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ACRONYMS AND ABBREVIATIONS

ADF	Albanian Development Fund
ALT	Agricultural Land Tax
CAS	Country Assistance Strategy
CoM	Council of Ministers
DSU	Direct Spending Unit
EAR	European Agency for Reconstruction
EU	European Union
EU	European Union
FY	Fiscal Year
GDP	Gross Domestic Product
GED	Group of Experts for Decentralization
HII	Health Insurance Institute
IMF	International Monetary Fund
ISU	Indirect Spending Unit
LSBT	Local Small Business Tax
MoF	Ministry of Finance
MoLGD	Ministry of Local Government and Decentralization
NCD	National Committee for Decentralization
NFDI	National Forum for Decentralization Implementation
NSSED	National Strategy for Social and Economic Development
PRSC	Poverty Reduction Strategy Credit
PEM	Public Expenditure Management
PIT	Personal Income Tax
PTT	Property Transaction Tax
QFA	Quasi-Fiscal Activities
SPT	Simplified Profit Tax
TRHA	Tirana Region Health Authorities
UNDP	United Nations Development Program
VAT	value-added tax

Vice President:	Shigeo Katsu
Country Director:	Orsalia Kalantzapolous
Sector Director:	Cheryl Gray
Sector Manager:	Helga Muller/Deborah Wetzel
Task Team Leader:	João C. Oliveira

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This report is intended to contribute to the debate on the decentralization strategy in Albania, and to stimulate a broader discussion on its challenges as the process moves ahead. Issues, recommendations and a possible road map discussed in this report are presented as options currently open to the country, and as a technical contribution to the ongoing debate. This report incorporates inputs from the Authorities and the donor community, but it does not necessarily represent their official position or that of the World Bank.

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TABLE OF CONTENTS

1.	REFORM OF PUBLIC ADMINISTRATIVE STRUCTURE	7
A.	The Administrative Structure in the 1990s.....	8
B.	The 2000 Reforms	8
C.	Challenges and Options for Reform Implementation.....	11
	Changing Paradigms	12
	Strengthening Institutions	14
	Overcoming Fragmentation and Building Capacity.....	15
	Defining a Role for the Regions.....	18
	Committing with a new credible implementation agenda and work program.	22
	Strengthening Coordination	22
2.	ASSIGNMENT OF RESPONSIBILITIES.....	25
A.	De-concentration versus Decentralization in Albania.....	25
	State De-Concentrated Public Services.....	25
	The 2000 Decentralization Reform: Assigning Responsibilities to Local Governments	26
B.	Patterns of Local Government Expenditures	33
	The Functional Structure of Local Expenditures	36
	The Economic Composition of Local Expenditures	38
	Local Spending Disparities Across Districts.....	38
	Local Expenditures Across Municipalities and Communes	44
C.	Main Issues and Challenges	45
D.	Options and Recommendations.....	48
	On the Assignment of Responsibilities	48
	On the Efficiency of Local Public Service Delivery.....	53
	On Local Capacity Building.....	54
	On Per Capita Expenditure Disparities Across Local Self-Governing Units.....	54
	On Central Coordination	55
3.	REVENUE ASSIGNMENT AND REVENUE AUTONOMY.....	57
A.	The Revenue Assignment.....	59
	The 2002 Fiscal Reform.....	60
B.	Patterns of Local Revenues.....	67
	Disparities in Local Per Capita Own Revenues	70
	Own Local Revenues Across Municipalities and Communes	70
C.	Main Issues	71
D.	Options and Recommendations.....	74
4.	MATCHING RESOURCES WITH RESPONSIBILITIES.....	83
A.	Fiscal Imbalances and Transfers	83
	The Economic Rationale for Intergovernmental Transfers.....	85
	Evolution of the Albanian Intergovernmental Transfer System	87
B.	The System of Conditional Grants	88
C.	The System of General Purpose Grants.....	91
	Distribution Formula for the Unconditional Transfers	92
	Allocation of the Municipality/Commune Component.....	93
	Allocation of the Regional Component.....	95

Allocation of the Compensation Funds (A).....	95
D. Main Issues and Options	97
Size of the Unconditional Transfers Pool	97
Distribution of the Unconditional Transfers	98
Allocation of Conditional Grants	99
5. THE WAY FORWARD.....	103
A. The Backdrop	103
B. The Accountability Framework.....	103
C. Policy Consistency	104
D. Policy Sequencing.....	104
E. A Road Map for Reform.....	106
STATISTICAL APPENDIX.....	109



1. REFORM OF PUBLIC ADMINISTRATIVE STRUCTURE

1.1 Although an independent country since 1912, Albania started building its democratic institutions only from the early-1990s, after almost half a century of dictatorship and centralized government. Following this, local governments were formally re-created, with some regulations passed on their competences and authorities.¹ However, these regulations were not implemented, and local government in Albania possessed insignificant administrative and fiscal autonomy until the mid-1990s. Since the late 1990s a more consistent decentralization approach has been designed and an implementation strategy explicitly adopted; the latter is envisaged to gradually replace the inherited centralist state with a more participatory decentralized governance system.²

1.2 The 1998 Constitution of Albania establishes that local governments are founded on the principle of decentralization, and that the relationship between the state, the regions, and the local governments is grounded on autonomy, legality, and cooperation.³ Since the late-1990s, Albania has taken major strides in setting up a basic legal and institutional framework for the implementation of an accountable decentralized fiscal and administrative structure.⁴ The Government has formulated and the Parliament ratified a decentralization strategy⁵ that is broadly consistent with the European Charter of Local Self Governments and the National Constitution.⁶

¹ For example, references to local government budgets started with Laws # 7616 and 7776 of 1992 on Budgets, and Law # 7572/92 on Organization and Functioning of Local Governments (the latter abrogated by Law # 8652/2000, the current Organic Law on Local Self-Governments). For an analysis of the early 1990s first decisions on fiscal decentralization, see *Fiscal Decentralization and Intergovernmental Finances in the Republic of Albania*, by D. Sewell and C.I. Wallich, World Bank Policy Research Working Paper # 1384, 1994. A review of the human development indicators can be found in *Human Development Report: Albania 2002, Challenges of Local Governance and Regional Development*, HDPC/UNDP, 2002.

² An analysis of the political aspects of local governance in Albania can be found in "Democratic Governance at Local Level—The case of Albania," published by Albanian Institute for International Studies, Tirana, 2003.

³ Article 13, Constitution of the Republic of Albania (November 28, 1998).

⁴ To coordinate implementation of decentralization, two crucial institutions were created in 1999: (i) the National Committee for Decentralization (NCD), a consultative mechanism for the Council of Ministers (CoM), formed by central authorities and local government representatives to manage the decentralization process at the deliberative and political level; and (ii) the Group of Experts for Decentralization (GED), or the decentralization "task force," structured under the Ministry of Local Government and Decentralization (MoLGD) with its membership approved by the NCD and chaired by the Minister of the MoLGD to support NCD on the technical level (CoM Order # 136, May 30, 2002 for the NCD, and Decree # 9, Dez. 2002). The GED is articulated in working sub-groups.

⁵ "National Strategy for Decentralization and Local Autonomy" (Council of Ministers' Decision no. 615, November 2, 2000).

⁶ The European Charter of Local Self Governments was ratified by the Albanian Parliament on October 21, 1998.

A. THE ADMINISTRATIVE STRUCTURE IN THE 1990s

1.3 During the 1990s, the most important decisions regarding service delivery to the 3.1 million inhabitants of the 374 communes and municipalities⁷ (the first level of local governments) continued to be highly dependent on the central government, which had a strong presence in the territory through its de-concentrated agencies (mainly the organs of the Ministry of Public Works and Transport,⁸ the Ministry of Agriculture, the Ministry of Education, the Ministry of Health, and the Ministry of Finance) situated in the 36 districts (the second level of local governments) controlled by 12 prefectures.⁹ The responsibilities and resource bases of the first level local governments were not clearly defined by law and the Local Councils (although directly elected¹⁰) did not have any relevant discretionary power to establish local priorities, nor any significant revenue autonomy.

1.4 The prefectures, although exercising only a few executive functions directly (e.g., civil defense, supervision of police), had considerable oversight and political leverage over the local governments, particularly through their control of the District Councils. Local governments were supposed to perform functions related to local public service delivery (mainly utilities) such as water supply, sanitation services, maintenance of local roads, sewerage, distribution of humanitarian and medical aid, and enforcement of law and local public order. Social sector responsibilities (education and health care) were central responsibilities. Practically all expenditure allocation decisions were influenced, or directly taken, by the center, most resources used locally were earmarked, and local authorities were left with insignificant, uncertain own local revenue sources. For the latter, local governments had limited leeway, since they could not determine the basis and rates of their few taxes and fees, nor could they administer their own revenue collection. In such an environment of almost complete lack of incentive and autonomy for Local Councils, the efficacy of policy implementation and the efficiency of service delivery were low, and local fiscal and political accountability remained a major issue.

B. THE 2000 REFORMS

1.5 The legal and institutional reforms of 2000 were aimed at more effective decentralized fiscal and administrative structures, while keeping the integrity of the territory and Albania as a unitary state. The objectives of the reforms were to improve allocative efficiency, governance, and accountability. The administrative reform effected by the Law on Administrative-Territorial Division (Law no. 8653/2000) discontinued the former 36 District Councils and re-grouped them into 12 regions¹¹—the new second level local government—and reconfirmed the first level local governments formed by the 65 municipalities (mainly urban, with more than 15,000

⁷ Which include cities, towns, quarters, and villages.

⁸ Now the Ministry of Planning and Tourism.

⁹ Prefectures themselves being de-concentrated agencies of the central government, to control state policies in the territory. The prefectures were first introduced in Albania in 1993 (Law # 7608/92).

¹⁰ Through a proportional voting system based on party lists, for a three year mandate. The first local elections for District, Municipal and Communal Councils were held in July 1992.

¹¹ Which coincides geographically with the territory covered by the existing prefectures.

inhabitants)¹² and the 309 communes (mainly rural, with more than 200 inhabitants, see Table 1.1).¹³

Regions/ Prefectures	Districts	Cities	Municipalities	Communes	Villages	2001 Population (in ths.)
Berat	3	5	5	20	245	193,855
Diber	3	7	4	31	279	191,035
Durres	2	6	6	10	106	247,345
Elbasan	4	7	7	43	397	366,137
Fier	3	6	6	36	278	384,386
Gjirokaster	3	6	6	26	271	114,293
Korçe	4	6	6	31	345	266,322
Kukes	3	3	3	24	185	112,050
Leshe	3	9	5	16	169	159,792
Shkoder	3	6	5	29	272	257,018
Tirane	2	6	5	24	233	601,565
Vlore	3	7	7	19	195	193,361
Albania - Total	36	74	65	309	2,975	3,087,159

Source: State Department of Statistics.

1.6 Congruent with the Constitution,¹⁴ the new Law on the Organization and Functioning of the Local Governments (Law no. 8652/2000) established that the relationship between levels of government will be based on the principle of subsidiarity, which assigns public functions to the lowest level of government whenever possible (Art. 4.2).¹⁵ This organic law sets forth the basic local government functions, powers, rights, and duties, in accordance with the approved strategy and the initial institutional arrangements for the implementation of decentralization. Moreover, important legislation on immovable state property and on the transfer of state assets to local government has been approved,¹⁶ and an Agency for Inventory and Transfer of Public Properties

¹² The capital city (municipality of Tirana) has a special status regulated by the Law on the organization and Functioning of the Municipality of Tirana (Law no.8654/2000).

¹³ Villages (a subdivision of communes) and quarters (a subdivision of municipalities) are not autonomous administrative units, and do not have independent budgets. They are part of either the communes' or the municipalities' budgets, respectively.

¹⁴ Art.13, and Arts.108 to 114 of the Constitution.

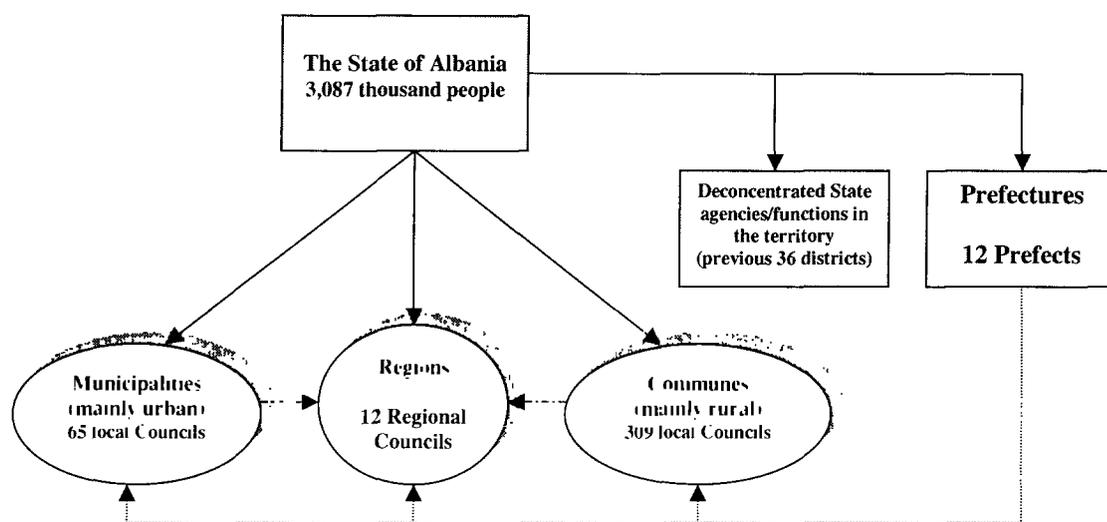
¹⁵ The subsidiarity principle assigns public functions to the lowest possible level of government, unless those functions can be performed more efficiently at higher levels of government. As preferences and costs vary from place to place, efficiency gains can result from applying this principle. For most public services (except for national defense, foreign policy, and a few others) subnational decision-makers, at different levels, may be in a better position to decide what services—in which quantity and quality, and to whom—should be provided. Moreover, local taxpayers should ideally pay for the public services they consume (equivalence principle). In practice, however, local needs and tax capacities may differ, and, apart from equity concerns, consumption of certain public services may be considered of national interest (e.g., preventive vaccination campaigns, eradication of illiteracy, elimination of poverty). In the latter cases, an option can be the separation between delivery and financing—while delivery may be better performed locally, financing may be provided by a higher-level government.

¹⁶ Law on Immovable State Properties (no. 8743, February 22, 2001) and Law on Transfer of immovable State Public Properties to Local Governments (no. 8744, February 22, 2001).

(AITPP) started operating in 2002.¹⁷ In addition, a new law on the role and powers of Prefects was passed in mid-2002.¹⁸

1.7 Figure 1.1 depicts the new territorial administrative architecture of Albania, with the state at the top and the following *two levels of local* governments: (i) the communes (*Komuna*) and municipalities (*Baskhi*), constituting the first level of self-government; and (ii) the regions, whose geographic boundaries coincide with the existing 12 prefectures, constituting the second level of *local* public administration.¹⁹ Commune, Municipality, and Regional Councils are the *representative* organs of the local governments. The Communal and Municipal Councils are formed by members that are directly elected by the citizens, while the members of the Regional Councils are chosen among those representatives in the Communal and Municipal Councils of the respective region's jurisdiction. Mayors of the municipalities and the Chairmen of the Council of the Communes are compulsory members of the respective Regional Councils.²⁰

Figure 1.1: Albania: Administrative Structure



¹⁷ Decision of the Council of Ministers no. 500, August 14, 2001.

¹⁸ Law on Prefects, no. 8927, July 25, 2002.

¹⁹ The prefectures constitute central government de-concentrated administration in the territory. With the administrative-territorial reform the District Councils were discontinued and the district administration structures were absorbed by the prefectures. In addition, those expenditures that had been the responsibility of the district councils (funding for the public health clinics, including wages and salaries of the related staff and transportation of teachers and students) and were assigned to them on an interim basis in 2001. In 2002 the task of paying the operation and maintenance of public health clinics in the district cities was passed over the municipalities, while the task of paying the transportation of teachers and students to the regions. In principle, prefectures has no fiscal autonomy, and all their implementing/coordinating powers emanate directly from the ministries. The Prefect is appointed and reports directly to the Prime Minister.

1.8 The executive authorities of local self-governments are: (i) the Mayor, the Deputy Mayors, and the Secretary of the Council for the municipalities; and (ii) the Chairman and the Secretary of the Communal Council for the communes. Among the executive local authorities, only the Mayor and the Chairman of the Communes are directly elected (for a three-year term) by the citizens, while the Deputy-Mayors are appointed by the Mayor, and the Secretary of the Council is appointed by the Council.

1.9 This new decentralized administrative framework is to be accompanied by a significant shifting of functions and resources to the local governments. In this regard, the Law on the Organization and Functioning of the Local Governments defined that communes and municipalities are responsible for performing *exclusive*, *shared*, and *delegated* functions (see Chapter II), and established an initial implementation timetable (Table 1.2). Communes and municipalities are considered the basic local governments with legally regulated fiscal and administrative autonomy within their jurisdictions.

1.10 Law # 8652/00 (Art. 7) attributes to local governments residual powers on fiscal and administrative matters; local governments can take initiatives at their full discretion in the interest of the respective local community in any matter, as long as such initiatives are not prohibited by law or are not exclusively granted to other government organs. The regional governments are expected to play a mainly coordinating role but may also exercise executive powers in delivering public services of regional interest (e.g., regional roads and transportation services, urban planning, or any other public service), as long as these services are voluntarily delegated by the communes and municipalities or by the state. The regional authorities, although they are supposed to act autonomously to promote the equitable distribution of resources and benefits regionally, are constrained to never violate the autonomy of their constituent communes and municipalities.

1.11 In Albania, the local governments are legally acknowledged as juridical persons and have the legal rights of local governance, to hold property, exercise fiscal autonomy and plan their local economic development, and to cooperate and associate. This means that the fundamental rights for the normal functioning of local governments are already settled in the organic legislation. Nevertheless, the complementary regulation (which defines specifically such governing rights and powers) and the creation of the local objective conditions (including local capacities and resources) are part of the still ongoing government decentralization implementation strategy.

C. CHALLENGES AND OPTIONS FOR REFORM IMPLEMENTATION

1.12 The adoption of the above administrative framework has been a significant step toward consolidating democratic representation and sustainable intergovernmental fiscal relations in Albania. It seems that the country has made a political choice for a decentralized fiscal policy

²⁰ Beyond Mayors of municipalities and Chairmen of communes, the Regional Councils include a number of members (according to the population size of the region), indirectly elected among local representatives.

decision-making and public service delivery structure.²¹ The status of local government and the concept of regions are now clearly acknowledged and legally in place.

1.13 In practice, however, many challenges still have to be overcome for this system to be fully implemented. While a broad government decentralization strategy was approved and a substantial effort has been made to develop the basic legislation and institutions, the complementary implementing regulations are lagging behind and are far from being completed. To date, the implementation of the reform process has been rather uneven among sectors, has not always been well-sequenced, and has sometimes been misunderstood. Currently, the country is at a crossroad, since the critical attribution of *specific* responsibilities (on public service delivery and asset administration) and power sharing over resource flows is still awaiting decisions.

1.14 Among the key challenges that may threaten the successful implementation of the government's decentralization strategy are the following:

- (a) *The inadequate paradigm* under which the central government and donors still operate, which may end up obstructing, instead of assisting, the implementation of the decentralization agenda;
- (b) *The weak governance of current institutions*, which can jeopardize transparency and accountability in a fiscally decentralized system;
- (c) *The fragmentation of local self-governing units (especially communes)*, which has weakened implementation capacity, which may adversely affect the already precarious quality and access to local public services, and which has served as a pretext to the delays in implementation of the decentralization agenda;
- (d) *The still undefined role of the regions*, and the interactions among the prefectures with the regions, municipalities, and communes, which can create conflicting authorities, duplications, and inefficiencies, or can cause under-provision of essential local public services; and
- (e) *The poor coordination of decentralization implementation*, which has left local authorities alienated from and unconvinced of a clear, common understanding of the decisions taken, and of their role and responsibilities in the process, essential to successful policy implementation on the ground.

Changing Paradigms

1.15 The central government institutions in Albania (including the line ministries) still operate under the pre-1998 Constitution/pre-2000 local self-government law paradigm, when the central government micro-managed every decision on public resources for and service delivery to the local population. It seems that Albania is still a typical example of the *decentralization* of decision-making powers to local authorities being confused with the mere *de-concentration* of ministerial functions in the territory. This approach has overloaded the central administration and has led to enormous allocative and operational inefficiencies, as well as ambiguities and uncertainties about strategic directions for the government's decentralization strategy.

²¹ See *National Strategy for Decentralization and Local Autonomy*, NCD, November 1999; *Government Poverty Reduction Strategy* (GPRS, 2000), and *National Strategy for Socio-Economic Development* (NSSD, 2002).

1.16 It is understandable that, apart from the expected reluctance to relinquish central fiscal powers, the frequent changes in the Cabinet may have contributed to slowing down the fiscal reform implementation. Also as has been mentioned, in Albania misunderstanding the meaning of decentralization has not been uncommon. Apparently, the concept of a balanced, asymmetric, and gradual decentralization of selected exclusive local functions, and *specific competences* of shared and delegated functions, has not been fully understood and decentralization has been confused with a symmetric and complete divestiture of state functions implemented at one fell swoop.

1.17 As a consequence, little of the decentralization strategy has effectively been implemented, and most of the legal deadlines established to date have already expired or are unlikely to be met (Table 1.2).

Table 1.2. Legal Timeframe for Implementation of Fiscal Decentralization	
I - No later than January 1, 2001 (Art. 72, Law # 8652, July 31, 2000)	
Functions of the Regions	
Definitions of the Functions of the Regions	No later than January 1, 2001 the regions shall carry out all the functions and powers granted by the Law
II - Beginning January 1, 2001 (Art. 72, Law # 8652, July 31, 2000)	
Exclusive Functions of Municipalities/Communes	
(a) Infrastructure and Public Services	construction, rehabilitation and maintenance of local roads; sidewalks and public squares; public lighting, public transport, cemeteries and funeral services, city/village decoration parks and public spaces, waste management (collection, transport, disposal/treatment) issuing of construction permits
(b) Social Cultural and Recreational Functions	protection and promotion of local cultural and historic values, organization of activities and management of relevant institutions; organization of recreational activities and management of relevant institutions, social services including orphanages, day care, elderly homes, etc.
(c) Local Economic Functions	public advertisement, dissemination of information, and the necessary infrastructures; regulation of public markets and local trade networks, small business development; protection of natural resources (including local forests, pastures, and other local natural resources).
III - Beginning January 1, 2002 (Art. 72, Law # 8652, July 31, 2000)	
Exclusive Functions of Municipalities/Communes	
(a) Infrastructure and Public Services	water supply, sewerage and drainage (incl. flood protection canals) in residential areas, urban planning, land management and housing.
(b) Civil Security	protection of public order to prevent administrative violation and ensure the implementation of commune/municipality acts
Shared Functions of Municipalities/Communes	
(a) Education	pre-school and pre-university
(b) Health	primary health care system and the public health protection
(c) Social Assistance	social assistance and poverty alleviation (including functioning of relevant institutions)
(d) Public Order	public order and civil protection
(e) Environment	environmental protection
(f) Other	other shared functions as defined by law
IV - Until January 1, 2003 (Art. 17, Law # 8744, Feb. 22, 2001)	
Property Rights of Local Governments	
Transfer of Property Rights	state property transfers to local governments (regions, municipalities/communes) to be completed in 24 months from the date the law became effective

The law specifying *functions of the regions*, the *Law on Local Budgeting*, and the *Law on Local Finance* have not been drafted yet. The Law on Civil Servants still needs to contemplate important aspects concerning local public servants. Some of the municipalities' and communes' *exclusive functions* (e.g., water supply, sewerage and drainage systems, irrigation, urban planning) and most of the *shared functions* (e.g., education, healthcare, social assistance, public order and environmental protection) have also not been defined. The Agency for Inventory and Transfers of State Properties, established in 2002, started implementing its action

plan with some delay and slowly, so that the legal 24-month target (starting February 2001) for the completion of the transfers of public properties is unlikely to be achieved as scheduled in the Law.

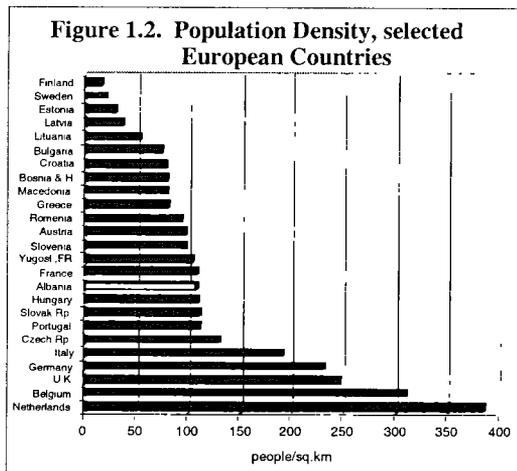
1.18 Donors can also shift appropriately the paradigm under which they operate in Albania. With some exemptions, donors currently negotiate their assistance programs (especially financial assistance projects) and maintain their consultation process essentially with the central government agencies (usually the line ministries), without considering many of the inputs and genuine concerns of the local governments and communities. Most donors have usually found it more "efficient" to negotiate with and focus on one central agency rather than to become involved in a time-consuming, complex system of interactions with several players (e.g., the line ministry, the MoLGD, the Ministry of Finance, the regional and local governments, and possibly

NGOs and civil society representatives). The natural outcome of the current unsatisfactory consultation approach has been a lack of sufficient knowledge of local conditions and a biased suspicion of local administrations, which tend to hinder the decentralization implementation process.

1.19 In order to reestablish the credibility of the government decentralization strategy, its outdated agenda should be reviewed, and a more realistic implementation schedule should be established. However, a change in the central institutions' and donors agencies' paradigms is sine qua non for the effectiveness of the decentralization agenda in Albania. This change should be consistent with the envisaged new roles reserved for central authorities (essentially regulating, coordinating, monitoring, and evaluating policies on local public services) vis-à-vis the roles of the local authorities (congruent with the principle of subsidiarity) in a decentralized public administration system.

Strengthening Institutions

1.20 Although they have show some improvement recently, local political, administrative, and fiscal institutions in Albania are still weak, resulting in a governance system which cannot yet be considered transparent, reliable, and accountable. This is especially true for the budget formulation, execution, and evaluation process, where expenditure execution usually diverges from the local priorities initially approved by Local Councils, the local accounting system and procedures are not de facto uniform, the reporting system is still faulty, and evaluation mechanisms are practically inexistent. This is a propitious field for the development of corruption and unaccountable authorities.



1.21 Strengthening local and central government institutions is necessary to restore transparency and accountability in Albania. It should be understood that improvements in governance will only be achieved, in practice, with the functioning of better institutions. In this regard, the official opening of negotiations on the Stabilization and Association Agreement (SAA) with the E.U. represents an important achievement and augurs well for future institutional improvement in Albania. And, best practices have shown that the way to ensure good governance is through providing local representatives and managers with an adequate level of fiscal autonomy and authority to perform their tasks, while making them fully accountable for the results before the law and the local voters, and through submitting them to a dependable system of fiscal reporting, monitoring, and evaluation. Strengthening the budgetary system and institutions is a first critical step for institutional reforms, which should include a review of the current Organic Budget Law (or the approval of a separate Local Budget Law), by bringing the local budgets explicitly into compliance and consistent with the standard national budgetary system (including the accounting concepts, the methodology, and the process of formulation, execution, auditing, and evaluation). The second step is providing a clearer definition of

responsibilities on expenditure (see Chapter II) and revenue autonomy—including a significant degree of discretion on the tax basis and rates at the margin (see Chapter III)—to local governments and providing an adequate level of administrative autonomy to local institutions (school, health facilities, etc). In addition, public property transfers by the AITPP from the state to local governments should be completed according to the law.²² The third step is designing and implementing a Law on Local Government Finance,²³ including the detailed relations of the state budget to the subnational governments, through tax sharing and transfer mechanisms, the regulation of guarantees, and the conditions that will enable the local governments to access the financial market and borrowing as a source of financing for local infrastructure.

Overcoming Fragmentation and Building Capacity

Table 1.3: Albania: Local governments and Population Distribution

Units' size in ths. inhab.	Population (number, in ths.)									number of								
	Municipalitie			Comunne			Total			Municipalitie			Comunne			Total		
	Numb	% dis	Ac.%	Numb	% dis	Ac.%	Numb	% dis	Ac.%	Num	% dis	Ac.%	Num	% dis	Ac.%	Num	% dis	Ac.%
< 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
3-5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
5-10	0.0	0.0	0.0	9.6	0.6	0.6	9.6	0.3	0.3	0	0.0	0.0	12	3.9	3.9	12	3.2	3.2
10-15	0.0	0.0	0.0	11.3	0.7	1.3	11.3	0.4	0.7	0	0.0	0.0	9	2.9	6.8	9	2.4	5.6
15-20	2.0	0.1	0.1	45.6	2.8	4.1	47.6	1.6	2.2	1	1.5	1.5	26	8.4	15.2	27	7.2	12.3
20-50	36.1	2.5	2.6	418.9	26.1	30.2	455.0	14.8	17.1	11	16.9	18.5	121	39.2	54.4	132	35.3	48.1
50-100	145.8	10.0	12.6	773.3	48.1	78.3	919.0	30.0	47.0	20	30.8	49.2	113	36.6	90.9	133	35.6	83.1
100-500	479.6	32.8	45.4	348.4	21.7	100.0	828.0	27.0	74.0	26	40.0	89.2	28	9.1	100.0	54	14.4	98.1
500-1000	456.0	31.2	76.6	0.0	0.0	100.0	456.0	14.9	88.0	6	9.2	98.5	0	0.0	100.0	6	1.6	99.0
1000+	341.3	23.4	100.0	0.0	0.0	100.0	341.3	11.1	100.0	1	1.5	100.0	0	0.0	100.0	1	0.3	100.0
TOTAL	1460	100.0		1607	100.0		3067	100.0		65	100.0		309	100.0		374	100.0	

Source: INSTAT

1.22 A common argument against decentralization in Albania is related to the small size of many local self-governments which, in addition to missing the economies of scale in production and the externalities in consumption for efficient delivery of

public services, lack the administrative and technical capacities for an effective policy implementation. In fact, for historical reasons, Albania has inherited a territorial-administrative structure characterized by too many small local self-governing units—including the 12 regions, the 65 municipalities, and the 309 communes—for a population of little more than 3 million inhabitants (Table 1.1). While the District Councils ceased to exist legally and were replaced by larger Regional Councils with the 2000 territorial-administrative reform, the existing municipalities and communes were kept basically unaltered.²⁴ Although the rate of urbanization has increased rapidly since the early 1990s,²⁵ the country, is still predominantly rural (yet rather densely populated, by European standards²⁶), with 47 percent of its population living in local self-governing units smaller than 10,000 inhabitants (Table 1.3). In the last ten years, the Tirana, Durrës, and Elbasan urban and peri-urban areas received a substantial net inflow of population, while all the others experienced a net loss of population. These demographic dynamics have had a major disruptive impact on the operational efficiency and the quality of public service facilities

²² Law on Immovable State Properties (no. 8743, February 22, 2001) and Law on Transfer of immovable State Public Properties to Local Governments (no. 8744, February 22, 2001).

²³ Or a Law on the Intergovernmental Fiscal Relations.

²⁴ It should be noted that although the District Councils no longer exist after the 2000 reform, the districts themselves (as a geographical and statistical concept) have still been used by the central government institutions as a planning and monitoring tool for their de-concentrated operations in the territory.

²⁵ The rate of urbanization was 33 percent in 1979, 36 percent in 1989, and 42 percent in 2001 (Source: "Preliminary Results of the Population and Housing Census 2001," INSTAT, Tirana, 2001).

²⁶ The country's geographical size is 28,748 sq km, inhabited by 3,087,159 people, and with an average population density of 107 inhabitants per sq km. See Table A1.1 in the Statistical Appendix.

and on the access of the population to services. While public service facilities in the net receiving areas are insufficient and are overcrowded, in the areas experiencing net population outflow, they are in “excess,” are underused, and are deteriorating for lack of maintenance. Yet the average size of municipalities is 22,500 inhabitants and that of communes is 5,200 inhabitants, their size distribution compares favorably with many European countries: “only” about 17 percent of the population and 48 percent of the municipalities and communes are in self-governing units of less than 5,000 inhabitants.²⁷

1.23 While the local government units have expanded since 1990, Albania has inherited most of the previous fragmented local administrative structure. Prefectures and communes were created in the 1920s and municipalities and district in the 1940s, and their numbers increased afterward. During the 1990s the number of communes decreased, but the number of municipalities increased, and regions replaced the districts with a different concept (Table 1.4).

1.24 Although the issue is politically charged, the administrative fragmentation of self-governing units is in fact a serious concern that the country must address. The concern goes beyond economic efficiency (e.g., economies of scale and externalities) to include considerations of a political and administrative nature. On the one hand, the fragmentation itself embodies a positive political element, since it brings the decision-makers closer to the voters, increasing democratic representation. On the other hand, excessive fragmentation tends to leave the smaller communities short of the administrative and technical capacities needed to implement new policies and operate public service delivery efficiently. In fact, recent demographic movements in Albania have shown that the smaller, stagnated geographical areas were unable to retain their youngest, most talented and best educated people, who are moving to larger, more dynamic urban centers and abroad.

1.25 Because of the serious administrative, technical, and financial difficulties that local self-

Year	Prefecture/Region	Districts	Municipalities	Communes
1992	12 (Pref.)	36	44	313
2000	12 (Reg.)		65	309

Source: MoLGD. Draft Ideas on the Review of Administrative-Territorial Division, Tirana, 2003.

government fragmentation implies, the fragmentation and lack of capacity tend to be recurrent issues in the decentralization implementation agenda for the near future. In fact, there are already manifestations, official and non-official, proposing revision or re-mapping of the country’s territorial-

administrative structure as a means of resolving the problem of the fragmentation of local governments. However, it should be borne in mind that endless procrastination in implementing decentralization is not a solution, nor is a top-down reform of the territorial-administrative structure a sine qua non for implementing decentralization. There are many options that Albania might consider when addressing this issue. Independent of any possible political motivation for reform propositions, the main principle should be *to scale operations to economically viable*

²⁷ In Czech Republic, for instance, these percentages are 36 percent and 96 percent, respectively. In France, 40 percent and 95 percent, respectively. In Estonia, 86 percent of the local administrative units are smaller than 5,000 inhabitants. In Latvia, this figure is 85 percent. (See *Czech Republic: Intergovernmental Fiscal Relations in the Transition*, World Bank Technical Paper no. 517, 2001; and *Territorial Reform and Cooperation Among Local Governments for Public Services Delivery: Experiences and Lessons from Europe*, Urban Institute Project UI 06901-011, 2002).

sizes while respecting the local preferences of the self-governing units. A corollary of this principle is that attribution of responsibilities among self-governing units does not need to be symmetrical, especially when administrative fragmentation is considerable and size distribution skewed (see also Chapter II).

Box 1.1: Compulsory vs Voluntary Amalgamation of Small Communities

The current debate on amalgamation of small communities can be informed by the examples of compulsory amalgamation efforts of Northern Europe during the 1970's (Denmark, Sweden, England, Belgium and Norway) and Greece and Scotland in the 1990's (there is also the ongoing case of voluntary amalgamation in Latvia). Some Western European countries have followed more liberal policies (France, Spain, Finland, Italy) by adopting regulations which promotes cooperation and associations among existing local governments, as well as outsourcing the delivery of public services. The compulsory reform amalgamation model has the advantage of being more effective and simple to operate, but it risks to create political turmoil in societies of diverse ethnical, sociological, and historical background, since top-down reforms may confront some traditional local costumes. The liberal/voluntary model has the advantage of respecting these costumes and letting the inter-local government administrative arrangements be made in their own pace, but has the disadvantage of being much more complex of being monitored centrally.

1.26 One option is to put in place incentives (including significant financial/fiscal incentives and technical support provided by higher levels of government) that could promote the merging of small communities wherever possible.²⁸ This could be done through voluntary association of municipalities/communes (which Law No 5682/2000 already allows), by joint service delivery contract, or through more definitive amalgamation of the jurisdictions themselves, by referendum, of two or more small communities, at the will of the parts involved. These incentives could also make effective the current legal provision for the delegation of responsibilities, from the smaller municipalities/communes to the Regional Council. Regarding the latter, it could be beneficial for certain competences in the areas of transport, education, and urban planning, and could be especially effective for water and sanitation. This option should be equally open to association among the regions themselves.²⁹ In any case, for such voluntary adherence to be successful, the government should be able to articulate the incentive instruments in such a way that the following conditions are clearly evident for the beneficiaries:

- (a) *The affected communities can easily realize* that the changes would make them permanently better off. For instance, they could have a higher per capita share in the tax-sharing/transfer system, an amplified tax base and revenue capacity, and better access to quality services;
- (b) *The provision of public services should be more effective and efficient* as a result of being able to internalize externalities in consumption, as well as economies of scale in the production of local public services (e.g., water and sewage treatment, garbage collection); and

²⁸ Incentives should be perceived by the local population as permanent benefits (or at least as having a long term impact), if they are to be effective. Once and for all types of incentives, such as those initially used in Latvia, will not be attractive enough to motivate voluntary amalgamation.

²⁹ The latter may require an amendment of the Law # 8652/2000.

- (c) *The changes should clearly improve the affected communities' chances of benefiting more directly from: (i) training of local staff and capacity building immediately;³⁰ and (ii) accessing EU pre-accession funds later on.*

1.27 In case the small local government does not show interest, or the above conditions are not met when they apply for association/amalgamation, then the central government could have the option (on the basis of capacity and objective efficiency indicators) of *not* assigning the respective responsibilities (and the corresponding resources) to the concerned small self-governing unit. In this case, the central government would remain responsible for the service delivery, or might be assigned to the region.

Defining a Role for the Regions

1.28 The creation of the Regional Councils constitutes an innovative facet of the territorial-administrative reform, but the concept of regions is still an “empty box” in Albania because their functions are poorly defined and because no relevant fiscal power of their own has been attributed to the regions. At the root of this problem is the question of the current form of representation to the Regional Council.³¹ The Regional Councils tend to lack accountability to the regions' citizens, since they are not directly elected by all citizens in the region, and both Prefects and local Mayors can always question the legitimacy of the regional authority on this basis.³² This representation issue constitutes a major challenge that Albania has to address sooner or later, as has been the case with many other unitary countries in transition, including the EU Accession countries.³³ In principle, the region was envisaged as an instrument to effect the gains of decentralization, by optimizing the scale of local governments' operations and internalizing the benefits derived from the provision of local public services that spill over

³⁰ A National Training Strategy for Local Government in Albania was approved by the Council of Ministers in October 2003, and the establishment of an independent Training Agency is under way. This training agency is envisaged to be a donor-supported entity, which will act essentially as a training manager/facilitator rather than as a direct training provider.

³¹ Actually, by the Constitution (Art.110), members of Regional Councils in Albania are *indirectly* chosen, and so the Regional Councils are conceived simply as *second-level* local government units (i.e., *local* regional governments—closer to a local government association concept rather than to any intermediate level government concept). In this regard, they lack the full authority of a *regional governments* per se (as if they were directly elected by *all* the people residing in the region). That is, each Regional Council members are elected to represent only their own local community, but not the region. Through lack of direct representation at the regional level, Regional Councils tend to have only limited responsibilities and could not, in principle, exert autonomous taxing power—i.e., otherwise they would be imposing taxation without true representation. On the latter matter, however, Law No. 8652/2000 (Art. 18) provides the Regional Councils with taxing power as well.

³² This representation problem exists not only because the members of the Regional Council are indirectly elected. The problem is due more to the fact that citizens of a particular locality are going to be affected by decisions taken by a council the *majority of whose members were not voted in by these citizens or their legitimate representatives*. For instance, in general the majority of these councils are formed of representatives of communes—which are much smaller communities, having more needs for basic public services and less revenue capacity—than municipalities, which have higher own revenue capacity and which, therefore, end up contributing the greatest amount financially to the budget of the Regional Council. This situation does not augur well for the future stability, or at least the effectiveness, of this regional institution.

³³ The Czech Republic has overcome this issue by promoting direct elections (the first one in 2000) exclusively for the regional representatives, and by starting to prepare a more clear legal attribution of specific responsibilities and fiscal powers to the Regional Councils.

jurisdictions. Local regional government in Albania was initially conceived to improve cooperation and coordination among local administrations in order to achieve the consistency of local interests and concerns with the national policies. Beyond exclusive planning and coordinating functions, the Regional Councils are expected to be given adequate executive powers to effectively contribute to the new decentralized fiscal structure. The Law on the Organization and Functioning of Local Governments acknowledges this intent by allowing the Regional Councils to exert any executive competences in the delivery of public services. However, these competences can only be exercised if they are voluntarily delegated by the first level local government units or by the central government.

Box 1.2: The Concept of Regions in Europe

Apart from a territorial state administration (formed by appointed officials serving organs of de-concentrated state agencies), many European countries have more than one tier of self-government authorities, which often include regions, either as regional governments (intermediate directly elected regional authorities) or as *local* regional governments (assemblies/councils of indirectly chosen local representatives). While the concept of regions is relatively well established in the federal countries, it is still evolving in unitary countries.

Europe: Selected regional entities, without legislative powers		
Country	Regional entities	Elections of Councillors
Albania	12 Regions	indirect
Czech Republic	14 Regions	direct
Denmark	14 Counties (and Greater Copenhagen)	direct
Finland	19 Regions	indirect
France	26 Regions (including 4 DOM)	direct
Hungary	7 EU Regions (20 counties, elected)	direct
Ireland	8 Regions	indirect
Latvia	26 Regions	indirect
Poland	16 Regions	direct
Sweden	20 Counties	direct

Source: Council of Europe

The concept of regions in European countries varies in terms of size, responsibilities, and powers, since it remains strongly influenced by national traditions, reflecting the different bureaucratic cultures and political conflicts of the past. A wide variety of institutional arrangements ranges from states, which are strong regional governments, to other regional formations having limited authorities. More recently, the process of European integration has played a role in revitalizing the concept of region. With the introduction of the European regional policy in 1975, the European Community may be built upon regional levels, and the use of structural funds may increase the interest for local and regional authorities. Accordingly, the European Commission has divided the territory into statistical areas in order to assess regional

economic situations (the NUTS nomenclature, see Box 1.3).

In the last three decades, most European states have gone through a process of political and administrative reorganization. Decentralization and regionalization have been the prevailing patterns of these reforms, which have produced various forms of regional governments. This reorganization process has also induced the accession countries (e.g., the Czech Republic, Hungary, Poland, Slovakia and Latvia) to adapt to the EU regional development approach.

These intermediate forms of government vary, according to their degree of autonomy, from unitary states, where functions are strictly limited and controlled by the center, to federal states, where regions have constitutional powers and sovereignty. The arguments for regional government include the need to: (i) promote *larger scale authorities* that can undertake a planning role at an intermediate level, ensuring development strategies to overcome fragmentation of the local governments; (ii) *assign responsibilities* more efficiently and effectively for the delivery of services; and (iii) improve *coordination and cooperation* among smaller local governments.

In some unitary states, regions enjoy a large autonomy, are well equipped, and have constitutional status and legislative powers (e.g., Spain and Italy). In others, regions have only some limited administrative and coordinating responsibilities (such as on the planning and programming of public investments and the management of infrastructures) and a certain degree of constitutional protection (e.g., France). Often, regions have evolved from former territorial divisions of the central government administration, as, for example, in France, where an elective regional layer of government was introduced in 1982, replacing the former Regional Planning Commissions, which were indirectly elected by major regional economic stakeholders and presided over by the Prefects. Regional Councils are in general directly elected by the population and only in some limited cases (e.g., Finland, Ireland, Latvia) are composed of representatives of the local governments. In the latter case, functions of the regions tend to be limited to regional and spatial planning, without involving the provision of services. In Ireland, regions coordinate public services and monitor and advise on the implementation of EU funding in the region.

In unitary European states, regions have performed a number of distinct administrative functions, ranging from specific competences in relation to existing institutions (such as control, consultation, and coordination) to direct area-wide service provision. The relations between regional and local governments may initially be tense, given the potential loss of functions by local governments and the increased supervision that the creation of regions may entail. This is particularly the case with the local governments of important urban centers which dominate a large geographical area. Because of their size and direct access to resources and to central political power, the local governments do not want to be interfered with by the regions. In this respect, a phased and consensual implementation approach has been the most viable strategy for implementing regions.

Sources: Council of Europe, "Structure and Operation of Local and Regional Democracy," CDLR study series, several years; OECD, "Fiscal Decentralization in EU Applicant States and Selected EU Member States," Paris, September 2002.

Nevertheless, it seems that local and central governments are reluctant to relinquish any of their own planning, fiscal, or administrative powers to the regions.³⁴ On the one hand, Mayors, especially those of the big cities, are unwilling to accept regional guidance (and to contribute to a regional budget), or intermediation in their economic and political dialogue with the central authorities, since they are usually capable of gathering a large enough audience of their own which they may want to explore by themselves. On the other hand, central and line ministers are used to operating locally almost exclusively under the paradigm of de-concentrated agents in the regions and are likely to prefer to continue doing so.³⁵

1.29 Also, through the maintenance of the traditional prevalence of the Prefects as the coordinators of the de-concentrated central administration in the territory, the effectiveness of the role of regional governments may be put in jeopardy, since in practice considerable confusion regarding authority and administrative hierarchy still exists, which generates conflict and inefficiencies. However, this source of conflict may fade away in the near future if the government properly implements the new Law on Prefects (Law # 8927/july 2002), which limits the powers of the Prefects to supervise the legality of the acts of Local Councils (communes, municipalities, and regions). With the new Law, the Prefects cannot directly interfere with local government administration and can only use the Courts system to denounce any irregularity.

1.30 All in all, if the current approach of purely voluntary delegation persists, it is unlikely that any significant responsibility will be transferred to the regions, and both the full benefits of decentralization and the relevance of the regions in the new decentralized administrative structure will tend to dwindle over time. Italian and French experiences, for instance, have shown that institutions that lack a clear legal mandate and fiscal power (i.e., weak own revenue autonomy) are unable to effectively coordinate other governments.³⁶ In Albania the regions lack their own source of revenue. They are presently essentially financed by transfers from central and local governments. From the central government they receive conditional grants and a share of the unconditional transfers (see Chapter IV), and from the local governments the Regional Councils are supposed to receive an agreed percentage (in general 4 percent) of own revenue of the self-government units in the regional jurisdiction—although some municipalities (e.g., Tirana) have been reluctant to contribute their share. Actually, only the “power of the purse” (including a significant degree of revenue autonomy at the margin) can offer effective incentives to subnational governments to operate effectively.

³⁴ This includes regional/urban planning, which still prevents the Regional Council as an effective instrument for the more harmonic development of metropolitan areas. In many cases, the suburban development of municipalities/cities is constrained by a large number of small communes that surround these municipalities/cities. This is also the case with the development efforts of regions that extend throughout homogeneous geographic areas (valleys, hills, etc.), but are fragmented into too many small local self-governing units.

³⁵ The prefectures (whose geographic jurisdictions now coincide with the regions) and the ministerial agencies (District Directorates for education, health, etc).

³⁶ In the 1970s, several Italian regions (which are also legislative bodies) created second level bodies formed by mayors and other local government representatives, tasked with functions of economic and territorial planning (*Comprensori*). These bodies were, however, unable to consolidate their role (they had only limited resources and no fiscal powers), and gradually they were dismantled by the systematic opposition of the directly elected levels of government (provinces and communes). In France the regional governments have acquired greater effectiveness by an increase in their fiscal autonomy and by adequate transfers from the state budget under the “planning agreements.”

1.31 It is important not to lose the perspective of the potential contribution of regions to effective decentralization and increased efficiency (allocative and operational) in local public service delivery, particularly in highly fragmented administrative structures as in the case of Albania. In general, several functions that are assigned to the communes and municipalities (especially the small ones), which involve significant economies of scale and externalities, could probably be performed more cost-effectively at the regional level (e.g., watershed management, wastewater management, garbage collection and management, regional roads and transportation services, environment and natural resources management, secondary education, management of some health care facilities such as specialized hospitals, urban planning, and others).

1.32 Moreover, consolidation of the regions might represent a first sensible step toward the establishment of a regional arrangement coherent with the NUTS nomenclature generally adopted by the current members and new candidate countries to join the EU (Box 1.3). In this regard, it may be sensible to start preparing statistical data (and information in general) with the assistance of EU bodies and to be consistent with the NUTS nomenclature, while flexibility and incentives should be open to the existing regions in case they need later to merge/associate in order, for instance, to satisfy requirements of EU pre-Accession and/or structural funds down the road.³⁷

Box 1.3: The EU Regional Nomenclature

The Nomenclature of Statistical Territorial Units-NUTS is a uniform classification system adopted by the EU for statistical and planning purposes. This system was created in accordance with normative and analytical/functional criteria for the territorial division. The normative criterion conforms to the administrative (political) division, while the analytical criterion (based on geographical, economic, and social indicators) is envisaged to allow for international comparison. NUTS 1 to 3, classifies regions, and NUTS 4 and 5 local divisions, as follows:

NUTS 1 = the macro regions of the European member states (between 3 and 7 million inhabitants)

NUTS 2 = the regions of the EU member state (between 800,000 and 3 million inhabitants)

NUTS 3 = the sub-regions of the NUTS 2 (between 150,000 and 800,000 inhabitants)

NUTS 4 = the local levels (micro-regions)

NUTS 5 = the smallest local level, municipalities (e.g., communes, settlements).

The regional classification is intended as target areas for the EU structural and pre-accession funds, although EU does not prescribe its classification as a necessary regional administration arrangement to access funds. Nevertheless, many accession countries (including Hungary, Poland, the Czech Republic) have adopted NUTS as a basis to facilitate fund calculation, allocation, management, and control. (*)

Albanian regions, as administrative entities, seem closer to the concept of NUTS 3 than NUTS 4, although the average size of NUTS 3 in the EU (345,000 inhabitants) is larger than the average size of the Albanian regions (257,000 inhabitants, with a range of between 112,000 in Kukës region and 601,000 in the Tirana region—Table 1.1). Since these regions are mere administrative divisions, the identification of some macro functional regions based on analytical criteria (geographical and cultural homogeneity, complementarity, polarization, or catchment area) might be helpful, even if they are not necessarily transformed into administrative entities by consolidating the existing regions.

(*) There are several stages to apply the NUTS classification to a member state. First the administrative structure of the country is taken into consideration verifying whether regional data are collected and disseminated according to the administrative boundaries. Next the average size in terms of population of the units of the various administrative levels is analyzed to determine where these levels belong in the NUTS nomenclature. If the average size corresponds more or less to that of one of the NUTS levels (average across the other member states of the EU) the administrative structure is adopted as the NUTS regional breakdown at this level. In case no administrative structure has an average size similar to the Union average an ad hoc breakdown called non administrative units is compiled in collaboration with the member state, grouping together existing smaller administrative units.

³⁷ Since the mid-1980s, the reformed EU structural funding process has been increasingly stringent regarding genuine regional level input to the formulation and implementation of programs.

1.33 Finally, the overall fiscal policy and the decentralization strategy must be congruent and well coordinated, and the government must make sure that the role of the regions is not subdued by the introduction of semi-autonomous agencies in key sectors such as healthcare and education. In this regard, the recently created Tirana Region Health Authorities (TRHA) is an outstanding case calling for its proper performance evaluation and its adequate consistency and coordination with the reforms.³⁸

Committing with a New Credible Implementation Agenda and Work Program.

1.34 To maintain the momentum of the decentralization drive, the government may consider reaffirming its commitment to the original strategy by establishing a *new credible agenda* for a phased implementation of reforms. A detailed *work program* for the Group of Experts on Decentralization-GED should follow suit and, together with the agenda, should be approved by the National Council for Decentralization-NCD. -Sectoral ministries should be formally engaged in the work program (through their representatives in the sectoral working groups) and formally committed to a scheduled joint preparation of policy papers and draft laws to be submitted to the NCD, aiming at completing the implementation of the government's decentralization strategy in collaboration with the MoLGD, the MoF, associations of local governments, and other stakeholders.

Strengthening Coordination

1.35 The decentralization drive that stimulated the initial debate and approval of the basic legal framework may now be running the risk of losing momentum in its implementation phase. The extent to which local governments will enjoy policymaking autonomy in service delivery remains uncertain. This perception has been common among many local authorities and donors that are directly operating on the ground (mainly by providing indispensable capacity building assistance). On the one hand, cooperation among the local governments themselves is still unsettled, since the mayors' (and regions') associations have been highly influenced, and to a large extent weakened, by the particular interest of a few large municipalities (especially Tirana) which have direct access to the central political powers. Perhaps because of this same influence, commitment to the decentralization reforms has weakened, and there is a lack of genuine ownership and leadership to push forward the implementation agenda more effectively. At present there seems to be no clearly identifiable champion of the decentralization implementation agenda. On the other hand, there has been an apparent lack of interest in formal systematic consultation and central coordination for donors assistance to decentralization. Much donor consultation is taking place on a bilateral basis (between donors or with the government), but without any formal, systematic multilateral consultation mechanism with a central coordination. In this regard, there is a general perception that the revival of a central government-led

³⁸ See the ongoing *Health System Recovery and Development Project*, 1998; the *2002-04 Medium Term Expenditure Framework*, Technical Note, Decentralization, June 2001, page 3; and the Country Assistance Strategy (Report No. 24189-ALB, May 2002) on a prospective *Health III project* (for 2005). Nevertheless, a detailed distribution of functions relating to healthcare services is still to be established. Also the draft *10 Year Plan for the Health Sector* (October 2002, MoH) and the reports on the *National Inspectorate of Pre-University Education- IKAP* and *Local Education Authority-LEA* (July 2001, MoES) only treat the provision of the respective services from a central authority *de-concentration* perspective, without any reference to the adopted government decentralization strategy.

coordination of all stakeholders (probably by the MoLGD), which could show ownership and firm commitment to the reforms, may be essential to make better use of donor assistance and to mobilize governmental and non-governmental institutions to effectively contribute toward a common understanding and to further the decentralization implementation efforts.

1.36 To date, the GED and the NCD have played an essential role in preparing and deliberating on the basic legislation, and it is crucial that they continue doing so in regard to further required rules. But the implementation of decentralization goes beyond the general designing and approving of basic laws. For the decentralization process to be sustainable in Albania a stronger *coordination and monitoring of decentralization implementation* should be in place. This is because many conflicting issues unresolved by the basic laws (mainly issues related to macroeconomic policies, concurrent responsibilities, inter-jurisdictional relationships, appropriate understanding of concepts and definitions, detailed procedures and processes, capacity building on management, and budgeting and accounting) can only be satisfactorily resolved through intense communication and cooperation among officials at the same and different levels of government, with the concurrence of other stakeholders. In this regard, the work of GED and the NCD could greatly benefit from periodic feedbacks of a *coordinating and monitoring institution* operating downstream in the process of decentralization implementation, which could reflect current decentralization concerns and perceptions at the grass roots. This coordinating/monitoring institution could be designed as an *independent* entity—such as a “National Forum for Decentralization Implementation” (NFDI)—with the participation of all stakeholders (regional, municipal and communal governments, central government—including line ministries—donors, think tanks, and non-governmental and community development organizations), which would meet regularly once every quarter as a vehicle to disseminate best practices for the adoption of government new decisions on decentralization, to discuss pending issues on the decentralization implementation process, and to suggest corrective measures to be technically examined by GED and, if feasible, proposed to NCD. The MoLGD could jump-start NFDI by initially mobilizing the different stakeholders, putting in place its initial institutional foundations, and be in charge of organizing the first fora (which could be held each time at the premises of a different Regional or Municipal Council, in order to also promote national integration and social cohesion).

1.37 With the institutionalization of NFDI, the NCD would be acknowledging the need for flexibility in the implementation of decentralization, since addressing the evolving challenges in intergovernmental fiscal relations inherently demands participation and coordination. This implies that decentralization implementation is a gradual adjustment process rather than a top-down single, irreversible policy move. It is natural that initially designed policies may have to be modified eventually and adapted to current conditions on the ground, so that the main decentralization reform objectives are reached. The fundamental role of the NFDI would be: (i) to promote communication, capacity building and management of information; (ii) to disseminate best practices in a decentralized administrative structure; (iii) to improve intergovernmental fiscal relations, by serving as a cushion to accommodate divergent interests and as a first point for conflict resolution; and (iv) to help accelerate the implementation of the Government decentralization strategy, by feeding back the work of GED and NCD with critical grass root information and suggestions for periodic policy adjustments.

Box 1.4: Associations of Local Governments

The Albanian Constitution (Art. 109, item 4) establishes that local government units are entitled to associate with one another to represent their common interest domestically and internationally. Local governments in Albania are represented by three associations: the Association of Municipalities, the Association of Communes, and the Association of Regions. These associations operate under their own statutes, and membership association is voluntary.

The Association of Municipalities, first founded in 1993 as an Association of Mayors, has a General Assembly as its supreme body and a Steering Committee that leads the executive activities of the association. The Association of Communes was established in 1997, and the Association of Regions in 2001. The Association of Municipalities and the Association of Regions finance their activities mainly on the basis of contributions from their respective members (according to their respective revenue capacities) complemented by donor grants, while the activities of the Association of Communes are mainly financed by donor grants.

The Association of Municipalities is the most active of the three associations, the best financially and administratively structured, and the one which has had the most effective participation in the decentralization process, by sitting on all organs and committees that concern local administration, by contributing with comments and input to draft decisions on decentralization when solicited, by organizing seminars for mayors and municipality lawyers on the electoral code, decentralization, taxation, and urban planning, and by promoting the training of local staff on management and disseminating information and ideas for improved local governance.

The Association of Communes sits on most organs and committees to represent commune interests, but it has been less effective because of its weaker financial and administrative conditions. The Association of Regions is in a better financial situation, but its administrative organization and the recognition of its place in the system are still to be gained. The Association of Regions also sits on some of the committees and organs that deal with local government interests. However, because it is the newest association and because the regions themselves do not yet have a clearly defined formal and practical role in the administrative structure, this association has faced a latent constant opposition and has also faced difficulties in convincing the mayors that it has a relevant role to play.

2. ASSIGNMENT OF RESPONSIBILITIES

2.1 This chapter reviews current intergovernmental fiscal relations in Albania from the expenditure perspective. Section A discusses the transition from the de-concentrated system toward a decentralized decision-making structure and reviews the new statutory assignment of expenditure responsibilities and implementation problems. Section B analysis the patterns of local government expenditures. Section C summarizes the main issues and options, and Section D presents some recommendations on policy and institutions.

A. DE-CONCENTRATION VERSUS DECENTRALIZATION IN ALBANIA

2.2 Public services provision in Albania is in transition from a highly centralized hierarchical system, to a decentralized decision-making structure. Local authorities have been used as agents by the central government, which still makes most of the relevant decisions, but recently local authorities have begun to assume a more active self-governing role by carrying out devolved public functions and by assuming accountability before the law and the local population for decisions taken. This new role includes the direct responsibility of local governments for the employees of their own administrations, who, until recently, had allegiance to the central government, since they were paid out of earmarked transfers from the central budget. There is no doubt that the legal reform of the year 2000³⁹ represents a turning point in the intergovernmental fiscal relations and public resource allocation system in Albania, but there still is a long way to go in terms of bringing the legal reform into practical implementation. Although the government has succeeded in adopting the relevant *basic* legal framework for decentralization to proceed, the shifting of specific functions, competences, and asset properties from the de-concentrated central agencies to the local self-governments has experienced significant delays and has faced technical, bureaucratic, and political difficulties.

State De-Concentrated Public Services

2.3 Since the beginning of the democratization process in the early 1990s, Albania has made a considerable effort to decentralize expenditure and revenue decision-making powers, mainly by passing some key pieces of legislation. However, during the 1990s the basic legislation on decentralization remained inconsistent and incomplete, and several ministries (including the

³⁹ Law on the Organization and Functioning of Local Governments (Law # 8652, July 31, 2000).

Ministries of Agriculture, Construction, Transport, Education and Health),⁴⁰ through the use of the administrative structures of the old districts and local governments, or their own agencies in the territory, retained the decision-making powers for local public services.

2.4 Many public services (including education, health, and social assistance) have for some time been delivered in a *de-concentrated* way by state agencies operating in dispersed locations throughout the territory and using local government structures, which have been assigned with limited delegated competences.⁴¹ The new organic local government law reorganized and struck a balance between the state *de-concentrated* functions and the *decentralized* functions assigned to the local authorities, by essentially following the theoretical concept of benefit area and the practical subsidiarity principle adopted by the EU.⁴² The new law initiated a divestiture process by *decentralizing* to local authorities (local elected officials who are closer to citizens and presumably accountable to them) decision-making powers for the provision of local public goods, including utilities, some local infrastructures and environmental issues, and essential social services (mainly pre-tertiary education, primary health care, and social assistance to the poor).

2.5 Notwithstanding the 2000 legal reform, decentralization has in practice been downplayed, or to a large extent disregarded, in the strategies being designed by the sectoral ministries.⁴³ Most of the relevant local expenditures are still decided at the center and carried out by central agencies de-concentrated at the level of the districts and controlled by the prefectures.

The 2000 Decentralization Reform: Assigning Responsibilities to Local Governments

2.6 The new Local Government Law (Law # 8652/2000) broadly assigned responsibilities among government levels, although further regulation is still required to specifically define competences for each public function, particularly with respect to services which are jointly provided.⁴⁴ Nevertheless, this organic law represents a sound underpinning for the design of a congruent fiscal decentralization system; it is in accordance with the conventional wisdom, it essentially reflects the best international practices, and it is broadly consistent with the European Charter of Local Self-Government.⁴⁵ By and large, the law associates responsibilities with benefit area: that is, local governments are to provide services that benefit the local jurisdiction, while the central government is to provide services with a national benefit area (such as monetary policy, national defense, aggregate planning and development, foreign affairs and

⁴⁰ See also *Fiscal Decentralization and Intergovernmental Finances in the Republic of Albania*, by D. Sewell . and C.I. Wallich, World Bank, Policy Research Working Paper # 1384, 1994; and “*Republic of Albania: Fiscal Decentralization Policy Study*,” by Larry Schroeder, The Urban Institute, UI Project 06901-010, December 2000.

⁴¹ In principle, *central* government agencies located in the territory were directly providing *national* public services, including the supervision of local governments which have been delivering those services mostly on a delegated basis.

⁴² See Chapter I.

⁴³ See, for instance, the draft *10 Year Plan for the Health Sector* (October 2002, MoH), and reports on the National Inspectorate of Pre-University Education-IKAP and Local Education Authority-LEA by the MoES (July 2001).

⁴⁴ And further legislation is still required to regulate in detail the local budgets and local government finances, including shared taxes and the system of intergovernmental transfers. On these matters, see Chapters III and IV.

⁴⁵ See *Public Finance in Theory and Practice* (fifth edition), by R.A. Musgrave and P.B. Musgrave, McGraw-Hill, Inc., NY, 1989. See also *European Charter of Local Self-Government*, Council of Europe, Strasbourg, October 15, 1985.

trade, and justice and security) (see Table 2.1). In Albania, many of the national public services (such as military conscription, issuance of passports, some police services, consumer protection services, tax administration, Treasury system services, statistics services, data collection and dissemination) are delivered on a de-concentrated basis by the central government agencies located in the territory, while others may be attributed to local governments as *delegated* functions or competences. Basically, the law assigns generic responsibilities to local governments, at both the first level (municipalities and communes) and the second level (the regions) according to three categories of public functions: *exclusive*, *shared*, and *delegated* functions. It is understood that the central government has a residual power in fiscal policy matters, but the law states that the Local Councils can carry out any public activity of local interest (or regional interest in the case of the Regional Councils), as long as it is neither explicitly prohibited nor assigned to other level of government by law.

2.7 *Exclusive functions* of local government in Albania are those in which the local jurisdiction is the main beneficiary area of the public services.⁴⁶ In this case, the law assigns to local authorities discretion for full decision-making powers, including administration, service delivery, investment, and regulation. The delivery of exclusive functions is supposed to be financed by local government own resources, including local taxes, fees, and service charges, as well as by unconditional transfers and grants. Regular local public services related to *infrastructures and public utilities* constitute the core exclusive functions of municipal and communal governments in Albania, including local roads, sidewalks, and squares; water supply, irrigation, sewerage and drainage systems; solid waste management (street cleaning, garbage collection); street lighting and city/commune decoration; and maintenance of parks and public spaces (Table 2.1). Some areas of *social services*⁴⁷ (including *orphanages, day care, elderly homes*); *housing; recreational, sports, and cultural activities (including preservation of local historical buildings)*; *local traffic regulation and public transportation services*; *public sanitation*;⁴⁸ *civil security*; and *economic development planning and regulation of local interest*⁴⁹ are also exclusive functions legally assigned to local governments.

2.8 Legally, the responsibilities for most of the local infrastructures and public utilities services have been decentralized to local authorities since January 2001. The authorization of the transfer of the respective state properties (which are associated with the delivery of these services) followed suit, and Law # 8744 was approved on February 22, 2001.⁵⁰ However, the implementation of some of these exclusive responsibilities is still behind schedule (see timeline in Table 1.2, Chapter I), such as the responsibilities for local police and some local social services which, owing to a lack of clear definition of implementation, are still delivered under the Prefect's authority.⁵¹ Other functions, such as veterinary services, urban planning, urban

⁴⁶ Although more than one jurisdiction may benefit from specific service provision, due to economies of scale and externality spillover.

⁴⁷ And museums and sports facilities.

⁴⁸ Including cemetery and funeral services.

⁴⁹ Including infrastructures for the local development of marketplaces and local trade networks; small business development; local fairs, information, advertisements; veterinary services (including rural extension services); and protection and development of local forests, pastures, and natural resources of local interest.

⁵⁰ See also Law # 8743 (February 22, 2001) for the definition and criteria for the registration of state properties.

⁵¹ Although *civil security (firefighting, police)* is defined in the Law (Art. 10. IV, b) as an exclusive function of municipalities and communes, the joint Instruction no. 2 dated February 4, 2002 (Prot. MoF no. 494 and MoLGD

roads, and water supply, have experienced major technical and financial difficulties which have impeded the immediate shift of responsibilities to local authorities. There has been a perception that national standard setting and regulation for animal disease control has to be in place before the transfer of responsibilities can take place. It has also been observed that urban planning issues have often spilled over the boundaries of one jurisdiction and may be better dealt with at the regional level. Given the limited local sources of revenues, investments in urban roads have still been allocated on a delegated basis by the Ministry of Territorial Planning and Tourism.

2.9 In the case of water supply, beyond the interjurisdictional issues stemming from economies of scale (and the existing regional companies already supplying more than one jurisdiction), the difficulties are compounded by issues associated with the transfer of state properties to the local governments, including: (i) the dismal financial situation of the water companies that are to be devolved to the local governments, including the enormous debt overhang—to the electric company (Korporata Elektroenergjitike Shqiptare-KESH), the tax authorities, and the social security system—as well as the imbalance of revenue and expenditure flows because of lack of a sustainable tariff policy(see below); and (ii) the absence of a consistent and comprehensive sectoral strategy, which should include strict policy coordination and clear sequencing between the two government implementation agendas: the decentralization implementation and the privatization of the state assets (including a coherent strategic regulation and clear incentive mechanisms for private sector participation).

2.10 *Shared functions* are those functions in which major externalities (i.e., the benefit area is likely to extend beyond the concerned jurisdiction) and/or economies of scale may occur in the local provision of services. The problem here is how to devise incentive mechanisms that will enable the providing jurisdictions to perceive that they are internalizing equivalent benefits fully, in order to ensure that the entire system can operate with an optimal, socially desirable provision of the public good. In this regard, the organic local government law allows for the assignment of *distinct competences* between the state and the local governments for the provision of the public services, so that their quantity and quality satisfies national interests. These specific competences in shared functions are supposed to be assigned selectively, according to the local authorities' capacity and interest. It is understood that, depending on the function, some specific competences are to be performed by local governments (e.g., specific local regulation, financing, delivery of services, and maintenance, and operation and/or expansion of facilities), while others are to be performed by the state (e.g., national policy formulation; setting of standards and general regulation; financing, monitoring, control, and evaluation of policy outcomes).

2.11 The organic law on local government broadly defines *pre-school and pre-tertiary education*,⁵² *emergency/primary health care and public health protection*,⁵³ *social assistance and*

no. 533/1, of same date) on the budget execution instructed (supposedly temporarily) that “fire fighting and rescue police are transferred to the authority of the *prefectures*.”

⁵² Because of economies of scale and externalities, university education and research centers are considered state functions.

⁵³ Responsibilities for hospitals and specialized clinics, and the rest of the health sector (including combat to HIV, contagious disease) remain state de-concentrated functions, with the Health Insurance Institute (HII) as an autonomous financing institution in the health system. Health care in the Tirana region is de-concentrated and administered by the Tirana Regional Health Authority-TRHA.

poverty alleviation,⁵⁴ *public order and civil protection*, and *environmental protection* as core shared functions, but without any clear assignment of specific competences to distinct government levels. To date, for lack of better definition of specific responsibilities, the old District Council' competences have either been shifted to the prefectures (supposedly temporarily) or they continue to be performed by the de-concentrated agencies of the line ministry located in the territory. Nevertheless, in order to avoid competition among authorities and a confusion of responsibilities, local governments' *specific competences* need to be legally defined and implemented urgently. The present situation can only contribute to increase inefficiencies in service delivery, with potential undesirable duplication or under provision of badly needed public services.

2.12 During the decentralization transition of 2002, local budget execution experienced considerable stress, and increased inefficiencies in social service delivery were observed, particularly with respect to primary health care and, to some extent, to education. In 2003, the government appeared to be preparing for a formal, legally defined shift of shared functions to local authorities on a more gradual and a more planned basis. Nevertheless, the government decided to begin by *delegating* some competences of those functions and, only later, to actually transfer more decision making power and discretion on resource allocation, financing, and service delivery (as prescribed by the law) to the local governments.⁵⁵ The lack of local implementation capacity has been used in Albania sometimes as a reason, and sometimes as a pretext for the adoption to this "more phased" approach of the decentralization process.⁵⁶ This is another critical pending issue to be addressed by the government.

2.13 Regarding education and health care, local authorities have, de facto, been given some discretion on the operations and maintenance of facilities (e.g., school buildings, clinics, laboratories), but have no decision-making power over personnel or investment.⁵⁷ What is clear is that university education and the health insurance system, because of their obvious economies of scale and externality implications, have been kept as exclusive state functions. Social protection and poverty alleviation, although defined by the law as "shared" functions, are in practice implemented as purely delegated functions, for which local governments have no relevant discretion and are performing as mere agents for the delivery of a service which is entirely regulated, decided, financed, and controlled by the central government. As agents, local governments have only provided the listing of potential beneficiaries (for central approval) and delivered the payments, as established and financed by the center, and have reported back to the center regarding the payments made according to the approved list of beneficiaries.⁵⁸ Therefore,

⁵⁴ Which, however, is *intended to continue* as in the current practice of being totally planned, administered, and financed by the central government, under the *ndihma ekonomike* budget, and executed by the local governments purely as agents.

⁵⁵ This move, however, has meant a *temporary* re-centralization, since while they are considered *delegated* these functions will remain state functions (e.g., with all relevant decision-making powers retained at the center, or delegated at its discretion).

⁵⁶ Corruption and trust in public administration have also sometimes been raised as reasons/pretexts to delay decentralization. Although it is difficult to assess the *relative* degrees of corruption in public sector in Albania, anecdotal evidence indicates that in general local population has, on the bases of the current events, tended to trust less the central bureaucracy than the local one.

⁵⁷ See the discussion in Section C, below.

⁵⁸ Regarding "social protection and poverty alleviation," as is generally the case with delegated functions, in Albania resources are earmarked and local authorities have no relevant discretionary budgetary power, on, for example, the

since the “social protection and poverty alleviation” functions in Albania are strongly understood to be a national benefit area, they should be better redefined as state-*delegated* functions.

2.14 Despite the delays and pending definitions that have slowed the implementation of the decentralization agenda, the government has been quite responsible in the matter of decentralizing expenditure responsibilities. With few exceptions, the principle that resource has to follow responsibility has been cautiously and almost systematically adopted.⁵⁹ The state budget has transferred resource amounts (from the line ministries’ budgets) to correspond with the responsibilities allocated to the local government

level of individual benefits, the selection criteria, the criteria for calculation and aggregate amount of benefits, and cannot reallocate the use of transferred resources.

⁵⁹ The exception has been the resources allocated to the regions (the contributions from their member units, and the formula based “unconditional grants” from the state budget), without first clearly defining and costing their corresponding responsibilities.

Table 2.1: Republic of Albania –Assignment of Responsibilities

Responsibility/ Functions		State Functions :			Decentralized Functions to :			
		Central	De-concentrated	Regions		Municipalities/Communes		
				Exclusive	Delegated	Exclusive	Shared ¹	Delegated ²
National Policies, Planning and Services	Monetary Policy	Central Bank						
	National Defense	M. of Defense	Military conscription					
	Forgn. Aff. and Trade	M. of Foreign Affairs						
	Justice/Inter- nal Security	M of Justice & M.of Public Order	-Police servs. and Firefighting (Prefectures)			-Enforcement of public order & local acts -Firefighting		
	Economic Develop- ment, Planning & Financial Control	M of Finance, M. of Economy, Line Ministries, M. of LGD, Regional, Local Gvts. Superior Audit Commission (Parliament)	-Tax Administration -Treasury System	- Formulation and implementation of regional policies in harmony with national policies		-Local economic development ³ -Marketplaces and local trade network. -Small business development -Fairs, information, advertis. & infrastr. -Veterinary serv. (incl. rural ext.sv.)		
Statistical Serv.	INSTAT	District Division of Statistics						
Social Sectors	Education	M. of ES issue national stds. -Teachers' sal. -Subs. build.	- All schooling, incl. univer. & res. instit. - Technical/ vocational				-Pre-school and pre- university schooling -O&M of facilities	
	Health care	Health Min. issue national standards) -Doctors' sal	- Public Health - Health Protection - Primary Health care -Hospitals				-Priority health care and public health protection -Clinics; ambul svc -O&M of facilities	
	Social Assistance, Cultural, and Recreational	- M. of LSP - regulates, issues national standards, finance				-Protection of Local cultural, hist values ⁴ -Recreat. activities ⁴ -Social serv.(incl. Orphanages, day care, elderly homes) -Housing	-Social assistance and poverty alleviation (incl unempl) (LG deliver & select.beneficiary)	-De facto social assistance and poverty alleviation (incl. unempl.) (LG deliver & select.beneficiary)
Infra Structure & Public Utilities	Infrastructure and Public Utilities	- Regulated by MoE, MoLGD, MoPT, MoTT, MoSI, and delivered by off-bdgt public sector owned companies	-Heating -Electricity -Gas (controlled by the CG / Prefectures)	- Inter-urban roads - Regional and Urban Planning - others to be defined by law		-Local roads, sidewalks and squares -Water supply -Sewerage & drainage -Irrigation -solid waste mgt. ⁵ -Street lighting & City/comm. decor. -Parks and public spaces maintenance		
	Traffic and Public Transport	MoTT -Highways, air, & rail transport -Regulates and issue nat. stand		-Regional public transportation services		Local transit and public transportation services		
	Environ-ment and Public Sanitation	Min. of Environment	Environmental protection (Prefectures)	-Regional environmental problems		-Cemetery and funeral services -Protection of local forests, pastures and natural resources	-Environmental protection	

Notes

1 Shared with the central government

2 Still to be determined. Law # 8652/2000 defines delegated functions to local governments (municipalities, communes, or regions) as *mandatory* or *non-mandatory* (i.e., optional). Mandatory functions are determined by law and the local governments have to take the responsibility. Non-mandatory (or optional) functions are functions which are delegated by an agreement between the parties. In any case, the local government assumes specific competences and delivery procedures (and standards) which are controlled by law, and are to be entirely financed by the central budget. The local government may additionally commit its own resources if it wants to achieve higher service standards for local interest.

3 Including the development of land management, local forests, pastures and local natural resources.

4 Including museums and sports activities and facilities

5 Including street cleaning and garbage collection from households.

budgets.⁶⁰ Starting in 1999, through a block grant, resources were transferred strictly to cover the operations and maintenance of the education and health care facilities. In 2002 the block grant was transformed into an unconditional grant, which the local authorities can, in principle, allocate at their discretion and according to locally defined needs and priorities.

2.15 *Delegated functions* are those functions for which the state can give the local authorities certain specific competences (e.g., delivery of services, payment of benefits) according to prescribed standards, by means of law or agreement. In this regard, local authorities can act only as an *agent* of the central government (*principal*). The Albanian organic local government law classifies these functions as mandatory and non-mandatory, the former being determined by law and the latter resulting from an agreement or a contract between the central government and the local authorities. The state is supposed to establish the conditions and fix the standards, as well as to fully finance the service to be delivered.⁶¹ The organic law itself does not assign any specific delegated function, although, as mentioned above, the current *modus operandi* of the *social assistance and poverty alleviation* scheme is closer to the definition of a delegated function than to the definition of a “shared” function as established by the law.

2.16 Although they are also considered autonomous local government units, the regions have been conceived mainly as coordinating bodies, and, as such, they are assigned only a few *exclusive* responsibilities for regional policies and for implementing regional policies in harmonization with national policies (basically for inter-urban and rural roads, regional transportation services, regional and urban planning, and regional environmental measures). Any further significant responsibilities of the regions are still pending decisions, and the law envisages that regions may perform any other function as long as it is *voluntarily delegated* by the communes and municipalities, or by the state. To date, such these delegations have not occurred. Regions are constrained in their fiscal power, and they cannot violate the legal autonomy already established in the organic law for their constituent communes and municipalities. As long as the Regional Councils remains dependent on the *voluntary* delegation of authority, and as long as they are essentially *living on transfers* from both the state and their constituent units, regions tend to remain weak institutions—without revenue autonomy and with little accountability to the local population. Improved autonomy and accountability at the

⁶⁰ This does not mean that these resource transfers are sufficient for the local authorities to discharge their new responsibilities. First because the *actual* quantity and quality of services (delivered under the de-concentrated system) are hardly satisfactory. Second, as the *standard of services* to be delivered by the local authorities has not been defined yet, costing is not possible. The text just refers to the fact that the *amount of financial resource shifted* to local governments corresponds to the same amount which, otherwise, would be under the control of the line ministry; thereby, decentralization is not increasing overall public expenditure.

⁶¹ Actually the law establishes that “the central government shall provide local governments with *funds that are sufficient to meet the requirements for the provision of shared and delegated functions*” (Art. 15, item 4). This requirements for fully funding “delegated” and “shared” functions is debatable. First, if financing is to be fully funded in both cases, the central government may retain the decision-making process in both cases, and the distinction between delegated and shared functions vanishes. Second, in both cases (the delivery of delegated and shared functions) the central government may establish minimum service standards to be followed by the local governments, but this does not imply that the central government should finance them fully, even in the case of the delegated functions. Local governments should be provided with enough sources of revenues (local taxes, fees and charges, as well as shared national taxes and unconditional transfers) so that they can participate in sharing the costs of delegated and shared functions as well. Otherwise, the service delivery could not tend to be cost-effective, since there would be no incentive to minimize the costs of services (including operation and maintenance of institutions) or to improve the quality and/or quantity of services for a given amount of resources.

regional level could only be achieved if Regional Councils were empowered with an independent source of taxation/fee/service charge of their own. The extent to which this would be possible under the current indirect membership representation of the Regional Councils is a challenge that might be addressed by the government in the near future.

2.17 Local governments (both the first level and the regions) are now understood as being autonomous (or self-governing) entities that can prioritize their own expenditures and can be accountable for their acts before the local population. However, in practice, autonomy and accountability will remain limited while a *clear specification* of responsibilities (especially on the shared and joint performed functions) and a *definition of resource sources* (see Chapters III and IV) are not satisfactorily established.⁶²

2.18 A cross-cutting conclusion on the assignment of expenditures in Albania is the contrast between the progress observed in the design and adoption of an advanced basic legislation (especially after the 2000 reform) and the lack of specific regulation and the protracted implementation regarding the decentralization agenda.

B. PATTERNS OF LOCAL GOVERNMENT EXPENDITURES

2.19 Since the mid-1990s, local government expenditures (including the “conditional” and “independent” budgets)⁶³ have fluctuated between 9 percent and 6 percent of GDP, showing a U-shaped curve with a minimum of 5.6 percent in 1998 (Table 2.2). Local expenditures have recovered since 1998, and fluctuated around 6.5 percent of GDP until 2001, below the Central European countries’ standard.⁶⁴ As a share of consolidated state budget, local government expenditures have shown a similar pattern, with a 20 percent average since 1998.

2.20 Autonomous expenditures of local governments in Albania (i.e., the “independent” component of local budgets, over which local authorities have full discretion) are still insignificant, but have steadily increased since the mid-1990s: to 0.5 percent of GDP in 2002, from 0.1 percent in 1995 (or, in terms of the consolidated state budget, to 1.7 percent in 2002, from 0.3 percent in 1995). The “conditional” component of the local budgets (formed by the several “conditional/earmarked transfers”) and the block grants for *operations and maintenance* in the education and health sectors since 1999, represented the bulk of local government expenditures (between 99 and 97 percent during the period 1995 to 1998, but systematically declining to 94 percent on average after that until 2001).⁶⁵ With the replacement of the block

⁶² In principle, local authorities should be directly accountable to the local population in regard to exclusive and shared functions (especially in respect to the specific competences that they are responsible for). Regarding delegated functions, local authorities would be accountable to the central government, for whom they act as agent.

⁶³ See Box 2.1.

⁶⁴ The average share of the Central European countries is around 10 percent of GDP.

⁶⁵ Block grants were introduced in 1999 as an instrument to control state financing expenditures for “operation and maintenance” on education and health directly through local governments’ budgets. “Wages and social security benefits” for these sectors and “investments” are still centrally financed on a delegated basis through earmarked transfers to the local governments. Until 2001, most of exclusive functions of local government (including wages and social security benefits for the local administration’s staff) continued to be financed as “conditional/earmarked grants” from central and line ministry budgets. In 2002 a number of exclusive functions were shifted from the state

grants by increasing unconditional transfers it is expected that local governments can benefit from a greater autonomy that enables them to better define their local priorities. In fact, the size and the shares of autonomous expenditures (financed by unconditional transfers and own local sources) over which the local authorities have full discretion have tended to increase. It has been projected that the local “independent” (i.e., autonomous, including unconditional grants) budget will represent about 2 percent of GDP, and between 7-8 percent of the consolidated State budget by 2003.⁶⁶

2.21 All in all, it should be noted that local governments’ consolidated budgets have been responsible for as much as one-fourth of total government expenditure in Albania, and that quantitative developments in recent years show a gradual shift in the direction and structure of public expenditures, from a *de-concentrated* system (where conditional transfers predominate) toward a more *decentralized* fiscal structure (given the increasing share of the “independent” component of local budgets). Nevertheless, it should be noted that the degree of discretion and the relative importance of local governments in the decision-making process for local expenditure allocation is still quite modest (projected at less than 2 percent of GDP for 2003), with most the local expenditure still remaining conditional in one way or another to central

	1995	1996	1997	1998	1999	2000	2001	2002	2003
	(in million lek)								
Central Gvt. Budget	56429	66905	80742	115701	131326	137323	147469	151237	162000
Local Govt. Budget ¹	20705	20691	19989	25927	34365	33298	38581	40620	61420
Conditional Trnsfs.	20484	20066	19361	25033	29803	28098	31033	27905	47066
Block/Uncond.Grants					3411	3782	5105	9500	6300
Own Local Expend.	221	625	628	894	1151	1418	2443	3215	8054
Consolidated State Bdgt	77134	87596	100731	141628	165691	170621	186050	191857	223420
GDP	229700	281000	341716	460631	506205	539210	590237	658062	718574
	(as a percentage of GDP)								
Central Gvt. Budget	24.6	23.8	23.6	25.1	25.9	25.5	25.0	23.0	22.5
Local Govt. Budget ¹	9.0	7.4	5.8	5.6	6.8	6.2	6.5	6.2	8.5
Conditional Trnsfs.	8.9	7.1	5.7	5.4	5.9	5.2	5.3	4.2	6.5
Block/Uncond.Grants	0.0	0.0	0.0	0.0	0.7	0.7	0.9	1.4	0.9
Own Local Expend.	0.1	0.2	0.2	0.2	0.2	0.3	0.4	0.5	1.1
Consolidated State Bdgt	33.6	31.2	29.5	30.7	32.7	31.6	31.5	29.2	31.1
	(as a percentage of total expenditures)								
Central Gvt. Budget	73.2	76.4	80.2	81.7	79.3	80.5	79.3	78.8	72.5
Local Govt. Budget ¹	26.8	23.6	19.8	18.3	20.7	19.5	20.7	21.2	27.5
Conditional Trnsfs.	26.6	22.9	19.2	17.7	18.0	16.5	16.7	14.5	21.1
Block/Uncond.Grants	0.0	0.0	0.0	0.0	2.1	2.2	2.7	5.0	2.8
Own Local Expend.	0.3	0.7	0.6	0.6	0.7	0.8	1.3	1.7	3.6
Consolidated State Bdgt	100	100	100	100	100	100	100	100.0	100.0
<small>¹ includes “independent” and “conditional” budgets. “Own local expenditures” estimated as equal “own local revenue” (MoF, Fiscal Statistics of Gvt., 2001, Th.1.1)</small>									
<small>Source: MoF-Budget Department, Treasury Department, and 2003-2005 MTEF estimates and projections</small>									

budget to the general budgets of local governments, but “veterinary services,” “housing,” and “water supply”—due to outstanding issues on the appropriate role of local governments—were not shifted.

⁶⁶ See “*Medium-Term Expenditure Framework, 2003-2005*,” MoF, Tirana, September 2002, which also shows that during the 1990s allocation of resources at local level (on both a de-concentrated and a decentralized basis) represented as much as about one-fifth of the state budget expenditures (about 6-7 percent of GDP); the *own* local expenditures (over which the local governments have discretion in allocation) were only between 1-3 percent of the state budget (about 0.1-0.3 percent of GDP). Lately, the government is re-planning (supposedly temporarily) the execution of expenditures for “operation and maintenance” in education, health, and social assistance as *delegated* functions, instead of *shared* functions. Further developments regarding this decision on the allocation autonomy of local governments are expected soon.

authorities' decisions.

Box 2.1: Local Government Budgeting in Albania

Local governments in Albania execute two parallel budgets. The first, the so-called *conditional* budget, comprises the specific funds received from the central government for the execution of delegated tasks, and is in general supervised by the line ministries. The conditional budget is financed by specific earmarked grants. In this case, local governments act only as agents of the central government. The second, the so-called *independent* budget, is financed by local taxes, fees, service charges, receipts from sales of assets and goods, and, since 1999, block grants and, since 2002, by general unconditional transfers.¹

Since 1998, the national Constitution and the organic budget law (with which the organic local government law is consistent) have established that local budgets (together with the state budget) form the national budgetary system (thereby annually approved as law by the Parliament), that they have to follow the same budgetary process (including the schedule and criteria for preparation, execution, debt management, and audit provisions) and procedures (including the classification of accounts), and that they are audited by the independent Supreme Audit Commission.²

The local budget process in Albania involves the following main stages:

- **June:** On the basis of the budget instructions issued by the Minister of Finance and approved by the Council of Ministers each local government unit starts preparation of the next year draft budget;
- **June to September:** Local government units submit the draft budget for the next year to the MoLGD;
- **September 1st:** The MoLGD presents the budget proposals to the Ministry of Finance and starts negotiations for each local government unit's budget;
- **October to mid-November:** The national budget (including the local government's) is submitted to the Council of Ministers for approval.
- **Mid-November to December:** The national budget is submitted to Parliament.

The reporting system for the local accounts involves basically the following:

- **March-June:** By March each local government submits to the MoF (copied to the MoLGD and respective Prefecture) the final statement of accounts regarding the previous year's executed budget, which will integrate the national budget's final statement of accounts to be presented by the MoF by June to the Council of Ministers and Parliament for approval. (This is in addition to the regular quarterly reporting by each local government to the MoF of the current year's budget execution.)

¹ According to Law no 776/1993, "On Local Budget" and Law no 8379/1998 "On the Drafting and Execution of the Budget of the Republic of Albania," and Law n.8652/2000 on the "Organization and Functioning of Local Governments" (Art.19) the Local Councils pass only one budget document, but this document is formulated in the two parts, which are executed separately, following different rules and procedures determined by the Ministry of Finance (see, for instance, the budgetary Instructions issued by the Ministry of Finance on state budget execution for 2002 and 2003). During the 1990s, this separation was compounded by the fact that the *independent* and *conditional* budgets were supposed to follow a dual budget year (different fiscal years): the independent budget was April-March (Art.4, Law 7776/93), while the conditional budget's fiscal year was the normal calendar year (January-December, like the state budget calendar year). The Organic Budget Law # 8379/98 (Art. 3) unified the budget year into the normal calendar year. ² On revenues, see Chapter III; and on transfers/grants, see Chapter IV.

² A new special *Law on Local Budget* is long overdue. The government is hoping to send a draft Law to the Parliament by 2004, possibly after coordinating with a drafted new Organic Budget Law.

The Functional Structure of Local Expenditures

2.22 The share of the local government budget (including the “independent” and the “conditional” components) in the total public expenditure between 1997 and 2002 was quite stable, fluctuating around a 20 percent average (Table 2.3a). Although decisions remained highly concentrated at the ministerial level, “education” and “housing” expenditures in particular were executed mainly through the local budgets with local budget education expenditure shares in total education fluctuating around four-fifths. On average, local budgets also executed more than half of public expenditures on “housing,” approximately one-third of public expenditures on “general public services” (public administration) and on “recreational, cultural and religious affairs,” and between one-fourth and one-fifth of spending on “health care” and “social security and welfare” (including the *ndihma ekonomike*). Because some utility companies are still under the central government administration (e.g., water supply) and because implicit subsidies (arrears and/or free service delivery—e.g., transportation, garbage collection) by local governments are not properly accounted,⁶⁷ the participation of local budgets has been less pronounced in “transport and communications” (less than 10 percent), and quite small in “economic services” (including utilities). The local budget participation in “agriculture, forestry, fishing, and hunting” and in “mineral resources” is only sporadic or insignificant.

Function	1997			1998			1999			2000			2001			2002					
	Actual	Local	Total																		
TOTAL	66.6	33.4	100.0	75.6	24.4	100.0	54.0	46.0	100.0	67.8	32.2	100.0	64.6	35.4	100.0	72.0	28.0	100.0	66.8	33.2	100.0
Gen. Pbl Svcs	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0
Defense	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0
Pbl Order & Safety	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0
Education	22.5	77.5	100.0	20.8	79.2	100.0	16.4	83.6	100.0	22.0	78.0	100.0	23.0	77.0	100.0	21.8	78.2	100.0	21.1	78.9	100.0
Health	70.4	29.6	100.0	72.6	27.4	100.0	78.2	21.8	100.0	75.6	24.4	100.0	81.9	18.1	100.0	81.3	18.7	100.0	76.7	23.3	100.0
Soc Sec & Welfare	83.8	16.2	100.0	81.0	19.0	100.0	80.9	19.1	100.0	82.2	17.8	100.0	83.5	16.5	100.0	83.5	16.5	100.0	82.5	17.5	100.0
Housing & Amenities	62.3	37.7	100.0	68.3	31.7	100.0	63.7	36.3	100.0	50.0	50.0	100.0	46.3	53.7	100.0	47.8	52.2	100.0	56.4	43.6	100.0
Recr. Cult Rel Affairs	64.6	35.4	100.0	67.2	32.8	100.0	67.3	32.7	100.0	76.5	23.5	100.0	71.2	28.8	100.0	60.5	39.5	100.0	67.9	32.1	100.0
Fuel and Energy	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	93.2	6.8	100.0	93.9	6.1	100.0	97.9	2.1	100.0
Agr. Forst. Fish. Hunt	99.9	0.1	100.0	100.0	0.0	100.0	99.9	0.1	100.0	99.9	0.1	100.0	99.9	0.1	100.0	99.3	0.7	100.0	99.8	0.2	100.0
Mineral Resources	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0
Transp & Communic	90.9	9.1	100.0	88.9	11.1	100.0	90.6	9.4	100.0	96.6	3.4	100.0	90.6	9.4	100.0	87.5	12.5	100.0	90.8	9.2	100.0
Economic Services	82.3	17.7	100.0	64.4	35.6	100.0	91.5	8.5	100.0	99.6	0.4	100.0	99.5	0.5	100.0	5.3	94.7	100.0	73.8	26.2	100.0
Other Expenditures	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	100.0	0.0	100.0	98.8	1.2	100.0	99.8	0.2	100.0

*Includes interest
Source: MoF-Budget Dept and Treasury Dept

2.23 The functional structure of the local budgets has also been stable during the 1997-2002 period and has been quite concentrated (more than three-fourths of the expenditures) in three functions: “education,” “social security and welfare,” and “general public services” (Table 2.3b). “Housing” and “health care” absorb 10 and 8 percent of local budget expenditures, respectively. “Transport and communications,” “economic services,” and “fuel and energy” consume another 4 percent. As referred to above, the shares of the latter functions are certainly highly understated local budget responsibilities, since considerable (explicit and implicit) payment arrears accumulated with the utility companies are not properly accounted for.⁶⁸

2.24 Payment arrears to utility companies have been a major issue in Albania and may be even more serious in the near future with the shift of these *exclusive* responsibilities to the local authorities as determined by the law. Although it has been delayed, the process of transferring the ownership of the state assets (including water supply) to the local governments is under way.

⁶⁷ In Albania, public accounting uses a pure “cash system.”

⁶⁸ The current accounting cash system does not capture the payment arrears from the local governments to the utility companies (apart from the impact that the unrealistic utility tariff policies has had on the accumulation of an enormous cross-indebtedness among utility companies themselves—for example, the increasing indebtedness of the water companies to the electric company, the social insurance system, and the tax authority).

But even if the current debt overhang of the utility companies could be resolved in order to make the transfer of assets viable in the short run, the mere transfer of the state assets and the shifting of responsibility for the provision of utility services as an exclusive function of the local governments, may not be a sustainable solution in the long term. The shifting of ownership and responsibility above would not solve the underlying unbalanced financial flows, because of the existence of perverse incentive mechanisms which remain entrenched in the utilities' management system. First, the current approach for the utility service provision should change and should be considered as "technical services" that, even when provided by the public sector (either directly or through off-budget companies), should be financed by fees/tariffs and should employ some cost recovery criterion that is capable of sustaining the service provision on a permanent basis. Today, most of the utilities services to the local population (e.g., water supply, transportation, garbage collection), in most municipalities and communes are either not charged (e.g., garbage collection), or their tariffs are not effectively collected and/or are outdated through lagging far behind the operational costs (e.g., water supply, irrigation, transportation).⁶⁹

Sector	2001												2002								
	Q1	Q2	Q3	Q4	YTD	Q1	Q2	Q3	Q4	YTD	Q1	Q2	Q3	Q4	YTD						
Gen Pbl Svcs	5.2	10.5	6.3	7.2	10.4	7.8	6.5	21.1	9.5	7.1	13.9	8.4	6.7	14.0	8.2	11.6	16.8	12.7	7.4	14.5	8.8
Defense	5.8	0.0	4.6	4.6	0.0	3.8	4.9	0.0	3.9	4.1	0.0	3.3	4.6	0.0	3.6	5.0	0.0	3.9	4.8	0.0	3.9
Pbl Order & Safety	9.9	0.0	7.9	7.9	0.0	6.5	8.8	0.0	7.0	9.3	0.0	7.5	9.0	0.0	7.1	7.9	0.0	6.2	8.8	0.0	7.0
Education	3.1	43.4	11.1	2.4	41.6	9.6	2.0	38.8	9.6	2.7	40.3	10.1	3.0	38.9	10.5	2.7	36.6	9.9	2.7	39.9	10.1
Health	5.5	9.3	6.2	5.0	8.4	5.6	7.2	7.7	7.3	6.8	9.0	7.2	7.6	6.4	7.4	7.4	6.3	7.2	6.6	7.9	6.8
Soc Sec & Welfare	29.5	23.1	28.2	23.9	25.1	24.1	21.1	19.0	20.7	23.1	20.6	22.6	24.4	18.4	23.1	25.5	18.7	24.1	24.6	20.8	23.8
Housing & Amenities	2.9	7.0	3.7	3.5	7.2	4.2	3.5	7.6	4.4	3.1	12.8	5.0	3.1	13.6	5.3	2.8	11.5	4.7	3.2	10.0	4.5
Reer Cult Rel Affairs	1.3	2.9	1.6	1.2	2.6	1.4	1.2	2.2	1.4	1.3	1.7	1.4	1.4	2.2	1.6	1.0	2.4	1.3	1.2	2.3	1.5
Fuel and Energy	0.7	0.0	0.5	1.8	0.0	1.5	0.9	0.0	0.7	3.5	0.0	2.8	6.1	1.7	5.1	3.1	0.7	2.6	2.7	0.4	2.2
Agr Forst, Fish Hunt	4.9	0.0	4.0	4.8	0.0	3.9	4.9	0.0	3.9	3.5	0.0	2.8	3.7	0.0	2.9	4.2	0.1	3.3	4.3	0.0	3.5
Mineral Resources	0.8	0.0	0.6	0.6	0.0	0.5	2.8	0.0	2.2	1.1	0.0	0.9	0.9	0.0	0.8	0.4	0.0	0.3	1.1	0.0	0.9
Transp & Communic	5.3	2.2	4.7	5.3	3.0	4.9	8.0	3.2	7.0	11.3	1.6	9.4	11.7	4.6	10.2	8.6	4.6	7.7	8.4	3.2	7.3
Economic Services	1.9	1.7	1.8	0.7	1.7	0.9	1.3	0.5	1.1	0.4	0.0	0.3	0.3	0.0	0.2	0.0	1.3	0.3	0.8	0.9	0.8
Total	23.3	0.0	18.6	31.0	0.0	25.3	27.0	0.0	21.4	22.7	0.0	18.3	17.5	0.0	13.9	19.8	0.9	15.8	23.6	0.1	18.9

Source: MoF-Budget Dept. and Treasury Dept.

2.25 In addition, the current arrangement (and implicit understanding in most of the line ministries) is that major investments are to continue as a responsibility of the central government. The argument is that the local governments either do not have managerial/planning capacity or do not have sufficient revenue capacity to undertake these capital expenditures on their own. Nonetheless, operations and maintenance responsibilities have already been shifted to the local authorities, both in the law and in practice.⁷⁰ It should be observed, however, that the separation of decision-making responsibilities for capital investment to the central government, and of O&M expenditures to local governments is not an advisable policy and may well lead to an inadequate allocation of resources for the maintenance of public facilities, which will imply a high rate of depreciation and a quick depletion of the capital stock. This represents a management system which unlikely succeeds.

⁶⁹ In water supply there is a huge gap between water produced and water invoiced. The ten largest water companies invoice only around 20-30 percent of their production. The number of illegal connections and nonpaying customers is large. The regional water companies in particular are vastly inefficient, are operating with outdated equipment, are overstaffed, and are poorly managed. The water industry in Albania is in a deplorable financial situation, and only 3 companies out of 50 were profitable in 2001. See "Albania: Recording, Monitoring, and Regularizing Inter-Enterprise Arrears," IMF, September 2002.

⁷⁰ This is also the case with the social sectors, including education, health care, and social assistance facilities.

The Economic Composition of Local Expenditures

2.26 The economic composition of local expenditures is quite concentrated on “wages and salaries,” and “transfers to persons” (including social security benefits and social assistance to the poor), which, although falling since the mid-1990s, still absorb (together) more than two-thirds of the total local budgets (Table 2.4).⁷¹ The government should be commended for the systematic reduction of the shares of these items (from more than 80 percent in the mid-1990s), which has gradually allowed for the expansion of “operations and maintenance” and “capital expenditures” at the local level.

2.27 Nevertheless, during this period, the aggregate relative allocation of resources between “operations and maintenance” (for buildings, facilities, and

Function	<i>total</i>						<i>(in percentage)</i>	
	1997	1998	1999	2000	2001	2002	Av.1997-	
	Local	Local	Local	Local	Local	Local	Local	
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
Wages &	42.4	37.5	31.6	36.6	33.7	34.0	36.0	
Operat.&	12.8	13.7	13.8	13.7	15.2	14.5	13.9	
Capital	6.2	9.1	17.8	14.4	20.1	17.1	14.1	
Transfer	38.6	39.7	36.8	35.3	31.0	34.3	36.0	

Source: MoF-Budget Dept. and Treasury Dept.

equipment), and “wages and salaries” (including teachers, doctors, and the local bureaucracy) varied between 0.3 and 0.45, a ratio which is still too low by international standards.⁷² This low O&M/wage ratio may be an indication of an inefficient mix of resource inputs at local public service facilities, and would suggest that there is significant room for improving technical and allocative efficiency at the local budget level, through better coordination of both sectoral strategies and civil service reforms with the ongoing implementation of the decentralization process.

Local Spending Disparities Across Districts

2.28 Another critical aspect of local expenditures in Albania is the considerable per capita disparities across districts (Table 2.5a. and 2.5b).⁷³ For instance, in 2001 the maximum per capita local expenditure value was about three times the minimum value—26,366 lek in the Delvine District as against 8,000 to 9,000 lek in the Tirana, Lushnje, and Durres Districts—with an average coefficient of variation of 0.3.

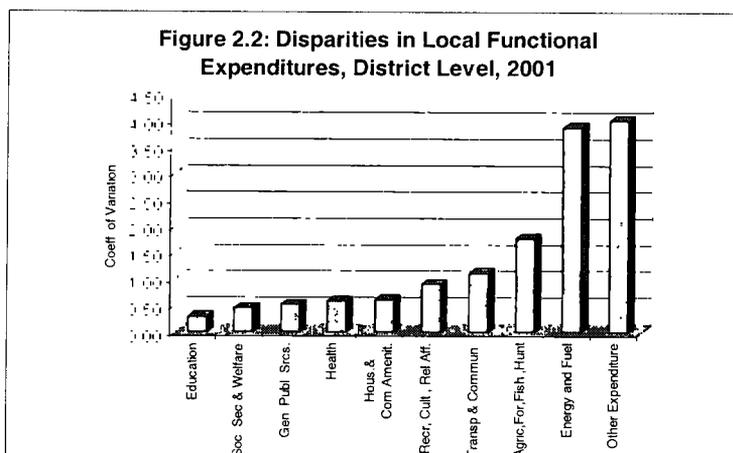
⁷¹ This reflects the flip side of the high allocation for education, social security and welfare, and general public services, which are labor-intensive sectors.

⁷² Internationally this indicator of resource input mix has been around 1.4 and 1.0 for middle-income and high-income countries, respectively. See “Unproductive Public Expenditure,” IMF/FAD, Pamphlet Series, no. 48, Washington, DC, 1995.

⁷³ As reliable population data exist only for 2001 (the census data for 2001), the text takes that year as a reference for discussion. Also, a similar exercise is provided in Table 2.5b, using the 2002 budget data and 2001 population. Although replicating basically the same conclusions as the text, the results of the exercise in Table 2.5b should be taken with the necessary precautions because of the ongoing migration movements of the population.

districts, there are also considerable disparities in local expenditures for “social security and welfare” and “housing” (905 leks in Devoll as against 5,395 lek in Tropoje for the former function, and 622 lek in Elbasan and 5,749 in Skrapar for the latter). Larger local expenditure disparities exist in “transportation and communications” (2.326 lek in Tirana municipality, as against zero in Has and Kurbin) and also in “recreation, culture, and religious affairs” (1,766 lek in Kolonje as against 2 in Tirana and 55 in Malesi and Madhe districts), which may reflect major discrepancies in local preferences, needs, and revenue capacities.

2.31 All in all, Figure 2.2 shows that the coefficient of variation of local expenditure differs according to specific functions, in general indicating less intense disparities (lower coefficient of variation) for the more essential and urgent local expenditures, such as social public services (e.g., “education,” “health care” and “social assistance”), and more intense disparities (higher



coefficient of variation) for “infrastructures,” “economic services,” “recreation, culture and religious affairs,” and “transportation and communications.” This result may be in part influenced by the “conditional budget” component, which tends to be more standardized across districts owing to the uniform central norms under which the social sector transfers are usually planned.⁷⁷ On the other hand, this result may also be influenced by disparities in local revenue capacities that limit the majority of districts to spending out of their own “independent” budgets on “less essential” functions (e.g., “recreation and culture,” and even “infrastructures” and “transportation and communications” systems), while allowing better-off units to spend relatively more out of their “independent” budgets on these functions. The higher coefficient of variation on the latter may also be a result of the stronger political clout of some districts and larger municipalities (especially the capital city, Tirana), which enables them to obtain better deals through direct negotiations with the central authorities.⁷⁸ The latter evidence calls for a reinforcement and refinement of the transfer mechanisms in Albania, including both the unconditional and the conditional transfers, which should be based exclusively on objective factors (see Chapter IV).

⁷⁷ See, for instance, MoF and MoLGD Instruction no. 2 (February 4, 2002) for the Implementation of Local Government Budget for the Year 2002.

⁷⁸ The influence of the latter factor is expected to have lessened significantly since 2002 with the new pre-determined formula for the distribution of unconditional transfers/grants (which includes equalization objectives). However, the impact of the conditional transfers, especially funds for investments, is still not entirely clear. (This may be one of the reasons why strong mayors are reluctant to accept the existence of the Regional Councils as an intermediary level of government in Albania.)

Table 2.5: Albania - Local Gvt. Expenditures, 2001 (Executed) (leks per capita)

District	General Services	Education	Health	Social Security and Welfare	Housing and Communi- ty Employment	Recreation, Culture, Religious Affairs	Energy and Fuel	Agriculture, Forestry, Fishing, Hunting	Mineral Re- sources	Transportation and Communi- cation	Other Economic Affairs and Services	Other expen- diture	TOTAL
BASHKIA E TIRANES	2770	4777	863	1417	1400	211	0	0	0	0	0	0	13630
BERAT	1398	4377	863	2416	1186	310	0	1	0	572	0	0	11123
BULOZISE	1906	4425	862	3225	1357	123	0	0	0	16	0	0	11914
DELVINE	5663	11792	2880	2326	2994	389	0	0	0	323	0	0	26366
DEVOLL	1354	4422	1436	905	856	220	0	0	0	86	0	0	9280
DIBER	1885	4855	1045	4047	808	224	0	4	0	662	0	0	13538
DURRES	958	3601	228	1240	1963	487	0	1	0	798	0	0	9277
ELBASAN	1393	4375	653	2134	622	260	0	3	0	272	0	0	9713
FIER	1108	3827	633	1515	1390	236	2763	2	0	181	0	0	11659
GIROKASTER	3016	6536	1074	1195	2850	702	0	9	0	476	0	0	15862
GRAMSH	2492	6909	1526	3044	2270	185	0	0	0	139	0	0	16564
HAS	1635	5824	1211	3857	942	123	0	0	0	0	0	0	13593
KAVAJE	1418	4451	1027	2317	2293	163	0	0	0	45	0	0	11714
KOLONJE	2880	9092	2267	2307	2506	1766	0	0	0	389	0	0	21208
KORCE	1400	4927	860	1690	3588	386	0	0	0	247	0	0	13099
KRUJE	904	4440	991	1814	3777	149	0	0	0	388	0	0	12462
KUCOVE	1063	4391	639	2216	2265	115	0	4	0	706	0	0	11401
KUKES	2463	5500	1162	5182	934	189	0	8	0	41	0	0	15479
LAÇ (Kurbini)	1092	4478	780	3326	829	113	0	0	0	0	0	0	10619
LEZHE	1607	4407	808	2287	2178	320	886	8	0	111	0	8	12619
LIBRAZHID	1889	5176	2005	2145	705	170	0	0	0	429	0	0	12522
LUSHNJE	1281	4224	637	1406	869	212	0	0	0	33	0	0	8661
MALESIA E MADHE	1526	5866	1142	3261	673	55	0	0	0	502	0	0	13024
MALLAKASTER	1806	6058	664	1487	1575	506	0	0	0	126	0	0	12222
MAT	2327	5483	1052	3958	1115	291	0	5	0	194	0	0	14423
MIRDITE	2594	7392	573	4427	1500	359	0	0	0	795	0	0	17640
PEQIN	1949	4414	698	1413	806	429	0	0	0	209	0	0	9918
PERMET	3219	6760	2306	2144	2202	395	0	0	0	544	0	0	17570
POGRADEC	1546	5454	931	3236	1016	235	0	0	0	385	0	1	12806
PUKE	2007	7484	2357	5115	1811	110	0	0	0	197	0	0	19082
SARANDE	5433	5478	548	1615	4000	328	1140	0	0	1611	0	0	20157
SHKODER	1191	4913	744	4066	1220	275	0	0	0	138	0	0	12548
SKRAPAR	3320	7254	1897	4166	5749	796	0	5	0	547	0	0	23733
TEPELENE	2674	7788	1543	3051	3552	353	0	0	0	326	0	0	19287
TIRANE (rreth)	1353	4403	77	1521	655	2	0	2	0	14	0	0	8027
TROPOJE	3936	7778	2085	5395	1769	318	0	0	0	590	0	0	21875
VLORA	1589	5160	897	1837	2257	468	0	0	0	514	0	0	12720
TOTAL	1765	4890	777	2311	1711	279	212	1	0	543	0	1	12492

Source: MoF, Treasury

Main Statistics, 2001

Maximum	5663	11792	2880	5395	5749	1766	2763	9	0	2326	0	8	26366
Minimum	904	3601	77	905	622	2	0	0	0	0	0	0	8027
Average	2108	5631	1114	2669	1878	324	129	1	0	404	0	0	14258
Standard	1113	1676	660	1234	1162	295	503	3	0	454	0	1	4383
Coefficient of	0.53	0.30	0.59	0.46	0.62	0.91	3.88	1.79		1.12		4.01	0.31

Table 2.6. Albania - Local Gov. Expenditures, 2002 (Executed) (leks per capita)

County	General Public Services	Education	Health	Social Security and Welfare	Housing and Community Amenities	Recreation Culture and Religion	Energy and Fuel	Agriculture Forestry Fishing and Hunting	Mineral Resources	Transportation and Communication	Other Economic Affairs and Services	Other expenditure	TOTAL
COMPREHENSIVE FINANCIAL													
BERAT	1764	4448	940	2578	1406	494	240	4	0	895	13	144	12925
BULOZISE	2348	4139	872	3328	950	37	0	0	0	412	0	0	12085
DELVINE	4251	7579	3479	2667	3411	578	0	0	0	1946	724	232	24867
DEVOLL	2128	4218	913	1034	913	186	0	10	0	0	273	49	9723
DIBER	2220	4878	1218	4745	356	242	0	8	0	265	0	17	13948
DURRES	1423	3808	245	1279	2479	538	0	2	0	444	0	91	10308
ELBASAN	2080	4182	721	2228	505	313	0	2	0	116	447	0	10593
FIER	1900	3715	690	1690	1624	333	690	3	0	229	91	11	10974
GJIROKASTER	3510	5996	1135	1105	1359	771	0	7	0	866	60	47	14856
GRAMSH	2783	6065	1685	3154	981	163	0	0	0	222	809	0	15840
HAS	3339	5201	2527	4455	1371	103	0	0	0	71	26	408	17501
KAVAJE	1841	4049	1091	2478	1246	179	159	0	0	0	0	11	11056
KOLONJE	3805	6632	2403	2311	2039	595	0	0	0	915	0	0	18701
KORCE	2324	5327	882	1755	1790	535	0	1	0	244	260	106	13225
KRUJE	1697	4213	1043	1906	1455	382	0	2	0	679	57	89	11524
KUÇOVE	1916	4534	892	2284	2343	202	1476	0	0	486	808	154	15096
KUKES	2952	5201	1352	5746	499	182	0	6	0	207	569	482	17196
LAÇ (Kurbini)	1453	3760	868	3662	2215	301	0	0	0	139	6	442	12846
LEZHE	1852	4378	949	2493	741	378	0	6	0	1455	135	130	12520
LIBRAZHD	1882	5114	921	2354	311	116	0	555	0	58	0	150	11463
LUSHNJË	1401	3985	742	1413	1382	291	0	0	0	100	195	8	9514
MALESIE MADHE	1883	5452	1222	3375	620	88	0	0	0	543	23	181	13167
MALLAKASTER	2368	4608	713	1761	1544	339	0	2	0	632	273	12	12251
MAT	1724	4665	1081	4484	317	315	0	11	0	876	314	218	14007
MIRDITE	3271	7752	582	4899	836	342	0	0	0	197	113	343	18335
PEQIN	1627	3796	689	1604	1563	525	0	0	0	166	478	33	10482
PERMET	2821	5963	2289	2335	1872	500	0	0	0	1299	102	235	17417
POGRADEC	2221	5573	1054	3429	1750	216	951	0	0	361	889	145	16588
PUKE	3395	6835	2530	5061	2007	203	0	7	0	408	0	15	20480
SARANDE	4575	5585	3748	1838	4154	358	0	0	0	4311	1093	10	25671
SHKODER	1252	4901	811	4328	1089	306	0	3	0	680	71	328	13768
SKRAPAR	3677	6504	2047	4541	2156	415	0	0	0	1271	64	48	20723
TEPELENE	2350	5898	1479	3121	2364	481	0	0	0	1060	12	195	16959
TIRANE (rreth)	2343	4393	0	1685	1611	14	0	2	0	0	1	25	10074
TROPOJE	3948	6654	2270	5977	2246	648	0	0	0	0	0	272	22015
VLORA	1887	5152	986	1933	3423	619	0	4	0	498	257	454	15214
TOTAL	2218	4841	837	2477	1529	323	98	15	0	608	169	116	13230

Source: MoF, Treasury Department

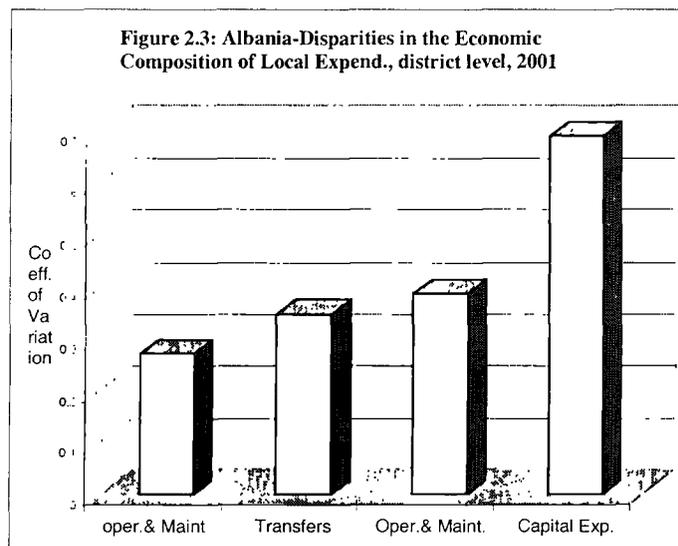
Main Statistics, 2001													
Maximum value	4575	7752	3748	5977	4154	771	1476	555	0	4311	1093	482	25671
Minimum value	1252	3715	0	1034	311	14	0	0	0	0	0	0	9514
Average value	2466	5161	1272	2879	1586	337	95	17	0	646	221	137	14816
Standard deviation	877	1082	853	1362	883	186	303	91	0	802	301	146	4126
Coefficient of variation	0.36	0.21	0.67	0.47	0.56	0.55	3.19	5.31		1.24	1.36	1.06	0.28

In 2001, disparities in per capita local government expenditures, by economic composition, across districts were less pronounced than the disparities observed in respect to functional expenditures (Table 2.7). Nevertheless, also in this case, because of the reasons given above, the depressed areas of the country have shown relatively higher per capita spending on social services as compared with the immigration areas.⁷⁹ On the other hand, local revenue capacity, local preferences, and the political clout of the local leadership can probably explain the larger local per capita disparities particularly for “capital expenditures” and, to a certain extent, for “operations and maintenance.”

	Wages and Sal	Oper & Maintenance	Capital Exp.	Transfers	Total
BARILLETI	3,507	1,677	4,471	2,075	11,530
BERAT	3,933	1,538	1,721	3,931	11,123
BULQIZE	4,194	1,537	1,531	4,652	11,914
DELVINE	8,454	4,480	7,808	5,624	26,366
DEVOLL	4,003	1,742	1,453	2,082	9,280
DIBER	4,586	1,879	1,622	5,451	13,538
DURRES	3,509	1,436	1,929	2,403	9,277
ELBASAN	3,555	1,653	1,102	3,403	9,713
FIER	3,472	1,087	3,951	3,149	11,659
GJIROKASTER	5,443	3,084	3,858	3,477	15,862
GRAMSH	6,096	2,908	2,300	5,259	16,564
HAS	4,952	2,035	1,161	5,445	13,593
KAVAJE	4,013	1,824	2,250	3,627	11,714
KOLONJE	7,490	3,927	4,810	4,981	21,208
KORCE	4,299	1,981	3,189	3,630	13,099
KRUJE	3,797	1,239	4,330	3,096	12,462
KUCOVE	3,756	1,744	2,510	3,391	11,401
KUKES	5,308	2,138	930	7,103	15,479
LAC	3,782	1,355	1,077	4,404	10,619
LEZHE	4,291	1,609	3,071	3,648	12,619
LIBRAZHD	5,224	2,050	1,482	3,767	12,522
LUSHNJE	3,635	1,453	1,000	2,572	8,661
M.MADHE	4,800	1,508	1,910	4,807	13,024
MALLAKASTER	4,278	1,946	3,191	2,807	12,222
MAT	5,106	2,234	1,589	5,495	14,425
MIRDITE	5,778	2,304	3,202	6,355	17,640
PEQIN	4,073	1,399	1,562	2,884	9,918
PERMET	6,665	3,538	2,845	4,521	17,570
POGRADEC	4,754	1,821	1,351	4,879	12,806
PUKE	7,299	2,672	1,729	7,382	19,082
SARANDE	4,669	2,603	9,165	3,720	20,157
SHKODER	3,966	1,599	1,336	5,648	12,548
SKRAPAR	6,665	3,596	6,789	6,685	23,735
TEPELENE	6,273	3,337	4,483	5,195	19,287
RRETHI TIRANE	3,289	853	1,400	2,485	8,027
TROPOJE	7,498	3,092	2,453	8,831	21,875
VLORE	4,485	2,431	2,410	3,394	12,720
TOTAL	180,898	80,265	102,951	163,425	527,539
Main Statistics-2001					
Maximum value	8,454	4,480	9,165	8,831	26,366
Minimum value	3,289	853	930	2,082	8,027
Average value	4,889	2,169	2,782	4,417	14,258
Standard deviation	1339	845	1916	1546	4383
Coeff. of variation	0.27	0.39	0.69	0.35	0.31

⁷⁹ For instance, 8,454 Lek in Delvine as against 3,289 Lek in Tirana District on “wages and salaries,” and 8,831 Lek in Tropoje as against 2,000-2,500 in Tirana District, Lushnje, and Devoll on “transfers to persons.”

2.32 Again, the conditional transfers, influenced by the uniform norms of the central government, may have influenced the lower coefficient of variation, especially for “wages and salaries” and “transfers to persons” (coefficients of variation of 0.27 and 0.35, respectively) (Figure 2.3). On the other hand, the “independent budget” component may have affected more directly local “capital expenditures” (with a coefficient of variation as high as 0.7), and may have lead a mixed effect on “operations and maintenance” (a coefficient of variation of 0.4).



Local Expenditures Across Municipalities and Communes

2.33 Consolidated expenditures data by spending category at the municipal and communal levels are not readily available in Albania, and the data obtained directly from the local administrations are not always consistent or entirely reliable. The following paragraphs discuss the pattern of local government spending on the basis of a small sample of municipalities and communes, selected from a Ministry of Local Governments and Decentralization-MoLGD’s questionnaire recently distributed to the local authorities,⁸⁰ complemented by some local budgetary anecdotal information gathered by the Bank’s missions.

2.34 Despite the recent efforts to effect decentralization in Albania, with the implementation of a new transfer/grant formula (including an equalization factor) and the assignment of new own sources of revenue, the level of local government expenditure per capita is still low and is unevenly distributed between communes and municipalities. Considering the 2002 local budgets (including the “conditional” and “independent” components), per capita expenditure at the communal level is generally much lower than at the municipal level (average 5,428 lek and 9,607 lek, respectively)⁸¹ but per capita spending disparities tend to be larger among municipalities (a coefficient of variation of 0.43) than communes (coefficient of variation of 0.29) (Table 2.8). These expenditure patterns can to a large extent be attributed to disparities in revenue capacity (and maybe to distinct tax efforts) across local government units. The still insignificant own local revenue collection, particularly by the communes, leaves those units financially weak vulnerable to unpredictable changes, and highly dependent on transfers from

⁸⁰ No rigorous statistical criterion was used for this selection, since the questionnaires had not yet been validated by the MoLGD. Although an initial random sample of municipalities and communes was obtained in order to have every district represented in this report, only 10 municipalities and 15 communes (distributed throughout the north, south and center of the country) ended up having fairly consistent budgetary information that could be used. Actually, with the exception of Fier and the capital city, Tirana, all regions (prefectures) are represented in the 25 selected questionnaires (see Tables A2.1 and A2.2, in the Statistical Appendix).

⁸¹ These annual average spending correspond to about US\$ 40 and US\$ 70 per capita, respectively.

the center (Chapters III and IV). In fact, in this 2002 sample, 97 and 93 percent of expenditures of communes and municipalities, respectively, were financed by central government transfers. As a consequence, most of the local expenditures (three-fourths on average for the communes and two-thirds for the municipalities) are not autonomously decided by the local self-government units, since they are still financed by *conditional* transfers.

Expenditure Category	Municipalities					Communes				
	Max. Value	Min Value	Av. Value	Std. Dev.	Coef. of Var.	Max. Value	Min. Value	Av. Value	Std. Dev.	Coef. of Var.
	(in percentage of total expenditure)					(in percentage of total expenditure)				
Current outlays	93.9	74.6	82.8	7.1	0.09	97.5	70.6	84.2	8.3	0.10
Wages and salaries	78.9	22.9	56.4	17.0	0.30	88.6	59.6	70.6	8.4	0.12
Other current	52.1	7.7	26.4	14.5	0.55	24.1	6.5	13.6	5.2	0.38
Capital outlays	25.4	6.1	17.2	7.1	0.41	29.4	2.5	15.8	8.3	0.53
	(lek per capita)					(lek per capita)				
Total Expenditure	20,579	5,836	11,572	4,508	0.39	11,332	3,797	6,452	1,863	0.29
Current outlays	19,323	4,751	9,607	4,146	0.43	9,313	3,006	5,428	1,589	0.29
Wages and salaries	16,237	3,203	6,460	3,814	0.59	7,691	2,570	4,549	1,365	0.30
Other current	7,280	447	3,147	2,218	0.70	1,622	424	879	405	0.46
Capital outlays	3,969	472	1,965	1,096	0.56	2,018	173	1,024	637	0.62

(*) Sample of 10 municipalities and 15 communes. See Table A.2 ... in the Statistical Appendix
Source: Ministry of Local Government questionnaires (raw data not validated). Actual revenues and expenditures 2002

2.35 As indicated in Table 2.8, the shares of *current* outlays (about 83-84 percent) vis-à-vis *capital* outlays (16-17 percent) are on average quite similar among municipalities and communes. Nevertheless, communes have tended to spend relatively more on wages and salaries (about 84 percent of their current outlays) than municipalities (about 68 percent), which may reflect not only the distinct *preferences* and *needs* of the respective local populations, but also (probably because of the indivisibility of the fixed factors of production) the higher per capita employment and costs of small rural local administrations (in general, the communes) as compared with those of larger and more compact urban municipalities. Apart from other reasons, this may be an indication of economies of scale which may help explain why small local government units in Albania tend to be less effective and less efficient in deciding and controlling public service delivery at the local level, and may argue for an amalgamation policy in the long term (see Chapter I).

C. MAIN ISSUES AND CHALLENGES

2.36 For more than a decade, Albania has provided a typical example of a painstaking decentralization implementation process, in which political rhetoric and bureaucratic stumbling blocks are interwoven with a difficult situation on the ground. However, the Albanian authorities understand that the benefits of fiscal decentralization will come to fruition only when the current weaknesses in the assignment of responsibilities and the commensurate resources to local governments are properly addressed.

2.37 This chapter points out three main characteristics of the Albanian system that underlie the current difficulties in the implementation of the government's decentralization agenda:

- (a) First, there are difficulties imposed by the considerable demographic changes of the last 10-15 years, which have taken place without the corresponding policy

reforms to adjust the spatial deployment of infra-structure, public service facilities and personnel; this has aggravated the local administration problems of both the fragmented communes and the bloated urban centers.

- (b) Second, there is lack of sufficient managerial and technical capacities, particularly (but not only) at the local level, which has sometimes being called a reason, sometimes a pretext, for the delays in defining competences and transferring functions to local governments.⁸²
- (c) Third, there is the failure of some segments of the central bureaucracy to understand their new role in a decentralized fiscal system,⁸³ and their reluctance to relinquish decision-making powers and competences to lower levels of government.

2.38 The above facts have contributed to protracting the phased implementation agenda as initially established by Law No. 8652/2000.⁸⁴ Given this backdrop, the following issues directly related to the assignment of responsibilities were identified, and should be addressed as soon as possible in order to bring the decentralization strategy back on track.

- (a) *A still unclear assignment of responsibilities* and powers for specific competences (to both the regions and the municipalities and communes), especially with respect to shared functions, which may lead to concurrent authority, duplication, or under-provision of essential services. This confusion of powers may become an excuse for unfunded mandates, a perverse incentive for local governments to trigger a bailout, which may soon turn into a source of soft budget constraints. As long as the specification of competences is not properly defined, distortions will tend to build up and the service delivery system will become increasingly inefficient, complicating further the implementation of the government's decentralization agenda;
- (b) *Insufficient local expenditure autonomy* (because of the excessive ascendancy and power of Prefects and central regulating agencies, which are de facto supported by the central authorities) which has limited the local administration's ability to prioritize resource allocation properly and in accordance with the citizens' interest;
- (c) *An inefficient delivery of local public services to the citizens*, which has been compounded by two main developments:
 - (i) Weak prioritization of resource allocation, revealed by an inadequate mix of factor inputs at the local level. The observed low O&M/wage expenditure ratio results from the fact that insufficient complementary resources have been made available to local public workers (including training and equipment) and to the maintenance of the existing equipment and facilities. This has led to inefficiencies, to a high cost of local service provision, and to too rapid deterioration of the capital stock; and

⁸² See UNDP, op. cit. (p. 67).

⁸³ Which should be that of formulators, regulators, controllers, and evaluators of economic policies, instead of micro-managers on every phase and aspect of the local public service delivery process

⁸⁴ See Table 1.2, Chapter I, where the initially established benchmarks are mostly overdue.

- (ii) Intense migratory movements, mainly from the small rural communities in the north and the south toward larger urban centers in the middle of the country. This demographic factor has exacerbated the structural imbalances of the territorial administration, which is comprised, on the one hand, of fragmented administrative units operating with high fixed costs and sometimes "idle" capacity, and, on the other hand, of a few bloated urban centers with overcrowded infrastructures and social service facilities;
- (d) *An inconsistent separation in the assignment of responsibilities for capital expenditures*, which has led to sub-optimal spending on the maintenance of facilities and equipment. This policy represents a perverse incentive which tends to lead to a faster depletion of the capital stock than would otherwise occur, including in the social sectors;
- (e) *Weak administrative and technical capacities (especially at the local level)*, which, if not addressed urgently and adequately, will continue to be a compelling reason for delaying the proper assignment of specific competences to local governments. Inaction regarding capacity building at the local level alienates local administrations and authorities, and feeds back a pretext for protracting the implementation of decentralization;
- (f) *Substantial disparities in per capita expenditures across local self-governing units*, which may increase with the decentralization of fiscal powers on a derivation basis, threatening the equity principles. In the medium and long-term, this trend may not only collide with the EU cohesion objectives, but may jeopardize the country's social and political stability;⁸⁵
- (g) *A conflict between emerging sectoral strategies and the government's decentralization agenda*, showing a disconnect and lack of central coordination, creating confusion and uncertainty for local planning and budgeting, and running the risk of alienating the local authorities. This disconnect has also been observed with respect to the privatization policy (e.g., utility services), where a clear policy sequencing has not yet been established.

2.39 Addressing the above key issues, with the aim of properly prioritizing and sequencing the needed reforms, is critical to a credible implementation agenda of the government's decentralization strategy. Nevertheless, in this regard *the territorial-administrative structure of the country should be considered a long-term issue, and as given in the short-run.*⁸⁶ Therefore, the immediate focus of the reforms should be on the other institutional arrangements and incentive mechanisms that will effect an efficient delivery of public services. Nevertheless, given the fragmented structure of the territorial-administrative organization of the country, the attribution of *responsibilities to local governing units should be asymmetric*, and should be guided by pre-established objective criteria of eligibility. Simultaneously, incentives for the

⁸⁵ These horizontal imbalances are addressed in Chapter IV.

⁸⁶ Since this is a socially and politically charged issue, reforms of the territorial-administrative structure of the country (including *compulsory amalgamation* of the currently self-governing units) will probably require a major consultation process and coordination effort. This is likely to involve difficult legal and technical considerations and extensive debate with all stakeholder (e.g., central and local authorities and politicians, associations of local governments, local civil organizations), which may take time. Although this process should start sooner rather than later, the implementation of the decentralization reform agenda should be independent and should not be held back by events regarding territorial-administrative structure reforms (see also Chapter I).

delegation of authority (to the regions and to the better equipped self-governing units), the outsourcing of contracts, and the *voluntary* amalgamation should be promoted, but should be aimed at results in the long run.

2.40 One option would be for the main strategic direction of reforms for the near future to focus, on the one hand, on clarifying expenditure responsibilities and attributing specific competences to the different government tiers (such attribution would include decisions on policy formulation, financing, service delivery, monitoring, reporting, and/or evaluation) and also on providing local authorities with capacity building programs and enough autonomy to implement policies. On the other hand, this option should make local managers,⁸⁷ public officials and elected authorities personally accountable for policy results (in terms of the efficacy and efficiency of specific public services). To ensure local (regional, municipal and communal) hard budget constraints, meaningful legal penalties should be in place, including the temporary loss of governing autonomy and enforceable standards of fiscal responsibility.⁸⁸ Apart from these institutional arrangements, the most important aspect of the government's strategy is to guarantee an appropriate structure of economic incentives for the functioning of a viable decentralized fiscal system that is efficient and equitable, and is based on rules and immune from political and bureaucratic influences. To ensure these objectives the government may consider addressing the following options and recommendations with regard to functional responsibilities.

D. OPTIONS AND RECOMMENDATIONS

On the Assignment of Responsibilities

2.41 The government might consider reviewing the decentralization strategy in detail and establishing a feasible agenda to effectively implement the attribution of competences for exclusive, shared, and delegated functions according to the law, as well as clarifying the assignment of capital expenditure responsibilities and the role of the regions, while addressing the fragmentation problem.

2.42 *Effecting the implementation of exclusive functions.* Essential regulations should be prioritized and sequenced for *implementation*. In particular, the long overdue complementary regulations consistent with sectoral strategies, service standard setting, action programs, and detailed budgetary instructions to clarify and effect full implementation of the exclusive functions in accordance with Law # 8652/2000 are critical to clarify responsibilities at this stage and to keep the decentralization process moving. These measures should essentially be aimed at clarifying specified functions and competences, defining the *unconditional* financing source, and accelerating the process of transferring of State properties to the local governments.

- (a) *Establish explicit work programs* to: (i) complete the transfer of the responsibility for "civil defense" (local police and firefighting), temporarily attributed to the Prefects, to the local authorities;⁸⁹ (ii) resolve the pending issues on the attribution of functions on "urban planning," "land management," "housing," and the "protection of

⁸⁷ For example, department directors, school principals, health clinic directors.

⁸⁸ The New Zealand and Brazil Fiscal Responsibility Acts could serve as examples of best practices.

⁸⁹ See MoF and MoLGD Instruction # 2, dated 02/04/2002.

the local environment” (forests, pastures, and natural resources—including irrigation water), taking into consideration the interjurisdictional concerns about the spillover effects of these functions and whether their respective responsibilities should be definitively assigned to the Local or Regional Councils; and (iii) decide whether “social assistance to the poor” (i.e., *ndihma ekonomike*) should be a *shared* function as is still in the law, or whether the law should be amended by specifying this as a state delegated function—to reflect the current practice and the sectoral strategy, which seems to consider this function as of national interest.

- (b) *Finalize arrangements for the definitive regularization and the complete transfer of responsibilities for “water supply and sewerage”* (among other utilities) to local authorities. This exclusive function issue is of particular urgency and importance, but it seems that the Council of Ministers’ Decision # 550, dated 07/11/2002 (which establishes some basic guidelines on the roles of the MoTPT, MoLGD, MoF, Water Regulatory Authority, and Local Councils) was not sufficient to solve the structural pending problems related to the outstanding debt, the prospective financial flows (e.g., tariff policy), the transfer of state properties, and coordination with the sectoral strategy. Given the absence of a coherent national strategy in this area, and the enormous financial difficulties of most national and regional water companies,⁹⁰ the implementation of decentralization may require a simultaneous sectoral reform—probably including the debt and administrative restructuring of the companies, and a new price/tariff policy that can assure sector profitability while respecting equity and accessibility conditions. The latter may require some initial investments (to recover basic production and distribution equipment) and explicit subsidies from the state budget.

2.43 The successful implementation of a meaningful decentralization of utilities is highly dependent on the reformulation of a new tariff policy. The decentralization of utilities can only be sustainable if it is based on some cost recovery criteria, which could ensure provider companies financial health without disregarding the social condition of the population. This may require a public awareness and communication campaign to change the local “culture,” which still perceives utilities (especially water and sewerage services) as a public good to be supplied with no charge to the population.⁹¹ Given the financial conditions of the country, it is important to convince the local authorities and the population that recovering production and distribution costs is the only policy that can maintain a regular supply of services in the long run.

2.44 To achieve sustainability, it is necessary to preserve a clear and *complete separation* of the two following policy instruments: (i) efficiency incentives for the continuation of “economic services”—i.e., the recovery by the provider (including the public companies) of the *full* cost incurred for delivering the services; and (ii) social policies which protect the poor (i.e., the social objectives associated with the condition of the local population being served, but which could specifically target the poor). Therefore, on the one hand, the tariff policy of the utilities should

⁹⁰ Water companies are highly indebted to the electrical company (KESH), to the tax office (VAT), and to the Social Insurance Institute. Only 3 companies out of 50 were profitable in 2001. See “Albania: Recording, Monitoring, and Regularizing Inter-Enterprise Arrears,” IMF, September 2002.

⁹¹ Among many other example, see the news-article “Shkoder people pays only 7% of electricity bills” (Shekulli-Albania, p. 8, April 22, 2003)

be based solely on technical and financial principles of total cost recovery, and should be implemented as such. This would rationalize the allocation of scarce resources by restraining consumption in the short run and providing financing for investments and modernization of the sector, which would reduce costs and render the system sustainable in the long run. On the other hand, the social and political concerns should be addressed by distinct and more adequate policy instruments (transparent at the local self-government budget level and/or at the state budget level, depending on the required level of national standard of services that is imposed by the central authority). An example of such a policy instrument would be explicit current “grants” directly targeted to the poor segment of the population.

- (a) *Address the pending issue on the assignment of responsibility for capital investments*, especially with respect to exclusive functions (e.g., utilities and local infra-structures). While Law # 8652/2000 establishes that local governments also have full powers for investment in these functions (Art. 10, item 1)—with resources out of their own budget—current regulation still establishes that most investments in utilities and infrastructures are to be financed by the state on a conditional transfer basis.⁹² The problem of the assignment of responsibility for capital investment should at very least take into account the following considerations: (i) the currently envisaged policy of “capital investment” being financed by the central government—while the “operations and maintenance” are financed by local governments—may not be an efficient policy (see below) and therefore should not be maintained as a strategic policy direction;⁹³ (ii) even with a full cost recovery policy, which accounts for the replacement of the cost of capital (in addition to the operation costs), the majority of the self-governing units probably could not afford to finance by themselves the lump cost of capital investments for an initial replacement or for badly needed expansion of facilities in the short-run.⁹⁴ A balanced view on this issue might be for the central government to establish a policy which would support local capital investments on a selective basis (through capital grants, depending on needs) in the short term, but to adopt a clear strategic policy direction by attributing to the local governments (and/or their respective service provider companies) full responsibility for the capital investment as well. A complementary plausible long-term policy, especially for the provision of utilities, is to promote participation of the private sector, not only on a management concession basis, but also by opening to the private sector the opportunity to take on the risk of capital investment as well.

2.45 *Defining specific competences on shared functions.* The Local Government Law only broadly defined shared functions and left the attribution of specific competences and detailed

⁹² See, for instance, MoF instruction no. 2 (02/04/2002), and Council of Minister’s Decision 550 (07/11/2002).

⁹³ Moreover, coherence with the government’s decision to transfer the existing state properties associated with these services to the local governments would imply that future capital investment would be the local governments’ responsibility. This would also be consistent with sporadic capital grants from the state budget to local budgets to support some specific local investments. But it may be inconsistent with a defined policy of leaving the responsibility of capital investment financing fully up to the state budget.

⁹⁴ Moreover, for the time being, they do not have access to the capital market. And even if they had such access, only a few municipalities would be creditworthy.

implementation aspects to be established by further legislation, which has not yet been enacted. For lack of specific regulation, during the 2001-03 transition period the *annual* budget laws attributed responsibility for some tasks initially to prefectures (in 2001) and then to municipalities and regions (in 2002).⁹⁵ Moreover, because of the continued legal “vacuum” on the definition and attribution of specific competences, the 2003 execution budget law regulates ad interim the local governments’ responsibilities in the social sectors as “delegated” functions instead, contrary to what is established by the *organic* Local Government Law. The absence of a clear definition of responsibilities and the frequent alternation in attributions of competences have caused uncertainty, anxiety, and service disruptions that may also affect the credibility of the government’s decentralization strategy.⁹⁶

2.46 Therefore clarifying functional responsibilities and empowering local governments with specific competences/authorities in regard to shared functions, in accordance with the organic Law # 8652/2000, is critically urgent not only to resolve pending inconsistencies in the legislation but also to avoid increasing inefficiencies and additional disruptions in the delivery of social services (including education, health, and the environment). In addition, *national criteria, service standards, and funding sources for shared functions* should be agreed upon, in congruence with the national strategies for the respective sectors and in consultation with local governments. In this regard, a feasible, binding timeline for the transfer of assigned responsibilities to local governments, including capital expenditures, should be approved and should begin implementation soon.

⁹⁵ Since 1998 (CoM decree # 204, dated March 26, on “Local Government Authorities, Functional Tasks and Funding”) the tasks performed by municipalities and communes as agents of the central government on social public services (de-concentrated functions under the old District Councils) included the following. In the education sector: (i) *operations and maintenance* of kindergartens, elementary, general and vocation schools; and (ii) *wages and social security contributions* of these institutions. In the health care sector: (i) *operations and maintenance* of public health care centers and clinics, polyclinics and dental clinics; and (ii) *wages and social security contributions* of staff of these institutions and of the staff of the Sanitation and Epidemiological Directorates. Funding for operations and maintenance (except for polyclinics and dental clinics) was provided on a “block” transfer basis until 2001, and as “unconditional grants” since 2002. The rest are funded on an earmarked transfer basis. Since 2002, *transportation of teachers and students* has been attributed to the Regional Councils and funded on an earmarked transfer basis.

⁹⁶ See, for instance, “*Local Financing of the Social Sectors*,” prepared by the Urban Institute for the government, October 7, 2002. Owing to the lack of a specific assignment of responsibilities by the organic law and an absence of a clear definition for funding, health and education service deliveries were adversely affected in 2002. Initially, with the discontinuation of the old District Councils, responsibility for the delivery of previously de-concentrated education and health services was given, on an interim basis, to prefectures. During the course of the 2002 budget execution, decisions were taken to attribute the task of delivering these services to the local governments. *As the preparation work for this transfer of responsibilities was incomplete, and the respective funding was not properly defined and was not allocated in time, by mid-2002 there started to appear indications of a decline in the allocation of resources, and of a possible deterioration in service delivery in those sectors. Although these transitional deviations were corrected during the second half of 2002, the result was that the 2003 budget ended up treating (on an interim basis) the local government tasks in the social sectors (education, health and social assistance) as “delegated” functions instead.* Thus, specific competences of the “shared functions,” as defined by Law # 8652/2000, have not yet been formalized. Actually the opposite was done. Through the regulation of certain competences of the social sectors as delegated by the state to the local governments, these functions are now implicitly state functions, rather than “shared functions” as prescribed by the Law. The implication is that, for the time being, all the decisions are supposed to be taken by the central government (principal), and the local governments are supposed to act just as agents.

2.47 Moreover, the government may consider whether some specific competences of “veterinary services” (e.g., animal disease control, agricultural research, and rural extension services) and “health care” (e.g., campaign to combat contagious disease, HIV) should be re-assigned from *shared* to *delegated* competences to the local governments, considering the argument that the benefit areas are actually the entire national territory.⁹⁷

2.48 **Reviewing/re-assigning delegated functions.** As mentioned above, some shared functions (education and health) have been ad interim assigned as *delegated* responsibilities to local governments. This temporary procedure limits the autonomy of local authorities and excludes the opportunity of making them accountable before the local population. Therefore, the government should accelerate its final decision on the specification and attribution of competences as shared functions on a more permanent basis, congruent with what is prescribed by the organic law. On the other hand, if the current modus operandi of the social assistance scheme (i.e., *ndihma ekonomike*) is to continue,⁹⁸ it would be more appropriate to reassign this function as a state *delegated* function instead, on both decision-making and funding (see above). These re-assignments of functions would clarify responsibilities, improve efficiency, and avoid service disruptions.⁹⁹

2.49 **Assigning capital expenditure responsibilities consistently.** From an efficiency point of view, capital investment and maintenance responsibilities should in principle not be separated out to distinct levels of government. However, given the limited local revenue autonomy and the still banned access to borrowing (from sources other than the state), maximum capital expenditure efficiency in Albania may not be achievable in the short term. This problem affects both exclusive functions (e.g., utilities and local infrastructures) and shared functions (e.g., education and health), as discussed above. Probably in the short term the government may still have to provide substantial capital transfers and loans to the weaker local governments. Nevertheless, the government may consider envisaging a consistent medium-term strategy of gradually increasing local revenue autonomy and allowing local government to access a (regulated) municipal capital market, while assigning capital expenditure responsibilities for those functions (both for investment and maintenance) exclusively to the local governments.¹⁰⁰ This medium-term strategy would not only help the system converge to an efficient allocation of capital expenditures responsibilities (thereby minimizing the waste of scarce resources), but it would also be consistent macroeconomically, since it would alleviate pressures on the state budget by tapping resources for essential local capital investments from alternative financing sources.

2.50 **Defining the responsibilities of the regions and addressing the fragmentation problem.** The only exclusive function assigned by the organic law to the Regional Councils is the development and implementation of regional policies in harmony with the national policies at the regional level (Art. 13, Law # 5862/2000). Other responsibilities of the regions are open to

⁹⁷ Depending on these decisions, the Organic Law # 8652/2000 may need to be amended.

⁹⁸ And it seems that the sectoral strategy has approached this function consistent with the nation being the benefit area.

⁹⁹ The detail arrangements for restructuring social assistance to the poor (*ndihma ekonomike*) in Albania will be addressed under the ongoing Social Safety Net Review with the assistance of the Bank.

¹⁰⁰ The assurance of fiscal transparency and hard budget constraints is critical for such an approach to work well. Albania may still need considerable reforms in the financial sector for the necessary conditions to be in place.

possible voluntary delegation of authority by the municipalities and communes, and by the central government. To date, only “urban/ regional planning,” “building and maintenance of rural and regional roads,” “transport of students and teachers,” and the financing of some few small social institutions (e.g., the Association of the Blind) have been explicitly attributed as specific delegated public services under the Regional Councils.

2.51 The government has not yet focused sufficiently enough on the potential role of the regions in effecting the decentralization strategy, particularly in helping solve the problem of the fragmentation of the local governing units. In this regard, problems associated with economies of scale and externalities which expand the benefit area for an efficient delivery of essential services could probably be solved at the regional level. These essential services would include some education competences (e.g., secondary and vocational education), some health care competences (e.g., primary health care, including ambulance services, and regional hospitals), some civil security competences (e.g., firefighting), transportation and telecommunications (e.g., intercity transport service and regulations), and utilities (e.g., water supply, irrigation, solid waste collection and management). Although the government may consider delegating some of these functions and competences to the regions and introducing incentives for the municipalities and communities to do the same,¹⁰¹ caution should be exercised to avoid inter-jurisdictional conflicts regarding power, unfunded mandates, and soft budget constraints.

On the Efficiency of Local Public Service Delivery

2.52 A better performing of local service delivery in Albania would require substantial improvement in allocative and operational efficiencies. For this purpose, the implementation of structural reforms that would account for an increase in the O&M/wage ratio and for a solution to the regional imbalances provoked by the migratory movements of recent years would be crucial. In this regard, the extension of the civil service reform to cover local administration, and better prioritization of local resources during budget formulation (including a more cautious use of expenditure “norms” to avoid maintaining local oversized or idle institutions) are essential steps.

2.53 Regarding the regional imbalances provoked by migratory movements, it should be considered that while no structural reforms (administrative restructuring, re-mapping, and re-deployment of facilities and personnel across jurisdictions) take place, the *per capita* cost of “operations and maintenance” of the local fixed social capital (e.g., school buildings, clinics, hospitals, and other facilities and equipment—now partially idle) tends to increase. The fact that local budgets are still essentially formulated on the basis of fixed expenditure norms (which is aimed at maintaining the existing facilities and infrastructures and keeping them running, regardless of level of demand for their services)¹⁰² hinders increased efficiency in local service delivery. To improve the overall efficiency of local service delivery, sectoral and administrative reforms should be implemented to rationalize the existing facilities, infrastructures, and personnel. These reforms would probably require, the closing of many idle facilities in the

¹⁰¹ Apart from continued incentives for voluntary associations of municipalities/communes, service outsourcing, and the direct participation of the private sector.

¹⁰² See MoF and MoLGD’s Instruction no. 2, Febr. 4, 2002, for the implementation of local government budgets for the year 2002.

depressed areas and the re-deployment of (de-concentrated) personnel across jurisdictions. On the other hand, these reforms would also require increased investments in the immigration areas in order to alleviate the excessive pressure on the insufficient local infrastructures.

On Local Capacity Building

2.54 The extent to which the lack of implementation capacity at the local level has been a pretext for postponing bolder decentralization measures is difficult to evaluate exactly at this stage, with the current available information. But, building local administrative and technical capacities is a sine qua non for a sustainable implementation of the decentralization strategy. Recently, the MoLGD, with the assistance of donors (including the Council of Europe), has drafted proposals for the establishment of specific training institutions in order to overcome the current weaknesses. These proposals should be encouraged, should be well coordinated with the donor community in general and the local governments' associations, and should at least be consistent with existing training programs already being conducted by the Department of Public Administration-DOPA at the central level.¹⁰³ While the need for a well-defined and clearly oriented capacity building segment to resolve the urgent needs of the local governments' capacities should be emphasized, all the ongoing training initiatives should be congruent with a national capacity program for the public administration. Moreover, the institution in charge of such a training program should be exclusively a training-facilitator institution instead of a training-provider (i.e., it should be a broker for training, instead of having its own training staff), so that it could be more flexible, less bureaucratic, and less costly in budgetary terms.

On Per Capita Expenditure Disparities Across Local Self-Governing Units

2.55 The current disparities in per capita spending across districts and across local self-governing units may not be tolerable for a long period. The government is aware of these disparities and may consider that preempting social and political instabilities should be a priority in the near future. The spending disparities could be addressed by envisaging diversified, fair, and stable sources of finances for the local governments. However, the mere assignment of tax power and tax sharing may not solve the problem, and could actually aggravate it. The recent assignment of local tax revenues on a derivation basis (see Chapter III) tends to aggravate the inter-unit disparities in per capita expenditure. Although this belated fiscal policy reform is highly welcomed from the efficiency point of view (because it conveys the right incentives for tax efforts and fiscal accountability), it is critically important to acknowledge its perverse effect on equity.

2.56 The derivation basis of tax (and tax sharing) revenues may increase the revenues of some local governments but cannot improve collection where there is no tax capacity. Some small

¹⁰³ The Training Institute of Public Administration-TIPA is an initiative under DOPA, which was established by the Council of Ministers (Decree 315/2000) to conduct the public service training program. Recently the Council of Ministers also approved the National Training Strategy for Local Government in Albania (NTSLG)—2004-2006; MoLGD, September 2003. By mid-December 2003, consultations between the MoLGD, donors and local government representatives for the establishment of a *Training Facilitator Agency* to implement the NTSLG was under way.

administrative units simply do not have enough of a local tax basis to provide their citizens with the minimum expenditure needs. Therefore, the next step in local government financial reform should be to re-design the transfer system (including *shared taxes* and *equalization grants*) in order to, at least partially, neutralize the derivation basis impact of the recent fiscal reform (on local taxes, fees and charges). Aimed at social cohesion for the near future, the basic orientation of the decentralization strategy should be to ensure the *opportunity* of accessing similar standards of public services (in terms of quantity and quality) for all Albanian citizens, regardless where they live in the country. Thus, the strategic direction for reducing expenditure disparities is to promote *equalization transfers* and local investment programs that are based on transparent objective rules and criteria, that are free from bureaucratic and political influences, and that are open to the participation of every unit that qualifies to compete for them (see following Chapters).

On Central Coordination

2.57 There has been a disconnect between the emerging sectoral strategies and the Government's decentralization agenda. In particular, in the assignment of responsibilities, there have been cases where the sector strategy has not taken into account the existence of the approved decentralization strategy. This lack of central coordination has allowed for increasing confusion and uncertainty in local planning and budgeting, and may risk alienating the local authorities. Lack of coordination with the decentralization strategy has also been observed in budget formulation and execution, and in the conduct of the privatization policy (e.g., utility services).

2.58 The government may consider complementing central coordination at the NDC level by empowering the GED and the proposed NFDI (see Chapter I) with enforceable monitoring and control instruments to ensure policy consistency at the formulation and implementation levels, respectively. A tight follow up approach should be maintained to guarantee that a consistent and comprehensive decentralization strategy is implemented in coordination with the central and line ministries, without alienating the local governments and the private sector in the process.



3. REVENUE ASSIGNMENT AND REVENUE AUTONOMY

3.1 The main purpose of fiscal decentralization is to increase efficiency and fairness in the delivery of public services. This objective can only be attained if predictable sources of revenues and a meaningful degree of tax autonomy are guaranteed to local governments, so that spending priorities can be planned and executed accordingly. This constitutes a prerequisite for local accountability. The system of revenue assignment in Albania is experiencing a major overhaul, which started with the introduction of new local tax, charges and fees legislation in December 2002. The aim of the current reform is to strengthen the sub-national tax regimes and develop a sound revenue base for local governments. Undoubtedly, the recent fiscal reform represents a rupture with the past financing structure, which was characterized by an extreme degree of centralization in fiscal decision-making.

Table 3.1: Albania - Revenues of Local Governments, 1995-2002 (million lek)*

	1995	1996	1997	1998	1999	2000	2001	2002	2003
I - Consolidated (General) Govt.Rev.		51,341	57,594	93,515	107,506	120,588	135,482	159,425	182,004
II - Rev.of Local Govts.=Expend.of L.Govts.	20,705	20,691	19,989	26,029	34,482	33,432	38,816	41,111	61,420
III - Transfers from the State Budget	20,484	20,066	19,361	25,135	33,331	32,014	36,373	37,896	53,366
a. Conditional Grants	20,484	20,066	19,361	25,135	29,920	28,232	31,268	28,396	47,066
b. Block Grants					3,411	3,782	5,105		
c. Unconditional Transfers								9,500	6,300
IV - Tax & Non-Tax Own Revenue	221	625	628	894	1,151	1,418	2,443	3,215	8,054
<i>(as a share of Total Local Government Revenue-percent)</i>									
III - Transfers from the State Budget	98.9	97.0	96.9	96.6	96.7	95.8	93.7	92.2	86.9
a. Conditional Grants	98.9	97.0	96.9	96.6	86.8	84.4	80.6	69.1	76.6
b. Block Grants	0.0	0.0	0.0	0.0	9.9	11.3	13.2	0.0	0.0
c. Unconditional Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	23.1	10.3
IV - Tax & Non-Tax Own Revenue	1.1	3.0	3.1	3.4	3.3	4.2	6.3	7.8	13.1
<i>(as a share of Total General Government Revenue-percent)</i>									
III - Transfers from the State Budget		39.1	33.6	26.9	31.0	26.5	26.8	23.8	29.3
a. Conditional Grants		39.1	33.6	26.9	27.8	23.4	23.1	17.8	25.9
b. Block Grants		0.0	0.0	0.0	3.2	3.1	3.8	0.0	0.0
c. Unconditional Transfers		0.0	0.0	0.0	0.0	0.0	0.0	6.0	3.5
IV - Tax & Non-Tax Own Revenue		1.2	1.1	1.0	1.1	1.2	1.8	2.0	4.4
* Conditional and independent budgets									
Sources: Data from 2002-04 MTEF, adjusted by the MoF.									

3.2 “Own revenues” as a share of total local revenues (to finance both the *conditional* and the *independent* budgets) have been only marginal; although systematically increasing in recent years—to 8 percent in 2002 from 1 percent in 1995 (Table 3.1).¹⁰⁴ In 2002, “own revenues” have financed only about one-fourth of the independent budget.¹⁰⁵ This means that the level of vertical fiscal imbalance in Albania is extremely high, especially when compared with the consolidated local budget (conditional and independent budgets together). The vertical imbalance is relatively smaller in relation to the independent budget alone, but with the gradual

¹⁰⁴ On *conditional* and *independent* budgets, see Chapter II, Box 2.1.

¹⁰⁵ Which is expected to reach about half of the independent budget after the 2002 fiscal reform (see below).

devolution of expenditure responsibilities to local governments, the conditional budget will tend to shrink and the consolidated budget will tend to converge with the independent budget. In order to reduce the vertical imbalance and to make local governments less dependent on central government transfers, “own revenues” have to expand. Otherwise, the local governments will continue to have insignificant discretionary powers over their own budget (low revenue autonomy, which is not an incentive for local accountability).

3.3 The fiscal decentralization strategy, as taken up in the new organic local self-government law (Law No. 8652/2000), represents a window of opportunity for increasing local government autonomy. The law makes the following stipulations:

- (a) The national fiscal policy shall guarantee the fiscal self-sufficiency of local governments through diversified sources of revenue (Art.15);
- (b) The local governments (including regions, municipalities and communes) have the authority (to be defined by special law) to levy taxes and other non-tax revenues in order to carry out their functions (Arts. 15, 16, and 18);
- (c) The local governments are entitled to receive funding from national sources, such as shared taxes, unconditional transfers, and conditional transfers (Arts. 15, 17, and 18); and
- (d) The local governments are entitled to borrow for investment purposes, under the conditions established by law (Arts. 16 and 73).¹⁰⁶

3.4 These local government revenue provisions are in line with the European Charter of Local Self-Government and are also reflected in the government’s decentralization strategy, which establishes that: (i) local governments have to be assigned with sufficient financial resources to allow them to meet their expenditure responsibilities; (ii) a substantial portion of these resources should be derived from local taxes and fees; and (iii) the tax rates, and in some cases the tax base, shall be determined (at least at the margin) autonomously by the respective Local Councils.

3.5 With the new organic local government law as a backdrop, the government’s strategy for the near future is to reach a more balanced revenue structure, where “own taxes and fees” are expected to increase relative to transfers (including tax-sharing). However, tax policy and tax administration have been (since the early 1990s) a national prerogative, and the assignment of taxes, charges, and fees to local governments has evolved, if at all, irregularly. In fact, the authorization given by Law # 8652/2000 for local governments to begin exercising their rights on local own taxes, charges, and fees from January 2001 (Art. 73) has in practice been protracted, and was implemented with considerable delay in 2003.¹⁰⁷

¹⁰⁶ It should be noted, however, that the Organic Budget Law # 8379/98 (Art. 35.2) establishes that “local governments are entitled to borrow *only* from the Government.”

¹⁰⁷ The Parliament approved the fiscal package on December 12, 2002: Law # 8982 (on local taxes, charges and fees, including restatement of the agricultural land tax); Law # 8978 (on transforming the small business tax into a local tax); Law # 8979 (which amended the “income tax law” by introducing the “simplified profit tax” whose tax yields are to be transferred to local authorities). The Urban Institute and the Institute for Contemporary Studies (with the financial support of USAID) assisted the Group of Experts on Decentralization-GED/MoLGD in the preparation of this fiscal reform. Part of the technical analyses can be found in the following papers: *Albania, Local*

3.6 This chapter and the next one examine the implications of the recent reforms and the extent to which they were capable of creating an adequate autonomous local revenue base and of promoting equity.

A. THE REVENUE ASSIGNMENT

3.7 Fiscal legislation in Albania distinguishes between national taxes and local taxes and fees. All broad-based taxes and most productive direct and indirect taxes are assigned to the center. In fact, collections from VAT, excises, corporate income tax, personal income tax, customs duties, and a miscellany of other national taxes¹⁰⁸ are allocated entirely to the state budget (Table 3.2). No relevant tax sharing scheme has been implemented to date.¹⁰⁹

Table 3.2: Albania - Tax Revenue, 1997- 2002

Taxes and fees	1997		1998		1999		2000		2001		2002*	
	%Rev.	%GDP										
VAT	46.9	4.6	50.7	6.2	45.6	5.9	45.3	7.1	44.8	7.0	45.4	7.8
Customs duties	26.9	2.6	22.2	2.7	17.5	2.3	16.1	2.5	13.9	2.2	13.0	2.2
CIT (profit tax)	7.2	0.7	7.6	0.9	9.2	1.2	9.7	1.5	11.2	1.7	10.4	1.8
Excises	6.5	0.6	8.7	1.1	10.6	1.4	10.9	1.7	10.4	1.6	11.3	1.9
PIT	2.4	0.2	2.1	0.3	4.8	0.6	5.5	0.9	6.9	1.1	5.4	0.9
National taxes	4.0	0.4	4.1	0.5	5.5	0.7	6.1	0.9	7.2	1.1	7.1	1.2
Solidarity tax	0.0	0.0	0.4	0.0	3.0	0.4	2.1	0.3	0.9	0.1	0.9	0.2
Small business tax	1.2	0.1	1.6	0.2	1.8	0.2	2.0	0.3	2.2	0.3	2.6	0.4
Others (incl.gambling)	3.1	0.3	1.4	0.2	0.6	0.1	0.8	0.1	0.3	0.1	1.2	0.2
Local taxes & fees	1.9	0.2	1.3	0.2	1.4	0.2	1.6	0.2	2.2	0.3	2.7	0.5
General Gvt. Revenue	100.0	9.8	100.0	12.3	100.0	12.9	100.0	15.6	100.0	15.6	100.0	17.1

* Revised budget
Sources: MoF, Treasury Dept (Fiscal Statistics of Government, 2001), and MTEF 2003-05, September 2002.

3.8 Until the mid-1990s revenue sources assigned to the local governments were only few small local fees without any significance. Almost all local expenditures were financed by conditional grants, and local governments had practically no budget autonomy. National property taxes (on buildings and land), shared with local governments, were introduced in 1994, but the agricultural land tax (a potentially important source of revenue for the communes) was suspended in 1996. Only in 1999 did the tax on buildings become a fully local tax for municipalities and communes, but the tax rates (fixed specific quotas, lek/m²) had not changed since 1994. The local government share in total revenue (and as a percentage of GDP) has remained insignificant and unbalanced, even after the attribution of new responsibilities to local authorities prescribed by the 2000 organic local government law.

Tax and Fee System-Policy Options and Recommendations for Reform, January 2002; *Albania, Analysis of options for Reintroduction of the Agriculture Land Tax*, January 2002; *Albania, Analysis of Small Business Tax and Implications of Transfers to Local Governments*, January 2002.

¹⁰⁸ These other national taxes have recently been restructured, with Law # 8977/02, "On the Taxes System in the Republic of Albania."

¹⁰⁹ With the exception of the "annual vehicle registration tax" (in Table 3.2, included in "others"), all national taxes were non-shared taxes.

3.9 The increased efficiency and accountability envisaged by the decentralization of local public service delivery requires a corresponding (meaningful) degree of local revenue autonomy, so that allocation can properly reflect local preferences and needs. In this regard, the decentralization reform outlined in the new local government law (Art. 16) has identified major sources of revenues for communes and municipalities, as follows:

- (a) Taxes on movable and immovable properties, and their transactions;
- (b) Taxes on the economic activity of small businesses, including local services;
- (c) Taxes on income from donations, inheritances, testaments, and local lotteries;
- (d) Other taxes as prescribed by law;
- (e) Fees on public services (such as water supply and sewerage);
- (f) Fees on the use of public spaces (such as parking lots and advertising boards);
- (g) Administrative fees (e.g., on the issuance of licenses, permits, and authorizations).

3.10 Moreover, the local government law has established general criteria and norms to control the boundaries and decision-making powers of the communes and municipalities in their entitlements, so that they can: (i) set the tax rate, within a bandwidth determined by law, and the level of local fees in accordance with policies and general principles defined by the central government; and (ii) determine the system for the collection and administration of their own revenues, in accordance with criteria and guidelines established by pertinent legislation. In general, the law provides local governments with more policy leeway on fees and charges than on taxes, by authorizing them to freely determine the level of fees and charges and the way they collect them.

3.11 Regarding the regions, the local government law allows them to charge regional taxes and fees for services, although it leaves it to further specific legislation to define their own revenue sources. In any case, all of the above general criteria and norms established for communes and municipalities also apply to the Regional Councils.

3.12 Although the local government law assigned relevant revenue sources and taxing powers to local governments, until 2002 the state still controlled more than 97 percent of total government revenue and practically all decisions on fiscal policy and tax administration. It was only in December 2002 (effective from January 2003) that a fiscal reform package was passed, regulating most of the tax and fee assignment prescribed by Law # 8652/2000, and providing local governments with potentially meaningful own sources of revenues.

The 2002 Fiscal Reform

3.13 Congruent with the organic local government law, the fiscal reform package of December 2002 reorganized the assignment of revenue sources by redefining some previously national taxes as local taxes (property tax on buildings and land, small business tax, vehicle registration tax), creating new local taxes and fees (property transaction tax, simplified profit tax, temporary tax), reclassifying and rationalizing the previously existing fees, and eliminating the existing local turnover tax (on restaurants, discos, hotels, and cafés and bars). Specifically, the fiscal package consisted of: (i) reinstating the Agricultural Land Tax-ALT and revising the tax on buildings; (ii) transforming the national Small Business Tax into a full-fledged local tax (with

another denomination, *Local Small Business Tax-LSBT*); and (iii) redesigning the former Law on Local Taxes and Fees, and assigning the vehicle registration tax to municipalities and communes.¹¹⁰

3.14 All in all, the new configuration of the tax assignment in Albania, starting January 2003, is shown in Box 3.1.

Box 3.1: Albania - Tax Structure and Assignment, 2003							
Tax	Tax Policy Regulation	Tax Administration	Assignment			Base	Rate
			Allocation of Proceeds				
			State	Regions	Mune/Com.		
State Taxes non shared taxes and fees	Customs duties	State	State	100%		Point of entry	Ad-valorem, maximum 15%
	Excise	State	State	100%		Domestic production and imports	Some specific Some ad valorem
	VAT & turnover tax	State	State	100%		Goods & Servs	20% standard
	Solidarity tax ¹	State	State	100%		Legal entities	Lump-sum (varies)
	Other custom of taxes and fees ²	State	State	100%		Various services and	Some specific
Shared-taxes (by bej)							
Local Taxes and Fees	TAXES				100%		
	Property taxes (Law n 8982/02)	State/ L Council	Local Council				
	Building property tax	State/ L Council	Local Council			100%	lek / m2 indicat +/-30%
	Land tax	State/ L Council	Local Council			100%	lek / ha indicat +/-30%
	Property transaction tax	State/ L Council	Local Council			100%	buildgs =Lek/m2 other=stet value indicat +/-30%
	Local small business tax (Law n 8978/02)	State/ L Council	State (in 2003 and 2004)			100%	sales brackets Fixed quota in lek per bracket
	Simplified profit tax (Law n 8979/02)	State	State			100%	turnover 4% of value
FEES (Law n 8435/98)					100%		
Business registration fee	Local Council	Local Council			100%	Local Council	Local Council
Solid waste collection fee	Local Council	Local Council			100%	Local Council	Local Council
Advertisement fee	Local Council	Local Council			100%	Local Council	Local Council
Slaughter house fee	Local Council	Local Council			100%	Local Council	Local Council
Dog licence fee	Local Council	Local Council			100%	Local Council	Local Council
New residence registration fee	Local Council	Local Council			100%	Local Council	Local Council
Parking fee	Local Council	Local Council			100%	Local Council	Local Council
Hunting and fishing fee	Local Council	Local Council			100%	Local Council	Local Council
Off-Budget Revenue	Social security contrib (Soc Sec. & Health)	State	Soc. Sec. System			Soc. Sec. Fund	Wage bills Employers contribute 30.7% and 1.7%, and employees 9.5% and 1.7%, for the social insurance and the health insurance, respectively
	Utilities (incl. water supply and sewage)	State/ L Council	Utility companies			Utility companies	Set by the central government ³ Set by the central government ³

Source: Ministry of Finance.

Notes: ¹ The solidarity tax on legal entities and small businesses is levied on a fixed amount per taxpayer (a lump-sum, or poll type of tax). It is based on the following monthly rates (August 2002): State enterprises registered for VAT: 100,000 lek; Subordinate unit registered state enterprises: 5,000 lek; Joint venture companies with joint state-private capital: 50,000 lek; Private companies registered for VAT: 5,000 lek; Small businesses in cities: 2,000 lek; Small businesses in villages: 5,000 lek. The government unit tax is to be abolished from beginning 2003 (see MTEF 2003, 2005, Sept. 2002).

² National taxes on a variety of minor taxes and fees, including consular fees, television and telephone licenses, driving licenses, airport arrival and departure taxes, taxes for the Durres-Skiper road etc. The national tax on air, regulated by Law n 8972/02.

³ The competence of establishing service tariffs will be transferred to the local governments (Decision of CoM # 550 dated 07/11/2002).

⁴ On wages and salaries. There is also a 10 per cent flat rate on other sources of income (e.g. interest income, dividends, and royalties paid to residents). The latter becomes 15 per cent for non residents.

¹¹⁰ Law on Local Small Business Tax" No. 8978 dated 12.12.2002; Law No. 8979 "About Some Additions and Amendments to Law No. 8438, as of December 28,1998; on Income Tax with the Respective Changes" dated 28.12.2002; and Law on "The system of local charges" No. 8982, dated 12.12.2002.

3.15 **State non-shared taxes.** In Albania, VAT, Customs duties, excises, the solidarity tax, and a set of national fees are *non-shared* national taxes and fees; their proceeds are 100 percent assigned to the state budget, and tax policy decisions and administration have been reserved for the central authorities. VAT is the most important national tax, contributing 45 percent of general government revenue, and has been one of the most dynamic taxes since 1997—with its collection steadily increasing from 4.6 to 7.8 percent of GDP during the period 1997-2002 (Table 3.2). Excises and the national fees have also proven to be dynamic sources of revenue, but their joint contribution to the budget is still quite small (about 3 percent of GDP). Customs duties, on the other hand, have been a declining revenue source in relative terms (from 2.6 to 2.2 percent of GDP during the period). The solidarity tax was envisaged in 1998 as a temporary lump-sum tax, and the government intends to discontinue it in 2003.¹¹¹

3.16 The personal income tax-PIT and the profit tax (i.e., corporate income tax-CIT) have also been relatively important as sources of revenue for the central government (about one-sixth of the general government revenue), and they have shown an impressive dynamism in the last six years (from less than 1 percent of GDP in 1997 to 2.7 percent in 2002). Although to date these are national taxes, the organic local government law allows for the two taxes to be shared with the local governments. Nevertheless, the implementation of a sharing mechanism has been postponed, mainly because of the argument that direct sharing of these taxes would greatly increase the revenue disparity among jurisdictions. Although this argument is especially valid for a derivation-basis tax-sharing system, it can equally be used to improve equity if the shared taxes are implemented as financing sources for the pool of general purpose transfers (Chapter IV).

3.17 There are two other alleged arguments that could prevent the regulation of the shared taxes at the moment, namely: (i) that the costing of the newly transferred responsibilities to the local governments has not yet been completed, and thus the government would not know how large a “share” of these taxes to share; and (ii) that the sharing rate could not be defined until the revenues from these taxes have stabilized with the development of the country, which some observers predict would take at least three to five years. However, these two arguments are also misleading. First, the government is already transferring the resources as “grants” (either conditionally or unconditionally), which gives the government at least “a ballpark figure” of the minimum cost of the tasks currently being performed by the local governments. Second, stability for this particular component of local revenue inflow (i.e., shared national taxes) could be achieved by the adoption of a moving average as the computation base.

3.18 **Local taxes and fees.** Prior to the 2002 fiscal reform, local government had six own taxes (on buildings,¹¹² hotels/tourism, shops/business signs, construction, public space use, and the turnover tax)¹¹³ (Table 3.3). Most of these local taxes, however, were effective as own local revenue sources only in the larger urban centers (e.g., Tirana, Durrës, Elbasan) and were very

¹¹¹ See MTEF 2003-05.

¹¹² Law No.7805/1994 On the Property Tax in the Republic of Albania regulated the property tax. The central government collected and retained 40 percent of the collected revenue and transferred the remaining amount to the local governments on a derivation basis. The amendment introduced in 1998 (Law No.8344/1998, “On Some Changes in the Law No. 7805” on Property Tax in the Republic of Albania) transformed the property tax into an autonomous local tax assigned entirely to municipalities and communes.

¹¹³ The 1 percent turnover tax on restaurants, discos, hotels, and cafés and bars.

ineffective in the communes (see Section B, below). Regarding the national Small Business Tax (SBT) (which existed until 2002), the Ministry of Finance has administratively considered its revenue as a *virtual* financing source for the “unconditional transfers” to the local governments in the last two years. Nevertheless, until 2002 this tax continued as purely *national tax*, since: (i) it was entirely regulated and administered by the central government; (ii) 100 percent of its proceeds were allocated to the central budget; and (iii) there was no binding, legally mandated earmarking for it to finance the local governments. (The choosing of one particular national budget revenue item as the source of financing for local government transfers was totally arbitrary, although it was functional during the 2001-02 transition period.)¹¹⁴

<i>Until 2002</i>		<i>After 2002</i>	
Local taxes on:	Local fees/ serv.charges on:	Local taxes on:	Local fees/ serv.charges on:
Property ¹	Business registration	(Buildings) property	Business registration
Turnover ²	Solid waste	Agricultural land	Solid waste
Hotels/tourism	Advertisements	Property transactions	Advertisements
Business signs	Slaughterhouses	Local small business	Slaughterhouses
Construction	New residence registr.	Simplified profit	New residence registr.
Public space use	Parking	Vehicle registration	Parking
	Hunting and fishing	Hotels	Hunting and fishing
<i>Small business</i> ³		Business signs	
		Construction	
		Public space use	
		Temporary	

¹ Initially included buildings and land. Land has been exempted from taxation since 1986.
² Turnover fee on restaurants, discos, hotels, bars, and cafés. Abolished with the reform.
³ Small business tax; although remaining as a national tax until the reform, the total tax yield of the small business tax in 2001 and 2002 was allocated to finance the "block grant" and the "unconditional grants", respectively, to the local governments
Sources: Laws: nos. 8435/98; 8652/2000, 8978/02; 8979/02; and 8982/02.

3.19 Local governments were also entitled to charge seven major fees/service charges (on business registration, solid waste, advertisements, slaughterhouses, new residence register, parking places, and hunting and fishing), over which they had a limited autonomy in setting the rates and defining the tax base.¹¹⁵ In addition, there were several small fees (e.g., dog license

¹¹⁴ Actually, this was an administrative decision to avoid inconsistencies of the annual budget execution law with the organic local government law, during the interim period while the new SBT was not regulated.

¹¹⁵ Between 1998 and 2002 the local fiscal system was regulated by the following laws:

- Law on Property Tax in the Republic of Albania, No. 7805, dated 16.3.1994, modified by Law No.8344, dated 13.5.1988 (which transferred the responsibility of the property tax to the municipalities).
- Law on Small Business Tax (SBT) No.8313 dated 26.03.1998.
- Law on Urban Planning No.8405, dated 17.09.1998, modified by Law No. 8501, dated 16.06.1999.
- Law on the Tax system in the Republic of Albania, No.8435, dated 28.12.1998, modified by law No.8840 dated 11.12.2001.
- Law on Tax Procedures in the Republic of Albania, No.8560, dated 22.12. 1999, which is applied to both central and local government.
- Law on Changes in the Law No.8435, dated 28.12 1998, on the Tax System in the Republic of Albania, No.8840 dated 11.12.2001.

fee) and some administrative fees levied to cover the cost of bureaucratic services. However, most of these small taxes and fees were in general ineffective revenue raising instruments. These own sources were generating very little revenues, and probably costing more than their yield because they are in general complicated to administer (i.e., the so-called “nuisance taxes,” collected in small amounts on a wide ranging base). Frequently, compliance rates were also low, owing to the objective economic conditions of the local population and the perceived low capacity of local enforcement mechanisms. Thus, either because these taxes and fees were not relevant to their particular case, or because they were not enforceable, many small local government units did not opt to charge some small taxes and fees to which they were legally entitled.¹¹⁶

3.20 The 2002 fiscal reform restructured the assignment of taxes and local fees essentially through the means listed below (see also Box 3.2):

- (a) Regulating the Local Small Business Tax (LSBT) as a local tax; Introducing a national Simplified Profit Tax (SPT), with yields flowing to local governments;
- (b) Eliminating the Turnover Tax on restaurants, discos, hotels, and cafés and bars.
- (ii) Redefining the property tax as a Local Tax on Buildings, and updating rates;
- (iii) Restating the Agricultural Land Tax (ALT) as a local tax;
- (iv) Introducing the Property Transaction Tax (PTT) as a local tax;
- (v) Transforming the Vehicle Registration Tax as a local tax;
- (vi) Adding a Temporary Tax as an additional own local revenue source
- (vii) Redefining the local fee structure, and updating rates.

Box 3.2: Principles of Tax Assignment

Five main principles usually guide the assigning of own revenues to local governments:

Accountability. Local governments must be responsive to the preferences of their electorate. This principle is aimed at obtaining both democratic representation and economic efficiency. Establishing adequate capacity to assess the own tax bases and setting the tax rates is a pre-condition. The principle calls for a fair balance between financing through own taxes and fees and financing through grants or tax sharing.

Benefit-tax link. This principle focuses on the efficiency aspects of local taxation with respect to the provision of local public goods. The more a tax can be linked to the willingness to pay for a definite local public service, the more the tax plays a role similar to a price in the private goods market and its beneficial effects in terms of efficiency. This is the reason why many local services, currently financed with taxes, fees, and user charges are more suitable and may be employed successfully. Nevertheless, the tax should not be “exportable” to nonresidents, since this would weaken the link between payment of the tax and the services rendered.

Neutrality. This principle states that taxes should be as neutral as possible with regard to the allocation decision of the private sector. As such, disruptive horizontal tax competition should be avoided in national legislation by setting a floor on local tax rates. Also, sources of local taxation should focus on the less movable bases (e.g., immovable property).

Fair distribution of tax bases. Taxes whose bases are unevenly distributed among jurisdictions are not well suited for local governments, since they may increase the mismatch between revenues and expenditures in the poorest jurisdictions. This can increase the need for transfers from the central government, which discourages the accountability principle.

Administrative simplicity. Every local government, whether large or small, should be able to administer its own taxes. The issue of tax administration can be addressed in several ways according to the different features of the individual taxes. Economies of scale should be taken into due consideration.

Sources: Norregaard, J., “Tax Assignment,” in T. Ter-Minassian (editor), *Fiscal Federalism in Theory and Practice*, IMF, 1997; and Charles E. McLure, Jr., “The Tax Assignment Problem: Conceptual and Administrative Considerations in Achieving Subnational Fiscal Autonomy,” World Bank Institute, 1999.

¹¹⁶ Even in 2002 the parking fee and the hotel tax were seldom collected, and the dog license was not charged at all.

3.21 *Small business taxes.* The previous national Small Business Tax (SBT)¹¹⁷ was transformed into two new taxes: (i) the Simplified Profit Tax (SPT) and (ii) the Local Small Business Tax (LSBT), the first a national tax with 100 percent yield allocated to the local governments, and the second a truly local tax. The reform was intended to be fiscally neutral in such a way that the tax burden would not increase and the currently total collected tax yield would initially be equally split between the two new taxes. Both taxes apply only to local businesses with an annual turnover below 8 million lek.¹¹⁸

3.22 The SPT, conceived as a presumptive income tax,¹¹⁹ charges a 4 percent rate over the business turnover of the taxpayer. The SPT was legislated in such a way that the center kept all decisions on both policy and tax administration (permanently administered by the GTD). Although the tax proceeds are entirely allocated to the local governments on a derivation basis, the local authorities have no say on the determination of the basis and rates, or on the administration, of the SPT.

3.23 The new LSBT,¹²⁰ as the old SBT, charges taxpayers a *fixed quota*, progressive according to a sale-bracket *scale* of the business turnover. The local governments are entitled to choose their local specific quotas in a bandwidth of 30 percent around the *indicative quota* established in law by the center government. In addition, the local governments can directly administer the tax—although during the initial two-year transition period (2003 and 2004) the tax will be administered by the GTD. Nevertheless, two major problems are pending a solution and, if they are not resolved soon, may threaten the successful implementation of the LSBT. First, according to Law # 8652/2000 (Art. 33.4), to pass any change in the rates of local taxes and fees requires a minimum of three-fifths of the respective Local Council votes, a condition that, if not changed soon, may become a major hindrance to keeping local revenues up to price developments, which in turn may threaten local governments' fiscal stability.¹²¹ Second, no national training program has to date been put in place to upgrade local tax administration capacities—a serious fault that can jeopardize the normal transfer of the tax administration to local authorities as envisaged in the law.

3.24 Law No. 5862/2000 (Art. 16, items 1b and 2) includes the tax on small businesses as a source of local revenue, implying that the old SBT should be shifted to local authorities.

¹¹⁷ The SBT alone was expected to yield 2.6 billion lek in 2002, from its two components: (i) about 1.3 billion lek from the fixed (sale-bracket progressive) quota component, charged on taxpayers who sell less than 2 million lek per year; and (ii) about 1.3 billion lek from the 4 percent turnover rate, charged on those who sell more than 2 million lek but less than 8 million lek. (Local governments could charge different rates on a 30 percent bandwidth of the indicative value/rate. Above 8 million lek per year [about US\$ 58,000] of sales, the taxpayer was subject to the normal 20 percent VAT). The SBT was collected by the General Tax Directorate and the proceeds went to the State budget. The 2002 state budget allocated the total 2.6 billion lek of the SBT collection to complete the financing of the "unconditional transfers."

¹¹⁸ In other words, to those local businesses that are not subject to VAT. Above this threshold (about US\$58,000) businesses pay the normal national VAT, instead. As Law No. 8977/2002 (on the tax system) abrogated the entire previous Law No. 8435/98, the *Turnover Tax on restaurants, discos, hotels, cafés and bars* (Arts. 3 and 4) was *eliminated*.

¹¹⁹ Regulated by the Income Tax Law, now amended by Law No. 8979/02.

¹²⁰ Law No. 8978/02 legislates the new LSBT and has abrogated Law No. 8313 which regulated the old SBT.

¹²¹ In November 2003, the Council of Ministers has approved a draft law to amend the local government law on this respect. According to this draft law, a simple majority (50 percent plus one vote) will be required. Until mid-December 2003, the draft law is pending approval by the Parliament.

However, the reform inherent in Law Nos. 8978/2000 and 8979/2000 did in fact split the SBT in two, and just one of these components became a truly local tax (the LSBT), while the other (the SPT) remained a national (“shared”) tax. Apparently, this procedure has resulted in frustrating the initial decentralization expectations, by significantly reducing the expected transfer of fiscal decision-making powers and local autonomy. In this regard, it is likely that—if the lack of flexibility to adjust LSBT fixed quotas (as mentioned in the previous paragraph) remains—the relative importance of the LSBT will tend to shrink while the SPT will continue as a buoyant tax, which may imply a reduction of local autonomy over time, which breaks the spirit of the organic local government law.

3.25 ***Property and property transaction taxes.*** The organic local government law (Art. 16.1a) defines “movable and immovable properties and their respective transactions” as subject to local taxes and levies.¹²² The new Law on the System of Local Taxes (Law no. 8982/2002) regulates the property taxes on buildings and land, and the property transaction tax, accordingly as local taxes. The tax base¹²³ and the indicative rates¹²⁴ are determined by the central government by law, while Municipal and Commune Councils may adjust the rates within a 30 percent bandwidth, which provides the local government with a reasonable margin of autonomy to adapt the tax policy to local preferences and needs.

3.26 Since the transfer of responsibilities in 1999, many local governments have improved their capacities to administer the tax on buildings. The present reform provided local governments, in general, with the autonomy to choose the property tax collection agent (for the buildings and land) and/or to collect the tax directly by themselves. The administration of the property transaction tax, however, according to the law, will be carried out by the de-concentrated “Offices for Registration of the Immovable Assets,” which charge a 3 percent fee for acting as a tax agent for municipalities and communes.¹²⁵

3.27 The taxes on immovable properties and on their transactions are indeed the most adequate taxes to be assigned to the local governments. To empower the local authorities with the flexibility to decide (at the margin) what the tax rate should be for their specific jurisdiction is a powerful instrument for improving efficiency and accountability. The restatement of the Agricultural Land Tax represents a critically important fiscal reform in Albania, especially to enable the communes to establish a sound locally generated revenue base—although in the short term some communes might find implementation difficult because properties may not be completely registered or because there may be disputes in some areas. In addition, the updating of the indicative rates can have a positive impact on the real estate market and can improve the

¹²² While the tax on buildings has been fully transferred to municipalities and communes since 1999, the Agricultural Land Tax was a national tax since 1994 but was suspended in 1996 to sustain the agricultural sector.

¹²³ Surface area in m² for buildings and ha. for land. To move from surface-specific rates to the market value is not feasible at the present moment due to the underdeveloped real estate market and consequent lack of information. The “transaction tax” base for buildings is also the area in m², but for other immovable assets is the sales value.

¹²⁴ Lek per m² for buildings and lek per ha. for land. The transaction tax indicative rate is 2 percent. The introduction of the indicative rate concept is important not only to provide the local governments with general guidance, but also to help the central government compute local governments’ fiscal capacity to serve as a factor in the calculation of transfers from the state budget for equalization purposes.

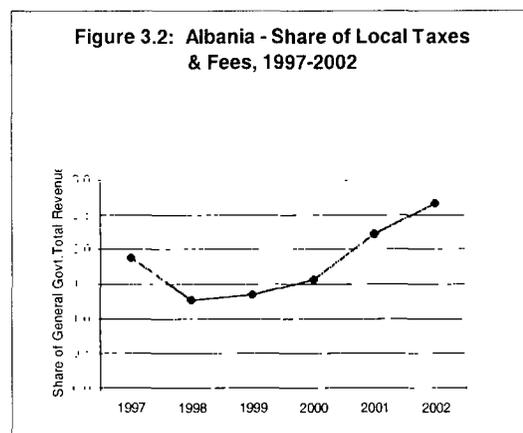
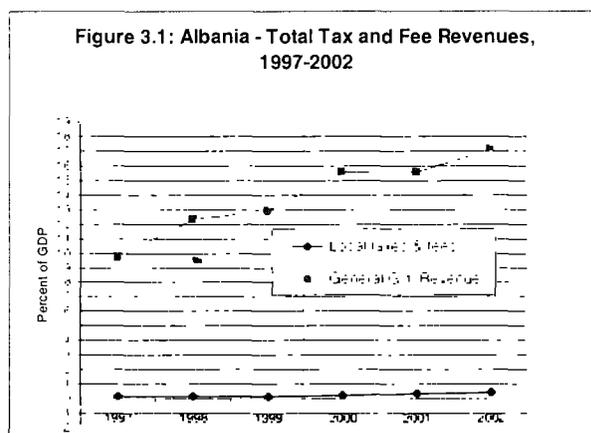
¹²⁵ Law No 7843/94 establishes that all immovable properties have to be registered at the Immovable Property Registry.

revenue of municipalities. The property taxes (on buildings and land together) are expected to contribute to about 20 percent¹²⁶ of local tax revenues in the next few years.

3.28 *Other local taxes and fees.* Another aim of the reform was to simplify the overall structure of the other local taxes and fees in Albania. Law no. 8982/2002 (on the system of local taxes) reclassified the existing local taxes and fees, eliminated the turnover tax on restaurants, discos, hotels, bars, and cafés in order to avoid double taxation of those small businesses, and introduced a “temporary tax” as a possible alternative source of financing to cover needs considered important by local citizens of particular jurisdictions. As indicated in Table 3.3, taxes are now properly classified as compulsory, unrequited payments that are allocated for the general expenditure purposes of the local government, and fees are now classified, as payments which aim to cover the costs of goods and services provided by the local government.¹²⁷ Except for vehicle registration, the local governments exert full discretion over the basis, rates, and administration of these other taxes and fees.¹²⁸

B. PATTERNS OF LOCAL REVENUES

3.29 While general government revenues from taxes and fees expanded to 17 percent of GDP in 2002 from less than 10 per cent 1997 (Table 3.2 and Figure 3.1), collections of local governments’ own taxes and fees also increased during the period but remained quite insignificant (to 0.5 per cent of GDP from 0.2 percent in the period). Although it is insignificant and is mostly dependent on a number of unproductive sources, the *share of local to total revenue collection* of taxes and fees showed an impressive trend during the period, especially after 1998 with the shift of property tax (buildings) and the introduction of the 1 percent local tax on restaurants, discos, hotels, and bars and cafés as local taxes (Figure 3.2).

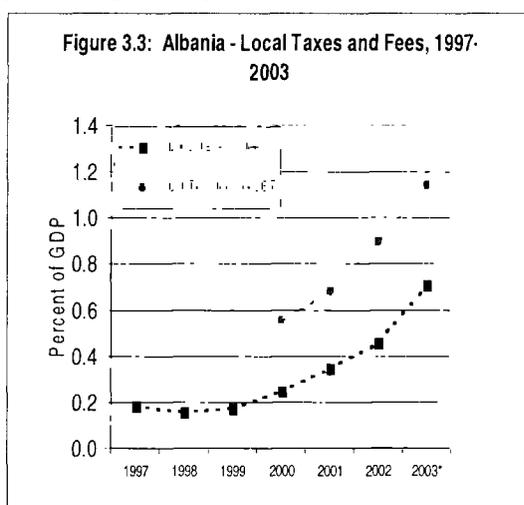


¹²⁶ MTEF 2003-05 forecasts.

¹²⁷ Previously, the turnover tax, the hotel tax, and the taxes on business signs, construction, and public space use were mistakenly treated as fees.

¹²⁸ The vehicle registration tax is collected by the General Directorate for Road Transportation Service and controlled by the Road Traffic Directorate.

3.30 The observed performance of local tax collection in the last five to six years may be a good indication of the potential positive impact that the 2002 fiscal decentralization reform may have on local revenues in the near future, if the law is properly implemented, in terms of both providing the right incentives for fiscal efforts and building up local administrative capacity. In



fact, the MTEF 2003-05 (October 2002) had estimated—even before the fiscal reform—that local revenue would grow to 1.1 percent of GDP in 2003, including the SBT (or to 0.7 excluding it) (Figure 3.3). Although this represents a remarkable increase in comparison with the previous situation, it should be noticed that even after the 2002 reform the size of local government revenue in Albania continues to be extremely small, and is much below international comparators. For instance, for the ten European transition countries which are candidates to access the EU, the local government own revenue in relation to GDP has been 7.6 percent on average (Table 3.4).

Composition of local revenues (aggregate and across districts)

3.31 The contribution of the new LSBT and SPT to local revenues will represent a meaningful increase in local autonomy. Actually it is expected that *aggregate* own local revenues will double (as compared with the pre-2003 situation without the SBT).¹²⁹ It is expected that after the 2002 reform the LSBT and SPT together may respond for about 40 percent of the local government revenues.¹³⁰ About half of the rest of the local revenues will be generated by the “other local taxes,” and the other half by the “local fees and service charges” (Table 3.3). During 2002, these local taxes (which did not include the old SBT) contributed 53 percent of local revenue, and the local fees and service charges 47 percent (Table A3.1.a, in the Statistical Appendix).

3.32 In 2002, the most important local taxes were the “construction tax” (42 percent of local

Country	as percentage of	
	Total Revenue	GDP
Bulgaria (2000)	10,0	7,3
Czech Republic (1999)	11,1	8,6
Estonia (1999)	16,2	7,8
Hungary (1999)	10,4	11,1
Latvia (1999)	17,1	10,8
Lithuania (1999)	22,0	7,3
Poland (1999)	8,3	12,0
Romania (2000)	10,5	4,4
Slovak Republic (2000)	4,0	2,4
Slovenia (2000)	7,9	5,3
Mean	11,8	7,6

Source: OECD, *Fiscal Decentralization in EU Applicant States and Selected EU Member States*. Report prepared for the workshop on “Decentralization: trends, perspective and issues at the threshold of EU enlargement”, held in Copenhagen October 10-11 2002, Paris, 2002

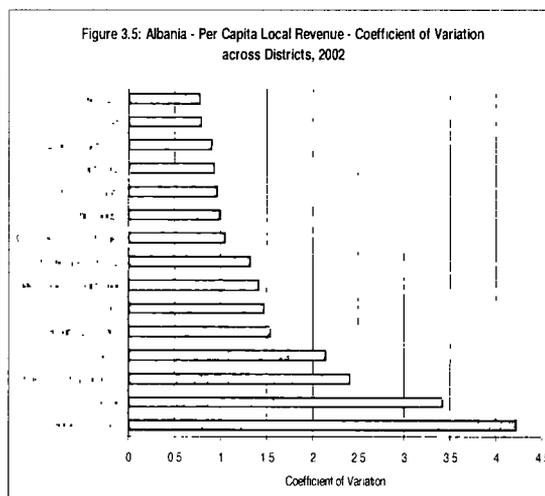
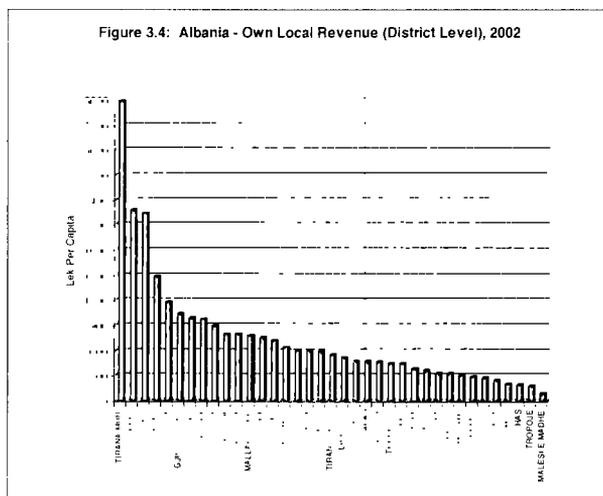
¹²⁹ It should be noted that as the LSBT and SPT will be allocated on a derivation basis, they will benefit the more economically developed urban communities, and the countrywide disparities in own revenue collection will inevitably increase. The government has to large extent anticipated this effect and has already adjusted the formula for the distribution of the “unconditional grants” in order to minimize the impact. See Chapter IV.

¹³⁰ Considering the additional impact of the new property taxes—on buildings and land—the property transaction tax, the vehicle registration tax, and the elimination of the tax on restaurants, discos, hotels, and cafés and bars.

tax revenue) and the “property tax” (20 percent). The tax on the “use of public space” generated 13 percent of revenue, and the “turnover tax,” “hotel tax,” and “tax on business/shop signs” yielded between 2 and 4.5 percent of the local tax revenue each.

3.33 “Charges on solid waste services” and “business registration fees” were the most relevant revenue items in fees and service charges, contributing 32 percent and 8 percent, respectively, to local own revenues in 2002 (Table A3.1.a). The other five main items listed in Table 3.3 contributed only 5 percent, and the remaining 55 per cent was generated by the so-called “other fees and service charges,” which is made up of a myriad of small local government services, including legal fees, food control fees, sanitary inspection fees, forest police fees, road maintenance charges, daycare charges, boarding school charges, health care charges, and the like.

3.34 It is interesting to observe that the bulk of the local government own revenues are concentrated in Tirana Municipality and Durres District, which together collect about 50 percent of the total (and almost 60 percent of the taxes) (Table A3.1.b in the Statistical Appendix). Out of the 37 districts, only 6 (Tirana Municipality, Durres, Elbasan, Fier, Korçe, and Vlora) collect 70 percent of the total own local revenues—although they accommodate only 40 percent of the country’s population. This situation may reflect the differential administrative capacities and tax efforts applied by distinct local government units, but most likely it is associated with the objective economic and social conditions of the local populations (i.e., low tax capacity). For example, in many districts (Kavaje, Has, Malesi and Madhe, Kuje, Permet) local governments seem not to bother to use (or are not able to enforce) potentially important revenue sources such as property and turnover taxes, where apparently they could. In other cases, for example with hotel taxes and car parking fees, collection has been sporadic across districts, since it is obvious that the activities themselves are irrelevant in the localities.¹³¹



¹³¹ Although car parking does not appear to be collected in Tirana city either.

3.35 Up until 2002, municipalities seem to have exploited both taxes and fees and charges, although in some cases taxes have been used more frequently. However, communes have made less use of taxes (Table A3.1.c in the Statistical Appendix gives some indication of this). All in all, considerable room still seems to be open for local government units to review and explore their own revenue sources in the near future (apart from the obvious benefits that municipalities can obtain from the newly regulated building tax, and that communes can obtain mainly from the newly restated land tax).

Disparities in Local Per Capita Own Revenues

3.36 There is a considerable disparity in per capita own local revenue collection at the district level (Table A3.1.d in the Statistical Appendix). In 2002, while per capita own local revenues in Tirana and Durres were 3,585 lek and 2,269 lek, respectively, in Has, Tropoje and Malesi and Madhe they were only 189, 179 and 87 lek, respectively (Figure 3.4). With an average per capita revenue of 742 lek, the coefficient of variation of the per capita own local revenue distribution is as high as 0.9 (1.2 for the taxes and 0.8 for the fees and charges) (Figure 3.5).

Own Local Revenues Across Municipalities and Communes

3.37 Table 3.5, based on a sample of 10 municipalities and 15 communes obtained from the MoLGD,¹³² confirms the above analysis of the small size of own local revenues as a source of finance for the majority of local government units in Albania. In this sample, while own local revenue is only 7 percent of municipalities' revenue, it is less than 3 percent of communes' revenue. The insignificant own local revenue collection, particularly in the case of communes, leaves these units in an extremely weak financial situation, vulnerable to any unpredictable changes and highly dependent on transfers from the center (Chapter IV). Moreover, this lack of revenue autonomy tends to impinge negatively on service delivery efficiency and on accountability to the citizens.

3.38 The sample corroborates the enormous disparities between municipalities vis-à-vis communes, and also among municipalities and among communes. The average per capita own revenue in this sample is 754 lek for municipalities (a maximum value of 1,456 lek and a zero minimum value), and 166 lek for communes (with a maximum value of 401 lek and a zero minimum value)—i.e., some small municipalities and communes are 100 percent dependent on transfers from the center. The disparity in own revenue collection, indicated by the coefficient of variation, is larger among the communes than among the municipalities (0.75 as against 0.69), but this internal disparity has been substantially reduced by the 2002 new unconditional grants distribution formula, which ends up reducing the coefficient of variation for the *total local* revenue among communes vis-à-vis that of municipalities (0.32 as against 0.43).¹³³ To a large extent, these revenue patterns may be due to disparities in revenue capacity (and maybe to a distinct tax effort) across municipalities and communes.

¹³² Data refer to 2002 budgets. (Data include neither Tirana nor Durres). For details on this sample, see Chapter II and Tables A2.1 and A2.2 in the Statistical Appendix.

¹³³ On the new unconditional grants distribution formula, see Chapter IV.

Revenue Source	Municipalities					Communes				
	Max. Value	Min. Value	Av. Value	Std. Dev.	Coef. of Var.	Max. Value	Min. Value	Av. Value	Std. Dev.	Coef. of Var.
	(in percentage of total inflows)					(in percentage of total inflows)				
Own revenues	13.9	0.0	7.0	5.2	0.75	7.6	0.0	2.9	2.6	0.88
Taxes	12.7	0.0	5.2	4.5	0.86	6.2	0.0	2.4	2.1	0.87
Non-tax revenue	8.3	0.0	1.8	2.6	1.46	3.3	0.0	0.5	0.9	1.70
Grants	100.0	86.1	93.0	5.2	0.06	100.0	92.4	97.1	2.6	0.03
conditional	71.8	43.1	61.8	9.2	0.15	85.7	58.7	72.5	8.3	0.11
unconditional	44.2	23.0	31.2	6.1	0.20	36.3	12.3	24.6	7.5	0.31
	(lek per capita)					(lek per capita)				
REVENUES	20,584	5,847	11,714	5,050	0.43	11,332	3,798	6,824	2,168	0.32
Own revenues	1,456	0	754	521	0.69	401	0	166	124	0.75
Taxes	1,369	0	567	447	0.79	296	0	133	98	0.73
Non-tax revenue	874	0	187	268	1.44	190	0	32	55	1.70
Grants	20,162	5,446	10,960	5,054	0.46	11,274	3,508	6,658	2,227	0.33
conditional	14,783	3,431	7,460	4,093	0.55	9,710	2,441	5,072	2,129	0.42
unconditional	5,379	2,015	3,500	1,177	0.34	2,150	616	1,587	400	0.25

(*) sample of 10 municipalities and 15 communes. See Table A.2. . . . in the Statistical Appendix
Source: Ministry of Local Government questionnaires (raw data not validated). Actual revenues and expenditures 2002

C. MAIN ISSUES

3.39 The main issues regarding local revenue assignment and autonomy emerging from the above analysis include: (i) low local revenue autonomy; (ii) pitfalls stemming from the 2002 fiscal reform; (iii) lack of a broad-based national tax-sharing scheme; (iv) inadequate use of fees and service charges; (v) inadequate property value assessment; (vi) weak tax administration capacity; and (vii) considerable disparities in per capita own revenue between and across municipalities and communes.

3.40 *Local revenue autonomy remains low* despite the significant progress represented by the 2002 fiscal reform, with the introduction of the LSBT, the SPT, the ALT, and the vehicle registration tax. First, even considering the estimated yields of the new sources of local revenue, Albania is still lagging far behind its comparator European countries in transition. Second, although local governments are entitled to the tax proceeds on a derivation basis, they are allowed neither to assess the tax bases nor to set the tax rates for the SPT and the vehicle registration tax, which are still centrally determined. Third, apart from benefiting municipalities and communes, the recent fiscal reform did not address the issue of lack of specific revenue assignment to the Regional Councils, leaving them, practically, without any revenue generating capacity of their own—which is no incentive for accountability.

3.41 *Pitfalls in the 2002 fiscal reform may entail a non buoyant local tax system*, owing to the following:

- (a) The tax liability of the newly assigned local taxes (LSBT, ALT, property tax on buildings, and vehicle registration tax) is not ad valorem based, and only determined by *specific fixed quotas* (i.e., in lek, lek per m², lek per ha, or lek per vehicle, respectively). Moreover, the law does not prescribe any periodic

- adjustment mechanism of these specific quotas that could take account of inflation or any other revaluation of the tax base¹³⁴;
- (b) The curtailment of local tax policy discretion (on the base assessment and on the tax rates/quotas) that emerged from the split of the small business turnover tax into two components (LSBT and SPT). Both the indicative LSBT fixed quota scale and the SPT rate are determined centrally.
 - (c) The excessively complex tax collection and control system with the introduction of the two taxes on small businesses (both using the same business turnover as a base), which submits the taxpayers to two separate administrations (the central and the local). First, inevitable competition between the two administrations in the search for taxpayers with turnover close to the VAT threshold (8 million lek) will tend to arise. While the LSBT is centrally administered (at least during the initial two-year transition period), there may be a natural inclination to subject as many taxpayers as possible to VAT. Second, in the absence of additional adequate incentives, the GTD will tend to suffer much more pressure to prioritize the use of its resources to collect the national taxes (VAT instead of SPT). In both cases, the local tax base of the small business taxes (LSBT and SPT) may tend to fall.

3.42 ***No broad-based national tax-sharing scheme has been implemented as yet.*** Although Law # 8652/2000 has identified the CIT and the PIT as national taxes to be shared with the local governments, no decision has as yet been taken on the implementation of any regular tax-sharing scheme.¹³⁵ The uneven distribution of the bases of these taxes across local governments units has apparently been used as a pretext, but inaction in this area leaves a door open for “fiscal gap fill” negotiations and inefficiencies.¹³⁶ While this lack of definition continues, the size of the annual “unconditional grants” remains as an unknown fiscal variable and is subjected to endless negotiations between the central and local governments. This not only leaves local revenue unpredictable (including for the MTEF exercise), but also detracts the attention of the central and local policymakers from other more relevant fiscal policy formulation and implementation matters.

3.43 ***The inadequate use of fees and service charges*** observed in the recent past will tend to continue in the future if new legal provisions do not allow for more flexibility. Although the 2002 fiscal reform already allows local government to freely set new rates for local taxes and

¹³⁴ The tax policy experience in Albania with the system of *specific quotas* (first fixed by law in 1994) has not been positive, since these quotas were never updated until the 2002 reform—despite the fact that the increase in actual value of estates has been considerable. In the absence of periodic adjustments in the specific quotas, a continuous decline of local tax collection in real terms will tend to occur and local governments will face increasing budgetary problems.

¹³⁵ It should be noted, however, that neither the CIT nor the *progressive* PIT are ideal taxes to be directly shared with subnational governments on a derivation basis. The CIT revenue yield tends to be highly volatile, usually its incidence is likely to be outside the jurisdiction, and it is easily exportable, so that the link between taxes paid and the benefits received from local public services tends to be very weak. Sharing the CIT would also exacerbate horizontal disparities, since its base is unevenly distributed across jurisdictions. The national PIT has a *progressive* rate between 5 and 25 percent, and thus an explicit redistribution function. Income redistribution should be an exclusive function of the central government, and local governments should not meddle with it.

¹³⁶ The absence of a pre-determined, fixed rule on this matter gives local authorities a good excuse to bargain for discretionary transfers from the center.

fees (conditional on being consistent with national policies and regulations), Art. 33 of Law # 8652/2000 sets conditions that the approval of local decisions on these matters be backed by at least a three-fifths majority of Local Council votes.¹³⁷ This problem will tend to become particularly acute in the near future with the conclusion of the transfer of the “water and sewerage supply” responsibilities from the state to the local governments. Albania does not yet have clear tariff policies for the utility services, which allow the utility companies to recover costs (and to stop accumulating arrears) while providing affordable services to the poor. In addition to the removal of current restrictions, central and local authorities have to be aware that a proper and an enhanced use of fees and user charges (one that allows for some scheme of cost recovery) is essential to (i) rationalize the use of public services, increase efficiency, and ensure a sustainable supply; and (ii) reduce the vertical fiscal imbalances and the pressures to raise revenue from general taxes.

3.44 *Inadequate property value assessment* may prevent the country from using property taxation to its full potential and as one of the most appropriate and important own revenue sources for local governments. As the registration of properties is not yet completed and the real estate market is not sufficiently developed, the tax base for both buildings and land has still been the surface area in square meters or hectares—only differentiated according to use and regional location in the country. Although the law allows some autonomy for the municipalities/communes to adopt sub-categories of specific quotas (based on local general typologies), the system still falls short of reflecting any proxy for actual market value—important specific parameters are still absent (e.g., the specific location of the property, the age and quality of the constructions). Despite the ongoing efforts toward the completion of the register of land properties, it seems that the design and implementation of a reliable cadastral system for properties (for buildings and land) has not been scheduled to date. Moreover, property tax exemption for “taxpayers qualified as poor,” (Law # 8982, Art. 10.5.a) if not granted on the basis of strict eligibility criteria, can become a source of many loopholes in the property tax legislation and may depress the local tax base.

3.45 *Weakness in tax administration capacity* has been a major challenge for greater local revenue autonomy. As is the case with other aspects of the local administration, the capacity for administering local taxes, fees, and service charges is variable. While the larger urban centers seem reasonably equipped to expand their responsibilities to administer and collect their own revenues, the smallest municipalities and the communes, owing to size and lack of capacity, will find it difficult to perform this function well. In this regard, the recent debate in the context of the 2002 fiscal reform is indicative of the issues involved with the assignment of tax administration competencies. On the one hand, the GTD of the Ministry of Finance has argued that, apart from the lack of a minimum required scale of operation, not all local governments have the infrastructure and technical expertise to satisfactorily administer the assigned local taxes (in particular, the LSBT). On the other hand, the local governments have contended that the GTD is usually more concerned with collecting the larger national taxes (CIT, PIT, and VAT) and only marginally pursues the collection of local taxes. According to the latter argument, local taxes

¹³⁷For the 2003 budget, Tirana Municipality managed to negotiate the support of part of the minority Councilors to a decision concerning the administration of local small business taxes. More recently, a draft law to amend the local self-government law was approved by the Council of Ministers and is pending of decision by the Parliament (see above reference on this issue).

would be more productive if administered by local governments directly, since they are better positioned to know the individual situations of local taxpayers. The local administration, however, would require a substantial upgrading of local administrative capacities.

3.46 *Disparities in per capita own revenue between and across municipalities and communes* tend to be increasing for the near future. Two expected outcomes of the 2002 fiscal reform, due to the assignment of own revenue sources to local authorities on a derivation basis, will be: (i) a positive incentive for local tax collection efforts; and thereby (ii) an increase in per capita revenue disparities, owing to the existing skewed distribution of economic base and revenue capacity across jurisdictions.¹³⁸ This is a major equity concern to be addressed by the central government, with a more intensive use of compensatory fiscal instruments aiming at equalization.

D. OPTIONS AND RECOMMENDATIONS

3.47 To properly address the above main issues on local revenue assignment and autonomy, the government may consider some key policy options to strengthen its decentralization strategy. Feasible policy options should be examined, prioritized, and sequenced in order to define a clear strategic direction essentially aimed at: (i) boosting fiscal efficiency and accountability, by increasing local own revenue autonomy; (ii) maximizing local own revenue collection, by strengthening local tax administration; and (iii) improving the fairness of the fiscal system, by reducing regional disparities in per capita revenue.

3.48 *Boosting fiscal efficiency and accountability* has been a major goal of the government's decentralization strategy. At the present stage, this goal could be strengthened by: (a) improving local revenue autonomy and fostering a buoyant local tax base; (b) setting up a legally predetermined, broad-based national tax-sharing scheme; (c) consolidating the small business turnover taxes (the LSBT and the SPT); and (d) rationalizing the use of fees and service charges.

- (a) *Improving local revenue autonomy* could immediately increase the potential efficiency gains of fiscal decentralization, since it would remove the possible excuses of local authorities for not being accountable for policy results. The 2002 reform has already introduced a degree of autonomy by allowing local authorities to decide, at the margin, on the LSBT quotas and on the rates and bases of local fees and charges. Much still remains to be done in terms of increasing local revenue autonomy, so that local authorities can address local difficult problems of vertical imbalances in a responsible manner—i.e., by giving the community itself the responsibility for raising the resources that would satisfy their local needs and choices. Any new tax assignments given to local governments should preserve two principles: (i) they should be tax-burden neutral, in the sense that the overall tax burden would not increase; and (ii) they should avoid tax competition among jurisdictions, by allowing the choice of the local tax rate to be made within a bandwidth fixed by law. In this regard, a *modified version* of the current personal income tax (PIT) can be an option, and become a strong candidate for

¹³⁸ See, for instance, a UNDP/HDPC estimate of the regional “index of GDP per capita (PPP US\$),” which varies from 0.713 (Tirana Region) to 0.459 (Kukes Region). UNDP/HDPC, “Human Development Report, Albania 2002—Challenges of Local Governance and Regional Development,” December 2002.

assignment to the local governments in the medium and long-term. On the one hand, this tax has the most desirable features as a local tax: it is by far the most potentially productive source of revenue; it is directly related to product and income, and thus is a buoyant source of revenue; it is associated with the consumption of local services (tax-benefit relation); and it can be easily apportioned among jurisdictions. On the other hand, the current PIT is a progressive tax (rates vary between 5 and 25 percent), and as such it should be a central government policy instrument.¹³⁹ Therefore, from the efficiency and equity viewpoints, an option may be to split the PIT into two components: (i) a national *progressive* PIT rate totally regulated and administered by the central government, with a share of the proceeds allocated to a "tax-sharing pool"¹⁴⁰ earmarked to finance the "unconditional grants"¹⁴¹ (to be distributed to local governments according to formula-based criteria) and (ii) a local *proportional* PIT rate piggybacking on the national progressive tax, over which the local authorities could levy between a minimum and a maximum *flat* local rate (for example, 1-3 percent). For the sake of convenience, both PIT components could be collected by the GTD and the local proportional PIT immediately allocated to the jurisdictions on a derivation basis, according to the *residence* of the taxpayer.¹⁴² This local proportional PIT would have all the above-mentioned advantages, which would ensure local governments a buoyant tax base, while encouraging local tax efforts (in collaboration with GTD) and increasing local tax autonomy and accountability. One alternative option could be to assign the proportional PIT tax power to the Regional Council authority instead, according to the government's final decision on the assignments of expenditure responsibilities to the Regions.¹⁴³

- (b) *Setting up a legally pre-determined, broad-based national tax-sharing scheme* is the next critical step in completing the system of intergovernmental fiscal relations. However, this decision may be a complex process because, in principle, it should be preceded by some reasonable estimate of the size of the costs of competences attributed to the local governments, net of their own resources and other transfers from the center. Currently, the intergovernmental situation is as follows. On the one hand, there is no regulated shared tax scheme in place as yet, despite the fact that Law # 8652/2000 (Art. 17) has authorized that "a portion of certain central government taxes, such as personal income tax and company profit tax" should be shared with local governments (municipalities, communes, and regions). On the other hand, apart from the several earmarked transfers (to finance investments, wages of teachers and doctors, and social assistance to the poor), there is an "unconditional grant" mechanism which is financed out of the general state budget (see Chapter IV). To date, the latter has been functional from the

¹³⁹ A progressive tax rate is a distribution policy instrument aiming at equity objectives. The benefit area of the distribution policy is the whole nation, and thus this is a national (or central government) concern. For efficiency reasons, subnational governments should not be involved with distribution policy instruments.

¹⁴⁰ See below and Chapter IV.

¹⁴¹ Which is consistent with what is prescribed by Law # 8652/2000 (Art. 17.1.a).

¹⁴² In addition to satisfy the principle of fiscal-burden neutrality, the uniform scale of the progressive rates of the national component should be reduced accordingly, so that the local governments' piggyback surcharge would have enough room and the overall tax burden would not necessarily increase.

¹⁴³ One issue to be considered in this case is the question of "taxation without representation" (i.e., whether a Regional Council formed by indirectly chosen members from individual communities would have enough political legitimacy to levy taxes on the population of the entire region).

distribution/allocation viewpoint. Following the pretext that the attribution of competences has not yet been completed, the absolute size of the “unconditional grants” (previously the so-called “block grants”) has been determined annually after a painstaking bureaucratic and political bargaining process, supported by no technical rationale. A better option to resolve these apparently disconnected schemes of local financing and bring the intergovernmental fiscal relations to a logical closure would be to start by pre-determining the *level of the current financing* of the “unconditional grants” as a *fixed percentage* of the national shared taxes (i.e., “a portion of certain central government taxes, such as personal income tax and company profit tax” as prescribed by the law) and to finally adjust this percentage whenever the attribution of responsibilities/competences is considered completed. In this way, the initial fixed percentage level would, in principle, implicitly reflect the *perceived* current standards and costs of services and the desired level of equalization.¹⁴⁴ This option of coupling the financing of the current state budget transfers mechanism with the shared taxes would provide a closed intergovernmental fiscal relations system where the criterion for determining the *size* of the “unconditional grants” (which already embodies an equalization component) would be known in advance, and would be immune to bureaucratic and political influences. In this way the current concerns that the shared taxes would increase regional revenue disparities would vanish, since in the proposed option the shared taxes would only be a source of financing for the “resource pool to be transferred to the local governments on an equalization basis” (currently, the “unconditional grants”), instead of being distributed on a derivation basis. Therefore, this coupled scheme would simultaneously (i) solve the problem of the pending shared taxes, and (ii) clearly define a pre-determined source of resources for the financing of the “equalization fund” that would become transparent, predictable, and easily identifiable by both the central and local authorities. This would allow for more reliable expenditure planning (and would also be consistent with the MTEF).¹⁴⁵

- (c) *Consolidating the small business turnover taxes into a single tax* would simplify tax administration and restore a buoyant revenue base for the local governments. The fixed

¹⁴⁴ Actually, adjustments in the fixed percentage of the shared national tax may be required when the initial conditions change substantially in the future (e.g., in the case of substantial changes in local resources and needs, the attribution of new competences, variations in the desirable standard of services, and the desirable degree of equalization). Nevertheless, these adjustments should occur only sporadically, as a result of ample debate supported by technical analysis, in order to give the system some degree of stability and predictability. In this regard, it would be preferable that the shared-tax percentage be fixed in the organic law rather than just being left to the annual budget execution law.

¹⁴⁵ Further refinements can be introduced in the calculation of the base, in order to stabilize the vertical fiscal balances over time. For instance, it is well known that the corporate income tax (CIT) is not the best tax to be shared, because it is usually unevenly distributed (which for the proposed option is not relevant, by the way) and its yields fluctuate over time. In this case, it may be preferable to share either VAT or the total of the three main taxes (VAT, CIT, and PIT). This should not alter the amount of the total allocation to the equalization resource pool (i.e., the “unconditional grants”), but would considerably improve the predictability of the annual flows of grants going to the local governments. For example, in 2002, unconditional transfers (excluding SBT) expressed as a percentage of the sum of PIT and CIT were about 37 percent, while as a percentage of all of the most important national taxes (PIT, CIT, and VAT) they are only about 10 percent. Over time, the latter percentage tends to be more stable than the former, since while the collection of CIT may tend to fall, that of VAT tends to rise. If even more stability and predictability are desirable, then the referred bases could be calculated as a *moving average* of the shared taxes.

quotas of the current LSBT should be converted into a flat ad valorem rate (say 1 percent) and added to the 4 percent rate of the SPT. As the tax base would continue being the same presumptive value of the local business turnover, the new tax should keep the name LSBT (and certainly it would no longer be associated with income tax legislation). The new consolidated LSBT should be operated with a *single indicative flat rate*, legally determined,¹⁴⁶ **but each self-government unit should be left with the power to choose its own tax rate within a bandwidth (say between 3-6 percent), according to local preferences and needs.**¹⁴⁷ The advantage of empowering the Local Councils with discretion for their own rate of the LSBT would represent a strong incentive for an increase in the allocative efficiency and local accountability, since the local authorities would have to persuade their constituencies on the advantages of adopting different tax rates from neighboring communities, in accordance with the benefits of the public services as perceived by the citizens. A single flat rate mechanism would avoid the problem of the taxpayers having to report to more than one authority. The tax administration should continue with the GTD during the transition phase, and the entire tax yield should be allocated to the local government on a derivation basis. Another advantage would be that, the need for the frequent cumbersome adjustments to the *scale* of the fixed quotas by the Local Councils would disappear.

- (d) *Rationalizing the use of fees and service charges* should be considered by the government as the next important step to follow the full discretion on base and rates recently established by Law # 8982/2002. First, the system should be reviewed and streamlined by removing the “nuisance” charges and fees (among the myriad of small existing items) that may be not well justified on equity grounds, or that most local governments have not bothered to collect (e.g., dog licenses). Second, sectoral strategies and tariff policy guidance for the utilities should be spelled out; this should include a clear separation between the tariff policies intended to recover costs and the social (subsidy) policies aimed at equity objectives, wherever possible. This orientation is especially important to ensure a sustainable delivery of utility services while taking into account the living conditions of the population (as recommended in Chapter II). Third, the three-fifths voting requirement rule for decisions on rates of local taxes, fees, and tariffs should be replaced by a simple majority rule, in order to bring greater flexibility to the Local Councils’ fiscal decision process. Fourth, it is important to consider the feasibility of augmenting the present system with the addition of buoyant and equitable sources of local revenues, such as levies on some public utilities, on vehicle property transfers, or on driving licenses. The levy on public utilities can sometimes take the form of surcharges and could be collected together with the respective tariff bills, using the same public utility provider as agent. Levies on both vehicle property transfer and driving license, currently central government fees,¹⁴⁸ might be shifted to local governments with their yields still being collected by the General Directorate of Road and Transportation Services (which already collects the existing “vehicle annual registration fees”). These

¹⁴⁶ To work as a reference rate for the local councils and to be used by the central government for determining local tax capacities, transfers etc.

¹⁴⁷ Which, on the one hand, would expose the local population to the costs of the preferred service standards and, on the other, would make the (elected) local authorities accountable for the results.

¹⁴⁸ Law 8977/2002, (Art. 4, items 6 and 20).

levies would have the following features: (i) simplicity, with a low cost of administration; (ii) easily tailored to each jurisdiction; (iii) justifiable on equity and environmental grounds; and (iv) contribute to a growing, buoyant local revenue base.

3.49 *Maximizing local own revenue collection* is critical to providing local authorities with the necessary means to fulfill their responsibilities in public service delivery, and to alleviating the burdens on the state budget. Because results in this area may take time to mature, the government may wish to start taking action in the near future, especially by: (a) improving the system of property value assessment; and (b) upgrading capacity for local tax administration.

(a) *Improving the system of property value assessment* with the adoption of an ad valorem market assessment system should be the *strategic direction for Albania in the medium and long terms* (Box 3.3). Nevertheless, since at the moment the real estate market in Albania is not sufficiently developed to permit full-fledged market based value assessment, the reform process tends to take time and can only be implemented gradually. For instance, in the medium term, valuation principles, while based on market values, should remain simple, allowing for mass-valuation procedures, which should be subject to an indexation mechanism between regular updates. This initial simplicity of valuation would also ensure that future regular cadastral updates could be done easily and in a cost-effective manner. As the real estate market develops, a more comprehensive fiscal cadastre should be designed, taking into account that implementing a cadastral system is a complex and expensive project. Therefore, steps should be taken in the near future in order to find proper financing, build capacity, and pilot the main cities. Meanwhile, the government may consider it urgent to address two major weaknesses related to the valuation of the current property tax base: (i) the eligibility criteria for granting exemptions for the poor should be brought in line strictly with criteria applicable for social assistance; and (ii) cross-referencing information among the four main components of property tax administration (identification of properties, record keeping, assessment and collection) have to be substantially upgraded, and the government may want to consider taking urgent action on this. The current inadequacies of property tax records is mainly due to the lack of proper coordination among the Office for Registration of Immovable Properties, the local offices that handle building permits, and the utilities enterprises providing the public services (e.g., KESH and the water companies).¹⁴⁹

(b) *Upgrading the administrative capacity for local tax collection* is critical to the successful implementation of the decentralization strategy in Albania at this stage (Box 3.4). Currently, both central and local governments are responsible for collecting taxes, fees, and service charges. The capacity of the local tax administration in Albania varies considerably, from being practically nonexistent at the level of most communes to being quite suitable at the level of main cities (particularly Tirana). Nevertheless, with proper training, decentralized tax administration may work properly in Albania, at least for the larger municipalities, with regard to immovable tax bases, such as buildings and land

¹⁴⁹ Insufficient administrative capacity can be addressed with several tools already mentioned in the text (e.g., interjurisdictional cooperation, upward delegation).

(although some problems still exist with registration and valuation), and small businesses whose location cannot move easily. For example, when property tax administration was transferred to local governments in 1999 revenue collections fell initially, because the local tax departments were not adequately prepared to manage the tax. However, in the following years local governments modernized their own tax administrations and were able to improve revenue collections considerably. This provides eloquent evidence of the positive effect that the decentralization of tax administration may have as an instrument of tax effort incentive, as long as a transition period is allowed and adequate training is provided by the central government to local governments. The implementation of LSBT local administration is the most urgent case that deserves closer attention from the central authorities. A two-year transition period was envisaged by the law for the transfer of this competence, but the MoLGD and the new Agency for Training Local Government, in collaboration with DOPA and GTD, should put in place as soon as possible a national capacity building program for the local governments with a feasible implementation program financed either donors or by the state budget. During this transition period, action should also be taken to address the problem of the differential implementation capacity among local governments and to make available to them alternative instruments to accomplish an effective local tax administration—such as training programs, asymmetric transfer of competencies, including upward delegation to regions, horizontal interjurisdictional delegation and/or cooperation—consistent with the country's comprehensive tax administration reform strategy.¹⁵⁰

3.50 *Improving the fairness of the fiscal system* is an unequivocal policy direction to sustain social stability in Albania, consistent with the EU cohesion principle. This can be achieved by proceeding with the government decentralization strategy initiated in 2000 and completing the intergovernmental fiscal relations reforms accordingly. It must be acknowledged up front that distinct jurisdictions with different initial residential, commercial, and industrial bases will tend to benefit differently from policies that aim to improve the incentives for local tax efforts and autonomy, so that, in general, the already well-off regions tend to benefit most in the short run. This fact, however, should not be a reason for procrastinating with the implementation of the decentralization process (e.g., the assignment of shared taxes commensurate with the attribution of responsibilities and the fiscal imbalances). Instead, in order to ensure that more than one contradictory objective (efficiency and fairness) can be satisfactorily reached, more than one policy instrument should be used simultaneously. For this reason, the utilization of fiscal equalization mechanisms, which are already partially in place (e.g., the “unconditional grants”), should be strengthened, completed and adjusted accordingly over time to compensate for the limited revenue capacity of the poorest jurisdictions. Chapter IV deals in detail with this issue.

¹⁵⁰ Regarding the collection of taxes on mobile bases, administration should always be at the center, even when these revenues are to be shared with or allocated to local governments (such as VAT, CIT).

Box 3.3: Property Tax in Transition Economies

Many transition economies (e.g., Estonia, Lithuania, Latvia, Romania, Poland, the Czech Republic, Hungary, and Slovenia) have decided or are contemplating to introduce ad valorem property taxes to overcome the inadequacies of systems based on surface area self-declaration and an incomplete registry of properties.

Ad valorem taxation is a critical step in the process of introducing property taxation, so that this tax can really become one of the most important own sources of revenue for local governments. This step should naturally parallel the development of the market-based economy with increased transactions and new investments in real estate. Ad valorem property taxation based on market assessments offers greater potential for revenue growth than the area-based systems: it has a larger and a more dynamic base, since the latter is likely to grow in line with the GDP. Nevertheless, a system of market assessed values necessitates a more comprehensive registration system with frequent updating.

The difficulties in the implementation of ad valorem property taxation are associated with the administrative and political aspects typical of economies in transition, such as: (i) the difficulties related to the assessment of the market value of specific properties (land and buildings) because of the relatively low level of market transactions; (ii) the inadequacy of registries and cadastres, including incomplete ownership data, and out-of-date information on new constructions and on improvements to the existing stock; (iii) concerns related to the increased fiscal inequalities between richer and poorer jurisdictions; and (iv) the lack of administrative capacities, particularly in the smallest jurisdictions.

Ways to address the above implementation issues include the following:

(i) Where the real estate market is not sufficiently developed to permit fully fledged market-based assessments, the reform can be implemented gradually. In the short term, valuation principles, while based on market values, should remain simple: for example, they could allow for mass valuation procedures which could be subject to an indexation mechanism between the regular updates. This initial simplicity of valuation can also ensure that future regular updates can be carried out in an easy and cost-effective manner. In the medium term, as the real estate market develops, a more comprehensive fiscal cadastre should be designed accordingly;

(ii) The inadequacy of property tax records is in general due to the absence of proper coordination among the institutions involved in property registration management, the local office that handles building permits, and the tax collection agents. A more effective property tax administration requires action from the central government toward improving cross-referencing of information among all the institutions involved in the entire administrative process—identification of properties, record keeping, assessment, and collection;

(iii) Naturally the introduction of ad valorem property taxation, allocated on a derivation basis, tends to increase inequalities across jurisdictions, since urban jurisdictions with a growing residential, commercial, and industrial base are expected to benefit most from a market based property tax. However, mechanisms of fiscal equalization can be designed to improve distribution across jurisdictions, by compensating the poorest ones for their limited revenue capacities;

(iv) Insufficient administrative capacity can be addressed through the use of several tools, including centrally financed training programs, interjurisdictional cooperation, upward delegation to regions or central authorities, among other means.

Sources: Malme, Jane H. and Joan M. Youngman, *The Development of Property Taxation in Economies in Transition. Case Studies from Central and Eastern Europe*, World Bank Institute Learning Resources Series, The World Bank, 2001; Paugman, Anne "Ad Valorem Property Taxation and Transition Economies, ECSIN Working Papers, No.9, June,1999; and Dillinger, W, *Property Tax Reform: Guidelines and Recommendations, UMP 1, World Bank, 1992.*

Box 3.4 Tax Administration in Multilevel Governments

Sometimes tax policies have failed because of insufficient tax administration implement them by: (i) enforcing the tax laws uniformly to achieve efficient tax fostering voluntary tax compliance by taxpayers. Especially in transition interrelated features of the tax systems that can hamper tax administration (ii)

- a. *lack of reciprocal* between tax payers he tax authorities which reduces compliance. Sometimes tax collectors are perceived as a source of and corruption for the citizens and the
- b. *lack of tradition on -assessme*, which would streamline the strative burden on the tax authorities. (In general, voluntary compliance is spurred by a assessment where taxpayers are in charge of determining their own tax reporting and paying of due
- c. *lack of fair dure* (based on clearly defined rights and obligations of the tax and the taxpayers) for appeals to the courts against the decisions of the tax resolve tax

These problems are further complicated when more level of government is collecting taxes. Each level of government can create its own organizational structure tax administration, which may draw to economic inefficiencies because of lack of duplication of rts between the levels -administration. Moreover, taxpayers may compliance costs as

Although the advantages and disadvantages of a fully centralized tax vs. a tax administration are well literature (Table below), the design of a multilevel tax administration model needs to take account of the country's particular instance, economies where the informal sectors are large, the tax evasion is high, ation ineffective, the country should obtain significant gains in compliance by revamping administration procedures. The Albania case is particularly challenging, -third of economic activity in 2000 was reducing the size of the "shadow economy" is one of the main objectives of the National Strategy for Social and Economic Also, broadening the tax base and favoring integration of informal activities into the is also a prerequisite for effective negotiation with the European Union on the Association Agreement

Advantages and disadvantages of different models of tax administration

Central Government Tax Administration	
Advantages	Disadvantages
<ul style="list-style-type: none"> ▪ One organization ▪ Clear lines of authority ▪ Same process and procedures ▪ Uniform rules and regulations ▪ One computer system, one taxpayer record for all taxes ▪ No need to exchange information ▪ Delinquent accounts may be more easily detectable ▪ Uniform treatment in assessment, audit, penalties and appeals ▪ Simplifies auditing of all taxes for each taxpayer ▪ Same training and same manuals 	<ul style="list-style-type: none"> ▪ Perception of less local control over revenues, especially if accompanied by central government control over rate structure
Multilevel Tax Administration	
<ul style="list-style-type: none"> ▪ More responsibility of local tax administrators for revenue performance ▪ More flexibility for local tax administrators ▪ More appropriate for certain types of taxes (with immovable bases such as property taxes) ▪ May reflect political/constitutional requirements ▪ More freedom for local policymakers to respond to local preferences, if effective administration is feasible 	<ul style="list-style-type: none"> ▪ National policies (including stabilization) may not be implemented correctly ▪ Duplication of effort is possible, if more than one administration is used for single tax base ▪ Potential for non uniform treatment of taxpayers ▪ Various tax administration functions may not be staffed adequately (e.g. in the smallest jurisdictions) ▪ Effectiveness may suffer if the various tax administrations do not coordinate among themselves ▪ Taxpayer compliance costs may be relatively higher

Sources: Charles L. Vernon and Ehtisham Ahmad, *Tax Administration*, in Teresa Ter Minassian (editor), *Fiscal Federalism in Theory and Practice*, IMF, 1997, p.108-132; and See Jan-Peter Olster, *The Informal Sector- Impeding Economic development?*, in Albania: Selected Issues and Statistical Appendix, IMF Country Report No. 03/64, March 2003.

4. MATCHING RESOURCES WITH RESPONSIBILITIES

4.1 Given the degree of local revenue autonomy and capacity, the decentralization of responsibilities invariably tends to give rise to vertical and horizontal fiscal imbalances. Albania is no exception. An important dimension of the challenge of inequality in Albania is the mismatch in the balance of resources and responsibilities between the state and local governments, and among the local self-governments themselves. This challenge needs to be addressed through a system of transfers. The present chapter looks at the fiscal imbalances in Albania, how the system of transfers has been operated, how successful it has been in solving these fiscal imbalances, and what could be done to improve the system.

A. FISCAL IMBALANCES AND TRANSFERS

4.2 *Vertical fiscal imbalances* result from the mismatch between expenditure responsibilities and revenue-raising powers at different levels of government. In many cases vertical fiscal imbalances can be explained on efficiency grounds, and may arise from a centralized tax administration (in order to avoid tax competition and inter-jurisdictional tax distortions) or may result from an inappropriate discharge of responsibilities (e.g., unfunded mandates).

4.3 In principle, a straightforward measure of the size of the vertical imbalance could simply be the structural (ex ante) fiscal deficits of the respective government level. These deficits would be a reflection of the inability of the respective government tier to finance its responsibilities. In practice, however, the available measures of the fiscal deficits in Albania (as with most countries) are only the actual (ex post) budget deficits, which are biased because by law (i) local budgets must always be balanced, and (ii) only the central government can access borrowing to finance budget deficit. By definition, this would render a situation of no vertical imbalance from a local government perspective, although it is well known that arrears accumulate and many service entitlements are not always satisfied.¹⁵¹

4.4 An alternative way to measure vertical fiscal imbalances is by taking the share of responsibilities that local governments are able to finance exclusively from their own sources of revenues (i.e., those over which the local governments have full control.)¹⁵² In this case, also,

¹⁵¹ Budget execution in Albania is on a purely cash basis, controlled by a unified Treasury system. As there is no binding commitment phase in the expenditure payment process, situations are not uncommon in which the central authorities have to either authorize an extraordinary loan to local governments to fulfill their obligations or else leave arrears accumulate.

¹⁵² In situations where the local governments have a statutory share of national taxes, with at least some degree of control over this allocation, then shared taxes should also be included. This is not the case in Albania, where no tax sharing arrangement is as yet in place.

local responsibilities and local revenues should be measured from an ex ante perspective (i.e., in terms of potential impacts). However, in Albania the latter is not a practical measure, since the standards for services have not yet been determined and the quality of information on local revenue capacity is highly questionable. However, if only as an illustration, the data on actual local expenditures and actual own revenues could provide a ballpark estimate of the current coefficient of vertical imbalances in Albania. Data from Table 3.1 (Chapter III) suggest that although declining overtime, especially in the last three years, the fiscal imbalance affecting the local governments is still extremely high in Albania: the coefficient of vertical imbalance fell to 0.87 as projected to 2003 (taking into consideration the impact of the 2002 fiscal reform), from 0.99 in 1995.¹⁵³ This constitutes a major issue to be addressed by the government's decentralization strategy, with regard to the design of a more balanced intergovernmental fiscal relations and local government finance.¹⁵⁴

4.5 *Horizontal fiscal imbalances* result from the divergence between expenditure needs and the respective tax capacity across regions at the same government level (regions or municipalities/communes). These are also ex ante concepts, and may not necessarily be adequately reflected in the actual disparities of the per capita coefficients of expenditures and revenues as observed in Chapters II and III, respectively.¹⁵⁵ The *actual* indicators may be distorted by distinct collection tax efforts and expenditure adjustment policies exercised across local self-government units. Also, since tax capacity tend to be inversely correlated with regional poverty, the allocation of local taxes on a derivation basis tends to exacerbate the potential horizontal fiscal imbalances over time. Because of the latter, the welfare differentials between the well-off and the poorest areas of the country tend to increase, if the decentralization strategy does not succeed in establishing an acceptable balance between the efficiency and equity concerns of the fiscal policy as a whole. This means that the government's decentralization

¹⁵³ Defined as *coefficient of vertical imbalance* = $1 - (\text{total local resources under local control} / \text{total local expenditures})$. By construction, the coefficient of vertical imbalance take values between zero and 1, with values closer to zero indicating a smaller vertical imbalance, and values closer to 1 indicating a larger vertical fiscal imbalance. This coefficient indicates the share of local responsibilities (on exclusive, shared, and delegated functions) for which local governments do not have the discretion or authority to change tax rates and tax bases, or to use or not use particular taxes to finance them.

¹⁵⁴ A draft law on Intergovernmental Fiscal Relations, or Local Government Financing (encompassing local government financing and budgetary processes and procedures) has been circulated informally since end-2000, but has never been submitted for formal discussion and approval. The government's decentralization strategy includes the submission for approval in the course of 2003 of a law(s) dealing with these issues (see "Decentralization Progress Report," prepared by MoLGD for the NSSD 2002 Progress Report).

¹⁵⁵ True measures of horizontal imbalances have to focus on *potential* tax capacities and public service needs. Indicators of tax capacity should consider some reasonable proxy for the local per capita income (e.g., local production, average wages) and/or endowments. A proxy for "needs" might include poverty indicators (e.g., a head count of the population with special needs, the percentage of people below the poverty line, unemployment) and at least some health indicators (e.g., incidence of contagious disease and infant mortality). Moreover, in the particular case of Albania, it is crucial to consider the cost differential in the local provision of public services, owing to the substantial existing contrasts in social, environmental, and economic conditions existing between the overpopulated larger cities (for the available infrastructure) and the scarcely inhabited rural areas, as well as the contrasts between the center and coastal areas compared with the mountainous regions.

strategy has to increase the emphasis on policy measures that have a horizontal equalization impact, including the grants distribution mechanisms.¹⁵⁶

The Economic Rationale for Intergovernmental Transfers

4.6 Increasing the autonomy of local governments in raising their own revenue is critical to resolving the problem of vertical fiscal imbalances and to improving accountability. On this subject, Chapter III stressed the importance of urgently implementing the recent fiscal reform that transfers decision-making power, at the margin, to local authorities, especially regarding property taxes and user charges. This is an essential step in the decentralization process, but it tends to aggravate the horizontal fiscal balance across self-governing units (Chapter III). To reconcile the problem of fiscal imbalances, the government of Albania has operated compensatory transfer (or "grants") instruments. But it must be acknowledged that not every one of such "grants" from the state budget has contributed to reducing fiscal disparities; in fact, some may have helped aggravate fiscal disparities (especially the negotiated capital grants and the grants provided to maintain service facilities regardless of their level of operation).

4.7 Transfers between levels of government are justified on efficiency and equity grounds, and international best practices in fact recommend transfers to compensate for: (i) vertical imbalances; (ii) horizontal fiscal imbalances; and (iii) positive externalities. Compensating for vertical imbalances (which tend to manifest themselves through unfunded mandates, persistent deficits, payment arrears, and increased indebtedness) may call for an inquiry into the incentives necessary to bring the use of all local resources into line with the local responsibilities for greater efficiency. Usually, in this case allocative efficiency requires that *complementary* transfers be *unconditional* (Box 4.1).

4.8 Compensating for horizontal imbalances (usually resulting from regional physical, social, and economic disparities and an insufficient local tax basis as well as local special needs) may require linking the transfers to the relative capacities and needs of each jurisdiction (i.e., by equalization grants, which should, in principle, also be transferred on an unconditional basis). Compensating for positive externalities (externalities that spill over across jurisdictions, such as metropolitan transport systems, specialized hospitals, universities and research centers) aims to optimize the supply of the specific public service, by enabling the delivering jurisdictions to realize that they can internalize all equivalent benefits from the service provision. In this case, conditional specific purpose grants may be the best instrument to use, including matching grants in the case of strategic investments and the reconstruction of local infrastructure (Box 4.1). Albania may want to consider starting to experiment with this type of matching grant for strategic investments, even if on a small scale, as a learning mechanism and to prepare the ground for the absorption of the pre-accession and structural funds from the EU down the road.

¹⁵⁶ The new distribution formula for "unconditional grants" innovated in this area by incorporating an "equalization component" (i.e., an estimate for the local revenue capacity).

Box 4.1: Approaches for Intergovernmental Transfers

Intergovernmental transfer/grant mechanisms can be: conditional or unconditional.

1. **Conditional Grants** are *specific-purpose* transfers (or categorical grants). The grantor authority specifies the use of funds. These grants are often used to address particular concerns of the grantor which are of less concern to the recipient authority: e.g., projects on primary education (elimination of illiteracy), on health care (preventing/combating contagious diseases), on social assistance to the poor. These grants may be designed as: (i) *Matching open-ended grants*, when the grantor authority matches a certain amount of grant for each unit of money allocated by the recipient authority for the specific purpose; (ii) *Matching closed-ended grants*, when the grantor puts a ceiling on its contribution; and (iii) *Non-matching grants*, when the grantor simply offers a fixed amount of the grant to be spent for a specific purpose.

2. **Unconditional Grants** are *general-purpose* grants, usually a lump-sum transfer, with no strings attached. The unconditional grants aim at *equalizing fiscal capacities* to ensure the provision of a minimum standard of public services across regions. Unconditional grants can take the form of ad hoc transfers, or rule-based transfers. In *ad hoc transfers* the amount and distribution of the grants is decided on a discretionary basis every year. This method is non-transparent, generates great uncertainties, and tends to treat local governments as a lower priority residual item in the consolidated national budget, thereby denying the link between resources and responsibilities. This centralized method of transfers is sometimes advocated to give the central government maximum flexibility on fiscal policy. In *rule-based transfers* there are pre-determined rules, legally established, on both the size and the distribution of the grants. In general, the size is determined as a proportion of some national taxes, and the distribution may take one of the following forms: (i) the *horizontal "fraternal" system*, where regions with above average tax capacity transfer part of their shared tax revenue to regions with below average tax capacity and with special needs (as in Germany); or (ii) the *vertical system*, where a legal tax share of some national taxes is directly transferred to local governments, either in the form of a common "tax sharing system"—with allocation based on a pure derivation principle—or in the form of transfers from a central pool of a tax-sharing system to be allocated on an equalization basis (examples are Canada, Australia, and the United Kingdom).

Source: Jun Ma, *Intergovernmental Fiscal Transfers in Nine Countries*. Policy Research Working Paper # 1822, World Bank, 1997.

Box 4.2: Criteria on Intergovernmental Transfers

The best international practice recommends the following criteria against which intergovernmental transfers should be evaluated.

- **Autonomy**—Transfers should have few or no strings attached, so that local governments could preserve their *independence in setting their own local priorities*.
- **Revenue adequacy**—The volume of financing from transfers *should be sufficient* for local governments to discharge their responsibilities.
- **Equity**—Equalization transfers should vary *directly with needs and inversely with taxable capacity*.
- **Predictability**—The financing availability from grants should be known in advance. *Parameters determining the size of transfers should be fixed and stable* to promote sound budgeting practices.
- **Efficiency**—Transfers to local governments should be *neutral with respect to local governments' choices* on resource allocation to sectors and types of activity.
- **Simplicity**—The transfer formula should be transparent, *easy to comprehend and based on objective factors*, and be influenced neither by bureaucratic manipulations nor by political interests.
- **Incentives**—Transfers should preserve incentives for *sound fiscal management (e.g., tax efforts and expenditure control)* and should discourage inefficient fiscal practices such as deficit financing.
- **Safeguarding grantor's objectives**—Transfer design should ensure that the grantor's objectives can be attained, by *allowing effective monitoring and progress reviews*.

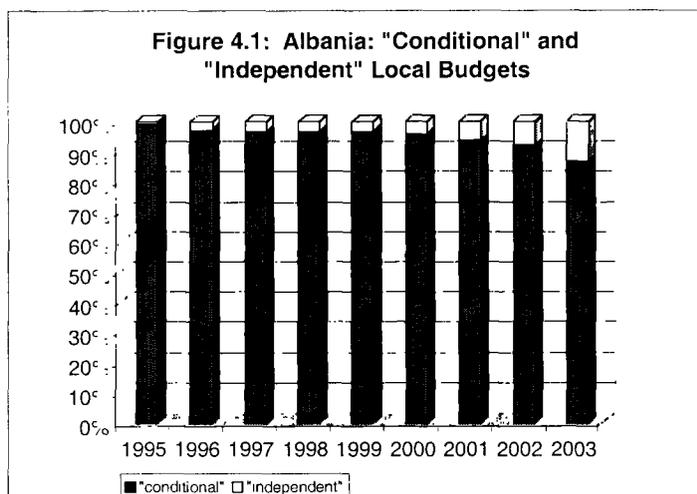
Sources: Anwar Shah, *The Reform of Intergovernmental Fiscal Relations in Developing and Emerging Market Economies*, Policy and Research Series 23, (Washington, D.C.: World Bank, 1994); Roy W. Bahl and Johannes F. Linn, *Urban Public Finance in Developing Countries*, Published for the World Bank, New York: Oxford University Press 1992.

4.9 Whatever transfer system is being operated, it should be in line with the best international practice and following certain basic general principles, such as promoting autonomy, revenue adequacy, equity, predictability, efficiency, and preserving incentives for sound fiscal

management. The formulas for determining the size and the distribution of the transfers should be as simple as possible, and the transfer scheme should safeguard the grantor's objectives, such as allowing for an efficient monitoring system (see Box 4.2).

Evolution of the Albanian Intergovernmental Transfer System

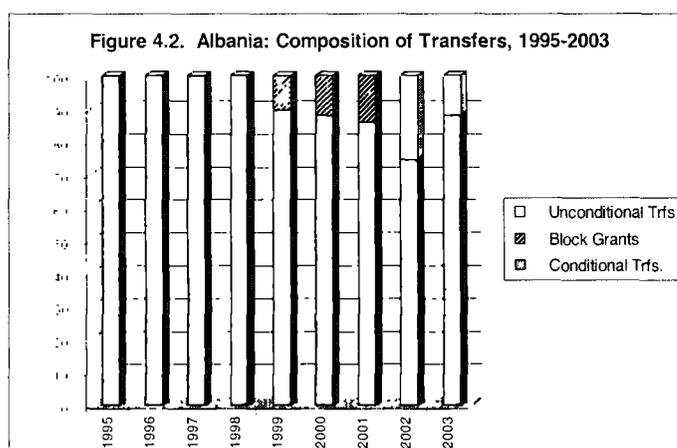
4.10 Since the early 1990s, when local governments became politically autonomous, until 1998, local revenue consisted almost exclusively of conditional transfers from the central government (97 percent in 1998, see Table 3.1, Chapter III), so that local governments were mainly performing as agents of the central government.



The line ministries determined the exact amount local governments could spend for personnel,¹⁵⁷ operations and maintenance, and capital expenditures. The importance of the conditional grants was so overwhelming that the Albanian local governments ran a dual budget system in parallel (Figure 4.1): the small "independent" budget and the large "conditional" budget (see Box 2.1,

Chapter II), into which central government funds intended for the financing of de-concentrated line ministry services were channeled.¹⁵⁸

4.11 From 1999 the funds previously allocated for (non-labor) operations and maintenance expenditures in the health, education, public works, and culture sectors were consolidated into a single *block grant* over which local governments could allocate at their discretion.¹⁵⁹ Nevertheless, the *block grant* funds continued to flow through the conditional budget, and represented only about 10 of the total transfers until 2001 (Figure 4.2).¹⁶⁰



¹⁵⁷ Moreover, the ministries had the authority to determine the number of positions available for local government employees in the different sectors.

¹⁵⁸ This dual system was stipulated in the Law on Local Budgets (Law # 7776/93). For details, see: Christopher Banks and Juliana H. Pigeu, *Republic of Albania: Opportunities and Issues for Municipal Reform*, The Urban Institute, January 1998.

¹⁵⁹ Except to hire new employees.

¹⁶⁰ Source for Figure 4.1 and 4.2 is MoF (Table 3.1, Chapter 3).

4.12 Since the 2000 decentralization reform, the role of local governments as autonomous entities has grown with the gradual transformation of many de-concentrated functions into decentralized exclusive functions.¹⁶¹ This has been paralleled by an increase in transfers to local governments to fund these new responsibilities (from 3.8 billion lek in 2000 to 5.1 and 9.0 billion lek in 2001 and 2002, respectively). Personnel costs and capital expenditures related to the exclusive functions of local governments were still covered by conditional grants financed by the line ministries' budgets. During 2001 (the first year of the reform) the local governments' discretion over their exclusive functions was limited. The *block grant* was distributed according to the previous pattern of central government expenditures in the localities, while conditional grants were allocated according to the distribution of the wage bill for public employees, and on an ad hoc basis for capital expenditures and subsidies. In practice, for each local government the *block grant* from 1999 to 2001 was determined according to the previous year's expenditures, taking into account the expected price increases for the main components of local spending.

4.13 All in all, in the last ten years Albania has evolved from a "purely conditional, strictly earmarked, grant system" to a mix of "conditional grants" and "block grants" (between 1999 and 2001), and now to a mix of "conditional grants" and "unconditional grants" (i.e., general purpose transfers) (since 2002). On the one hand, the "conditional grants" mechanism still keeps the features inherited from the old command economy of non-transparency, being unpredictable and depending basically on the bargaining (bureaucratic and political) powers between the local authorities and line ministries. The unconditional grants, on the other hand, was initiated with a provisional formula for *distribution* based on differential local needs and is evolving towards a true equalization transfer. Nevertheless, the determination of the *size* of the unconditional grant is not yet transparent and predictable: rather, it is an ad hoc amount resulting from purely bureaucratic and political bargaining without any technical rationale behind it.

4.14 Despite the important changes that have occurred in the last few years in the direction of greater discretion of local governments over local expenditures, it is important to note two main features of the system: (i) that although decision making is mostly retained by the center, public services delivery have been quite *de-concentrated* in Albania (about one-quarter of total public expenditures) (Table 2.2), which has required a corresponding substantial amount of transfers from the center to local governments, essentially on a conditional basis (Table 3.1); (ii) that local governments are still highly "transfer-dependent" (87 percent as projected for 2003) (Table 3.1) and will continue to be so in the near future. This observation justifies closer attention to the country's system of intergovernmental transfers as an important policy instrument for reaching efficiency and equity objectives.

B. THE SYSTEM OF CONDITIONAL GRANTS

4.15 Local governments in Albania have continued to be overwhelmingly financed by conditional/earmarked grants and have basically acted as agents for the central government in delivering public service, with very limited decision-making power (Tables 2.2 and 3.1). Following Law # 8652/2000, which changed the statutory assignment of responsibilities, the

¹⁶¹ Although this is still far from being complete. See Chapter II.

local government financing system has been in a transition phase.¹⁶² In addition to the exclusive and delegated functions, the concept of shared functions was introduced, although the additional sectoral legislation which attributes specific competencies to local governments has not been adopted yet. Most of the exclusive functions which used to be directly financed by the center as conditional transfers have already been shifted to unconditional transfers, and, to fill the legal vacuum, the 2003 budget instructions regulate, ad interim, the local government's competences on the social sectors' shared functions (including education, health, and social assistance) as delegated competences (Chapter II). Essentially, what remains as conditional transfers is a set of specific grants, financed from line ministry budgets, that mainly covers *personnel (including social benefits)* and *investment* expenditures of the shared functions, and some specific subsidies.

Table 4.1: Albania - Conditional Transfers to Local Governments for Social Sectors, 1998-2001

Sectors	1998		1999				2000				2001			
	Ear-marked	Own	Ear-marked	Own (a)	Block (b)	(a)+(b)	Ear-marked	Own (a)	Block (b)	(a)+(b)	Ear-marked	Own (a)	Block (b)	(a)+(b)
Pre University Education	10,752	28	11,086	63	1,034	1,097	12,023	95	1,144	1,239	13,102	73	1,629	1,702
Salaries and social insurance	8,593		9,702				10,666				11,452			
Operations and maintenance	2,159	18		48	1,034	1,082		79	1,144	1,223		60	1,614	1,674
- Transportation of teachers	316				234	234			278	278			457	457
- All other	1,843				799	799			866	866			1,157	1,157
Primary Health Care	2,174	13	1,871	35	402	437	2,374	52	509	561	1,982	35	469	504
Salaries and social insurance	1,962		1,764				2,032				1,958			
Operations and maintenance	512	13		26	402	428		44	426	470		13	472	485
- Public health centers	182				139	139			141	141			187	187
- Polyclinics	330				263	263			285	285				
Social Assistance	6,182		6,361				6,655				6,939			
Transf to L.Gvt for Soc Sect	19,108	41	19,317	98	1,436	1,534	21,052	147	1,653	1,800	22,023	108	2,098	2,206
Total local														

Sources: ...

4.16 More than 70 percent of conditional grants have been allocated to education, health care, and social assistance (Table 4.1).¹⁶³ However, with the specific attribution of competences as prescribed by Law # 8652/2000, these conditional grants will tend to reduce over time in favor of the unconditional transfers. At present, the main conditional grants are regulated as follows:

- (a) **Education** conditional grants from the Ministry of Education to municipalities and communes are earmarked specifically for salaries (for teaching and non-teaching personnel) and for food and scholarships to students. Regions are provided with conditional grants to cover expenses for transportation and per diems for teachers and trainers. There are no special formulas for the allocation of these conditional grants among distinct jurisdictions (regions, municipalities, and communes) and schools.¹⁶⁴ Investments (renovations and equipment) are entirely decided, run and financed by the

¹⁶² But the proper role of the conditional transfers has still to be defined in specific local government financing law. It has been envisaged that these transfers should be used particularly for: (i) priority investments in the construction and rehabilitation of infrastructure; (ii) specific national purposes (e.g., the elimination of illiteracy, the combating and prevention of contagious diseases); (iii) mandates from and agreed actions with the central government; and (iv) special assistance to local governments in distress owing to unanticipated circumstances (e.g., local disasters).

¹⁶³ On the other hand, the allocation to the social sectors increased to about one-third of the local budget in the period 1999-2001 from only about 5 percent in 1998, before the block grant scheme started (Table 4.1).

¹⁶⁴ School operating expenses (including building maintenance, heating, telephones, and other utilities) are covered by independent local budgets (composed of unconditional grants and own revenues). See Section C, below, and Chapter II.

central government through its education directorates (de-concentrated branches of the Ministry of Education) situated in the district;¹⁶⁵

- (b) **Health care** conditional grants from the Ministry of Health to local governments are for the financing of salaries for personnel working in the primary health care sector (including specialists, nurses, technicians, and other staff).¹⁶⁶ Investments are decided and run by the central government, although the local governments sometimes participate by funding new facilities with their own revenues. The difficulties of the financial arrangements in the health care system are further compounded by the existence of the Health Insurance Institute-HII. The HII was established about ten years ago to undertake the role of main *financing* and *purchasing* agency for health care in Albania. Currently, it covers only a subset of primary health services: namely, consultations with general practitioners and drug provision. Should the HII expand its role as the main financing institution for health care,¹⁶⁷ neither the central government, nor local governments would play a direct role in financing and managing the purchasing of health services; they both should rather share the functions of oversight and monitoring of the health care delivery system's performance;
- (c) **Social assistance** conditional grants to local governments include two programs: the largest component of the grant provides targeted poverty benefits in cash (i.e., the *ndihme ekonomike*, or economic aid) to households; the second program delivers cash allowances to those disabled since childhood.¹⁶⁸ Funds are allocated among municipalities and communes by the Ministry of Labor and Social Protection according to indicators of need, such as the number of poor people. Following the guidelines and eligibility criteria set up by the Ministry of Labor and Social Assistance, local governments distribute the assistance amounts to families and individuals. The local governments administer the scheme with local employees hired and paid by them.

4.17 Conditional grants are also used to finance the exclusive functions not yet fully transferred to local governments. For example, investment in infrastructure has been distributed by the Ministry of Territorial Adjustment and Tourism to municipalities and communes for street construction and maintenance and for water and sanitation systems. Until recently, the priorities for these centrally financed investment projects were determined exclusively at the center, and local governments played no significant role in the decision-making process—although tendering and procurement processes for investments have been managed by the local governments. With

¹⁶⁵ The Ministry of Education make the decisions and the education directorates at the district level are responsible for opening new schools, estimating the cost of investments, and preparing documentation for tenders and procurement. The education directorates are also responsible for supervising the construction work done until a new school is completed. Local authorities are consulted in the process.

¹⁶⁶ Similar to the education sector, the operations and maintenance expenses of health care facilities are covered by the local governments through unconditional transfers and own revenues.

¹⁶⁷ This has been piloted in Tirana with the Tirana Regional Healthcare Authority (TRHA) project.

¹⁶⁸ The social protection system in Albania also includes pension, which is a program administered at national level exclusively.

the new decentralization drive, however, the priorities for the 2003 allocation appear to be defined at least through a wider consultation process at the regional level.¹⁶⁹

4.18 The ad interim arrangement for 2003 envisages formally regulating as “delegated responsibilities” the current specific competences that local governments are already undertaking on the *shared* functions (i.e., education, health care, and social assistance).¹⁷⁰ In practice, the conditional grants to municipalities and communes continue to finance salaries and social security benefits for the staffs of educational and primary health care institutions (and operations and maintenance for polyclinics and dental clinics), while conditional grants to regions will finance the transportation of teachers and students.¹⁷¹

C. THE SYSTEM OF GENERAL PURPOSE GRANTS

4.19 The budget execution law for 2002 (Law # 8874/2001, Art. 13) replaced the *block grants* and part of the previously conditional grants¹⁷² by an *unconditional transfer scheme* (the Albanian name for its “general purpose grants”) which covers many categories of expenditures defined as exclusive functions since Law # 8652/2000.¹⁷³ The executed amount of this grant has nearly doubled (from a block grant of 5.1 million lek in 2001 to an unconditional grant of 9.5 million lek in 2002) (Table 3.1),¹⁷⁴ and for the first time a pre-determined formula was used on a provisional basis for its *distribution* to the regions, municipalities, and communes.

4.20 The initial formula for the distribution of the unconditional transfers was considered a provisional expedient for the following reasons: (i) the *overall size* of the grant pool has been

¹⁶⁹ It seems that the Ministry collected, identified priorities for, and negotiated new investment requests from regions, municipalities and communes before deciding on the 2003 investment fund allocation.

¹⁷⁰ Joint instructions issued by the Ministry of Health, the Ministry of Education, the Ministry of Local Government, and the Ministry of Finance regulate the delegated functions in 2003. There are, however, serious implications for regulating shared functions as delegated competences: (i) while competences are being *delegated*, the functions themselves still remain under central government authority; (ii) the assignment of shared functions should be approved by law, while a delegation can simply be done by agreement between the central and local authorities; (iii) while in the case of delegated functions/competences the local authorities respond to the central government, in the case of shared responsibilities local governments are directly accountable to their own constituencies.

¹⁷¹ According to the current regulations and guidelines, expenditures on salaries in education and health care sectors do not constitute expenditures of communes and municipalities. Therefore, they should not even be considered conditional transfers, since they now represent just an administrative service performed on behalf of the central government, without any direct responsibility on the part of the local authorities. Moreover, the draft instructions specify that these payments for salaries will be recorded directly as an expenditure of the Ministry of Education and Health.

¹⁷² Until 2001, financed by the Ministry of Public Works, the Ministry of Local Government and Decentralization, the Ministry of Culture, Youth and Sport, and the Ministry of Transport and Communications.

¹⁷³ Actually, according to Law # 8652/2000, Art.15.3, the objective is that the local governments “are empowered with sufficient authority to obtain revenue independently to finance the exclusive functions under their jurisdictions.” However, in the interim, while sufficient revenue autonomy is not in place, local governments have to be financed by unconditional transfers (including shared national taxes) to be able to discharge their exclusive responsibilities satisfactorily.

¹⁷⁴ The programmed amount of unconditional transfers fell in 2003 to 6.3 billion lek to compensate for the shifting of the Small Business Tax as a local tax. Correspondingly, the programmed amount of own local revenue increased substantially from 3.2 billion lek in 2002 to 8 billion lek in 2003 (the latter as a result also of the Agriculture Land Tax, property tax, and vehicle registration tax). See Chapter III, Table 3.1.

determined only historically, without any technical rational basis;¹⁷⁵ (ii) new responsibilities and own sources of revenues are still in the process of being devolved to local authorities, so that the size of the unconditional grant pool has to be recalculated accordingly as tax bases shift from the national government to the local governments; and (iii) because of the low level of local tax autonomy and the lack of adequate data on local taxable bases, no reliable measures of fiscal capacity were initially possible. Nevertheless, the 2003 budget execution law made an effort to adjust the previous year's overall amount of the unconditional grant to the new tax basis assigned to local governments with the 2002 fiscal reform, and adjust the formula by introducing an estimate of the revenue capacity (with the new incoming data provided by the GTD).¹⁷⁶ In any case, the size of the unconditional transfer pool has still to be properly justified and to be determined on a more predictable and reliable basis, free of bureaucratic and political influences (see discussion in Section D).

Distribution Formula for the Unconditional Transfers

4.21 Albania adopts a bifurcated intergovernmental fiscal relations scheme, where the central government deals simultaneously and directly with both the regions and the municipalities/communes, including in regard to the distribution of unconditional transfers.¹⁷⁷ Accordingly, the distribution formula follows a two-step approach. The first step in designing the formula was to start by dividing the unconditional transfer pool (F) into three basic additive components: a municipal/communal component (L); a Regional component (R); and a general compensation fund (A), that is,

$$F = L + R + A$$

4.22 The last component, A , started in 2002 as a reserve fund for contingencies, which was limited by Law # 8652/2000 to 3 percent of the total local expenditures. As the Regional Councils' attribution of responsibilities was not yet clearly defined, the decision was to allocate 10 percent of the pool to the regions to basically cover their initial administrative expenses, and the residual of the unconditional transfer pool (87 percent) was to be distributed among municipalities and communes.

¹⁷⁵ Essentially by replicating the previous year's size adjusted by inflation, and/or a small adjustment dictated by bureaucratic and political negotiations.

¹⁷⁶ Which implied a corresponding reduction in the total unconditional transfer pool (see Table 4.2).

¹⁷⁷ This is distinct from a *hierarchical transfer scheme*, where the central government would deal exclusively with the intermediate level of governments (regions), and the latter would then deal with the first level of governments (municipalities and communes). The adopted bifurcated system is actually consistent with the Albania administrative structure, which in fact has no *intermediate* level of government (Chapter I).

Components of the Unconditional Transfer Formula	2002				2003			
	Coefficient (in %)			Value in thousand lek	Coefficient (in %)			Value in thousand lek
	of total pool	of the gvt. level	of component		of total pool	of the gvt. level	of component	
Total size of the unconditional transfer pool	100			8,300	100			5,100
I. Share of municip./communes	87	100.0		8,265	79	100.0		4,977
1. General purpose grant (<i>needs based</i>)			100.0	6,612			100.0	4,380
a. Fixed component				3.0				153
b. Population factor				63.0				2,737
c. Surface-communes				5.5				175
d. Urban services-municipalities (exc Tirana)				21.8				898
e. Urban services-Capital city-Tirana				6.7				416
2. Gross munic./communal compensation fund (<i>tx cp.basis</i>)		20.0		1,653		12		597
II. Share of the regions	10	100.0		950	19	100.0		1,197
1. General purpose grant (<i>needs based</i>)			100	903			100	1,017
a. Fixed component				30				254
b. Population factor				10				153
c. Geographic indicator (plain, hill, or mountain)				20				305
d. Road factor (surface)				40				305
e. Urban services-Capital city-Tirana								
2. Regional compensation fund			5	48		15		180
III. General compensation fund for regions, munic., and comm.			3	285		2		126

4.23 The second step in designing the formula was to determine specific and explicit criteria and coefficients for distribution of each of these components among the regions and municipalities/communes. These criteria and coefficients evolved from the 2002 and 2003 budgets (Table 4.2) to account for the new circumstances emerging from the process of implementing the decentralization (particularly the attribution of new competences and the shift in tax bases). Thereby both the total pool of resources and the share of municipalities/communes fell in 2003—from 8.3 billion lek (87 percent) to about 5 billion lek (79 percent)—while the share of the regions increased from 950 million lek (10 percent) to 1.2 billion lek (19 percent).

Allocation of the Municipality/Commune Component

4.24 The formula for the allocation of the municipality/commune component boils down to a weighted average of five “needs” factors for the *general purpose grant* plus an *equalization* factor to account for the differentials in local tax capacity, as follows:

$$L_i = L * [0.035 * (1/374) + 0.625 * (P_i/P) + 0.04 * (C_i/C_c) + 0.205 * (M_i/M) + 0.095 * \text{Tirana}] + E_i$$

Where:

L = Unconditional transfer pool to be distributed to municipalities and communes

P = Population

C = Indicator for the costs of maintaining extensive commune infrastructures (proxied by the size of the surface of commune)

M = Indicator for the costs of urban services (proxied by the population of municipality)

E = The fiscal equalization factor (this may be a positive or negative factor).

The Subscript i stands for the individual municipality or commune i .

4.25 The first factor in the formula is just a lump sum to be split evenly among the 374 municipalities and communes in Albania. For 2003, the authorities have decided to attribute to this fixed factor a coefficient of 3.5 percent. Thus, every municipality and commune receives a lump sum amount of transfers irrespective of its distinct characteristics (indicated by the other elements entering the formula). This has been consistent with the usual practice, both in terms of having a lump sum component in the formula (to account for indivisibilities in the provision of public services)¹⁷⁸ and in terms of keeping it small enough to avoid creating perverse incentives for increasing the fragmentation of the local government units. In any case, since small communities generally have a lower per capita income and a higher percentage of poor people, the presence of this lump sum factor tends to favor these small jurisdictions and thus also impinges an equalization element on the formula.¹⁷⁹

4.26 In Albania the authorities have attributed to population a role which is by far the most dominant factor in the formula. This is in line with the idea that population is a basic indicator of expenditure needs, and transfers are to be distributed equally on a per capita basis. Also, with this dominant factor, the formula incorporates an emphasis on the effect of population movements, because the need for providing public services tends to increase correspondingly. For instance, the differential impact on the local services needs of internal migration (see Chapter III) can, to a certain extent, be captured by this factor in the formula. Moreover, the use of the population factor has the merits of simplicity and transparency, which are basic criteria for assessing intergovernmental transfers, and can justify the higher weight (62.5 percent) imputed to this factor in the formula.

4.27 The formula also makes a distinction between the cost of running communes (which are mainly rural communities) and the cost of running municipalities (which are mainly urban communities), weighing the latter factor higher than the former (4 percent and 30 percent, respectively). The surface size of the communes is used as a factor to proxy their special needs, and the size of the municipal population is used in the case of the municipalities. On the latter—because of the peculiar characteristics associated with a large metropolitan area, including externalities in transportation services and other infrastructures on the one hand and environmental problems on the other—a differential weighing of the costs of urban services in Tirana (9.5 percent) compared with the other 64 municipalities (all together 20.5 percent) was adopted.

4.28 The equalization factor, *E*, aims essentially to reduce the disparities in income revenues resulting from distinct tax capacities among distinct municipalities/communes. It is determined separately by a horizontal “fraternal” procedure (see Box 4.1) and added to the general purpose grants formula (as above). Specifically, each municipality/ commune whose per capita revenue from the newly assigned local taxes¹⁸⁰ exceeds the national per capita average will contribute 35 percent of the excess (multiplied by its population), while each municipality below the national

¹⁷⁸ For instance, the costs of the administration, and the costs of maintaining basic infrastructures are practically indivisible costs.

¹⁷⁹ For instance, although this factor contributes not more than 0.1 percent for the Tirana budget, it can contribute up to 15-25 percent to the budgets of many communes.

¹⁸⁰ Namely, the Local Small Business Tax, the Simplified Profit Tax, the Vehicle Registration Tax, and the Property Transaction Tax.

per capita average will receive 35 percent of the per capita revenue deficiency (multiplied by its population).

Allocation of the Regional Component

4.29 The formula for the regions' component of the unconditional transfers includes four factors: a lump sum factor; a population factor; a geographical condition factor; and a surface extension factor, as follows:

$$R_j = R * [0.25 * (1/12) + 0.15 * (P_j/P) + 0.30 * (G_j/G) + 0.30 * (X_j/X)]$$

Where:

R = Unconditional transfer pool to be distributed to the regions

G = Indicator for the geographic condition of the region (i.e., plain, hilly, or mountainous)

X = Extension of *rural* roads

The subscript *j* stands for the individual region *j*.

4.30 For 2003, the lump sum is fixed at 25 percent and equally divided among the 12 regions of the country. This relatively high coefficient means a strong equalization element in the formula. The regional population factor does not play a dominant role in the formula (only 15 percent weight), which is consistent with the current and intended assigned responsibilities—since the law does not assign any major exclusive or shared responsibilities of the regions regarding service delivery directly to the population.¹⁸¹ Conversely, the formula puts much more emphasis on both the “geographical conditions of the region” (basically distinguishing among the landscape conformations of the area, such as plain, hilly, and mountainous terrain)¹⁸² and the “extension of rural roads” (as an indicator for the maintenance costs of the regional infrastructure), each of which has a 30 percent weight. The formula seems also consistent for attributing more weight to these two factors, since one of the main assigned functions of the regions is rural roads, and their maintenance costs tend to vary according to the region.

Allocation of the Compensation Funds (A)

4.31 In addition to the general purpose grants of the unconditional transfers from the state budget to the local governments, there are three types of *compensation funds*, which are essentially aimed at equalizing revenue capacities (or alleviating at least part of the financial disadvantage of the poorest municipalities/communes), promoting fiscal efforts, and compensating jurisdictions for some special conditions. These funds are to be used partially on

¹⁸¹ Except when it is *delegated* either by the central government or by the municipalities/communes; in such cases the corresponding financing should follow suit (but *conditional* to the delegated function, not through the unconditional grant scheme).

¹⁸² By associating the numbers 1, 3, and 5 as a scale for plain, hilly, and mountainous areas, respectively. For example. Durres=1, Elbasan=3, and Kukes=5.

the basis of previously determined criteria and partially on the basis of mutual agreements between the Ministry of Local Government and Decentralization (MoLGD) and the Ministry of Finance. The three types of compensation funds are to be allocated as follows:

- (a) **The general compensation fund for local governments** (regions, municipalities, and communes) is actually a *type of reserve fund* (2 percent of the total unconditional transfers) to be allocated in special circumstances, according to certain criteria and with the approval of the MoLGD and the Ministry of Finance.
- (b) **The regional compensation fund** is aimed at special cases of expenditures by the regions, such as the subvention of transportation of teachers and students, and other unanticipated operational expenditures during the transition period.
- (c) **The gross municipal/communal compensation fund** (12 percent of the municipal/ communal component of the unconditional transfer pool) is essentially envisaged to compensate for special financial circumstances, particularly those arising in the *transition period* during implementation of the new unconditional transfer scheme itself. Four subcomponents have been anticipated and provided for, according to the following criteria:
 - (i) **Negative transition impact:** a municipality/commune receiving fewer general purpose grants in 2003 than it received in 2002,¹⁸³ will be compensated for 75 percent of the difference;
 - (ii) **Positive transition impact:** a municipality/commune receiving more general purpose grants in 2003 than it received in 2002 will contribute 25 percent of the difference;
 - (iii) **Compensation for special situations:** municipalities/communes that qualifies for this compensation are those situated in mountainous areas and communes with an urban center. A fixed amount of 600,000 lek is allocated for each of those qualifying criterion;
 - (iv) **Compensation for a minimum per capita revenue:** municipalities/communes with a per capita revenue that is below 2,500 lek and below 1,500 lek, respectively,¹⁸⁴ will be compensated for the full difference (multiplied by the respective population).

4.32 It has to be observed that the allocation mechanisms for these compensation funds are too complex to be administered and understood by the beneficiaries, although some of the mechanisms may be justified during a short transition phase (one or two years). Moreover, some elements of these compensation mechanisms may repeat factors that are already present in the general purpose grants formula (e.g., compensation for municipalities/communes situated in mountainous areas).

¹⁸³ After the adjustment is made for the fiscal equalization component (E_i in the above formula).

¹⁸⁴ After the adjustment for the fiscal equalization component (E_i) and the transition impact adjustments are made.

D. MAIN ISSUES AND OPTIONS

Size of the Unconditional Transfers Pool

4.33 The determination of the *size of the unconditional transfer pool* remains a major pending issue in Albania. The size of the pool has to be related to nationally regulated standards of services that the local governments must achieve, on the one hand, and to their local fiscal autonomy, on the other. The resource pool for the unconditional transfers has to be defined according to pre-established criteria defined by law to allow predictability and annual and multi-annual planning for both central and local governments (including the MTEF).

4.34 Nevertheless, there still is no relevant established rule based on rational criteria for the determination of the total size of the unconditional transfers. Usually, they have been placed in the annual budget law on the basis of the previous year's execution, adjusted by inflation or other ad hoc negotiated amounts.¹⁸⁵ This procedure does not differ very much from the old vertical "gap-fill" negotiated approach. Besides being non-transparent and unpredictable, the current procedure generates perverse incentives for soft budget constraints and is a stimulus for endless discussions, that unnecessarily occupy the time and attention of parliamentarians and key local and central authorities.

4.35 Nevertheless, the Local Government Law (Law # 8652/2000) already provides the basis for the rationalization of the transfer system (see Chapter III). Further legislation should now properly regulate the sources of funds for the unconditional transfers by connecting the two loose ends in the system of intergovernmental fiscal relations: the shared-taxes and the size of the unconditional transfers.

4.36 To resolve these unconnected schemes of local financing and to bring these intergovernmental fiscal relations to a logical closure a better option than the current negotiated "gap-fill" approach would be to start by pre-determining *the current financing level* of the "unconditional grants" as a *fixed percentage* of the national shared taxes (i.e., "a portion of certain central government taxes, such as personal income tax and company profit tax" as already prescribed by the local government law) and to finally adjust this percentage whenever the attribution of responsibilities/competences is considered completed. In this way, the initial fixed percentage level would, in principle, implicitly reflect the *perceived* current standards and costs of services and the desired level of equalization (see also Chapter III, Section D).¹⁸⁶ This option of coupling the financing of the current state budget transfers mechanism with the shared taxes would result in a logically closed intergovernmental fiscal relations system in which the

¹⁸⁵ But in 2001 and 2002 the government adopted an *administrative* decision to associate the old national SBT as a source that financed a percentage of the block/unconditional transfers. In 2003, however, the SBT was transformed into a local business tax, and the unconditional transfer pool was again 100 percent financed by the state budget general funds.

¹⁸⁶ Actually, adjustments in the fixed percentage of the shared national tax may be required when the initial conditions change substantially in the future (e.g., with substantial variations in local resources and needs, the attribution of new competences, variations in the desired standards of services and the desired degree of equalization). Nevertheless, these adjustments should occur only sporadically, following ample debate supported by technical analysis, in order to give the system some degree of stability and predictability. In this regard, it would be preferable that the shared-tax percentage be fixed in the organic law rather than just leaving it to the annual budget execution law.

criterion for determining the *size* of the unconditional grants (which already embodies an equalization component) would be known in advance, and would be immune to bureaucratic and political influences. In this way the current concerns that the shared taxes would increase regional revenue disparities would vanish, since in the proposed option the shared taxes would serve simply as a source of financing for the “resource pool to be transferred to the local governments on an equalization basis” (currently, the unconditional grants), instead of being distributed on a derivation basis. Therefore, this proposed coupled scheme would solve the problem of the pending assignment of shared taxes, at the same time that it would clearly define a pre-determined source of resources for the financing of the equalization fund. This scheme would have the advantage of being transparent, predictable, and easily identifiable by both the central and local authorities, and would permit more reliable expenditure planning (and would be consistent with the MTEF).¹⁸⁷

Distribution of the Unconditional Transfers

4.37 The efforts by the authorities to render the allocation of the unconditional transfers transparent must be acknowledged, and the mere fact that a pre-determined formula for the distribution of the grants has already been put in place represents substantial progress in terms of transparency and predictability. Nevertheless, it should be recognized that the formula for unconditional transfers is too complex to be administered and understood by the main beneficiaries. More work is still needed to simplify the formula (especially with reference to the *three compensation funds*, whose many conditions should be drastically reduced and simplified after a short transition phase), to better specify the factors affecting the general purpose grants and their measured proxies, to improve the equalization factor, and especially to find a convincing rationale for the coefficient structure that weights the factors, in order to stabilize a structure of coefficient after a short transition phase. In reviewing the formula, the unconditional grants should really be kept unconditional, by avoiding special conditions to the extent possible.

4.38 To improve the fairness of unconditional transfers, the equalization component should be emphasized, but the type of “fraternal” scheme of horizontal transfers currently adopted should be avoided. The latter may work for developed economies (such as Germany), but tends not to work in low income, developing economies such as Albania at the moment.¹⁸⁸ A simpler way to

¹⁸⁷ Further refinements can be introduced in the calculation of the base, in order to stabilize the vertical fiscal balances over time. For instance, it is well known that the corporate income tax (CIT) is not the best tax to be shared, because usually it is unevenly distributed (which for the proposed option is not relevant, by the way) and its yields fluctuate over time. In this case, it may be preferable either to share VAT, or the total of the three main taxes (VAT, CIT, and PIT). This should not alter the amount of the total allocation to the equalization resource pool (i.e., the unconditional grants), but would considerably improve the predictability of the annual flows of grants going to the local governments. For example, in 2002, unconditional transfers (excluding SBT) expressed as a percentage of the sum of PIT and CIT were about 37 percent, while as a percentage of all of the most important national taxes (PIT, CIT, and VAT) it is only about 10 percent. Over time, the latter tends to be more stable than the former, since while the collection of CIT may tend to fall, VAT tends to rise. If more stability and predictability are desirable, then the referred bases could be calculated as a *moving average* of the shared taxes.

¹⁸⁸ In low income countries, relating the “well-off” jurisdictions as direct financiers of the worse-off jurisdictions, tends to generate political and social tensions. Generally, the reactions of the “well-off” jurisdictions in these countries are justified with the argument that they themselves are poor enough to receive, instead of providing financial assistance. To avoid tension, all the resources should go without distinction to a “common unconditional transfer pool” and should then be distributed according to explicit, general, agreed criteria.

do deal with this issue is to change the current specification of the formula by replacing the E_i adjuster with an automatic factor based on the inverse of the local per capita revenue *capacity* (properly weighed), in the general purpose grant formulas of both the municipalities/communes and the regions. In this case all the coefficients (the weight system) entering the formulas should be re-balanced, and this new factor could be expressed and computed as:¹⁸⁹

$$\beta * (P_i / Y_i) / \sum_i (P_i / Y_i)$$

where

P_i is the local population

Y_i is the local GDP (or any proxy for local value added, such as adjusted income and profit tax collection etc.)

β is the coefficient that weighs revenue capacity.

Allocation of Conditional Grants

4.39 Conditional grants to the local governments in Albania are essentially earmarked for: (i) wages and social benefits and investments in education, health, and social assistance; (ii) certain subsidies and delegated functions (including food, accommodation, and the transportation of teachers and students); and (iii) capital grants for investment in and reconstruction of local infrastructure and public works. These funds are administered by the Ministry of Education and Science, the Ministry of Health, the Ministry of Labor and Social Protection, the Ministry of Agriculture, the Ministry of Planning and Tourism, and the Ministry of Local Governments and Decentralization. Funds for operations and maintenance have been allocated mainly on a historical basis to maintain the existing institutions, while the few fund allocations for investment have mainly been the result of political influence.

4.40 Outstanding issues regarding conditional grants include: (i) a considerable imbalance in the relative size of conditional transfers vis-à-vis unconditional transfers,¹⁹⁰ which excessively restricts local government autonomy in resource allocation; (ii) lack of clear national standards for public services to be achieved by local governments, which has led to tension and confusion between central and local authorities; (iii) lack of explicit criteria for the distribution of conditional recurrent grants, which mostly replicates the prior year's allocation, with negotiated small adjustments at the margin (incremental approach); (iv) lack of transparency and of competition in the allocation of conditional capital grants, which are exposed to bureaucratic and political influences; and (v) the absence of reliable monitoring and evaluation systems, which rules out any possibility of verifying of the effectiveness of policy implementation.

4.41 The government of Albania may wish to consider certain options for improving the effectiveness and efficiency of the system of conditional transfers. Examples of such options are as follows.

¹⁸⁹ The entire new formula for the municipalities/communes would then become:

$$L_i = L * [\beta_1 * (1/374) + \beta_2 * (P/P) + \beta_3 * (C_i/C_c) + \beta_4 * (M_i/M) + \beta_5 * (Tirana) + \beta_6 * (P_i/Y_i) / \sum_i (P_i/Y_i)]$$

¹⁹⁰ Conditional transfers are still about three times the size of the unconditional transfers (Table 3.1).

- (a) ***Advancing toward a better balance between conditional and unconditional transfers*** in order to increase autonomy and allocative efficiency at the local level. For this purpose, the priority would be to conclude the implementation of transfers of competences and responsibilities, as determined by Law # 8652/2000, including the exclusive functions (e.g., water supply and sewerage, local police, firefighting) and the specific competences of the shared functions (e.g., health, education, the environment).
- (b) ***Setting national standards for public service delivery*** that can be measured, monitored and evaluated through independent and reliable indicators of performance.¹⁹¹ Apart from the input approach itself (i.e., the level of conditional expenditures), the standards and indicators should preferably be aimed at outputs and policy outcomes. In this regard, the focus of the conditionality of the grants should shift from strict factor allocation (e.g., wages and benefits) toward programs of national interest (e.g., reduction/elimination of illiteracy, contagious diseases, poverty).
- (c) ***Improving equity and efficiency of conditional recurrent expenditure grants*** by allocating: (i) grants (to the extent possible) on a “targeted capitation basis” (e.g., per school age population, per old age population, per below the poverty line population), which is simple and transparent, which uses information that is available, and which is a good proxy for needs as well as inherently equalizing; and (ii) *block grants* instead of using specific earmarking, which have the advantage of combining central control of broad sectoral expenditures with more efficient allocation at the local level. In either case, to improve ownership and efficiency, local governments should participate in the financing, even if they provide only a small share of the costs.
- (d) ***Increasing transparency and efficiency of conditional capital grants*** by using explicit rules for the selection and award of projects and by making public the recipients and the levels of the awards. In this regard, there could be a rule for awarding capital grants for investments of national interest¹⁹² on a competitive basis (an award for which local governments—individually or in association—could apply) and for following technical project evaluation on the basis of the social rate of return and adequate maintenance plans. In addition, to increase local ownership of investments, capital grants should be conducted as a matching grant mechanism whenever possible.¹⁹³ These co-financing

¹⁹¹ Indicators should be produced by an independent agency (e.g., INSTAT).

¹⁹² Which should be consistent with the sector strategies and the NSSD.

¹⁹³ Conditional capital grants may become even more important in the near future, depending on how the government will be dealing with the restructuring and modernization of the public utilities companies, which have been shifted to local governments.

schemes can be used with co-financing rates scaled down according to the revenue capacity of beneficiary governments.¹⁹⁴ Adequate technical assistance should be made available to the weakest local governments, in particular to the communes.

¹⁹⁴ With the Albanian Development Fund (ADF), Albania initiated a mechanism of capital grants which gives local governments some discretion in the determination of their investment options. These capital grants are distributed only to communes, to support infrastructure works, and use a matching arrangement, to which communes contribute a share of ten per cent of the cost of the projects. (This grants, however, are not included in the local budgets and are managed by the ADF, which is an independent agency run by a board of trustees chaired by the deputy prime minister and financed by donors.) The projects are selected through a consultation process at the regional level based on requests and identification of priorities made by the communes and the villages.



5. THE WAY FORWARD

A. THE BACKDROP

5.1 It is critically important to establish at the outset the administrative-political scenario under which the reforms should be implemented. In this regard, a reform of the territorial-administrative division of Albania is *not* a necessary condition, albeit desirable in the long term, to proceed immediately with the implementation of the decentralization strategy.¹⁹⁵ Therefore, the current territorial-administrative configuration of the country should be taken as given in the short run, and the Government's reform implementation agenda should focus on putting in place the feasible institutional arrangements and incentive mechanisms that can establish a sound accountability framework for public service delivery at the local level, while effecting efficiency and preserving macroeconomic stability.

5.2 Although in Albania, like in many other European countries, fragmentation of local administrative units continues as a major problem for an efficient and equitable delivery of public services locally, there are various possible ways to circumvent the problem in the short and medium term without disrupting social and political stability. In fact, compulsory amalgamation and homogeneous assignment of responsibilities to local governments are *not* the only routes available to internalize the benefits of higher efficiency, economy of scale and positive externalities that may be associated to decentralization. Besides strengthening capacity building (including reforming institutions and training staff) at local levels and assigning responsibilities asymmetrically, the Government should facilitate and promote incentives for the local government units to pool their resources together and jointly deliver services (e.g., utilities, social services), including by voluntarily merging, temporary associations and agreements, or outsourcing on a contractual basis.

B. THE ACCOUNTABILITY FRAMEWORK

5.3 Although Albania is still lagging far behind European standards, a gradual increase in local revenue autonomy and authority to perform (discretion) will tend to improve efficiency and

¹⁹⁵ Moreover, the reform of the territorial-administrative structure of the country (particularly the *compulsory amalgamation* of the currently self-governing units) is a socially and politically charged issue, thereby tending to require a major consultation and coordination effort. This is likely to involve difficult legal and technical considerations and extensive debate including all stakeholders (e.g., central and local authorities and politicians, associations of local governments, local civil society organizations), which will take time. Although this process should at the extent possible start sooner rather than later, the *implementation of the decentralization reform agenda* is not independent and should not be held back by events pending on any territorial-administrative structure reform (see Chapter I of the report).

horizontal accountability, as long as citizens can associate benefits and costs of public services to decisions made locally. In parallel, improved fiscal transparency and vertical accountability mechanisms should be implemented, by upgrading the fiscal reporting system (e.g., dissemination of the local budget, internal and external controls, including a more systematic auditing by the Supreme State Audit Commission).

5.4 In order to ensure local authorities' accountability, the problem of intergovernmental fiscal relations, including fiscal imbalances and the risk of unfunded mandates, have to be resolved first. In this regard, a *Law on Local Government Financing* should be drafted; one which would simultaneously regulate, on the one hand, the service standards and criteria for costing local governments' responsibilities/ competences, and on the other hand, local revenue sources—own local tax/fee, transfers from the State Budget (the size of the latter determined in the context of a pool of shared national taxes) and access to borrowing (see below).

C. POLICY CONSISTENCY

5.5 Consistency between the decentralization strategy, the sector strategies and the macroeconomic framework have to be determined as soon as possible, and monitored on a permanent basis. Consistency between sector and decentralization strategies are of utmost importance for effective service delivery and to avoid duplication and under-provision of public services. Donors should also take this into account in each of their interventions and their dialogue with the Government of Albania (including technical assistance projects and capacity building support), and donor coordination/consultation with all stakeholders (including line ministries and local authorities) should be considerably improved. Moreover, in order to maintain consistency between the decentralization strategy and the macroeconomic framework, it is critically important that the Government continues with its policy of neutral impact on the State budget when devolving expenditure responsibilities to local governments.

D. POLICY SEQUENCING

5.6 Albania is at a crossroads, and if important strategic decisions are not taken at this juncture, decentralization will likely stall or may be ill-implemented with perverse outcomes. Sequentially, the most critical implementation decisions include: (a) the assignment of specific competences on shared functions, including a clear definition of standards and measurement criteria for costing and evaluating the locally delivered services; (b) the establishment of a well-regulated system of financing local government (i.e., implementation of a Law on Local Government Financing); and (c) the clarification of the role of the regions. The basic rationale behind this policy implementation sequencing is that *financing should follow responsibility*, otherwise neither local accountability nor macroeconomic stability can be assured. (Inter alia, the “Matrix of Options/Recommendations” (Annex to the Executive Summary, Volume I) and the “Road Map” (Section E below) reflect the specific measures of this policy sequencing).

5.7 *Specific competences on shared functions have to be assigned soon.* Implementation of decentralization, including exclusive and shared functions, are far behind the original schedule

established by the Law # 8652/2000 (on the Organization and Functioning of the Local Self-Government). First, as argued above, for policy sequencing reasons (e.g., the need to design the Law on Local Government Financing), the still pending assignment of *shared functions* (including on education, health care, social assistance, environment), criteria and service standards, should be defined soon,¹⁹⁶ regardless of whether a specific public service responsibility (such as policy formulation, financing, delivery, monitoring, or evaluation) will be initially attributed to the local or central Government. Further adjustments can always be made down the road, and the whole system can be periodically adjusted accordingly. This is naturally a dynamic process, but it needs to be *started*. Second, ideally, for efficiency reasons, *capital expenditures* (including investment and maintenance) should be assigned to the same government level. However, in the short run, while local revenue autonomy is not enough and a municipal capital market is still being developed, the Government should explicitly define interim transparent procedures for the allocation of State budget capital grants to local governments.

5.8 *The definition of local government financing structure can only proceed after a clear assignment of responsibilities.* A well-designed *Law on Local Government Financing* is a key piece of legislation still missing in Albania for the successful implementation of the Government decentralization strategy. As argued above, it would put in place the fundamental rules under which responsibilities and resources can be matched in order to hold local authorities accountable before the citizens. Besides the proper assignment of responsibilities discussed in the previous two paragraphs, there are important decisions on the resource side that need to be made. These include key decisions on the national taxes to be shared, on the local taxes, and on the utility tariffs policy.

- (a) *A broad-based national tax-sharing mechanism should be implemented* within the next two years, although it would be desirable that soon Law # 8652/2000 be amended to: (i) define shared-taxes as the main source of resource for a common equalization transfer pool; and (ii) expand the basis of national shared-taxes beyond the PIT and CIT, in order to bring more stability to the transfer (shared-tax) pool.
- (b) *Local tax collection effort and revenue autonomy can be improved* particularly by reforming the taxes on small business, properties, and personal income. First, although collection of the two newly created (2002) local small business taxes—Local Small Business Tax (LSBT) and Simplified Profit Tax (SPT)—is performing rather satisfactorily during this first year, it would be desirable to simplify the system by consolidating both taxes; a reform that could be targeted for the two years ahead. This reform is important in order to stop exposing the taxpayer to two competing, different tax administration systems (the central and the local). Second, property taxes (on buildings and land) should be made a most effective fiscal instrument of local government.

¹⁹⁶ Otherwise, not only the risks of duplication or under-provision and unfunded mandates will continue, but, most importantly, the implementation of the key decentralization reforms will stall. Regarding the latter, without a clear formal definition of measurement criteria and service standards (against which any evaluation could be measured) it will be impossible to cost the local government responsibilities, and so the still pending “law on local government financing” (which may include local own financing, shared-taxes, transfers/grants, and borrowing) cannot be consistently designed.

Nevertheless, it is understood that market value assessment of properties in Albania may not be easily achievable in the short term, and the system of identification of properties, record keeping, assessment and collection of local property tax needs substantial improvement. In the interim, however, the current property tax basis should be revised and alternative, more dynamic property value assessment should be used. Thirdly, the Government should seriously examine the adoption of a local *proportional Personal Income Tax (PIT) surcharge* (piggybacking the national progressive PIT rate) for implementation in the medium and long term, as a major step to strengthen the dynamic aspect of the local own-tax basis.

- (c) *Utility tariff policies have to be addressed nationally* and rules should be established for the relationship between the local companies, the Local Councils and the citizens. Cost recovery should be the principle behind utility tariff policies which should aim at assuring local provision of public services on a sustainable basis. Operational efficiency aspects of the local utility companies should be separated from the local government social assistance/equity policies, and utility subsidies to targeted population groups (if any), should be explicitly charged to the local government budgets.

5.9 A clearer role of the Regions has to be defined. Although the concept of Regions, as a second level local government, is new in Albania and not yet entirely incorporated in the system, it has to be clear that the country has no intermediate government in the hierarchical sense. Regions, as municipalities and communes, are equally local government units, only differentiated by their distinct jurisdictional responsibilities. Therefore, the role of the Regions in the new administrative structure, to be urgently defined by the attribution of specific responsibilities (and corresponding access to resources), has to respect the legal autonomy of constituent municipalities and communes.

E. A ROAD MAP FOR REFORM

5.10 A credible agenda for the implementation of the Government decentralization strategy requires detailed prioritization and sequencing of key reform measures. To set out expectations in the right direction, mobilize stakeholders cooperation, and gather general support for the reform implementation, the Government may consider adopting, and making public, a feasible Road Map of well-sequenced detailed program of reform implementation which reflects its overall decentralization strategy. What follows below is a possible feasible set of reform measures that stems from the analysis and options/recommendations in this report. (For details see also “Matrix of Options/ Recommendations”).¹⁹⁷

A. Immediate Measures (to be implemented in the next three months)

- i ***Shifting the paradigm of central institutions*** away from micromanaging local public service delivery and refocusing its efforts toward setting up standards and regulations, and monitoring results and policy evaluation.¹⁹⁸ The

¹⁹⁷ Consistent with the NSSD 2004-06.

¹⁹⁸ The immediate awareness of the new critical role of the central institutions is necessary, although not sufficient, to start the process of changes. Shifting the functions/competences themselves to local authorities may also take

Government should start instructing central institutions to exert their new role, and urge each line ministry to present to the CoM an action plan to: (a) set the standards of local public services and respective cost measurement criteria; (b) establish reliable monitoring and evaluation mechanisms; and (c) put in place effective control mechanisms on both finance and the quantity and quality of services delivered by local governments.¹⁹⁹

- ii ***Re-assigning the responsibility for expenditures with a national benefit area from “shared” to “delegated” functions*** (e.g., contagious diseases, HIV, *ndihma economike*), and the responsibilities for education and health O&M from “delegated” back to “shared”, with clear specification of competences.
- iii ***Reassuring consistency between sectoral strategies and the Government’s decentralization strategy*** (on both policy formulation and the implementation agenda), congruently with the NSSED and the 2004-2006 MTEF.

B. Short-Term Measures (to be implemented in the next year)

- i ***Strengthening governance institutions (I)***, by enacting a new local budget law (or amending the Organic Budget Law accordingly), upgrading the fiscal reporting system, and implementing effective capacity building programs.
- ii ***Strengthening downstream coordination of decentralization implementation***, by setting up the independent NFDI and ensuring that it will be complementary to the GED and NCD.
- iii ***Effecting the implementation of exclusive functions***, by: (i) establishing programs to complete the transfer of exclusive responsibilities to local authorities; and (ii) explicitly addressing the issues on the assignment of capital expenditures (including maintenance and investment).
- iv ***Defining local governments’ specific competences, service standards, cost measurement criteria, and funding in regard to shared functions***, and starting ***implementation*** soon.
- v ***Rationalizing the use of local fees and service charges*** by: (i) removing “nuisance” charges and fees; (ii) separating utility tariffs policy from social policies; (iii) reviewing the voting requirement for Local Council fiscal decisions; and (iv) considering the introduction of buoyant and equitable new sources of local revenues (e.g., levies on public utilities, on vehicle property transfers, on driver’s licenses).
- vi ***Completing and simplifying the current distribution formula for unconditional grants*** by considering the equalization component as the inverse of the local per capita revenue *capacity* (properly weighted).
- vii ***Improving the distribution of conditional grants*** by a better balance with the unconditional transfers, ***setting*** national standards service delivery, targeting on a capitation basis and using “block grants,” and adopting explicit rules,

time, since transparency, efficiency and accountability should be assured for a responsible decentralization of service delivery.

¹⁹⁹ The preparation of this action plan can be significantly facilitated by the technical assistance (on the “strengthening of policy formulation, coordination and performance-management mechanisms”) to be provided under the Civil Servant Component of the World Bank’s Public Administration Reform Project.

competition and project selection criteria for the allocation of conditional capital grants.

C. Medium-Term Measures (to be implemented in the next two years)

- i ***Defining and implementing the role of the Regions***, by: (a) determining specific Region's competences in accordance with the subsidiarity principle, considering economies of scale and scope, and externalities; and (b) addressing the pending issues of direct versus indirect election for Regional Councils, the "de facto" new role of Prefects, a meaningful degree of fiscal autonomy for the Regional Councils, the compilation of statistical data in conformity with EU NUTS, and the proper evaluation of the consistency of existing semi-autonomous agencies [e.g., TRHA] with the decentralization strategy.
- ii ***Strengthening governance institutions (II)*** by: (a) empowering local authorities and managers with clear responsibilities and making them personally accountable for policy results; and (b) designing and implementing a Law on Local Government Finance, which regulates all governmental relations, including tax sharing and access to borrowing.
- iii ***Increasing the efficiency of public service delivery (I)*** by restructuring, re-mapping and re-deploying facilities and personnel across jurisdictions from the depressed areas to the immigration areas.
- iv ***Boosting local fiscal efficiency and accountability***, by considering: (a) the introduction of a local surcharge proportional PIT; (b) implementing tax-sharing mechanism as a financing source for the pool of equalization transfers; and (c) consolidating the LSBT and the SPT.
- v ***Effecting the unconditional fiscal grants as an objective instrument to correct for fiscal imbalances and inequities*** by pre-determining the size of the transfer pool as a percentage of national shared-taxes and its distribution as a function of needs and capacity indicators (formula based).

D. Long-Term Measures (to be implemented when the necessary conditions are in place)

- i ***Overcoming the challenges of administrative fragmentation*** by: (a) attributing asymmetric responsibilities to local self-government units (according to capacity to deliver); and (b) articulating incentive instruments for voluntary amalgamation/association/merger).
- ii ***Strengthening the role of the private sector*** (including NGOs and civil society) in the financing and provision of local public services.
- iii ***Assigning capital expenditure responsibilities*** (both maintenance and investment) to local governments gradually, while increasing local autonomy and access to capital market.
- iv ***Maximizing own local tax collection*** by improving the system of property identification, record keeping, value assessment, and upgrading the local capacity for tax administration.

STATISTICAL APPENDIX

Table A1.1: Demographic Data, selected countries				
<i>Country</i>	<i>Population</i>	<i>Surface</i>	<i>Pop./km2</i>	<i>% of urban</i>
Albania	3087159	28748	107	
Austria	8124110	83860	97	67
Belgium	10273300	33100	310	97
Bosnia & H	4059999	51130	79	43
Bulgaria	8123684	110910	73	67
Croatia	4380785	56540	77	58
Czech Rp.	10264540	78870	130	75
Estonia	1354666	45100	30	69
Finland	5187000	338150	15	59
France	59165000	551500	107	76
Germany	82194900	357030	230	88
Greece	10575290	131960	80	60
Hungary	10187450	93030	110	65
Italy	57690640	301340	191	67
Latvia	2341024	64600	36	60
Lituania	3488100	65200	53	69
Macedonia	2043698	25710	79	59
Netherlands	16032000	41530	386	90
Portugal	10231000	91980	111	66
Romenia	22396800	238390	94	55
Slovak Rp.	5407587	49010	110	58
Slovenia	1989134	20250	98	49
Sweden	8893000	449960	20	83
U.K.	59903980	242910	247	90
Yugosl.,FR	10644730	102000	104	52
<i>Source: World Bank, World Development Report, 2002</i>				
<i>INSTAT, Demographic census, 2001</i>				

Table A.2.1: Albania: Budget Structure of Selected Municipalities, 2002

	Çikaveci (Çikaveci)	Këlcyrë (Përmeti)	Fushë (Durrës)	Krujë (Krujë)	Kroqizhuat (Tirana)	Fushë e Ditrisë (Pukë)	Kurbin (Mirditë)	Kukës (Kukës)	Shkoder (Shkoder)	Fier (Fier)
(in thousand leks)										
REVENUES										
Own revenues	5355	5000	5328	0	7700	1717	1000	22140	59027	9917
Taxes	3166	2000	2796		7200	1717	970	19190	38900	9917
Non-tax revenue	2189	3000	2532		500		30	2950	20127	
Grants	133461	31000	72388	129293	67833	83007	71104	144122	977982	68120
conditional	98399	20000	45605	89225	45033	60863	44801	92787	739072	33631
unconditional	35062	11000	26783	40068	22800	22144	26303	51335	238910	34489
Total revenues	138816	36000	77716	129293	75533	84724	72104	166262	1037009	78037
(in thousand leks)										
EXPENDITURES										
Current outlays	78735	36000	63145	101477	50742	79553	60478	146574	982624	68120
Wages and salaries	61202	11000	57200	71271	34742	66849	44638	95127	402235	52008
Other current	17533	25000	5945	30206	16000	12704	15840	51447	580389	16112
Capital outlays	26770	12000	14433	33777	13700	5171	4984	23150	162584	11942
Total expenditures	105505	48000	77578	135254	64442	84724	65462	169724	1145208	80062
(in percentage of total revenue)										
Own revenues	3.86	13.89	6.86	0.00	10.19	2.03	1.39	13.32	5.69	12.71
Taxes	2.28	5.56	3.60	0.00	9.53	2.03	1.35	11.54	3.75	12.71
Non-tax revenue	1.58	8.33	3.26	0.00	0.66	0.00	0.04	1.77	1.94	0.00
Grants	96.14	86.11	93.14	100.00	89.81	97.97	98.61	86.68	94.31	87.29
conditional	70.88	55.56	58.68	69.01	59.62	71.84	62.13	55.81	71.27	43.10
unconditional	25.26	30.56	34.46	30.99	30.19	26.14	36.48	30.88	23.04	44.20
Total revenues	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
(in percentage of total expenditure)										
Current outlays	74.63	75.00	81.40	75.03	78.74	93.90	92.39	86.36	85.80	85.08
Wages and salaries	58.01	22.92	73.73	52.69	53.91	78.90	68.19	56.05	35.12	64.96
Other current	16.62	52.08	7.66	22.33	24.83	14.99	24.20	30.31	50.68	20.12
Capital outlays	25.37	25.00	18.60	24.97	21.26	6.10	7.61	13.64	14.20	14.92
Total expenditures	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
population (census 2001)	6744	3434	13292	13113	7137	4117	10552	18100	83598	7242
(Lek per capita)										
REVENUES	20584	10483	5847	9860	10583	20579	6833	9186	12405	10776
Own revenues	794	1456	401	0	1079	417	95	1223	706	1369
Taxes	469	582	210	0	1009	417	92	1060	465	1369
Non-tax revenue	325	874	190	0	70	0	3	163	241	0
Grants	19790	9027	5446	9860	9504	20162	6738	7963	11699	9406
conditional	14591	5824	3431	6804	6310	14783	4246	5126	8841	4644
unconditional	5199	3203	2015	3056	3195	5379	2493	2836	2858	4762
(Lek per capita)										
EXPENDITURES	15644	13978	5836	10314	9029	20579	6204	9377	13699	11055
Current outlays	11675	10483	4751	7739	7110	19323	5731	8098	11754	9406
Wages and salaries	9075	3203	4303	5435	4868	16237	4230	5256	4812	7181
Other current	2600	7280	447	2304	2242	3086	1501	2842	6943	2225
Capital outlays	3969	3494	1086	2576	1920	1256	472	1279	1945	1649

Source: Ministry of Local Government questionnaires (raw data not validated). Actual revenues and expenditures 2002

Source: Planned revenues and expenditures, 2002. Municipalities' budget decision and execution report, Municipalities Finance Department (compiled World Bank mission)

Table A.2.2 Albania Budget Structure of Selected Communes, 2002																
	Own revenues	Taxes	Non-tax revenue	Grants conditional	Grants unconditional	Total revenues	Current outlays	Wages and salaries	Other current	Capital outlays	Total expenditures	Population (census 2001)	Own revenues (Lek per capita)	Total revenues (Lek per capita)	Current outlays (Lek per capita)	Total expenditures (Lek per capita)
(in thousand lek)																
Own revenues	1830	48	202	1340	618	300	411	2670	5200	1662	900	787	2890	5328	0	0
Taxes	1830	48	202	793	580	300	411	2378	4200	1662	373	787	2670	2796		
Non-tax revenue	0	0	0	547	38			292	1000		527		220	2532		
Grants conditional	38498	48455	48737	36692	55334	58648	34068	42502	62955	56592	65713	31314	51220	72388	3674	
Grants unconditional	29317	36897	38728	27843	39534	50510	23944	36930	43800	45914	55672	19671	35653	45605	2448	
Total revenues	9181	11558	10009	8849	15800	8138	10124	5572	19155	10678	10041	11643	15567	26783	12258	
Total revenues	40328	48503	48939	38032	55952	58948	34479	45172	68155	58254	66613	32101	54110	77716	3674	
(in thousand lek)																
Current outlays	38266	48040	28963	30725	49257	48448	33018	32679	58641	40528	43227	27756	37132	63145	2986	
Wages and salaries	35316	40646	24174	21878	40357	40010	27229	27407	51041	36873	37426	20133	31747	57200	2448	
Other current	2950	7394	4789	8847	8900	8438	5789	5272	7600	3655	5801	7623	5385	5945	5377	
Capital outlays	1600	1220	8076	5965	6700	10500	1030	5000	9500	16064	9810	4174	15428	14433	938	
Total expenditures	39866	49260	37039	36690	55957	58948	34068	37679	68141	56592	53037	31990	52560	77578	3914	
(in percentage of total revenue)																
Own revenues	4.5	0.1	0.4	3.5	1.1	0.5	1.2	5.9	7.6	2.9	1.4	2.5	5.3	6.9	0.0	0.0
Taxes	4.5	0.1	0.4	2.1	1.0	0.5	1.2	5.3	6.2	2.9	0.6	2.5	4.9	3.6	0.0	0.0
Non-tax revenue	0.0	0.0	0.0	1.4	0.1	0.0	0.0	0.6	1.5	0.0	0.8	0.0	0.4	3.3	0.0	0.0
Grants conditional	95.5	99.9	99.6	96.5	98.9	99.5	98.8	94.1	92.4	97.1	98.6	97.5	94.7	93.1	100.0	100.0
Grants unconditional	22.8	23.8	20.5	23.3	28.2	13.8	29.4	12.3	28.1	18.3	15.1	36.3	28.8	34.5	33.4	
Total revenues	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
(in percentage of total expenditure)																
Current outlays	96.0	97.5	78.2	83.7	88.0	82.2	96.9	86.7	86.1	71.6	81.5	86.9	70.6	81.4	76.3	
Wages and salaries	88.6	82.5	65.3	59.6	72.1	67.9	79.9	72.7	74.9	65.2	70.6	63.1	60.4	73.7	62.6	
Other current	7.4	15.0	12.9	24.1	15.9	14.3	17.0	14.0	11.2	6.5	10.9	23.9	10.2	7.7	13.7	
Capital outlays	4.0	2.5	21.8	16.3	12.0	17.8	3.1	13.3	13.9	28.4	18.5	13.1	29.4	18.6	23.7	
Total expenditures	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
population (census 2001)	6174	7071	5019	5508	8921	5202	5501	9047	17944	7966	6338	6225	12352	13292	5703	
(Lek per capita)																
Own revenues	6532	6859	9751	6905	6272	11332	6268	4993	3798	7313	10510	5157	4381	5847	6444	
Own revenues	296	7	40	243	69	58	75	295	290	209	142	126	234	401	0	
Taxes	296	7	40	144	65	58	75	263	234	209	59	126	216	210	0	
Non-tax revenue	0	0	0	99	4	0	0	32	56	0	83	0	18	190	0	
Grants conditional	6236	6853	9711	6662	6203	11274	6193	4698	3508	7104	10368	5030	4147	5446	6444	
Grants unconditional	4748	5218	7716	5055	4432	9710	4353	4082	2441	5764	8784	3160	2886	3431	4294	
Total revenues	1487	1635	1994	1607	1771	1564	1840	616	1067	1340	1584	1870	1260	2015	2150	
(Lek per capita)																
Current outlays	6457	6966	7380	6661	6273	11332	6193	4165	3797	7104	8368	5129	4255	5836	6865	
Wages and salaries	6198	6794	5771	5578	5521	9313	6002	3612	3268	5088	6820	4459	3006	4751	5237	
Other current	478	1046	954	1606	998	1622	1052	583	424	459	915	1225	436	447	943	
Capital outlays	259	173	1609	1083	751	2018	191	553	529	2017	1548	671	1249	1086	1628	

Source: Ministry of Local Government questionnaires (raw data not validated)

Source: Prefecture of Fier, Statistics on local government budgets (compiled World Bank mission)

Table A3.1.a: Albania: Own Local Tax and non-Tax Revenues, 2002 (in Thousand lek)

Districts	Local Taxes								Local fees and service charges									TOTAL LOCAL TAXES, FEES AND CHARGES
	Small business tax	Property tax	Turnover tax	Hotel/tourist tax	Business/shop signs tax	Construction tax	Public space use tax	Other local taxes	Local taxes (total)	Business registration	Soild waste	Advertisement	Slaughter taxes	New residence registration	Parking	Hunting and fishing	Other fees and serv. charge	
1 BERAT	6217	1378	25	67	13921	5954	9664	37226	3740	14834	764	468	617	0	0	17198	37621	74847
3 BULQIZE	5278	28	0	0	138	1861	1397	8702	89	1538	46	0	136	223	0	3086	5118	13820
4 DELVINE	943	181	0	0	1183	107	3389	5803	560	3507	75	76	171	0	0	2518	6907	12710
5 DEVOLL	1726	119	0	0	2478	256	3607	8186	980	3847	187	12	132	0	0	2766	7924	16110
6 DIBER	1475	239	0	0	434	282	1362	3792	1262	2356	91	423	70	0	21	12978	17201	20993
7 DURRES	20990	4430	423	6228	163768	15482	31752	243073	13499	40028	1431	633	1255	0	580	111760	169186	412259
8 ELBASAN	34799	2173	78	1475	23540	8572	25697	96334	7684	40038	1214	943	1474	0	272	49659	101283	197618
9 FIER	19597	3878	22	1924	545	12696	9968	48630	6575	31978	1469	1626	1064	0	774	50720	94206	142836
10 GJIROKASTER	6766	929	0	606	1075	1014	7003	17393	1920	10734	397	147	610	0	60	25450	39318	56711
11 GRAMSH	2907	81	624	24	11	197	952	4796	536	4736	223	80	108	0	651	5889	12223	17019
12 HAS	423	477	0	0	338	180	581	1999	286	1024	39	17	28	0	0	326	1720	3719
13 KAVAJE	0	1413	0	309	10113	5920	3321	21076	0	10763	410	146	2159	0	0	27823	41301	62377
14 KOLONJE	2204	144	48	0	232	613	517	3758	1365	3457	125	72	72	0	242	3831	9164	12922
15 KORCE	20909	1785	37	1210	24029	14270	12129	74369	6010	21345	1123	1399	1089	830	60	33197	65053	139422
16 KRUIE	6343	0	395	479	150	441	2761	10568	1408	5552	110	175	179	0	185	4790	12397	22965
17 KUÇOVE	4062	346	0	0	692	7151	738	12989	1412	5050	246	90	237	0	0	8094	15129	28118
18 KUKES	780	264	41	52	691	956	1190	3974	852	2730	95	254	381	0	0	10014	14326	18300
19 LAÇ	832	166	0	1	5049	1296	914	8257	743	2065	125	154	438	0	95	3102	6722	14979
20 LEZHE	3284	745	0	23	10763	5303	2632	22750	0	5858	204	901	837	0	119	10596	18515	41265
21 LIBRAZHD	1675	1213	0	0	5365	3926	3497	15676	721	4195	101	75	0	0	220	16333	21645	37321
22 LUSHINJE	9094	1581	0	718	9197	4107	26195	50892	6062	15885	905	356	683	0	613	11177	35681	86573
23 MALLAKASTER	6039	490	0	1	606	151	8518	15806	1789	3936	151	76	42	0	220	6569	12785	28590
24 MALESI E MADHE	116	4	0	0	0	1	760	881	663	546	18	7	310	0	0	1003	2547	3428
25 MAT	553	446	0	0	309	996	852	3156	953	2248	79	58	178	0	0	5664	9180	12336
26 MIRDITE	1260	177	0	19	0	406	817	2679	0	2705	93	20	182	0	61	5566	8627	11306
27 PEQIN	992	283	0	6	40	382	2303	4006	561	2828	91	0	0	0	70	5102	8652	12658
28 PERMET	2738	0	0	1	1226	429	3470	7864	540	3609	126	82	53	0	114	4124	8648	16512
29 POGRADEC	3665	2069	0	80	24855	5715	4884	41268	1840	8342	260	198	476	410	0	16785	28311	69579
30 PUKE	1080	328	0	0	1583	374	505	3870	362	1191	41	22	233	0	182	5450	7481	11351
31 SARANDE	2140	1579	54	1225	1847	3968	9647	20460	2064	9042	323	99	569	0	277	45655	58029	78489
32 SHKODER	4240	1254	31	659	12308	3353	8999	30843	5754	17846	944	124	1198	0	433	24055	50353	81196
33 SKRAPAR	2282	216	0	30	79	885	2728	6220	705	2627	128	150	292	0	42	3931	7875	14095
34 TEPELENE	968	395	0	0	337	1215	607	3522	382	2793	73	47	162	0	0	7445	10902	14424
35 TIRANA DISTRIKT	27981	3249	1396	4905	23452	210	8941	70134	3190	6961	980	113	1714	0	51	14708	27717	97851
36 TROPOJE	932	57	0	0	0	20	138	1147	293	1434	80	0	66	0	0	1973	3846	4993
37 VLORA	17677	4764	286	3290	8754	9753	20206	64730	5600	26624	1035	18	163	0	629	118455	152524	217254
TOTAL	358335	81845	34777	57445	730562	220644	277171	1760780	127083	494007	21430	10952	39749	1463	6545	868952	1570180	3330960

Table A3.1.b: Albania: Own Local Tax and non-Tax Revenues, 2002 (Share of each District in the Revenue Item--in Percent)

Districts	Local Taxes									Local Fees and Service Charges										TOTAL LOCAL TAXES, FEES AND CHARGES
	Small business tax	Property tax	Turnover tax	Hotel/ tourism tax	Business/ shop signs tax	Construction tax	Public space use tax	Other local taxes	Local taxes (total)	Business registration	Solid waste	Advertisement	Slaughter-house	New residence registration	Parking	Hunting and fishing	Other fees and serv. charges	Fees & sev. charges (total)		
1 TIRANA MUNICIPALITY	37.5	54.9	90.1	59.4	52.2	46.3	19.7	44.5	36.7	14.4	15.6	17.5	56.7	0.0	0.0	22.0	25.0	36.7		
2 BERAT	1.7	1.7	0.1	0.1	1.9	2.7	3.5	2.1	2.9	3.0	3.6	4.3	1.6	0.0	0.0	2.0	2.4	2.2		
3 BULQIZE	1.5	0.0	0.0	0.0	0.0	0.8	0.5	0.5	0.1	0.3	0.2	0.0	0.3	15.2	0.0	0.4	0.3	0.4		
4 DELVINE	0.3	0.2	0.0	0.0	0.2	0.0	1.2	0.3	0.4	0.7	0.3	0.7	0.4	0.0	0.0	0.3	0.4	0.4		
5 DEVOLL	0.5	0.1	0.0	0.0	0.3	0.1	1.3	0.5	0.8	0.8	0.9	0.1	0.3	0.0	0.0	0.3	0.5	0.5		
6 DIBER	0.4	0.3	0.0	0.0	0.1	0.1	0.5	0.2	1.0	0.5	0.4	3.9	0.2	0.0	0.3	1.5	1.1	0.6		
7 DURRES	5.9	5.4	1.2	10.8	22.4	7.0	11.5	13.8	10.6	8.1	6.7	5.8	3.2	0.0	8.9	12.9	10.8	12.4		
8 ELBASAN	9.7	2.7	0.2	2.6	3.2	3.9	9.3	5.5	6.0	8.1	5.7	8.6	3.7	0.0	4.2	5.7	6.5	5.9		
9 FIER	5.5	4.7	0.1	3.3	0.1	5.8	3.6	2.8	5.2	6.5	6.9	14.8	2.7	0.0	11.8	5.8	6.0	4.3		
10 GJIRKASTER	1.9	1.1	0.0	1.1	0.1	0.5	2.5	1.0	1.5	2.2	1.9	1.3	1.5	0.0	0.9	2.9	2.5	1.7		
11 GRAMSH	0.8	0.1	1.8	0.0	0.0	0.1	0.3	0.3	0.4	1.0	1.0	0.7	0.3	0.0	9.9	0.7	0.8	0.5		
12 HAS	0.1	0.6	0.0	0.0	0.0	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.1	0.0	0.0	0.0	0.1	0.1		
13 KAVAJE	0.0	1.7	0.0	0.5	1.4	2.7	1.2	1.2	0.0	2.2	1.9	1.3	5.4	0.0	0.0	3.2	2.6	1.9		
14 KOLONJE	0.6	0.2	0.1	0.0	0.0	0.3	0.2	0.2	1.1	0.7	0.6	0.7	0.2	0.0	3.7	0.4	0.6	0.4		
15 KORCE	5.8	2.2	0.1	2.1	3.3	6.5	4.4	4.2	4.7	4.3	5.2	12.8	2.7	56.7	0.9	3.8	4.1	4.2		
16 KRUIJE	1.8	0.0	1.1	0.8	0.0	0.2	1.0	0.6	1.1	1.1	0.5	1.6	0.4	0.0	2.8	0.6	0.8	0.7		
17 KUÇOVE	1.1	0.4	0.0	0.0	0.1	3.2	0.3	0.7	1.1	1.0	1.1	0.8	0.6	0.0	0.0	0.9	1.0	0.8		
18 KUKES	0.2	0.3	0.1	0.1	0.1	0.4	0.4	0.2	0.7	0.6	0.4	2.3	1.0	0.0	0.0	1.2	0.9	0.5		
19 LAÇ	0.2	0.2	0.0	0.0	0.7	0.6	0.3	0.5	0.6	0.4	0.6	1.4	1.1	0.0	1.5	0.4	0.4	0.4		
20 LEZHE	0.9	0.9	0.0	0.0	1.5	2.4	0.9	1.3	0.0	1.2	1.0	8.2	2.1	0.0	1.8	1.2	1.2	1.2		
21 LIBRAZHD	0.5	1.5	0.0	0.0	0.7	1.8	1.3	0.9	0.6	0.8	0.5	0.7	0.0	0.0	3.4	1.9	1.4	1.1		
22 LUSHNJE	2.5	1.9	0.0	1.2	1.3	1.9	9.5	2.9	4.8	3.2	4.2	3.3	1.7	0.0	9.4	1.3	2.3	2.6		
23 MALLAKASTER	1.7	0.6	0.0	0.0	0.1	0.1	3.1	0.9	1.4	0.8	0.7	0.7	0.1	0.0	3.4	0.8	0.8	0.9		
24 MALESI E MADHE	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.1	0.5	0.1	0.1	0.1	0.8	0.0	0.0	0.1	0.2	0.1		
25 MAT	0.2	0.5	0.0	0.0	0.0	0.5	0.3	0.2	0.7	0.5	0.4	0.5	0.4	0.0	0.0	0.7	0.6	0.4		
26 MIRDITE	0.4	0.2	0.0	0.0	0.0	0.2	0.3	0.2	0.0	0.5	0.4	0.2	0.5	0.0	0.9	0.6	0.5	0.3		
27 PEQIN	0.3	0.3	0.0	0.0	0.0	0.2	0.8	0.2	0.4	0.6	0.4	0.0	0.0	0.0	1.1	0.6	0.6	0.4		
28 PERMET	0.8	0.0	0.0	0.0	0.2	0.2	1.3	0.4	0.4	0.7	0.6	0.7	0.1	0.0	1.7	0.5	0.6	0.5		
29 POGRADEC	1.0	2.5	0.0	0.1	3.4	2.6	1.8	2.3	1.4	1.7	1.2	1.8	1.2	28.0	0.0	1.9	1.8	2.1		
30 PUKE	0.3	0.4	0.0	0.0	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.6	0.0	2.8	0.6	0.5	0.3		
31 SARANDE	0.6	1.9	0.2	2.1	0.3	1.8	3.5	1.2	1.6	1.8	1.5	0.9	1.4	0.0	4.2	5.3	3.7	2.4		
32 SHKODER	1.2	1.5	0.1	1.1	1.7	1.5	3.2	1.8	4.5	3.6	4.4	1.1	3.0	0.0	6.6	2.8	3.2	2.4		
33 SKRAPAR	0.6	0.3	0.0	0.1	0.0	0.4	1.0	0.4	0.6	0.5	0.6	1.4	0.7	0.0	0.6	0.5	0.5	0.4		
34 TEPELENE	0.3	0.5	0.0	0.0	0.0	0.6	0.2	0.2	0.3	0.6	0.3	0.4	0.4	0.0	0.0	0.9	0.7	0.4		
35 TIRANA DISTRIKT	7.8	4.0	4.0	8.5	3.2	0.1	3.2	4.0	2.5	1.4	4.6	1.0	4.3	0.0	0.8	1.7	1.8	2.9		
36 TROPOJE	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.4	0.0	0.2	0.0	0.0	0.2	0.2	0.1		
37 VLORA	4.9	5.8	0.8	5.7	1.2	4.4	7.3	3.7	4.4	5.4	4.8	0.2	0.4	0.0	9.6	13.6	9.7	6.5		
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		

Table A3.1.c: Albania: Own Local Tax and non-Tax Revenues, 2002 (revenue composition in each District--in percent)

Districts	Local Taxes									Local fees and service charges									TOTAL LOCAL TAXES, FEES AND CHARGES
	Small business tax	Property tax	Turnover tax	Hotel/tourism tax	Business/shop signs tax	Construction tax	Public space use tax	Other local taxes	Local taxes (total)	Business registration	Solid waste	Advertisement	Slaughter house	New vehicle registration	Parking	Hunting and fishing	Other fees and service charges	Fees & serv. charges (total)	
1 TIRANA MUNICIPALITY		11.1	3.7	2.6	2.8	31.2	8.3	4.5	64.0	3.8	13.9	0.6	0.2	1.8	0.0	0.0	15.6	36.0	100.0
2 BERAT		8.3	1.8	0.0	0.1	18.6	8.0	12.9	49.7	5.0	19.8	1.0	0.6	0.8	0.0	0.0	23.0	50.3	100.0
3 BULQIZE		38.2	0.2	0.0	0.0	1.0	13.5	10.1	63.0	0.6	11.1	0.3	0.0	1.0	1.6	0.0	22.3	37.0	100.0
4 DELVINE		7.4	1.4	0.0	0.0	9.3	0.8	26.7	45.7	4.4	27.6	0.6	0.6	1.3	0.0	0.0	19.8	54.3	100.0
5 DEVOLL		10.7	0.7	0.0	0.0	15.4	1.6	22.4	50.8	6.1	23.9	1.2	0.1	0.8	0.0	0.0	17.2	49.2	100.0
6 DIBER		7.0	1.1	0.0	0.0	2.1	1.3	6.5	18.1	6.0	11.2	0.4	2.0	0.3	0.0	0.1	61.8	81.9	100.0
7 DURRES		5.1	1.1	0.1	1.5	39.7	3.8	7.7	59.0	3.3	9.7	0.3	0.2	0.3	0.0	0.1	27.1	41.0	100.0
8 ELBASAN		17.6	1.1	0.0	0.7	11.9	4.3	13.0	48.7	3.9	20.3	0.6	0.5	0.7	0.0	0.1	25.1	51.3	100.0
9 FIER		13.7	2.7	0.0	1.3	0.4	8.9	7.0	34.0	4.6	22.4	1.0	1.1	0.7	0.0	0.5	35.5	66.0	100.0
10 GJIROKASTER		11.9	1.6	0.0	1.1	1.9	1.8	12.3	30.7	3.4	18.9	0.7	0.3	1.1	0.0	0.1	44.9	69.3	100.0
11 GRAMSH		17.1	0.5	3.7	0.1	0.1	1.2	5.6	28.2	3.1	27.8	1.3	0.5	0.6	0.0	3.8	34.6	71.8	100.0
12 HAS		11.4	12.8	0.0	0.0	9.1	4.8	15.6	53.7	7.7	27.5	1.0	0.5	0.8	0.0	0.0	8.8	46.3	100.0
13 KAVAJE		0.0	2.3	0.0	0.5	16.2	9.5	5.3	33.8	0.0	17.3	0.7	0.2	3.5	0.0	0.0	44.6	66.2	100.0
14 KOLONJIE		17.1	1.1	0.4	0.0	1.8	4.7	4.0	29.1	10.6	26.8	1.0	0.6	0.6	0.0	1.9	29.6	70.9	100.0
15 KORCE		15.0	1.3	0.0	0.9	17.2	10.2	8.7	53.3	4.3	15.3	0.8	1.0	0.8	0.6	0.0	23.8	46.7	100.0
16 KRUIJE		27.6	0.0	1.7	2.1	0.7	1.9	12.0	46.0	6.1	24.2	0.5	0.8	0.8	0.0	0.8	20.9	54.0	100.0
17 KUÇOVE		14.4	1.2	0.0	0.0	2.5	25.4	2.6	46.2	5.0	18.0	0.9	0.3	0.8	0.0	0.0	28.8	53.8	100.0
18 KUKES		4.3	1.4	0.2	0.3	3.8	5.2	6.5	21.7	4.7	14.9	0.5	1.4	2.1	0.0	0.0	54.7	78.3	100.0
19 LAÇ		5.6	1.1	0.0	0.0	33.7	8.6	6.1	55.1	5.0	13.8	0.8	1.0	2.9	0.0	0.6	20.7	44.9	100.0
20 LEZHE		8.0	1.8	0.0	0.1	26.1	12.9	6.4	55.1	0.0	14.2	0.5	2.2	2.0	0.0	0.3	25.7	44.9	100.0
21 LIBRAZHD		4.5	3.3	0.0	0.0	14.4	10.5	9.4	42.0	1.9	11.2	0.3	0.2	0.0	0.0	0.6	43.8	58.0	100.0
22 LUSHNJE		10.5	1.8	0.0	0.8	10.6	4.7	30.3	58.8	7.0	18.3	1.0	0.4	0.8	0.0	0.7	12.9	41.2	100.0
23 MALLAKASTER		21.1	1.7	0.0	0.0	2.1	0.5	29.8	55.3	6.3	13.8	0.5	0.3	0.1	0.0	0.8	23.0	44.7	100.0
24 MALESI E MADHE		3.4	0.1	0.0	0.0	0.0	0.0	22.2	25.7	19.3	15.9	0.5	0.2	9.0	0.0	0.0	29.3	74.3	100.0
25 MAT		4.5	3.6	0.0	0.0	2.5	8.1	6.9	25.6	7.7	18.2	0.6	0.5	1.4	0.0	0.0	45.9	74.4	100.0
26 MIRDITE		11.1	1.6	0.0	0.2	0.0	3.6	7.2	23.7	0.0	23.9	0.8	0.2	1.6	0.0	0.5	49.2	76.3	100.0
27 PEQIN		7.8	2.2	0.0	0.0	0.3	3.0	18.2	31.7	4.4	22.3	0.7	0.0	0.0	0.0	0.6	40.3	68.3	100.0
28 PERMET		16.6	0.0	0.0	0.0	7.4	2.6	21.0	47.6	3.3	21.9	0.8	0.5	0.3	0.0	0.7	25.0	52.4	100.0
29 POGRADEC		5.3	3.0	0.0	0.1	35.7	8.2	7.0	59.3	2.6	12.0	0.4	0.3	0.7	0.6	0.0	24.1	40.7	100.0
30 PUKE		9.5	2.9	0.0	0.0	13.9	3.3	4.4	34.1	3.2	10.5	0.4	0.2	2.1	0.0	1.6	48.0	65.9	100.0
31 SARANDE		2.7	2.0	0.1	1.6	2.4	5.1	12.3	26.1	2.6	11.5	0.4	0.1	0.7	0.0	0.4	58.2	73.9	100.0
32 SHKODER		5.2	1.5	0.0	0.8	15.2	4.1	11.1	38.0	7.1	22.0	1.2	0.2	1.5	0.0	0.5	29.6	62.0	100.0
33 SKRAPAR		16.2	1.5	0.0	0.2	0.6	6.3	19.4	44.1	5.0	18.6	0.9	1.1	2.1	0.0	0.3	27.9	55.9	100.0
34 TEPELENE		6.7	2.7	0.0	0.0	2.3	8.4	4.2	24.4	2.6	19.4	0.5	0.3	1.1	0.0	0.0	51.6	75.6	100.0
35 TIRANA DISTRIKT		28.6	3.3	1.4	5.0	24.0	0.2	9.1	71.7	3.3	7.1	1.0	0.1	1.8	0.0	0.1	15.0	28.3	100.0
36 TROPOJE		18.7	1.1	0.0	0.0	0.0	0.4	2.8	23.0	5.9	28.7	1.6	0.0	1.3	0.0	0.0	39.5	77.0	100.0
37 VLORA		8.1	2.2	0.1	1.5	4.0	4.5	9.3	29.8	2.6	12.3	0.5	0.0	0.1	0.0	0.3	54.5	70.2	100.0
TOTAL		10.8	2.5	1.0	1.7	21.9	6.6	8.3	52.9	3.8	14.8	0.6	0.3	1.2	0.0	0.2	26.1	47.1	100.0

Table A3.1.d: Albania: Own Local Tax and non-Tax Revenues, 2002 (in lek per capita)

Districts	Local Taxes									Local fees and service charges								TOTAL LOCAL TAXES, FEES AND CHARGES	
	Small business tax	Property tax	Turnover tax	Hotel/tourism tax	Business/shop sign tax	Construction tax	Public space use tax	Other local taxes	Local taxes (total)	Business registration	Solid waste	Advertisement	Slaughter-house	New residence registration	Parking	Hunting and fishing	Other fees and serv. charges		Fees & serv. charges (total)
1 TIRANA MUN.		396	132	92	100	1117	299	160	2296	137	497	22	6	66	0	2	560	1289	3585
2 BERAT		49	11	0	1	109	47	76	291	29	116	6	4	5	0	0	135	294	585
3 BULQIZE		123	1	0	0	3	43	33	203	2	36	1	0	3	5	0	72	119	322
4 DELVINE		88	17	0	0	110	10	315	539	52	326	7	7	16	0	0	234	642	1181
5 DEVOLL		50	3	0	0	72	7	104	236	28	111	5	0	4	0	0	80	229	465
6 DIBER		17	3	0	0	5	3	16	44	15	27	1	5	1	0	0	151	201	245
7 DURRES		116	24	2	34	901	85	175	1338	74	220	8	3	7	0	3	615	931	2269
8 ELBASAN		157	10	0	7	106	39	116	435	35	181	5	4	7	0	1	224	457	892
9 FIER		98	19	0	10	3	64	50	244	33	161	7	8	5	0	4	255	473	717
10 GJIROKASTER		124	17	0	11	20	19	128	318	35	196	7	3	11	0	1	466	719	1038
11 GRAMSH		81	2	17	1	0	6	27	134	15	132	6	2	3	0	18	165	342	476
12 HAS		22	24	0	0	17	9	30	102	15	52	2	1	1	0	0	17	87	189
13 KAVAJE		0	18	0	4	129	76	42	270	0	138	5	2	28	0	0	356	528	798
14 KOLONJE		128	8	3	0	14	36	30	219	80	201	7	4	4	0	14	223	534	753
15 KORCE		146	12	0	8	168	100	85	520	42	149	8	10	8	6	0	232	455	976
16 KRUIE		100	0	6	8	2	7	43	166	22	87	2	3	3	0	3	75	195	362
17 KUÇOVE		115	10	0	0	20	202	21	368	40	143	7	3	7	0	0	229	428	796
18 KUKES		12	4	1	1	11	15	19	62	13	43	1	4	6	0	0	157	225	287
19 LAÇ		15	3	0	0	93	24	17	152	14	38	2	3	8	0	2	57	124	275
20 LEZHE		48	11	0	0	159	78	39	336	0	86	3	13	12	0	2	156	273	609
21 LIBRAZHD		23	17	0	0	74	54	48	217	10	58	1	1	0	0	3	226	299	516
22 LUSHNJE		63	11	0	5	64	29	182	354	42	110	6	2	5	0	4	78	248	601
23 MALLAKASTER		165	13	0	0	17	4	232	431	49	107	4	2	1	0	6	179	348	779
24 MALESI E MADHE		3	0	0	0	0	0	19	22	17	14	0	0	8	0	0	25	64	87
25 MAT		9	7	0	0	5	16	14	52	16	37	1	1	3	0	0	93	150	202
26 MIRDITE		34	5	0	1	0	11	22	72	0	73	3	1	5	0	2	150	233	305
27 PEQIN		30	9	0	0	1	12	70	122	17	86	3	0	0	0	2	155	262	384
28 PERMET		106	0	0	0	48	17	135	305	21	140	5	3	2	0	4	160	335	641

Table A3.1.d: Albania: Own Local Tax and non-Tax Revenues, 2002 (in lek per capita)																			
Districts	Local Taxes									Local fees and service charges									TOTAL LOCAL TAXES, FEES AND CHARGES
	Small business tax	Property tax	Turnover tax	Hospital insurance tax	Business/Professional tax	Construction tax	Public space use tax	Other local taxes	Total taxes (total)	Business registration	Solid waste	Advertisement	Slaughter house	New vehicle registration	Parking	Housing and heating	Other fees and services	Fees & serv. charges (total)	
29 POGRADEC	52	29	0	1	353	81	69	586	26	118	4	3	7	6	0	238	402	987	
30 PUKE	31	10	0	0	46	11	15	113	11	35	1	1	7	0	5	158	218	330	
31 SARANDE	61	45	2	35	53	113	275	583	59	258	9	3	16	0	8	1301	1654	2237	
32 SHKODER	23	7	0	4	66	18	49	166	31	96	5	1	6	0	2	130	272	438	
33 SKRAPAR	76	7	0	1	3	30	91	208	24	88	4	5	10	0	1	132	264	472	
34 TEPELENE	30	12	0	0	10	37	19	109	12	86	2	1	5	0	0	230	336	445	
35 TIRANA DISTR.	157	18	8	28	132	1	50	393	18	39	5	1	10	0	0	83	155	549	
36 TROPOJE	33	2	0	0	0	1	5	41	10	51	3	0	2	0	0	71	138	179	
37 VLORA	120	32	2	22	59	66	137	440	38	181	7	0	1	0	4	805	1037	1477	
TOTAL	117	27	11	19	238	72	90	574	41	161	7	4	13	0	2	283	512	1085	
Main Statistics, 2001																			
Maximum value	396	132	92	100	1117	299	315	2296	137	497	22	13	66	6	18	1301	1654	3585	
Minimum value	0	0	0	0	0	0	5	22	0	14	0	0	0	0	0	17	64	87	
Average value	78	15	4	8	108	45	80	337	29	122	5	3	8	0	3	234	404	742	
Standard deviation	73	22	15	18	231	60	77	408	26	94	4	3	11	2	4	245	339	687	
Coefficient of variation	0.93	1.47	4.22	2.41	2.14	1.32	0.96	1.21	0.90	0.77	0.79	0.99	1.41	3.42	1.54	1.05	0.84	0.93	

