

**International Studies Program
Working Paper 08-27
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assignment of functions in SEE:
the case of Albania**

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International Studies Program
Andrew Young School of Policy Studies
Georgia State University
Atlanta, Georgia 30303
United States of America

Phone: (404) 651-1144
Fax: (404) 651-4449
Email: ispaysps@gsu.edu
Internet: <http://isp-aysps.gsu.edu>

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Conceptual problems in the assignment of functions in SEE: the case of Albania¹

(Provisional version: not to be quoted)

Bernard Dafflon

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Since years 2000-2002 when the new legislation on decentralization has been enforced in Albania, several important and remarkable reports have been produced, from internal and external sources, which analyse the process of decentralization, its results, difficulties and challenges (for example: OECD, 2004; The World Banks, 2004a, 2004b; Conway, 2006; Hoxha A. and J. Dhimitri, 2006). Most of studies are organised on technical bases that relate to the economics and management difficulties of implementing decentralisation. Others (OSCE, 2007) look at questions related to elections and the political environment, to participative democracy, poverty reduction or corruption. No doubt: central and local governments will find in these documents proposals and suggestions that aim at inducing, reinforcing or correcting decentralization in specific areas of public activity. This paper takes another avenue; it looks at the "political economy" of the decentralization process in Albania. The assignment of functions and revenue sources to the local and regional tiers is examined from the perspective of and with the methods of "constitutional economics". This approach raises fundamental questions: about the adequacy of the legal and institutional framework; whether the political and bureaucratic milieus are prepared to accept the numerous policy prescriptions and recommendations for true and fair implementation? And when technical solutions are founded on normative considerations, many of them not of economic nature, who decides? How do the necessary checks and balances function so that participative democracy and legitimacy are guaranteed?

Section 1 proposes a description of the institutional situation in Albania. It explains the territorial decoupage of the "local" government tiers in relation to their political organs, where politics is still characterised by heavy tension and patronage. Section 2 concerns the legislation regarding the organisation and functioning of Local Governments. The fundamental Law 8652 (2000) "on the organisation and functioning of local governments" is not simply an organic law as its title announces, but also contains the list of decentralized competencies and their financing. Section 3 analyses the concepts of authority, competency, power and functions of local governments given by law and their subsequent use in decentralization. What are the criteria for decentralization? Are the "exclusive, shared and delegated" functions coherent with

those concepts and criteria? Section 4 concludes with a list of issues addressed to the stakeholders for a new round of decentralization.

1 Description of the institutional situation of local governments

Section one contains a short presentation of the geography (subsection 1.1) and politics (subsection 1.2) of the Republic of Albania. The territorial and political map of the local government (LG thereafter) is not self evident from the outset and has to be described: in addition to the fragmentation of the LGs in "too many too small" communes, there exist quarter, villages and districts which add to the complexity of the situation for the purpose of decentralization (subsection 1.3). Since decentralization and local democracy are twins, a short presentation of the political organs of LGs follows. Subsection 1.4 concludes with some considerations on the consequences for decentralization.

1.1 Geography

The Republic of Albania (*Shqipëria*: "the nation of eagles") is a mountainous country in Eastern Europe in the Balkan Peninsula. It lies between the Adriatic Sea on the West, Greece in the South, Macedonia and Kosovo (Serbia) in the East and Montenegro in the North. It is one of the smallest European country, with a surface of 27 682 square kilometres and a population of just over 4,1 millions residents.

Tirana, the capital town, officially counted 585 756 inhabitants (OSCE, 2005), but in the last years, the Tirana urban and peri-urban areas, like that of Durrës, Elbasan, received a substantial net inflow of population - not all duly registered -, to the detriment of rural areas. Tirana agglomeration has probably 900 000 inhabitants. Shkodër (200 000 inhabitants – official figures, 2007), Durrës (115 000), Vlorë (92 000) and Elbasan (81 000) are the main cities. The migratory movements from rural areas to the urban centres create structural problems: on the one side, high fixed costs are pricing out local public services in the former whereas, on the other side, urban social service facilities and infrastructures get overcrowded.



1.2 Politics

The majority political parties (the actual coalition in power) at the central level are: the *Democratic Party (DP)*, first democratic party approved in 1990, right of centre, went as the strongest party in the last parliamentary elections on July 3 2005, with 42 MPs. Its chairman and actual Prime Minister is Sali Berisha; the *Republican Party (RP)*, 11 MPs; the *Christian Democrats (DCP)*, 8 MPs; the *Democratic Reformers*, 7 MPs; the *Democratic Centre*, 6 MPs; *Environmental and agricultural Party (EAP)*, 7 Members. In the opposition are the *Socialist Party (SP)*,² which emerged in June 1991 from the communist "Labour Party of Albania", 34 MPs; the *Socialist Integration Movement and Social Democracy*, 7 MPs; the *Social Democratic Party (SDP)*, 7 MPs; a Group "*Liberal-Democratic Centre*", 5 MPs. In addition, there are also 6 independent MPs. Large cities are actually governed by politicians who belong to the opposition at the national level.

² The SP aims at a social-democratic model of Western-style. After the electoral defeat of the SP in the October 2005 in the national parliamentary election, Edi Rama, who is also Mayor of Tirana since 2001 (re-elected 2004 and 2007) , succeeded Fatos Nano at the Head of the SP, after internal turmoil and dissent between the young reformers and the tenants of the old line.

The last local elections took place on February 18, 2007. In its Report, the OSCE (2007) observes that these elections only partly met the international standards for democratic elections: *"it is of concern that the main political parties in Albania have, once again, placed narrow and short-term party interest over the stability and trustworthiness of the election process."* Political parties largely failed in the preparation and conduct of election so that local elections had to be postponed by a month from the original date of 20 January. The political deadlock was resolved following a belated political agreement on January 12, 2007 reached under the auspice of the resident diplomatic community and the OSCE chairman-in-office.

1.3 Territorial division in local government units

Albania is divided in 12 regions, 65 municipalities (mainly urban, with more than 15 000 inhabitants) and 309 communes mainly rural. The units of local government (thereafter LGU) are communes, municipalities and regions (Cst 1998 art. 108 paragraph 1). Communes and municipalities are the basic (first) tiers of local government; regions, are the second tiers (Law 8652, 2000, article 5 – see below in section 2). Table 1 gives relevant details about the territorial organisation of LGs, the number of residents and their surface.

Table 1 Albania - Territorial organisation in Local Governments 2005

Region	Administrative district	LG units Municipalities / communes	Villages (LGs' subdivision)	Population 2005	Surface km2	Density
1	2	3	4	5	6	7
BERATI	Berat, Kuçovë, Skrapar	5 / 20	245	266'401	1'665	160
DIBER	Bulquizë, Dibër, Mat	4 / 31	279	225'800	2'373	95
DURRES	Durrës Krujë,	6 / 10	106	352'673	705	500
ELBASAN	Elbasan, Gramsh, Librazhd, Peqin,	7 / 43	397	437'087	3'251	134

FIER	Fier, Lushnjë, Mallakastër	6 / 36	278	480'589	1'740	276
GJIROKASTER	Gjirokaster, Permet, Tepelene,	6 / 26	271	168'879	2'902	58
KORCE	Devoll, Kolonjë, Korçë, Pogradec,	6 / 31	345	357'915	3'503	102
KUKES	Kukës, Has, Tropojë	3 / 24	185	140'437	2'479	57
LEZHE	Laç, Lezhë, Mirditë	5 / 16	169	209'584	1'514	138
SHKODER	Shkodër, Pukë, Malesia e Madhë	5 / 28	272	337'194	3'184	106
TIRANA	Kavajë, Tirana	5 / 24	233	829'885	1'646	504
VLORE	Delvinë, Sarandë, Vlorë	7 / 20	195	341'100	2'720	125
12	36	65 / 309	2 975	4'147'544	27'682	150

Source: col. 1, 5 – 7: *Local Government and Decentralization Strategy*, Ministry of Interior, Republic of Albania, Tirana, December 2006, page 4 – 5; col. 2 – 3: Local own revenues + transfers in the communes and municipalities, Ministry of Finance, Republic of Albania, Tirana, 2004; col. 4, The World Bank, 2004b, p. 8.

According to art. 110 Cst. "*a region consists of several basic units of LG with traditional, economic and social ties and joint interests. The region is the unit in which regional policies are constructed and implemented and where they are harmonised with state policy.*" Regions were established in the 12 existing jurisdictions of the prefectures without consideration of the new role they should have in decentralization. Besides the Regional Council, composed by the delegates of the communes and municipalities, art. 114 of the 1998 Constitution prescribe that "*The Council of Ministers appoints a prefect in every region as its representative. The powers of the prefects are defined by law.*" In principle, prefectures have no fiscal autonomy; all their implementing/coordinating powers emanate directly from the ministries.

Table 1 also lists the "*administrative districts*", which are no longer mentioned in the 1998 Constitution. The 36 districts (a reminiscence of the previous 1991 constitution) were joined into the new regions – yet they did not disappear altogether. Their actual role is not clear. In law 8652 article 75, *the prefect is responsible for performing the functions of former district councils, which have not been transferred to the communes and municipalities according to this chapter* (note: "Chapter XI Transitory and closing provisions"). This should have occurred right after the 2000 local elections.³ That is: the prefect is appointed at the level of the prefecture, a deconcentrated jurisdiction of the central government which has the same boundaries as the region, but he still performs functions in the districts – which ought to have disappeared in the new territorial organisation since their functions were transferred to the communes and municipalities – but remain as subdivision of the region in Law 8652 (art. 5 paragraph 6). In the presentation of many administrative documents such as the data sheets about local own revenues and transfers or local expenditures received from the Ministry of Finance, municipalities and communes are still grouped in the old district system despite that the district have de facto no role in the actual decentralization model.

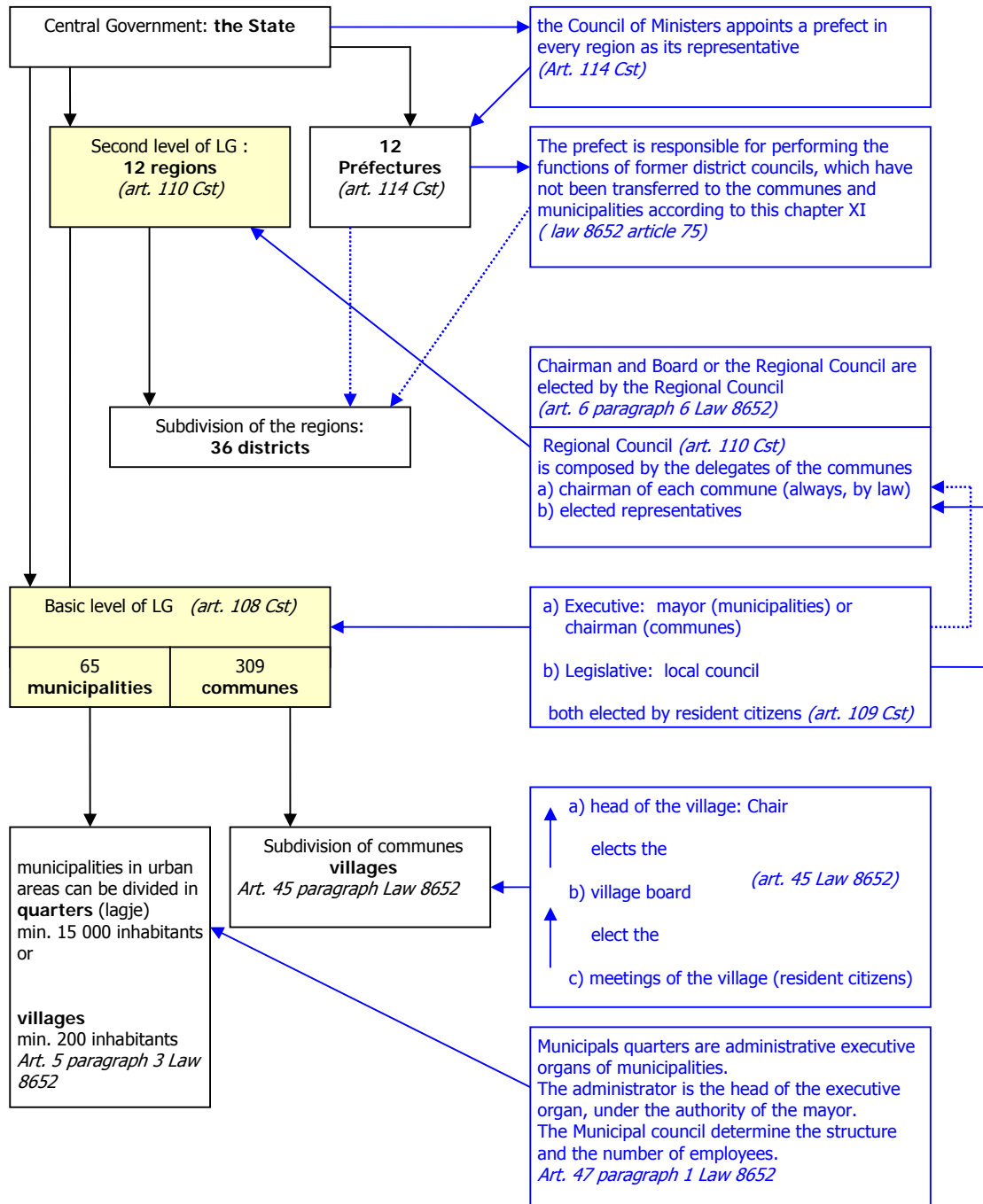
As basic units of LG, communes and municipalities perform *all the duties of self-government, with the exception of those that the law gives to other units of local government. Self-government is exercised through their representative organs and local referenda* (Law 8652, art. 108 paragraph 3 and 4). The only statutory difference between communes and municipalities is that communes govern mostly in rural areas, while the municipalities mostly in urban areas. Municipalities are subdivided in quarters (*lagje*) which, contrary to villages, are pure administrative sections, with an administrator and employees under the authority of the mayor (art. 47 Law 8652). But municipalities can also include villages. Although the villages are in the law subdivisions of the communes (art. 45 Law 8652), communes are de facto federations of villages. Villages are not simple LGs' administrative subunits: the village assembly elects its own representatives, the village board (*kryesia*) which in turn elects the

³ With the administrative-territorial reform, the District Councils were suppressed and the 36 district administrations absorbed by the 12 prefectures. Expenditures that had been the responsibility of the district councils were assigned to the prefectures on an interim basis for 2001. In 2002 the task of paying the operation and maintenance costs of public health clinics, including wages and salaries or the related staff was passed over to the municipalities, and the task of paying the transportation of teachers and students to the regions (The World Bank, 2004b: 9, footnote 19).

chairman (kryetar) who is the village authority (art. 45 Law 8652). Head of village and village board exercise and support the execution of all self-government duties as well as take care of economic development, the use of mutual resources and shall ensure social harmony (art. 46 paragraph 1 Law 8652) – whatever this may mean. This institutional organisation leads to a high degree of fragmentation in LGs units: there are more than 3 000 settlements of which nearly 2 400 have less than 1000 inhabitants; only 80 LG units have more than 10 000; and 3 municipalities (Tirana, Shkodër and Durrës) with more than 100 000 inhabitants. The question of a territorial reorganisation (in particular the amalgamation of LG units) has been on the political agenda since 2003 but without much success (Council of Europe, 2004).

Although decentralization in Albania respects the general line of a two tiers government, the institutional structure of LGs in Albania is not evident from the outset. It is presented in the following chart 2.

Chart 2 Organs of Local Government Units (*art.6 Cst 1998 and Law 8652, 2000*)



1.4 Selected institutional problems for decentralization

- The reader will certainly understand that the reference to the incessant political turmoil around the last and previous local elections is not intended to stigmatise Albanian LGs. But because of its repetitive character from one local election to another, it is certainly not the best political environment for a sustained momentum in the decentralization process.⁴

- The regions are still empty boxes because their functions are poorly defined (see next section) and they have no relevant fiscal power. The regions were constituted in the early 2001. Their number of 12 was decided *per inertia* as from 1992 Albania was having 12 prefectures. No analysis was made defining their role, territory and appropriate number. But the central government instructed and supported them to have a minimum number of staff of 35 people (Hoxha, 2006: 4). Later, facing the so called "crisis of the regions", the discussion has been guided by the believe that this administrative-territorial reform should be in line with the EU regional nomenclature and that "regions" would facilitate a future access to European funds, first for international financial aid, thereafter in case of adhesion. But in the European nomenclature, regions are NUTS 2 and count between 800,000 and 3 millions inhabitants – compare to the average size of 257,000 in Albanian regions (with a range between 140,000 in Kukes to 829,000 in Tirana – see Table 1).⁵

⁴ The signature of a Stabilization and Association Agreement (SAA) in the June 12,2006 with an EU experiencing an institutional crisis – which puts a climax of its enlargement strategy to the East –, was considered by authorities led by Albania Democratic Party (PDSH) like an historic stage of their post-communist transition. This event seems also a reward for the government of Prime Minister Sali Berisha (PDSH) which, constituted in September 2005 after two months of bargaining, has focused his policy on war on corruption. The readmission agreement concluded, three months earlier, about the Albanian illegal immigrants living in member states was obviously a prerequisite to the SAA. Tackling corruption and organised crime are also a mean for the former head of State (1993-1997) to settle accounts with the opposition. Even if his traditional rival, Fatos Nano, had leaved the direction of the Albania Socialist Party (PSSH), the new leader, Edi Rama, Tirana's mayor since 2000, encounters some difficulties with Sali Berisha who managed pitifully the crisis of financial pyramids (1997). The economic results of 2005 are always as ambiguous (as before) : beside an economic growth of 6 %, the energy crisis hinders any improvement to industrial production like living conditions and trading deficit (two billions dollars) reached now a quarter of GDP. While the poor state of infrastructures remains a major constraint to the economic rebuilding, cooperation with the neighbouring states, stimulated by the signature with EU of a treaty fostering an integrated market for natural gas and electricity in the Balkans, has scored small progresses. However, and more than ever, United States remains the main strategic partner. (www.cairn.info/resume_p.php?ID_ARTICLE=CPE_064_0164 - printed September 9, 2008)

⁵ On the concept of regions in Europe, see Council of Europe, 2004-2006 and OECD, 2002.

- The role of the districts within the regions is not clear; former district should have no functions after the 2000 local election since their competencies were to be transferred to communes and municipalities (see footnote 2)– yet districts remain as subdivisions of the regions.
- The position of the prefect is ambiguous. On the one side, he is the representative of the central government in the region: what his exact role given the competencies assigned to the region (see section 3) and in the district? On the other side, he is responsible for the functions of the former district which have not been transferred to the communes – but the district remains.
- The high degree of fragmentation of LGs is a real problem: it weakens the implementation capacity for the devolution of own competencies, affects the already precarious access and quality to local services. Moreover, it has served as a pretext to the delays in the decentralization agenda (The World Bank, 2004: 14-16). Do the situation "rural communes = de facto federation of villages" results from the dispersed geographical position of the villages and distance to the main local centre (economies of scale in the production of local services would then be difficult) or to divergent own preferences for public services between villages? What are the consequences of the political fragmentation (too many too small communes)? Compulsory amalgamation was on the political agenda in the early 2000 but the criteria were disputed by experts as inadequate and contrary to article 108 al. 2 Cst (Council of Europe, 2004). Law 5682 already allows the voluntary association of LGs for the delivery of specific public services and joint service delivery contracting out; it can be extended to the definitive amalgamation of jurisdictions themselves, respecting the constitutional and legal framework. An effective option would be for the central government to put in place technical and study support for LGs that envisage this issue and substantial financial and fiscal incentives for those which take the step on voluntary basis.
- There are many problems and dispute that can emerge from the institutional organisation described in Chart 2. Which concept of economic development, the use of common resources and social harmony in the villages will prevail if the power to define

concepts is not clearly given to a government level; could it be a source of conflict with the objectives pursued by the LG unit? In case of difference, how the legitimacy of the head of the village (resp. the village board) is positioned in comparison to the legitimacy of the mayor (resp. the local council), both elected by resident citizens? In urban areas, what is the true influence and political power of the elected heads of villages compared to that of the appointed administrators of city quarters (under the sole authority of the mayor)?

2 An economic lecture of the legislation on local government

The organisation and functioning of LGs in Albania is founded on the 1998 Constitution (subsection 2.1) and a basket of laws concerning their organisation, decentralized functions and revenue sources, as well as provisions about land planning (subsection 2.2). The "reference" Law 8652 on LGs defines their "authority" in reference to six categories which give the extent of local self-government in comparison to the standards set by the European Charter of Local self-Government (subsection 2.3). Subsection 2.4 points out two resulting problems: one emerges from the fact that Law 8652 is not simply an organic law, but enumerates the LGs' functions for the delivery of local public services and utilities; the other question is that of the interpretation of the various categories of "authority" and the subsequent coherence with the delegation or the devolution of competencies to LGs.

2.1 The 1998 Constitution

The introduction of local self-government in Albania began with the 1992 Act on Local Government; but in the following years, the situation remains largely centralized. The initial steps towards decentralization in Albania were taken in 1998-1999. At that time, the government set up a "National Decentralization Committee" that assumed the leadership and the consultation in the preparation of the decentralization strategy

(thereafter: NDS for "national decentralization strategy"). The legal reform progressed steadily in this period, with the adoption of a new Constitution, approved by the Albanian Parliament on October 21, 1998.

Table 3 Constitutional provisions on LGs (1998 Constitution)

article Nr	description
13	<i>Local government in the Republic of Albania is founded upon the basis of the principle of decentralization of power and is exercised according to the principle of local autonomy.</i>
Part six "Local Government"	
108	defines that <i>the units of LG are communes or municipalities and regions. They perform all duties of self-government, exercised through their representative organs and local referenda. It also stipulates that LG units can be territorially divided by law.</i>
109	rules the system of election and representation in LGs.
110	defines the region, its function and its representative organs.
111	Prescribes that LG units have an independent budget, which is created in the manner provided by the law.
112	is about delegated functions, but more important gives the precision that <i>LGs' expenses that are incurred in the exercise of the delegation are covered by the state (the centre).</i>
113	gives details about the rights of self-government
114	allows the Council of Ministers to appoint a prefect in the regions.
115	rules the appropriate sanctions in case of serious violation of the constitution or the law by a LG elected organ

2.2 Law 8652 and subsequent legislation regarding LG

In November 1999, the Parliament ratified the European Charter for Local Self-Government. At that time, considerable progresses were accomplished in the Albanian legislation compared to the anterior situation: so that the new framework for decentralization complies with the 14 core paragraphs of the European Charter and 26 out of 30 articles. The central government adopted the National Strategy for Decentralization (NSD) in February 2000 and thereafter, on July 31, 2000 Law 8652 "On the Organization and Functioning of Local Governments". Together they provided the framework for decentralization in Albania. Table 4 divides the legislation

concerning LGs in three groups: organization and competencies source of local financing and physical land planning and zoning.

Table 4 Albanian legislation regarding Local Government

Law Nr	Date of approval by Parliament	title
8548	11/11/1999	On the ratification of the European Charter of Local Self-Government
8652	31/07/2000	<u>Organization and competencies:</u>
8653	31/07/2000	On the organization and functioning of Local Government
9123	29/07/2003	On the administrative-territorial division of LG units of the Republic of Albania:
8654	31/07/2000	amended
8744	22/02/2001	On the organization and functioning of the municipality of Tirana On the transfer of the real estate properties of the state to the local government units
8652	31/07/2000	<u>LG sources of revenue:</u>
8978	12/12/2002	On the organization and functioning of Local Government (chapter V) On local small business tax
8979	12/12/2002	On some additions and amendments to Law No 8438, date 28.12.1999, "On the income tax" with the respective amendments No 8979, 12/12/2002; No 9161, 18/12/2003; No 9326, 06/12/2004 and No 9458, 21/12/2005.
8980	12/12/2002	On some amendments to the Law No 8560, date 22.12.1999, "On the tax procedures in the Republic of Albania", improved
8982	12/12/2002	On the system of local taxes:
9456	12/12/2005	amended
8991	23/01/2003	<u>Land planning and zoning:</u> On some additions and amendments to the Law No 8405, date 17.9.1998, "On urban planning", amended by the decision No 2, date 25.11.1999 of the Constitutional Court, and by Laws No 8453, date 4.2.1999, No 8501, date 16.6.1999 and No 8682, date 7.11.2000.

Sources: "Local Government and Decentralization Strategy", Ministry of Interior,

Republic of Albania, Tirana, December 2006, section 1; Hoxha and Dhmitri, 2006: bibliography.

As many law and decentralisation in Transition Economies, the Albanian Law 8652 on LGs diverges from the traditional European legislation on local government because it not only gives the fundamentals for the organization and functioning of LGs (its title), but also – here is the difference – enumerate in the same law (despite its title) in chapter IV the *functions and competencies of commune, municipality and region*, divided in exclusive functions (Art.10), shared functions (Art. 11) and delegated functions (Art. 12) for the communes and municipality, and the function of the regions (Art. 13) – see next section. In the same vein, Chapter V is about LG finance: it combines on one side the rules about LG budget, their finance record and control (Art. 15 and 19 – 22), and on the other side, the material content of LG revenue sources with the locally derived ("own") revenue (Art. 16), revenue derived from national sources (revenue sharing and transfers – Art. 17) for communes and municipalities and for the regions (Art. 18).

2.3 Definition and categories of "authority" for LG units

Law 8652 distinguishes between "authority" and "functions". Authority is synonymous with "competency" and means the authority given by law to a certain entity to carry out a certain function. The concept do not exactly correspond to "self-government" in the sense of the European Charter of Local Self-Government since it is further divided in six categories declined in Table 4, which somehow limit complete "own" authority on local functions. The vocabulary used here is confusing because "own" and "delegated" authority are also used to qualify "own" and "delegated" function (see Table 5 below) – but it is not clear at the outset whether "authority" and "function" have the same meaning. In practice, only four categories of "authority" have been considered: administrative, service, investment and regulatory, mainly to reduce the extent of "exclusive" or "own" competences of local governments.

Table 4 Categories and definition of "authority" for LG units

Law 8652 art.	Category	definition	comment

2 Paragra ph:			
6	Own	Exclusive competence given by law to LG to carry out their functions	
7	Adminis -trative	competence to manage structures (setting up, improvement and merging) and personnel (appointment, dismissal, transfer, training and setting of wages, compensation) in compliance with the legislation in force	Operational and managerial competence; objectives and standards of provision of that service are fixed by the centre;
11	Service	to plan, deliver and realize the maintenance of objects and perform auxiliary services	"auxiliary" not defined;
10	Investm ent	to plan, distribute and perform investment	"distribute" not defined; since LG units have subdivision, it probably means the territorial site of the investment;
9	Regulat ory	To establish regulations and rules (issuance of licenses, opening/closing hours of local services, imposing penalties or in general to grant rights and establish obligations) in compliance with the standards and legislation in force	
8	Delegate d	competence of the central government that is by law or agreement assigned to a LG unit (LGU thereafter)	principal – agent relation

2.4 Problems of decentralization

- A first problem is the **absence of separation between organisation and functions** in Law 8652. In the European tradition, the law comparable would concern exclusively the designation of LGs organs, their functioning, the procedures of decision, vote and management, and the rules of participative democracy. The chapter on local finance would also contain the budget process, the main accounting principles and give the rule for the account system (schedule, criteria for preparation, execution, amortisation and debt management, audit provisions and publication). But the organic law would neither

gives the list of specific decentralized responsibilities or functions; nor would it enumerate the possible local taxes or user charges.

It belongs to the legislation on specific functions (primary school, water management, traffic and roads, land zoning, and so on), if appropriate, to assign competencies at the local level and give the necessary prescriptions. It would be the same for the legislation on the various taxes levied at the local level or the apportionment of specific tax yield between the central and the local tiers.

In our experience, it would have been preferable that the Albanian legislation on the organisation of LGs did neither include the list of competencies – which concern the specific laws on those topics) nor the list of taxes and fees. The separation of the legislation between organisation and functions:

- gives a long term stability to the rules for the LG institutions and a much more dynamic horizon to the ever evolving local public functions,
 - permit to differentiate for each function the criteria of decentralization (with the necessary distinction between delegation or devolution);
 - adapt more rapidly the local tax legislation to the opening of the economy, to the mobility of the tax base and to tax competition.
- The second problem here is the **interpretation of the concept of "authority"**. Art. 108 of the Constitution refers to "self-government" in the same sense than that of the European Charter. Law 8652 Art. 4 paragraph 1 indicates that "The organs of LG exercise their authority on the basis of local autonomy". Taken as written, the sequence of concept is: "self-government" ⇒ local autonomy ⇒ authority. But the use in Law 8652 of the concepts of "authority", "competency", "responsibility" and "function" and the logical link between these concepts are far from clear. Thus, in art. 2 paragraph 1 "*function is the field of responsibility of a certain level of government*". But in paragraph 5, "*Authority [Competency] means authority given by law to a certain entity to carry out a certain function*". If correctly understood: LGs have authority or competency to carry out functions, which are fields of responsibility. In art. 10 al. 3, "*the communes and municipalities shall assume responsibilities for the following*

exclusive functions:" ... (enumerated). The title of chapter IV runs: "*functions and competencies of commune, municipality and region*".

- A third problem is the **deliberate vagueness in several definitions**. What is the implication of vocabulary nuances for the implementation of decentralization? Are these nuances fully understood by all stakeholders and correspondingly taken into consideration? For example: compared the following two paragraphs; differences are underlined:

Law 8652 art. 2 paragraph 2

"*Delegated functions*" are functions of central government or other central government institutions that by law or by contractual agreement between the central government and the local government unit are assigned to a local government for performance in a manner and to a degree which is determined by the central government or other central government institutions.

Law 8652 art. 2 paragraph 8

"*Delegated authority*" means an authority of central government that is by law or agreement assigned to a unit of local government.

It is evident from the point of view of any ministry in the central government that a delegation of function is better than a delegation of authority because the latter only delegates the competence, but would leave LGs with the full responsibility of organising the implementation of this function, whereas with the former formulation, the central government, or more probably CG ministries can also dictate the result in quality and quantity and fix the production function. In fact, normative prescriptions in the legislation for specific decentralized functions look much more like a restrictive delegation of power, with line ministries in command and LGs as executive agents. Moreover, the lack of financial resources limits the local room of manoeuvre for the provision of local public service above the standards fixed in most specific laws. Indeed delegated functions can be almost equal to deconcentration.

3. The assignment of responsibilities to LGs

With the Parliamentary decision to adopt in 2000 Law 8652, the legal reform represent a turning point in the decentralization of responsibilities and the public resource allocation system in Albania. In the previous decade LGs were used as mere agents by the CG and line ministries, which made most of the relevant decision for the provision of local public services and utilities. Yet, although the relevant basic legal framework has been adopted, practical implementation has been and still is difficult: it has faced technical, bureaucratic and political difficulties.

Three avenues must be explored in the assignment of functions to LG units, which can be contextualised for Albania with the aid of Law 8652: the definition of functions, the criteria for the assignment of functions and the resulting list of local competencies per category of function. These points are treated in subsections 3.1 to 3.3. Subsection 3.4 will focus on the actual results of the decentralization process between 1998 and 2006. Subsection 3.5 concludes with four consecutive problems.

3.1 The definition of functions

Law 8652 Art. 2 delimits three categories of functions: delegated, shared and exclusive. Definitions are given in the Table 5. This table also contains in full the text of further legal dispositions and restrictions that are given in subsequent articles of Law 8652. Most analyses of the decentralization process in Albania include the three categories "deconcentration, delegation and devolution", but then turn to the canon of fiscal federalism for definitional references without much care of the detailed prescriptions of Law 8652. Nuances are washed away,⁶ which may lead to operational difficulties: with approximation in the interpretation of the text, CG bureaucrats rapidly occupy the ground; the task of specifying responsibilities and power is left to the

⁶ In "Albania: decentralization in Transition", vol. II: Analytical Report, World Bank Report No 27885-ALB, February 2004, the following definitions are given: "exclusive functions of LG are those in which the local jurisdiction is the main beneficiary area of the public services" (vol. II p. 26). And a footnote 46 adds: "although more than one jurisdiction may benefit from specific service provision, due to economies of scale and externality spillover." Page 27 the definition of shared functions is "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." Thus, the three same qualifications are enounced (beneficiary area, economies of scale and spillover) for the two categories – but one cannot find these references in Law 8652. Where is the difference and how to measure it ?

decision of line ministries, an approach which, because of the obvious vested interests involved, is more likely to maintain deconcentration rather than to lead to devolution. Therefore, an analytical approach from the point of view of institutional economics is necessary in order to dispel any definitional doubt.

Table 5 The definitions of functions

category	Law 8652	definition	Further legal dispositions or restrictions
1	2	3	4
Delegated	Art. 2 Par. 2 Art 12 Par. 1, 6 and 7 Par. 2, 3 and 4 mandatory Par. 5 non-mandatory	<i>* Functions of central government (CG) or CG institutions that by law or by contractual agreement between the CG and the LG are assigned to a LG for performance in a manner and to a degree which is determined by the CG or CG institutions</i>	<p><i>(1) The delegated functions and powers are mandatory and non-mandatory.</i></p> <p><i>(6) In any case, the CG guarantees necessary financial support to the LGUs to exercise delegated functions and power.</i></p> <p><i>(7) The LGUs may, at their own initiative, commit their financial resources to the performance of delegated functions in order to achieve a higher level of service in the interest of the community.</i></p> <p><u>Mandatory:</u></p> <p><i>(2) The mandatory functions and powers are determined by the law.</i></p> <p><i>(3) The CG institutions, when allow by law, may authorize LGs to undertake a function under their [CG institution] jurisdiction. The CG should describe the procedure for carrying out these functions and the manner in which it will control its provision.</i></p> <p><i>(4) The CG institution may authorize the LG to exercise one single competency for a certain function.</i></p> <p><u>Non-Mandatory (optional):</u></p> <p><i>(5) The LGUs may be authorized to undertake other functions or competencies of the CG which are non-mandatory [optional]. This should be done solely by an agreement between the CG</i></p>

			<i>representative and the LGU.</i>
Shared / joint	Art. 2 Par. 3 Art. 11 Par. 1, 2 and 4	<i>Functions for which the LG unit (LGU) has its share of responsibility distinguished from the share of responsibility granted to CG, and the functions are accompanied proportionally with competencies, which are exercised autonomously.</i>	<i>(1) Communes and municipalities may undertake any of the following shared functions** separately, or jointly, with the central government in compliance with the schedule set forth in chapter XI of this Law.*** (2) To the extent that CG requires a LG to perform any shared function or meet a national standard in the performance of a shared function the CG shall provide financial support of the requirement. ... (4) Communes and municipalities may assume responsibility for any of shared functions described in this Article**, and which are regulated in any case law. The relation between LGs and CG for function set forth in this Law, are regulated by law and normative acts.</i>
Exclusive / own	Art. 2 Par. 4 Art. 10 Par. 2	<i>Functions given by law to the LGU, for the realization of which it is responsible and has the authority to make decisions and use means for their realization, within the norms, criteria and standards generally accepted by law. LGs shall exercise full administrative, service, investment and regulatory authority over these functions. (see Table 4 for the definitions of authority categories).</i>	<i>(2) The communes and municipalities exercise their functions in compliance with the regional and national policies. The CG may issue national standard in relation to exclusive functions for the sole purpose of achieving a clear and specific national interest, provided that the national standard does not limit LGs' discretion in areas of clear local interest. In those cases where a LG does not have adequate resources to meet a national standard, the CG shall provide the necessary support to enable the LG to achieve the national standard.</i>
* The text in blue corresponds to the definition of "delegated authority" (given in Table 4). ** Functions are listed in Art. 11 Par. 3; see below Table 6. *** Chapter XI of Law 8652 contains transitory and closing provisions. It indicates at which date (2000, respectively 2001) which exclusive or shared functions are in the full responsibility of the communes or municipalities.			

(1) With "exclusive" functions, LGs have full authority (the four qualification are given – see Table 5 column 3) for the provision of a local public service. Yet, further national legal disposition can restrict LGs "full" authority to a marginal one since CG can edict national standards (Table 5 column 4). Of course, the situation is qualified: standards must concern a "clear and specific national interest". But what is "national interest" and who decides it – the Council of Ministers, line ministries or the Parliament – how much "clear" and what is "specific"? Does local public service have externality spillover of national scope (the Allocation Branch in Musgrave trilogy) – but then what are the reasons for local production and isn't local production a form of principal-agent delegation of power rather than devolution? Or is the national interest: the equal access throughout the country to a specific service (the Distributive – in kind – Branch) or motivated by the protection of minorities (a political rather than a strict economic argument)?

(2) With "shared" or "joint" function, each government level, central and local, has a distinct share of the total responsibility and competencies are proportioned in consequence. The redaction of this text is crystal clear: if function S_1 is a "joint" responsibility of the CG and the communes / municipalities and R stands for

"responsibility", then the only possible formula is: $\sum_{LGU=1}^{374} R \text{ for } S_1 = [1 - R^{CG} \text{ for } S_1]$. Full

responsibility of government is given the value of one; R^{CG} is that part of the responsibility vested in the CG; and therefore the difference is the responsibility of communes and municipalities – the summation sign for the 65 municipalities and 309 communes. It also means that, by definition, function S_1 must be performed simultaneously by the CG and LGUs. Yet, art. 11 Paragraph 1 permits that communes and municipalities may undertake a joint function (listed in the law) separately, or jointly, with the CG. How can a LGU perform "separately" a joint function; how is this contradiction to be solved; how "joint" functions will be implemented separately only by LGs? External experts have answered these questions in the following way (WB, 2004b: 27):

"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."

This is a normative answer which raises several fundamental questions. First, it is one possible interpretation of Law 8652, but not the only one: do the stakeholders in Albanian decentralization share this point of view? If a shared function is assigned selectively to a particular LGU, as distinct from the assignment to another LGU, how is the difference between the local delivery and the total production that respect the given "national level" to be produced, by which level of government, does the centre steps in for the rest of the production? If the assignment is selective, isn't the system closer to non-mandatory delegated functions, with individual contract setting out the specific target for each LGU?

(3) The concept of external spillovers is related to both the exclusive and shared functions in a way that is confusing for implementation. For the exclusive functions, the LG authority is exercised "*within the norms, criteria and standards generally accepted by the law*" (Law 8652, art. 2 paragraph 4). Art. 10 paragraph 2 defines that the CG can issue national standards "*for the sole purpose of achieving a clear and specific national interest*". And the WB (2004b: 27) defines shared functions: *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 service.*" Note that this definition (i) is not the definition of the law; (ii) uses the concept of "*major externalities*" further defined as quantity and quality that satisfy national interest, and thus (iii) raises the question of the semantic difference between this use and the "*clear and specific national interest*" qualifying the CG's restriction for the exclusive local functions?

Public Choice theory teaches that when the vocabulary used is not coherent, repetitive in a dubious sense or even contradictory, it leaves a room of manoeuvre which is rapidly occupied with the vested interests of the strongest, here without doubt the Central Government, and more probably line ministries. Experience shows that in this circumstance, decentralization is much closer to a combined "deconcentration-

delegation" status than to devolution.⁷ Finding acceptable solutions in fiscal federalism needs democracy and dialogue. Information and transparency are essential for democracy. Dialogue thrives mainly on the quality of the communication between the stakeholders. It is therefore essential to apply some basic rules of discourse. Incoherence and disagreement over the vocabulary used, problem definitions are settled by argument that require collective acceptance (Blindenbacher and Watts, 2003, pages 18-19). The issue here is not that one definition is better than another; it is to question whether the words and concept used have the same meaning for all stakeholders in the Albanian decentralisation context, so that they may have a common understanding of the questions raised above.

3.2 Criteria for the assignment of functions

While art. 13 of the 1998 Cst enounces the principles of *decentralization of power* and of *local autonomy*, it does not give other criteria for (de)centralization. The word "autonomy" is not mentioned at all in Law 8652. The law mentions explicitly one criterion only, "*subsidiarity*", defined in Art. 2. The grammar of other assignment criteria is not straightforward. Some of them are given directly in Art. 3, but others must be gathered from other articles (2, 8 and 10). Some are deductive (such as "economies of scale, from art. 8); others must be interpreted (norms and standards, art. 2).

- **Subsidiarity** is explicitly mentioned in art. 2 paragraph 15 and in art. 4 paragraph 2: "*subsidiarity means that whenever it is possible the service and functions should be carried out by the level of government [governance] which is closest to the citizens*".

In its original formulation, the principle of subsidiarity introduces a presumption of competence in favour of the lowest government layer. The theorem enounces two arguments (Dafflon, 2006: 290-293). (i) Local authorities are in a better position to supply public services to residents, in terms of preferences, efficiency and budget accountability. (ii) Re-assignment of any local responsibility at the next higher

⁷ In a statement about decentralization in Albania, USAID wrote: "... but authority remains overwhelmingly concentrated in the central government, while local service coverage is still spotty and weak". Available at [http://albania.usaid.gov/shfaqart/57/52/Local Government and Decentralization in Albania](http://albania.usaid.gov/shfaqart/57/52/Local%20Government%20and%20Decentralization%20in%20Albania). Updated on September 05, 2007, printed August 31, 2008.

government layer is acceptable only if the local level is no longer capable of providing a public service. Note that in the original definition of subsidiarity, it belongs to the lower government layer to decide how and when local capacity is exhausted. Capacity is normally defined in productive and managerial terms - it is not "financial" capacity, which would call for block-grants or the reorganisation of revenue sources. Note that deficits in local administrative and technical capacities for implementing decentralization can only justify postponing decentralization measures for a short initial period and should be rapidly overcome through specific training programmes. Building local capacity is a *sine qua non* component of the decentralization strategy and a responsibility of the central government. However, despite these precisions, the subsidiarity principle is not easy to implement since it announces normative rules but does not propose effective implementation criteria. For example, in the definition for Albania, only the first part of the original formulation is given and it relates to proximity and not to capacity.

Other criteria that can be derived from various articles in Law 8652 are:

- **Local preferences** for public services can be derived from the "*recognition of the existence of different identities and values of the communities*" (art. 3 lit.a;) and "*opportunity for communities to make choice between different kinds of public facilities and services*" (art. 3 lit. c);
- **Allocative efficiency** can be inferred from the "*efficient exercise of the functions, competencies and duties of various LGUs*" (art. 3 lit. ç); "*delivery of appropriate services*" (art. 3 lit. d);
- **Efficacy in the production** of local public services and utilities: "*effective exercise of function, competencies and duties of LGUs*" (art. 3 lit. ç);
- **Participative democracy**: "*promotion of the effective participation of local residents in LG*" (art. 3 lit. dh).

Finally, the two following criteria must be interpreted from the law.

- **Economies of scale** are not explicitly mentioned in Law 8652, but art. 8 on the Rights of LGs, part V gives to LGs the right to collaborate in the form of mutual

agreements or contracts, delegation or contracting a third party, to organize in association, in order to carry out specific function in the benefit of their inhabitant.

In standard fiscal federalism horizontal cooperation between LGUs follows two arguments: one is to reduce the average cost of producing local public services and facilities, the other is to resolve spillover effects, if any (see below).

- **Respect of norms and standards:** exclusive functions are exercised "*within the norms, criteria and standards generally accepted by law*" (art. 2 paragraph 4). Reasons for setting norms and standards at the central level are not clearly specified in the law. However Art. 10 paragraph 2 gives the precision that standards in relation to LG exclusive functions can be issued "*for the sole purpose of achieving a clear and specific national interest*".

Theories of fiscal federalism generally accept that norms could be decided by the centre for at least three reasons:

(i) external spillovers, so that residents in a LGU cannot free ride and benefit without payment from local service and facilities of a neighbouring LGU that produce those services;

(ii) protection of minorities, because majority voting might systematically reject minority preference in sensible areas of local public functions (language in school education is the standard example);

(iii) reason of national social welfare (the so-called "merit goods") when the CG fears that LGU will under-produce a particular local service, so that throughout the country access to a minimum service level is guaranteed in certain functions.

Enacting national standards that have to be respected in the local provision of certain services probably refers to reasons (ii) and (iii) above. Despite the debate around spillovers in relation to exclusive and shared functions, the first reason (i) is not likely to occur at the national level since there are not many local public services with externalities that extent to the national territory; spillovers are more frequent between central municipalities and neighbouring LGU in urban areas; this requires a horizontal

solution between the LGUs concerned and not a vertical solution coming from the centre that encompasses the national territory.

3.3 Local competencies per category of function

Following the definitions of functions (exclusive, shared, delegated), Law 8652 lists in Articles 10 to 13 the competencies that are assigned to LGs. Table 6 gives the details. Some characteristics of the assignment must be noted:

- No delegated functions are given: from this point of view, Law 8652 is truly organic. It enounces the conditions of delegation, but it belongs to the laws on specific functions to define the nature and the extent of the delegation (see Table 4 above).
- Regions have no clear role in the production of decentralized public services, but to develop ad implement regional policies and harmonize them with the national policies at the regional level (Cst art. 110 paragraph 2 and Law 8652 art. 13 paragraph 1). But are the regional "policies": regional growth, regional planning, transportation, the road network ? No precision is given. But the scope of regional policies – whatever the definition- is fenced by the two other government tiers. On the one side, it has to be harmonized with national policies at the regional level – harmonization here does not mean co-decision in those national policies that are of regional interest: the centre decides, the regions adapt themselves to these decisions. On the other hand, means and facilities for economic development are in the hands of the communes and municipalities.
- Education and health are shared functions. With the determination of norms and standards by the CG, and financial limited resources at the LG level, the risk is high that LGUs will simply be executive agents of the centre, with great difficulties in producing more that the basic requirement level of the norms and standards. In fact, LGs will be executive agents of the CG, that is a situation which is close to deconcentration and the line ministries regulation of the pre-2000 situation. Differences in the "official" statistical data of total local expenditure published by the Ministry of Finances and

adjusted data uses by analysts in their apprehension of decentralisation confirm this ambiguous situation (see Table 8 below).

Table 6 Assignment of function to regions, communes and municipalities (Law 8652)

function	region		Communes and municipalities		
	exclusive	delegated	exclusive	shared	delegated
	Art. 13 Par. 2		Art. 10 par. 3 I, II, III and IV	Art. 11, par. 3	Art. 12
1	2	3	4	5	6
1 Justice and Public security			<ul style="list-style-type: none"> • protection of public order to prevent administrative violations • enforcement of local Acts • regulation of market places and trade network • civil security 	<ul style="list-style-type: none"> • public order • civil protection 	
2 Education				<ul style="list-style-type: none"> • pre school education • pre university education 	
3 Cultural, recreational and sport activities			<ul style="list-style-type: none"> • recreational activities • protection and promotion of local cultural and historic values • parks and public spaces • city / village decoration 		
4 Health care				<ul style="list-style-type: none"> • protection of public health • priority health care 	
5 Social services			<ul style="list-style-type: none"> • housing • elderly home • day care • orphanage • social services 	<ul style="list-style-type: none"> • social assistance • poverty alleviation 	
6 Roads, Traffic and Public transport			<ul style="list-style-type: none"> • construction, rehabilitation and maintenance of local roads, sidewalks 		

			<ul style="list-style-type: none"> and squares • public lighting • public transport 		
7 Environment and public sanitation			<ul style="list-style-type: none"> • water supply • sewage and drainage system • waste management (collection, transport, disposal / treatment) • veterinary services • cemeteries and funeral services • flood protection canals in residential areas • urban planning, land management • construction permits 	<ul style="list-style-type: none"> • environmental protection 	
8 Economy	<ul style="list-style-type: none"> • formulation and implementation of regional policies and their harmonization with the national policies at the regional level 		<ul style="list-style-type: none"> • protection and development of local forests, pasture and natural resources • local economic development • promotional activities, fairs and advertisement • small business development 		

3.4 Patterns of Local Government Expenditures

The patterns of LG expenditures is analysed from the perspectives of the distribution of expenditures by levels of Government, their functional structure and their economic composition. For simplicity, all data tables are placed at the end of the text. It must be said at the outset that it has not been easy to obtain expenditure statistical data that are comparatively robust and can be used with the necessary confidence for driving and implementing a national decentralization strategy.

Before analysing the patterns of LGs expenditures, Table 7 gives the general macroeconomic position of the public sector in Albania, compared to GDP in the dynamic of years 1998 – 2006 and also the economic composition of public expenditures for the same period. Total public expenditures have been consolidated around 30 % of GDP, but with a decreasing proportion between 1998 (34%) and 2006 (28%) thanks to GDP sustained growth. Note the high degree of dependence on foreign financing for capital expenditures: around 40 % for the last three years – the proportion was almost half in the precedent years. From 1998 to 2006, total State expenditures presented an annual average rate of growth of 10 per cent. The highest rates of growth were registered for: health insurance (20%); social insurance (18%); social assistance (13%) and administration salaries (13%). With an annual increase of 34%, local budget grants hit the record, though the initial amount was rather low: in 1999, it accounted for 5% of total current expenditure, for 11% in 2006.

- **The Functional Structure of Local Expenditures**

The functional structure of local public expenditure is given in Table 8 for year 1998 to 2006; for 2006, the table also gives the share of LGs and CG for each function. Table 8 gives the official statistical data without adjustment in health and education expenditures (see next point below). This presentation biases the interpretation of the results and the true distribution of LGs responsibilities in the various functions.

In 2006, the more costly functions at the local level are education (34% of total local expenditures: Table 8 column 14) , social security and welfare (18%), general public services and administration (15%), housing (12%), transport and communication (12%),

health (6%). But, as said before, in education and social services, decisions remain highly concentrated at the ministerial level and these functions are simply executed through the local budgets. In comparison to the 2000 situation, the above percentage have decreased for education (-6 percentage points), health, social security and welfare (-3 percentage points); it has increased for administration and general public services (+1 percentage point) and for road and communication (+10 percentage points).

Over the 9-years period, the annual growth rate per function was important in transport and communication (+ 96 percentage point annual, see Table 8 last column right – although the initial 1998 amount was low which partly explains this growth rate), for housing and communal amenities (+35% annual) and for general public services and administration (+28% annual), a sign that the local bureaucracy is gaining over service delivery – in contrast to the development of managerial capacities at the local level which is much slower (WB, 2004b: 53).

The question of disparities in local public expenditures per function certainly arises in the Albanian context. But consolidated expenditures data by spending category at the municipal and communal level are not readily available; data obtained directly from the local administration are not always consistent or entirely reliable – disparities between LGs are assessed in revenue sources and not in expenditures or needs differentials. But a few observations are possible.

[1] Inter-communal or municipal comparison would not be easy for certain functions because of the specific legal status for Tirana. Health care service in the capital town is the responsibility of the Tirana Health Regional Authority, an autonomous entity under the Health Insurance Institute and the Ministry of Health.

[2] Since 1999 (Kosovo crisis), the Tirana, Durrës and Elbasan urban and peri-urban areas have received a substantial net flow of population, which have had a disruptive impact on the quality, efficiency and delivery of public service facilities. As a result of the concentration of poverty and the needy in certain areas, local expenditures for social security and welfare and for housing present considerable disparities. Rapid urbanisation also requires a shift in expenditure priorities such as urban planning, zoning, public transportation and public utilities.

[3] Large disparities exist in the function "transport and communication". According to the Albanian Association of Communes,⁸

⁸ Document called "Communes", received from the Presidency of the AAC, August 2008.

"The overall situation in the rural areas is difficult: very poor rural infrastructure, utilities, such as water and sanitation, waste management and poor private sector development and financial support. The roads are in bad condition (about 50 per cent are more or less impassable), leaving many villages and communes isolated, particularly during the winter. Communication constraints are becoming a big impediment for development of local economies and for the provision of education and health services. Consequently, poor villagers are deprived of many of the basic services. Solid waste collection and disposal service does not exist in rural areas. Farm families dispose of solid waste into open areas, into drainage systems, irrigation canals, if garbage is not simply burnt. There are also significant disparities in service access among the mountainous, hilly and flat rural areas. Rural infrastructure is more developed in the plain areas, less developed in hilly areas and poorly developed in mountainous areas which bring about disparities for various communal governments. The very poor living conditions and infrastructure services in mountain villages have forced a massive migration towards coastal plains and big urban centres. This demographic shift has increased the pressure toward the communal government and made it even less of a priority for central government."

Although identified as recurrent problems in many reports on decentralization in Albania (for example: WB, 2004b: 27, 36, 48, 71), the delivery of public utilities at the decentralized level (water supply, sewerage, garbage collection and solid waste management) is not specified in the functional nomenclature of Table 9. Yet distinct chapters in the budgeting – account system are necessary for these functions – especially in view of the policy recommendation that these functional expenditures should be covered through fees and user charges according to the benefit-principle. Without clear information on the production costs of each function, efficient tariffs are not possible.

- **Distribution of Expenditures by Levels of Government**

From Table 7 and 8 obtained from the Ministry of Finance, it is possible to construct Table 9 Bloc I in order to analyse both the distribution of public expenditures between the government layers and their growth from 1998 to 2006. However, in the current debate, expenditures statistical data are subject to analytical adjustments which result in various interpretations. Table 9 contains four blocs, three of them representing external non governmental expert evaluations.

From 1998 to 2005, the share of the local government budget in the total public expenditures has raised slowly from around 11% to about 17% according to certain statistical sources (Table 9, Blocs II and III), or from 18% to around 22% (Bloc I) or even more: 27% (Bloc IV) for other data sources – in all cases 5 to 6 percentage points. Table 9 summarizes the result. We leave to the reader to decide if on average one percentage point per year is a steady pace and a good performance in decentralization!

The table is organised in such a way that whenever possible, annual series are noted so that comparisons between the four blocs is facilitated. Thus, "total local expenditure" are always signalled by letter "A"; the ratio of local government budget to GDP by F and by D, the ratio of local budget as percentage of the total public expenditure.

- ✓ Total local public expenditure in % of GDP raised from 3.8 in 1998 to 4.6% in 2006 (Bloc II), compared to a 29% ratio "total public expenditure/GDP" in 2006 (Table 1) – that is 24 percentage points for the central government and around 5 percentage points for LGs.
- ✓ Progression of "own" local public expenditures as a percentage of total local public expenditure score better in the three Blocs II to IV giving this information, whatever the adjusted statistical data used. In Bloc II, the proportion grew from 4.7% in 1998 to 45% in 2005, with a marked threshold effect in 2001. In Bloc III, the growth goes from 4.2% to 30% for the same period, with a marked decrease between 2005 and 2006. In Bloc IV these ratios increased from 3.4% in 1998 to 13% in 2003.
- ✓ Thus, despite the difficulties encountered on the way to decentralization, qualitative progress has been made in the form of a higher relative share of "own" versus other local public expenditures. In short, the proportion of local to total public expenditure has not very much increased from 1998 to 2006 (5 percentage points), but the internal ratio "own to total" local expenditure has progressed by around 40 percentage points.
- ✓ Note however that these ratios are embellished in the period 2001-2006 in Bloc II and III since expenditures in health and education are attributed to the centre, as we explain in the next paragraph.

Besides the presentation of results, Table 9 gives the opportunity of debating the viability of statistical sources in SEE countries and the consecutive problem of driving public policies, decentralization in our case. The table is divided in four blocs. Blocs I gives the "official" data published by the Ministry of Finance, as obtained in August 2008. With the notable exception of 2003 in Bloc IV, these are also the figures that the World Bank used for the 2004 Report (WB, 2004b: 33, table 2.2). The "total local expenditures" in Blocs I and IV are much higher than the figures presented in blocs II and III by Conway (2006) and Hoxha and Dhimitri (2006): analysts in the Urban Institute and the Institute for Contemporary Studies in Tirana are using adjusted statistical data.⁹ Differences between the two sets of data are explained by the exclusion of expenditures related to salaries and social insurance for teachers and health workers from total local public expenditures. This is not only a technical accounting detail: differences in accounting and statistical data reveal differences in the interpretation as to which level of government bears the responsibility and the financing of the function and in the comprehension of "delegated" versus "shared" responsibilities, or maybe between deconcentration, delegation and devolution.¹⁰ In education and health care, LGs have de facto received some discretion on the operations and maintenance of facilities (school buildings, clinics and laboratories), but have no decision-making power over personal and investment (WB, 2004b: 28).

- **The Economic Composition of Local Expenditures**

The economic composition of local expenditures concerns four categories: salaries, operations and maintenance, subsidies and transfers for the operating outlays and investment whatever the data sources. Table 10 summarizes the results. Again, we are

⁹ Statistical data for BLOC II are taken from Conway (2006), Tables 1.1 and 1.4; data for year 2006 are not given. Box 1 of the document (page 2) contains an important note on the characteristics and limitation of the data on local revenues and expenditures as recorded by the State Treasury, MoF. The adjustments are explained. The Hoxha and Dhimitri 2006 study on Decentralization in Albania follows that of Hoxha (ICS) and J. Pigey (U.I.) in 2004 for the Stability Pact Conference in Zagreb. However, the statistical data used in the 2004 presentation (Table 1) approximate those given in Bloc I from the MoF; whereas, the data in the 2006 study (Table 1 also) are those presented here in Table 8. These are adjusted figures which correspond to the data used by Conway and the Urban Institute.

¹⁰ The WB gives the following explanation (WB, 2004b: 50 footnotes 95 and 96): Owing to the lack of specific assignment of responsibilities by the organic law and an absence of a clear definition in funding, health and education service deliveries which were in the hands of the District Councils (deconcentrated functions prior to Law 8652), were given to the "new" Prefecture on an interim basis. Although this transitional arrangement was corrected in late 2002-2003, the result was that the LGs tasks in education, health and social assistance were treated as delegated functions. Thus specific competences of the "shared" functions (see our Table 6) were not formalized; the opposite was done. Through central regulation in these sectors, these functions are now implicitly state functions rather than shared functions as prescribed by Law 8652. The implication is that, for the time being, all the decisions are supposed to be taken by the central government (principal) and the LGs are supposed to act just as agent.

faced with the difficulty of the scarce availability of expenditure data which are not readily available. In addition, there is no overall statistics referring to the total local expenditures.¹¹ Table 10 contains three blocs from different sources: Bloc I for "own local expenditures" for the period 2001-2005 (Conway, 2006:7)¹²; Bloc II for LG expenditures for the period 1998 to 2002 (WB, 2004b: 37) and Bloc III which combines the functions of LGs¹³ and the various economic categories of "unconditional" LG expenditures for 2003 and 2004 (CoE, 2005).

Blocs II, III and IV give almost comparable results:

- ✓ Operating expenditures represent around 80 per cent of total LGs expenditures.
- ✓ Capital expenditures have increased from around 10 percent in 1998 to around 22-23 % in the last two years 2005-2006.
- ✓ Salaries and social insurance contributions count for 36-37%, which is fairly high ratio in the total LGs expenditures.

For operation and maintenance cost, on the one hand, and subsidies, on the other hand, the figures are contrasted between the period 1998-2002 (Bloc II) and the two last years 2003-2004 (Bloc III with results reported in Bloc II column 8 and 9): transfers and grants-in-aid accounted for around 35% in the first five years period and would have fallen to 2 % in 2003 and 2004 (?).

¹¹ For 2006, for example, Table 7 gives the total consolidated public expenditure at 255,969 millions Lekë; this figure is also given in Table 8 for the "total general + local public expenditures". In table 7, the economic classification of the state budget gives the amount of 22,713 millions for "Local Budget (Grant)" without other precision. In Table 8, the total local public expenditures is 57,686 millions; thus our calculation in Table 9 Bloc I of a difference between total expenditures and total grants of 34,973 millions Lekë. But there is no indication of the nature of these amounts. Yet, if one refers to Table 9 Bloc III, the adjusted results would allow the interpretation that local budget grants in Bloc I (22,713 millions) almost correspond to conditional transfers in Bloc III (22,994 millions). Thus the rest would give the amount of unconditional public expenditures at the local level. The problem is that the rest is 34,973 millions in Bloc I and only 21,016 millions in Bloc III. The difference is not explained by the correction for health and education salaries and social security contributions, which is much higher (17,746 millions in 2005, no data for 2006). Also, the distinction between conditional transfers, unconditional transfers and own local revenues in Table 9 Bloc III does not compare with the categories own, shared and delegated functions in Bloc II. A transversal analysis of the tables is impossible.

¹² Note that the total in Table 10 bloc I correspond to the line "own functions" in Table 9 Bloc II, both from Conway (2006). But "own functions" represent only around 40 % of Total local expenditures for the period 2002-2005.

¹³ Note that the functional nomenclature given by the Ministry of Local Government and Decentralization in this Bloc III does not compare with the functional classification of the MoF, in Table 8 (?). Beyond this simple technical detail, this difference raises the question of coherence in the debate. How do the stakeholders debate when the reference framework is not comparable.

3.5 Problems in the assignment of functions

Viewed from the perspective of institutional economics, the assignment of functions to LGs in Albania leaves unsolved a number of problems that must be put again on the negotiation table if any substantial further progresses are expected from the decentralization process.

- In Section 3.1, the definition of the three categories of functions, delegated, shared and exclusive,¹⁴ do not mirror the trilogy deconcentration, delegation, devolution of powers. The frontier between the categories is blurred. For the shared functions, for example, what is the difference with mandatory (delegated) functions if the specific share related to local competencies have to meet national standards – which is exactly what is expected from delegation? In addition, the distinction does not exist from the financing perspective since in both cases, delegation and shared functions, the central government is required to provide the budget resources (see Table 5).

Exclusive function are own function at the margin only since they might have to comply with national legal standard that de facto restrict their autonomy. The fundamental problem here is that the qualifications attached to the definitions are normative: therefore, definitions must be debated and the stakeholders have to agree on them to make them operational. It is not sufficient to introduce a normative statement with "it is understood that...".

- In Section 3.2, we saw that the various criteria on which decentralization has to be made operational are not all explicitly stated in the law. Their choice and content, the adequacy of using them in relation to specific or categorical functions have to be put on the negotiation table and debated. Concepts and vocabulary used by the stakeholders have to be adapted to the national-local context and accepted before implementation.

¹⁴ It is worth mentioning that in law 8652 article 2, the enumeration of the LGs functions are given in the order "delegated, shared and exclusive" functions which correspond to the degrees of intervention of the central government in local affairs. This is exactly the inverse of one would have expected if the principle of subsidiarity (law 8652 art. 4) and the principle of local autonomy (Cst. Art. 13; law 8652 art. 4) had been used. Hazard, simple inattention, or deliberate ordering in order to signify the priority of delegation over devolution?

- A further problem to be considered is the enumeration of the delegated, shared and exclusive function in Law 8652 on the organisation and functioning of local government. There are two problems. One is straightforward and apparent from Table 6: the organic law can only broadly assign the responsibilities among government layers. But "broad consistence with the European Charter of Local Self-government", "conventional wisdom" and "best international practice" (8WB, 2004b: 25) are not sufficient – neither are the references to the principle of local autonomy or to the concept of subsidiarity ! The second problem is that many functions are so defined (such as "pre university education" in the shared function) that the formal assignment cannot be properly implemented: further legislation is needed to specify competences for each public functions. And specification can considerably reduce the autonomous power of the local tiers, from devolution to deconcentration, from the "choice" to the "agency" model of decentralization.
- The fourth problem underpinned in this section relates to the lack of statistical data which would allow coherent comparisons in terms of the share of local/total public expenditures, their categorical and functional distribution. With the present information, it is simply not possible to have a clear and harmonized view of the situation. Local governments ought to apply an harmonized accounting system (HAS), distinct from that of the central government. Budgeting and accounting rules must be precise. The HAS should provide detailed information on the LG functions, the economic classification of expenditures and revenue sources, clear rules about the distinction between current and capital costs and give the technical possibilities of cost accounting. Annual LGs' accounts should be published at the local level, thus increasing information, accountability and democratic participation. Accounting information of LGUs should be aggregates into convenient statistical series so that the central government can inform its own policy decision with sound financial material.

4. Conclusion and proposition

4.1 Conclusion

The political economy of decentralization in Albania shows that despite formal and legal steps towards devolution and giving more power to local governments, there are still numerous obstacles on the way. Our own observations on the ground lead us to believe that the problems faced in the present situation are not only technical problems in the delivery of local specific public services, fiscal imbalance or the still strong dependence of local finance upon transfers from the centre, the poor budgetary process and statistical information system, but also from the very nature of the LGs institutional organisation and the definitions of their own competences. Multilevel government is not simply a form or organization for economic efficiency; it represents the acme of political and social relationships. It is a conception of power-sharing and democracy. Federal constitutions are not economic only: thus, a country's social preference, rather than economic theory should be the major guide for defining the appropriate level of expenditure and resource decentralization.

The list below recapitulates the main points described in the previous sections. The list is given as they appear in the text. There is no attempt to classify them by importance, urgency or priority on the political agenda. Following our experience and the general approach applying a decentralization matrix that we have adopted within the context of decentralization and federalism in Europe (Bird et al., 2003: 351-356; Dafflon, 2006), we do not believe that ready made solutions exist that would be first-hand remedies for the problems we mentioned. Problems must be identified, explicitly recognised and put on the negotiation table. It belongs to the stakeholders to consider them and decide whether they are relevant and what are the possible solutions.

From the institutional situation:

- ✓ The tense political environment: The political coalition in government since 2005 is not as enthusiastic about decentralization as the previous one.¹⁵ The decentralization drive that stimulated the initial debate and approval of the basic legal framework in

¹⁵ The Ministry of Local Government and Decentralization was suppressed by the actual government. Local government affairs are now dealt in the Ministry of Interior.

the early 2000es is now loosing momentum. The capital town Tirana has its own particular interest, with its own law on decentralization, distinct from the law enacted for the other LGs. Moreover, the mayor of Tirana is also the leader of the opposition at the centre. As a consequence, commitment to decentralization reforms has weakened and there is a lack of genuine leadership to push forward the agenda more effectively.

- ✓ The territorial division is not clear. Regions, municipalities and communes are the legal new local government units. But, there remain the old district, as sub-level of the regions, and quarters and villages as sub-level of the communes – but with a political legitimacy that is not of the same nature in region, quarters and villages.
- ✓ The role of the regions: in 2004, the WB qualified the concept of the region as "empty-box" (WB, 2004: 17). This has not yet evolved. Local delegations in the region defend their local position and do not think and act "regional".
- ✓ The role of the prefect should be re-examined – as the role of the prefectures at the regional level and that of the districts.
- ✓ Ways of overcoming the fragmentation of LGs must be explored: special service precincts and amalgamation should be encouraged.
- ✓ In reference to chart 2, the legal and institutional competences of LGs authorities should be clarified and the democratic process to constitute them should be strengthened. Necessary steps should be taken to restore the legitimacy, transparency and accountability of the representative and executive LGs bodies.

From the legislation on the organisation and functioning of local government:

- ✓ Law 8652 should remain exclusively a law on the organisation and functioning of local government, without listing local functions in three categories: exclusive, shared or delegated. The nature and extent of decentralization should be treated in the special legislation on specific functions, according to clear and explicit criteria. Which part of a function would then be exclusive, shared or delegated should be the

result of this process and not that of a priori announcement. For example, giving "pre university education" as a shared function gives no indication at all on the ways and means it would be implemented: this designation is much too vague because there are several stages in pre university education, from primary school to college. Also, considering that the production function of primary school contains five factors (teachers' qualification, teachers' salaries and social conditions, education programmes, organisation of the school, equipment and buildings), there are good reasons to consider these factors from different perspectives in the (de)centralisation process.

- ✓ Several concepts are used in the law as synonyms and sometimes with a different meaning. This is rather confusing and brings uncertainty in the debate. Consider for example the alternative and divergent uses of "autonomy", "self-government", "authority", "competence", "responsibility" and "function" that is made by the centre, ministries, LGU or external experts. In places, the qualifications attached to these definitions are normative: do the stakeholders agree on them? Clarifying the vocabulary used in the decentralization strategy is necessary not only to resolve pending inconsistencies but also to avoid new difficulties in the assignment of functions to the various government levels.
- ✓ The definition of functions, delegated and shared, is left open by default since clear criteria of attribution and of qualification are not given. The absence of criteria in the definition of responsibilities leads to ad hoc attribution of competences, mainly driven by ministries, that causes uncertainty and opacity in the decentralization strategy. This is disruptive and inefficient for the LGU functional policies and service delivery.
- ✓ Statistical data about the importance of LG expenditures, per function and per economic categories should be harmonized and unified so that it would be possible to have a clear view of the situation and decentralization in progress. It would also inform the national decentralization strategy. This is possible only with the introduction of a harmonized budgeting /accounting system for LGU independent

from that of the centre. The present system of LG budget consolidation into the state budget is a process which (i) puts LGUs under the tutelage of the MoF; (ii) despite the present qualification of "conditional" and "independent" budget, does not permit a clear delimitation between deconcentration and devolution; (iii) does neither promote accountability nor participative governance at the local level since local residents are never confronted to the annual account and balance sheet of their LGU.

4.2 Proposal

What is needed to rationalize the decentralization process in Albania is twofold:

(i) a platform for discussion where definitions, concepts, objectives, policy instruments and financing should be agreed upon in coherence with the national strategy for the respective functions and with the participation of all stakeholders, local and national;¹⁶

(ii) a discussion framework that guarantees the coherence of the decision, the necessary checks and balances, and outlines the possible conflicts between policy objectives and instrument, between the view of the centre and LGUs. After all, LGUs, regions, prefect and the CG may have different legitimate views on what should be – say – "regional policy". But there can be only one implemented. Such a model, to be relevant, should optimize the possibility (and the procedure) that the best "policy compromise" will be achieved. In short, it is a model of procedure and choices, not of outcomes.

The most satisfying instrument for the purpose of assisting policy-makers in deciding the appropriate level of (de)centralisation could be formalised in a "matrix of decentralisation". With this method, the various criteria used for the assignment of responsibilities are listed explicitly and systematically in the lines. They are confronted with the various institutional arrangements, in the column, acceptable for

¹⁶ A proxy of the proposed institution existed prior to 2005. In order to introduce the framework legislation on decentralization in Albania, two institutions were created in 1999: (i) the National Committee for Decentralization, a consultative body for the Council of Ministers, formed by central authorities and local government representatives to debate the decentralization process at the deliberative and political level; (ii) a group of experts, the "Task Force" on decentralization, under the Ministry of Local Government and Decentralization to support the National Committee on more technical issues. Membership of the Task Force were approved by the National Committee; the Chair was the minister of MoLGaD. The MoLGaD has been suppressed by the actual government. The Task Force is no longer active.

decentralisation in the national context under examination. Box 11 exemplifies a possible matrix of decentralisation. The main purpose of the method is to create a policy environment in which the different views on ends or on technical questions of government units can be brought together (Dafflon, 2006: 301).

The decision matrix should be used for each function considered for decentralization. Yet the function should be detailed in an acceptable way and the factors of production should be identified. In Box 11, we give the example of primary education. (1) Pre university education (Table 6 above) is too vague: "primary" education is restrictive and more precise, but this has to be agreed upon. (2) But "primary education" *sui generi* is still too vague to decide whether it should be a devolved, shared or delegated function. Yet if the production function of "primary school" is considered, then it is also possible to assign specific factors of production to different government layers: the teachers' cursus and professional qualification could be attributed to the centre, but the equipment and building to communes or associations of communes in the form of school districts where the LGUs are too small.

The columns indicate the government layers that exist in the actual institutional setting in Albania. Other intermediate levels of government units are possible, but multiplying the government layers only adds complication in the institutional design. It should be left to the competence of the communes and municipalities to decide other forms of cooperative federalism: special service precinct, ad hoc jurisdiction, one purpose or multi-purpose association of communes, urban agglomeration, amalgamation of communes, for reasons of economies of scales or in order to internalize spillovers, for example.

The letters below the institutional level: A, S, I, R designate the four categories of authority that are envisaged in Law 8652: Aministrative, Service, Investment, Regulatory (see Table 4).

The rows contain explicitly the assignment criteria that would be considered for the assignment of a particular function. Criteria should not only be enumerated, but a

proper definition should be given for each, on which all the parties can adhere. Information on how each criteria would be measured, evaluated or appreciated is also necessary. This participative method is founded on two rules. (1) The list of criteria should be established first so that everyone knows in advance the rules of the game. Of course, the list given in Box 11 is tentative; it does not give the whole array of possible criteria. Criteria which are given in law 8652 or can be interpreted from the law (see subsection 2.3 above) are underlined in blue. What is important is that additional criteria should be given – or non-relevant criteria abandoned - prior to the factual debate on (de)centralising a particular function. If an additional criteria is necessary "en cours de route", then the analysis should restart in an iterative process for reason of coherence and coordination between all the criteria. (2) Each criterion should be debated and defined first to clear out any ambiguity that could exist over the vocabulary that will be used in the factual discussion on the function to be (de)centralised.

The general idea of the method is to fill the cells of the matrix when considering for each criteria how appropriate are the various level written in the columns. The role of economists would be to help with the criteria that concern fiscal federalism, while leaving to other experts the non economic criteria, and to help filling the cells of the matrix – the pros and cons. He should also contribute to analysing the coherence or the opposition between criteria for specific functions and level of decentralisation. Political evaluation and weighting would be needed at this stage. The process would be iterative, the purpose being that of reducing the set of possible alternatives for individual policies after each round of negotiation has been completed, until no further gain-from-trade can be realized.

What is needed in essence is a decision framework, not a set of policy prescriptions, but a series of linked decision processes from which policy decisions would emerge. The decisions themselves would depend on the weight attached by policy-makers to particular ends and means. There can be no technically-determined "right" answer to the question of reassigning public functions between government levels, as for other questions in fiscal federalism. But there can be more or less technically-efficient procedures for reaching the "best" policy compromise.

Box 11 Matrix of (de)centralisation

Function considered

For example: primary education = function (teachers' qualification, teachers' salaries and social conditions, education programmes, organisation of the school, equipment and buildings)

assignment criteria	institutional government level																			
	Village, quarter				Commune, municipality				district				region				central			
	A	S	I	R	A	S	I	R	A	S	I	R	A	S	I	R	A	S	I	R
1. macroeconomic policies <ul style="list-style-type: none"> • openness • free riding • deficit financing 																				
2. redistribution <ul style="list-style-type: none"> • mobility • equal access to services • targeted eligibility • minimum service level 																				
3. allocation <ul style="list-style-type: none"> • preferences • economies of scale • spillovers • congestion • decision costs 																				
4. managerial capacities <ul style="list-style-type: none"> • political • institutional • administrative • technical • social capital 																				
5. socio-political arguments <ul style="list-style-type: none"> • preferences • subsidiarity • participative democracy • information • control • accountability and transparency • solidarity 																				
6. other criteria <ul style="list-style-type: none"> • poverty alleviation • protection of minority • fiscal competition • ... 																				

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Table 7 ALBANIA Consolidated Public Expenditure, Economic Classification, 1998-2006, in million Lekë

Economic classification	1998	1999	2000	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7	8	9	10
Current Expenditures									
Personnel Expenditure	28336	31183	33240	41207	41908	44737	48998	53674	56709
<i>of which Wages</i>	22048	24207	25820	32939	33411	35741	39069	42801	45575
<i>of which Social Insurance Contributions</i>	6288	6976	7420	8268	8497	8997	9929	10873	11134
Interest	35892	34938	29572	23620	24762	29824	28423	26029	25006
<i>of which Domestic</i>	35195	34355	28870	22528	22468	28174	26711	24184	22978
<i>of which Foreign</i>	697	583	703	1092	2294	1649	1712	1845	2028
Operational and Maintenance	18540	20072	19299	15784	20508	22156	23974	24515	22794
Subsidies	2307	2704	5242	7878	6243	5112	5116	3653	3835
Social Insurance Outlays	24329	27609	31375	36073	40168	44785	50250	55876	60029
<i>of which Social Insurance</i>	21934	25017	28948	33104	36564	40419	44490	49006	53783
<i>of which Health Insurance</i>	2395	2592	2427	2969	3604	4366	5760	6870	6246
Local Budget (Grant)	0	6685	6013	7386	12288	14244	15904	19999	22713
Other Expenditure	8009	8320	8580	8820	8713	8823	11507	10218	13775
<i>of which Unemployment Insurance Benefits</i>	1621	1450	1919	1881	1115	999	1021	915	937
<i>of which Social Assistance</i>	6168	6360	6661	6938	7598	7824	10486	9303	12838
<i>of which Housing Subsidy</i>	220	510
Total	117413	131511	133321	140768	154590	169681	184172	193964	204861
Capital Expenditures									
Domestic Financing	10589	16963	18461	23955	19005	18305	27590	24321	35440
Foreign Financing	13626	17158	17525	19442	18921	13167	10676	14054	15668
Cost of Bank Restructuring	0	461	1025	1886					
Total	24215	34582	37011	45283	37926	31472	38266	38375	51108
Total Consolidated Public Budget	141628	166093	170332	186051	192516	201153	222438	232339	255969
Total given Hoxha and Dhimitri	14162	165692	170621	18604	19251	20115	240360	228468	258214
8	8		9	7	2				
GDP at current price	412326	474291	530906	588700	630000	695100	780100	857300	921500
proportion of Total Expenditure /GDP	34%	35%	32%	32%	31%	29%	29%	27%	28%
GDP (Hoxha and Dhimitri, 2006)	41232	474291	53090	610426	677684	744974	835448	836879	899700
proportion of Total Expenditure /GDP	6	35%	32%	30%	28%	27%	29%	27%	29%

Sources: Ministry of Finance, Republic of Albania, Tirana, obtained August 22, 2008; in green, figures given in Hoxha and Dhimitri, 2006, Table 1 with the note "source data: MoF, MTEF / MTBP "Medium-Term Expenditure Framework 2007-2009, collected and analysed by ISB"

Table 8 ALBANIA LGs expenditures per function in millions lekë 1998-2006

nr	function	1998	1999	2000	2001	2002	2003	2004	2005	2006				growth rate 1998 - 2006	
										local	general	proportion col. 11/ 11+12	share of local functions	total	annual
1	2	3	4	5	6	7	8	9	10	11	12	13	14		
1	general public services	2705	7234	4626	5420	6724	8213	8050	9005	8690	17913	32.67%	15%	221	28
2	defense	0	1	0	0	0	0	0	0	0	11440	0.00%			
3	public order and safety	0	0	0	0	0	0	0	0	0	16341	0.00%			
4	education	10780	13326	13418	15010	14883	15527	16934	18740	19486	8367	69.96%	34%	81	10
5	health	2188	2638	3008	2481	2569	2967	3357	3478	3582	20108	15.12%	6%	64	8
6	social security and welfare	6495	6544	6857	7099	7597	7839	9280	9844	10115	56289	15.23%	18%	56	7
7	Housing, communal amenities	1878	2624	4277	5265	4694	6701	7703	6948	7091	7518	48.54%	12%	278	35
8	recreation, culture, religious affairs	667	739	562	859	990	954	1032	1238	1380	1897	42.11%	2%	107	13
9	fuel and energy	0	0	0	650	300	0	0	0	0	3318	0.00%			
10	agriculture, forestry, fishing, hunt	1	9	4	4	47	9	7	11	28	5573	0.50%		2700	338
11	mineral resources	0	0	0	0	0	0	0	0	0	510	0.00%			
12	transport and communication	773	1090	544	1790	1888	2503	4749	6974	6693	23784	21.96%	12%	766	96
13	economic affairs and services	440	160	2	2	520	324	262	457	324	217	59.89%	1%	-26	-3
14	other expenditure	0	0	0	0	0	143	340	254	297	27853	1.06%	1%		
	total	25927	34365	33298	38580	40212	45180	51714	56949	57686	201128	22.29%	100%	122	15
	total general + local public expenditures	141628	166093	170332	186051	192516	201153	222438	232339		255969				
	proportion of LG / general	18.31%	20.69%	19.55%	20.74%	20.89%	22.46%	23.25%	24.51%	22.54%	78.58%				
	GDP at current price			530906	588700	630000	695100	780100	857300		921500				
	proportion of LG /GDP			6.27%	6.55%	6.38%	6.50%	6.63%	6.64%	6.26%	21.83%				

Source: Ministry of Finance, Republic of Albania, Tirana, obtained August 22, 2008, "Expenditure regarding consolidated budget 1993-2006"

Table 9 LGs Public Expenditure, 1998 - 2006, in millions Lekë

	BLOC I	1998	1999	2000	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7	8	9	10	11
A	Total local expenditures	25927	34365	33298	38580	40212	45180	51714	56949	57686
B	Local Budget (Grant)	0	6685	6013	7386	12288	14244	15904	19999	22713
C	difference A-B			27285	31194	27924	30936	35810	36950	34973
D	LGs expenditure as % of general public exp.	18%	21%	20%	21%	21%	22%	23%	25%	23%

Source: Ministry of Finance, Republic of Albania, Tirana, obtained August 22, 2008. Line A corresponds to the "total" in Table 8; line B to the line "local budget (grants)" in Table 7.

	BLOC II	1998	1999	2000	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7	8	9	10	11
A	Total local expenditures	15673	22933	20417	24899	26572	30121	35661	38197	
	<i>"old" LG system</i>	<i>15673</i>	<i>22933</i>	<i>20417</i>						
	independent budget	731	1690	1724						
	conditional budget	14941	21243	18693	12669	8465	5787	7185	6015	
	<i>"new" LG system</i>				<i>12230</i>	<i>18107</i>	<i>24334</i>	<i>28476</i>	<i>32182</i>	
	own functions				5284	10506	12532	14374	17246	
	shared functions				6946	7601	7839	9280	9844	
	delegated functions				0	0	3963	4822	5092	
E	Own function as % of total local exp.	5%	7%	8%	43%	58%	51%	50%	54%	
D	Total local exp. as % of consolidated public exp.	11.1	13.8	12.0	13.4	13.8	15.0	16.0	16.7	
F	Total local exp. as % of GDP	3.8	4.8	3.8	4.2	4.3	4.4	4.7	4.6	

Source: Conway, 2006, Table 1.1 and 1.4 - year 2006 not given. Box 1 of the document contents an important note on the characteristics and limitation of the data on local revenues and expenditures as recorded by the State Treasury, MoF.

	BLOC III	1998	1999	2000	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7	8	9	10	11
A	Local Expenditures	15454	22059	20048	25465	26681	30717	36492	37585	44010
G	Conditional Transfers	14802	20949	18437	17465	14426	15748	19824	18904	22994
H	Unconditional transfers	0	0	0	5659	9276	6554	6611	7300	9800
J	Own local revenues	652	1110	1611	2341	2979	8415	1057	11381	11216
D	Local Exp. as % State budget	10.9	13.3	11.8	13.7	13.9	15.3	15.2	16.5	17.0
F	Local Exp. as % GDP	3.7	4.7	3.8	4.2	3.9	4.1	4.4	4.5	4.9
E	Own Local Exp. as % Local exp.	4	5	8	31	46	49	46	50	48
	Own Local Exp. + Uncond.Tr. as % of Local Exp.	4.2	5.0	8.0	31.4	45.9	48.7	45.7	49.7	47.8
	Own local exp. + uncond. Tr. as % GDP	0.1	0.2	0.3	1.3	1.8	2	2	2.2	2.3

Source: Hoxha and Dhimitri, 2006, Table 1 "The role of LG in the macro-economy", with the note "source data: MoF, MTBP 2007-2009, collected and analyzed by ISB"

	BLOC IV	1998	1999	2000	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7	8	9	10	11
A	Local Government Budget	25927	34365	33298	38581	40620	61420			
G	conditional transfers	25033	29803	28098	31033	27905	47066			
H	Block/ uncond. Grants	0	3411	3782	5105	9500	6300			
J	own Local Expenditures	894	1151	1418	2443	3215	8054			
F	Local Gvt. Budget as % GDP	5.6	6.8	6.2	6.5	6.2	8.5			
D	Local Gvt. Budget as % total public expenditure	18.3	20.7	19.5	20.7	21.2	27.5			

Source: The World Bank, 2004, Vol. II, Table 2.2, page 33, with the note "source: MoF - Budget Department, Treasury Department, and 2003-2005 MTEF estimates and projections" - year 2004 ad 2005 are not given in the Table.

<i>differences</i>		1998	1999	2000	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7	8	9	10	11
	Difference BLOC I - BLOC II in Total Local Expenditures	10254	11432	12881	13681	13640	15059	16053	18753	57686
	Excluded from BLOC II database	10255	11473	12881	13333	14049	15059	16099	17746	
	Education payroll	8593	9701	10669	11458	12047	12881	13784	15281	
	Health payroll	1662	1772	2213	1875	2001	2178	2315	2465	

comparison

	Share of own local Exp. As % of total local budget									
bloc II	4.7%	7.4%	8.4%	21.2%	39.5%	41.6%	40.3%	45.2%		
bloc III	4.2%	5.0%	8.0%	9.2%	11.2%	27.4%	27.6%	30.3%	25.5%	
bloc IV	3.4%	3.3%	4.3%	6.3%	7.9%	13.1%				

Table 10 Economic composition of local expenditure, in million Lekë

BLOC I									
Own Local Expenditures	1998	1999	2000	2001	2002	2003	2004	2005	2006
2	3	4	5	6	7	8	9	10	11
Operating expenditures									
wages and social insurance				627	3860	5063	5724	5788	
operations and maintenance				3986	4129	4393	5078	5098	
subsidies				0	0	0	25	97	
Total				4613	7990	9455	10827	10983	
Capital expenditures				891	2779	3076	3546	6263	
Total				5504	10769	12532	14374	17246	

Source: Conway, 2006:7, Table 1-7. See also Table 9 Bloc II line "own functions".

Own functions in this bloc does not compare exactly with "unconditional" expenditures in Bloc III.

BLOC II									
Local Government Expenditures in %	1998	1999	2000	2001	2002	2003	2004	2005	2006
2	3	4	5	6	7	8	9	10	11
Operating expenditures									
wages and social insurance	37.5	31.6	36.6	33.7	34.0	36.7%	37.4%		
operations and maintenance	13.7	13.8	13.7	15.2	14.5	38.8%	37.5%		
Transfers	39.7	36.8	35.3	31	34.3	2.1%	2.2%		
Capital expenditures	9.1	17.8	14.4	20.1	17.1	22.4%	23.0%		
Total	100.0	100.0	100.0	100.0	99.9	100.0%	100.0%		

Source: WB, 2004b: 37, Table 2.4 for years 1998-2002; bloc III below for years 2003 and 2004.

BLOC III	Year 2003									
	Salaries & soc cont.		Operat. & maintenance		Subsidies		Investments		Total	
General Administration	3345519	45.8%	1904865	26.1%	146960	2.0%	1910285	26.1%	7307629	100%
Agriculture	0		0				0		0	0%
Urban Transport	446374	29.9%	390715	26.2%	143352	10.0%	512275	34.3%	1492716	100%
Education	20195	1.7%	1103091	94.3%			46543	4.0%	1169829	100%
Health & Social care	53380	12.3%	335647	77.4%	10882	3.0%	33707	7.8%	433616	100%
Public services	853143	32.2%	1223146	46.2%			569475	21.5%	2645764	100%
Culture & sport	363481	49.5%	332905	45.3%			38483	5.2%	734869	100%
Other services	42308	23.9%	117991	66.8%			16384	9.3%	176683	100%
Other expenditures	14654	24.9%	27393	46.6%			16785	28.5%	58832	100%
Total	5139054	36.7%	5435753	38.8%	301194	2.1%	3143937	22.4%	1401993	8 100%

BLOC III	Year 2004									
	Salaries & soc cont.		Operat. & maintenance		Subsidies		Investments		Total	
General Administration	3849644	52.5%	2329512	31.8%	153378	2.1%	995368	13.6%	7327902	100%
Agriculture										
Urban Transport	403261	14.5%	238514	8.6%	80441	2.9%	2062588	74.1%	2784804	100%
Education	76560	6.6%	990010	85.5%	1640	0.1%	89784	7.8%	1157994	100%
Health & Social care	198457	50.5%	168248	42.8%	754	0.2%	25400	6.5%	392859	100%
Public services	992559	31.4%	1761970	55.7%	14714	0.5%	394970	12.5%	3164213	100%
Culture & sport	373919	42.6%	426074	48.5%	9406	1.1%	69124	7.9%	878523	100%

Other services	45509	43.7%	38359	36.8%	3250	3.1%	17062	16.4%	104180	100%	
Other expenditures	5510	5.2%	9918	9.4%	83505	79.1%	6645	6.3%	105578	100%	
Total	5945419	37.4%	5962605	37.5%	347088	2.2%	3660941	23.0%	1591605	3	100%

Source: Ministry of Local Government and Decentralization, expenditures data given to the Council of Europe Secretariat - DG 1 - for the Expert Commission on the Draft Law on the reorganisation of the administrative territorial division of the Republic of Albania, December 3, 2004 and April 2005, Strasbourg; own calculation

Table 10 Economic composition of local expenditures, in million Lekë

BLOC I									
Own Local Expenditures	1998	1999	2000	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7	8	9	10
Operating expenditures									
wages and social insurance				627	3860	5063	5724	5788	
operations and maintenance				3986	4129	4393	5078	5098	
subsidies				0	0	0	25	97	
Total				4613	7990	9455	10827	10983	
Capital expenditures				891	2779	3076	3546	6263	
Total				5504	10769	12532	14374	17246	

Source: Conway, 2006: 7, Table 1.7

BLOC II									
Local Government Expenditures in %	1998	1999	2000	2001	2002	2003	2004	2005	2006
1	2	3	4	5	6	7	8	9	10
Operating expenditures									
wages and social insurance	37.5	31.6	36.6	33.7	34.0	36.7%	37.4%		
operations and maintenance	13.7	13.8	13.7	15.2	14.5	38.8%	37.5%		
Transfer	39.7	36.8	35.3	31	34.3	2.1%	2.2%		
Capital expenditures	9.1	17.8	14.4	20.1	17.1	22.4%	23.0%		
Total	100.0	100.0	100.0	100.0	99.9	100.0 %	100.0 %		

Source: WB, 2004b: 37, Table 2.4 for years 1998-2002; years 2003 and 2004: bloc III

BLOC III	Year 2003										
	Unconditional LG expenditures		Salaries & soc cont.		Operat. & maintenance		Subsidies		Investments		Total
General Administration	3346	45.8%	1905	26.1%	147	2.0%	1910	26.1%	7308	100%	
Agriculture	0		0				0		0	0%	
Urban Transport	446	29.9%	391	26.2%	143	10.0%	512	34.3%	1493	100%	
Education	20	1.7%	1103	94.3%			47	4.0%	1170	100%	
Health & Social care	53	12.3%	336	77.4%	11	3.0%	34	7.8%	434	100%	
Public services	853	32.2%	1223	46.2%			569	21.5%	2646	100%	
Culture & sport	363	49.5%	333	45.3%			38	5.2%	735	100%	
Other services	42	23.9%	118	66.8%			16	9.3%	177	100%	
Other expenditures	15	24.9%	27	46.6%			17	28.5%	59	100%	
Total	5139	36.7%	5436	38.8%	301	2.1%	3144	22.4%	14020	100%	

BLOC III	Year 2004										
	Unconditional LG expenditures		Salaries & soc cont.		Operat. & maintenance		Subsidies		Investments		Total
General Administration	3850	52.5%	2330	31.8%	153	2.1%	995	13.6%	7328	100%	
Agriculture											
Urban Transport	403	14.5%	239	8.6%	80	2.9%	2063	74.1%	2785	100%	
Education	77	6.6%	990	85.5%	2	0.1%	90	7.8%	1158	100%	
Health & Social care	198	50.5%	168	42.8%	1	0.2%	25	6.5%	393	100%	
Public services	993	31.4%	1762	55.7%	15	0.5%	395	12.5%	3164	100%	
Culture & sport	374	42.6%	426	48.5%	9	1.1%	69	7.9%	879	100%	

Other services	46	43.7%	38	36.8%	3	3.1%	17	16.4%	104	100%
Other expenditures	6	5.2%	10	9.4%	84	79.1%	7	6.3%	106	100%
Total	5945	37.4%	5963	37.5%	347	2.2%	3661	23.0%	15916	100%

Source: MoF, expenditures data given to the Council of Europe Secretariat - DG 1 - for the Expert Commission on the Draft Law on the reorganisation of the administrative territorial division of the Republic of Albania, December 3, 2004 and April 2005, Strasbourg; own calculation