



LOCAL GOVERNMENT CAPACITIES: *CHALLENGES OF FISCAL DECENTRALIZATION AND REGIONAL INEQUALITY IN ALBANIA*

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Introduction

All levels of governance, both central and local government, if viewed in their constitutional and legal framework, exercise their power with the focus of improving the welfare of citizens through the implementation of economic, social and economic development programs, which will further lead to business development, unemployment reduction and improvement of public services delivery.

However, studies have shown that if it is operated solely or largely with national programs supported by the central government, by avoiding fiscal decentralization, this will increase regional disparities and consequently some regions benefiting more from public funds will develop more compared to the regions which have less potential for development.

According to some scholars, theoretically the Decentralization increases the chances for imbalance in the economic and social development. This has happened in many Eastern European countries and especially in SEE countries. In these countries, the main capital expenditures have moved to the big cities/capitals making them more developed, but at the same time increasing local and regional disparities (Petraeos, 2001; ETF, 2007; Bartlett W, 2009).

These disparities are driven by inadequate fiscal decentralization and the absence of a significant horizontal equalization scheme, the unbalanced correlation between central government spending in relation to local ones, unprompted planning of capital investments, lack of regional and local strategies, ways that local governments are financed and the Conditional Grants.

An efficient instrument that will make it possible to change this imbalance in favor of economic growth in a fairly homogeneous way (as far as the conditions for such a thing are) can be the funds of the European Union, which based on the calculation has the indicators of regional development. But is the Local Public Administration prepared to access and benefit from the programs and funds of the European Union is a question that should concern the Politicians in Albania.

The EU report on Albania (2021) states that Albania is moderately prepared in the field of regional policy and coordination of structural instruments and that only limited progress has been noted. Most of the municipalities have not managed to have an effective balance in collaborations and regional projects, as well as the local human resources are still far from the ability and capacities to handle the priority challenges in this direction.

The challenge of the regional development concept requires a new reform approach of municipalities and other structures in local government, increased activation and information of municipal staff, increase of inter-regional projects in the country and with international partners

within the EU, strengthening of administrative capacities of the municipalities for drafting projects and participation with applications, as well as a new interaction and coordination report based on decentralization with the central government.

The document deals with some essential aspects of this component: the challenges of financial decentralization and the state of regional inequality in Albania. Its findings and recommendations will help municipalities and new bodies emerging from the May 2023 elections, central decision-making institutions according to the area of responsibility, as well as better quality information of citizens, interest groups and other actors involved .

Key words: Fiscal Decentralization, disparities, local administration, local development, European funds

Conclusions and Recommendations

- Despite recent progress, the Fiscal Decentralization dimension of decentralization remains particularly weak and municipalities will be unable to effectively deliver services to their citizens, unless this dimension is strengthened. A key challenge going forward will be to design and implement actions that address the historical underfunding of local governments.
- The Regional Development Fund (RDF), or conditional grants, have increased sharply in recent years, while unconditional intergovernmental transfers have declined or stagnated. The allocation of these funds is neither predictable nor transparent. Advocacy and technical assistance will be required to reform the RDF to better align with the principles of decentralization and the needs of local governments.
- Consequently, developed regions are encountering a high pressure of movement to their areas, bringing, inter alia, numerous difficulties in the management of urban, social, and economic dynamics. The northern regions are less developed, while those of Central and Southern Albania are more developed. The regions of Tirana, Durrës, and Fier stand in the forefront – their contribution to the country's GDP is about 60%. Irrespective of this, inter-governmental transfers through RDF/ADF grants are allocated to fund local projects in regions of higher economic development leading to greater disparities among regions. Lack of clear vision in the allocation of these funds on the part of central government and increase of the pool size of competitive grants have decreased local fiscal autonomy and increased regional disparities.
- Enhancement of fiscal decentralization by increasing the pool size allocated to local government units and by reforming the financial instruments, such as RDF, and the development agencies, like ADF, with the aim of alleviating the regional imbalances, would be the right step to economic development and narrowing regional disparities.

To be ready to absorb all the funds from the European Union, public administration in Albania needs to develop in several areas:

- 1. Capacity building:** The Albanian public administration needs to build its capacity to effectively manage and implement projects financed by the EU funds. Capacity building should include training and professional development for public servants responsible for managing and implementing EU-funded projects, as well as improving administrative procedures, project management, and financial management.
- 2. Transparency and accountability:** The Albanian public administration should enhance transparency and accountability over public financial management, procurement, and project outputs. Establishing a transparent and reliable system of monitoring and evaluation is essential to ensure transparency and accountability over the use of EU funds.
- 3. Legal framework:** Albania needs an updated legal framework that aligns with EU regulations and standards, particularly in the spheres of public procurement, public-

private partnerships, and public financial management. The legal framework should be coherent, transparent, and predictable for businesses and investors.

- 4. Strategic planning:** Albania needs to develop a long-term strategic plan that aligns with EU policies and priorities. This plan should enable the country to identify and prioritize projects that have the highest potential for sustainable development and help the country to achieve its strategic objectives in the short, medium, and long term.
- 5. Administrative decentralization:** Strengthening administrative decentralization is important for building public accountability and should be reflected in Albanian public administration's capability to develop and manage EU-funded projects at the local level. This will not only help to increase the efficiency of public services but also enhance citizen participation in policy-making.

The integration of Albania into the European Union requires a significant improvement in the capacities of local government officials who will be responsible for implementing the EU's legislative framework at the local level. To address this challenge, a concept for improving the capacities of local government officials towards EU integration should include the following elements:

- 1. Capacity development programs for local government officials:** The EU has strict standards for local government officials, and therefore, capacity-building programs for local government officials should be aligned with EU standards. Training on EU policy implementation, EU legislative framework, and legal compliance can help build the capacity of local government officials in line with EU requirements.
- 2. Capacity-building programs for local government officials:** A key challenge facing local governments in Albania is a lack of trained professionals to manage the responsibilities of decentralization. To address this, capacity-building programs should be developed to build the skills of local government officials in areas such as budgeting, strategic planning, and project management.
- 3. Regional coordination and cooperation:** The regional disparities in Albania require greater coordination and cooperation between local governments to work towards common goals. Establishing regional platforms for knowledge and resource sharing, and building strong partnerships between local governments and regional development agencies can help promote regional economic growth and reduce regional inequalities.
- 4. Citizen engagement and participation:** Local governments need to prioritize citizen engagement and participation to ensure the provision of better services and accountability. Enabling a culture of dialogue, participatory budgeting, and the involvement of young people and marginalized groups can help strengthen the link between local governments and citizens.
- 5. Fiscal decentralization:** Fiscal decentralization can help finance local development services and promote local economic growth. Strengthening the legal framework and building the capacity of local governments' financial management are necessary to

transfer resources to local governments effectively.

By implementing a comprehensive concept based on the above-mentioned elements, Albania can ensure that its local government officials are capable of playing a vital role in implementing the EU's legislative framework at the local level, can improve the capacity of local governments, promote economic growth and regional development, and reduce regional disparities. This will help ensure successful EU integration and contribute to the sustainable development of the country.

Decentralization Processes in South East European (SEE) countries

Decentralization is most frequently defined as the transfer of power and resources from national governments to subnational governments. Decentralization has its roots in the principles of subsidiarity—that is, in the principle that government works most responsibly and responsively when it is closest to the people it serves and the needs it addresses.

Decentralization can promote economic development and improve citizen's welfare when service delivery and the quality of the decisions over how public resources are deployed are improved. Decentralization's promise is often accompanied by shortcomings, unforeseen consequences, and challenges.

The trajectory in the decentralization processes, especially in the fiscal one, has been almost the same in the European countries of the former Eastern Bloc. In these countries, decentralization reforms were largely sought to weaken the centrist heritage, with the exception of the countries of the former Yugoslavia, which inherited a kind of self-management culture exercised before the 1990s.

Yet, as a result of the ethnic conflicts that led to the separation of Yugoslavia, the former Yugoslav countries had initially programs that sought to consolidate the new states. Then, after the Dayton and Rambouillet (Kosovo) agreements, especially after the implementation of the Ahtisaari Package (EU Parliament, 2010) and the Ohrid Agreement (for Macedonia), these countries initiated their decentralization reforms. Other countries had already started these reforms right after the political changes. South East European countries had various speeds and reasons why and how the decentralization processes were implemented (Dallango.B, Bartlett.W, Malekovic S., Manastiriotis. (2009).

According to the above authors, the decentralization processes in SEE countries produced different results, even though they were similar to a certain extent. There were, however, major differences stemming from the various political, social, and economic legacy. These differences are also due to the fact that there is no uniform and generic solution for the decentralization for all countries (Smoke P, 2001).

A country's economic and social stage is a decisive factor, but the situation and composition or institutional political legacy in relation to democracy and the rule of law are a key factor.

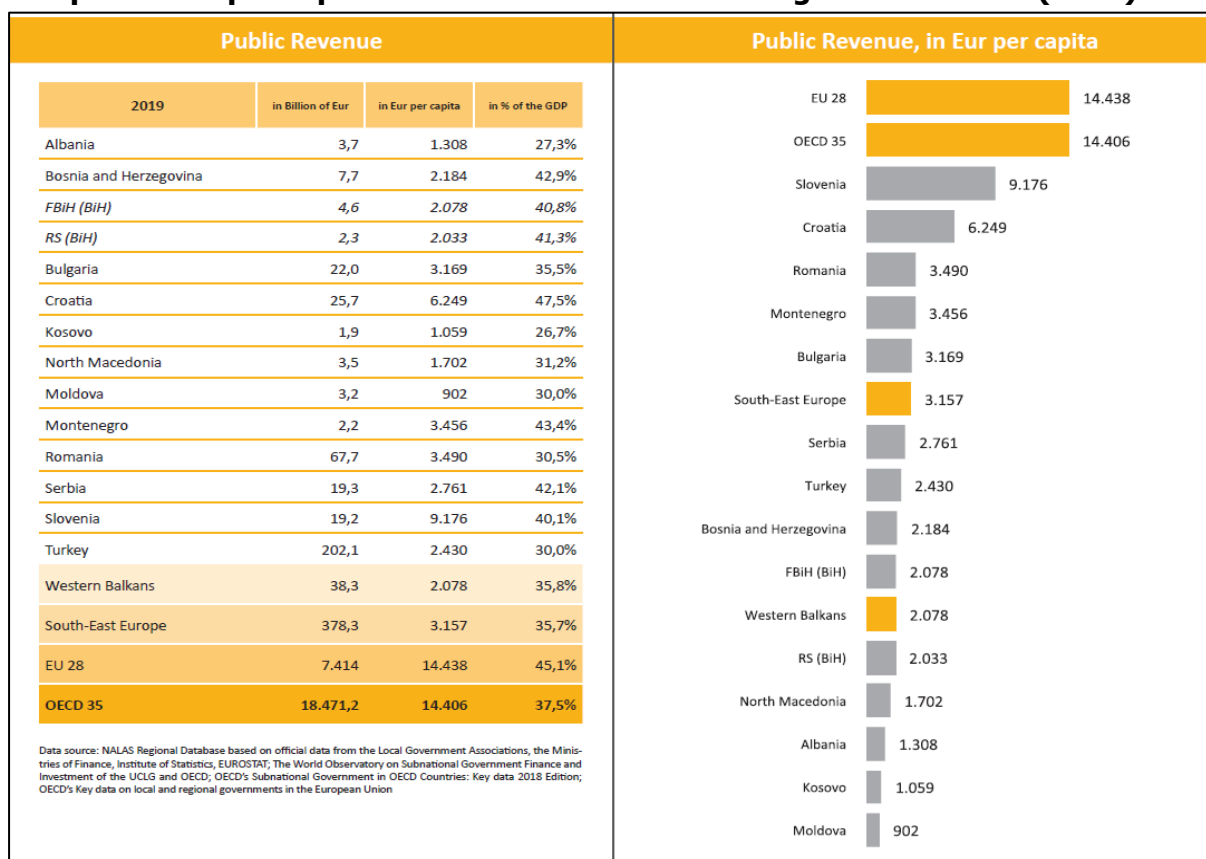
In today's terms, A. Civici says in his book "Dilemmas of Development", the level of democracy is assessed by means of the filter of good governance, i.e., to what extent this democracy creates potentials for sustainable economic growth and makes the right political decisions in favor of development." (Civic, A. 2007: 81)

Indicators of SEE Fiscal Decentralization

Albania has demonstrated that decentralization is a major development tool. More than two decades of decentralization activities have revealed that the decentralization process has brought about changes in the operation of institutions and delivery of services-but this change occurs gradually.

As highlighted in the European Commission's Albania 2021 Report, "While municipalities have been given greater policy making powers, local government units (LGUs) still lack sufficient financial resources and administrative capacity to exercise them effectively. LGUs' fiscal autonomy is at risk, as most of their budget is dependent on national transfers. As a result, although the municipalities are getting better at collecting own revenues, the overall ability of local institutions to deliver quality public services remains limited".¹

Graph 1: GDP per capita and Public revenue in the regional countries (2019) in Euro



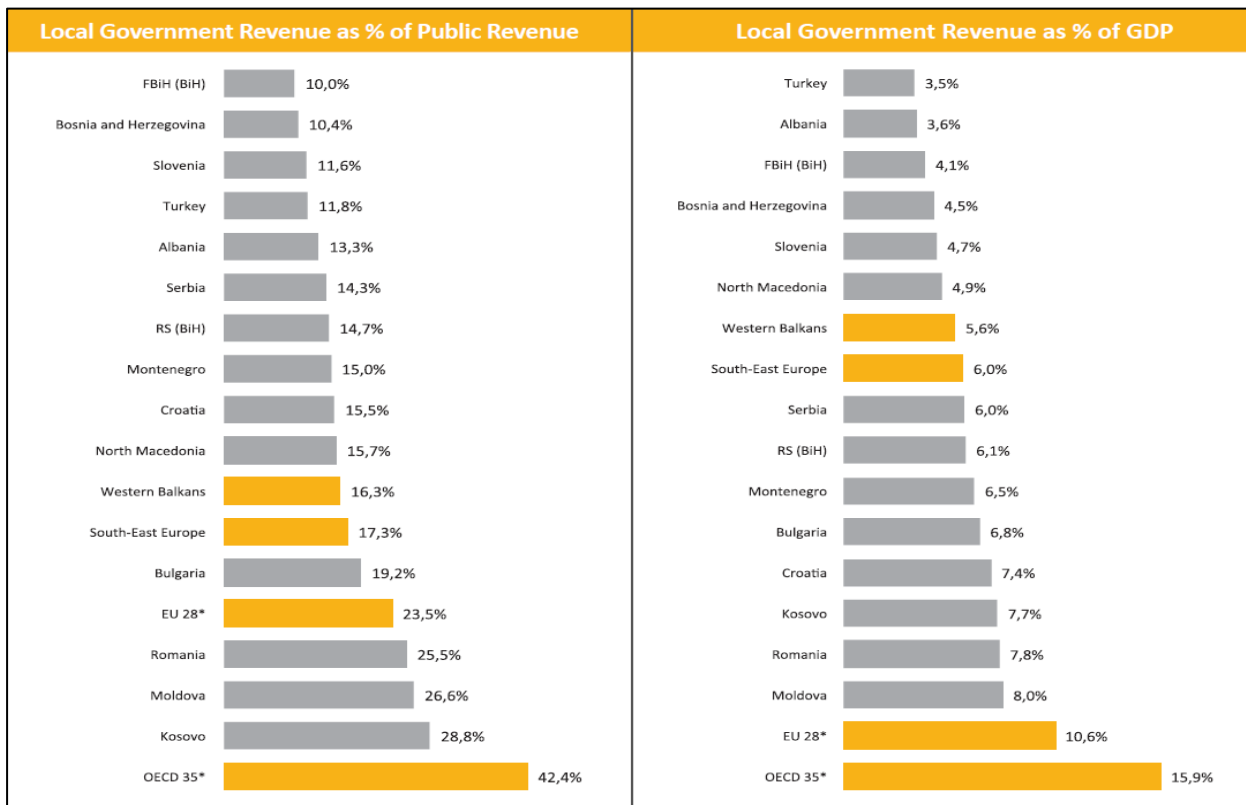
Source: NALAS (2021)

We should analyze fiscal indicators among the SEE countries given that the part of the fiscal decentralization is the most sensitive and key to the success or failure of the local government in fulfilling its mission to finance budget programs among which economic development. As shown in Graph 1, the GDP per capita in the SEE countries during 2019 Albania has the lowest rate and also Albania has the lowest public revenue per capita in all the SEE countries together with Kosovo and Moldova.

¹ COMMISSION STAFF WORKING DOCUMENT, EU Commission Report, Albania 2021, page 11.

Irrespective of the share to GDP to be referred in the following analysis of several indicators, the graph of GDP of various countries gives us the possibility to see the absolute pool of funding for SEE local government units and draw comparative analysis.

Graph 2: LGUs revenues as a share of Public Revenue and LGUs revenues as a share of GDP (2019)

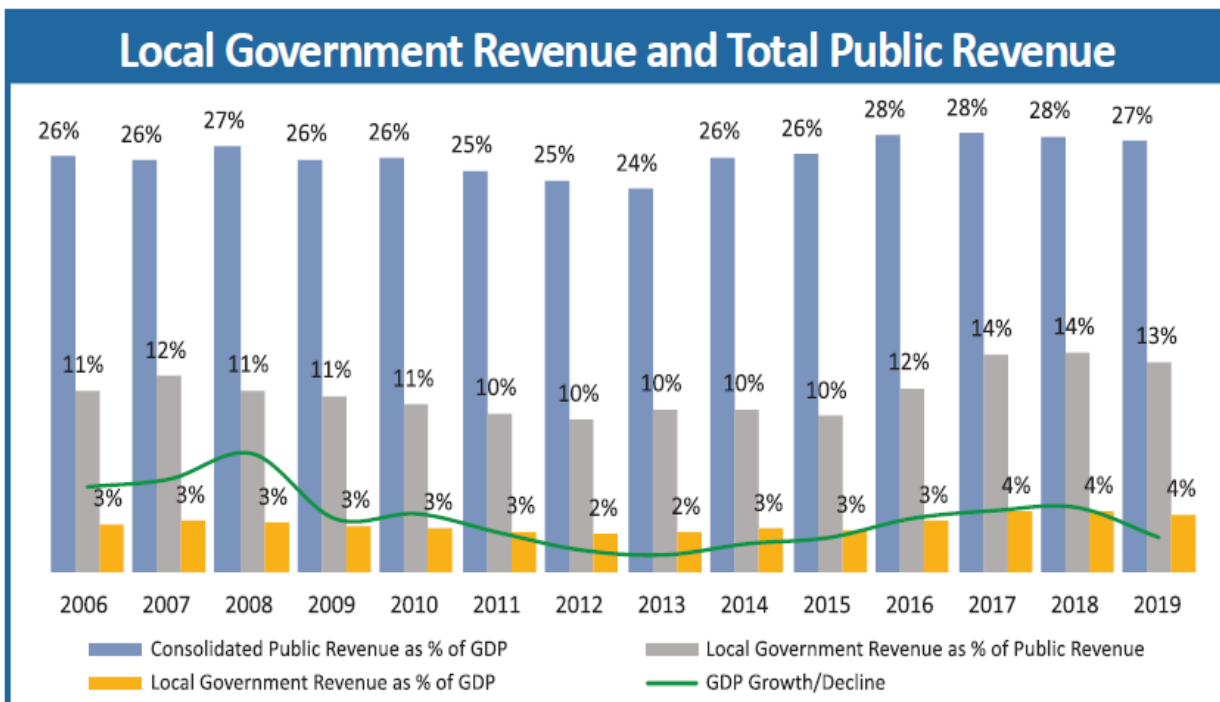


Source: NALAS, Fiscal decentralization: SEE indicators, 2021. (The data on Albania do not include counties [qarks].)

As shown in Graph 2, the local revenues in Albania in 2019 constituted 13.3% of consolidated public revenues among the regional countries with the lowest rate. During this year, only 3.6% of GDP are local revenues – this indicator is also the lowest in the region. Given these figures and comparing them with those of the regional countries, one can easily see the difficulties confronting the local government units in Albania comparing with other countries.

How have the revenues of the Local Government progressed over the years in Albania, have they increased after the administrative-territorial reform? In Graph 3, it can be seen that the income in Albania from 2006 to 2019 in relation to GDP is constant. After the RAT reform in 2015, in 2016 we have a noticeable increase, but this has come as a result of two factors, a- The transfer of 6 new functions in the Local Government as well as the unconditional transfer which cannot be smaller than 1% of GDP (rule established in the law on the finances of local self-government No. 68/2017)

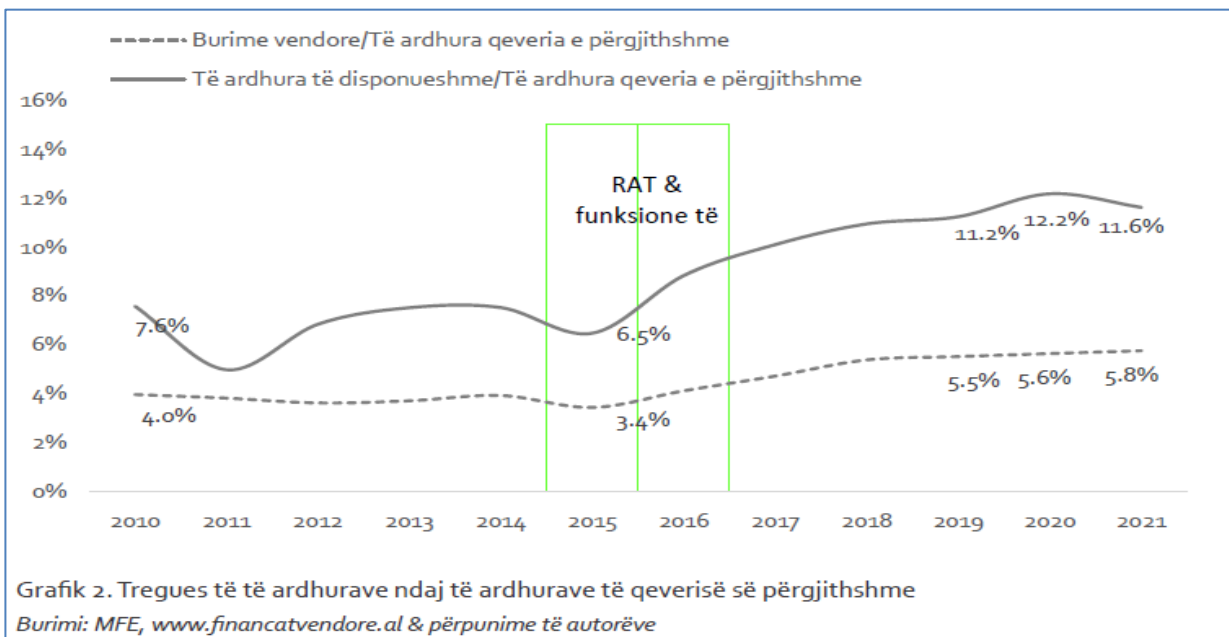
Graph 3: LGUs revenues as a share of Public Revenue; LGUs revenues as a share of GDP (2006 - 2019)



Source: NALAS, Fiscal decentralization: SEE indicators, 2021.

But a part of the local revenues are not those that are generated in the Municipality but come as transfers from the Central Government and this report is quite problematic as it shows the true degree of local autonomy which is extremely influenced by the Fiscal Autonomy which makes it dependent and inflexible the decision-making of the Local Government.

Graph 4: LGUs Own revenues as a share of Public Revenue (2010 - 2021)



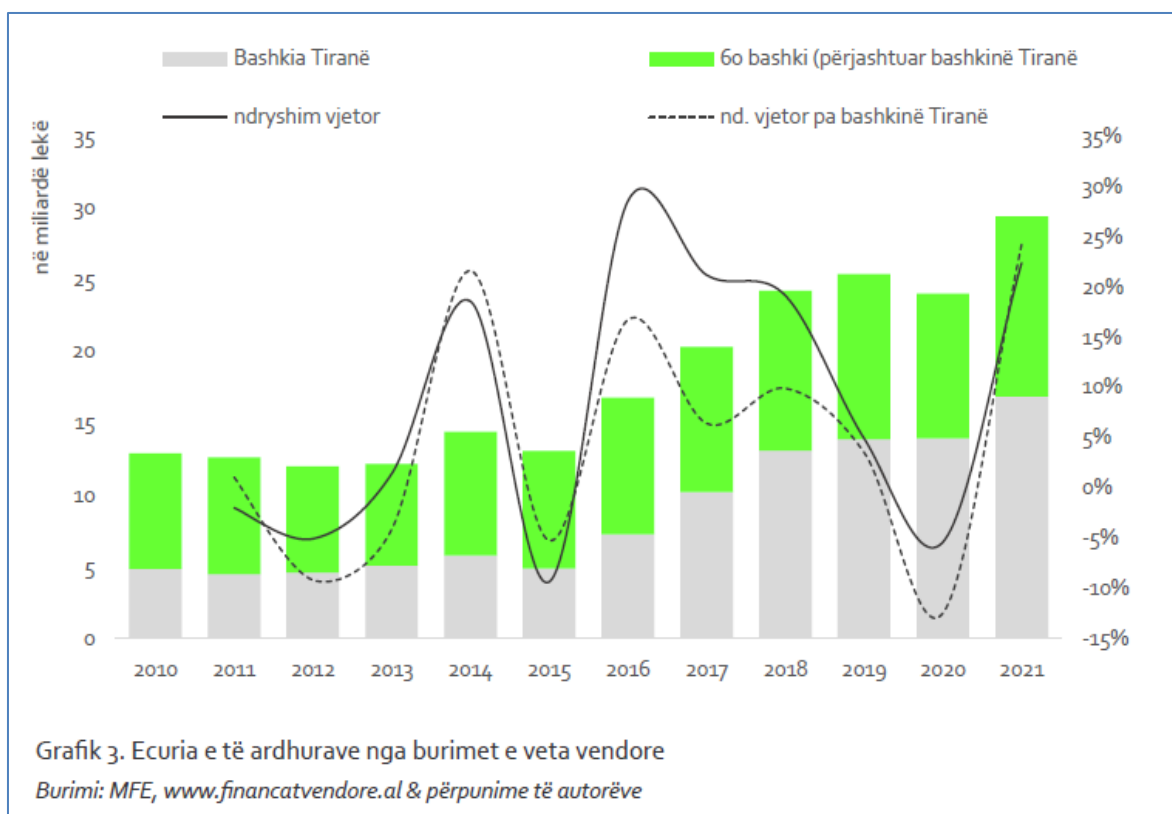
Grafik 2. Tregues të të ardhurave ndaj të ardhurave të qeverisë së përgjithshme
Burimi: MFE, www.financatvendore.al & përpunime të autorëve

Source: Co-Plan, 2022.

Graph No. 4 shows that the ratio of the income of LGUs in relation to the general income is 5.8% compared to that of the total income in relation to the general which is 11.6%. This indicator shows the dependence and influence of the revenues of the Local Self-Government Units from intergovernmental transfers.

This ratio is 50:50. At the same time, this ratio is quite different when analyzing 60 municipalities without Tirana municipality and 61 municipalities including Tirana municipality. I can say that 55% of the general expenses that are made at the local level are made by the Municipality of Tirana (Graph 5).

Graph 5: LGUs Own revenues (2010 - 2021)



Source: Co-Plan, 2022.

Another indicator that measures the share of local government units' expenditures for investment and their approach relative to capital improvement plans is the investment per capita at local level.

Investments with own funds in 61 municipalities are almost 10% of total investments, as well as investments with own funds are as much as 0.6% of GDP or 40% of investments at the local level, while 60% of these investments come from the Central Government (Graph 6).

Investments by the Central Government are financed by the Regional Development Fund, by the Albanian Development Fund (which also has funding from other financial institutions) as well as directly by the Line Ministries. Such investments are made with political objectives as well as by investing in the areas that have the highest GDP per

capita, which results in an increase in regional inequality, unlike the purpose and objective of the regional development fund.

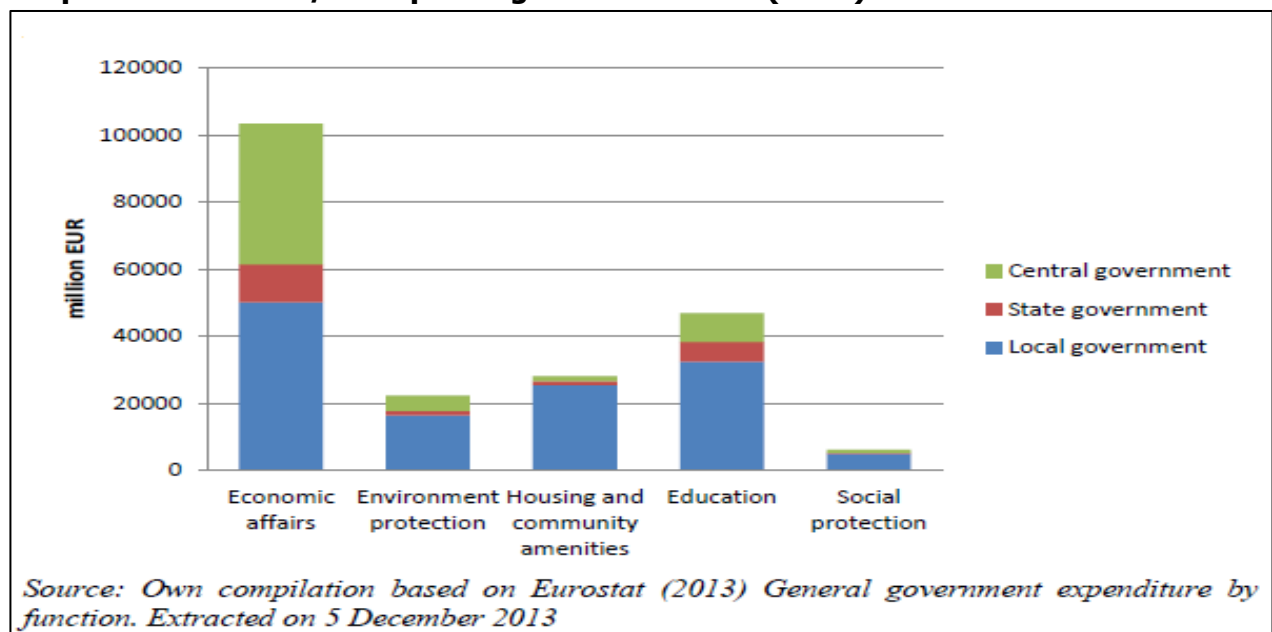
Graph 6: LGUs Public investment as a share of GDP (2010 – 2021)

Source: Co-Plan, 2022.

In Albania’s case, this ratio seems to disfavor local governance. This drives central government away from its normal role – development of strategies, policies, and regulatory role, particularly for functions of national importance.

Different is situation in the EU countries, the figures of these expenditures are presented in **Graph 7**, which shows the ratio of local expenditures to national investments according to functions in EU countries. (EuroStat 2013).

Graph 7: Ratio of CG/LGU spending in EU countries (2013)



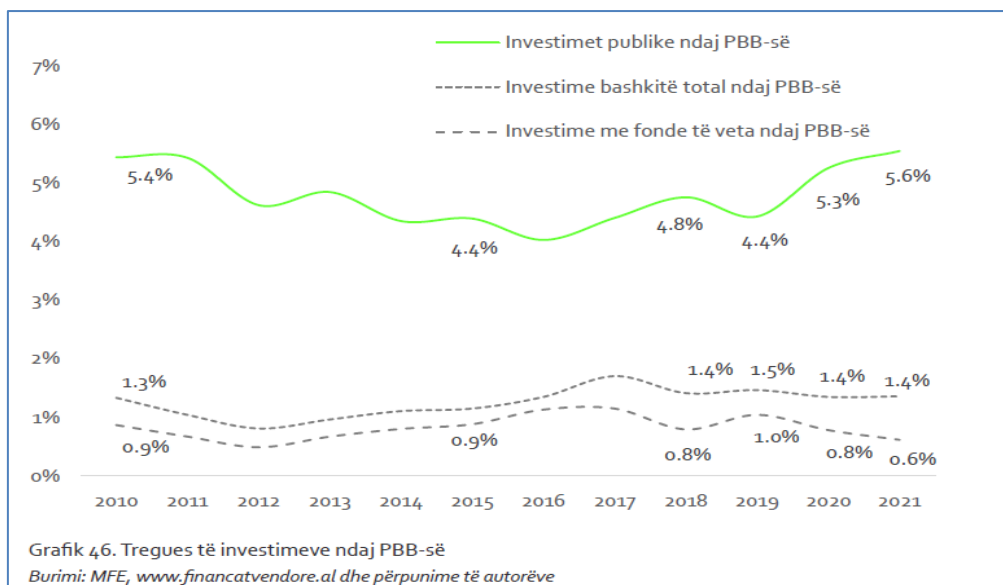
Source: Eurostat 2013

As shown in this graph, local governance is the institution that provides funding for issues, such as environmental protection, education, social welfare and housing, and the role of central Investments made by central government in development axes or capital cities do not produce proper impact and trigger regional disparities in the first place. Taking into account the share of investments made by the governments of these countries in ratio to GDP, one can see that this disparity is graver in Albania. (Petracos, 2001, Heidenreich, 2003, and Levitas T, 2013).

Funding for investment has been given in the form of *competitive grants* since 2006.¹ Starting from year 2009 until nowadays, investments have been provided from the Regional Development Fund (RDF) as well.²The government in these functions is quite modest. The opposite occurs in Albania.

Public Funding for Regional Economic Development

Graph 6: LGUs Public investment as a share of GDP (2010 – 2021)



Source: Co-Plan, Fiscal decentralization report 2022

In addition to public funds coming from revenues generated from taxes that the central government spends at a rate of 90.7% (shown in Graph 2), the central government has consumed 99.97% of the consolidated public debt (2015)ii.

Regardless of the existence of the Law on local borrowing, municipalities must obtain a special permit from the Ministry of Finance. This has limited the possibility of borrowing to finance capital improvement plans as well as to intervene with financial instruments in support of local development plans. The situation is presented as in Table 1. In total, the stock of local government debt at the end of 2021 turns out to be about 314.9 million ALL and is estimated at about 0.018% of the nominal GDP and makes a small contribution to the total public debt figure

Table 1: Municipalities' debt (2021)

Huamarrësi	Huadhënësi	Shuma (në milionë lekë)	Nënshkruar më:	Përfundon më:	Stoku në fund të vitit 2021: (në milionë lekë)
Bashkia Korçë	Pro Credit	100	2010	2020	2.3
Bashkia Korçë	ISBA	200	2014	2024	75.6
Bashkia Vlorë	BKT	420	2010	2020	8.9
Bashkia Elbasan	BKT	800	2010	2020	209.4
Bashkia Lezhë	ISBA	107	2014	2023	18.4

Tabelë 1. Të dhëna mbi huamarrjen vendore
Burimi: Ministria e Financave dhe Ekonomisë, 2022

Source: MoF

In the execution of these funds, the central government has at its disposal the ADF³ and RDF⁴. The Albanian Development Fund is partly funded by the Regional Development Fund, while its projects are mainly funded by various donors and creditors. The area of activity of the Albanian Development Fund is to promote sustainable, balanced and interactive economic and social development, at regional and local level, in support of state development policies. According to the decentralization strategy, the government and its financial and development agencies will continue to strongly support capital investments to improve local infrastructure with funds from the state budget and foreign donors⁵.

Economic development cannot be understood without funding, among others, the capital investment plans. Given their financial conditions, local government units cannot play this role, which has basically remained in the hands of the central government, since, according to the theory and situations in the Balkan region presented above, the funds used by the central government are pushing regional disparities.

¹ *During 2006-2009, funding was provided through competitive grants by the Committee for the Allocation of Competitive Grants as the decision-making authority (in pursuance of the Order of Minister of Finance, No. 355, dated 13.01.2009, "On Establishment of the Committee for the Allocation of Competitive Grants").*

² *Specific criteria were adopted for each and every call for applications in year 2014. LGUs (qarks and municipalities) and development agencies were entitled to apply for grants for investment projects (from 2014 and on).*

³ *The Albanian Development Fund (ADF) is a public agency whose mission is to encourage a sustainable, balanced and cohesive socio-economic development at local and regional level. The ADF was established at the beginning of 1993, based on an agreement between the Government of Albania and the World Bank. On May 11, 2009, the Albanian Parliament endowed ADF with a special legal status through the adoption of the Law No. 10130, dated 11.5.2009, updated, "On Regional Development Fund".*

⁴ *The Regional Development Fund (RDF) is a development instrument and a competitive financial mechanism that supports national policy of regional and local development, to ensure implementation of policy objectives of territorial cohesion, to have regions with balanced, competitive development, and sustainable, economic, social, and environmental development. The Regional Development Fund is administered through collegial decision-making of the Committee of Regional Development headed by the Prime Minister.*

⁵ *The Regional Development Fund and the Albanian Development Fund according GoA are designed to serve as an instruments that promote urban and rural development in the framework of broader policies of regional development. Investments at local level will be incorporated in strategic programs of regional development that guarantee economic and social cohesion among various regions and areas of the country.*

- Which are the policies to support the function of local economic development and how are they expressed in funding structures?

The function of economic development is an exclusive function of the local governance as provided for in the organic law on local governance (Law No. 8652/2000 and the new Law No. 139/2015), even though the funding for this function is very modest.

Suffice it to say that the municipalities themselves do not prioritize LED, as only 19 of the 61 municipalities have Local Economic Development Departments.

This also brings to attention the issue of the inadequate approach of the Local Administration in relation to local and regional economic development, using the current financial instruments (own and intergovernmental transfers), as well as its possibility or capacities to access government funds through competition for grants (RDF) or the application for European Union funds.

- The question arises, at the current stage, does the local administration have the capacity to play this role?
- Is it possible for the EU to support projects in the less developed regions of Albania, since the narrowing of regional differences is also at the center of its project financing policies?

Is Albania alone in this approach or are other countries sharing this situation?

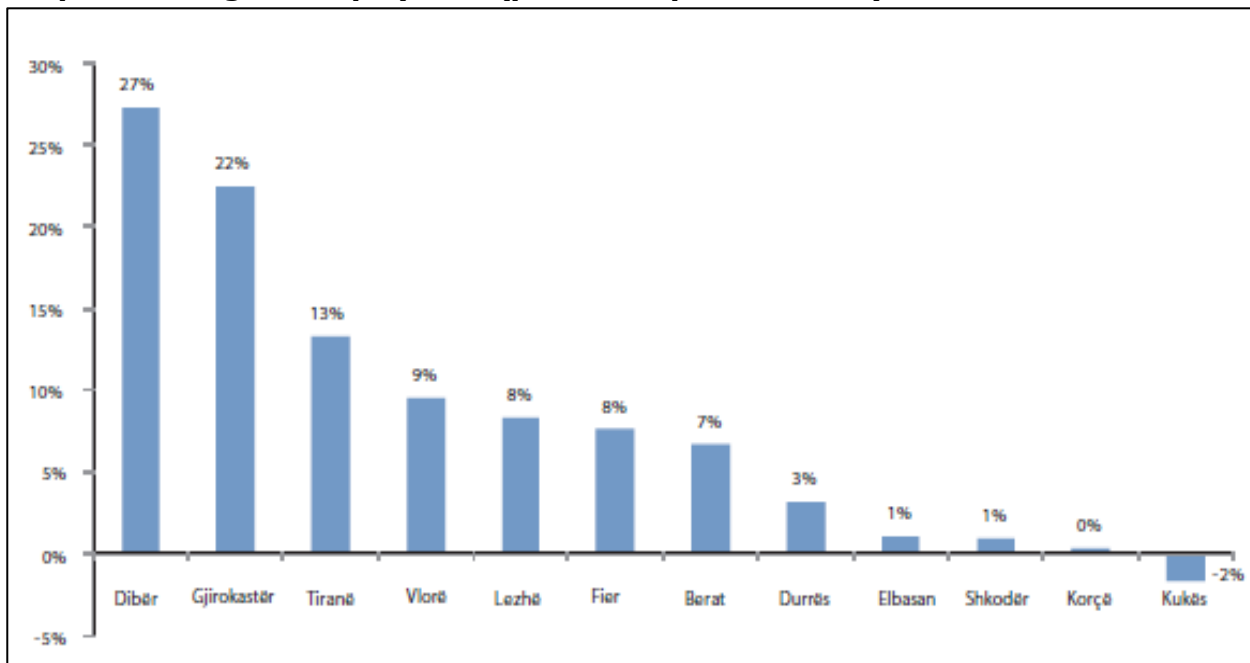
Negative consequences have been identified even in other Southeast European countries, in the Balkan countries, regarding the impossibility of funding local government units to ensure their role in local economic development. "However, evidence from the entire Balkan region show that after the changes, the concentration of economic activities in a limited number of key regions or development axes is a general feature and reveals that, as a result of this approach, cross-regional inequalities have increased." (Petraços, 2001; Heidenreich, 2003)

In addition to the disparities created as a result of government's concentration of expenditure in national programs and major development axes, these expenditures, excluding those of local government, have not brought any great benefit to local government units or regions where they are implemented. An example to be mentioned is the County (*Qark*) of Kukes in relation to the potential benefits from the construction of the Durres-Kukes-Morina national highway.

According to INSTAT, the total number of passengers entering and exiting via road transport at land border points was 15,397,665 during 2021. The data show that about 43.1% of passengers moved mainly through land border point Morin.

Regardless of the fact that this region benefited most from the Albania's greatest expenditure made for the construction of the Durres-Kukes-Morina national highway, 17 employment fell by 2% during 2019-2021. **(Graph 8)**

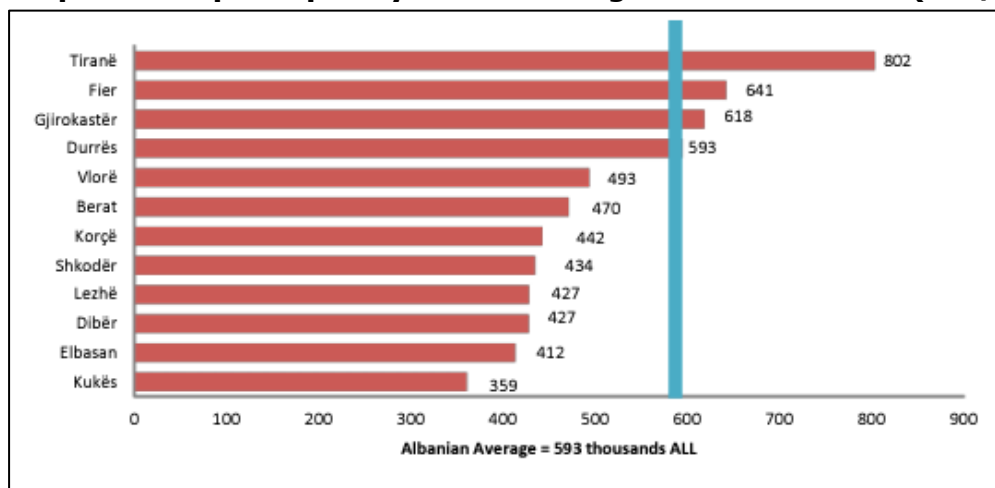
Graph 8 : Change of employment (public and private sector) 2018 -2019



Source: INSTAT

Kukes is the region with the lowest GDP per capita in Albania (**Graph 9**). Given the conditions and opportunities for economic growth and development, regions in Albania have progressed at different speed. This relative speed is also “assisted” by the central government’s investment policy.

Graph 9: GDP per Capita by Statistical Region Level 3 in 2019 (000/ALL)



Source: INSTAT

According to Bartlet. W, some elements of the local economic development existed in Central and Eastern Europe before the democratic processes started there. For many people in local governance, economic development is a tool of a strategic plan to boost the economy in order to create jobs and increase own revenues of local government units. (Bartlet. W, 2013).

A standard approach to the analysis of the local economic development is that this growth is possible when institutions stay close to reduce insecurity, facilitate social

interaction, provide strong incentives for economic activity, and keep cost-effective implementation at a low level. (Sautet, 2005). This is also reflected in a study by UNDP in 2010 on "Regional Disparities in Albania".

Impact of Inter-Governmental Transfers in Increasing Regional Disparities

The scheme of funding LGUs, as provided for in the organic law, are the inter-governmental conditional and unconditional transfers, own source revenues from taxes and fees, loans, and donations. Table 2 shows the dynamics of these instrument over the years. It can be easily observed that the Regional Development Fund– has increased steadily but significantly over the last few years. As a conditional transfer, the competitive grant was introduced in the local governance funding scheme in 2006, by which time the fiscal autonomy of local government units began to shrink even though the absolute value of local revenues increased.

Table 2: Fiscal Autonomy and rate LGUs Investment comparing with public Investment(2015 -2021)

Indicator	Description	Value				
		2015	2018	2019	2019	2021
Financial Autonomy (A)	The ratio of income from local own resources to total annual financial resources.	30.9%	30.9%	33.4%	29.1%	31.6%
Investments with own funds to total public investments (%)	Investments made with the municipalities' own funds (from their own local sources, unconditional transfers and allocated taxes) in Lek to total public investments in Lek.	20.1%	16.7%	23.5%	14.8%	12.9%
Municipal investments to public investments (%)	Total investments made by municipalities (with own and conditional funds, including RDF) in Lek compared to total public investments in Lek.	26.2%	29.8%	33.1%	25.7%	24.5%

Source : MoF, *Financatvendore.al*

While in absolute values it represents an increase of local revenues, this situation relatively affects the level of fiscal autonomy. Regardless of an increase of the absolute value over these years, local revenues have changed very little in relation to GDP, and this

change is more attributed to the functions transferred in February 2016 than a real increase for the given functions.

Local and Regional Development

The reforms undertaken in Albania after the fall of communism and the privatization of land and services created a favorable climate for boosting investments; the country became more attractive to foreign investments, which coupled with those of local businesses created the grounds for economic growth and more.

To a certain extent, this was unsurprising due to the process of movement of population from rural areas of agricultural profile to urban areas. Surveys show that the GDP category of services increased (from 21% in 1992 to 59% in 2001 and to 58% in 2008). (Sjaak Boeckhout; Colm McClements, 2010). But regardless of the developments made accordingly to INSTAT, the counties of Kukës, Lezhë, and Dibrë have the lowest economic growth.

In its mission presented in the Report of the year 2020, the Albanian Development Fund says that in fulfilling the functions and powers provided for in Law No. 10 130, dated 11.5.2009, the ADF aims to:

- *. improving the local social-economic infrastructure;*
- *. improvement of local public services;*
- *. institutional strengthening of local government units;*

So, in this mission statement, it appears that ADF is active in local investments that, by law 139/2015, have been given to Local Self-Government Units that exercise their mandate according to the principle of Local Autonomy.

The impact of this Fund in creating balances or imbalances in economic and social development is very significant. This can be seen in the data of table No. 3, where the largest number of projects belong to the Districts with the greatest economic development in the country.

When looking at the table of the number of projects by region, it is obvious that the Albanian Development Fund investments are implemented in the regions with the highest GDP per capita (Graph 12), which has not helped to alleviate the differences.

The last few years' interventions with investment projects in the regions with the lowest GDP per capita have shrunk and this will definitely lead to more concerns regarding their economic growth.

Table 3: Projects implemented by Albanian Development Fund during 2019 – 2020 in Albanian Lek (ALL)

No.	Region	No. of Projects
1	Berat	10
2	Diber	3
3	Durres	5
4	Elbasan	8
5	Fier	11
6	Gjirokastra	14
7	Korça	9
8	Kukes	3
9	Lezha	3
10	Shkodra	7
11	Tirana	9
12	Vlora	18
	Total	110

Source: ADF (2020 Report)

Table 4: Increase of GDP by *Qarks* (counties) and NUTS-2 regions in %**Tab. 1 PBB sipas rajoneve statistikore**

Kodi	Niveli Statistikor 2 / 3	PBB çmime korente (milion Lekë) 2019	PBB çmime korente (milion Lekë) 2020*	Rritja Reale e PBB-së 2020*/2019	Kontributi ndaj rritjes Reale 2020*/2019	Struktura ndaj PBB-së 2019	Struktura ndaj PBB-së 2020*
AL	Republika e Shqipërisë	1.691.903	1.644.077	-3,48	-3,48	100,00	100,00
AL01	Veri	389.330	372.517	-5,25	-1,21	23,01	22,66
AL011	Dibër	51.112	48.267	-6,14	-0,19	3,02	2,94
AL012	Durrës	171.576	164.087	-5,83	-0,59	10,14	9,98
AL013	Kukës	27.362	27.309	-0,10	-0,002	1,62	1,66
AL014	Lezhë	53.262	50.203	-6,28	-0,20	3,15	3,05
AL015	Shkodër	86.017	82.652	-4,55	-0,23	5,08	5,03
AL02	Qendër	835.124	818.802	-2,80	-1,38	49,36	49,80
AL021	Elbasan	111.830	112.244	0,30	0,02	6,61	6,83
AL022	Tiranë	723.294	706.559	-3,28	-1,40	42,75	42,98
AL03	Jug	467.450	452.758	-3,23	-0,89	27,63	27,54
AL031	Berat	57.883	57.217	0,33	0,01	3,42	3,48
AL032	Fier	188.442	178.185	-5,24	-0,58	11,14	10,84
AL033	Gjirokastër	37.087	36.046	-3,59	-0,08	2,19	2,19
AL034	Korçë	90.725	88.307	-3,42	-0,18	5,36	5,37
AL035	Vlorë	93.312	93.003	-1,05	-0,06	5,52	5,66

*2020 Të dhëna gjysmë-finale

Source: INSTAT

Table 4 shows that only three regions (*qarks*) in Albania contribute by 63.79% to the GDP.

This has made these regions experience a higher demographic pressure, among other concerns. Only two regions (*qarks*) experience an economic growth at 50% more than the national average. But again, these are the counties/regions that benefit the most from RDF/ADF, for the number of projects as well as for the amount of project financing (ADF Report 2020). Vloira also joins this Group with the record number of financed projects.

Local Administration, its Role in the Implementation of Fiscal Decentralization as well as its Role in Local and Regional Economic Development

While municipalities have been given greater policy making powers, **local government units** (LGUs) still lack sufficient financial resources and administrative capacity to exercise them effectively. LGUs' fiscal autonomy is at risk, as most of their budget is dependent on national transfers. As a result, although the municipalities are getting better at collecting own revenues, the overall ability of local institutions to deliver quality public services remains limited.²

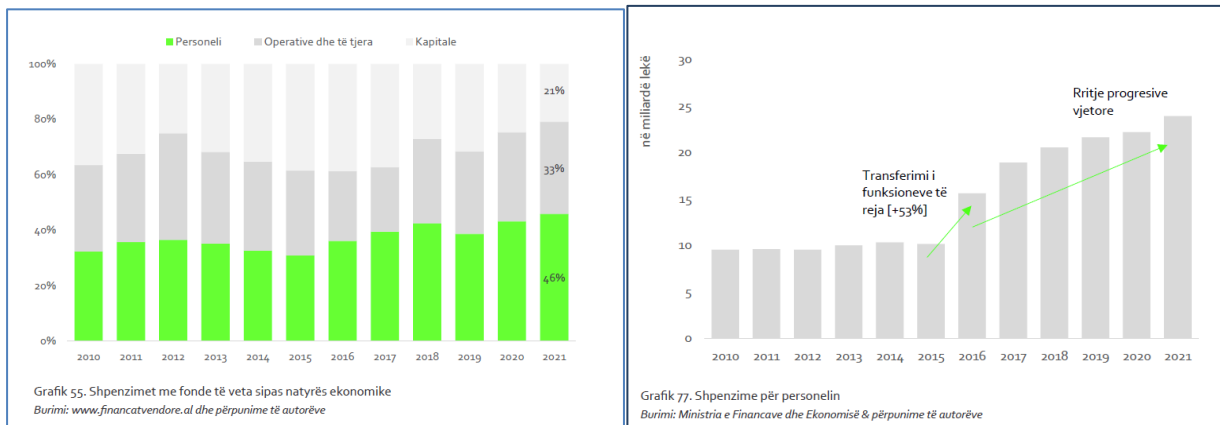
According to report by the European Commission, the decentralization process in Albania has improved the capacity of local governments to respond to citizens' demands. However, there is^{1,2}

² COMMISSION STAFF WORKING DOCUMENT, EU Commission Report, Albania 2021, page 11.

still a need to strengthen local authorities' ability to plan, manage, and finance public services effectively.

One of the objectives of the territorial reform was the reduction of employees that would come as a result of the merger of local self-government units. But the local units move in the opposite direction by implementing a patronage approach where the interests of the political network overrode the interests and purpose of the reform (**Graph 10**).

Graph 10: Change of LGUs Employee's expenditures (2010 -2021)



Source : MoF

In 2019, Albania became a member of the Regional School of Public Administration (ReSPA), an international organization dedicated to developing public administration capacities and standards in the Western Balkans. ReSPA offers training and research programs to support local governments and other public administration bodies in their efforts to strengthen their capacity. New curriculum methodologies were implemented by the Department of Public Administration, which operates with the amended Law "On Civil Servants" 152/2013. Aspa (Albanian School for Public Administration) has undergone reforms from time to time, but the above graphs show that the focus has been on the quantity of public administration rather than its quality. Currently, the school of public administration is without working facilities.

According to a 2019 report by the World Bank, Albania's public administration remains highly centralized, with limited autonomy or capacity for local governments to provide public services efficiently. The report highlights the need for reform in the public administration sector to support the country's EU integration efforts.

The European Union has been working to support Albania in its administrative and institutional reforms since the country has expressed its interest in joining the European Union. One of the key areas of EU support has been in the field of public administration. Through the Instrument for Pre-Accession Assistance (IPA) program, the EU has assisted Albania in strengthening its public administration structures, including strengthening the capacity of government bodies to design and implement policies, improving the functioning of public service delivery, enhancing the transparency and accountability of public institutions, and supporting good governance practices.

The EU has encouraged Albania to align its public administration with EU principles and standards, such as those enshrined in the European Charter on Local Self-Government and the

Code of Conduct for Public Officials. The EU has also provided assistance in terms of staff training, technical assistance, and logistical support to help Albania improve its public administration. The implementation of "Acquis-EU in 70% of its volume will be implemented at the local level.

Furthermore, the EU has established a comprehensive monitoring mechanism to ensure that Albania's public administration reforms are in line with EU standards. This mechanism includes regular assessments of Albania's progress towards meeting EU standards, as well as dialogue between EU officials and Albanian officials on ways to improve the public administration system.

Not in a few cases, in-depth local administration trainings, specialized trainings, have been provided by different donors such as: (USAID, GiZ, SDC, SIDA, UNDP, etc..) which have helped to increase the standard of local administration . The lack of a performance system has meant that the training courses are not required by the administration employees to make it possible for them to achieve the standards and requirements at work, but they have been offered by these organizations, which has brought in not a few cases of indifference in participation.

The digital system for human resources management HRMIS is not yet being used by all municipalities. Currently, use is reported only by about 50% of municipalities, marking a decrease even compared to 2019. Also, dismissals from work in the local administration continue to remain one sensitive concern for ensuring a stable administration. The rate of dismissals of local civil servants has been about 13% in 2020 (or 1941 left) for various reasons.³

Based on the above analyzes of the economic and financial situation of the Municipalities, of the amount of income available to the LGUs to make it possible to provide services to the community with quality, affordable costs and in a transparent manner, as well as to design a future for communities through economic and social development plans but also narrowing regional imbalances in terms of economic growth, a golden opportunity are the funds of the European Union through the specific programs that are available.

For this, the local public administration must undergo a series of reforms, which we are dealing with in the part of conclusions and recommendations.

³ Mapping Report 2020 : "Municipalities for Europe" page 7.

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