

# **Report on findings from the review of current financial management practices in the municipalities**

## **“LOCAL-DRM Strengthen Financial Preparedness”**

“Strengthening Disaster Risk Management Capability at Local Level”

UCPM-2023-TRACK1-IBA - Technical Assistance for Disaster Risk Management

National Civil Protection Agency of Albania

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# 1 Introduction

## 1.1 Purpose of the review

***Most people do not focus on disaster planning until something happens!***

Developing countries are often characterized by rich biodiversity and diverse ecosystems that provide vital services to local communities, including food security, clean water, and climate regulation. However, rapid urbanisation, industrialisation and unsustainable land use practices have placed immense pressure on these ecosystems, causing a range of natural disasters that have generated a broad range of direct and indirect impacts such as loss of life and damage to public and private property and infrastructure, as well as fiscal impacts. In this regard, rebuilding economic and social infrastructure requires substantial financial resources, necessitating the development of financial strategies to manage disasters risks. Having said that, effective financial management is critical for the development and sustainability of municipalities. On this point, central and local government use different tools to manage disaster risks such as reserve funds, contingent credit, insurance of public assets, etc.

Exposed to various natural hazards such as fires, landslides, floods, earthquakes, and snowstorms, Albania has a level of 6.24 of disaster risk according to the World Risk Index 2024 (Bündnis Entwicklung Hilft and RUB 2024)<sup>1</sup>, which is considered relatively high. While the country's exposure<sup>2</sup> to natural hazards is relatively low (2.29), it faces challenges in vulnerability<sup>3</sup> (17.01), particularly due to high susceptibility<sup>4</sup> (11.61) and limited coping capacity<sup>5</sup> (11.10) in immediate disaster response. A major area for improvement is Albania's adaptive capacity<sup>6</sup> (38.18), which suggests significant gaps in long-term resilience and disaster preparedness. To better manage potential risks, Albania would benefit from strengthened infrastructure, improved policies, and enhanced resilience strategies. The 2019 earthquake, whose magnitude was the strongest of any such an event in the last 30 years—highlighted earthquake's potential disruptive impact. It caused extensive damage, totaling ALL 121.21 billion (US\$1.1 billion), to 11 municipalities, including the capital and economic hub Tirana (ALL 35 billion or US\$318 million) and the main tourist hub of Durrës (ALL 37.4 billion or US\$340 million).

Local governments play a key role in facilitating development and improving living standard, as well as treating a range of public policy issues and functions. According to Vazquez (2011), the potential importance of local government finances is based on two main pillars. The core rationale is that local governments are well positioned to improve how public resources are used and that citizens' needs are satisfied. The second justification is the role that local

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<sup>1</sup> See more in: <https://www.ifhv.de/publications/world-risk-report>

<sup>2</sup> Exposure indicates Albania's likelihood of experiencing natural hazards such as earthquakes, floods, or storms.

<sup>3</sup> Vulnerability refers to how susceptible the population and infrastructure are to the impacts of disasters.

<sup>4</sup> Susceptibility is a sub-factor of vulnerability, focusing on the population's likelihood of experiencing harm when a disaster occurs

<sup>5</sup> This metric represents Albania's ability to manage and respond to disasters effectively.

<sup>6</sup> Adaptive capacity is the ability to make long-term adjustments to reduce risk

governments could potentially play in dealing with several contemporary global challenges that broadly, although differentially, affect all countries.

Sustainable economic growth requires the coordination of national policies with their implementation at the local level. In Albania, municipalities are the cornerstone of local governance, responsible for providing essential services and fostering local development. Effective disaster risk management is essential for mitigating the impacts of natural and man-made disasters, ensuring that municipalities can protect their populations and infrastructure. In these regard municipalities in Albania, play a critical role in managing disaster risks and responding to emergencies. The financial systems and procedures in place for managing resources related to disaster risk are crucial for preparedness, response, and recovery.

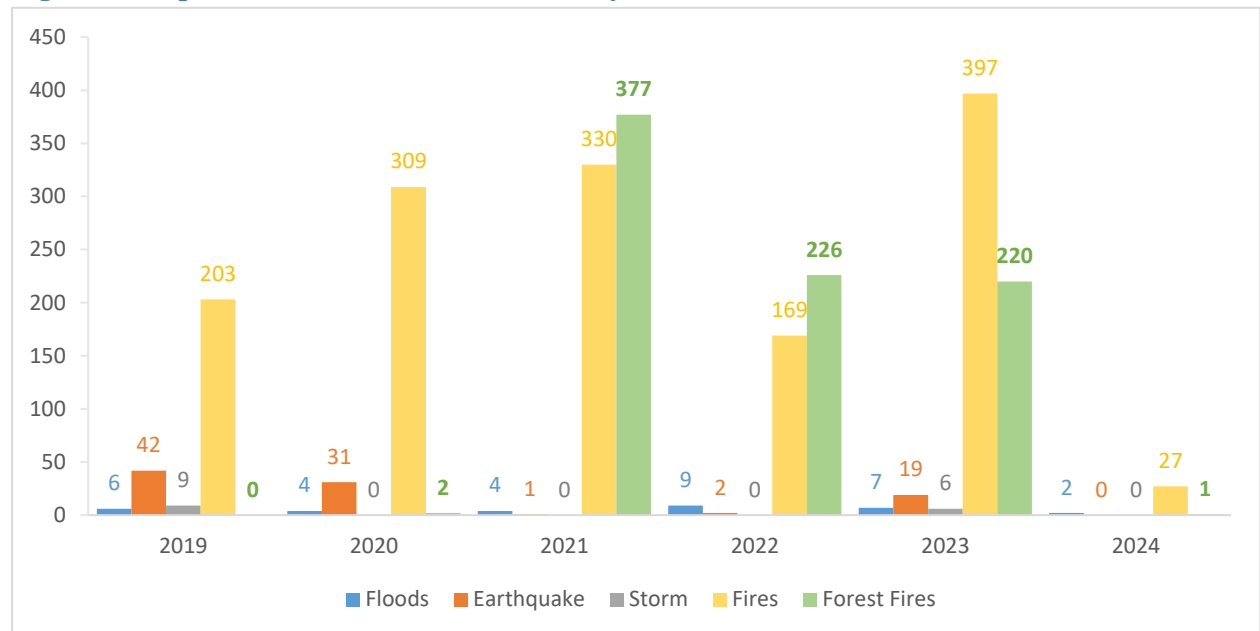
This report provides a comprehensive analysis of the existing financial systems and procedures used to manage disaster-related financial resources in the municipalities. This information can help to present a picture of the strengths and weaknesses of the current financial management practices and will assess their suitability for integrating disaster risk reduction into the financial planning process.

## **1.2 Scope and Methodology**

Considering disaster challenges that Albania is facing during the last years and the cost of damages being significantly higher than in the past, it is of great importance to assess and implement strategic actions in order to respond efficiently to these challenges from a public finance point of view.

DesInventar provides data of disasters and according to it, Albania has been exposed to several natural disasters between 2019 and January 2024, where the most ones included: floods particularly in river basins (32 events), earthquakes (95 events), epidemic (1 event), storm (15 events), fires (1.435 events), forest fires (826 events). Although the database provides data on the number of events and the physical or human damages, it is evident that in most years, information regarding financial losses is not included.

Figure 1: Frequencies of disasters (2019- January 2024)

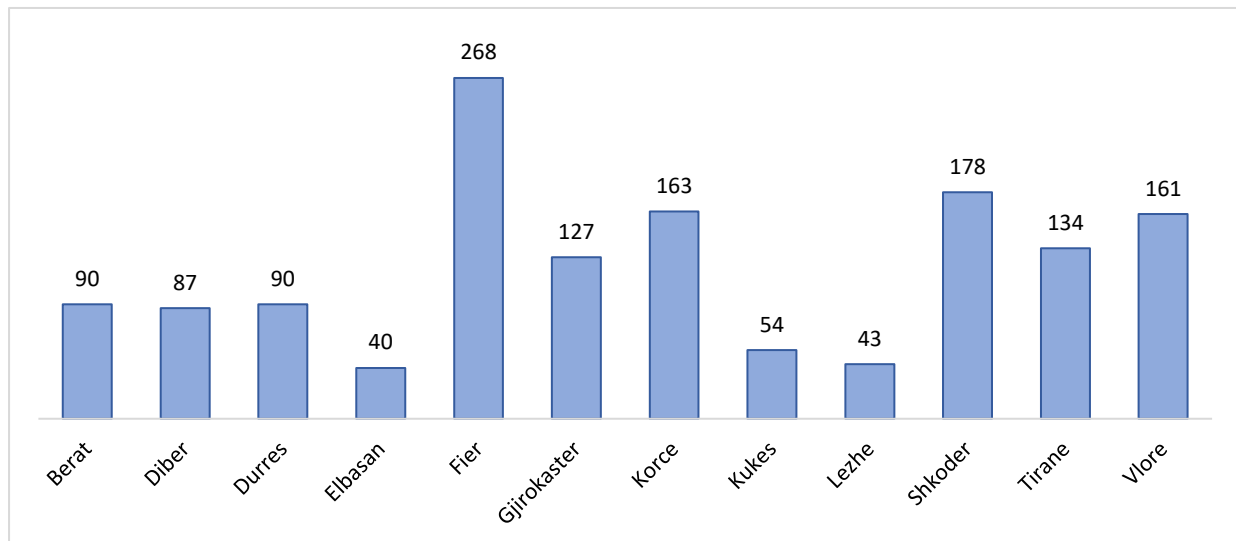


Source: Desinventar (2024)

Fires and mainly forest fires remain two of the most frequent risks for the period considered (2019-January 2024). Fieri, Shkodra, Korça and Vlora are the counties with the largest number of fires for the 5-year period under analysis (see Figure 2). Specifically, the county of Fier counts 268 cases of fires, the county of Shkodra 178 cases of fire, the county of Korça with 163 cases of fire and Vlora with 161 cases of fire. According to Desinventar data, the main causes have been the depreciation of the electric network, electric discharges, explosions of gas cylinders, atmospheric conditions (higher temperatures), negligence, or intentional set fires. The damages were mainly damage or destruction of houses (1182), damages in crops (about 2,155 ha), deaths (87 individuals) and injured (123 individuals).



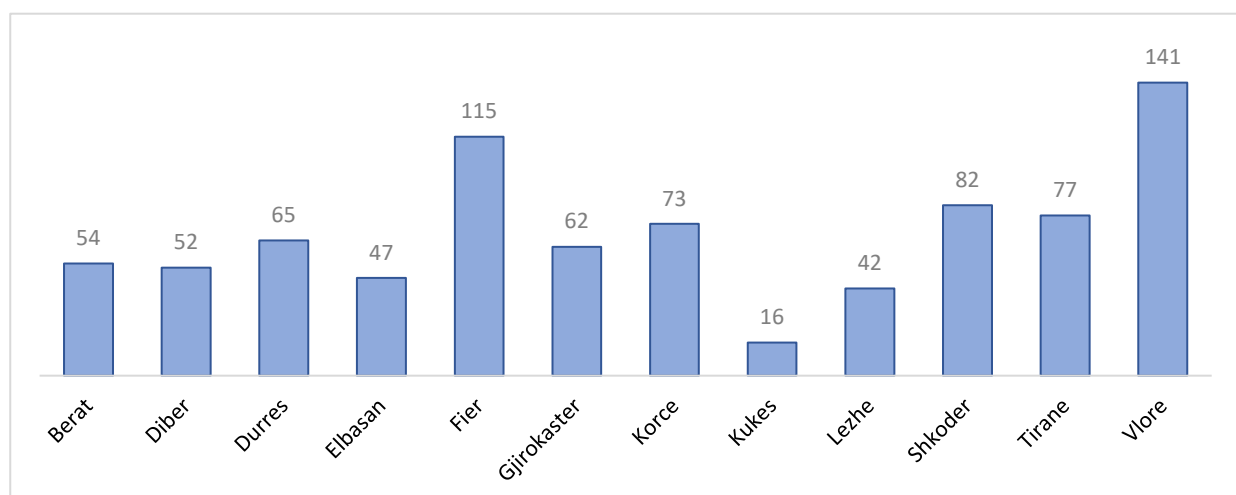
**Figure 2: Frequency of fires (2019-2024)**



Source: Desinventar (2024)

Even in the case of forest fires (Figure 3), the most affected counties remain Vlora (with 141 cases), Fieri (with 115 cases), Shkodra (with 82 cases) and Tirana with (77 cases). The primary causes of the fire are reported to be accidental or careless actions, intentional fires, and sparks from electrical lines or electricity transmitters. The damages primarily included the destruction or damage of 19 houses, damage to approximately 7,170 hectares of crops, one fatality, and two injuries.

**Figure 3: Frequency of forest fires (2019-2024)**

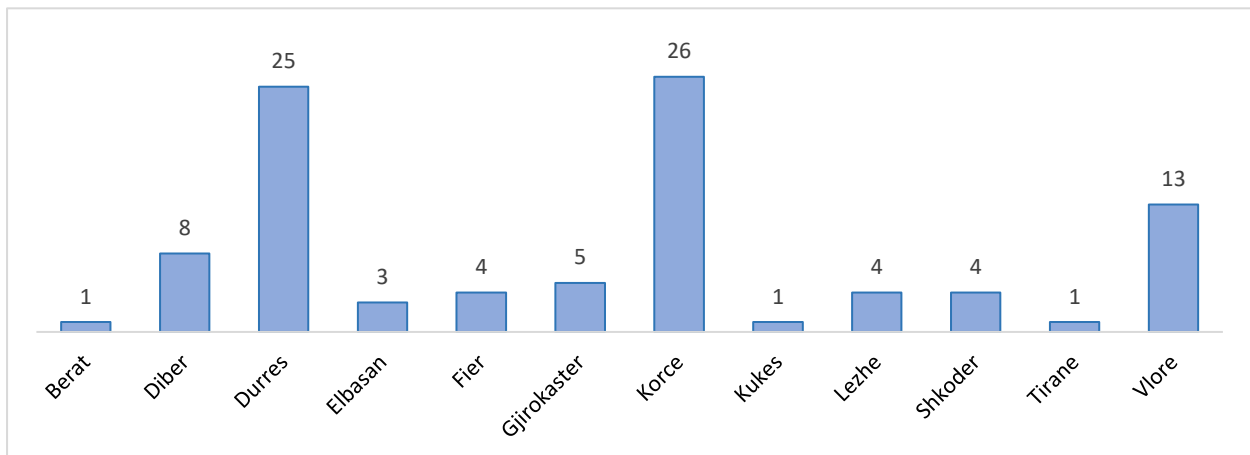


Source: Desinventar (2024)

Earthquakes are among the most frequent natural phenomena in Albania, as the country is situated in a seismic zone. On November 26<sup>th</sup>, 2019, Albania experienced its strongest earthquake in the last decades, resulting in significant impacts, including 51 fatalities and

widespread destruction and damage to houses. For the period 2019-2023, 26 seismic tremors were recorded in Korça, 25 seismic tremors in Durrës (the strongest in 2019) and Vlora with 13 tremors. (See Figure 4).

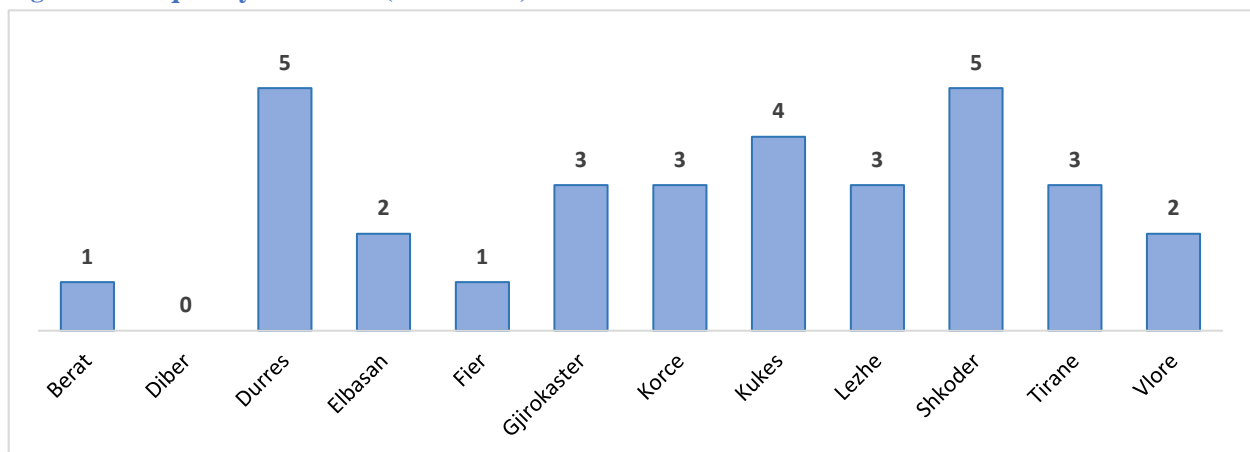
**Figure 4: Frequency of Earthquake (2019-2023)**



Source: Desinventar (2024)

Also, floods remain one of the risks with a high frequency of occurrence in Albania. Mainly, for the period under analysis, Shkodra and Durrësi remain the countys with the highest number of floods (5 cases), followed by Kukës (4 cases). The main causes are atmospheric conditions (heavy rains, overflowing of riverbeds). The damage is mainly in the flooding of lands (8,172 ha), damage to houses (915), disconnection of electricity for the houses and the suspension of the teaching process.

**Figure 5: Frequency of Floods (2019-2024)**

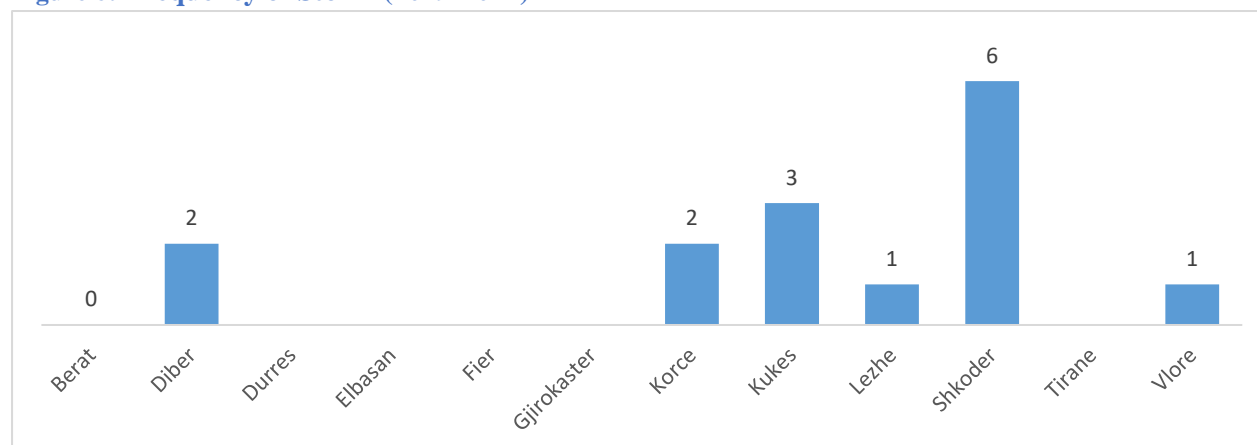


Source: Desinventar (2024)

Furthermore, Shkodra is one of the counties that is most affected by storms as a result of atmospheric conditions with about 6 cases for the examined period, followed by Kukësi (with

3 cases). The damages mainly involve destruction to homes and physical infrastructure. (See Figure 6).

**Figure 6: Frequency of Storm (2019-2024)**



Source: Desinventar (2024)

In Albania, there are several financing instruments to respond to the effects of disasters, such as: *annual budget allocations, donor support, emergency loans or emergency response fund*. Although these instruments reflect important achievements related to disaster risk management in recent years, the need remains for increased investment in disaster preparedness, especially from the financial point of view, in order to reduce natural hazard impacts on vulnerable populations.

Thus, the project team has developed a comprehensive survey on Financial Practices of Municipalities related to Civil Emergencies. This questionnaire was shared to all municipalities across the country with the goal of gathering data on the frequency of natural disasters, planned and actual expenses related to disaster management, the percentage of municipal budgets allocated for disaster prevention and management, and how these funds are used. Additionally, the survey seeks to identify the current practices municipalities follow for disaster risk management. The results will help the project team to design training programs tailored to the actual needs of the municipalities and developing recommendations for integrating disaster risk reduction into the financial planning process.

In this context, the report recommends *ex-ante risk* financing instruments (such as annual budget allocation, reserve fund and contingent credit) that in contrast to *ex-post* financing, reduces liquidity risks and uncertainties around financing after a disaster, and avoids extra charges associated with funding. In this way, ex-ante risk financing instruments contribute to develop a resilient public finance against disasters.

### 1.3 Overview of Disaster Risk Management in Municipalities

Disasters can slow down economic growth and reduce local revenue by destroying private assets, affecting businesses, and causing supply chain breakdowns. In the case for uninsured disasters – it was estimated that such disasters can slow down economic growth by an average of 0.6 – 1 percent and cause cumulative output loss of two to three times this magnitude (von Peter, Von Dahlen, and Saxena 2012). A disaster’s local impact can also spread to the national economy, as insolvencies and loan defaults create a domino effect (World Bank, GFDRR, and SECO 2016).

The macroeconomic costs of natural disasters, including the immediate decline in GDP growth and the cumulative, permanent GDP loss during the years following a major disaster, affect the municipalities’s budget. Natural disasters can also escalate borrowing costs, especially for already highly indebted nations. In this regard, the municipalities’s central role in natural disaster emergency relief, recovery, and reconstruction implies a large and direct financial burden. During and directly after an event, the municipality is required to provide emergency relief to the affected population. These costs tend to be small in terms of the event’s overall costs but require immediate mobilization of funds and can pose major fiscal risk. In the table below, are presented the direct and indirect financial effects of disasters:

**Table 1: Direct and indirect financial effects of disasters**

Municipality	
Direct	Indirect
Emergency response and recovery expenditures	Decreased tax revenue due to economic disruption and declines in GDP growth
Reconstruction expenditures for uninsured/underinsured public infrastructure, public buildings, etc	Opportunity cost of diverting funds from development and social programs to disasters response and reconstructions
Costs for improvements of reconstructed infrastructure, as well as for relocation of at-risk population.	Increased domestic/international borrowing costs
Expenditure on social and economic recovery support programs	Increased expenditures for social support programs
	Migration due to disaster impact (loss of livelihoods)

Based on this table, one the most serious effect of disasters is that they can hurt public finances, mainly because the fiscal balance weakens as expenditures rise and the tax base shrinks. Also, the long-term development prospects suffer as the municipality diverts public funding from social and economic development programs to fill these gaps.

Albanian municipalities are experiencing heightened vulnerability to natural disasters. As we examine their consequences several issues must be considered, as for example:

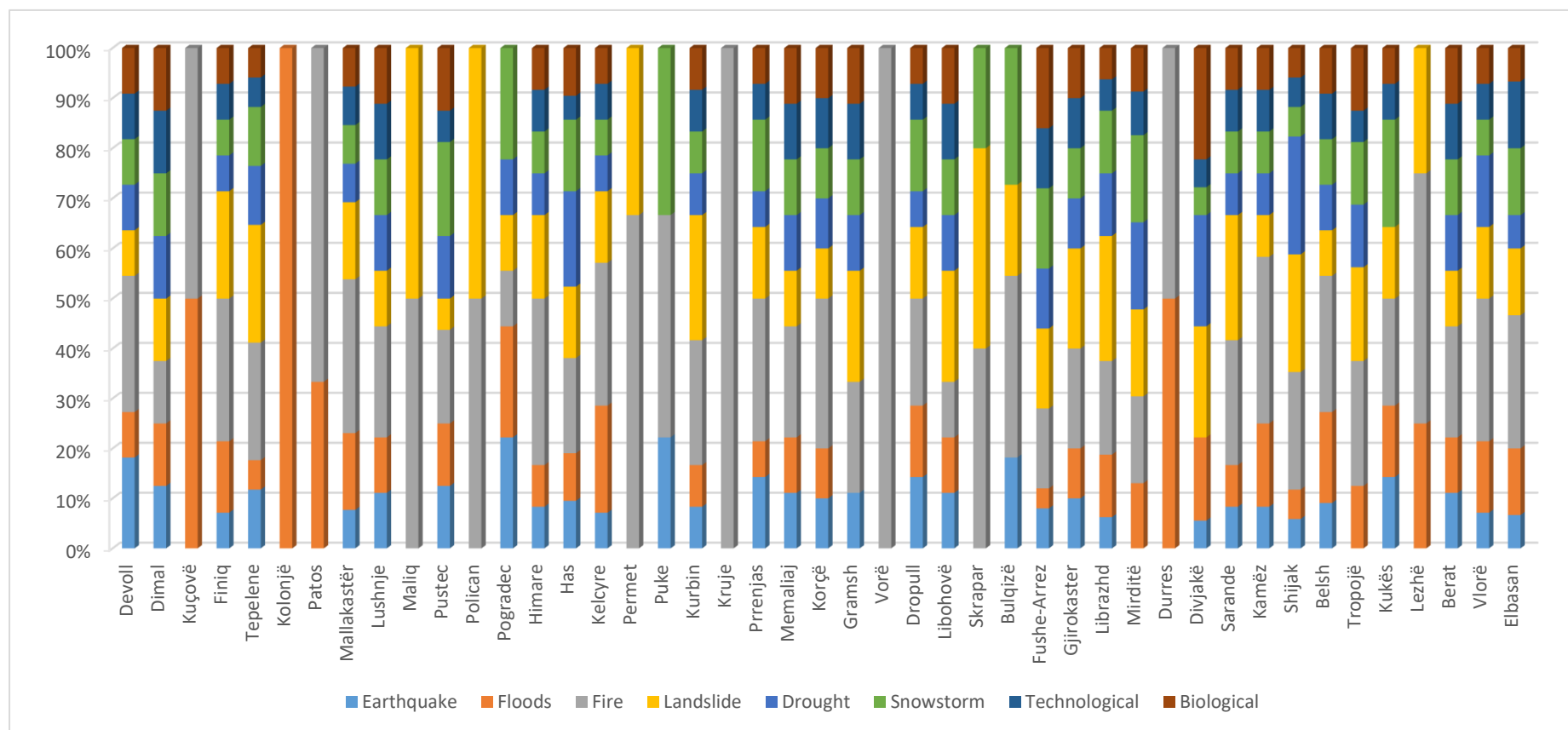
- Many municipalities lack the knowledge, capacity, and resources to deal with natural disasters. After a disaster, the public sector is often paralyzed by damaged infrastructure and unable to cover the costs of emergency and relief efforts.
- Lack of overall risk planning and investment in physical resilience measures, with too much focus on post-disaster response, leads to increased loss of life, suffering, and damage.
- Some municipalities are more exposed to natural disasters, particularly through a higher dependency on agriculture and increased vulnerability to the natural environment. Due to lower levels of financial preparedness, they are less capable of protecting themselves.

Efforts have been made to strengthen the foundations for risk assessments, such as the collection of data on hazards exposures, vulnerabilities, and losses. Furthermore, Municipalities have made efforts to implement systems and tools, or to create their databases in order to track disaster impacts and losses. This information provides input for future disaster risk assessment, but it is also critical for the provision of compensation for disaster response and recovery.

In order to analyze disaster risk management, the municipalities were asked the following questions:

***What natural disasters have occurred during the last 3 years and what is their frequency?***  
Through this question it was intended to identify which is the most frequent disaster for each of the municipalities that were responded. From the answers returned, it results that:

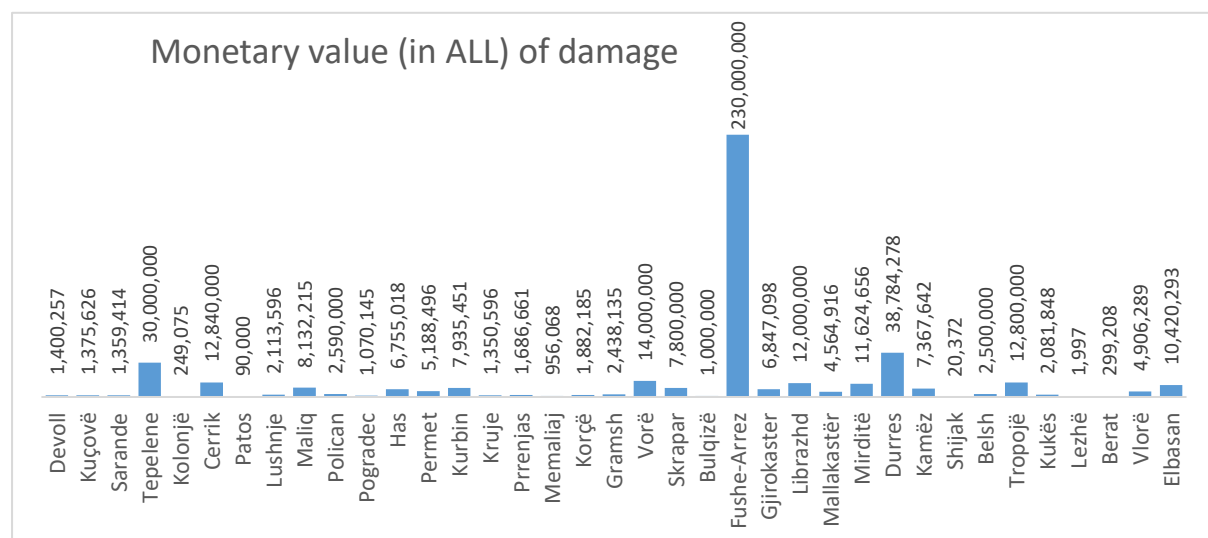
Figure 7: Natural disasters and their frequency that have occurred during the last 3 years



Fires and landslides seems to be the most frequent disasters in several municipalities. About 48% of Municipality has experienced more than 5 fire occurrences annually, especially in areas like Delvinë, Finiq, Tepelene, Përmet, Himarë, Has, Kelcyre, Puke, Prrenjas, Skrapar, Bulqize, Fushe-Arrez, Mirditë, Vlorë, Elbasan, Lezhë. While 24% of them (Kukës, Sarandë, Devoll, Kurbin, Kruje, Dropull, Vorë, Librazhd) have reported 3-5 fire occurrences per year. Floods and snowstorms also occur frequently in specific regions, requiring more robust preparedness in places like Fushe-Arrez. Earthquakes, droughts, and technological disasters are less frequent but still pose risks that vary across municipalities. Given the variability in disaster frequency, municipalities with higher occurrences of certain disasters should focus on tailored disaster preparedness plans. For example, Fushe-Arrez may need stronger measures for fires, landslides, and snowstorms, while Pukë, Durrës, Bulqizë, Pogradec, Tepelenë, Kukës should prioritize responses to fires and earthquakes.

***Please determine the damages of these natural disasters for the year 2023 in monetary value (ALL).*** This question determines the damages of these natural disasters for the year 2023 in monetary value (ALL).

**Figure 8: Monetary value (in ALL) of damage**

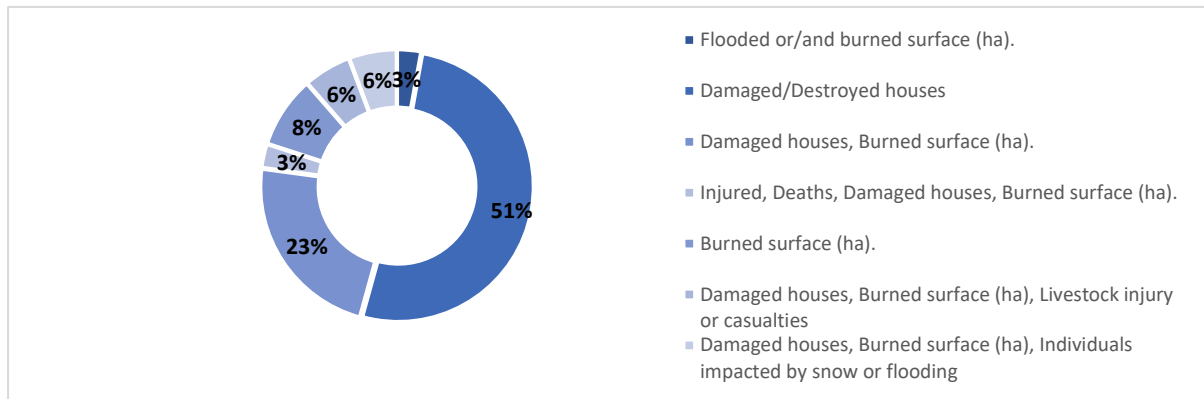


These results show that the greatest damages in monetary value were caused in the Municipalities of Fushe Arrez, Durrës and Tepelene.

***Please determine the damages of these natural disasters for the year 2023 in physical measurement units (Number of destroyed/damaged dwellings; Flooded/burnt areas (in ha); Number of livestock (Cattle/Small) drowned; Number of families blocked by snow).***

According to this question, the damages of these natural disasters for the year 2023 were determined in physical measuring units.

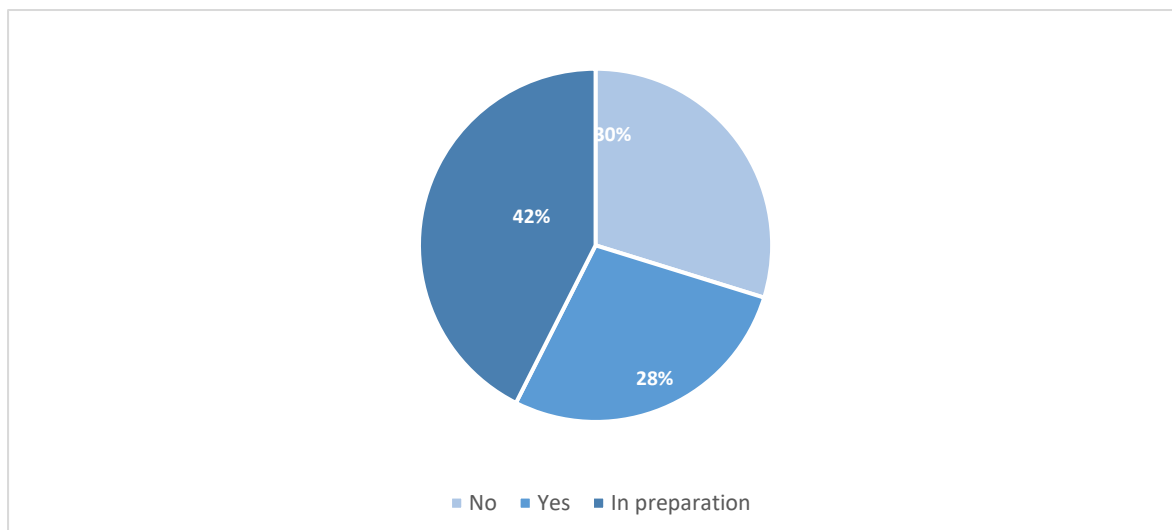
**Figure 9: The damages of natural disasters for the year 2023 in physical measurement units**



According to the data the most reported damages involve either houses or burned surfaces. There are 18 instances of damaged or destroyed houses, and 8 cases involving both damaged houses and burned surfaces. A single case includes a combination of injuries, deaths, damaged houses, and burned surface reflecting a severe impact.

A particularly important question was the question “*Does your municipality have a financial plan for recovery from civil emergencies?*”

**Figure 10: Does your municipality have a financial plan for recovery from civil emergencies?**

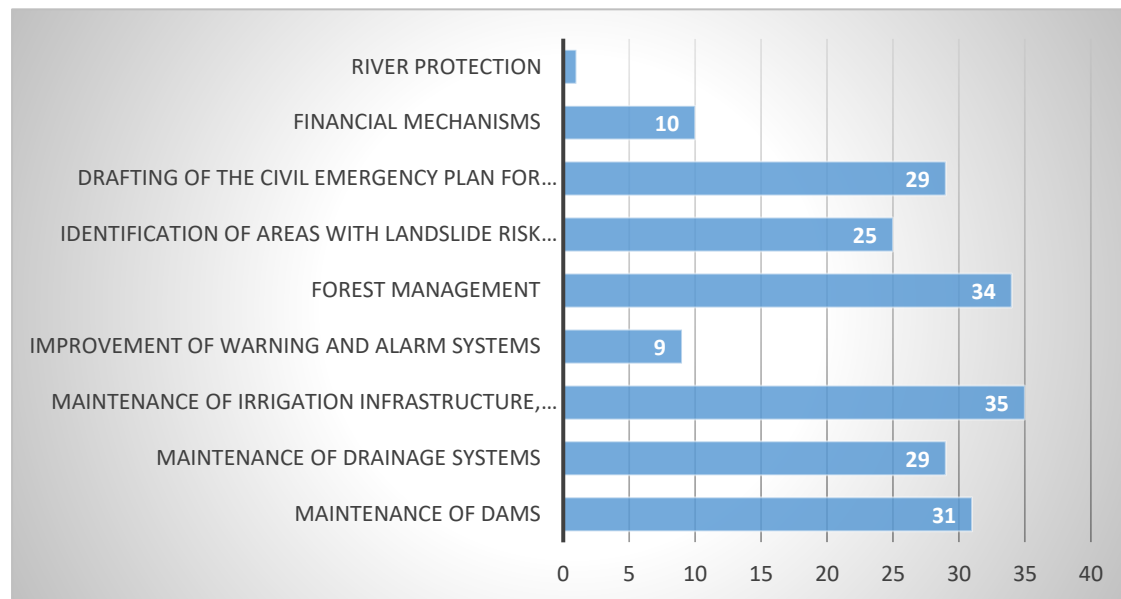


According to the answers given, 28% of the responding municipalities have a financial plan for recovery from civil emergencies, while 30% state that they do not have one. Also, 42% of the responded municipalities are in the process of its preparation.



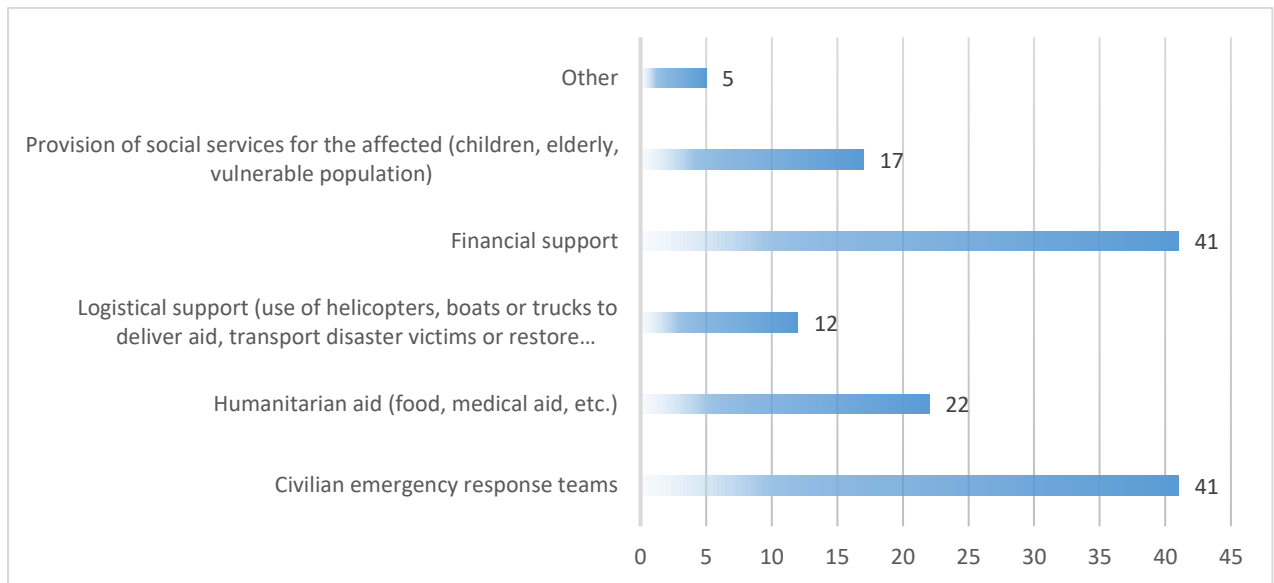
The question “*What mechanisms are used to prevent loss/damage from natural hazards?*” aimed to identify the mechanisms used to prevent losses/damages from natural hazards. The results obtained are presented below and it is noted that the most used mechanism are *Maintenance of irrigation infrastructure, drainage and reservoir dams* (70%) and *Forest Management* (68%), while the less used is *River Protection* (2%).

**Figure 11: Mechanisms used to prevent loss/damage from natural hazards**



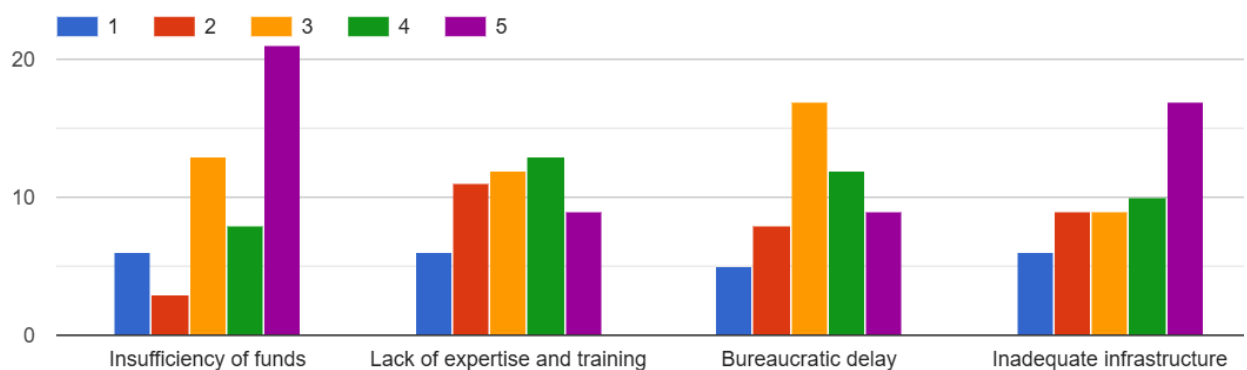
An other important question was “*What mechanisms are used to cover the consequences of natural disasters?*”. From the results, it was observed that most of the responding municipalities used *Civilian emergency response teams* (80.4%) and *Financial support* (80.4%) as the most used mechanism to cover cover the consequences of natural disasters.

**Figure 12: Mechanisms used to cover the consequences of natural disasters**



Municipalities are asked *to Rank in order of importance (1 – least important, 5 – most important) the challenges faced by your Municipality in managing finances for preparing and responding to natural disasters*. From the answers it was noticed that *Insufficiency of funds* (21) and *Inadequate Infrastructure* (17) are considered as the most important challenges faced by municipalities in managing finances for preparing and responding to natural disasters. While *Bureaucratic delay* considered as the least important challenge faced in this regard.

**Figure 13: Challenges faced by your Municipality in managing finances for preparing and responding to natural disasters according to their importance**



## 2 Governance and Institutional Framework

Disaster management is considered a major issue, with the Ministry of Defense responsible for this at a national level. Accordingly, the Ministry is responsible for coordinating and facilitating the development and implementation of national disaster risk reduction policies and plans while also coordinating disaster response and recovery efforts. The Albanian government has also established the **National Civil Protection Agency**, responsible for coordinating disaster response and recovery efforts. It works closely with other government agencies, non-governmental organizations, and community-based organizations to ensure an effective and coordinated response to disasters.

The financial management system in Albanian municipalities is guided by a robust legal and regulatory framework. Key legislation includes the **Law no.68/2017 “On Local Finances”**<sup>7</sup> and the **Law no. 139/2015 “On Local Government”**<sup>8</sup>, which outline the financial responsibilities of local governments and establish the principles for budget preparation, revenue collection, and expenditure management. The **Ministry of Finance and Local Government Authority** play pivotal roles in overseeing and guiding municipal financial practices.

Municipalities are required to adhere to national accounting standards and regulations, which ensure consistency and transparency in financial reporting. Additionally, the **State Supreme Audit Institution (SSAI)** conducts audits to ensure compliance with financial regulations and to assess the effectiveness of financial management practices.

### 2.1 Roles and Responsibilities of Municipal Officials

The effective management of disaster risks is a key public policy challenge for the central and local government, particularly those faced with significant exposures to such risks or limited capacity to manage the impacts of disasters. The legal and institutional framework for Disaster Risk Management (DRM) in Albania is designed to ensure the safety and resilience of communities against various hazards. This framework is guided by several key laws and regulations that outline the responsibilities and roles of different governmental levels and agencies.

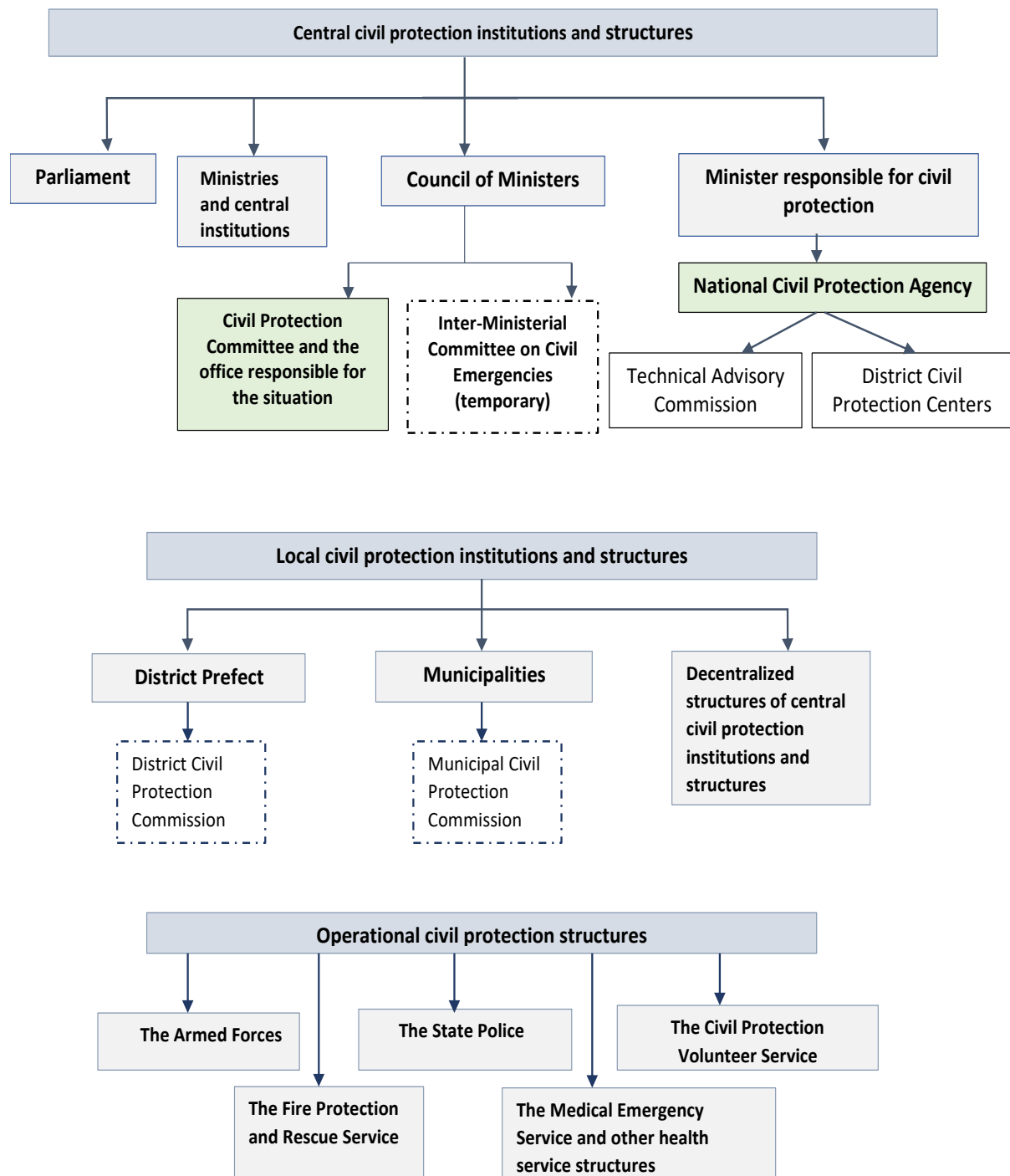
Albania has recognized national structures for disaster preparedness and emergency operations. Several key stakeholders are involved in disaster risk management and financing in Albania, collaborating with the National Civil Protection Agency (NCPA) to play a crucial role in implementing policies on disaster risk reduction and civil protection, determine post-disaster management and financing etc. The **Law no. 45/2019 "On civil protection"** has brought a clear hierarchy of functions and their responsibilities. The figure below outlines these stakeholders:

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<sup>7</sup> See more in: Law No. 68/2017 "On local finances", <https://qbz.gov.al/eli/ligj/2017/04/27/68-2017>

<sup>8</sup> See more in: Law No. 139/2015 "On local self-government", <https://qbz.gov.al/eli/ligj/2015/12/17/139>

Figure 14: Civil protection institutions and structures



Source: Law no. 45/2019 "On civil protection"

In more detail, the responsibility of each structure is described as below:

➤ **Institutions and central structures of civil protection which are:**

- The *Parliament*, which approves the budget of the NCPA, as part of the budget of the ministry responsible for civil protection; exercises parliamentary control over issues related to civil protection; ratifies international agreements on civil protection; decides to extend the state of disaster beyond the 30 days announced by the Council of Ministers.
- The *Council of Ministers* approves and ensures the implementation of policies for disaster risk reduction and civil protection in the Republic of Albania and has the following responsibilities: approves the National Strategy for Disaster Risk Reduction in the Republic of Albania; approves the National Plan for Civil Emergencies; approves the risk assessment document at the central level; can decide for a period not longer than 30 days the state of natural disaster in part or all of the country's territory; informs the Assembly of the Republic of Albania through the minister about the created situation, the risks that are presented and the measures taken to manage the situation, as well as requests the approval of the Assembly of the Republic of Albania for the extension of the state of disaster beyond 30 days.
- The *Interministerial Committee of Civil Emergencies*, which is the highest body for coordinating and harmonizing the actions of state institutions and private entities, as well as material and financial resources for dealing with natural disasters. It performs these tasks: coordinates all the activities of institutions and civil defense structures; determines the ways and procedures for the use of material and financial resources; decides the distribution of funds for recovery from natural disasters; appoints the central manager of the natural disaster management operation; performs other tasks arising from this law and special tasks assigned by the Council of Ministers for dealing with disasters.
- The *Civil Protection Committee (CPC)* and the office responsible for the situation. KMC is the highest, permanent body responsible for the implementation of policies for disaster risk reduction and civil protection in the Republic of Albania. The office responsible for the situation is the structure under the Prime Minister for collecting information on civil emergencies, crises and drawing up periodic analytical reports for the Prime Minister, the Council of Ministers and the KMC, as well as maintaining continuous communication between the Council of Ministers and other structures of the charged with civil emergency and crisis functions. The organization and functioning of the KMC, as well as the inter-institutional cooperation of the institutions and structures of the civil defense system, are determined by the decision of the Council of Ministers, with the proposal of the minister.
- The *Minister responsible for civil protection*, who: determines the strategic directions and objectives of the National Civil Protection Agency; designs and oversees the implementation of disaster risk reduction and civil protection policies; periodically informs the Council of Ministers regarding disaster risk reduction and civil protection; supervises the management of the budget of the National Civil Defense Agency, according to the financial legislation in force.

- *Ministries and central institutions* have the following duties: draft, approve and update the plan for civil emergencies, according to the area of state responsibility, and send it to the National Civil Protection Agency for analysis and planning purposes; plan the annual budget for disaster risk reduction and civil protection, according to the area of their state responsibility. **For ministries responsible for civil protection, defense, internal affairs, transport, infrastructure, agriculture, health, energy, education, environment and culture, budget planning should be from 2% to 4% of the total annual budget;** organize and maintain monitoring, early warning, notification and alarm systems in the field of their activity; within 2 years from the entry into force of this law, create a database of losses from disasters in the area of their responsibility, which they maintain, update, and exchange information with the NCPA; continuously inform the NCPA regarding the various activities in the field of disaster risk reduction and civil protection; analyze the existing state of administrative, technical and financial capacities for civil protection, with the aim of their continuous improvement, and inform the NCPA about them at least once a year; carry out disaster loss assessment, according to the area of responsibility; engage all the capacities available to deal with disasters.
- The *National Civil Protection Agency* is a central public legal entity under the responsibility of the minister responsible for civil protection and is responsible for reducing the risk of disasters and civil protection, throughout the territory of the Republic of Albania. The NCPA is organized as the general directorate at the central level, while at the local level it is organized on a county basis, according to the civil defense centers in the county. It exercises these main tasks: implements the policy of the Council of Ministers in the field of disaster risk reduction and civil protection; implements the strategic directions and objectives defined by the ministry responsible for civil protection; coordinates and co-ordinates the work for the drafting of the National Strategy for Disaster Risk Reduction, the National Plan for Civil Emergencies and disaster risk assessment at the central level; cooperates with international organizations and international homologous organizations in the framework of civil protection and disaster risk reduction; plans funds for taking preventive and rehabilitative measures against disasters, in the damaged infrastructure, as well as other activities in the field of civil protection, the criteria and procedures of which are determined by the decision of the Council of Ministers; creates and implements the methodology for drafting plans for civil emergencies; promotes forms, methodologies, traditional ways of gathering, recording, processing and disseminating disaster information; ë) through the National Training Center for Civil Protection, conducts training for state structures, private and voluntary entities; prepares the training program for civil defense structures, at the central and local level; enters into agreements with non-profit organizations or other legal entities, inside and outside the country, regarding civil protection; performs the inspection for the implementation of several positions of this law on civil protection for state institutions and structures and private entities.

- The *technical advisory commission*, which is created and operates in the ministry responsible for civil protection, under the direction of the NCPA, advises on reducing the risk of disasters.
- *County Civil Protection Centers* (DCPC) are dependent structures of the NCPA. There are 4 (four) Civil Protection Centers located in four development Regions which make up the specialized institutional network, to implement the tasks for disaster risk reduction and civil protection in the county.
  - **Local civil protection institutions and structures that include:**
- The *Prefect of the County*, who has a primary role in reducing the risk of disasters and civil protection at the county level and has the following duties: to return the budget of the following year to the municipalities within his administrative territory, in case budget funds are not planned for taking measures to reduce the risk from disasters and civil protection; carries out risk assessment in the territory of the respective county, drafting and approving the disaster risk assessment document at the county level, which is sent to the National Civil Protection Agency for the purpose of analysis and planning; coordinates the activity of the bodies, institutions and structures that operate at the county level, with the aim of reducing the risk from disasters and civil protection and after the exhaustion of all capacities within the county to cope with the civil emergency or disaster, requests assistance from the National Defense Agency for intervention Civil; cooperates with the municipalities to carry out the assessment of the risk of disasters in the county, as well as to inform the public and the community at risk of disasters in relation to them; drafts, approves and updates the Plan for Civil Emergencies in the county and sends it to the National Civil Protection Agency for the purpose of analysis and planning; collects and processes the necessary data from the municipalities and other structures operating at the county level, for disaster risk reduction and civil protection, as well as continuously informs the National Agency of Civil Protection; ensures the functioning of the monitoring, early warning, notification and alarm system in the county territory and informs the endangered community, prefects of neighboring counties, as well as the National Civil Protection Agency about disasters in the county territory; takes the necessary measures to cope with and alleviate the consequences of disasters; coordinates the distribution of international assistance in cases of disasters at the county level; determines the priorities for the needs of the National Civil Protection Agency, the necessary emergency investments at the county level, in order to prevent, protect and rehabilitate from disasters; within 2 years from the entry into force of this law, creates a database of losses from disasters at the county level, which it maintains and updates, as well as exchanges information with the National Agency of Civil Protection and, as the case may be, with prefects of neighboring counties; coordinates the operational forces at the county level in the event of disasters and appoints the head of the operation at the county level; cooperates with the municipalities of the county and prefects of neighboring counties, in the implementation of tasks



related to disaster risk reduction and civil protection, in order to unite their capacities for dealing with common issues in this field; engages the capacities within the county to deal with situations created by disasters, as well as the citizens, according to the provisions of Article 26 of the Constitution of the Republic of Albania; in the event of a civil emergency or disaster, has the duty to disseminate and exchange information with the NCPA, local self-government units and prefects of other affected or endangered counties, as well as to promote and coordinate the taking of the necessary measures for coping with the situation, monitoring and implementation of emergency services, activation of institutions and administration for specific interventions; controls the implementation of the measures taken by the county municipalities for disaster risk reduction and civil protection; Directs a request for support to the NCPA, according to the request made by the municipalities.

- The *Civil Protection Commission* at the county and municipality level, which are created and function under the direction of the county prefect and the mayor, respectively.
- The *Municipalities*, which have the following tasks: within 2 years from the entry into force of this law, carry out the risk assessment in their territory, drafting and approving the disaster risk assessment document, which they send to the county prefect and the National Agency of Civil Defense, for analysis and planning purposes; inform the public and the endangered community, based on the disaster risk assessment document; design and review the strategy for reducing the risk of bad weather; draft, approve and update the local plan for civil emergencies and send it to the National Civil Protection Agency and the county prefect, for analysis and planning purposes; organize training activities in the field of civil defense for employees and residents in their territory; ensure the functioning of the monitoring, early warning, notification and alarm system in their territory and timely inform the endangered community, the National Agency of Civil Protection and the county prefect about disasters in the territory of the county; provide, administer and update the necessary data for citizens and for private entities, possible to plan and engage in disaster prevention and coping; within 2 years from the entry into force of this law, create a database of disaster losses for the territory of the municipality, which they maintain and update, as well as exchange information with the county prefect and the National Civil Protection Agency; carry out preventive, protective and rehabilitation investments from disasters and inform about these investments continuously to the prefect of the county, as well as to the National Agency of Civil Protection; appoint the head of the operation at the municipality level for coping with the disaster in its territory; carry out the assessment of the damages caused by the disasters in their territory, the assessment of the needs for coping with them, as well as compensate the citizens for the disasters that happened in their territory; cooperate with neighboring municipalities in the implementation of tasks related to disaster risk reduction and civil protection, with the aim of joining their capacities to deal with common issues in this field; keep the fire protection systems in readiness, the uninterrupted passability of rural roads,



shelters, as well as collect and administer food reserves for people and living things; activate the capacities of public and private entities within their administrative territory, cooperate and assist neighboring municipalities and take any other necessary measures to cope with and alleviate disasters; keep in readiness the infrastructure of irrigation, drainage, flood protection and reservoir dams under their administration.

- The *decentralized structures of the institutions* and the central structures of civil protection, which operate at the local level, are actively engaged in reducing the risk from disasters and civil protection, as well as being an integral part of the civil protection commissions, at the county and municipality level.

#### ➤ **The operational structures of the civil protection**

These structures have as their goal the management of disasters, they perform activities separately or in cooperation with each other, in accordance with the provisions of this law, the relevant legislation and the National Plan for Civil Emergencies. They carry out activities related to planning, search and rescue, providing aid and assistance in case of disasters, safety and protection of the civil emergency area, recovery of damaged areas, as well as any other activity to cope with the created situation. These structures include:

- The *armed forces*, which: engage in disaster management cycle operations, if other available capacities are insufficient for this purpose, supporting institutions, central and local authorities and the community; develop interactive capacities, necessary to cooperate with the Euro-Atlantic collective security structures for dealing with disasters.
- The *state police*, which is organized and performs its duties in rescue and relief operations, according to the previously drawn up plans, as well as joint plans with other institutions for civil defense issues. Its duties include the protection of the civil emergency area, the preservation of public order, the process of identification and information about the injured and victims, their removal from the emergency area, as well as other duties arising from the implementation of the legislation in force for State Police.
- The *Fire Protection and Rescue Service* is an integral part of operational forces in permanent readiness and acts to extinguish fires, to search and rescue people in areas of civil emergency and to alleviate the consequences of natural or other disasters.
- The *Medical Emergency Service and other health service structures* are an integral part of the operational forces and act to provide first aid in the civil emergency area and to transport the injured to hospital centers.
- *Service of volunteers for civil protection*. Every citizen of the Republic of Albania contributes voluntarily to the management of disasters and to the reduction of their consequences. Volunteers can be offered individually or in organized groups, such as non-profit structures, but in all cases, depending on the created situations and the needs of the civil defense system, their tasks are assigned by the central and local civil defense institutions or structures. The

treatment of volunteers for their engagement in civil defense activities or disaster prevention and coping operations is approved by decision of the Council of Ministers, on the proposal of the minister.

## 2.2 Legal and Institutional/Regulatory Framework for Disaster Risk Management

According to the current administrative-territorial division, Albania is organized in 61 municipalities and 12 Counties. The establishment and functioning of the local government in Albania are guaranteed by the Constitution of Albania<sup>9</sup>, the European Charter for Local Self-Government<sup>10</sup> and the Law no.139/2015 “*Local Government*”, amended. These documents provide a clear definition of governance levels in Albania and how they function.

Another aspect of local government budgets in Albania, is their dependency on fiscal transfers from the state budget, as the main source of revenues especially for smaller local government units. This dependency is a consequence of low economic capacities and business activity of certain regions, as well as conditioned by the lack of financial instruments for fund generation in form of debt or other financial market instruments by the municipalities.

The financial management of disaster risk in Albanian municipalities is governed by a legal and institutional framework designed to ensure effective preparedness and response. Key elements include:

- **Law no. 45/2019 "On civil protection"** This law establishes the framework for disaster management in Albania, detailing the roles and responsibilities of various government levels, including municipalities. It outlines procedures for risk assessment, emergency response, and resource allocation. This law focuses on reducing disaster risks and improving the protection of human life, property, livestock, cultural heritage, and the environment, by strengthening the civil protection system. According to the Law, *Article 30*, Municipalities has many responsibilities related to risk assessment, public information on the disaster risk assessment, data management; preventive investment and infrastructure maintenance; and they should activate public and private resources within their territory, assist neighboring municipalities, and take necessary measures to manage and mitigate disasters. Also, according to the *Article 11*, each local self-government unit shall approve, at least every five years, by a decision of the municipal council, the local strategy for disaster risk reduction, which shall be harmonized with

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<sup>9</sup> Approved with Law no.8417, date 21.10.1998 ‘The constitution of Republic of Albania’, URL: <https://portavendore.al/wp-content/uploads/2018/04/Kushtetuta-e-Republikes-se-Shqiperise-1.pdf>

<sup>10</sup> Approved with Law no.8548, date 11.11.1999 “Për ratifikimin e Kartës Evropiane të autonomisë vendore”, URL: [http://portavendore.al/wp-content/uploads/2018/04/LIGJI-NR\\_8548\\_11.11.1999-PER-RATIFIKIMIN-E-KARTES-EUROPIANE-TE-AUTONOMISE-VENDORE-1.doc](http://portavendore.al/wp-content/uploads/2018/04/LIGJI-NR_8548_11.11.1999-PER-RATIFIKIMIN-E-KARTES-EUROPIANE-TE-AUTONOMISE-VENDORE-1.doc)

the National Strategy for Disaster Risk Reduction, which is the basic strategic document of the Republic of Albania that defines the policies and activities of institutions and central and local structures, as well as all other entities in disaster risk management and is approved by the Council of Ministers, upon the proposal of the minister. It is revised, no less than once every five years, by the Council of Ministers, on the proposal of the minister. *Article 14* of this Law highlights the Plans for civil emergencies, which define the measures and activities for the prevention and coping of disasters, as well as the capacities, engagement, and organized action in emergencies for the protection of people's lives, living things, property, cultural heritage and the environment. They are drawn up based on disaster risk reduction strategies, disaster risk assessment documents, civil defense capacities, new expert findings, as well as experiences gained in disaster management. The local plan for civil emergencies is approved by the decision of the municipal council and must be harmonized with the National Plan for Civil Emergencies, the county plan for civil emergencies and the local plans for civil emergencies of neighboring municipalities. *Article 41* of the Law emphasizes the right to compensation, according to which the damages are borne by the municipalities themselves affected by the disaster, through the fund dedicated to civil protection. In case the municipalities do not have enough funds for compensation, then they plan them for the following year, up to the amount of compensation of the damaged entities. In case the value of the compensation exceeds 8% of the municipality's budget, the National Protection Committee decides that the compensation will be carried out by the NCPA.

One of the most important principles that this law emphasizes is that of *subsidiarity*, according to which: *When protection, rescue and assistance are required in case of a natural disaster, the capacities of the local self-government unit affected by the disaster are first used. If the capacities of the local self-government unit are insufficient to cope with the situation created by the disaster, additional capacities are required from neighboring local self-government units. If the capacities of the local self-government unit, affected by the disaster and neighboring ones, are insufficient to cope with the situation created by the disaster, the engagement of other state capacities, including the State Police and the Armed Forces, is required, according to the provisions of this law and other legal and by-laws in force.*

- **Law no. 139/2015 “On Local Government”**, which outlines the financial responsibilities of local governments and establishes the principles for budget preparation, revenue collection, and expenditure management. According to this law, municipalities are fully responsible for civil protection, as stated in articles 29/1 “*Civil protection at the local level and managing relevant structures*” and 23/3 “*Managing stormwater and flood protection in residential areas.*”
- **National Strategy for Disaster Risk Reduction:** This strategy is approved by Albanian government with Council of Ministers Decision no. 94, date 22.03.2023. It provides

guidelines for managing disaster risks and emphasizes the importance of financial planning at the municipal level. It sets out objectives for integrating disaster risk reduction into local development plans. The National Strategy for Disaster Risk Reduction is reviewed, at least once every five years, by the Council of Ministers, at the minister's proposal.

### 3 Budgeting and Financial Planning for Disaster Risk

#### 3.1 DRM Budgeting and Financial practice overview

Budgeting is a fundamental component of municipal financial management in Albania. The budget for disaster risk management is divided into two main levels, national and local. According to Article 64 of Law No. 45/2019, the **civil defense budget of central institutions consists of:**

- a) The State Budget, where according to Article 22 (point b), the Ministries must plan an annual budget for disaster risk reduction and civil protection, according to the scope of their state responsibility, which ranges from 2% to 4% of the total annual budget.
- b) The budget of the NCPA, which according to *Article 66*, has the responsibility to create the solidarity fund for civil protection, which is used to deal with emergency situations. This fund can be transferred to the Municipalities, upon their request according to the legislation in force.
- c) Financial donations allocated for civil emergencies.

At the **local level**, Article 65 of Law No.45/2019 requires municipalities to allocate 4% of their total annual budget as a conditional fund from the state budget for disaster risk reduction and civil defense. In addition to this, Municipalities can allocate extra funds from sources such as their own local revenues, or funds that come directly from the division of taxes and national taxes, local borrowing, and donations. Municipalities can add over 4% of their finance's additional funds to the general DRM budget. In addition, municipalities can accept donations or apply for competitive grants in the field of DRM.

According to **DCM no. 414/ 2021 “On the approval of procedures and criteria for allocation and use of the conditional fund of the state budget for civil protection”**, the conditional fund of the state budget for civil defense is to be used according to prioritization, as follows:

**Table 2: Conditional fund of the state budget for civil defense**

A. 60%-100% of the fund dedicated to civil defense can be used for:	B. If there will be excess funds from point A, the fund dedicated to civil defense can be used up to 30% for:	C. If there will be excess funds from point B, the fund dedicated to civil defense can be used up to 10% for:
Financial assistance for families whose homes have been damaged by a natural or other disaster.	Complementing operational structures with equipment and training in the field of civil defense;	Activating the capacities of public and private entities within their administrative territory, to cooperate and assist neighboring municipalities, in cases where

A. 60%-100% of the fund dedicated to civil defense can be used for:	B. If there will be excess funds from point A, the fund dedicated to civil defense can be used up to 30% for:	C. If there will be excess funds from point B, the fund dedicated to civil defense can be used up to 10% for:
		the latter is affected by a natural or other disaster;
Taking preventive, mitigating, protective and rehabilitative measures in infrastructure facilities that pose a serious threat to people's lives, their properties and the environment, which affect the return of normal life for the community and its economic activities;	The renting of equipment, private environments, motor vehicles, aircraft and various machines, as well as for the damage caused by the execution of works on the immovable property of citizens in coping with emergency situations created as a result of a disaster, according to the acts legal and by-laws in force;	Various activities organized by the responsible civil defense structures, for activities, trainings and services that directly affect the strengthening of these structures;
Immediate intervention services in saving the lives of citizens, private and public property, as well as protecting the environment, which have been damaged or threatened by various disasters;	organization of community awareness and information campaigns in the field of civil defense and response to natural disasters or other disasters;	Publications, for research-scientific activities, for disaster risk reduction and civil protection, and other activities in the interest of civil protection structures.
Setting up, updating, and maintaining the database;	Updating the strategy, the risk assessment document, and the civil emergency plan for disaster risk reduction at the local level and evacuation plans;	
Maintenance and operation of the monitoring, early warning, notification, and alarm system;	Financial support of operations with forces and means of other or foreign municipalities, in cases of natural disasters or other disasters.	
Keeping fire protection systems in readiness, the uninterrupted passability of rural roads, places of refuge, as well as the collection and administration of food reserves for people and living things;		

A. 60%-100% of the fund dedicated to civil defense can be used for:	B. If there will be excess funds from point A, the fund dedicated to civil defense can be used up to 30% for:	C. If there will be excess funds from point B, the fund dedicated to civil defense can be used up to 10% for:
Keeping in readiness the infrastructure of irrigation, drainage, flood protection and reservoir dams in their administration;		
Expenses incurred for the purchase of fuel and spare parts for vehicles and machinery, which are used to cope with emergency situations created as a result of a disaster;		
The coverage of other operating expenses incurred while coping with civil emergency events and situations;		
Purchase of various materials, which serve the activity of civil emergency structures at the local level;		
taking protective, preventive measures and financing facilities that affect the return of normal life for the community and its economic activities;		
The liquidation of fiscal obligations, portal taxes and taxes, the costs of transportation and accommodation of forces, specialized domestic and foreign vehicles, leased and donated equipment and machinery, as well as their storage.		

Source: DCM no.414/2021

Also, Municipalities, every 4 months, must report how much of funds they use and the manner of their use to the Ministry of Defense, the National Civil Defense Agency and the Ministry of Finance and Economy.

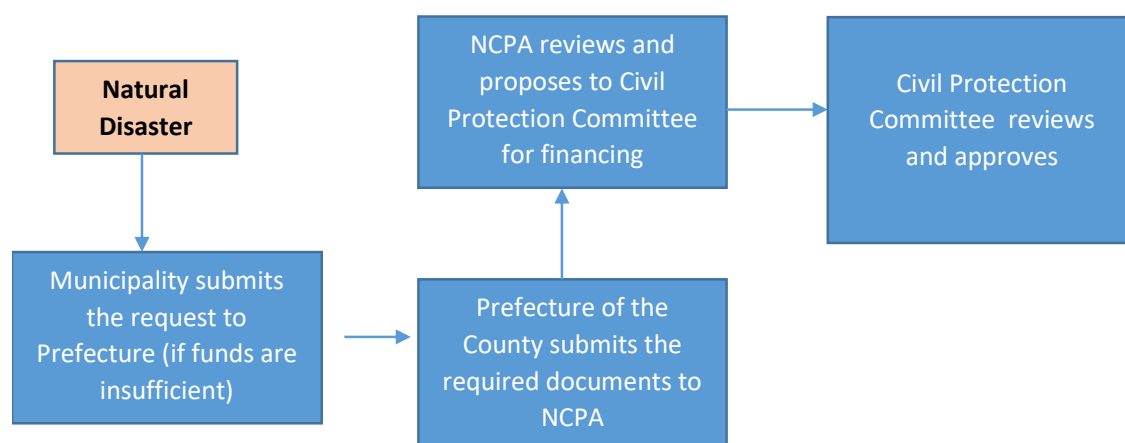


According to **DCM no. 53**, date 1.2.2023 “*On determination of the criteria and procedures for allocating funds for taking preventive and rehabilitative measures against disasters, in damaged infrastructure, as well as in other activities in the field of civil protection*”, The National Agency of Civil Protection, NPCA, in the framework of disaster risk reduction and civil protection, plans in its annual budget funds for taking preventive and rehabilitative measures against disasters, in the damaged infrastructure, as well as in activities others in the field of civil defense. The planned funds, of this decision, are granted to the local self-government unit, in whose territory the disaster occurred, when:

- a) it is necessary to carry out additional expenses for coping with situations created by disasters.
- b) the cost of the intervention exceeds the annual budget dedicated to civil protection.

According to the Law no.45/2019, Article 7 , if the capacities of the local self-government unit are insufficient to cope with the situation created by the disaster, additional capacities are required from the neighboring local self-government units. If the capacities of the local self-government unit affected by the disaster and those of the neighbors are insufficient to coping with the situation created by the disaster, the commitment of other state capacities, including the State Police and the Armed Forces, is required, according to the provisions of this law and other legal and by-laws in force. Figure below shows the process by which local governments request financial assistance from the national government in these cases.

**Figure 15: Process for requesting financing from the national government**



Source: Government of Albania, DCM no.923,dated 25.11.2020

Through years the total fund on civil emergency have increased. In the table 3, is shown the projected funds for the last 4 years. Since 2022, the Municipalities has had more financial resources to deal with Civil Emergencies in their territory. Also, from 2022, in the budget of the Ministry of Defense, funds are allocated for the financing of projects related to the prevention of natural disasters.



**Table 3: The civil emergency fund changes years (in millions of Lek)**

	PB 2021	PB 2022	PB 2023	PB 2024
<i>Fund for Municipalities</i>	500 <sup>11</sup>	1,000	800	800
<i>Prevention of natural disasters (projects)</i>		810	1,000	1000
<i>Projects for Dams</i>				500
<i>Investments after natural disasters</i>			200	200
<b>Total</b>	<b>500</b>	<b>1,810</b>	<b>2,000</b>	<b>2,500</b>
<b>Change</b>		<b>(+1310 million ALL) or (+262% more)</b>	<b>(+190 million ALL) or +10% more</b>	<b>(+500 million ALL) or +25% more</b>

Source: Ministry of Finance, Project Budget through years

In total, **2.5 billion ALL** are planned for natural disasters and dams for 2024. Concretely, according to the *Article 15* of **Law no.97/2023 “On the 2024 Budget”**:

- The **fund for civil emergencies** in the amount of ALL 800 million is allocated to the "Civil Emergencies" program of the Ministry of Defense and is distributed in the form of a conditional transfer to local self-government units by the Ministry of Defense in cooperation with the Ministry of Finance and Economy with a formula, which is based on the specific weight that each municipality's budget has in relation to the total budget of all municipalities.

In the **Table 4** is shown the allocation of funds according to the Municipalities in two products: **91707AG** “Expenses for taking preventive, facilitating, protective and rehabilitative measures in various facilities through the purchase of various materials and services for the protection of life and property people”; as well as the product code **91707AB**: "Citizens assisted whose homes have been damaged by various disasters".

According to the data, Municipality of Tirana stands out as the municipality receiving the largest allocation, with 288,573,938 ALL in total funds or around 36% of total DRM funds. Other municipalities like Durrës and Vlora also receive substantial allocations, with 38,955,455 ALL (or 4.86% of total funds) and 27,421,667 ALL (or 3.42% of total funds) respectively, emphasizing their critical roles in disaster management and recovery. The distribution is

<sup>11</sup>Transferta specifike për emergjencat civile. See more in: <https://www.dap.gov.al/images/buxheti/2021/ligji-2020-11-16-137.pdf>

divided between two categories of products, with 613,641,621 ALL allocated to the product 91707AG and 186,358,379 ALL to the other product with code 91707AB. According to the legal framework in force, this fund is distributed to the Municipality within the month of February 2024, according to the detailed products.<sup>12</sup>

**This large allocation corresponds to the municipality's overall budget size rather than directly reflecting its disaster-related needs or recovery efforts.** While the legal framework (VKM No. 414/2021, point 2) sets general criteria for the allocation of conditional funds—such as local risk reduction strategies, risk assessments, civil emergency plans, and urban development plans—the actual distribution prioritizes the specific weight of each municipality's budget relative to the total budget of all municipalities. As a result, the funding for civil emergencies is proportioned based on this percentage, meaning that the municipality receiving the highest funds may not necessarily be the one facing the most civil emergencies.

Also, from the data, **it is noted that the allocated amount of the conditional fund for civil emergencies does not exceed 4% of the budget planned for the Municipalities for the year 2024.** Municipalities are required to allocate at least 4% of their total annual budget for disaster risk reduction and civil protection tasks, as mandated by Law no. 45/2019 (article 65), which are sourced from conditional allocations provided through the state budget.

**Table 4: Distribution of DRM Funds to Municipalities in 2024 (Conditional Transfer)**

Municipality	Total Funds (in ALL)	Funds distributed to municipalities in 2024 (according to products)	
		91707AG	91707AB
Belsh	3,027,444	3,027,444	-
Berat	12,089,292	10,000,000	2,089,292
Bulqizë	6,649,865	6,649,865	-
Cërrik	4,349,423	2,349,423	2,000,000
Delvinë	2,137,867	2,137,867	-
Devoll	5,061,996	2,000,000	3,061,996
Dibër	10,109,505	4,403,801	5,705,704
Dimal	4,997,671	4,997,671	-
Divjakë	6,239,679	6,239,679	-
Dropull	2,266,346	2,266,346	-
Durrës	38,955,455	-	38,955,455
Elbasan	30,978,545	20,978,545	10,000,000
Fier	21,411,632	21,411,632	-
Finiq	2,819,278	1,500,000	1,319,278
Fushë-Arrëz	2,906,352	2,284,352	622,000

<sup>12</sup> See more in: <https://financa.gov.al/wp-content/uploads/2024/02/Udhezimi-Plotesues-nr.1-date-24.01.2024-Per-zbatimin-e-buxhetit-te-vitit-2024.pdf>

	6,983,818	5,983,818	1,000,000
Gramsh	5,136,903	-	5,136,903
Has	2,992,123	-	2,992,123
Himarë	15,652,470	10,000,000	5,652,470
Kamëz	34,056,207	28,456,207	5,600,000
Kavajë	11,999,681	4,999,681	7,000,000
Këlcyrë	1,928,743	1,428,743	500,000
Klos	3,003,169	2,503,169	500,000
Kolonjë	3,303,035	3,103,035	200,000
Konispol	1,871,183	1,871,183	-
Korçë	19,445,090	19,445,090	-
Krujë	8,641,191	4,641,191	4,000,000
Kuçovë	5,544,887	2,200,000	3,344,887
Kukës	8,167,048	4,900,229	3,266,819
Kurbin	6,668,937	6,668,937	-
Lezhë	16,105,478	15,105,478	1,000,000
Libohovë	1,019,774	519,774	500,000
Librazhd	6,755,347	4,053,208	2,702,139
Lushnjë	14,427,753	10,000,000	4,427,753
Malësi e Madhe	7,906,091	2,500,000	5,406,091
Maliq	7,853,887	4,853,887	3,000,000
Mallakastër	6,939,364	5,439,364	1,500,000
Mat	5,294,524	2,647,262	2,647,262
Memaliaj	2,754,383	1,721,489	1,032,894
Mirditë	4,754,554	1,901,822	2,852,732
Patos	5,216,822	4,955,981	260,841
Peqin	4,321,869	2,321,869	2,000,000
Përmet	4,816,498	2,816,498	2,000,000
Pogradec	12,391,755	8,391,755	4,000,000
Polçan	3,445,598	344,560	3,101,038
Prrenjas	5,724,264	3,224,264	2,500,000
Pukë	3,119,645	2,319,645	800,000
Pustec	837,853	335,141	502,712
Rogozhinë	6,448,844	6,000,000	448,844
Roskovec	5,207,279	4,207,279	1,000,000
Sarandë	12,717,682	5,000,000	7,717,682
Selenicë	4,913,203	3,000,000	1,913,203
Shijak	5,321,474	5,321,474	-
Shkodër	22,879,560	10,000,000	12,879,560
Skrapar	3,340,427	-	3,340,427
Tepelenë	2,581,486	1,200,000	1,381,486
Tiranë	288,573,938	288,573,938	-
Tropojë	3,996,787	-	3,996,787
Vau i Dejës	5,347,589	2,847,589	2,500,000

Vlorë	27,421,667	19,421,667	8,000,000
Vorë	8,169,767	8,169,767	-
<b>Total</b>	<b>800,000,000</b>	<b>613,641,621</b>	<b>186,358,379</b>

Source: NCPA (2024)

- Likewise, for the year 2024, **1 billion ALL** was set aside to be used for projects to prevent natural disasters (fires, floods, earthquakes). The allocation criteria are defined in Annex 6 "Fund for the Prevention and Management of Natural Disasters". This fund is part of the fund allocated in the 2024 budget in the "Civil Emergencies" program in the Ministry of Defense.
- Also, in this program **500 million ALL** will be used to finance projects for dams related to dams, according to the criteria in annex 7, and **200 million ALL** will be spent on eliminating the consequences in cases of natural disasters, when the expenditure has the nature of investment. This fund is distributed during the year based on the request of the municipalities, according to the cases of disaster. The budget for disaster risk management is divided into two main levels, national and local. According to Article 64 of Law No. 45/2019, the civil protection budget of central institutions consists of:

### 3.2 Incorporating Disaster Risk into Municipal Budgeting

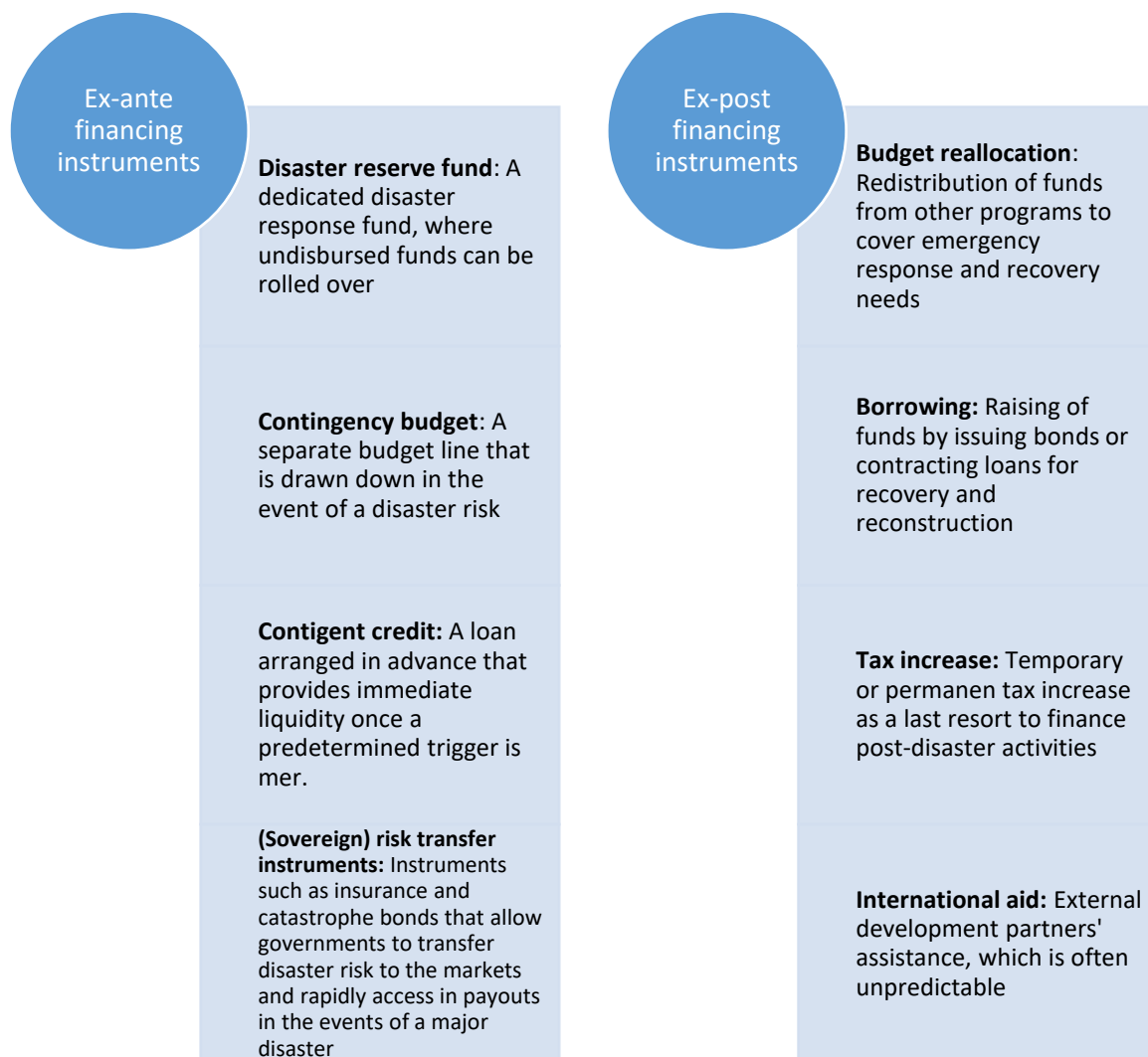
Disaster tends to increase the expenditure of municipalities and hamper economic activities. Following a disaster, the local government could rely on post-disaster financing instruments, such as budget reallocation, borrowing, taxation, international aid, etc. However, it takes a long time for these funds to become available, which can delay disaster recovery and reconstruction and cause long-lasting negative impacts on economic activities.

To sustainably reduce the financial impact of disasters, municipalities should always consider ways to reduce the underlying drivers of risk. In this regard, pre-arranged risk financing instruments provide local governments with immediate access to funds and mitigate the negative impact of disasters on economic activities and future fiscal costs.

There are different financing instruments that allow central and local governments to finance the cost of disasters, that can be categorized as:

- Ex-ante, financial instruments that are arranged before a disaster
- Ex-post, financial instruments that are mobilized after a disaster

Figure 16: Overview of Disaster risk financing instruments



Source: World Bank, 2017a

In Albania, all the existing funds are on-budget contingency lines, which include:

- **The Reserve Fund of the Council of Ministers**, which is drawn on to cover line ministries' additional expenses in case of unforeseen events, but it is not specifically designated to cover disaster-related needs.
- **Civil Emergencies program** (*budget line 10910*), which is a current expenditure account. Although these funds are mostly used for current expenditures such as wages and administrative expenses and it is not clear if they can be used for disaster contingencies.
- **Reserves of line ministries, agencies, and local governments.** The Law on Civil Protection adopted in 2019 specifies that: *line ministries and other national government institutions should have a separate budget line for disaster response allocating 2–4*

*percent of their annual budget; municipalities should have a similar budget line allocating no less than 4 percent of their annual budget.* The capacity of local governments in Albania to allocate this budget differs according to how financially self-sustaining they are; in view of their increased responsibilities in cost sharing, local governments' lack of access to financing might cause delays in post-disaster response and recovery.

- **Solidarity Fund.** The new Law on Civil Protection also envisages establishment of a Solidarity Fund for civil protection by the NCPA, which could be used to finance response, recovery, and reconstruction, as well as provide fiscal transfers to local governments for the same purposes.
- **State Reserve.** The State Reserve consists of in-kind resources, equipment, and supplies.

### 3.3 Long-Term Financial Planning for Disaster Preparedness

Municipalities are mandated to prepare annual budgets that reflect their projected revenues and expenditures. The budget preparation process involves several stages:

- **Budget Proposal:** Each municipality develops a budget proposal based on anticipated revenue and expenditure needs. This proposal is prepared by the municipal administration and involves consultations with various stakeholders, including local citizens and community organizations.
- **Approval Process:** The proposed budget is submitted to the Municipal Council, which reviews and approves it. The approval process ensures that the budget aligns with municipal priorities and complies with legal requirements.
- **Implementation and Monitoring:** Once approved, the budget is implemented by the municipal administration. Monitoring mechanisms are in place to track budget execution and ensure that expenditures are within the approved limits.

Efficient risk management starts with efforts to strengthen management of budgetary resources through strong public financial management processes. In this regard, municipalities in Albania are required to incorporate disaster risk management into their financial planning and budgeting processes. Key procedures include:

- **Risk Assessment and Prioritization:** Municipalities conduct risk assessments to identify vulnerabilities and prioritize disaster risk management initiatives. This assessment informs the allocation of resources and helps municipalities focus on the most critical areas. Also risk assessment stimulate disaster preparedness efforts by identifying the expected probability of different natural disasters and their potential impact. Despite these procedures, municipalities often face challenges in effectively budgeting for disaster risk management due to limited financial resources and

competing priorities. Enhancing capacity for financial planning and integrating disaster risk management into broader municipal budgeting processes are ongoing needs.

In Albania, Municipalities are obliged according to Article 30/a of Law 45/2019 that "within 2 years from the entry into force of this law, carry out a risk assessment in their territory, drawing up and approving the disaster risk assessment document, which they send to the countycounty prefect and the National Civil Defense Agency, for analysis and planning purposes. However, until today, it turns out that the risk assessment has been completed only for **6 municipalities of Fier CountyCounty**. Consequently, this element should be taken into consideration and developed by all the country's Municipalities.

- **Annual Budget Preparation:** Municipalities must develop annual budgets that include allocations for disaster preparedness and response. This process should involve the assessment of potential risks, estimate the costs of preparedness measures, and plan for emergency response expenditures.
- **Contingency Funds:** Municipalities are encouraged to establish contingency funds specifically earmarked for disaster-related emergencies. These funds are used to address immediate needs during and after a disaster, such as emergency repairs and relief operations.

## 4 Revenue Streams for Disaster Risk Management

Managing revenue for disaster risk involves several key aspects:

- **Central Government Transfers:** Municipalities receive transfers and grants from the central government to support disaster risk management efforts. These funds are allocated based on need and are intended to support preparedness, response, and recovery activities.
- **International Aid and Donations:** Municipalities may also receive financial assistance from international organizations and non-governmental organizations (NGOs) during disaster emergencies. These funds are crucial for supplementing local resources and addressing specific needs. However, this form of financing has several challenges:
  - a) funding is not always predictable and sustainable and can lead to a dependency on external resources, while donors are not always available to provide funding of a uniform size/type and on a long-term basis.
  - b) the lack of coordination and alignment between various actors involved in the process necessary to contact international donors. This can result in a duplication of efforts and subsequent delays in providing support to affected communities.
- **Public-Private Partnerships:** Some municipalities engage in partnerships with private sector entities to finance and manage disaster risk management projects. These partnerships can provide additional resources and expertise.
- **Emergency loans:** This financing instrument typically offered by multilateral financial institutions, provides financial resources in the aftermath of catastrophic events to help them cope with financial impacts of the disaster. These loans are negotiated and processed after the disaster and can be disbursed quickly and help countries fund emergency response efforts, provide essential services and infrastructure, and address the immediate needs of affected populations. One critical role of emergency loans is to provide financing for effective disaster response. This type of financing is essential, as it can help bridge the gap between those who already have the resources and others that require to address disaster impacts. However, various costs are associated with preparing emergency loans ex-post a disaster (as opposed to ex-ante), such as: interest rates, fees, and commissions. In order to minimize these costs, it is essential to develop disaster risk financing strategies that prioritize risk reduction and building resilience. These strategies should include contingency plan development and the establishment of emergency financing mechanisms ripe for quick activation in the event of a disaster.



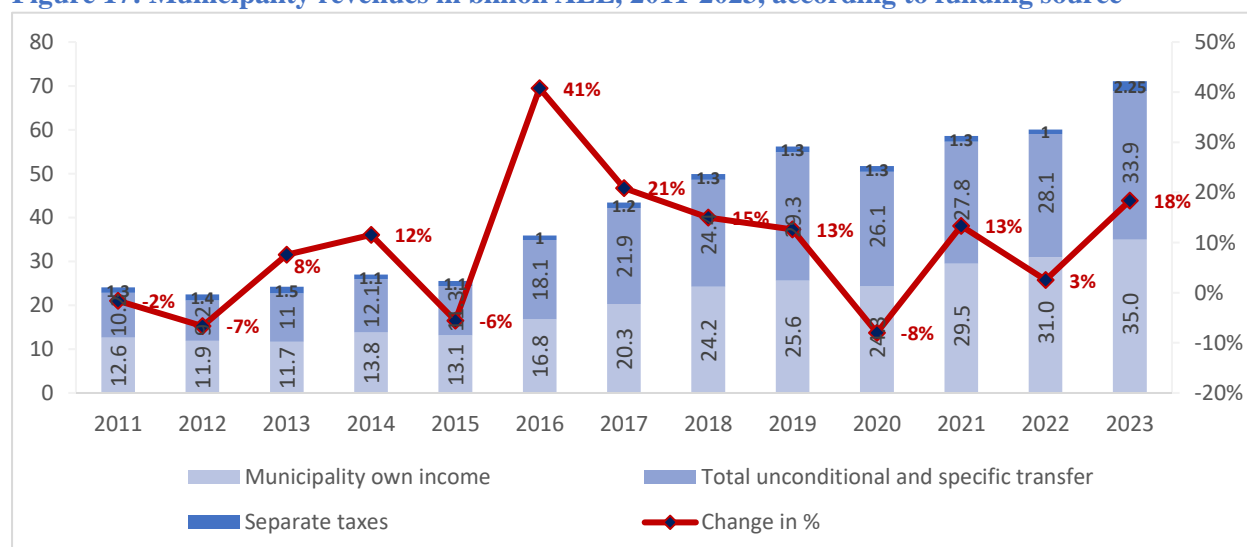
## 4.1 Revenue Management for Disaster Risk

Municipalities in Albania generate revenue through multiple categories of sources. These include income from local sources such as taxes, fees, and local borrowing. Also, they receive grants and transfers from the central government to support specific projects or cover operational costs (unconditional and specific transfers). Additionally, they receive conditional transfers from line ministries for delegated responsibilities. These funds are essential for bridging gaps between local revenue and expenditure needs. Furthermore, Municipalities receive income from separate taxes according to the provisions set forth in Law no. 68/2017 "On Local Self-Government Finances", Article 25. According to the Law, the Municipalities receive a percentage of the taxes or national taxes that are realized in their jurisdiction, according to the provisions of this article.

**One other source of revenue is the Public-Private Partnerships**, where some municipalities engage in public-private partnerships (PPPs) to finance and manage infrastructure projects. PPPs provide an alternative revenue stream and can enhance service delivery efficiency. But this has not been applied to date in any municipality in Albania.

As it is shown in the Figure 2, own Municipal revenues realized during 2023 reached 34.95 billion ALL or about 51% of the total local resources, being about 4 billion ALL more than a year ago. But central budget transfers are a very important source of local government financing as well. Transfers from the state budget remain an essential source to guarantee financial stability and the implementation of local functions.

**Figure 17: Municipality revenues in billion ALL, 2011-2023, according to funding source**



Source: Ministry of Finance, Annual Reports on Local Finances,<sup>13</sup>

<sup>13</sup> Ministry of Finance (2024), Annual Report on Local Finances, URL: <https://financat-lokale.al/sq/publikime>

During 2023, the local government has benefited in the form of general and sectoral unconditional transfer about ALL 33.87 billion, or about 15.8% more than a year ago. These transfers make up 49.2% of the local budget, higher than the weight they had in 2022, when these transfers occupied 47.6% of the Municipal budget. The local government received about ALL 2.25 billion in 2023 from the national taxes divided, from the personal income tax (51%); vehicle registration tax (42%) and mining rent (7%), or 11% more than in the previous year. The highest increase was recorded for personal income tax, while there was a decrease in revenues from mining rents.<sup>14</sup>

Despite the observed improvement in the fiscal capacity of local governments, general and sectoral unconditional transfers, along with various taxes, remain the primary source of income for the majority of municipalities when compared to central budget revenues. There are financial disparities between the municipalities in Albania, and some are more able than others to mobilize funding after disasters. In terms of financial sustainability, municipalities rely on the national government budget to a large extent. Even minor disasters can put less self-sustaining municipalities under significant pressure if they are unable to mobilize sufficient funding to perform their responsibilities and have limited borrowing capacity. Such events will likely require national government intervention and thus delay recovery efforts. Fiscal transfers to the local governments are based on historical trends, and a better understanding of potential disaster expenditures might be required to strengthen local governments' financial resilience to natural disasters.

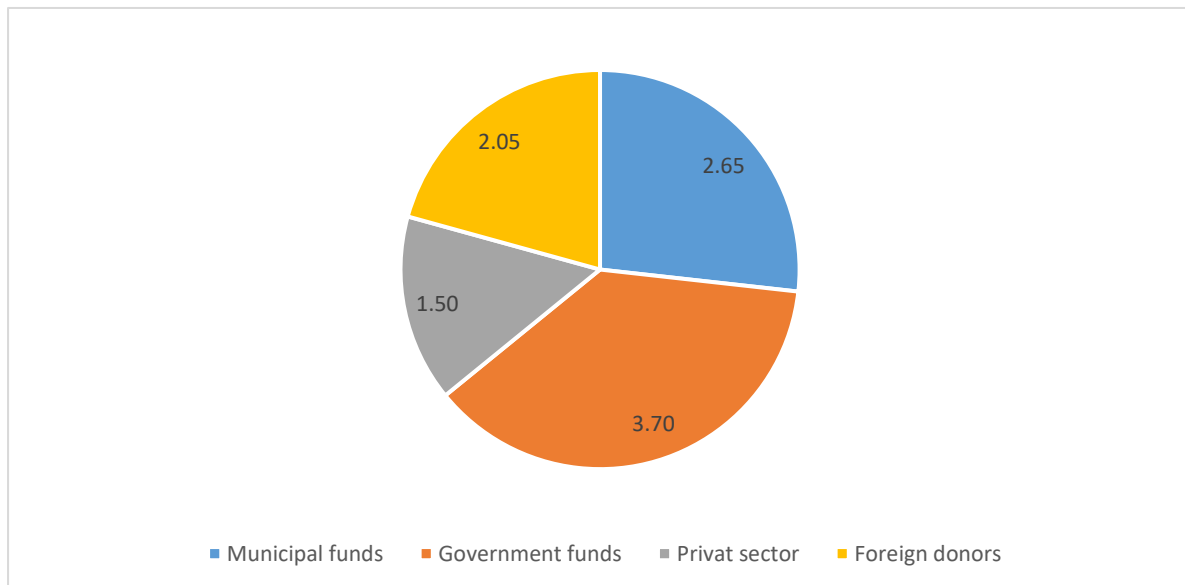
Effective revenue management requires accurate forecasting, collection mechanisms, transparency, and accountability. However, municipalities often face challenges in revenue collection, as well as managing and utilizing funds due to inadequate administrative capacity and limited public awareness. Improving financial management practices and enhancing coordination with donors and partners are critical for effective revenue management.

In the framework of revenue management for disaster risk, the municipality asked you to ***Rank according to importance (1 – least important, 4 – most important) the following resources for civil emergency management: Municipal funds, Government funds, Private sector, Foreign donors.*** The answers show that the most important source is considered *Government funds*, followed by *Municipal funds*.

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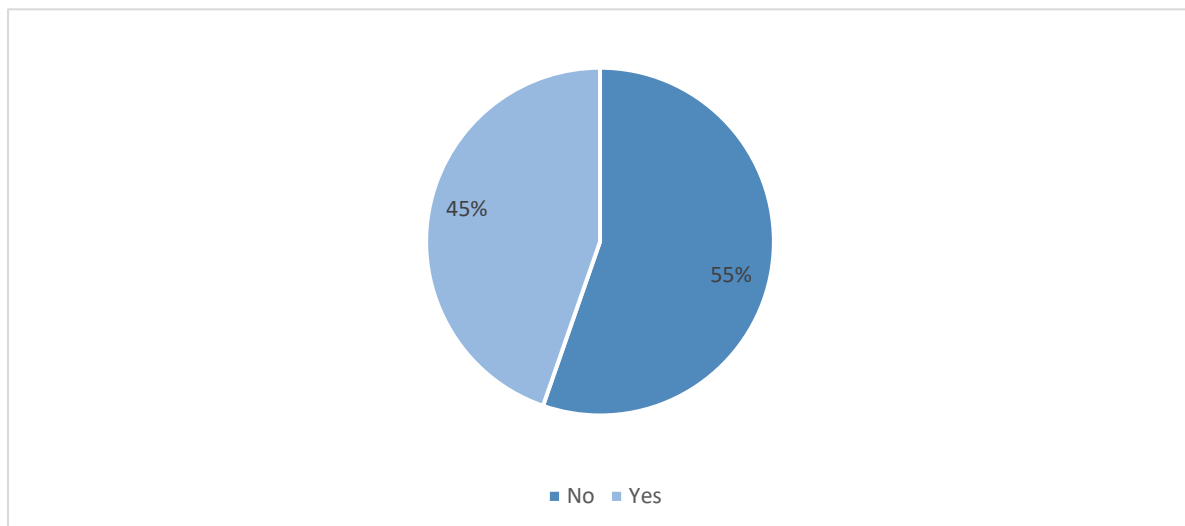
<sup>14</sup> Ministry of Finance (2024), Annual Report on Local Finances 2023, URL: <https://core.fvv.al/storage/reports/analiza-e-financave-vendore-2023-finalpdf-1721811582.pdf>

Figure 18: Average Points for the resources for civil emergency management



It was also important to evaluate whether these doughs were sufficient or not. For this, the municipalities were asked "*Do you consider these resources sufficient?*" and "*If not, why do you not consider them sufficient?*"

Figure 19: Do you consider these resources sufficient?



The survey responses indicate a general consensus (55%) that the current financial resources allocated to the municipality are insufficient to manage natural disasters. Natural disasters, including fires, landslides, and floods, have increased, requiring greater investment in both prevention and response. Many respondents emphasized the need for enhanced budgetary support from central institutions as the municipality's funds are too limited to cover damages, improve infrastructure, and invest in modern technology and logistics. According to the

municipal official the funds are insufficient, as they believe the budget should cover not only compensation but also various investments in prevention and logistics. They believe the government's current financial transfers fall short of what is necessary to address the growing risks, and more funds are needed to secure the area and mitigate future damage. The Municipalities also highlight that the unconditional transfer for civil protection does not fully reach the 4% required by current legislation.

## 4.2 Sources of Funding for Disaster Preparedness

- **Fund for Dams** is a financial mechanism that supports the rehabilitation/reconstruction of reservoir dams, supporting the national policy of natural disaster prevention and management. For the year 2024, the Fund for Dams is part of the fund allocated in the 2024 budget in the "**Civil Emergencies**" program, in the Ministry of Defense and it is not inherited in the next budget year. The applying and implementing entities are the local self-government units.

The evaluation of the included projects, the study and the implementation project according to the applying local self-government units is made by the decision of the Commission for the Prevention and Management of Natural Disasters, which approves the specifications, rules and criteria for the financing of projects for the rehabilitation and reconstruction of reservoir dams, as well as the evaluation of projects.

Projects benefiting from this financing are placed on the list of investments of the Ministry of Defense and in accordance with their progress, the Ministry of Defense can request reallocations between the projects of the Fund for Dams according to the approved procedures for public investments.

For the year 2024, 14 projects with a total value of ALL 499.8 million were approved, as shown in the table below:

**Table 5: List of approved projects for 2024, financed by the fund for dams**

	Municipality	Project	The total value of the project (ALL)
1	Mallakastër	Works for the rehabilitation of the dam of	81,159,283.00
2	Kuçovë	Rehabilitation of Goraj Dam	53,112,033.98
3	Vorë	rehabilitation of the dam of the Gjokaj 1	21,345,593.59
4	Has	rehabilitation for the purpose of raising the	48,595,670.00
5	Tropojë	Rehabilitation of the Zherka1-2 watershed	18,745,977.40
6	Përmet	Rehabilitation of the Qilarisht reservoir	29,776,463.00
7	Klos	Rehabilitation of the Bejn 1 watershed	54,228,411.00

8	Korçë	Rehabilitation of the dam of Gjonomadh	15,532,056.00
9	Këlcyrë	Rehabilitation of the Kelcyre reservoir	19,238,874.00
10	Finiq	Rehabilitation of the catastrophic spillway	26,837,271.0
11	Fushë-Arrëz	Rehabilitation of the Iballë reservoir	59,417,849.38
12	Shijak	Rehabilitation of the Bilalaj reservoir	5,187,917.18
13	Belsh	Works to rehabilitate and increase the	47,340,330.22
14	Tiranë	Reconstruction of the Farka reservoir dam	19,376,985.60

Source: DCM no.306, date 22.05.2024

- **Fund for the Prevention and Management of Natural Disasters**, is a financial mechanism that supports the national policy of prevention and regional and local management of natural and other disasters. For the year 2024, it is part of the fund allocated in the 2024 budget in the "Civil Emergencies" program, in the Ministry of Defense and it is not inherited in the next budget year. The applying and implementing entities are the local self-government units.

The evaluation of the projects according to the applying local self-government units is done by the decision of the Commission for the Prevention and Management of Natural Disasters, which approves specifications, rules, and criteria for the financing of infrastructure projects and for the purchase of equipment for the Prevention and Management of Natural Disasters, as well as the evaluation of projects.

The Natural Disaster Prevention and Management Fund prioritizes investment projects in the process. The part of the financing of projects in the process is placed in the list of investments of the Ministry of Defense, in accordance with the progress of the project. The Ministry of Defense may request reallocations between the projects of the Natural Disaster Prevention and Management Fund, according to the approved procedures for public investments.

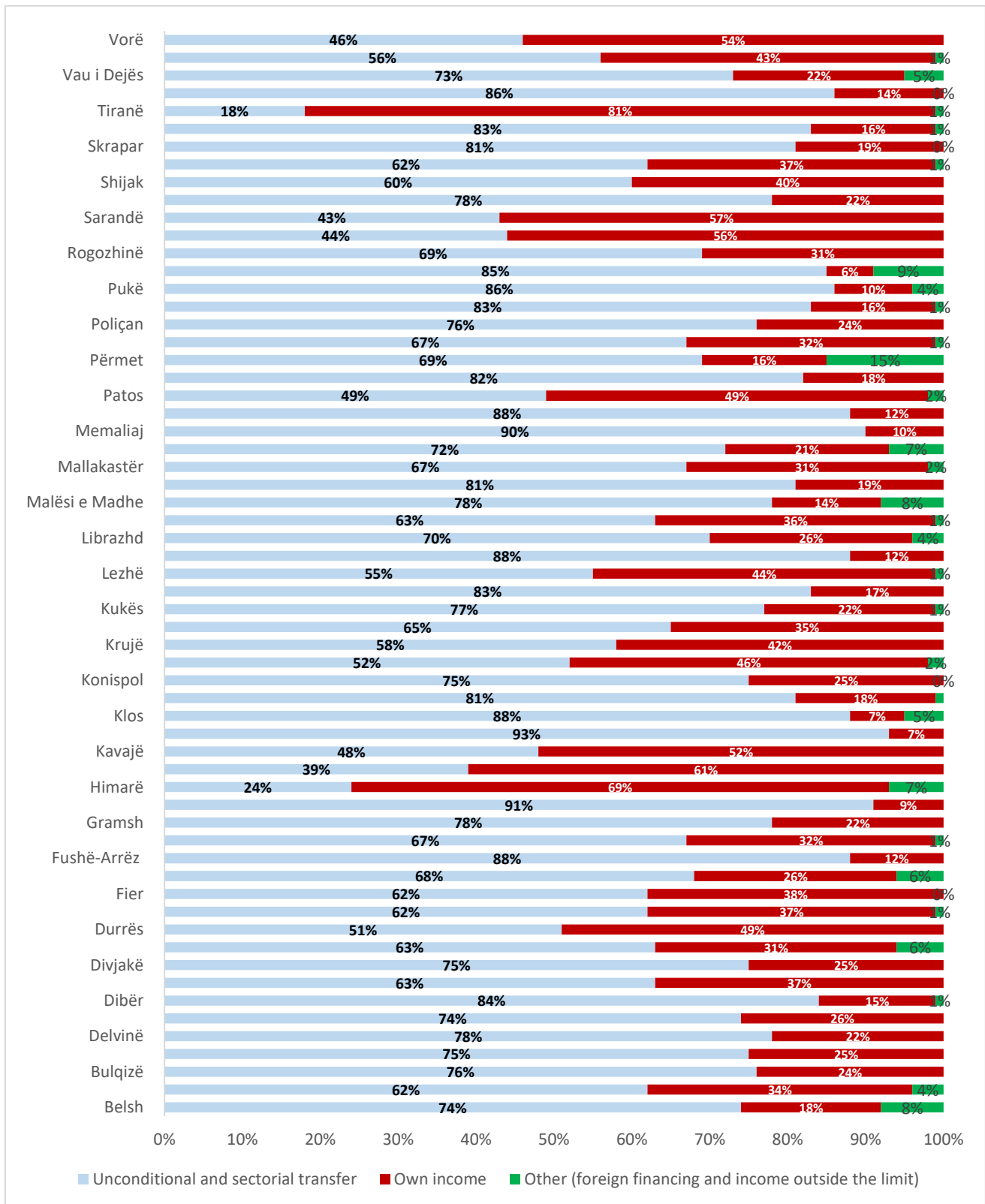
For year 2024, the approved projects have a value of 2.09 billion lek, which consist of infrastructure maintenance and improvement, engineering measures, river protection, etc.

## **5 Expenditure Management and Allocation**

### **5.1 Budgeting for Disaster Risk Reduction Initiatives**

A significant share of the public cost of disaster recovery and reconstruction ultimately falls on local governments. For example, they often must pay for the repair of roads, schools, health clinics and other infrastructure within their remit. For Albania, the analysis of local government expenditures according to sources is an important aspect that highlights the level of dependence on transfers from the central budget and the independence of financing through local revenues. The role of the unconditional transfer in financing the activity of the local government is an important indicator. As can be seen in the graph below, Municipalities' expenditures according to the source of funding during 2023 are covered almost equally between the unconditional transfer and own local revenues.

Figure 20: Structure of expenses according to municipalities and funding sources for 2023



Source: Ministry of Finance (2024)

This trend of the source of financing has changed slightly compared to 2022, when expenditures from own revenues accounted for 48% of general local expenditures. In this case, it is clearly evident the dependence of small municipalities on transfers from the central budget and large municipalities on their own local revenues, this reflects the fact that fiscal autonomy is not spread symmetrically throughout the local government. (Ministry of Finance, 2024).

This way, Municipalities may face additional pressures to support the recovery of local businesses and livelihoods, speeding the restoration of local economies. Thus Municipalities should manage expenditure related to disaster risk, which involves several key procedures:

- **Procurement Processes:** Municipalities must follow public procurement procedures when acquiring goods and services for disaster risk management. This includes purchasing emergency supplies, equipment, and services needed for response and recovery. This process is designed to ensure transparency and value for money in municipal spending.
- **Financial Controls:** Internal financial controls are implemented to ensure that disaster-related funds are used appropriately and efficiently. Controls include approval processes, expenditure tracking, and regular audits.
- **Performance Monitoring:** Municipalities are encouraged to monitor the performance of disaster risk management initiatives and expenditures to ensure that funds are achieving their intended outcomes. This includes evaluating the effectiveness of preparedness measures and response operations.

Challenges in expenditure management include delays in procurement processes and difficulties in tracking and reporting on the use of disaster funds. Strengthening procurement efficiency and improving monitoring mechanisms are essential for better expenditure management.



## 5.2 Allocating Funds for Emergency Response and Recovery

Municipalities were asked about the *Planned and actual expenses related to civil emergencies for the years 2021, 2022, 2023 and 2024*. The data are presented below:

**Table 6: Planned and actual expenses related to civil emergencies for the years 2021, 2022, 2023 and 2024**

Devoll	11,694,775	1,927,050	8,449,014	3,669,751	5,264,834	2,204,857	5,061,996	231,000
Delvinë	4,323,000	1,242,000	6,552,000	660,000	11,253,000	119,000	4,600,000	3,065,000
Dimal	4,000,000							
Kuçovë	3,708,646	890,913	7,353,310	895,750	5,731,427	2,167,178	5,544,887	2,696,754
Tepelene	9,800,000	8,500,000	10,500,000	9,540,000	11,500,000	10,500,000	11,250,000	8,500,000
Kolonjë	5,671,000	3,031,000	3,500,000	2,108,000	3,000,000	2,954,131	4,000,000	-
Cerrik	6,200,000	700,000	9,877,842	9,877,842	9,883,211	8,883,211	12,981,423	8,349,423
Patos	4,280,000	4,280,000	2,298,000	2,298,000	5,560,000	5,560,000	4,258,000	1,500,000
Lushnje	27,865,000	1,812,000	18,982,740	668,000	42,180,782	443,163,000	15,594,753	24,884,890
Maliq	10,946,583	-	13,754,000	13,323,000	14,407,788	8,132,000	14,412,877	1,784,000
Pustec	2,199,796	-	1,296,906	301,408	1,945,649	131,111	-	2
Polican	1,600,000	1,870,833	3,200,000	2,832,234	1,600,000	2,392,956	3,101,038	3,101,038
Pogradec	7,422,000	6,492,254	18,500,000	2,540,431	18,500,000	10,232,629	15,000,000	36,128,402
Himare	40,000,000	758,000	45,000,000	528,000	4,500,000	258,000	350,000	-
Has	9,398,000	4,375,509	10,923,920	9,184,421	9,756,785	9,590,217	12,849,224	4,418,931
Kelcyre	2,500,000	350,000	1,500,000	-	1,700,000	-	2,600,000	-

<i>Permet</i>	5,373,000	340,680	5,373,000	-	46,820,363	42,325,814	39,018,963	1,427,516
<i>Puke</i>	1,409	1,409	5,887	5,887	9,618	8,618	4,100	4,100
<i>Kurbin</i>	8,508,282	8,508,282	6,411,979	6,411,360	6,807,433	7,643,898	6,668,937	1,646,751
<i>Kruje</i>	12,785,439	137,445	13,107,244	3,136,751	13,107,244	5,037,871	10,622,199	641,372
<i>Prrenjas</i>	5,011,715	4,444,737	7,039,369	7,038,051	5,747,913	4,693,502	8,724,264	-
<i>Memaliaj</i>	1,855,000	-	1,800,000	-	4,559,000	2,435,000	319,170,000	956,068
<i>Korçë</i>	4,047,139	1,646,571	7,722,300	1,588,225	6,357,020	1,882,185	6,000,000	196,009
<i>Gramsh</i>	12,700,000	4,589,650	14,300,000	6,580,900	16,093,000	2,438,135	16,415,000	305,295
<i>Vorë</i>	31,779,548	-	21,110,666	-	16,310,369	8,105,869	16,561,300	-
<i>Dropull</i>	8,742,000	2,944,900	7,779,200	3,704,300	49,158,890	30,197,630	14,536,150	3,571,400
<i>Libohovë</i>	2,489	-	2,435	-	6,195	-	2,980	-
<i>Skrapar</i>	7,600,000	2,100,000	64,100,000	62,128,321	10,791,623	3,822,059	33,716,697	2,600,000
<i>Bulqizë</i>	4,585,000	-	7,119,000	3,249,000	15,603,000	9,420,000	18,198	1,356,000
<i>Librazhd</i>	26,437,697	19,529,077	7,397,858	933,001	7,397,858	7	7	325,809
<i>Mallakastër</i>	10,268,541	1,726,682	10,734,762	510,548	8,915,280	6,435,767	88,098,643	-
<i>Mirditë</i>	89,568,108	6,699,208	10,070,558	10,070,558	18,921,981	16,606,781	6,254,540	4,353,361
<i>Durrës</i>	47,013,200	47,013,200	21,006,980	21,006,980	38,784,278	38,784,278	38,955,455	5,829,106
<i>Divjakë</i>	-	-	-	-	7,761,000	920,000	11,108,000	-
<i>Sarandë</i>	20,153,000	12,560,000	20,153,000	856,000	43,000,000	7,719,000	32,000,000	-
<i>Kamëz</i>	81,889,348	25,107,346	131,098,527	110,846,129	71,578,280	34,367,642	74,749,671	34,056,207
<i>Shijak</i>	7,000	-	4,617	-	5,500	-	4,500	-
<i>Belsh</i>	4,000,000	-	4,000,000	-	4,000,000	-	4,000,000	-
<i>Tropojë</i>	140,000	70,000	5,182,488	4,983,954	7,261,637	7,028,368	6,724,927	4,323,051
<i>Kukës</i>	3	1	4	907,677	3	2,081,848	3	2
<i>Lezhë</i>	48,135	8,869	57,030	12,541	50,876	45,454	52,648	23,662
<i>Berat</i>	8,135,087	4,635,376	21,120,000	658,998	20,460,713	299,208	20,000,000	-
<i>Vlorë</i>	-	-	33,789,678	2,987,468	25,294,994	4,906,289	27,421,667	5,890,206
<i>Elbasan</i>	73,196,552	11,337,144	56,632,850	6,325,064	134,180,832	49,360,482	141,333,545	29,835,497

It is noticed is a difference between planned and actual expenses. This difference creates the possibility to take appropriate measures, according to which to spend all the funds planned for civil emergencies, because this would also help in preventing/reducing their financial consequences.

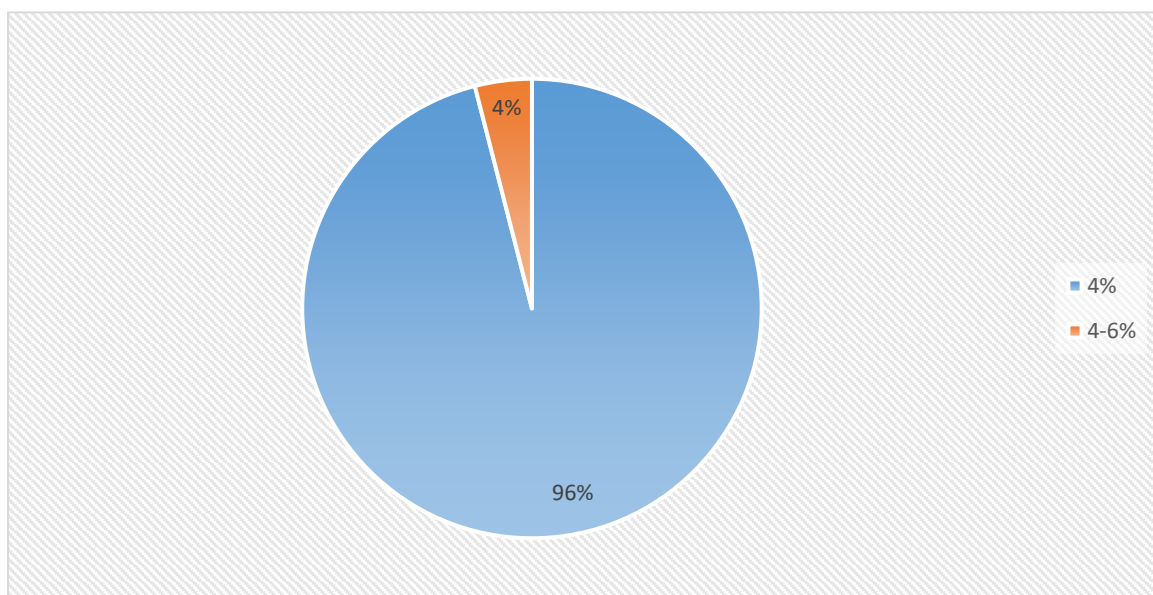
### 5.3 Review of financial practices

Monitoring the disaster impacts over time provides valuable insights for disaster preparedness plans for better future event handling. It also enables authorities to allocate resources more efficiently, prioritising response efforts where most needed. In this regard, estimating the likelihood or probability of each disaster is crucial. Understanding the type of disaster faced, whether it's flooding, earthquakes, wildfires or others, guides the selection of appropriate resilience measures. For example, while drainage culverts are effective for managing flooding, they provide little protection against earthquakes. Additionally, considering the expected magnitude and physical characteristics of the disaster is vital to ensure that the chosen measures are suitable and cost-effective.

Also, it is of great importance to measure the potential impacts of the identified disaster to evaluate the costs and benefits of various activities. This assessment includes evaluating the consequences on human life, economic activities, environmental assets, and social well-being, that stem from the likelihood of a disaster to occur, as well as exposure and vulnerability to it. By combining information about potential impacts and likelihood, decision makers can prioritise risks and allocate resources accordingly. High-risk areas can receive more attention and resources during the budget planning. These measures may include strengthening the infrastructure, improving maintenance practices, incorporating redundancy, and exploring naturebased solutions.

The municipalities were asked ***“What percentage of the municipality's budget is dedicated to civil emergencies?”*** and the results are presented in the figure below.

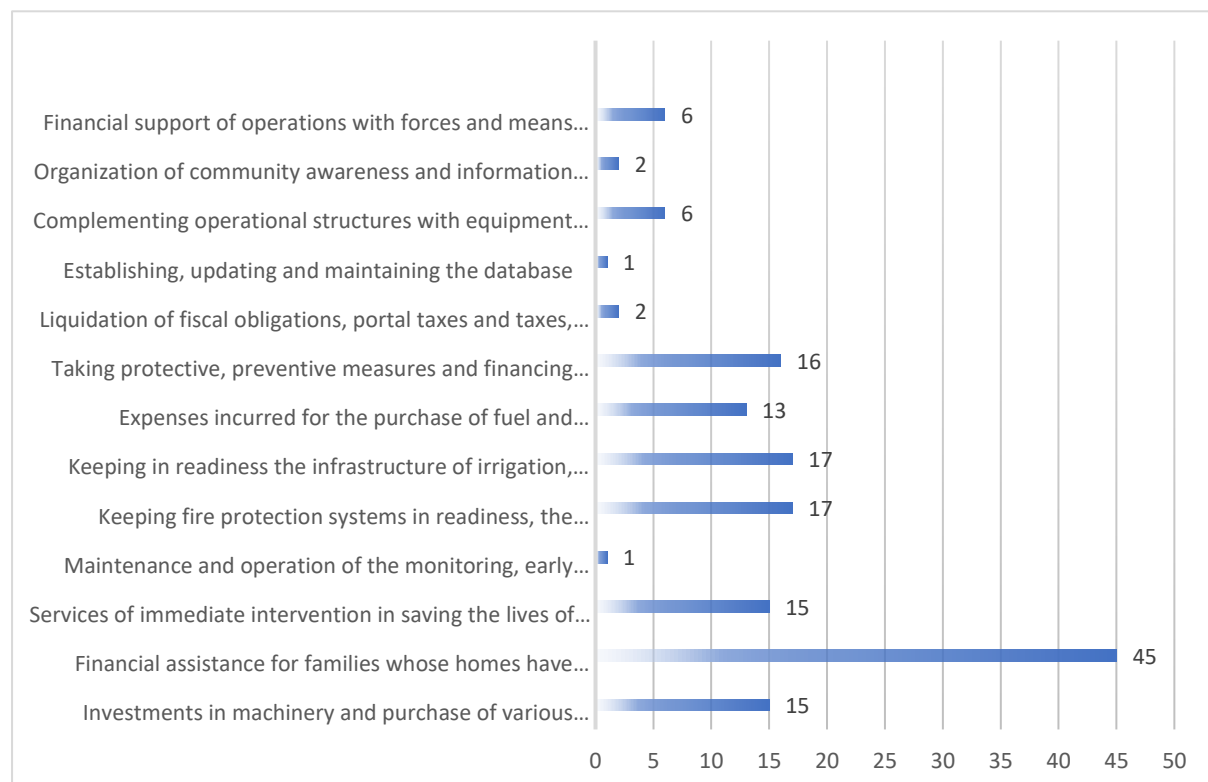
**Figure 21 : Percentage of the municipality's budget is dedicated to civil emergencies**



In response to the question about the percentage of the municipality's budget dedicated to civil emergencies, 96% of respondents indicated it is 4%, while only 4% reported that the budget ranges between 4% and 6%.

It is of great importance to identify of “*What these expenses were most often used for*”? The answers of the municipalities that completed the survey are presented below:

Figure 22: Expenses used for civil emergencies



The responses indicate that municipal expenses related to civil emergencies are primarily directed toward various key areas. A significant portion (93.8%) is allocated to *Financial assistance for families whose homes have been damaged by a natural or other disaster* as one the most used expenses. It is followed by *Keeping fire protection systems in readiness, the uninterrupted passability of rural roads, places of refuge, as well as the collection and administration of food reserves for people and living things* (35.4%) and *Keeping in readiness the infrastructure of irrigation, drainage, flood protection and reservoir dams in their administration* (35.4%). It is interesting to notice that less expenses are done for *Maintenance and operation of the monitoring, early warning, notification and alarm system* and *Establishing, updating and maintaining the database* and no expenses are done for *Publications, for research-scientific activities, for disaster risk reduction and civil protection, and other activities in the interest of civil protection structures*.

Also, the municipalities are asked *“If there is any additional comments or information they would like to share about your municipality's natural disaster management financial practices?”*. The most common answers provided by the municipalities were:

- Organization of more training practices related to the financial management of emergencies
- Review and increase of the Fund delegated by the Government

## 6 Financial Reporting (Accountability) and Transparency

Transparency is particularly important in the context of disaster response and recovery. In this regard, local governments should be able to demonstrate that funds are allocated fairly and support those most in need. A question that might be raised related to transparency of Disaster-Related Expenditure is related to the preparation and publishing of disaster-related information by the government in a timely and transparent manner, specifically: budget allocations for disaster-related expenditures; information on disaster-related programs and their intended activities; periodic budget execution reports for disaster-related expenditures and annual reports on specific funds dedicated to disaster response; disaster response implementation reports summarizing financed activities and associated results.

Transparency and accountability are crucial for ensuring that disaster risk management funds are used effectively. Some key practices include:

- **Financial Reporting:** Municipalities are required to publish financial reports detailing the use of disaster-related funds. These reports provide information on expenditures, project outcomes, and overall financial management.
- **Public Engagement:** Engaging the public in disaster risk management planning and decision-making is important for building trust and ensuring that community needs are addressed. Public consultations help enhance transparency and to ensure that financial management reflects community needs and priorities.
- **Audit and Oversight:** Regular audits by the State Supreme Audit Institution (SSAI) help ensure compliance with financial regulations and assess the effectiveness of disaster risk management practices. Audit findings are used to improve financial management and address any issues.

In Albania, there is a significant lack of publication of financial reports detailing the expenses incurred by the Municipalities to recover the situation after the disaster. Also, regardless of the obligation Municipalities have from Article 30, Law No. 45/2019, point b "to inform the public and the endangered community, based on the disaster risk assessment document", the majority of Municipalities have not respected it. Furthermore, the engagement of citizens in the budgeting process of municipalities is low.

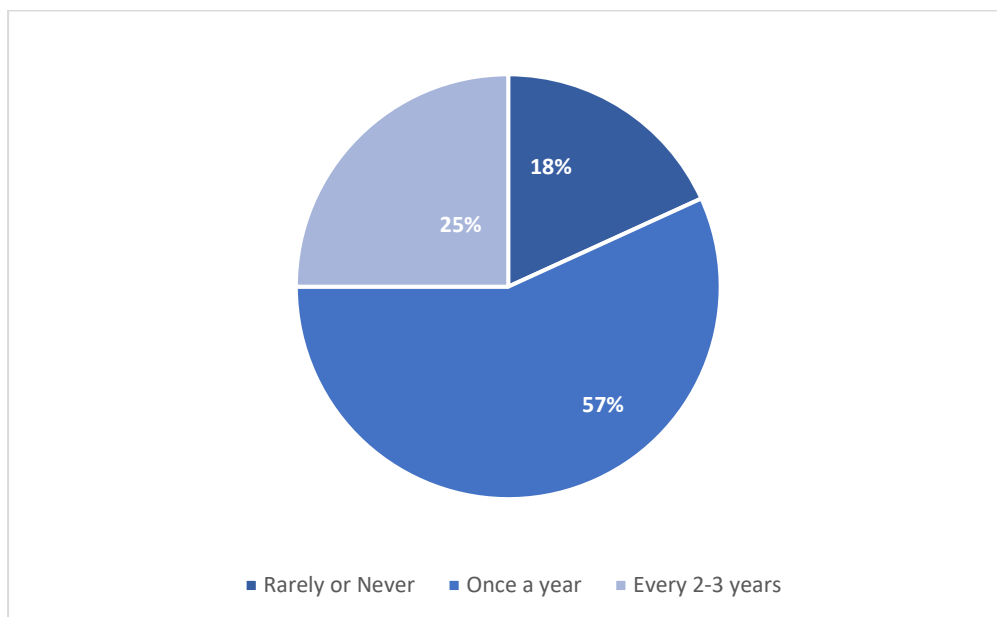
By engaging with a diverse range of stakeholders, collaboration brings together varying perspectives, expertise, and resources, leading to a more comprehensive understanding of challenges and a more effective response. Collaboration contributes to:

- **Increasing government, civil society, and private sector awareness and know-how.** Effective collaboration builds the knowledge base for central and local government actions and public-private partnerships and increases the collective response capacity to prevent and mitigate the impacts of natural disasters.

- **Cost and implementation sharing.** Effective collaboration allows for efficient division of labour in implementation and also facilitates a better distribution of risks, thereby reducing capital costs.
- **Leveraging diverse expertise.** Various stakeholders, including governments, private sector entities, community groups and nongovernmental organisations, offer unique insights into local needs and priorities. Collaborating with these stakeholders ensures that resilience strategies are inclusive and address social equity issues, as well as the needs of the concerned communities. Collaboration also facilitates more comprehensive risk management strategies, aiding in the identification of areas requiring greater attention.

In the framework of Accountability and Transparency, the municipalities were asked: ***How often does your municipality conduct audits or financial evaluations regarding disaster preparedness?***

**Figure 23: Audits or financial evaluations regarding disaster preparedness**



When asked about how often the municipality conducts audits or financial evaluations related to disaster preparedness, 57% of respondents reported performing these assessments at least once a year. In contrast, 25% stated they conduct evaluations less frequently, around every 2-3 years. Notably, 18% indicated that they rarely or never carry out such evaluations, highlighting a key gap in the financial management of disasters within municipalities. Municipalities should prioritize regular financial evaluations and audits to ensure better preparedness and resource allocation for disaster management. Establishing a mandatory annual review process could help address this gap, improve accountability, and enhance disaster response effectiveness.

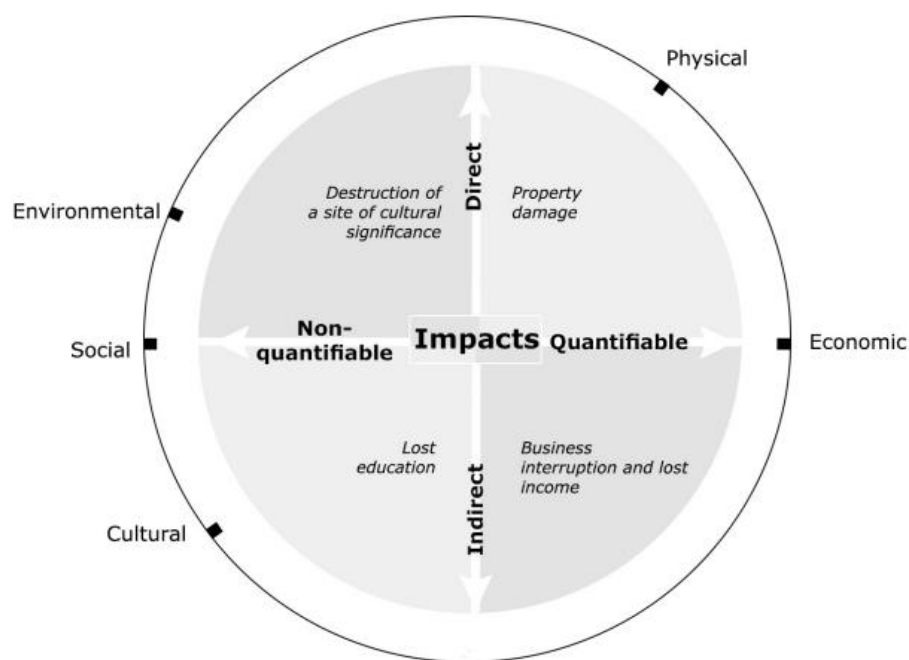


## 7 Risk Management and Financial Resilience

### 7.1 Identifying and Assessing Financial Risks Related to Disasters

Disasters can have profound and lasting impacts on communities, particularly in financial terms. As climate change and urbanization increase the frequency and severity of these events, municipalities must proactively identify and assess financial risks associated with disasters as the first steps toward reducing their adverse effects. Risk identification is the important first step toward leveraging larger and better-targeted investments in risk reduction, preparedness, financial protection, and resilient recovery.

Figure 24: Direct and indirect impacts of disasters



According to the 2030 Agenda for Sustainable Development, risk and resilience are at the heart of planning for achieving SDGs, because many of them are focused on issues that are principal drivers of risk, such as: climate change, poverty and inequality or weak institutions. Also, bad development can be a source of risk, like for example: vulnerable critical infrastructure or unregulated urban development.

The access to disaster risk information, enables better understanding of the potential impacts of disasters. In this regard, the policymakers can carry out risk-sensitive planning and investment before a disaster strikes.

Identifying and assessing financial risks related to disasters requires a thorough assessment of potential impacts on municipal finances and economic stability. Here are some key steps to effectively identify and assess these risks:

**Analyze Historical Data** by reviewing the past disaster events, most effected areas and the financial impacts they had on the budget of the municipality and local economy.

**Conduct Risk Assessments** in order to identify potential disastres and their severity, as well as to assess the vulnerability of communities, infrastructure, and ecosystems.

**Assess Vulnerable Sectors** by identifying those that are most at risk.

**Evaluate Infrastructure and Assets** in order to undertstand the cost of their repair or replacement. In this regard, municipalities should assess critical infrastructure, public assets, and private sector dependencies, focusing on their value and vulnerability to disasters.

**Monitor Insurance Coverage** by reviewing existing insurance policies, assessing coverage gaps and how these might affect recovery costs post-disaster.

**Consider Revenue Fluctuations** by analyzing the impact of disasters in the municipal revenues. Understanding these dynamics helps predict potential declines in economic activity following a disaster.

**Review Emergency Response Costs** by estimating the costs associated with disaster response and recovery efforts, including personnel, equipment, and logistics needed during a disaster.

**Conduct Scenario Planning:** This is an important step according to which are created financial models based on various disaster scenarios and their potential impacts.

**Assess Funding Sources** by identifying available funding mechanisms for disaster recovery.

**Review Policy and Planning Documents** by examining municipal plans to identify areas of risk and potential gaps in mitigation strategies.

**Monitor Environmental Changes** by tracking climate trends, land use changes, and natural resource depletion that could exacerbate disaster risks.

Identifying and assessing financial risks related to disasters is an important process for municipalities that aim to enhance resilience and protect their financial stability. By systematically addressing these issues, municipalities can better identify and mitigate financial risks associated with disasters, enhancing their preparedness and resilience. A well-informed approach to financial risk management not only safeguards municipal finances but also supports the community's long-term recovery and resilience.

## 7.2 Building Financial Resilience and Adaptive Capacity

Building financial resilience and adaptive capacity is very important for Municipalities in order to equip them how to face the financial uncertainty, how to reduce vulnerability and to enhance long term stability. Municipalities can play a vital role in **building financial resilience and adaptive capacity** for disaster risk management through strategic planning, resource allocation, community engagement, and collaboration with stakeholder. For that reason, Municipalities should implement practices in this function, such as:

- **Comprehensive Risk assessment and planning:** Municipalities should assess the specific disaster risk that affect them more often, by assessing critical infrastructure, identifying economic sector most at risk. These DRM plans should include risk prevention, preparedness, response, and recovery strategies with a focus on financial resilience. According to the Law no.45/2019 (Article 30/a), each municipality in Albania should prepare and approve the disaster risk assessment document. However, until today, it turns out that the risk assessment has been completed only for **6 municipalities of Fier County**. Consequently, this element should be taken into consideration and developed by all the country's Municipalities. During this phase, they can involve local communities in risk assessments to endure that plans are related to the needs and vulnerabilities of the area. By assessing the risk, they can integrate disaster risk reduction into their budgeting processes.
- **Build emergency funds and reserve accounts:** Municipalities should ensure that the fund that they have can cover immediate expenses such as emergency serviced, repairs and relief programs, without disrupting essential services. Also, they should be prepared to access the government grants or international funds to supplement local emergency funds. Municipalities in Albania can apply for the Fund for the Prevention and Management of Natural Disasters, with the aim of financing infrastructure projects and purchasing equipment for the prevention and regional and local management of natural and other disasters.
- **Invest in resilient infrastructure:** Municipalities should prioritize investments in disaster -resilient infrastructure, such as flood defenses, dams, earthquake-resistant building, in order reduces the financial burden of rebuilding after disasters. For Albania, Municipalities should invest in this direction by making investment thinking about the future and keeping in mind most often risks happen in their area.
- **Staff Training and Capacity Building:** It is very important, that all Albanian municipal employees, especially those who works in financial management, planning, and emergency services, should receive ongoing training in disaster preparedness, risk management, and adaptive financial practices. This will help them to manage finances effectively during and after a disaster risk.

- **Coordinate with Neighboring Municipalities:** As it is known, disaster risks often affect entire regions, so municipalities should collaborate with neighboring cities and towns to create shared disaster risk reduction strategies, mutual aid agreements, and regional resilience funds. Cooperation between neighboring municipalities is also mandatory according to Law no. 45/2019 (Article no. 7 (point 2) and Article no. 30 (point h)).
- **Utilize Early Warning Systems:** All municipalities in Albania, should invest in or enhance early warning systems that provide timely information about impending disasters, enabling communities to prepare financially and physically for risks. This will help to prevent or to manage better the situation before a natural disaster or other.
- **Protect Vulnerable Populations:** Focus on financial resilience strategies that support marginalized or vulnerable groups, such as low-income households, who are often disproportionately impacted by disasters. Provide targeted financial relief and access to recovery resources.
- **Municipal Insurance Policies:** In Albania, the Municipalities do not have insurance for public building, infrastructure, and other critical assets to minimize financial losses from disasters. It will be valuable that Municipalities to collaborate with insurance companies in Albania to ensure disaster insurance.

By incorporating these strategies, municipalities can strengthen their financial resilience and adaptive capacity in disaster risk management. These measures not only protect public finances and infrastructure but also empower communities and local economies to withstand, adapt to, and recover more quickly from disasters. This long-term planning reduces vulnerability, ensures the sustainability of municipal services, and enhances overall resilience. Also, it is important, to ensure diverse community participation in the design and implementation of financial resilience and disaster management strategies, promoting equity in resource distribution and decision-making.

## 8 Best practices and Areas for Improvement

In some economies, governments have promoted greater coverage against disaster risks through legislative and regulatory measures, as well as through subsidies and other financial incentives

### 8.1 Lessons Learned

In **Belgium**, all home insurance policies offered by private insurers must cover most natural disasters, including flood, earthquake, landslide, and storm risk, where a fire policy has been purchased. In some cases, the private insurers refuse to cover certain risks. The solution for this, is a public institution which arranges the conditions for natural disaster risk policies that insurers refuse to cover under their own terms. The management cost of this institution is divided between the insurers offering simple risks in Belgium and the members of the National Disaster Fund.

Many economies have launched campaigns seeking to raise public awareness the importance of preparing for emergencies of all kinds, but only some of them are focused specifically on the financial impacts of disasters and the need for financial preparedness. In the **Czech Republic**, the insurance of property against natural disasters is one of the elements of the financial education programs conducted under the aegis of the Ministry of Finance. Individual ministries organize a wide range of courses, seminars and conferences for the general public and specialist to spread information on risk mitigation and disaster management. In **Germany**, a number of state governments, consumer protection organisations and the insurance industry have sought to raise awareness of the financial impacts of disasters and encourage the purchase of insurance in lieu of reliance on state aid. Concerted efforts have been made to make it clear that if, private insurance coverage is available, there would be no future state aid in the event of a disaster. Since then, it is reported that market penetration has continuously risen.

Defining cost-sharing arrangements across a government gives more certainty on fiscal costs of natural disasters and helps government actors understand how to finance these costs. In this regard, the government of **New Zealand**, has an approach to cost-sharing that allows it to plan for how to meet disaster impacts<sup>15</sup>. It also makes it possible to evaluate the readiness of the government, both at the local and national levels, to meet disaster costs and design appropriate financing instruments.

**Mexico** has established a mechanism named FONDEN (Trust Fund for Natural Disasters), which supports the rehabilitation of public infrastructure affected by adverse natural events,

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<sup>15</sup> See, for instance, White (1997) for a discussion of the role of the Reserve Bank of New Zealand in natural disasters.

low-income housing; and (iii) certain components of the natural environment (e.g., forestry, protected natural areas, rivers, and lagoons). FONDEN is funded through the federal budget and market-based risk transfer mechanisms, including insurance and catastrophe bonds. The federal law requires that an amount of no less than 0.4 percent of the annual federal budget should be available<sup>16</sup>.

The earthquake of **Turkey** (Marmara) in 1999 caused a burden on the public budget, because it had a cost of US\$10 billion, of which only US\$800 million was insured (reflecting low insurance penetration, especially for private property). As a result, the government faced a shortage of immediate funds and had difficulty in compensating affected households. In this situation, the government of Turkey introduces a mandatory earthquake insurance program; a 2000 decree establishing the program was followed by a law adopted in 2012 that specifically aimed to allow for a true risk transfer mechanism, build national catastrophes reserves over time and rely on the distribution channels of the Turkish insurance industry.

In 2015, the government of the **Philippines** started tagging climate change–related expenditures. It has introduced a standardized typology and coding structure that allows tagging of and reporting on relevant programs, projects, or activities. This information is used for various purposes, including identifying financing gaps and determining what further funding should be mobilized by the government to support selected priority areas.

The financial systems and procedures for managing disaster risk in Albanian municipalities face several challenges:

- **Capacity Constraints:** Many municipalities lack the administrative capacity and expertise needed for effective financial management of disaster risks. Capacity-building initiatives are necessary to enhance municipal financial practices.
- **Data Management:** Accurate and timely financial data is essential for effective management. Improving data collection and reporting systems can enhance decision-making and accountability.
- **Coordination and Efficiency:** Enhancing coordination between municipalities, central government agencies, and international partners is crucial for effective disaster risk management. Streamlining processes and improving efficiency can lead to better outcomes.

## 8.2 Building Financial Preparedness

Given increasing disaster risks, governments are likely to further integrate natural disasters, and the financial impact of other physical shocks, into their wider fiscal planning and risk

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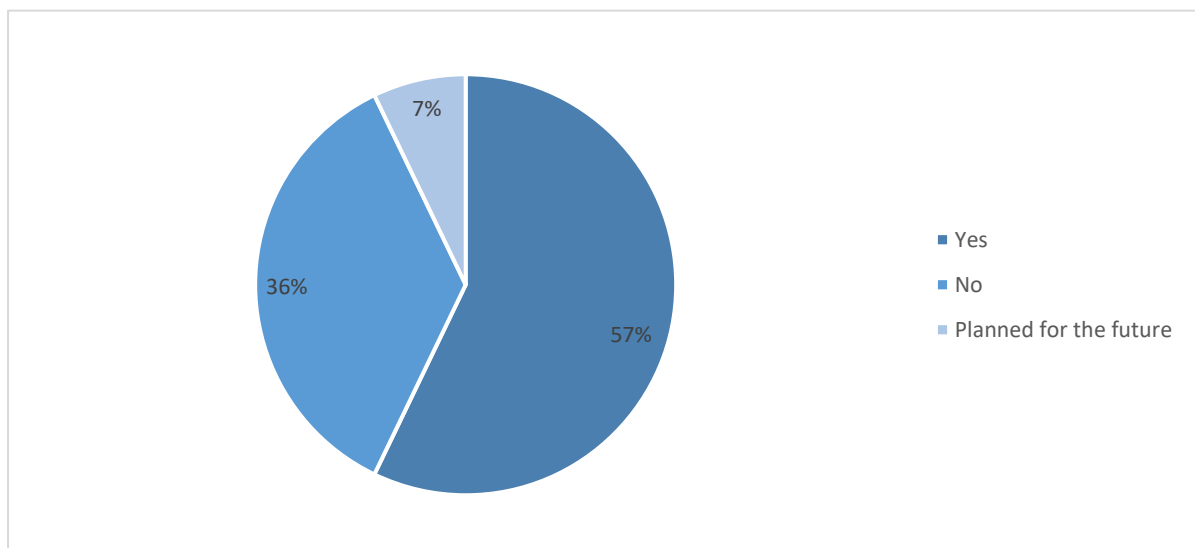
<sup>16</sup> World Bank

management framework. This may lead to further integration of these issues in key planning tools such as macro-models, fiscal plans, fiscal risk statements, debt sustainability analyses, public expenditure reviews, public investment diagnostics, and poverty diagnostics. In this regard, financial preparedness is a key element in a country's overall resilience to natural disasters. It can reduce the long-term impact on economic development at the macro level, while at the micro level it provides financial protection to individuals and businesses to reduce the impact on livelihoods. Countries can better manage disaster-related expenditures when they fully integrate disasters shocks in budget planning and risk management.

In this framework, it is of great importance to ensure proper fiscal management of risks by anticipating potential budgetary impacts and planning ahead to ensure adequate financial capacity and rapid release of funds. For this reason, it is necessary to promote awareness of financial impacts of disasters and the need for financial preparedness to manage disasters risks based on a clear understanding of the allocation of responsibility for disasters costs. Investing in disasters risk prevention and risk reduction can positively contribute to the insurability of disasters risks.

Through the questionnaire shared, the municipalities were asked ***“If they participated in any training or seminar focused on the financial management of civil emergencies?”***

**Figure 25: Participation in trainings or seminar focused on the financial management of civil emergencies**



The questionnaire responses underscore the critical need for training on the financial management of civil emergencies. A significant 36% of participants stated they have never received this type of training, while 7% indicated they are considering it for the future. Only 57% of respondents have already implemented such training programs.



Also, the municipalities were asked on *“What would they suggest for improving financial management in relation to disaster preparedness and response?”* Related to this question, some of the most common answers consist in:

- Support for the design of the Risk plan
- Increasing funds for Civil Emergencies
- Additional funds from the state budget
- Facilitation support regarding the bureaucratic delays
- Capacity building of human resources through trainings, seminars

The last question the municipalities were asked aimed to *“Define their long-term financial needs to cope with natural disasters from the most urgent to those that can be ensured through the passage of time”*. Most of the respondent consider *More funds* (21), *More investment in infrastructure* (19), *Investments in new technologies such as warning and monitoring systems* (14) and *The use of the insurance mechanism for the public infrastructure to be covered by insurance, in order to reduce the financial burden for the Municipalities after a disaster* (17) as the most urgent long-term financial.

## EX-ANTE DISASTER RISK FINANCING INSTRUMENTS

- **Contingent Credit**

Contingent credit is a financial mechanism designed to provide emergency funding in the event of a crisis or disaster. It functions as a pre-arranged line of credit that becomes available when specific conditions are met. This type of financing is typically used by governments or large organizations to ensure they have immediate access to funds when faced with unforeseen emergencies.

So far, Albania does not have any contingent credit arrangements linked to natural disasters. Setting up ex ante contingent lines of credit provides access to quick but limited liquidity, usually used to cover larger impacts of disasters or pandemic that led to a declaration of emergency. In this regard, the central and local government are enabled to access finance at prearranged borrowing and bridge the gap between immediate disaster needs and recovery and reconstruction funding.

- **Sovereign disaster risk financing**

Sovereign disaster risk financing aims to increase the capacity of national and subnational governments to provide immediate emergency funding as well as long-term funding for reconstruction and development. This policy area also works with governments to account for other contingent liabilities, such as government supported agricultural insurance or social



protection schemes that will require payouts following a disaster. It requires setting up systems for effectively allocating and disbursing the necessary funds.

- **Risk transfer**

Risk transfer is the process of formally or informally shifting the financial consequences of particular risks from one party to another. The first party, which may be a household, community, organization, or national or local government, receives a financial payout from the other party after a qualifying event occurs (such as a disaster), in exchange for a fixed and specified payment.<sup>17</sup> Risk transfer helps societies and individuals prepare for catastrophes and mitigate their effects on households and the broader economy. It is an important method of reducing sudden financial shocks caused by natural disasters. Risk transfer instruments such as insurance play an important role in mitigating economic loss from natural disasters. The goal is to ensure that risks are spread among capital bases sufficient to absorb the losses with society and governments not serving as the sole risk bearers.

- *Risk transfer to prepare for catastrophic events* includes mobilizing private sector to address post-disaster costs thorough: exploring how insurance can protect public budget, including public asset insurance or sovereign insurance; strengthening small and medium enterprises' resilience to natural disasters; adopting an earthquake insurance law under consideration by the GoA that provides for mandatory catastrophe insurance for households.
- *Risk Transfer - Insurance*: For natural disasters, insurance instruments are most effective for protecting against largemagnitude (but not too unlikely) events, and they can be structured to achieve different objectives. For example, insurance can be offered in the form of sovereign insurance, which provides rapid budget support, or it can be purchased by government entities for specific assets or infrastructure. Sovereign insurance can either be provided through a regional facility<sup>18</sup> or directly accessed through insurance and the secondary international (re)insurance markets.
- *Risk transfer - Capital markets*: Several disaster-related financial instruments are available in capital markets. These include catastrophe (CAT) bonds, catastrophe swaps, weather derivatives, and others. A CAT bond is a risk-transfer capital market instrument that allows the insurer to raise funds in case of a natural disaster and does not count against a countries' debt ceiling. CAT bonds are often used by property and casualty insurers as well as reinsurers to transfer risks to investors. Catastrophe swaps can be executed between two counterparties with exposure to different types of catastrophe risk. The main objective is to

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<sup>17</sup> United Nations Office for Disaster Risk Reduction (UNDRR), "Terminology," <https://www.undrr.org/terminology/risk-transfer>

<sup>18</sup> Albania currently does not have access to any such facility. Examples of regional facilities include African Risk Capacity, Pacific Catastrophe Risk Assessment and Financing Initiative, Caribbean Catastrophe Risk Insurance Facility, and the recently established Southeast Asia Disaster Risk Insurance Facility.

diversify a portfolio and therefore minimize risk concentrations. Weather derivatives are index-based instruments that pay out when a specific weather-related threshold is reached. Unlike insurance, which covers rare catastrophic weather events, weather derivatives cover more common events, such as hot or cold spells. Weather derivative indexes are usually based on observed weather data at a weather station (temperature, snowfall, rainfall, etc.).

The capital markets in Albania remain underdeveloped. Market activity currently consists of trade and investment in government securities and issuance of corporate bonds through private offers. A developed domestic capital market could be a good anchor for better pricing of catastrophe products, although such products can be accessed from the international market.

## **EX POST DISASTER RISK FINANCING INSTRUMENTS**

- Budget reallocations

Budget reallocations provide resources in a short period of time, making it the first instrument that is commonly available to meet needs in the event of high-frequency disasters. However, they depend on the availability of resources at the time of the disaster, internal decisions, and the time required to execute the administrative procedures to make the resources available.

Budget reallocations could also be used as an option after a disaster, considering that it is one of the most onerous ex-post financial instruments. It reduces the resources allocated to priority projects that contribute to the development of the economy.

- Emergency borrowing

Central and local governments may borrow funds to finance disaster costs. Significant resources can be mobilized through post-disaster loans, though these can take some time to prepare and can contribute to already high debt ratios (World Bank and GFDRR 2014). Emergency recovery loans offered by multilateral development banks such as the World Bank can be prepared over a comparatively short time (for instance, the Floods Emergency Recovery Project for Serbia for the 2014 floods was prepared and approved in less than six months).

- Additional taxation

Tax increases may be used to mobilize additional funding after disasters. The effectiveness of this instrument depends largely on the country's tax base, tax compliance, and tax collection capacity. Introducing new taxes is never popular and may be politically costly, especially after a disaster that has directly or indirectly affected a large part of the population. Use of this instrument, however, may pose a significant burden, especially within narrow tax bases.

- Donors and international assistance

Resources from donations and international assistance are usually provided in the case of catastrophic events that are not recurrent and where the number of losses is uncertain. Such resources are therefore mainly used for immediate response actions.

Donations for disaster relief are a source of resources of low costs for the areas affected, since many donors have humanitarian programs to support relief activities, among other actions. However, some of the limitations of this mechanism are that:

- Resources are limited, representing a portion of the total need for emergency response and recovery, and rarely support reconstruction programs.
- Donations may be motivated by the visibility of the disaster in the media, so attendance and recurrence cannot be predicted.
- Internal and international arrangements must be made to schedule and receive resources, which can be a complex and time-consuming process involving uncertainty.
- The allocation of resources is not very flexible, as they are generally earmarked for previously identified expenditures.

- Disaster funds

Disaster funds generally accumulate their own resources, in case they are not used during the year, to meet emergency response needs in the event of a disaster caused by frequent, low-severity events. Once the holding fund is sufficiently capitalized, its resources may be used for recovery and reconstruction activities.

The constitution and administration of retention funds involves costs, since the fees of the public or private institution that administers the fund's resources must be covered, as well as the time required to define the rules for the efficient and transparent use of the resources.

- Disaster – linked social protection

Disaster-linked social protection helps governments strengthen the resilience of the poorest and most vulnerable to the debilitating effects of natural disasters. It does this by applying insurance principles and tools to enable social protection programs such as social safety nets to scale up and scale out assistance to beneficiaries immediately following disaster shocks.

## 9 Summary of Key findings

Municipalities are on the frontlines of disasters and therefore must play a key role in disaster risk management (DRM) to reduce impacts on their populations and territories. They should incorporate DRM measures into their budgets and work closely with central institutions and other stakeholders, for more effective results.

Given the increasing disaster risks Albania has faced in recent years, along with the rising cost of damages compared to the past, it is crucial to assess and implement strategic actions to address these challenges from a public finance perspective. Data from DesInventar highlights that between 2019 and January 2024, Albania experienced numerous natural disasters, including floods in river basins (32 events), earthquakes (95 events), an epidemic (1 event), storms (15 events), fires (1,435 events), and forest fires (826 events). This underscores the urgent need for efficient disaster risk management and financial preparedness.

To have a clearer picture of the situation, the project team drafted a questionnaire that measures aspects related to the budget and the preparation of the Municipalities to manage civil emergency situations. The results reveal significant gaps in Albanian municipalities' preparedness for managing civil emergencies, primarily due to inadequate budgetary capacity, limited knowledge, and insufficient resources. Also, most of the municipality's lack of overall risk planning and investment in physical resilience measures, with too much focus on post-disaster response, leads to increased loss of life, suffering, and damage.

Key reforms initiated since 2015 aimed to enhance financial resources for municipalities, mandating that at least 4% of their budgets be allocated to disaster risk management according to Law no.45/2019. However, current data show that most municipalities are not meeting this requirement for the 2024 budget, highlighting a critical need for prioritizing these allocations to improve disaster preparedness and response. This finding was emphasized even from Municipality responses of the survey.

Results also highlight that there is a lack of financial reports of disasters that happened over the years. Currently, the Municipalities have data only on the value of the estimated damage, according to which, these damages are often not evaluated properly.

Another important finding of the study is that most municipalities do not yet have a risk assessment plan, even though this is a legal obligation according to Law no. 45/2019. Currently, only six municipalities in the Fier County have submitted risk assessment documents, signaling a need for broader compliance across all municipalities. Likewise, most municipalities do not have a financial plan for recovery from civil emergencies, which hinders their ability to respond effectively during such situations.

The existing allocation framework for conditional funds, which is based on the relative size of municipal budgets rather than the severity of disaster risks, also requires revision. Currently,

the legal framework (VKM No. 414/2021, point 2), implies that conditional funds should be allocated based on general criteria, such as local risk reduction strategies, risk assessments, civil emergency plans, and urban development plans. However, the distribution prioritizes the relative size of each municipality's budget compared to the total budget of all municipalities, rather than the severity of civil emergencies faced by each one. This approach can result in municipalities with fewer civil emergencies receiving a higher proportion of funding than those with greater needs.

The Municipality itself in the following responses has emphasized some particularly critical issues that ensure the most complete management of the situation in cases of civil emergencies. The municipalities emphasized the importance of drafting a strategic plan that focuses on risk management and its implementation through institutional funds and those granted by the Ministry of Defense. Municipalities emphasize increasing funds for civil emergencies and employee training and providing more resources from the state budget, defining a precise track for managing funds for disasters. Contingency planning and increasing human resource capacity are also important. Frequent training on the efficient use of funds and capacity building in financial planning will improve the response to emergency situations. Also, it is necessary to review the legal framework for civil emergencies and reduce bureaucratic delays in managing funds. The action plan and risk analysis should include financial costs and specific projects, while investments in modern technology and equipment are essential to increase the efficiency of the response. Finally, more government support in funds and emergency equipment is required to strengthen disaster management capacities and ensure a more effective response to critical situations.

## 10 Recommendations

Integrating disaster risk reduction and management into financial planning in Albanian municipalities is crucial for enhancing resilience, minimizing economic impacts from disasters and ensuring sustainable development. Here are some future directions to be considered:

- **Conduct Risk Assessment:**

Conduct comprehensive risk assessments to identify potential disasters and use data analytics to evaluate the financial impacts of different disaster scenarios. Albanian municipalities should fulfill their obligations under Article 30/a of Law 45/2019, which requires completing a disaster risk assessment within two years of the law's entry into force. Currently, only six municipalities in the Fier County have completed this task. To enhance national disaster preparedness, all municipalities must prioritize developing and submitting their risk assessment documents as required.

- **Incorporate DRR in Budgets:**

Encourage multi-year budgeting that accounts for DRR investments. Albanian municipalities should advocate for changes in the allocation of disaster-related funding to better reflect actual needs and recovery efforts, rather than simply being based on the overall size of the municipality's budget. Currently, the legal framework (VKM No. 414/2021, point 2), implies that conditional funds should be allocated based on general criteria, such as local risk reduction strategies, risk assessments, civil emergency plans, and urban development plans. However, the distribution prioritizes the relative size of each municipality's budget compared to the total budget of all municipalities, rather than the severity of civil emergencies faced by each one. This approach can result in municipalities with fewer civil emergencies receiving a higher proportion of funding than those with greater needs. To address this, it is recommended that the allocation process be revised to prioritize municipalities based on their actual disaster-related risks and needs.

- **Publication of financial reports of disasters**

Since there is a lack of financial reports of disasters happens during the years, Municipalities should prioritize publication of financial reports detailing the use of disaster-related funds. These reports should provide clear information on expenditures, project outcomes, and overall financial management, ensuring accountability and public trust. These reports can be part of approved annual budget of Municipalities. By regularly publishing these financial reports, municipalities can demonstrate responsible use of resources, enhance transparency, and support effective disaster risk management.

- **Investment in technology and equipment**

Municipalities should invest in modern equipment and technology to track and analyze data related to disaster impacts, financial expenditures, and recovery results. Currently, the municipalities do not have alarm systems set up for the prevention or monitoring of civil emergencies. Therefore, the government should help with funds for the realization of the necessary investments in technology and equipment, especially for small municipalities that depend on the state budget.

- **Public-Private Partnerships:**

Public-private partnerships play a significant role in strengthening disaster risk reduction efforts by leveraging resources, expertise, and innovation from both sectors. By partnering with the private sector, municipalities and governments can access additional financial resources, advanced technologies, and specialized knowledge that may not be readily available within the public sphere. One of the main benefits of PPPs is the ability to mobilize financial resources more efficiently. Private companies often have access to capital that can be directed toward infrastructure improvements, emergency preparedness initiatives, and community resilience projects. But to maximize the benefits of public-private partnerships, it is essential to create clear frameworks for collaboration that define roles, responsibilities, and expectations.

- **Ongoing Training and Capacity Building:**

Ongoing training and capacity building are essential for empowering local governments to incorporate disaster risk reduction into their financial planning processes. It is considered important to provide structured training for local officials and finance professionals to understand the link between disaster risk and financial planning. These trainings should include modules on risk identification, assessing the financial impacts of disasters and developing strategies for managing these risks. In this way, officials will be able to build budgets that reflect the needs for emergency preparedness and response. Likewise, it is considered important to create a culture of knowledge sharing within and between Municipalities, which can be achieved through the development of conferences, seminars or working groups that include representatives from local governments or even from private businesses. These collaborations can be seen as a good opportunity to discuss best practices, challenges, and achievements in the integration of DRR in financial planning.

- **Develop Risk Transfer Mechanisms:**

The development of risk transfer mechanisms is a key component in disaster risk management, providing an effective way to cover and manage the financial impacts of catastrophic events. One of the most popular ways to achieve this is through insurance, which allows individuals, businesses, and government institutions to transfer financial risk to insurance companies. It is

important for municipalities to cooperate with insurance companies to develop personalized insurance products that suit the specific needs of certain communities or sectors, such as agriculture. Municipalities should collaborate with insurance companies to create sustainable risk models. These models can help assess risk and price insurance so that it is affordable to a wider range of individuals and businesses. It is also necessary to create a wide awareness on the importance of insurance and risk transfer mechanisms within communities, which can be realized through educational campaigns and trainings that inform citizens and businesses about the advantages of insurance, as well as the ways how they can help with financial stabilization after a disaster.



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## ANNEX I: Questionnaire

### Title: Financial Practices of Municipalities in relation to Civil Emergencies

**Description:** This questionnaire aims to collect information about the management and financial preparation of municipalities in relation to civil emergencies. Your responses will help identify current practices and opportunities for improvement.

#### Section I: General Information

1. Municipality: \_
2. What natural disasters have occurred during the last 3 years and what is their frequency?

Natural disaster	Frequency			
	<i>Never</i>	<i>Once – twice a year</i>	<i>3 – 5 times a year</i>	<i>More than 5 times a year</i>
Earthquake				
Flood				
Fire				
Landslide				
Drought				
Snowfall/Snow Blockages/Avalanche				
Technology disaster				
Biological disaster				

**3.1 Please determine the damages of these natural disasters for the year 2023 in monetary value (ALL):\_\_\_\_\_**

**3.2 Please determine the damages of these natural disasters for the year 2023 in physical measurement units (Number of destroyed/damaged dwellings; Flooded/burnt areas (in ha); Number of livestock (Cattle/Small) drowned; Number of families blocked by snow):\_\_\_\_\_**

3. Rank in order of importance (1 – least important, 4 – most important) the following resources for civil emergency management:

Municipal funds  
State/government funds  
Private sector  
Foreign donors

**4 Do you consider these resources sufficient?**

Yes

No (Why?) \_\_\_\_\_

**6. What percentage of the municipality's budget is dedicated to civil emergencies?**

- 4%
- 4-6%
- 7-10%
- More than 10%

**7. How much are the planned and actual expenses for civil emergencies?**

Year	Planned expenses	Actual expenses
2021		
2022		
2023		
2024		

*\* For the year 2024, the actual expenses should be declared for the period available*

**8. What were these expenses used for most often?**

*(You can choose more than one alternative)*

- a. Investments in machinery and purchase of various materials, which serve the activity of civil emergency structures
- b. Financial assistance for families whose homes have been damaged by a natural or other disaster
- c. Services of immediate intervention in saving the lives of citizens, private and public property, as well as environmental protection
- d. Maintenance and operation of the monitoring, early warning, notification and alarm system
- e. Keeping fire protection systems in readiness, the uninterrupted passability of rural roads, places of refuge, as well as the collection and administration of food reserves for people and living things
- f. Keeping in readiness the infrastructure of irrigation, drainage, flood protection and reservoir dams in their administration;
- g. Expenses incurred for the purchase of fuel and replacement parts for vehicles and machinery, which are used to cope with emergency situations created as a result of a disaster;
- h. Taking protective, preventive measures and financing facilities that affect the return of normal life for the community and its economic activities.
- i. Liquidation of fiscal obligations, portal taxes and taxes, expenses for transportation and accommodation of forces, specialized domestic and foreign vehicles, leased and donated equipment and machinery, as well as for their storage
- j. Establishing, updating and maintaining the database

- k. Complementing operational structures with equipment and training in the field of civil defense;
- l. Organization of community awareness and information campaigns in the field of civil protection and response to natural disasters or other disasters
- m. Financial support of operations with forces and means of other or foreign municipalities, in cases of natural disasters or other disasters.
- n. Publications, for research-scientific activities, for disaster risk reduction and civil protection, and other activities in the interest of civil protection structures.

## **Section II: Need assessment**

### **9. Does your municipality have a financial plan for recovery from civil emergencies?**

- Yes
- No
- In preparation

### **10. What mechanisms are used to prevent losses/damages from natural hazards? *(You can choose more than one alternative)***

- Maintenance of dams
- Maintenance of drainage systems
- Maintenance of irrigation infrastructure, drainage and reservoir dams
- Improvement of warning and alarm systems
- Forest management
- Identifying landslide risk areas and limiting development in such areas
- Drafting of the civil emergency plan for the coordination of institutions to respond quickly and effectively to natural disasters
- Financial mechanisms
- Other

### **11. What mechanisms are used to cover the consequences of disasters? *(You can choose more than one alternative)***

- Civil emergency response teams
- Humanitarian aid (food, medical aid, etc.)
- Logistical support (use of helicopters, boats or trucks to deliver aid, transport disaster victims or restore communications in isolated areas)
- Financial support
- Provision of social services for those affected (children, elderly, vulnerable population)
- Other

### **12. How often does your municipality conduct audits or financial assessments related**

**to disaster preparedness?**

- Once a year
- Every 2-3 years
- Every 4-5 years
- Rarely or Never

**13. Has your municipality participated in any training or seminar focused on the financial management of civil emergencies?**

- Yes
- No
- It is planned in the future

**14. Rank in order of importance (1 – least important, 6 – most important) the challenges your Municipality faces in managing finances for preparing and responding to natural disasters:**

- Insufficiency of funds
- Lack of expertise and training
- Bureaucratic delay
- Inadequate infrastructure
- Difficulty in securing external financing

**15. What would you suggest for improving financial management related to disaster preparedness and response?**

**16. Are there any comments or additional information you would like to share about financial practices for natural disaster management in your municipality?**

**17. List the long-term financial needs of the municipality to cope with natural disasters from the most urgent to those that can be ensured through the passage of time (1-less urgent, 8 – very urgent):**

- More funds
- More investment in infrastructure
- Investments in new technologies such as warning and monitoring systems
- More training for emergency response teams and equipment purchases
- Continuous training for staff on applying for additional funds and their management
- Investing in technology to track and analyze data about disaster impacts, financial costs and recovery outcomes
- The use of the insurance mechanism for the public infrastructure to be covered by insurance, in order to reduce the financial burden for the Muni

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