

# **Fiscal Decentralization and Local Financial Management in Albania**

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## 1. The Organization of Local Governments in Albania

The collapse of Albanian socialist regime in late 1991 marked the outset of state restructuring, devolution of authority and transition to market economy. The initiatives for political and administrative decentralization after the alteration of political system included a new administrative-territorial division according to which 36 districts and 374 communes and municipalities were established. As part of reforms for democratization, the process of decentralization was carried out in two phases: 1) during 1992-1998 the emphasis was on political decentralization while 2) from 1999-onwards the reforms focused at fiscal decentralization and strengthening of local fiscal autonomy. During the second phase Albania undertook a legalistic approach<sup>1</sup> to the decentralization reform by essentially enacting the basic legislative framework.

In 1999 Albania ratified the European Charter of Local Self Government, comprised its basic principles in the new Constitution, and adopted the first 'National Strategy on Decentralization and Local Government' that served for the implementation of constitutional dispositions in accordance to the principle of decentralization of authorities. The law no. 8652/2000 "On the organization and functioning of local governments" and law no. 8653/2000 "On administrative-territorial division of local governments in the Republic of Albania" provided the main pillars for the decentralization reforms introducing new territorial organization of local governments and responsibility assignment. Albanian territory was divided in 65 *municipalities* and 309 *communes*<sup>2</sup> (first tier of LGUs) and 12 *Regional Councils* (second tier of local government). According to the organic law on local governments the purpose of local government was established to guarantee governance, at the level closest to the residents, through:

- a. Recognition of the existence of different identities and values of the communities in Albania;
- b. Respect and enforcement of the fundamental rights of citizens provided in the constitution and other laws in those communities;
- c. Opportunity for communities to make choices between different kinds of local public facilities and services;
- d. Efficient and effective exercise of the functions, competencies and duties of various bodies of local government;
- e. Delivery of appropriate services;
- f. Promotion of effective participation of local residents in local government.

Aside from local governments, *Prefectures*, deconcentrated bodies at *regional level*, were assigned the responsibility of monitoring the activities of LGUs and assuring national unity and harmonization of national policies<sup>3</sup>.

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<sup>1</sup> UNDP, 2005 "Albanian Regional Development: Opportunities and challenges".

<sup>2</sup> Today there are 308 communes since commune of Barbullush and Bushat in the region of Shkodra consolidated with their own request.

<sup>3</sup> See Law no. 8209/1997 "On prefects"

Regardless of the territorial differences, incorporating urban and rural land, municipalities and communes are assigned the same functions. Local governments' functions in Albania consist on: 1) exclusive functions, such as water supply, public transportation, public lightening and garbage collection; 2) shared functions, such as pre-school and pre-university education, health care, public order and civil protection; and 3) delegated functions, from the central governments which were classified as mandatory and non-mandatory functions. Regions were assigned broad yet, ambiguous roles and responsibilities; such as "to develop and implement regional policies and their harmonization with the national policies at the regional level, as well as any other exclusive function given by law". To this extend, the unclear role of Council of Regions has been extensively discussed in professional circles in Albania and its existence have been challenged and questioned occasionally.

Municipal and communal councils as representative local bodies and mayors as executive bodies are elected through popular elections each 4 years. Regional councils are compound of members of municipal and communal councils within the administrative territory of the region, which are entitled to a preliminary approval by the Prefect. The head of Region is elected at the first meeting of Regional councils. Chief local officers are appointed directly and indirectly by elected local council whereas local officers of Prefectures are centrally appointed.

The revenue assignment system is radically restructured through the new law on local taxes namely, "*On tax system*" Law no, 9632/2006. A new fiscal package was put into law in 2002 which diversified the revenue sources and powers of local governments. A crucial impact of this law consisted on the authority of local governments to set tax rates on local property, the small business tax and the infrastructure impact tax imposed on new constructions. The law provided revenues from two taxes; a tax on the transfer of property rights on immovable assets and a tax for the annual registration of road transport vehicles that expanded the revenue sources for local governments. No rate setting authority was delegated to local governments with respect to these taxes, which were centrally collected and shared between the central and local governments.

The rationale of fiscal decentralization lies in the principles of efficiency and subsidiary implying that the service provision will be assigned to those governmental bodies that are closest to people<sup>4</sup>. Decentralization is popular in public discussions in Albania since it is expected to bring decision-making and expenditure assignments closest to communities which can determine effectively the local demands and investment priorities. On the other hand, it is presumed that it improves accountability of elected local authorities. Yet, due to unconsolidated tradition of local governments, it occurred that decentralization of functions is not necessarily accompanied by decentralization of accountability at the lower level, which gives rise to phenomena like mismanagement, clientalism and red tape. A survey conducted in 2007 by USAID/ LGDA in 30 cities in Albania showed that 54% of citizens continue to see local governments as not welcoming citizen participation in municipal affairs (2007: 7).

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<sup>4</sup> Council of Europe, "European Charter of local-self governments", Strasbourg, 1985.

## 2. Revenue and Expenditure Assignment in Albania

Decentralization of powers from national to local governments is an irreversible process creating new foundations for intergovernmental relations in Albania. The clarity of responsibility and expenditure assignment is crucial for the progress of the reforms and establishment of local governance. Albanian Constitution of 1998 provides very general and broad expenditure assignment for local governments. Concomitantly, “The National Strategy on Decentralization and Local Governments” states that “functions and responsibilities of local government will be defined in such a way as to make it absolutely clear which of the local bodies is entrusted with a certain function, and at the same time is held responsible for the results and performance” through the organic law on local governments. Yet, the organic law is limited to listing the areas within local infrastructure and public services which are assigned as exclusive functions to local governments.

In 2008 about 43% of revenues of local governments derived from locally administered taxes and fees<sup>5</sup> which is a substantial enhancement. Nevertheless, there is lack of clarity regarding shared functions between central and local government, which mainly involves education, primary health care and health protection, social services, civil defense and public order. Lack of clarity leads to ambiguities on expenditure assignment while the law offers poor understanding of authorities responsible for ‘defining’ ‘financing’ and ‘providing’ public services. It opens avenues for ‘unfunded mandates’ and creates disparities in the public service distribution system. In general expenditure assignment in Albania has been defined by keeping the provision of services at the lowest level of government matching with the size of ‘benefit area’ of the service. Yet, the standards expected for the provision of exclusive functions are not indicated. Regarding shared functions, the law does not provide local governments with expenditure assignment balanced with the necessary budgets.

Unclear assignment for capital investment and maintenance is present both in the national decentralization strategy as well as on local government organic law which include inconsistent separation between different government levels. Decentralization strategy foresees that local governments may use only donations and other revenues generated through economic activity, sales and rents for public investments, withholding the right of LGs to use incomes generated from taxes for capital investment in public infrastructure. While the central government transfers the unconditional grant on an annual basis to the local government, substantial disparities are observed in its distribution. Per capita expenditures transferred by the central government are not standardized and they may change in an unpredictable way from year to year, bringing about serious horizontal fiscal imbalances.

The following tables provide a picture of the sources of local budget allocations as well as expenditures for the local governments in Albania. As observed, local budgets and expenditures are incrementally increasing in the last years.

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<sup>5</sup> World Bank, 2008. Albania Local Finance Policy Note. *Programmatic Public Expenditure and Institutional Review*, Report No.44109-AL.

Table 2. Source of local budgets in Albania, 2006-2008 (Value in Thousand Lek, 1 Euro=122.3 lek. Source: Ministry of Interior, Albania)

Year	Unconditional Grant	Conditional Grant	Own Revenue
2006	9,021,502	2,712,996	12,465,752
2007	9,893,490	5,817,384	13,582,652
2008	11,255,401	4,488,187	15,582,190

Table 3. Local government's expenditures from 2006-2008 (Value in Thousand Lek) Source: Ministry of Interior, Albania

Year	Total Expenditure	Total Investments	Investments from conditional transfers	Investments from unconditional transfers	Investments from local taxes
2006	24,200,249	5,341,740	2,712,996	1,524,634	1,104,110
2007	29,293,526	9,002,729	5,817,384	1,978,698	1,206,646
2008	31,325,777	9,020,702	4,488,187	2,251,080	2,281,435

### 2.1 The case of education

Education is by law a shared function between central and local (two tiers, local and regional) governments in Albania though a severely underfunded service, consisting in 4% of DGP in the 1990s, 3% in 1998 and 3.1% in 2003<sup>6</sup>. The quality of the service suffered due to low financing available despite a significant decline of students. The responsibility for providing education service is fragmented across different levels of government, such as: national, regional and local governments. The Ministry of Education is responsible for the allocation of resources for state education institutions, policy formulation, approving the school programmes, textbooks, qualifications of the teachers, the criteria for licensing the private schools and training institutions. The Ministry defines standards and the structure of the academic year, the workload of the teaching staff, the optimum number of students per class, as well as hiring the school staff through Regional Directorates of Education (RDE). However, the standards are not translated into minimum public expenditures per year or per capita.

Despite the efforts for decentralization of education, this service is still centralized. The only exclusive function of local governments in this regard is school maintenance that unfortunately suffers due to low financial share<sup>7</sup>. In 2004-2005 a positive tendency was observed in the decentralization of this sector by delegating all investment funds for education to Regional (Qark) Councils which was entitled to distribute the funds for education investment purposes to its communes and municipalities. Unfortunately this practice was discontinued after 2005. The aim was to directly transfer the investment funds in the future to local governments, which upon their needs would use their funds according to the priorities in this sector. In 2006, all the funds were concentrated to the Ministry of Education which started to apply a scheme of competitive grants for investments on

<sup>6</sup> OECD, 2002. "Thematic Review for National Policies for Education- Albania".

<sup>7</sup> OECD, 2002. "Thematic Review for National Policies for Education- Albania".

education sector, by signing a step backward in this aspect. There is no doubt that low financial resources used for education in all terms have adversely affected the demand for education<sup>8</sup>.

### *2.2 Public Utilities*

Main public utilities are provided by the local government, either directly or through private companies. Yet, there is a lack of specific assignment regarding public utilities, while there is no settled standard for the level/quality of service. As stated earlier, while public utilities were assigned to local government, public enterprises (without any debts) were transferred to local government only recently. In the same way responsibilities for capital investment were consigned to the central government. From 2000, public utilities were financed through unconditional grant transfers in lump sum and partly through local taxes which only recently are becoming significant. Indeed, the system of grant transfers has been highly ineffective and unpredictable making local governments dependent on the central government, and limiting the local financial autonomy. With the increase on local own revenues through taxes and tariffs LG are counting more on their own financial means. In terms of modes of provision, services like public transportation, garbage collection and infrastructure improvements are provided through third parties. Low rate of tax collection has a direct negative repercussion on the quality of public services. As the World Bank suggests the ongoing decentralization of water utilities may potentially load local units with significant financial burden (2008). As the government aims at phasing out the periodic subsidies in the next few years, these subsidies will have to be repaid by the next local authorities.

### *2.3 Capital investments in infrastructure*

Responsibilities for capital investments were shared between central and local government, in a way that decision making process is mainly concentrated by central government. This tendency derived from the lack of trust towards local financial administration as measures to avoid possible abuses or/and misappropriation. Up to 2000s the technical projects on infrastructure improvements and capital investments were prepared by the line ministries, not taking into consideration local needs and demands. This situation was radically altered after 2006 when the local governments gained the right to invest from their local revenues in infrastructural works. With the improvement of the legislation and the prospect of local borrowing, capital investment for infrastructure (except for national roads) and public utilities are (still unclearly) assigned to local government, while in general expenditure assignment on capital investment are shared among local and central government. In Albania, the road networks are realigned among levels of government, although it is unclear how well municipalities can meet the necessary costs. The present opportunity for local borrowing and limited fiscal autonomy do not guarantee the necessary ground for efficient use in capital expenditure.

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<sup>8</sup> See UNICEF (1998) International Child Development Center. Education for All. The Monee Project, Regional Monitoring Report No.5. Florence.

### 3. Intergovernmental Fiscal Transfers in Albania

A large amount of revenues to local governments derives in form of transfers from the central government, such as:

- a. unconditional transfers,;
- b. conditional transfers for common functions (in terms of competitive grants);
- c. conditional transfers for delegated functions;
- d. subsidies; and
- e. compensation fund

Given the rapid rate of the decentralization process and the transfer of the responsibility for tax levy to local governments, such as small business tax and property tax, the share of the unconditional transfer tended to shrink recently while the level of own revenues of the local government incrementally increased<sup>9</sup>. The rationale behind using the system of transfers in Albania consist on: 1) enabling LGUs to provide a minimum level of public services (together with controlling them and increasing political influence over LGUs through budgets); 2) enabling some level of uniformity in service provision at a national level; 3) decreasing decision-making at local level based on the belief that limited local capacities can impede local authorities to act in a transparent and accountable way (this was encountered throughout 1990s) and 4) allowing discretionary power in the determination of transfer amount from the central government to the LGUs, which permitted the central government to have greater political influences in some localities guaranteeing political support for the governing political party/coalition.

#### 3.1 Unconditional transfers

The unconditional transfer is considered part of the autonomous local budget which aims at enabling LGUs to cover the expenses for local activities and functions, predefined by the Albanian laws and legal acts. The unconditional transfer is divided in two parts: **1)** unconditional transfer for administrative needs of LGUs and **2)** unconditional transfer for local investments. The formula for the calculation of unconditional transfer was modified over the years aiming at guaranteeing a minimum level per capita which is progressively increased through the shares of unconditional grants and local revenues. Regions are entitled to 9% of the general unconditional transfer fund, allocated for the administrative reasons. The formula for the distribution of the first category of unconditional transfer, despite its perpetual changes, uses a 70% coefficient for population, a coefficient of 15% for communal surfaces<sup>10</sup>, 15% for urban services, and a coefficient of 25% for fiscal equalization<sup>11</sup>. Unconditional transfers for investments is based in a 100% coefficient of population, 0.15% coefficient of equalization, 3% coefficient of mountainous LGs and a final 1.5% as coefficient of municipalities in need. The unconditional transfer for local investments is

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<sup>9</sup> See Schroeder, L (2004). Albania: Fiscal Decentralization Policy Study.

<sup>10</sup> This element is applied to communes only, not including municipalities.

<sup>11</sup> Fiscal equalization is based on the revenues of the previous budgetary year.



mandatory to be used for investments based on the priorities approved by the municipal/communal councils.

Figure 1: Distribution of unconditional transfer over the last years in Albania. Source: Ministry of Interior.

Type of grant	2002	2003	2004	2005	2006	2007	2008
Unconditional transfer	9,500	6,300	6,277	7,300	8,300	9,000	12,330
Regions	10%	19%	15%	9%	8.50%	9%	9%
Local governments I	86%	79%	83%	91%	91.50%	91%	91%
Emergency fund	4%	2%	2%	0	0	0	0

Fiscal equalization coefficient contributes to the smoothening of vertical imbalances between different levels of government (Bird & Smart, 2001). As shown by the description of the formula above, Albania applies the minimum level of 25% as equalization coefficient which tends to decrease the disparities between local governments having different level of own revenues, however LGUs with high expenditure needs profit a lower level of grant than others. Historically, since 2002 the formula on unconditional transfer calculation has been improved. These improvements consist on increasing the weight of the population criteria in the formula, improving equalization criteria, reducing initial differentiations between communes and municipalities and simplifying the formula. Given that the formula relies on the percentage of revenues already collected this transfer is closed ended. In Albania the equalization component is part of the formula for the allocation of unconditional grant, aiming at revenue-sharing between different levels of government. Beside this, another method aiming at decreasing vertical fiscal imbalance is raising local revenues by both increasing tax collecting force and enhancing other income generating avenues. In order to maintain stability for local governments it is calculated that even though the transfers tend to decrease whereas the local revenues to increase, the total local budgets are incrementally increasing assuring stability for the future.

### *3.2 Compensation fund*

Compensation fund is part of the unconditional transfer for investment and is a summation of transitory regulation coefficient and compensation for minimum guarantee per capita. Transitory regulation coefficient (coefficient 100% is used for those LGUs which after the equalization formula have a grant lower than in the previous year; for the others the coefficient of 1.15% is used). Despite this in the formula there is also the criterion of the compensation of minimal assurance per capita which compares the final value of the grant per capita with the minimal levels defined as 2100 lek<sup>12</sup>/ capita for communes and 3090 lek/capita for municipalities. The criteria for the distribution of the compensation fund for the LGUs consist on: re-adjustment of fiscal capacity and poverty level. As a result of the improvement of the UT formula on a yearly basis the level of the compensation fund has been continuously decreasing.

### *3.3 Conditional transfers*

Conditional transfers for common functions consist on competitive grants for investments which are designed for investments in pre-university education and primary health care. Both grants are part of the structural budgets of the line ministries, namely Ministry of Education and Ministry of Health. LGUs can absorb these funds on a competitive basis after the submission of projects to the related ministries. The submitted projects should comply with the criteria and standards introduced by the Ministries which consist on: impact level on reduction of poverty, number of direct beneficiaries, quality of the proposed technical projects, etc. The distribution of funds for competitive grants is coordinated by a special committee with representatives of Ministry of Finance, Ministry of Interior, and line ministries, which also make the preliminary assessment of the projects. Local governments have no autonomous controls over the spending of conditional transfers which are used to provide pre-university education, local health, and social welfare services.

Conditional transfers for delegated functions consist on economic aid for disabled and funds for social care. These funds are transferred from the Ministry of Work, Social Care and Equal Opportunities and are delegated to the LGUs (communes and municipalities) after a need assessment prepared by them (LGUs) with the only for economic aid and the disabled. This transfer consists in cash payment to the individuals/families of the above categories as well as funds for social care services in the community. Up to 2004 monthly transfers for the provision of compensation were applied, while in 2005 bimonthly and four-monthly transfers were used. After 2006, yearly compensations funds for economic aid are delegated to local governments, transferring them the authority to manage the funds monthly.

Subsidies in 2007 were mainly related to the recently decentralized water-supply systems, transferred from the budget of the Ministry of Public Work, Transportation and Telecommunication. Even though these funds are part of the budget of the ministry the transfer is included to the local budget since the responsibility for water supply is an exclusive function of the LGUs. Provision and updating of the local statistics has been a serious impediment for the calculation of unconditional transfers to the LGUs. Given that Albanian institutions are still in a transitory period where adjustment to the new imperatives takes time, often very important data on demographic changes, income per capita, level of property transaction etc, were either not available or mistaken. The statistics provided by the central government often did not match the data collected at local level. Such incongruencies often existed over the level of individuals benefiting from the economic aid fund. On the other hand, other hindrances related to the proper calculation of UT consisted on the prediction of local income to be generated through levying of small business tax, property transactions led to inaccuracy. Later on the formula for UT was improved by taking into account the accurate level of taxes levied the previous year and not foreseeing the amount of taxes expected to be collected during the fiscal year.

Due to the substantial reforms in the field of fiscal decentralization undertaken in Albania that aims at increasing local fiscal capacities and autonomy, the level of own revenues is progressively increasing while the share of transfers (unconditional transfers) is reduced. In the first decade of transition that is characterized by high dependency on national transfers, local government had hardly any significant decision making power and autonomy. The transfer of several taxes to the LGUs, with the responsibility of determining the level of taxes and collecting them, enabled initiation of a behavioral change in municipalities and communes which are now motivated to play a proactive role in increasing their local revenues from tax collection. The decrease of national transfer level accompanied with incremental functions and responsibilities motivated the LGUs towards a more active role in generating local income through different means (tax collection, local borrowing, municipal asset management, etc).

Given limited local budgets and low grant to cost ratio for public service provision, distortions and behavioral change of communes and municipalities appears due to state politics on grants and transfer allocation. Yet there are cases in which LGUs cannot afford investing on maintenance of schools and primary health care centers hoping for getting competitive grants for renovation and construction of such institutions.

On the other hand, many local responsibilities are not addressed in a regular basis by LGUs due to budget constrains, like cemetery administration or preservation of cultural heritage, which constrains local governments to totally neglect these exclusive functions. At this point, matching grants would increase local incentives to increase the local expenditures in specific areas to the 'optimal' level. Indeed, LGUs are not assisted through matching grants; instead, for specific functions the method of competitive grant is used. Competitive grants operate according to efficiency principle, while matching grants can ideally be calculated based on efficiency concerns; if no redistributive character is used. The distinction between the two in the Albanian case would be that while competitive grants are allocated only for specific investment areas, matching grants could be given for all public provisions. On the other side, while the matching grant level for LGUs could change on the level of fiscal capacities, competitive grants cover the whole singular investment cost. Moreover, while the largest and financially more stable municipalities have higher chances of absorbing the competitive grants the poorer ones may lag behind for years lacking significant investments in the specified areas. On policy level, the use of differentiated matching grants would provide significant incentives for investments in all sectors, assuring a minimum level of local infrastructure together with enhanced accountability across the country.

#### **4. Other Sources of Funding: Local Borrowing**

As claimed by the World Bank, the weakest chain in Albanian local finance is not financing the recurrent expenditures but rather the system for allocating funding for capital investments (2008, 18). Albanian LGUs have limited experience with loaning for financing capital investments projects such as road network, solid waste treatment plant, incinerators etc, through the assistance of international financing institutions like EBRD and the World Bank. However, in such cases the debt service and the guarantee are covered by the Albanian government, exempting the local beneficiary from the burden. In the early years of transition in a context of low fiscal autonomy and the lack of authority over tax and tariff determination LGUs were skeptical about borrowing and debt per se. In the new changing environment the new law on local borrowing is an initiative to deepen the fiscal decentralization reform and enhance local autonomy while creating ground for financing capital investments which represent a challenge given the limited resources available.

Starting from February 2008 Albania recognizes and allows local borrowing for capital and operating purposes. Yet, there are no precedents established in this direction. The Albanian law No. 9869/08 "On local government borrowing" provides no limit over overall debt. However, its amount is bound to the surplus criteria. The ratio between the operative surplus created during the previous year with the annual debt amount should be no lower than 1,4:1. Moreover, the general debt stock should not exceed 130% of unconditional transfer, whereas the annual debt rate should not exceed 20% of unconditional transfer (taxes, fees and unconditional transfer) of the last three years; and 71% of operative surplus should be greater than debt proceeded.

The law provides that in events of default the LGU and the lender should inform the Ministry of Finance within 30 days. The lender can take over the guaranty with respect to the terms of reference of the loan till the debt and the principal are paid by the LGU. In events of default the lender can take all the legal steps against LGU; still the steps are not clear in the law. There is room for ambivalence and obscurity. At this point Ministry of Finance demands from the LGU an action plan for the correction of the situation. Yet, if the LGU has nothing to offer the sanctions put by the government and the ministry are not clear. Local Councils represent the authority which approved the terms of the borrowing based on total principal value, interest rate, form of the debt, maturity and repayment terms, source of security for the payment of debts, etc.

The most urgent and unregulated area regarding the local borrowing remains the creation of a credit market. Given the lack of financial sustainability of LGUs local financial institutions and international ones are unable to run the risk of lending to fiscally immature Albanian LGUs. At this phase, as per present conditions the government should play a more proactive role in either ensuring new sources of financing or intervening with a pilot case of local borrowing in order to create a precedent and explore the procedures and the path for borrowing. Unavailability of credit instruments, lack of clarity in the legislation and missing bylaws are becoming an impediment to the local borrowing in Albania. In the public opinion many believe that the government should cooperate with international financial institution on the establishment of a *Local Development Bank* or *Fund* as a mean of financing capital investment. Only such an institution could have the authority of exploring with the local borrowing and assessing the capital investment projects. However, as generally known it is important that private sector gets involved in the local borrowing because that guarantees that the risk assessment is done and that the financed project is cost-efficient.

Related to long-term borrowing, there is the issue of unclear sanctions over events of default. It is clear that none of the financial institutions are interested in getting the guarantee (public properties) from the local governments in cases of inability to pay annual debt. The sanctions undertaken by the Ministry of the Finance over the LGU which cannot meet the terms of reference for the loan are not clear and that increases the risk and the hesitation of the financing institutions to enter the market of local borrowing.

At the present situation when putted in front of each other in order to stimulate some advancement in this sector; the local banks and the LGUs; both of them expect each other to initiate the process. Since the LGUs are still unable to pass at a more active position and search for financing they expect the banks to start exploring the law and preparing offers with clear interest rate, maturity and repayment terms etc<sup>13</sup>. On the other hand, the banks view themselves as lenders which need to be approached by LGUs with clear capital investment projects to be financed. The main challenge encountered by the local banks is their limitation at assessing local capital investment projects due to limited experience in public financing.

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<sup>13</sup> This attitude was observed in a national conference on local borrowing organized on April 8, 2008 by USAID – Local Government Programme in Albania.

## 5. Final Remarks and Discussion

Till lately the main constraints for the decentralization in Albania were two-fold: in one hand the reluctance of the central governmental institutions and agencies to loose power through decentralizing competences, and on the other hand the lack of proactive local governance displayed by local authorities. At the present, the decentralization process is generally accepted as an irreversible reform and any idea of going back is abandoned. Yet, it would be very important to empirically assess how political and fiscal decentralization reform is affecting the local democracy, since in the Albanian public opinion a positive correlation between the two is usually taken for granted.

While some very positive measures such as reforms in the tax system and the law on local borrowing which defines debt broadly, have been achieved many challenges remain. Regional governments (Qark) as a second level of local governments (although not elected through popular vote), has been questioned occasionally due to their ill-defined responsibilities and lack of taxing power and financial autonomy. However, in territorial terms regions are still of a small size for guaranteeing economies of scale needed for efficient provision of a range of public services such as solid waste disposal, public transportation and urban planning. Notwithstanding, no bigger regions are required for the provision of such public services since special purpose entities such as ‘Metropolitan region authority’<sup>14</sup> suggested by Co-PLAN for public transportation service can be explored. Accessing EU funds does not compel Albania to establish regional governments (according to NUTS classification), rather to explore other forms of inter-communal cooperation. Counter intuitive to this is the issue of clarification of municipal and communal boundaries that often can lead to conflicts among local government units especially in terms of public service provision and issuing construction permits. Financing public services is as much of a political decision as the organizational structure of local governments and decision-making bodies is. Nevertheless, not prioritizing financing of public services such as education might have more negative long-term repercussions in Albania in comparison to other sectors.

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<sup>14</sup> See “Analysis of public transportation service in the region of Tirana” Co-PLAN, 2007.

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