) include provisions which are applicable to the local level finances, such as the Organic Law of Budget (LoB), Law on Local Government Borrowing (LGB), etc. It's a fact that PFM at local level is not adequately considered in the legal and strategic framework of the country.

PFM problems at local level are not a new phenomenon. They exist since many years now without proper remedies taken. Poor management of local finances results in service insufficiencies for the local population. The Administrative and Territorial Reform, which reduced the number of local government units to 61 Municipalities, provides good opportunities for a more professional management of local finances.

As it was confirmed from the different stake holders⁴, the policy reform at local level should be followed by strategic changes which include both the revenue (fiscal decentralization) and expenditure side (public finance management).

The results from the Rapid PFM Appraisal⁵, conducted recently by dldp in three dldp partner municipalities, is based on a number of PEFA indicators; the analysis revealed substantial deficiencies in the management of local finances. At least in part, these deficiencies can be explained by a lack of clarity and comprehensiveness of the current legal PFM framework in properly addressing the local level. These findings were confirmed as well by a complementary survey conducted in 53 out of 61 Municipalities.

The Process

The support of dldp in strengthening the legal and strategic framework on local finances focuses on the following elements:

² Annex 1 introduces the PFM model as part of the new law on local finances

³ A more comprehensive analyse, you find in Annex 2 "Law on local finances and the current legislation context"

⁴ See Annex 3 "Report of multi-stakeholders workshop on a new law on local finances", February 2016

⁵ The preliminary findings are shared in the Annex 4. Final reports are under editing and soon will be shared.

- Consideration of international standards and good practices for the Albanian context;
- Analysis of the current legal PFM framework for the local level;
- Assessment of PFM at local level in Albania based on a set of PEFA indicators and a complementary survey;
- Involvement of experts from dldp partner municipalities for discussing the findings from the field;
- Validation of input for local PFM model by experts from MoF and from municipalities as well as by experts from the donor community with a focus on governance;
- Exposure to regional good practices;
- Consultation process.

From a theoretical model to a structure of Law on Local Finances

As a starting point, dldp provided a comprehensive theoretical model for a Reform on Local Finances in Albania. This model is based on the good and solid international standards and practices. A review of the actual regulatory framework referring to PFM aspects served to further elaborate the model. Furthermore, this legal review served to answer the following questions:

- To which extent does the existing local PFM legislation match the model?
- What are elements of current legislation which can enrich the model?
- Where are cases of lacking clarity or contradictions in the PFM related laws which affect the local level?
- Are there contradictions between the current legislation and the model?
- Are there gaps in the laws, meaning that provisions are lacking for issues which are considered as important by the model.

Based on the above, a first input was provided for the stakeholders. Primarily, this input was presented to the Ministry of Finance and group of local and national experts; feedbacks were collected from these experts and the model was further improved.

Features of the developed PFM Model for Albania

The PFM model favours a comprehensive legislation dedicated to local financial management, disentangled if possible from the national level. Having a special law for the local level would enable more clarity and provide for more user friendliness. The current ambiguities regarding the applicability of provisions for the local level would not exist anymore. The provisions for the local level, as suggested by the model, are in line with what is considered as good and solid international practice.

Possibly, the national level can adopt more advanced procedures for the management of public finances than what is adequate for today's municipalities in Albania. Moreover, it can also consider improving national legislation reflecting the model.

The PFM model states clear and generally accepted objectives for the management of local finances; in particular, these are strategic resource allocation, efficiency, transparency, accountability and fiscal discipline. In addition, the model clearly defines the local level for which this model is designed; it is addressed to municipalities, public utilities, independent units, and Qarks.

According to the PFM model, two new planning instruments should be used for managing public finances. These are the strategic development plan, as required by the law on local self-governance and the law on territorial planning, and a fiscal strategy. For all planning and reporting instruments, the pieces of information which are required are clearly defined.

The PFM model defines important deadlines for specific budgeting, reporting and oversight processes; furthermore, it shows how to integrate Public Private Partnerships in the PFM planning and reporting processes. In addition, the model suggests clear debt limits and a series of key financial indicators for better oversight; it also shows, how to better regulate critical PFM processes, such as budget reallocations (virements), carry-overs, commitment control, arrears monitoring, HR data base updating, external audit, valuation of assets, consolidation, and the recovery of quasi-bankrupt municipalities.

Benefits of the PFM model

The PFM model enables more transparency and comparability of local revenue and expenditure at planning and expenditure stage, in addition, it shows how to provide information on policy performance as well as fiscal risk exposure, how to ensure strategic budgeting and value for money especially also for disadvantaged and vulnerable groups of the society, how to strengthen reliability of the budget and guarantee the integrity of the data in the annual report. It contributes to maintaining fiscal discipline and long-term financial sustainability. By strengthening a more prudent, effective and accountable financial management of local governments, the PFM model provides safeguards for the decentralization reform and allows for a better development of society and economy at the local level. Finally, it creates the preconditions for making participation and democratic control more substantial.

Acknowledgments and Next Steps

DLDP would like to thank Ministry of Finance (MoF) for the contribution with different ideas in confirming the need for PFM improvements, namely Mrs. Mimoza Dhëmbi, Mrs. Mimoza Peço, Mr. Fran Brahimi, Mrs. Elida Fara, similar programmes and donors who have been involved in the process by validating the proposed output namely IMF, STAR/UNDP, PLGP/USAID, independent experts who have undertaken the financial diagnosis at local level Vasilika Vjeto, Lindita Oshafi, association of municipalities and LGU representatives of Durrës, Shkodër and Lezhë as well as experts from 53 LGU-s who contributed with their qualitative ideas through the survey facilitated from MoF thanks to the support of Secretary General, Mrs. Gelardina Prodani.

The developed PFM model will be consolidated as part of the Policy Paper for a new law on local finances, which will be prepared from PLGP/USAID. Meanwhile, dldp will be engaged during May 2016 in a broad consultation process with local government units, development actors and Minister of State for Local Issues in close coordination with Ministry of Finance, in order to improve it further by reflecting comments and feedback of all involved actors and group of interests.

Tiranë,

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Annex 1

Reform on Local Finances

Public Finance Management Aspects

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Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
1. General provision	1.1 Objectives of the provisions on local public financial management	<p>The provisions on local public financial management shall</p> <ul style="list-style-type: none"> - support the effective and transparent use of local financial resources in accord with strategic priorities and local needs, ensure fiscal discipline and enable efficient delivery of public services; - describe the instruments and procedures which are necessary for the management of local finances; - regulate the management of local finances and performance particularly with regard to the budget planning process, the authorisation for local spending, the accounting and reporting procedures, the procedures for the oversight on local finances and performance as well as the interaction between the Ministry of Finance and the municipalities in the area of the management of local finances. 	LOB / “Law on Management system”. No. 9936/2008 Article 1 and 2	General consideration from interviews with LGU representative shows that a complete law where repetition and further clarifications from the current legislation is necessary in order to facilitate concrete / daily work of the Finance Officers at Municipality.
	1.2 Scope of application of the provisions	<p>The provisions on local financial management applies to</p> <ul style="list-style-type: none"> - the municipalities, - the qarks - the local utilities and municipal special purpose organisations wherever appropriate, - the Ministry of Finance and especially to the Treasury department. <p>In what follows, qarks, local utilities and municipal special purpose organisations are included in the provisions for municipalities.</p>	LSG law / “Local Self Governance Law” no. 139/2015 Article 3 / Select those related to finances	Economic units usually are left aside when discussion annual budget law, MTBP, development strategies, fiscal policies. Clearly listing the economic units that depend from LGUs within the application of this law will attract the attention of the LGU representatives to consider them when the above are discussed, designed etc..
	1.3 Definitions	<p>Administrative assets</p> <p>Assets used for government services; they are needed for the provision of</p>	LOB / Article 3 “Definitions”/	The definition for LGU’ debt stock was not clear in what the stock

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<p>goods or services of the public sector.</p> <p>Administrative classification Classification of expenditure which informs about the allocation of resources to administrative units.</p> <p>Annual financial statement Financial report including at least an end of year statement of the financial position (balance sheet) and a statement of the financial performance (income statement) for the entire year.</p> <p>Annual performance report The annual performance report provides key performance information which compares the actual policy achievements of the year under review with the planned performance in accordance with the budget of the same year.</p> <p>Annual report The annual report consists of an annual financial statement and an annual performance report.</p> <p>Arrears Amounts of unpaid or past the due date bills. Amount accrued from the date on which the first missed payment was due, payment delay for debt or meeting an obligation.</p> <p>Availability payment A regular payment or subsidy over the lifetime of the project, usually conditional on the availability of the service or asset at a contractually specified quality.</p> <p>Balance sheet Statement of the values of the stock positions of assets owned and of the liabilities owed at a particular point in time.</p>	<p>definitions to be taken into consideration which are relevant for PFM LSG law Article 2 / all definitions which are relevant for PFM</p> <p>LOB/Article 9 "Receipts" / meaning revenues LOB / Article 10 "Payments" / meaning expenditures LOB / Article 11 "Budgetary classifications" LOB / Article 13 "The budget year"</p> <p>LGB / Law on Local Government borrowing, No. 9869, date 4.02.2008 Article 3 "Definitions" points 2 – 12</p> <p>LPP / Law on Public Procurement, No. 9643, date 20.11.2006 Article 3 "Definitions", take those of relevance. From those proposed here nothing is foreseen at LPP.</p> <p>CPPP / Law on Concessions and Public Private Partnership, No. 125/2013 Article 3 "Definitions", for reference no 16 "Financial support" and no 17 "Value for money"</p> <p>FMC/Law on Financial Management and Control, No. 10296/2010</p>	<p>consist of. Does it include only commercial loans / borrowing or include also the unpaid contracts to third parties (arrears)? There for the definition with regard LGU stock of debt might be included.</p>

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<p>Budget t.b.d.¹</p> <p>Budgetary unit Organizational unit of the municipality without legal personality, such as a department, which covers its expenditure directly from the municipal budget.</p> <p>Budget year Financial year for which the annual budget is to be approved. It starts 1st of January and ends 31 December.</p> <p>Cash basis of recording Flows are recorded when cash is received or disbursed.</p> <p>Cash management Process of ensuring sufficient liquidity on a daily basis</p> <p>Classification Categorisation by type of revenue and expenditure.</p> <p>Compensation clause Under PPP, a commitment to compensate the private party for damage or loss due to force majeure events.</p> <p>Consolidation Method of presenting statistics for a set of units (or entities) as if they constituted a single unit.</p> <p>Contingent liability Commitment for payment whose occurrence, timing and magnitude depend on uncertain future events which are outside of the control of the government.</p> <p>Current spending Total spending excluding spending for capital investments and repayment of debts.</p>	<p>Article 3 “Definitions”, refer to:</p> <ul style="list-style-type: none"> • Internal public finance control • Public funds • Public control • Budgetary unit <p>Law on the Internal Audit in the public sector No. 9720/2007 / IAPC</p> <p>Article 3 “Definitions”, refer to:</p> <ul style="list-style-type: none"> • Internal audit • Internal control • Internal public finance control • Finance management and control <p>From the current legal framework the following definitions are completely missing:</p> <ul style="list-style-type: none"> • Classification • Functional classification • Economic classification • Current spending • Consolidation • Cash basis of record • Functions of government • Fiscal year • ISSAI • GSM • Line item • Long-term • Market price 	

¹ Parts in RED need further discussion from the involved actors

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<p>Direct liabilities Under PPP, payment commitments that are not dependent on the occurrence of an uncertain future event. There may be some uncertainty regarding the value.</p> <p>Debt guarantee Commitment to pay part or all of the debt used to finance the project, providing more security to the lender.</p> <p>Economic classification Classification of expenditure which provides information on resource utilisation in the economic process for the provision of goods and services, for example, salaries, goods and services purchased, transfer and interest payments, or capital spending.</p> <p>Expenditure Sum of money spent including payments for net investment in nonfinancial assets.</p> <p>Functional classification Classification of expenditure which provides information on the purpose for which money was spent.</p> <p>Financial assets Financial claims including gold bullion held as a reserve asset.</p> <p>Fiscal year Begins January 1st and ends December 31st.</p> <p>Functions of government Policy-sector related tasks of governments, here municipalities, such as education, health, social welfare, environmental protection, security, etc.</p> <p>Guarantee Under PPP, an agreement to compensate the private party for loss</p>	<ul style="list-style-type: none"> • Medium-term • Short-term • Trading asset • Valuation • Vote • 	

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<p>in revenue should a particular risk variable deviate from a contractually specified level.</p> <p>ISSAI International standards of supreme audit institutions.</p> <p>GSM Group on strategic management.</p> <p>Ceiling Binding spending limit.</p> <p>Line item See: vote.</p> <p>Liquidity management Cash flow forecast and cash management</p> <p>Long-term From four up to ten or more years.</p> <p>Market prices Value at which goods, services, labour or assets are exchanged or could be exchanged for cash.</p> <p>Medium-term From one up to three years.</p> <p>Non-financial assets Economic assets other than financial assets.</p> <p>Output based payment A payment or subsidy per unit or user of a service</p> <p>PPP Public Private Partnership</p> <p>PPP contract Public work or public service contract that fulfils al the conditions defined by law as a PPP signed between the contractual authority on the one side and the selected economic provider on the other side.</p> <p>Programme Group of activities which serve the same broad policy goal. Programmes consist of one or more government</p>		

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<p>functions.</p> <p>Programme classification Classification of expenditure which provides information on money spent for the purpose of a programme.</p> <p>Revenue Increase in financial resources resulting from a transaction.</p> <p>Short-term Up to one year.</p> <p>Tax expenditure Tax discounts and exemptions to taxpayers in the particular year.</p> <p>Termination payment Under PPP, commitment to pay an agreed amount, should the contract be terminated due to default by the public or private party.</p> <p>Trading assets Financial or non-financial assets that are held for the purpose of reselling them for a profit.</p> <p>Transaction Economic flow resulting from an interaction between institutional units.</p> <p>Treasury Single Account t.b.d.</p> <p>Valuation Estimation of the worth of an asset.</p> <p>Viability gap payment A capital subsidy, which may be phased over the construction period based on achievement of milestones, or against equity investments</p> <p>Vote One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different budgetary units, functional areas, programmes or economic spending categories of the municipality. Votes are also called line</p>		

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		items. At the same time, it specifies the total amount that is appropriated per line item in a budget.		
2. Principles for the overall management of local finances	2.1 Legality	All expenditure needs a solid legal basis. Constitutional or legal provisions as well as court decisions are accepted as legal basis.	<p>LOB / Article 4 "Principles of the operation of budgetary system" / all definitions to be taken into consideration</p> <p>LSG law Article 4 "Fundamental principles of LSG" / select those of relevance To be added principles specifically related with LF</p> <p>Article 34 "Fundamental principles of LG finance" / points 1, 2, 3, 4, 5 and 6</p>	
	2.2 Budget balancing	Expenditure and revenue needs to be balanced permanently.	LOB/ Article 12 "Budgetary deficit and surplus" / fourth paragraph	
	2.3 Economy	Spending decisions shall be reviewed regarding necessity and financial sustainability. Appropriations shall be used timely and in the appropriate amount, taking into consideration quality and price.	<ul style="list-style-type: none"> LOB, Article 4 	
	2.4 Urgency	For the prioritization of expenditure, the pressing need shall be taken into account.	Missing	
	2.5 Efficiency	For each spending scheme, the variant is selected which offers the economically most advantageous solution for a specific purpose.	<ul style="list-style-type: none"> LOB, Article 4 	
	2.6 No earmarking of main taxes	As a general rule, taxes must not be earmarked for special purposes.	Missing	
	2.7 Impact orientation	Financial decisions should be guided by impact considerations. The impact can be assessed based on performance indicators or on cost benefit analysis.	Missing	

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	2.8 Transparency	Information on fiscal plans, positions, and performance of the municipality is easily accessible to the general public. In particular, the completed budget documentation, the amended budget and all financial reports including audit statements are publically available.	<ul style="list-style-type: none"> • LOB, Article 4 	<p>The public access to fiscal information is very low or nonexistent. It appears that only the proposed annual budget is made public after approval by the municipality council. The entire set of budget documentation is not made public and the pertinent calendar for that is missing. Is this due to deficiencies in the legal framework or because of failure to implement the law?</p> <ul style="list-style-type: none"> • The main cause is the failure to implement the law. Public access is very low or absent entirely due to non-implementation of the legal obligations by the side of the municipality. • Fiscal provisions are changed very often • Demand for accountability by the citizens or interest groups are missing.
3. Planning and reporting instruments	3.1 Strategic development plan	<ol style="list-style-type: none"> a. The mayor is responsible for the preparation of a strategic development plan of the municipality as required by the law on local self-governance, article 28, and by the law on territorial planning. The mayor is supported by the municipal group on strategic management. The strategic development plan is sent to the municipal council for approval. b. The strategic development plan provides policy guidance towards a well-balanced development of the municipality and covers a time span of around 10 years. c. The strategic development plan considers the local development need and potential as well as regional and national strategic development priorities; it presents the main challenges and actions needed per broad policy area and identifies core 	<p>LSG / Article 28, Municipalities shall assume the responsibilities for preparing the strategic development plans</p> <p>The TPD Law provides for the obligation of the LGU and mayor as manager to prepare the general territorial plan in line with National and Regional plans.</p>	

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		development projects of the municipality and their costs.		
	3.2 Fiscal strategy	<p>a. The mayor is responsible for the preparation of the fiscal strategy of the municipality. The mayor is supported by the department of finances. The fiscal strategy is sent to the municipal council for approval.</p> <p>b. The fiscal strategy serves the purpose of assessing affordability end ensuring financial sustainability of annual and medium-term budgetary decisions.</p> <p>c. The fiscal strategy defines the main financial policy directions of the municipality and includes explicit time-based quantitative fiscal goals and targets together with qualitative objectives for the budget year and the following two years or beyond. In addition, it estimates the fiscal impact of all proposed changes in revenue and expenditure policy for the same period.</p>	<p>There is no fiscal strategy provision either within LOB (current version and new amendments proposed) or within LSG law. LOB / Article 23 “Macroeconomic assessments and forecasts”. New amendments proposed to this article / Article “11” on its second paragraph, letter a) provides also requirements for fiscal assessment and forecast as part of the report that Minister of Finance is submitting at Prime Minister within January. LGUs are not part of this provision.</p>	<p>Fiscal impact of policy proposals it is not used as an internal procedure at the municipality level that supports the annual and medium term budget exercise.</p> <p>The municipality does not make an assessment for the fiscal impact of all proposed changes in revenue and expenditures policy for the budget year</p>
	3.3 Medium-term budget programme	<p>a. The mayor is responsible for the preparation of the medium-term budget programme (MTBP). He is supported by the group on strategic management and the financial department of the municipality. The MTBP is sent to the municipal council for approval.</p> <p>b. The purpose of the MTBP is to enable planning and management of municipal finances and services in the medium term.</p> <p>c. The MTBP is classified along a programme structure in the framework of the functional classification. The programme structure is approved by the municipal council.</p> <p>d. The MTBP includes information for the last two years, the budget year and the following two years on</p> <ol style="list-style-type: none"> i. each category of municipal revenues; ii. expenditure according to the administrative, functional, economic and programme classification; ii. the policy content of each programme including main tasks, challenges and projects; iii. performance objectives for each programme including performance indicators and annual targets; iv. financial information on each programme including 	<p>LSG law Article 41 “LGU budget and MTBP” / points 1 and 2</p> <p>LOB / Article 26 “MTBP” letter b</p> <p>Annual guidance on MTBP is issued by the MoF. Usually focus is given to CG, while LGUs are either mentioned a little or a second noticed is issued only for them. For reference last MoF Instruction No. 4, date 29.02.2016 on MTBP for the period 2017-2019. No indication with regard of key documents to be used such as General development plans for LGUs or macroeconomic indicators (only exchange rate) are provided.</p>	<p>Medium-term perspective in expenditure budgeting:</p> <p>The annual budget presents estimates of expenditures for the budget year only and not for the two following fiscal years.</p> <p>Aggregate expenditure ceilings is provided only for the budget year and not for the other two coming years</p> <p>Aggregate and spending units expenditure ceiling for the budget year are approved only for spending units within the municipality and not for the departments / functions within the municipality.</p>

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<p>expenditure broken down according to the economic classification and revenue broken down according to the revenue classification;</p> <p>v. the development of the financial key financial indicators as defined in chapter 7.1.</p> <p>e. The MoF facilitates the preparation of the MTBP with a financial planning tool.</p>	<p>There are clear time lines for the process in general and consultations with MoF only with regard CG.</p> <p>New amendments to LOB (Article 13) are providing for some information that CG is making available to LGUs such as:</p> <ul style="list-style-type: none"> • Unconditional transfer (formula & amount) • Conditional transfer (aim and amount) • National shared taxes (for three consecutive years) 	<p>No medium-term expenditure ceilings are issued for spending units.</p> <p>There is no evidence that MTBP is aligned with the strategic plans and medium-term budgets.</p> <p>Performance plans for service delivery:</p> <ul style="list-style-type: none"> • Key performance indicators for the planned outputs and outcomes of programs or services that are financed through the budget are not included in the Municipality budget proposal or related documentation, at the function, program or entity level. • Only MTBP is based on performance indicators, but there is no link between the annual budget and MTBP <p>LGU representatives provide argumentation with regard performance indicators as following:</p> <ul style="list-style-type: none"> • Lack of capacity for including performance indicators in the budget. • Performance indicators are missing and there is no accountability towards the mayor, which leads to lack of incentives.

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				<ul style="list-style-type: none"> • There is a need to make budgeting with programs and otherwise have penalties in place. • Inspection from the line ministries is missing. • The new law should define a number of indicators related to the local budget planning.
	3.4 Annual budget	<ul style="list-style-type: none"> a. The mayor is responsible for the preparation of the annual budget. The mayor is supported by the group on strategic management and the financial department. b. The budget is sent to the municipal council for approval. c. The purpose of the annual budget is to enable planning and management of municipal finances and services in the short term. d. The annual budget uses the identical classification as the MTBP. e. For the annual budget, the following principles are applied: <ul style="list-style-type: none"> i. <i>Annuality</i> meaning that all budgetary operations are attached to one financial year; this implies that the implementation of expenditure is authorised for one year only; ii. <i>Unity</i> meaning that all revenue or expenditure transactions of the municipality needs to be presented in one and the same budget document; iii. <i>Completeness</i> meaning that all expected revenue and expenditure needs to be presented in the budget; iv. <i>Accuracy</i> meaning that all revenue and expenditure must be booked to a budget heading and no expenditure may be incurred in excess of the authorised appropriations; v. <i>Universality</i> meaning that the total revenue in the budget must cover the total expenditure; the revenue in the budget constitutes a common fund which is used to 	<p>LOB / Article 6 “Local budget”/ harmonization or total transfer of text</p> <p>LOB / Chapter III “Roles and responsibilities of bodies in the budgetary process”, Article 14, 15, 16, 17</p> <p>New amendments to LOB / Article 16 are providing for:</p> <ul style="list-style-type: none"> • Annual budget proposal is approved within October from CoM • MoF submits within 10 days from approval to LGUs: unconditional grant and shared taxes. <p>Note: still no timeline are fixed for LGUs. Timelines to be proposed in LFL!!! An indication might be the “MoF guideline for annual budget preparation”</p>	<p>Annual budget proposal to the legislator do not provides for solid argumentation and documentation support.</p> <p>Elements for budget documentations are not made part of the budget proposal such as:</p> <ul style="list-style-type: none"> • Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate • Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard • Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standard • Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<p>finance all expenditure without distinction;</p> <p>vi. <i>Specification</i> meaning that each appropriation must have a particular intended use and be spent only for that specific purpose;</p> <p>vii. <i>Gross budget principle</i> meaning that there cannot be any adjustment of revenue and expenditure against each other; revenue and expenditure must be entered in full in the budget;</p> <p>viii. <i>Comparability</i> meaning that budgets are comparable across time and with the MTBP, in-year and annual report.</p> <p>f. The annual budget includes the following pieces of information:</p> <p>i. Macroeconomic assumptions including GDP growth, inflation, interest rates;</p> <p>ii. Revenue estimation for each source of municipal revenue for the budget year;</p> <p>iii. Appropriations of expenditure for the budget year under the different votes of the budget;</p> <p>iv. Explanations on individual budget items and on deviations from last year figures, in particular when resulting from new policy initiatives or major investments;</p> <p>v. Quantification of tax expenditures;</p> <p>vi. Information on debt stock, financial and tangible assets, liabilities, guarantees, and long-term obligations, key financial indicators; In the case of PPPs, specific information is provided on commitments for viability gap payments, availability payments, output-based payments as well as for specific contingent liabilities such as guarantees for particular risks, compensation clauses, termination payment commitments, debt guarantees.</p> <p>vii. Programme objectives, key performance indicators, outputs to be produced or outcomes planned by programme or function;</p>		<p>private partnership (PPP) contracts, and so on</p> <ul style="list-style-type: none"> • Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs • Documentation on the medium-term fiscal forecasts • Quantification of tax expenditures <p>The LGU representatives are arguing that: The budget procedure is not properly known and used by the local government. The law should clearly define the documentation arguing the budget and provide (as annexes) various templates to be filled.</p>

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<ul style="list-style-type: none"> viii. Service delivery agreements with external partners. ix. In the case of PPPs, value for money is demonstrated by a cost-benefit analysis; in addition, a long-term oriented financial affordability appraisal is included in the budget documentation. Furthermore, it is specified in detail how direct and contingent liabilities resulting from the PPP are covered. The MoF provides further guidance. 		
	3.5 Annual report	<ul style="list-style-type: none"> a. The mayor is responsible for the preparation of the annual report. The mayor is supported by the municipal group on strategic management and by the financial department. The annual report is sent to the municipal council for approval. b. The annual report is submitted to external audit within three months of the end of the year. c. The purpose of the annual report is to <ul style="list-style-type: none"> i. provide a record of the activities of the municipality during the financial year to which the report relates; ii. provide a report on performance against the budget of the municipality for the financial year; iii. promote accountability to the local community for the decisions made and performance achieved throughout the year by the municipality. d. The annual report of the municipality must include <ul style="list-style-type: none"> i. the annual financial statement of the municipality as sent to the auditor, if necessary in a consolidated form as well; ii. full information on revenue, expenditure, financial and non-financial assets, liabilities, guarantees, and long-term obligations, especially on direct and contingent liabilities in the case of PPPs; ii. the report of the external auditor; 	<p>LOB/ Article 56 "Report for closing accounts" Article 62 "Preparation of the annual budget reporting", first paragraph Article 63 "The approval of the annual consolidated budget implementation report" have no provisions for LGUs, but letters a, b, c, d and e should apply for LGUs also. Article 65 "Monitoring"</p> <p>LSG/ Article 44 "Reporting" NOTE: missing clear indications on what the report should consist of. Basically what is proposed from PFM model should be taken into consideration completely, adding the actual legal provisions</p>	

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<ul style="list-style-type: none"> iii. the annual performance report of the municipality; e. The annual report must be comparable with the approved budget. 		
4. Budget preparation, approval of the budget and amendments	4.1 Budget preparation	<ul style="list-style-type: none"> a. A clear annual budget calendar is issued by the mayor and communicated to all budgetary units at the beginning of the budgeting process. The municipal budget calendar is harmonized with the national budget calendar. The municipal calendar allows budgetary units at least six weeks from the receipt of the budget circular to prepare their detailed budget request on time. b. A comprehensive and clear budget circular is issued by the mayor to all budgetary units covering total budget expenditure for the full budget year. The budget circular is prepared by the group on strategic management, based on a comprehensive revenue estimation for the short and medium term and reflecting the priorities of the Strategic Development Plan, the fiscal strategy and the Medium Term Budget Programme. The budget circular includes binding ceilings for the total budget and for each budgetary unit limiting total spending as well as current spending. In addition, it specifies the details of the format for budget requests from budgetary units. c. Budgetary units prepare the budget requests as required by the budget circular and hand it in to the department of finances. Capital investment projects are included in the budget request. They are fully costed and include cost information on recurrent costs. In case of multi-year projects, the cost share of each year is clearly indicated. Budget requests include information on planned performance in addition to financial information. Information on budget requests include details on PPP related payment requirements and long-term financial commitments. d. The department of finances prepares a first draft budget based on the budget requests. The department controls whether budget requests are in line with the budget circular and discusses with budgetary units when budget requests are not kept within ceilings. e. The draft budget is finalized by the group on strategic management considering updated revenue estimation and 	<p>LSG law Article 16 “Public consultation” / points 1 and 2 Article 18 “Consultation sessions with community”, points 1, 2 and 3 Article 79 “Open meetings, Public hearings and the right of the public to be informed”</p> <p>LOB / Article 7 “Special funds”/ harmonization or total transfer of text</p> <p>LSG law Article 58 “Dissolution of MC”, point 2/a – in relation with failure to approve budget in due time.</p> <p>LOB / Article 32 “Preparation and approval of local budget”/ unfortunately this law has details on state budget that do not require same principles or spirit for application to LGUs / Article 22, 23, 24, 25, 26, 27, 28, 29, 30 such as: (i) preparation of public expenditure management calendar; (ii) macroeconomic and budgetary assessment and forecast; (iii) budget preparation and</p>	<p>Budget preparation process:</p> <p>Evidences shows that no circular are issued to spending unit to give guidance on the methodology and instructions how to prepare the budget. Only spending units receive a ceiling (a lump sum to spend) fond. Ceilings / limits are not allocated for local administrative units or functional areas.</p> <p>NOTE: a suggestion might be to make part of the LFL budget implementation instructions from MoF / which are related with this issue.</p>

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<p>completed by the department of finances with all information as required under 3.4.f.</p>	<p>instructions; Draft medium-term budget program; (iv) MTBP; (v) complementary budget preparation instruction; (vi) revised medium term budget programme; (vii) draft annual budget. All this articles should be written addressing LGUs into this LFL law.</p> <p>LOB / Article 33 “Publishing of the local budget” Article 37 “Interim local budgets” Article 45 “Supplementary funds request” Article 47 “Local budget implementation review” Article 48 “Deadline for reallocation of budgetary funds”.</p>	
	<p>4.2 Legislative scrutiny and budget approval</p>	<p>a. The mayor sends the finalized draft budget to the municipal council by 1 November of the year preceding the budget year. At the same time, the budget draft is made publicly available and explained to council members and interested citizens at appropriate information events.</p> <p>b. The municipal council reviews the budget draft based on procedures that are approved by the municipal council in advance of the review process.</p> <p>c. The municipal council has the right to amend the budget provided that the principle of budget balancing remains guaranteed. Furthermore, the municipal council may reject the budget; in this case, the mayor prepares a new draft budget. If the new draft budget is still not approved by the municipal council by the end of April, the budget is sent to the Ministry of Finance which will then decide on the budget.</p> <p>d. The council decides on the annual budget before the official start of the new budget year, i.e. before the first of January.</p> <p>e. If the budget is not yet adopted by the municipal council on 1st</p>	<p>LOB / Chapter III “Roles and responsibilities of bodies in the budgetary process”, Article 14, 15, 16, 17</p> <p>Article 32 “Preparation and approval of local budgets”, provides for: Within November , mayor shall submit draft local budget to MC</p> <p>Clear provision for the maximum time line for approving the annual local budget does not exist. Below list of articles were indirectly the time line is assessed:</p> <ul style="list-style-type: none"> • Article 34 “Making the annual budget law effective” 	<p>The municipality fails to approve the budget within at least one month of the start of the year. According to the law no. 9936, dt 26.06.2008 “On the budget management system” the budget year starts on January 1st. For Lezha and Shkodra the budget was never approved before February. For 2016 ex. the budget is still not approved.</p> <p>Some measures might be inserted within the new LFL in order to improve timing of budget approval. For example: define clearly how CoM intervenes in case of failing to approve within the defined time line besides dissolving the MC. Which are the</p>

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<p>January, the mayor is entitled to carry out expenditure necessary to maintain ordinary operations of the municipality for a period no longer than 30 April of the budget year, based on an interim budget. The interim budget for each month and each programme shall not exceed one twelfth of the actual expenditure of the programme financed by the budget in the previous budget year. The MoF provides further guidance for this case.</p>	<p>/ January 1st</p> <ul style="list-style-type: none"> Article 37 “Interim local budgets” / January 1st <p>LSG / Article 58 “Dissolution of the Municipality Council” Budget approval on January 1st !!!!</p>	<p>intermediary procedures!!!!</p>
	<p>4.3 Amendments of approved budgets</p>	<p>a. In the event of unavoidable, exceptional or unforeseen circumstances, the mayor may propose amendments of the adopted budget for the current year to the municipal council. In cases where budget balance is at risk, it is mandatory that the mayor proposes amendments of the adopted budget. Budget amendments are subject to the same rules as described in section 4.2, lit. b. and c.</p> <p>b. The mayor is entitled to approve excess expenditure of maximally 5 percent per vote of the approved budget. In addition, if expenditure is covered by earmarked revenue, additional expenditure is allowed as long as the additional expenditure is fully covered by additional revenue for this purpose.</p>	<p>This provision is defined differently into the LOB / Article 42 “Allocation of budgetary funds”</p> <p>LOB Article 44 “Budget reallocations”. There are limitations with regard CG (reallocation of funds between programs, within CG Units and various general government units, shall not exceed 10% of the total fund approved for the program; There are no limitations in term of X% as maximum for the LGUs. The reallocation is proposed by the Mayor to MC. The latest one has to approve.</p>	
	<p>4.4 Issues of previous year or having an impact on later years</p>	<p>a. Budgetary units are entitled to carry over maximally 3% of unspent appropriations from the year that proceeds the budget year to the budget year in case of current expenditure and the full amount of unspent appropriations in case of capital expenditure unless the mayor decides otherwise.</p> <p>b. Additional unspent resources are used to build up equity or to reduce debts.</p> <p>c. In case of multi-year projects or contracts, the expenditure planned for the budget year is assigned to the annual budget; the expenditure for future years is included in the MTBP and recorded in the treasury system. In the case of long-term</p>	<p>LOB / Article 8 “Mng of financial resources of general government” / pay attention to last paragraph – very important since the experience shows that LGUs are closing the year with surplus.</p> <p>a. This provision is not foreseen in Albanian legislation. Do we need to</p>	

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<p>contracts reaching beyond the MTBP time horizon of three years, the long-term expenditure implications are presented in the annex of the budget. The same applies for revenues.</p> <p><u>Alternative provision for a. and b. for discussion:</u> The unspent funds are carried over at 100% for investment only. Current expenditures unspent are used based on MC decision.</p>	<p>implement this very strict one?! A discussion on this is necessary!!!!!!</p> <p>b. Provided within new LOB amendments / Article 20 “The right to undertake expenditures”. For multiyear contracts funds are foreseen within the annual budget but not less than 20% for the first year.</p>	
5. Budget implementation	5.1 Revenue administration	<p>a. Taxpayers are granted easy access to comprehensive and up-to-date information about the main revenue obligation areas as well as about the means and procedures to appeal.</p> <p>b. All revenue collected is transferred daily to the National Treasury. Municipalities receive a monthly report on all revenue collected broken down by revenue type.</p> <p>c. Municipalities use a structured and systematic approach for assessing compliance risks for all categories of revenue and, as a minimum, for their largest revenue payers.</p> <p>d. Procedures and rules for the transfer or disposal of nonfinancial assets needs to be approved by the municipal council. Information on transfers and disposals is included in the budget documents and in the annual report.</p> <p>e. A municipality may incur short-term debt only when necessary to bridge shortfalls within a financial year during which the debt is incurred in expectation of specific and realistic anticipated revenue to be received within this year. Approval of the municipal council is needed to incur short-term debt as well as clearance from National Treasury. The municipality must pay off short-term debt within the financial year and may not renew or refinance this debt.</p> <p>f. A municipality may incur long-term debt only for the purpose of financing capital expenditure on property, plant or equipment to be used for the purpose of achieving the policy objectives of the</p>	<p>LOB / Article 8 “Management of financial resources of general government” / harmonization or total transfer of text</p> <p>LOB / Article 38 “Budget implementation instruction” Article 39 “Collection and maintenance of public money”</p> <p>LGB / Article 6 “Authority to issue short term debt » Article 7 “Authority to issue long term debt”</p> <p>LOB / Article 57 “The authority to borrow”, the last two paragraphs Article 58 “The limits of public borrowing” second paragraph, letters a, b and c</p>	<p>Public access to fiscal information is very little / almost inexistent. We should verify if this low performance is due to legal provisions or lack of implementation. Only the annual executive budget proposal documentation is made available after budget proposal is approved at MC. A complete set of executive budget proposal documents is not made available to the public. Time line for this publication is not available. All the other provisions as below are completely missing such as:</p> <ul style="list-style-type: none"> • Enacted budget. The annual budget law approved by the legislature • In-year budget execution reports; • Annual budget execution report; • Audited annual financial

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<p>municipality as laid down in the annual budget or the MTBP. Approval of the municipal council is needed to incur long-term debt as well as clearance from National Treasury. A municipality may borrow money for the purpose of re-financing existing long-term debt provided that the re-financing does not extend the term of debt beyond the useful life of the property, plant or equipment for which the money was originally borrowed and the debt after re-payments is always covered by the time value of the investment.</p> <p>g. Borrowing against future appropriations is prohibited. The only exception is that budgetary units have the right to carry over the unused funds of multi-year investment contracts but no longer than three years, provided ex ante approval by the municipal council.</p> <p>h. Municipalities undertake regular revenue audit and fraud investigations; the information is used to prepare and implement compliance improvement plans.</p> <p>i. The stock and the age structure of revenue arrears is reported annually to the municipal council together with information on the arrears management process.</p>		<p>report, incorporating or accompanied by the external auditor's report;</p> <ul style="list-style-type: none"> • Pre budget Statement. The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt • Other external audit reports. All no confidential reports on central government consolidated operations • Summary of the budget proposal. A clear, simple summary of the executive budget proposal or the enacted budget accessible to the non-budget experts, often referred to as a "citizens' budget," and where appropriate translated into the most commonly spoken local language, • Macroeconomic forecasts. <p>Non-financial assets monitoring:</p> <p>Municipality maintains a register of its holdings of fix assets, and collects partial information on their usage and age; this information it is not published.</p> <p>LGU representatives are arguing that they have some issues with regard nonfinancial assets such as:</p> <ul style="list-style-type: none"> • Monitoring of financial assets is

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
				<p>incomplete and not made public. Assets are not inventoried and neither registered in IPRO, and therefore not used to generate revenues</p> <ul style="list-style-type: none"> • Such a thing is not required (by law). Decision of the Council of Ministers no. 30 does not require publication of Municipality assets.
	5.2 Liquidity management	<p>a. All cash and bank balances of each municipality are consolidated at least on a daily basis by National Treasury.</p> <p>b. A cash flow forecast is prepared by National Treasury for each municipality for the fiscal year and updated at least monthly on the basis of actual cash inflows and outflows.</p> <p>c. Municipalities are provided information on commitment ceilings at least monthly in advance by National Treasury.</p> <p>d. Commitments are limited to projected cash availability and approved budget allocations. Municipalities are obliged to report the commitments in order of their recording in the single commitment database at National Treasury. In case municipalities make commitments that require the use of budget funds in the following years, municipalities have to obtain prior approval by National Treasury which decides on requests within two months.</p>	<p>LOB / Article 49 “Cash flow plan’ Article 50 ‘ Budgetary commitments ’ Article 51 ‘Management of commitments’</p>	
	5.3 Expenditure control	<p>a. After the approval of the budget, municipalities shall prepare an annual financial plan by months on the use of the appropriations by departments and by economic classification. The financial plan takes into account the seasonal nature of certain expenditures as well as the specifics of capital investment projects. Municipalities submit the annual financial plan to National Treasury in order to optimize the planning of a timely instalment of grants.</p> <p>b. The GSM prepares an annual procurement plan for all new and ongoing projects and activities for the municipality; the procurement plan is approved by the municipal tender commission and sent to National Treasury at the beginning of the</p>	<p>LSG law Article 40 “Expenditures” / points 4, 5 and 6</p> <p>LOB / Article 40 “The right to make expenditures” Article 42 “Allocation of budgetary funds” / rephrasing is advised in order to get the regulation clearly Article 43 “Breakdown of the budgetary funds” / clear</p>	<p>Aggregate revenue out-turn compared to Original approved budget is high</p> <ul style="list-style-type: none"> • Lack of accuracy of fiscal forecasts due to lack of MTEF, • skills and abilities • collection rate is low <p>The difference between actual primary expenditure and the originally budget primary</p>

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		<p>fiscal year. National Treasury verifies whether the procurement plan matches the approved budget. The procurement plan, signed by National Treasury, is submitted to the National Public Procurement Agency. After these preliminary processes, procurement measures can be executed. Incidentally, the law on public procurement applies.</p> <p>c. For the execution of payments, municipalities shall submit payment requests to National Treasury together with the accompanying documents (invoice, magazine entry sheet, purchase order, fund approved and other documents as required by MoF) to justify the expenditures. Procurement requests are signed by the Mayor or deputy mayor together with the head of the concerned unit. Treasury authorizes payment via the banking system.</p> <p>d. The total cost and physical progress of major investment projects are monitored during implementation by the implementing budgetary unit. Information on the implementation of major investment projects is published in the budget documents and in the annual report.</p> <p>e. Data on the stock, age, and composition of expenditure arrears are generated monthly within four weeks of the end of each month.</p> <p>f. Personnel records and payroll are updated at least monthly; authority to change records and payroll is restricted and subject to annual payroll audits.</p> <p>g. In each municipality, an internal audit unit is established aimed at controlling enforcement of legislation, conducting financial inspection of budgetary assets and liabilities, revenues and expenditures, programs, activities and investment. Based on assessments and evaluations, the internal audit makes recommendations and proposes risk management measures. The internal audit unit exercises its function based on an annual audit programme; its reports are sent to the audited unit, the Mayor and the GSM.</p>	<p>definition of spending units, what can be considered spending units is advised.</p> <p>Article 44 “Budget reallocation”, for the local government paragraph (points a, b, c and d)</p> <p>Article 52 “Making expenditures”</p> <p>Article 53 “Expenditure reimbursement”</p> <p>Article 54 “The execution of payments”</p> <p>Article 55 “Budget closure”</p>	<p>expenditure is high</p> <p>NOTE: Should be assessed what is the reason behind / is it legal? Is it technical, lake of capacities to provide acquired plans? Economic effect, less revenues?</p> <p>Conditional funds are never made part of the initial plan.</p> <ul style="list-style-type: none"> • Why CG do not provide in good time figures with regard conditional funds? By law it is required that MoF provides unconditional funds only. This should be foreseen within the LOB (new amendments) • Probably intergovernmental relations need to be specified within the LFL and also new amendments to LOB
	5.4 In-year budget reports	<p>a. In-year budget reports are prepared at least monthly, and issued within four weeks from the end of each month.</p> <p>b. The Treasury is responsible for the generation of periodic budget</p>	<p>LSG law Article 44 “annual report”</p>	

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<p>execution reports of LGUs.</p> <p>c. Coverage and classification of the report allows direct comparison to the original budget. Information on expenditure is covered at both commitment and payment stages.</p> <p>d. In-year budget reports are publicly available.</p>		
6. Strategic monitoring, oversight, external audit and public scrutiny	6.1 Strategic monitoring	<p>a. The implementation of the strategic development plan is monitored annually as part of the preparation of the MTBP, and the monitoring report is published together with the MTBP.</p> <p>b. The implementation of the MTBP is monitored annually as part of the preparation of the annual budget, and the monitoring report is published together with the annual budget.</p>	LOB/ Article 65 "Monitoring" Should be harmonized in order to reflect the proposed text from PFM model	
	6.2 Oversight function of MoF	<p>a. The MoF supervises compliance of municipalities with the legal provisions on the financial management of municipalities based on the MTBP, the annual budget, in-year reports and the annual report including the audit report.</p> <p>b. The MoF supports the financial management of municipalities with guidelines, templates, instructions and trainings as well as auxiliary financial management instruments, and with the cash management function of the National Treasury.</p> <p>c. The MoF regularly publishes a municipal finance statistic. In particular, this statistic shows and analyses time series of revenue and expenditure data of each municipality in accordance with the revenue, functional and economic classification.</p>	<p>LOB/ Article 66 "Public internal financial control" Article 67 "Financial management and control" Article 68 "Internal audit" Article 69 "Financial inspection" the last paragraph</p> <p>LSG Article 13 "Supervision and control" a) is regulated by law; while b) and c) are totally missing. Annual budget law provides data for LGUs unconditional transfer and respective formula only. The MoF statistic reports do not offer details for LGUs</p>	It results that MoF never realized audits for unconditional transfers to LGUs (pilot of quick PEFA). LOB provides details only for CG, and very little provisions for LGUs.
	6.3 External audit	<p>a. Financial reports including revenue, expenditure, assets and liabilities of all municipalities are audited annually by a fully independent and professional external audit institution using ISSAI standards.</p> <p>b. Audit reports are submitted to the municipal council within two</p>	<p>LSG law Article 43 "External financial control and audit" / points 1, 2, 3 and 4 LOB Article 69 "Financial inspection"</p>	Quick PEFA shows that: External audit is realized only from HSC. An external auditor is never hired by the MC. Line Ministries never audit their conditional transfers to LGUs.

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		<p>months from receipt of the annual report for the last three completed fiscal years.</p> <p>c. The mayor reports on the follow up of audit remarks in the annual report of the following fiscal year.</p>	<p>the last paragraph Article 70 “External audit”</p>	<p>MC role is almost inexistent. The LGU submits HSC reports only when is asked from the MC.</p>
	<p>6.4 Legislative scrutiny and disclosure</p>	<p>a. The municipal council must consider the annual report no later than two months from the date on which the audit report is available.</p> <p>b. The municipal council may approve the annual report with or without reservations or reject the annual report. The mayor reports in the annual report of the following year on measures taken to respond to critical reactions of the municipal council on the annual report for the past year.</p>	<p>LSG law Article 44 “annual report”</p> <p>LOB/ Article 65 “Monitoring”</p> <p>The above legal provision do not provide for clear time line for report submission. The max no of reports is 2 (biannual budget execution reports). There are no provisions with regard supporting documents for budget report execution and requirements for respective analysis.</p>	
<p>7. Budgeting, accounting and reporting requirements</p>	<p>7.1 Budget equilibrium and assessment of financial situation</p>	<p>a. In order to maintain budgetary equilibrium, the total of municipal revenues must cover the total of municipal expenditure each year.</p> <p>b. The ratio of long term debts to total municipal revenues should not exceed 130%.</p> <p>c. The ratio between the total multi-year financial commitments undertaken in PPPs is limited to a maximum of 5% of the annual tax revenues of the municipality.</p> <p>d. Subsidy payments to PPPs, i.e. availability payments or output-based payments, are treated in the same way as debt service payments. They are not subject to legislative approval.</p> <p>e. Each municipality publishes a series of financial key indicators in the annual budget and annual report for the respective time span. The key financial indicators are specified in detail by the MoF together with limits for each indicator. Possible indicators are:</p> <p>i. Overall expenditure/overall revenue</p>	<p>LSG law Article 39 “Local borrowing” / points 1, 2 and 3</p> <p>LGB/ Article 18 “Limitations on long term debt” Article 19 “Limitations on line of credits” Article 20 “Limitations on aggregate debt” LOB / Article 58 “Limits of public borrowing”, second paragraph letter b (The ratio of the debt stock to operational revenues from its own sources, shared taxes and unconditional transfer is not more than 1.3:1;</p>	

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<ul style="list-style-type: none"> ii. Tax revenues/overall revenues iii. Own revenues/overall revenues iv. Overall revenue per inhabitant v. Tax revenue per inhabitant vi. Fee revenue per inhabitant vii. Own revenue per inhabitant viii. Capital investment expenditure / overall expenditure ix. Capital investments expenditure per inhabitant x. Tax arrears per inhabitant xi. Payment arrear per inhabitant xii. Long term debt / total municipal revenue xiii. Long term debt / own revenues xiv. Long term debt per inhabitant xv. Expenditure share for pro-poor policies xvi. Expenditure share for policies in favour of gender equality 		
	7.2 Accounting and financial reporting	<ul style="list-style-type: none"> a. Accounting shall enable an accurate description of the state of the municipal finances with respect to assets and operational results. It records all transactions of the municipality in a chronological and systematic way. b. Municipalities use a cash basis of accounting. <p style="color: red; margin-left: 20px;">For discussion: modified accrual accounting for expenditure.</p> <ul style="list-style-type: none"> c. Accounting follows the principles of comprehensiveness, accuracy, timeliness and verifiability. <ul style="list-style-type: none"> i. Comprehensiveness means that all transactions are registered without any gap and in the period in which they happened. No direct settlement is applied like using reserves or similar. ii. Accuracy means that accounting records are in accordance with the facts. iii. Timeliness means that accounting is always up-to-date. iv. Verifiability means that transactions are recorded in a clear and understandable way, corrective entries are marked and all entries must be proved by supporting documents. d. Treasury serves as an accountant of local government transaction data. 	<p>LOB / Article 56 “Report for closing the accounts”</p> <p>LOB / Article 59 “Management of debt data”</p> <p>Article 61 “Accounting standards and procedures”, special focus letters a and b</p> <p>Article 62 “Preparation of the annual budget accounts”</p> <p>LGB/ Article 26 “Ledger of Local Government Debt”</p> <p>Article 27 “Debt annex in the local budget”</p>	<p>Accounting / same classification as Treasury, while for internal use are appropriating different programs. Difficulties to consolidate internally. Municipalities depend on Treasury reports for their internal financial analysis and reporting to Municipality and others.</p> <p>LGU representatives are arguing that:</p> <ul style="list-style-type: none"> • There are difficulties in the internal consolidation and reporting, which can be eliminated in the case of systems unification. • Legal rules are needed. • The adoption of a unique accounting system with unified standards is necessary. • Investments are required for the digitalization of the accounting system.

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<p>e. Municipalities keep the accounting reports together with the supporting documentation in the archive for ten years.</p> <p>f. Assets with a useful life of more than one year are recorded in the asset register. MoF provides guidance on the format of the asset register.</p> <p>g. For financial reporting, generally accepted standards are applied. These standards are further specified by MoF.</p>		
	7.3 Balance sheet and consolidation	<p>a. The balance sheet shows assets and liabilities of the municipality at the balance sheet date. Assets are grouped into trading assets and administrative assets. Liabilities are grouped into debt and equity. Furthermore, assets are listed according to their convertibility into cash, liabilities according to their maturity. Further guidance on the structure of the balance sheet is provided by the MoF.</p> <p>b. Trading assets are valued at market price; for the valuation of administrative assets, the depreciated replacement cost method is used. Further guidance on the valuation of assets is provided by the MoF.</p> <p>c. Independent institutions or organisations which have one or more of the following features are consolidated or their financial situation is presented in the annex to the annual report:</p> <ol style="list-style-type: none"> i. the municipality owns the institution or organisation fully or large parts of it; ii. the municipality pays substantial transfers for the operation of these institutions or organisations; iii. the municipality is able to control the institution or organisation; iii. the municipality is liable for the institution or organisation. The MoF specifies the details of the consolidation approach and provides guidance for municipalities. 	<p>LOB / Article 63 “Approval of the annual consolidated budget implementation report” – this provision refers to the CG Budget. The same spirit should be transposed to the LGUs in line with 7.3 proposed as a PFM model for the law.</p> <p>Article 64 “Archiving financial data”</p>	<p>LGUs are arguing the following:</p> <ul style="list-style-type: none"> • The consolidated balance sheet does not include separate spending units that depend from the LGU. Assets are not reflected entirely since lack of information (registration is missing) •
8. Sanctions in case of non-compliance and resolution of financial	8.1 Sanctions in case of non-compliance	<p>a. Cases in which local officers or authorities fail to comply deliberately or in a grossly negligent way with the provisions on municipal financial management as specified in this law or in related laws are considered as financial misconduct. In particular, these are cases of irregular, fruitless and wasteful</p>	<p>LOB Chapter IX “Violations and penalties” Article 71 “Administrative violations”, Article 72</p>	

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
problems		<p>expenditure and failures to prevent it, corruptive practices or failures to prevent it, misleading or false information in the budgeting or reporting documentation or presented to the auditing institution, National Treasury or the municipal council on money received or spent by the municipality or failures to prevent it.</p> <p>b. The municipality must investigate allegations of financial misconduct against municipal officers unless those allegations are frivolous, vexatious, speculative or obviously unfounded. If the investigation warrants such a step, the municipality institutes disciplinary proceedings. In case of allegations against municipal authorities, MoF in collaboration with MoSLI, is responsible to investigate the assertions. Criminal proceedings remain reserved.</p> <p>c. Decisions on disciplinary measures in cases of financial misconduct are appealed to the Minister of Finance. The Minister of Finance decisions are appealed to the Administrative Procedures Code.</p>	<p>“Appealing the decisions”</p> <p>To be taken into consideration amendments to LOB, Article 35</p>	
	8.2 Resolution of financial problems	<p>a. The primary responsibility to avoid, identify and resolve financial problems rests with the municipality itself.</p> <p>b. A municipality must meet its financial commitments.</p> <p>c. If a municipality encounters a serious financial problem or anticipates problems in meeting its financial commitments, it must immediately</p> <ul style="list-style-type: none"> - seek solution for the problem, - notify the financial commission of the municipal council - notify the MoF. <p>d. If the MoF becomes aware that there is a serious financial problem in a municipality, the MoF must</p> <ul style="list-style-type: none"> - consult the mayor of the municipality to determine the facts, - assess the seriousness of the situation and the municipality’s response to the situation, - determine whether the seriousness of the situation requires an intervention. <p>e. Criteria for determining serious financial problems:</p> <ul style="list-style-type: none"> i. The municipality has failed to make payments as and when due; 	<p>LGB/ Article 23 “Financial distress” Article 24 “Exit from financial distress” Article 25 “Insolvency” There is a need to provide regulation with regard process and procedure for resolving the event of insolvency and procedures. Referring to the above referred legislation an Event of Insolvency shall have occurred if: a. A Local Government has defaulted in the payment of principal or interest on any debt obligation or financial guarantee issued and recognized by it, or subject to a binding court decree, and such</p>	

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		<ul style="list-style-type: none"> ii. The municipality has defaulted on financial obligations for financial reasons; iii. The actual expenditure of the municipality has exceeded its revenue for at least two consecutive years; iv. The financial key indicators strongly deviate from its range of target values; v. The municipality is 60 days late in submitting its annual financial report; vi. The external auditing entity has withheld an opinion or issued a disclaimer due to inadequacies in the financial statements or issued an opinion which identifies a serious problem in the municipality; vii. The municipality is in a serious or persistent material breach of its obligations to provide basic services or to meet its financial commitments. f. In case the seriousness of the situation requires a financial intervention, the MoF prepares a financial recovery plan for the municipality which includes appropriate changes to the municipal budget and revenue rising measures. The recovery plan is consulted with the mayor of the municipality to obtain the municipality's cooperation in applying the financial recovery plan and resolving the financial problem. g. If the municipality cannot or does not implement the financial recovery plan, the MoF may take further appropriate steps to ensure implementation of the recovery plan. h. If a municipality is unable to meet its financial commitments, it may appeal to the Supreme Court for an order to stay, for a period not exceeding 90 days, all legal proceedings, including the execution of legal process, by persons claiming money from the municipality or a municipal entity under the sole control of the municipality. Before issuing an order for suspension of a municipality's financial obligations to creditors, the court must be satisfied that the municipality cannot meet its financial obligations and all tradable assets of the municipality were liquidated. If the court issues an order for a temporary suspension of a municipality's financial obligations, a distribution scheme for the proportional settlement of all legitimate claims against the municipality as at the date of the order must be 	<p>default has continued for a period of sixty (60) days; and such amount in default exceeds thirty percent (30%) of the Local Governments own source revenues and unconditional transfer received in the prior fiscal year; or</p> <p>b. A Local Government has outstanding accounts payable in an amount greater than thirty percent (30%) of its budget for a period of ninety (90) consecutive days, and there has been a material adverse impact on the essential services provided by the Local Government.</p>	

Chapter	Issues	Content	Albanian legal framework	Findings from quick PEFA assessment
		prepared in accordance with current law (insolvency act). The distribution scheme must be approved by Court.		

References:

- LOB Law on Management system No. 9936/2008 (Albania) / so called **Law on Organic Budget**
- LSG **Local Self Governance Law No. 139/2015 (Albania)**
- LGB Law on Local Government borrowing, No. 9869, date 4.02.2008
- LPP Law on Public Procurement, No. 9643, date 20.11.2006
- CPPP Concessions and Public Private Partnership, No. 125/2013
- FMC Law on Financial Management and Control, No. 10296/2010, as amended in 2015
- IAPC Law on the Internal Audit in the public sector No. 9720/2007
- TPD Territorial planning and development, No. 107/2015. Articles 15 and 20 provides provisions with regard general territorial development plan and documents required to be prepared. There are no indications with regard financial effect, procedures and authorities that can affect the LFL

Annex:

Tentative Calendar for the Budget Year

	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sep	Oct	Nov	Dec
Budget calendar	x											
1st revenue estimation						x						
Budget circular including MTBP						x						
Budget request including MTBP								x				
1st draft budget including MTBP									x			
2nd draft budget including MTBP										X		
Budget hearing											x	
Budget adopted												X
Annual financial plan	x			x			x			x		
Annual procurement plan	x											
Report on revenues collected	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx	xxxxxxx
Expenditure arrears report	x			x			x			x		
Cash flow forecast	x	x	x	x	x	x	x	x	x	x	x	x
Commitment ceilings	x				x			x			x	
Personnel record and payroll update			x			x			x			x
In-year reports	x			x			x			x		
Strategic monitoring (SDP and MTBP)		x										
Annual report prepared			X									
Audit report					X							
Annual report adopted							X					

x = milestone

Law on local finances and the current legislation context

Support document to focus group discussion on Local finance law/ draft as of 1 February 2016 by Ornela Shapo

The law on “Local Self Governance” approved in December 2015 expressly foresees on the article no. 34, point 6 that:

“Each local self-government shall prepare, adopt, carry out, and administer a budget each year that does not include a deficit in compliance with applicable legislation that regulates the administration and implementation of budgetary system and with the law on local finances”.

There for the implicit fact that the policy maker has decided to develop and take clear reference on the law on “Local Finances”.

I. List of legal acts on local finances

The discussion on Local governance finance legislation might take into consideration the current regulations that have an impact on local governances. Below a list of legislation that needs to be taken into consideration when a law on local governance finance is going to be designed.

1. Law on Local Governance / No. 30/2015 (available in English & [Albanian](#) / attached for e-copy)
2. Law on Budget System Management / No. 9936, date 26.06.2008 (available in English & [Albanian](#) / attached for e-copy and click on the subject for e-links version)
3. Law on Local Government Borrowing / No. 9869, date 4.02.2008 (available in [English](#) & [Albanian](#) / click on the subject for e-links version)
4. Law on Local Taxes and Fees / No. 8982, dated 12.12.2002 (available in [English](#) & [Albanian](#) / click on the subject for e-copy)
5. Law on tax procedures / No. 9920, dated 19.05.2008 (available in [English](#) & Albanian / click for e-copy)
6. Law on public procurement / No. 9643 dated 20.11.2006 (available in [English](#) & [Albanian](#) / click for e-copy)
7. The code on “Administrative procedures” / No. 8485, date 12.5.1999 / revised 2014 (available in [Albanian](#) & [English](#) / click for e-copy)
8. Law on Concessions and Public Private Partnership / No. 125/2013 (available in [English](#) & [Albanian](#) / click for e-copy)
9. Law on Inspection of Public Finances / No. 112/2015 (available in [Albanian](#))
10. Law on financial management and controlling / No. 10 296, date 8.7.2010 (amended by law no. 110/2015, date 23.10.2015) (available in [Albanian](#))
11. Annual budget law (subject of approval every budget year)
12. Ministry of Finance Budget Implementation Instructions (subject of revision and approval every budget year)

II. Law on local finances & the legal context to date

A. Local Revenues:

Model based on best experiences	Current legislation in Albania	
<ul style="list-style-type: none"> Definitions Examples: clarification of the following terms: taxes, fees, charges, (tariffs), ... 	<ul style="list-style-type: none"> Law on local governance Law on local taxes and fees Law on management of the budget system 	<ul style="list-style-type: none"> Need for clarification and not overlapping
<ul style="list-style-type: none"> Principles for the allocation of revenue sources, such as finance follows function, financial autonomy, stability and buoyancy of local revenues, incentives for a smart local fiscal policy-making, etc. 	<ul style="list-style-type: none"> None of the existing legislation is specifically defining this concept 	<ul style="list-style-type: none"> Need for clear definition
<ul style="list-style-type: none"> Local taxes: own taxes and shared taxes 	<ul style="list-style-type: none"> Law on local governance Law on local taxes and fees 	<ul style="list-style-type: none"> Need to clearly define shared taxes
<ul style="list-style-type: none"> Local fees 	<ul style="list-style-type: none"> Law on local governance Law on local taxes and fees 	<ul style="list-style-type: none"> Probably the time to use the international experience with regard fees and different categories
<ul style="list-style-type: none"> Grants: non-earmarked and earmarked 	<ul style="list-style-type: none"> Law on Local governance Law on budget system management 	<ul style="list-style-type: none"> Need to define by law the formula of grants Intergovernmental relations All kind of grants applied and in which bases
<ul style="list-style-type: none"> (limited) discretion to set tax rate and fees 	<ul style="list-style-type: none"> Not expressly mentioned like this in the current legislation Experience has shown that there is no discretion on tax rate but free on fees 	<ul style="list-style-type: none"> Need to reflect this principle in the new law of local finances

B. Management of Local Finances

Model based on good experiences	Current legislation in Albania	
<ul style="list-style-type: none"> Principles, such as lawfulness for revenue collection and expenditure, fiscal balance between revenue and expenditure, economy principle, effectiveness, polluter pays principle, compensation in case of particular economic benefits, PFM transparency 	<ul style="list-style-type: none"> Law on management of the budget system Law on local governance 	<ul style="list-style-type: none"> Need for clarification and not overlapping
<ul style="list-style-type: none"> Instruments for the management of public finances: SDP, MTBP, annual budget, annual action plan, annual financial and policy report; for each PFM instrument: competences, content and elements, formal requirements, deadlines 	<ul style="list-style-type: none"> Law on budget system management 	<ul style="list-style-type: none"> Clarification and not overlapping
<ul style="list-style-type: none"> Budget classification (institutional, functional, economic, programme) 	<ul style="list-style-type: none"> Law on budget system management 	<ul style="list-style-type: none"> Need to design template documents for Municipalities
<ul style="list-style-type: none"> Budget rules: binding character of the budget, supplementary credits, procedures in case of delayed approval of the budget 	<ul style="list-style-type: none"> Law on budget system management 	<ul style="list-style-type: none"> Clarification with regard borrowing procedures and right of approval Intergovernmental relations to be clarified
<ul style="list-style-type: none"> Budget calendar including budget in-year and end of year report 	<ul style="list-style-type: none"> Law on budget system management 	<ul style="list-style-type: none"> Need to harmonise calendars at CG and LG levels
<ul style="list-style-type: none"> Improved templates for annual budget, annual financial report, balance sheet (specifying structure and minimum content including annexes) 	<ul style="list-style-type: none"> Law on annual budget Law on budget system management 	<ul style="list-style-type: none"> GFS templates to be tailored for Albanian municipalities
<ul style="list-style-type: none"> Payment procedures via single treasury account 	<ul style="list-style-type: none"> Law on budget system management 	<ul style="list-style-type: none"> Harmonisation of loan procedures

		with specific donors (EBRD; KFW etc) using TSA
<ul style="list-style-type: none"> Accounting system and principles: type of accounting system, gross principle, time of recording flows (commitment and payment), valuation rules for stocks and flows, ... 	<ul style="list-style-type: none"> Law on budget system management 	<ul style="list-style-type: none">
<ul style="list-style-type: none"> Consolidation requirements and procedures 	<ul style="list-style-type: none"> Law on budget system management 	<ul style="list-style-type: none">
<ul style="list-style-type: none"> Financial control instruments: ceilings, financial key figures 	<ul style="list-style-type: none"> Law on public finance inspection Law on internal control and audit Law on budget system management Law on LG 	<ul style="list-style-type: none">
<ul style="list-style-type: none"> Financial control procedures and competences: ex ante budget control, in-year control, end of year control; role of internal control and audit, external audit, financial commission, council, oversight by MoF, financial inspection 	<ul style="list-style-type: none"> Law on public finance inspection Law on internal control and audit Law on budget system management 	<ul style="list-style-type: none">
<ul style="list-style-type: none"> Monitoring of strategy and MTBP implementation (competences, procedures) 	<ul style="list-style-type: none"> Law on budget system management Law on LG 	<ul style="list-style-type: none"> Need for further clarification
<ul style="list-style-type: none"> Sanctions in case of non-compliance 	<ul style="list-style-type: none"> Law on budget system management Law on public finance inspection 	<ul style="list-style-type: none">

Annex 3

FOCUS GROUP DISCUSSIONS

SUPPORT IDEAS FOR THE NEW LAW ON LOCAL FINANCES

DEVELOPING AN INSTRUMENT FOR MONITORING NEW LOCAL FUNCTIONS

Findings Brief



REPORT

Tirana, February 4, 2016

Background

Decentralization and Local Government Program supports the Municipalities in the north of Albania, for strengthening their capacities and providing improved services to citizens. In this frame dldp has been engaged since several years in dealing with issues of Public Finance Management at the local level, by contributing significantly as well in the national regulatory framework (decentralization strategy, organic law of local self-government, territorial and administrative reform, etc.), including institutional support at national level. In the frame of actual support provided to Ministry of Finance and in close coordination with PLGP (the local governance program of USAID), dldp is planning its contribution in two aspects:

- (i) Contribute in drafting of the new law on local finances under the leading support of PLGP/USAID;
- (ii) Development of an instrument for monitoring the newly transferred functions to the local government.

Dldp organized a focus group meeting inviting as participants experts from line Ministries (those Ministries which have decentralized functions to the local government), representatives from the local level (dldp partner Municipalities of Shkoder and Durres¹) as well as representatives from partner development programs.

Methodology

Dldp aims that through local and international expertise, on the one hand to *inspire the technical debate* on the model on which will be based the new draft law on local finances and on the other hand to start the process for developing a valid instrument for monitoring of functions recently transferred to local level.

By making reference to existing models, good practices and recognized principals in this area and by posing questions concerning the Albanian context, it is aimed that at the end of the discussion the scope of dldp contribution is clarified within the expectations of MoF.

Following the focus group meeting, dldp will develop a detailed action plan regarding its engagement in the process and in support to the Ministry of Finance and the local level.

Seeing such activity as an important milestone for the start of the process of drafting the new law on local finances and the development of an instrument for monitoring of function allocation, dldp considers the participation of experts from line ministries, and from the local level (Municipalities of Shkoder and Durres has a considerable experience with issues of local finances management) as very valuable.

¹ Proposed from PLGP/USAID as potential member of the WG to be established for drafting the law

Presentations by:

Prof. Stefan Pfaeffli – HSLU, Switzerland

Ornela Këmbora – finances expert, Albania

Participants

Valbona Karakaçi	dldp/HIS
Stefan Pfaeffli	dldp back stopper
Ornela Këmbora	dldp expert
Enea Hoti	Adviser to Minister of State for Local Issues
Elda Bagaviki	Swiss Embassy Tirana
Alisa Limaj	Association of Local Autonomy
Adelina Farrici	Executive Director, Association of Local Autonomy
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Mariel Frroku	Specialist, Ministry of Finances
Anisa Kume	Specialist, Ministry of Finances
Mimoza Dhëmbi	General Director of Budget, Ministry of Finances
Fran Brahim	Director of Budget, Ministry of Finances
Sigita Stafa	Swiss Embassy
Dritan Meta	Deputy Mayor of Shkodër
Emilia Koliqi	Deputy Mayor of Shkodër
Mimoza Pilkati	Director of Treasury Operations, Ministry of Finances
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Topic 1: Support ideas for the new law on local finances

Proposal of dldp

Dldp raised discussion on the following elements concerning the debate for the process of drafting the new law on local finances, with an outlook of the identification of dldp contribution into this frame. Process is leaded by Ministry of Finances and PLGP/USAID. The following elements were referred to:

1. Scope of the law
2. Possible content of the law
3. Possible dldp support

Presentation of Prof. Stefan Pfaeffli discussed in details these 4 elements.

1. Concerning the scope of the law, there is place for clarification if there would be opted for a law which regulates (i) Local revenues; (ii) local finance management; or (iii) both revenues and local finance management.
2. Concerning content of the law, it was elaborated on various possible elements:
 - a. Local revenues
=> Logical continuation of ongoing decentralization process
 - b. Management of local finances
=> Multitude of existing laws regulations, directives etc.
=> Need for more consistent and complete PFM guidance in accordance with international standards
 - c. Law with two sections:
Section A on local revenues
Section B on the management of local finances

A possible content of section A would include:

- Definitions
Examples: clarification of the following terms: taxes, fees, charges, (tariffs), ...
- Principles for the allocation of revenue sources, such as
finance follows function, financial autonomy, stability and buoyancy of local revenues, incentives for a smart local fiscal policy-making, etc.
- Local taxes: own taxes and shared taxes
- Local fees
- Grants: non-earmarked and earmarked
- (limited) discretion to set tax rate and fees
- other

A possible content of section B would include:

- Principles, such as: lawfulness for revenue collection and expenditure, fiscal balance between revenue and expenditure, economy principle, effectiveness, polluter pays principle, compensation in case of particular economic benefits, PFM transparency
- Instruments for the management of public finances: SDP, financial strategy, MTBP, annual budget, annual action plan, annual financial and policy report; for each PFM instrument: competences, content and elements, formal requirements, deadlines
- Performance management: Performance plans, performance monitoring and evaluation
- Budget classification: institutional, functional, economic, programme
- Budget rules: binding character of the budget, supplementary credits, procedures in case of delayed approval of the budget
- Budget calendar: including budget in-year and end of year report
- Improved templates: for annual budget, annual financial report, balance sheet (specifying structure and minimum content including annexes)
- Financial management of public investments,
- Asset management (financial and non-financial)
- Payment procedures via single treasury account
- Accounting system and principles: type of accounting system, gross principle, time of recording flows (commitment and payment), valuation rules for stocks and flows, ...
- Consolidation requirements and procedures: Financial control instruments: ceilings, financial key figures
- Financial control procedures and competences: ex ante budget control, in-year control, end of year control; role of internal control and audit, external audit, financial commission, council, oversight by MoF, financial inspection
- Monitoring of strategy and MTBP implementation: competences and procedures
- Sanctions in case of non-compliance

International PFM Standards and tools to be used as Reference for a New Regulation on Local PFM, such as PEFA or IMF Governance Finance Statistics Manual.

3. Possible dldp support is proposed in two steps:

- a. Step 1: Rapid appraisal of current local PFM strengths and weaknesses
 - i. Use PEFA in Shkodër as a starting point;
 - ii. Validate main findings with dldp partner LGUs possibly via self-assessment supported and guided by dldp specialists, limited to selected indicators
 - iii. Report on major findings
- b. Step 2: Assess readiness of municipalities to embrace key PFM reform issues now
 - i. Discuss items for the management of local finances at workshop with partner municipalities; identify support needs
 - ii. Report on acceptability and support needs

Discussions were very comprehensive from all participants and were conducted in a very professional way. Representatives from Ministry of Finances, Minister of State for Local Issues, Local Associations raised issues and gave their stand on the presented elements.

Main findings are as follows:

- There are a number of legal acts which regulate various issues concerning local finances. Thus it should be clarified the extent of coverage of the new law on local finances, as it might have implications on the entire actual legal frame.
- The appropriate model for Albania should include both section A (Revenues) and Section B (Financial Management) in the new law for Local Finances.
- Local government should comply with the IMF standards (suggested 2001 rather than 2014 version);
- Principles of transparency and accountability need to be detailed further. Rules for intervening in the budget (preparation process) are not very clear making the regulation quite fluid.
- PPP are a good instrument in a context where financial resources are limited. Local level does not have enough experience in using of PPP, thus such instrument should be carefully kept under control as may result in [hidden, long term] arrears. Need for regulation within the new law on local finances (risk monitoring, consolidation).
- Actual debts inherited to the new Municipalities might be an obstacle in the process.
- The question of bankruptcy of the Municipality should be addressed properly, defining the way how to deal with the “de facto bankruptcy” and what are the measures and responsible institutions? Ministry of Finance might be responsible for managing such situations.
- Organic law has provided for a fixed ratio of transfers to local government, thus new law on local finances should define that figure and also a formula for local transfers.
- There should be a clarification of financial resources of local government and level of discretion on setting revenues (tax and fees).
- There should be used standard tables and forms for financial reporting. Treasury system needs to be directly accessed by Municipalities.
- It is needed to clarify if we are going towards shared taxes and to include.
- Role of Local associations should be strengthened. The new law might foresee the obligation of Municipalities to finance the Associations.
- PEFA is a good instrument to be used for creating evidences. A simplified set of indicators might be checked with other Municipalities (by dldp in its area of activity) and compared to results of PEFA analysis conducted by dldp in Shkodër.
- The law should be passed early enough (in September 2016) in order to allow its application for the local budgets 2017. However time frame should not affect the quality of the product; it may be the case that the law needs a longer time frame to be finalized.

Topic 2: Developing an instrument for monitoring new local functions

Proposal of dldp

Considering the monitoring of new functions, dldp suggested to include the monitoring of the allocation of functions in the Decentralization Strategy. Based on the organic law on local self-government, a group of new functions were transferred to the local level by January 1st, 2016. Dldp was asked by the Ministry of Finances for supporting the monitoring of the newly allocated functions to the local level. Therefore, dldp is planning its support activities now. However there are some important questions to be answered first.

Main questions:

- What to monitor? and
- How to monitor?

Prof. Stefan Pfaeffli presented its opinion to that regard. He stressed that there are three potential monitoring layers:

- L1 How (well) were functions re-allocated? (Representing the PAST)
 - => Immediately assessable
 - => Identification of potentials for improving the assessment
- L2 How (well) prepared are municipalities to take over new functions? (Representing the PRESENT)
 - => Immediately assessable
 - => Identification of need for support
- L3 How well are new functions implemented by municipalities? (Representing the FUTURE)
 - => Assessable not before 2017
 - => Continuous quality improvement process

Potential methodology Monitoring of the re-allocation of functions refers to the following three dimensions:

- (1) Functional allocation
- (2) Financial allocation
- (3) Administrative power shifts

What is raised for discussion is:

- A. What to address?
 - L1, L2, L3 or all?
- B. Methodological questions / suggestions?
- C. Organizational concerns?
 - Research steering committee (mixed central state and municipalities)
 - Operational research team with international backstopping
 - Contracted service providers

Discussions addressed mainly the raised questions. A number of considerations need also to be made regarding the process of monitoring.

1. Layers to be considered as most important

- Local level was in favor of L2 (urgent) and L3 (important later).
- MoF considered important all layers but more focus to be put on L2 and L3
- Treasury was in favor of L2 and L3.

2. Criteria for the selection of functions

- It was agreed to use the following criteria
 - o Urgency
 - o Development potential
 - o Readiness of Ministries of Line to support the activity

3. Piloting and regulation

It was agreed that L3 monitoring should start with piloting the monitoring of some functions before proposing legal acts on continuous monitoring of all delegated functions.

4. Additional concerns discussed

- At the beginning of discussions for decentralization of functions there have not been considered some issues, such as:
 - Do we need to conduct an analysis for the allocated functions?
 - Are the Municipalities prepared to take over the new functions and implement them?
 - Are there proper instruments in place for the implementation of new functions?
 - Are there other actors (donors) ready to support local level in implementing the functions?
- Decentralization Strategy and organic law of local self-government are the two pillars which provide for the allocation of functions, however, the rationale for the allocation of functions was not clearly defined. Actually the organic law provides for the transfer of more functions than it was previously foreseen by the Decentralization Strategy.
- All the three layers of monitoring are quite important. Ministry of Finance has come with the initiative for the monitoring of the functions as it is directly interested in the financial aspects of the newly transferred functions, however it should be clear that functions are tightly related to other Ministries of Lines, which have decentralized those functions.
- Monitoring should focus on how functions should be implemented in an ideal world.
- Functions might be totally transferred and funded fully by a conditional grant until the situation is more stable.
- The functions transferred to the local level are the right ones; however the remaining problem is how to finance them adequately.
- There is a need of establishing a framework of service standards.
- Over the next three years, Line Ministries that have decentralized functions should play a key role in providing support to Municipalities for implementing the transferred functions and for proposing feasible solutions to the problems encountered.

- A possible methodology of monitoring should consider a periodic monitoring procedure. It should be translated into a legal act which is obligatory for the Municipalities involved in the monitoring process and which defines responsibilities. Ministry of Finance will be in support of such legal act.
- A Possible recommendation resulting from the first year of monitoring process might be used for improving the intergovernmental grant distribution formula.
- Functions to be monitored should be selected among those functions that have a higher impact, not only financial impact but also a development impact. The methodology should be designed in a way that it can provide a situation analysis as well as solutions.
- The process will be supported by dldp. Ministry of Finance and Municipalities of Durres and Shkoder will be close partners. Ministries of Lines and Local Associations will be associated to the process.

Conclusions

Session 1

- Dldp contribution in LFL will be coordinated with MoF and PLGP/USAID.
- Dldp will provide expertise to the working group for drafting LFL (national and international).
- Study conducted with at least two Municipalities, using a simplified set of indicators from PEFA.
- Provide insights in international good practices and expose working group to regional experiences.
- Conduct activities for public consultation focusing on local level.

Session 2

- Due to resource availability and the need for evidence based process, dldp will engage in preparing a methodology for monitoring selected functions. Monitoring will be focused on current and future layers. A function will be selected for piloting and then expanding the sample. Results will be used for drafting uniform procedures for a binding legal act, in collaboration with MoF.
- Municipalities and Ministries of Line, as well as local associations will be included in the process.

Annex 4

Findings of financial diagnosis

The following are the main findings deriving from the analyse of legal frame work:

Current legislation addresses part of the issues identified in the model; In part, current legislation fully in line with model (possibly alternative provisions) Vast areas are uncovered or incomplete: <ul style="list-style-type: none">• Strategic development plans• Fiscal strategy• MTBP• Budget process and the content of reports• Limits for budget reallocation• clear and concrete procedures in case of failed to approve the budget• Balance sheet and consolidation• Resolution of financial problems
Current legislation not user-friendly for municipalities; <ul style="list-style-type: none">• Multitude of laws• Local level only considered partially• Sometimes not clear whether provisions are also applicable for municipalities• Lacking clarity in current legislation especially with regard to municipalities

The following are the preliminary findings of quick financial diagnosis (using PEFA as reference):

No.	Indicator	Dimension	Lezhë	Shkodër	Durrës
Pillar I. Budget Realiability					
PI-1 Aggregate Expenditure Out-Turn					
1	Dimension (i)	Aggregate Expenditure Out-Turn	D	D	D
PI-3 Revenue Out-Turn					
2	Dimension (i)	Aggregate Revenue Out-Turn	D	B	D
Pillar II. Transparency of Public finances					
PI-4 Budget Classification					
3	Dimension (i)	Budget classification	B	B	B
PI-5 Budget Documentation					
4	Dimension (i)	Budget documentation	D	D	D
PI-8 Performance information for service delivery					
5	Dimension (i)	Performance plans for service delivery	D	D	D
6	Dimension (ii)	Performance achieved for service delivery	D	D	D
PI-9 Public access to fiscal information					
7	Dimension (i):	Public access to fiscal information	D	C	D
Pillar III. Management of Assets and Liabilities					
PI-12 Public asset management					

No.	Indicator	Dimension	Lezhë	Shkodër	Durrës
8	Dimension (i)	Non-financial assets monitoring	C	B	C
	PI-13	Debt management			
9	Dimension (i)	Recording and reporting of debt and guarantees	C	C	D
Pillar IV. Policy-based Fiscal Strategy and Budgeting					
	PI-15	Fiscal strategy			
10	Dimension (i)	Fiscal impact of policy proposals	D	D	D
	PI-16	Medium-term perspective in expenditure budgeting			
11	Dimension (i)	Medium- term expenditure estimates	C	D	D
12	Dimension (ii)	Medium- term expenditure ceiling	D	D	D
13	Dimension (iii)	Alignment of strategic plans and medium-term budgets	D	C	D
	PI-17	Budget preparation process			
14	Dimension (ii)	Guidance on budget preparation	D	C	C
	PI-18	Legislative scrutiny of budgets			
15	Dimension (iii)	Timing of budget approval	D	D	D
Pillar V. Predictability and Control in Budget Execution					
	PI-24	Procurement			
16	Dimension (i)	Procurement monitoring	B	A	A
Pillar VI. Accounting and Reporting					
	PI-28	In-year budget reports			
17	Dimension (ii)	Timing of in-year budget reports	D	D	D
	PI-29	Annual financial reports			
18	Dimension (i)	Completeness of annual financial reports	D	C	C
Pillar VII. External Scrutiny and Audit					
	PI-30	External scrutiny and audit			
19	Dimension (ii)	Submission of audit reports to the legislature	D	D	D

The following are the main learnings based on quick assessment and survey where 53 LGU-s participated:

Major learning from PEFA-indicator-based rapid appraisal
<ul style="list-style-type: none"> • There are big discrepancies between initial budget plan and it execution both in terms of revenues and expenditures; • There is no relation between local development plans and MTBP; • The annual budget plan do not reflect the MTBP ; • Fiscal impact of new policies is not assessed for the annual budget plan and MTBP; • There no standards applied for calculating the municipality service costs; • Aggregate expenditure ceilings not used for MTBP and not disaggregated for the departments/ functions; • The Key Working Group / strategic team are rarely established and coherently part of the annual and medium term budgeting; • The budget documentation is incomplete and provides limited information to the municipal council;

- No budget preparation circular (guidance, methodology, instructions) is issued to departments and affiliated units when preparing the annual budget and MTBP document;
- Municipality fails to approve the budget in time and subsidiarity practices are followed to produce solutions. In some cases for almost the entire year was applied the 1/12 previous budget spending provision;
- Timely information on unconditional grants is made available from MoF very late or misleading in one case; while information on conditional transfer is totally missing;
- External audit is applied only randomly usually by the High State Control (HSC) and totally missing from the Line Ministry.

PFM survey from 53 municipalities & input from other experts

- Confirmed the PFM quick assessment on pilot LGUs and also identified some other issues such as:
- Complete legal provisions with instructions and templates needed to facilitate the implementation.
- Arrears are created due to lacking commitment control, unpaid loans, bills/invoices. Arrears should be considered as part of the debt stock.
- Consolidation of the subordinated budgetary units and local utilities not in compliance with EUROSTAT standards.
- No appropriate balance sheet (information on assets, liabilities).
- Weak HR data-base and risk of ghost workers.