

isb  
Institute for Contemporary Studies  
Rr. Vaso Pasha 7, Tirana-ALBANIA  
Tel/Fax: +355 42 348 68, Tel: +355 42 47146/51010/51020  
E-mail: [ics@isb.icc-al.org](mailto:ics@isb.icc-al.org); [www.ics-al.org](http://www.ics-al.org)

---

## LOCAL SELF-GOVERNMENT AND DECENTRALIZATION CASE OF ALBANIA

### HISTORY, REFORMS AND CHALLENGES

*Prepared by: Artan Hoxha*

Tirana, 24th January 2002

---

#### Table of content

##### Background

- First Chapter:* Local Government Elections  
*Second chapter:* Local government territorial organization  
    ii.1 .Introduction of local government levels  
    ii.2. territorial administrative division  
*Third chapter:* Legal competences of local self government  
    iii.1 Rights

***Fourth chapter: Local public services***

- iv.1 Exclusive functions of communes and municipalities
- iv.2 Shared functions
- iv.3. Delegated functions
- iv.4 Functions and competences of region

***Fifth chapter: Local government finances And economic resources***

- v.1 Revenue structure
  - v.1.1 the own revenues
  - v.1.2 revenues from national resources
  - v.1.3 second level of local government (region)
- v.2 local government budgeting (fiscal planning)

**Final conclusion**

**Annexes**

**Abbreviation**

CC	Constitutional court
CG	Central government
CM	Council of Minister
CR	Council of Region
EC	Election Code
ECLSG	European Charter for local self government
FDS	Fiscal decentralization strategy
HCS	High state control
LG	Local government
MF	Ministry of Finance
NDSA	National Strategy for decentralization and autonomy of local government
OFLG	Law “ for Organization and functioning of loca government” No 8652, dated 31.07.2000
PA	People Assembly: Albanian parliament
RA	Republic of Albania

## **Background**

Albanian State has a relatively short history:

- ◆ Declaration of Independence on 1912 and the first Government
- ◆ Protectorate 1913-19-14
- ◆ Lack of government institution 1914-1920
- ◆ Parliamentary Republic 1920-1928
- ◆ Constitutional Monarchy 1928-1938
- ◆ Different Governments during 1939-1944
- ◆ Communist State 1944-1990
- ◆ Parliamentary Democracy 1991-currently

Having as a priority to set up a moderate state over the fractured society and regions the dominant approach followed by the political class during each historical period was the centralisation.

### **1920 - 1930**

The main feature of local governance bodies was the low level of political independence as opposed to the high level of economic and social competencies and functions.

The territorial division was composed of Prefectures and sub Prefectures, districts, municipalities and communes. The local authorities got appointed based on a combined system of appointment and selection where appointment played the major role. Whereas, while elections were held for the members of the district councils, the mayor/ or the commune chairman were appointed by a royal decree at the proposal of the government. In villages there was in force the system of elder that also got appointed. The level of administrative autonomy was moderate. However, the authority of state through prefectures was very strong. The governmental body that controlled the activity of local authority was the Ministry of Interior.

The competencies of an economic and social nature were very broad. The local bodies, especially municipalities carried out several public services, administered a budget substantially financed by local taxes and possessed properties/assets or administered natural resources.

The local administration was few in numbers, but efficient. The recruitment and career system and that of compensation/remuneration were improved and grew during the years.

### **1944 - 1990**

The centralizing and vertical features of governance became fully dominating. The legal and constitutional framework considered them as “local bodies of government” rather than “local government bodies” and included them as part of the compact state pyramid. Therefore, this was basically a deconcentration of the executive functions, whereas decentralization and self governance were extremely weak.

Local bodies of government included district councils as the first level and town/village councils as a second level. In the towns there existed even smaller units known as councils of the quarters. Local authority councils were elected through formal voting once in four years, but they had no political or administrative autonomy whatsoever. The various economic and social functions carried out by these bodies were part of the vertical division of executive duties in a centralized state in relation to decision taking and policies. Their budget was entirely transferred from the state budget and strictly detailed and allocated in items and procedures as well as the manner of usage. Local authority bodies among themselves have dependency relations. The highest authority and which carried out many functions was the executive committees of the district council. The CM appointed the chairman of this council. The town/village council was considered as the lowest level of authority. Among the main duties of the district council were implementation of production plans of state owned enterprises and state cooperatives in the relevant district.

### **Transition period. First Decade of 1991-2000**

The current status of LG is a product of the dynamics of the political, economic and social factors of transition, as well as historical, traditional, cultural and social psychology. Notwithstanding the overall two-sided impact/action of these factors, they have played more of a restraining than a promoting role in decentralization of power and strengthening of local self-governance during the period of 1991-2000.

The early steps for decentralization were based dominantly on centralized political objectives. In recent years, the increase of experience at the local level and the fostering of a local political/managerial class have brought to the game a new active decentralization actor.

In the 1990s, the system began to shift to a more decentralized LG system. The first LGs were created at that time (Law on Functions and Organization of Local Governments, August 1992). The reform of 1992 set up for the first time politically autonomous LGs. This must be considered a very important achievement. Some of the services and functions from which the public could benefit directly were passed to the local bodies that, though politically autonomous, still lacked real administrative and fiscal autonomy.

The main structural change was the modification of the role of the two levels of LGs , by (i) strengthening the functions of municipalities and communes as the primary level of LGs with direct responsibilities and more authority, and (ii) modifying the role of District Councils to include a coordination function.

In the first years of transition, the focus was mainly on central reforms to build the key institutions (parliament, government, judiciary) based on democratic models as well as on basic economic reforms (macroeconomic, banking, privatization, etc.) As a result, there was less attention to LG reforms. Nevertheless, a number of laws and governmental decrees, which defined the competencies and authorities of local bodies, were approved.

The the legal status of LGs was characterized by:

- General definitions of responsibilities/functions. The system is designed in such a way that it is not possible to draw a clear division of responsibilities between the local and National Government. Overlapping of responsibilities or mismatching of responsibilities and functions is evident in many fields. This limits the self-initiative of local governments in these areas.
- Mismatching between responsibilities and the authority to act. The law considers that LGs are responsible for a broad share of public services but it does not grant the adequate authority and instruments to carry them out.

#### Administrative authority

LGs had formally the authority to define the structure of local organizations and the number of employees financing form its own resources the added cost over the central financing but they had not authority for deciding their salaries. In the condition of extreme limited own resources the exercise of administrative authority by LGs remain, in practice, very constrained.

#### Investment authority

While LGs had responsibility for ensuring the normal functioning of public infrastructure, they had not any relevant authority for planning and executing new investments, rehabilitation and renovation. The line ministries planed and decided the details of investments and their funding. These investment funds were distributed through the conditional budget. In other words, LGs worked as agents of a CG agency.

#### Service maintenance authority

Since 1998, LGs have had the authority to plan and execute expenditures for maintenance of local institutions under their authority. But, even this new positive experience is limited by the fact that funding from the national budget was limited, while the local budget was too weak to support the overwhelming needs.

Regulatory authority

The capacity of LGs to exercise any regulatory authority was limited even for their own responsibilities. The national authorities and their specialized bodies define almost all standards and procedures of services.

Fiscal and budget authority

The fiscal authority and autonomy of LG was very limited. A national law defined for all local taxes and fees, the base, rate level, sanctions and collection agent. From 1999, the law established the right of the LGs to decide the rate of local taxes and fees within +/- 20% of uniform national rates decided by law. Central fiscal agents collect the majority of local taxes and fees. Few LGs have a local fiscal administration; as a result, the capacity of LGs to collect own local tax and fees remained very limited. Some large municipalities have strengthened their capacity to collect local taxes, an argument for further fiscal decentralization reform.

The expenditures of LG have been largely financed by the state budget, and the expenditure structure was strictly controlled by MF and the line ministries, with the exception of a new block grant for recurrent expenditures of LGs implemented in 1999.

The result is that expenditures that LGs had any control over represent a very small share of total public expenditures in the country, as shown in the following Table 1. The share is one of the smallest among the countries of central and eastern Europe that are going through a process of decentralization similar to that in Albania.

**Table 1. Macro economic context of LG (in million of Lek)**

Source: NDSA

	1995	1996	1997	1998	1999 <sup>1</sup>
<b>GDP</b>	229.700	281.000	341.700	460.600	
<b>State Budget Expenditures (SBE)</b>	77.134	87.596	100.730	141.628	111.312
<b>% SBE to GDP</b>	<b>33.6 %</b>	<b>31.2 %</b>	<b>29.5 %</b>	<b>30.7 %</b>	

<sup>1</sup> Data for 1999 represent the actual results for the first nine months

LOCAL SELF-GOVERNMENT AND DECENTRALIZATION  
CASE OF ALBANIA  
HISTORY, REFORMS AND CHALLENGES

<b>Total Local Expenditures (TLE)*</b>	20.705	20.691	19.989	25.927	21.199
<b>% TLE to SBE*</b>	<b>26%</b>	<b>23%</b>	<b>19%</b>	<b>18%</b>	<b>19%</b>
<b>Own Local Expenditures (OLE)</b>	221	625	628	722	992
<b>% OLE to TLE</b>	<b>1%</b>	<b>3%</b>	<b>3.1%</b>	<b>2.7%</b>	<b>4.6%</b>
<b>% OLE to SBE</b>	<b>0.28 %</b>	<b>0.71 %</b>	<b>0.62 %</b>	<b>0.51 %</b>	<b>0.89 %</b>
<b>% OLE to GDP</b>	<b>0.096 %</b>	<b>0.22 %</b>	<b>0.18 %</b>	<b>0.15 %</b>	
<b>Bloc Grant (BG)</b>	-	-	-	-	3.465
<b>% BG to TLE</b>					<b>16.3%</b>
<b>Conditional Transfers*</b>	20.484	20.066	19.361	25.205	17.842

Note ( \*):

The share of total LG expenditures to the state budget expenditures, which appears to show a high ratio (26% in 1995, now down to 19%) does not in fact represent autonomy of LGs in their expenditures. For example, in 1999, own local expenditures account for only 4.6% of total local expenditures, the block grant, 16.3%, and conditional transfers, the largest share of local budgets, 79.1%. Two types of expenditures are mostly included in the Conditional transfers: transfers for salaries and transfers for investment. At least 80% of the conditional transfers is for payment of salaries, such as for education, and the LGs serve only as the paying agent, with no other role and no possibility for decision-making. For investment projects, conditional transfers are transferred directly by the line ministries, to be used for previously determined and approved projects and types of expenditures.

### Property rights

In relation to the local public ownership rights, no substantial initiatives were taken to provide any property to LGs. They only had some limited administrative rights to some public properties.

### Final conclusion

As a result of the general definition of responsibilities and the insufficient authority given to carry them out, LGs were prevented from carrying out their important role in serving the needs of their community. This impairs the democratic participation of local communities, creates inefficiency and retains the centralized character of governance in Albania. The need for reform in this field of governance is currently considered very high.

### *Decentralisation-After 2000*

The decentralisation is currently going through a comprehensive strategic reforme. It is based in the

- ◆ Basic constitutional principles adopted in the Albanian Constitution (Nov. 1998)
- ◆ European Chart for Local Autonomy (ratified by Albanian on 1999)
- ◆ Strategy For decentralisation (Legal policy Document adopted in Nov. 1999)

The goal of the decentralization strategy is to implement the provisions of the Constitution of Albania regarding decentralization, in a manner consistent with the principles of the Charter of Local Self-Government of the Council of Europe.

The main provision of constitution establishes that: *“LG 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”*<sup>2</sup>

The objective of decentralization reform is to take full advantage of the opportunity provided by the new Constitution to create, promote, and implement a new vision of local government.

Based on the Constitutional provisions for LG, this strategy aims to combine Albanian tradition and the vision and goals of local and central officials with the best international experience and models of democratic societies.

The ECLSG defines common standards and principles for the protection and promotion of local autonomy rights in all signatory countries.

One of the main principles of the Charter states: *“Local self-governments denotes the right and ability of local authorities, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interest of the local population”*<sup>3</sup>

The Charter is both a model and an objective for Albania. It is a model of how to establish modern, democratic and effective governance based on the principles of local autonomy. At the same time, Albania is a signatory party and has agreed to adopt and fully respect the principles and standards of this document.

The Constitution as well as the ECLSG is the base on which LG were the basic pilars for the decentralisation strategy

---

<sup>2</sup> Article Nr.108 of Constitution

<sup>3</sup> Article No. 3.1 of the European Charter for Local self-government.

The decentralization strategy was drafted and discussed in an open and participatory process.

The two main actors, the CG and the LGs, came to the political agreement to set up together:

- The National Committee for Decentralization (NCD), whose members are representatives of both the central and local level, with the authority to establish the political guidelines and principles, to approve the document by consensus, and to politically spearhead its implementation. The NCD was formalized by a government decree. The NCD has approved the guiding principles of the strategy and the task description for the GED.
- The Group of Experts for Decentralization (GED), proposed by the NCD and formalized by government decree is composed of the highest technical and policy level experts, appointed by associations of local elected authorities and national government ministries, as well as independent researchers. The GED acts as the Task Force for drafting the strategy and monitoring its implementation. The GED has held 16 regular meetings in which was discussed and formulated a large range of topics and issues regarding decentralization. During the GED meetings, additional experts from the ministries contributed to the discussion on specific topics of decentralization. Independent Albanian and foreign experts also were invited to give their opinions

From a political point of view, the process brought together for discussion and consensus-building interest groups (such as local communities), political groups and local elected officials, political parties and the government, parliamentarians, NGO's, as well as international donors and organizations. A number of regional meetings were organized that contributed to strengthen the participation, the shared vision and the ownership of the strategy by all these actors.<sup>4</sup>

Such approach still is used for drafting and approving every single legal or policy instrument linked with the decentralisation reforms. So participatory and consensus building approach is the based even for the implementation of the decentralisation strategy.

The first product of Strategy implementation was the Law OFLG. The law has defined almost in details the rights, duties, organization, functions, authority and accountability of local governments units. The law is directly applicable for the majority of rights and duties. It has also established even an agenda (chapter XI of the law) for formulating and approving the necessary laws and by-law which will make possible the implementation of the other aspects of rights and duties.

PA is discussing the draft-law on "Transferring of immovable properties to the LG units" This law once approved will regulated in details the property rights of LGs as well as will be the base of the effective transferring of immovable properties to LGs within a period of two years.

---

<sup>4</sup> See Volume 2 of Decentralization Strategy

Task Force is drafting the law “On inter-governmental Relation”. This law will regulate all the aspects of relations between the CG and LGs for issues linked with performance of functions, financial and budgetary aspects (financial transfers, budget preparation and execution), external control, trial resolution, policy adopting for further decentralization in the future etc.

*The descriptions and analyses done in the following chapters are based on the current legal frame of L G. As it is a very new legal frame we don't have sufficient evidences to give opinions on the successes and failures but we tried to give some considerations on opportunities and risk to be faces in the coming years.*

### ***First chapter: Local government elections***

According to election code, LG elections are held three years by general direct elections and secret voting. Mayors and heads of communes as well as members of Councils of Municipalities and communes are elected by the inhabitants with the right to vote.

LG election date is announced by a decree of the President of the Republic. First round is held 60-30 days in advance from end of present local organs mandate, or not later than 45 days from the discharge of existing organ.

The candidates are proposed by political parties or their coalition. Independent candidates can also compete for Mayor/Head of communes or member of Council. Political parties have the right to be presented by mutual candidates as well as mutual candidates' list for local councils.

Documentation accompanying a candidate is delivered to Election Commission for LG not later than 22 days before the election date. Commission approves the candidature and not later than 19 day before the election date, it publishes the name address and political party of the candidate.

A candidate should fulfill some certain conditions clearly determined in law on Constitution (article 45).

1-every citizen older than 18 year old, even 18 years old in the election date, has the right to elect and to be elected.

2- Citizens defined mentally ill by a court decision does not have the right to be elected.

3-Citizen who have been punished to life imprisonment have only the right to elect.

According to the law on “Election code”, the candidate must be inhabitant of the respective unit he/she is aspiring for. He/she mustn't be a deputy or candidate for deputy of the AP.

Mayor and head of commune is called the candidate who wins more than 50% of eligible valid votes. In any other case a second round of election is held between the two candidates who won more votes in the first round (EC, article 75/1). In this case the major and head of commune is called the candidate winning the majority of eligible votes of the second round. If even after the second round candidates have equal votes, a random selection between them is applied.

Members of Councils of municipalities/communes are selected in ascending order from the candidates' list of political parties, political coalition and independent candidates. The number of members for each party is proportional to the total numbers of votes every political party or/and coalition win during the election. (EC, article 75/2)

Number of members of Council of Municipality /Communes are determine according to the inhabitants of units as showed (Law OFLG, article 24):

<b>No of inhabitants of local unit</b>	<b>No of members of Council of municipality/commune</b>
5000	13
5000-10000	15
10000-20000	17
20000-50000	25
50000-100000	35
100000-200000	45
Tirana Municipality (capital city)	55

Council of region is composed of representatives of communes and municipalities included in the region. Mayor and heads of communes of the region are always members of Council of region. (Law OFLG, article 49).

Number of representatives of municipalities and communes in the Council of Region are in proportion the with inhabitants' number of the municipal/commune member of the region as showed. (Law OFLG, article 50):

<b>No of inhabitants of the municipality/commune</b>	<b>Nr. of it representatives in Council of Region</b>
Up to 5 000	1 representatives
5 001-10 000	2 representatives
10 001-30 000	3 representatives
30 001-50 000	4 representatives
50 001-100 000	5 representatives

over 100 000	5 + 1 representative for each 1-50 000 inhabitants above 100,000
--------------	--

According to Law OFLG, ( article 25) function of councilor is incompatible:

- a. With the function of Chairman, Deputy Chairman of Commune and Mayor or deputy Mayor of a municipality;
- b. With the function of the Council Secretary;
- c. With the function of employee of the executive organs of the respective commune and municipality;
- ç. With the function of a member of Parliament.

In the same article is determined also that no person can be elected at the same time in more than one Commune or Municipality Council., as well as no two persons who are immediate relatives as a parent, a spouse, a child, a sibling or the immediate relatives of a spouse may serve simultaneously on the same Commune or Municipality Council.

In order to eliminate conflicts of interest the same law determines the application of disqualifying provisions set forth in the Code of Administrative Procedures of the RA as well as the fact that the Councilor does not take part and vote in any meeting where the case being considered is of personal interest to him, his spouse, parents, children, brothers, sisters, in -laws (article 30).

Law determines also the case of earlier expiring of the mandate of councilor or the mayor/commune chairman. (Law OFLG, article 27/4), in the following situations.

- a. change of residence;
- b. resignation
- c. creation of conditions of incompatibility as defined in Article 25 of this Law;
- ç. mandate is taken by him in an irregular manner;
- d. loss of juridical competence by a court decision;
- dh. death;
- e. absence from the council meetings for a period of six months; (for the mayor it is three months)
- ë. condemned for a penal act by a final decision of a court;
- f. dissolution/dismiss of the council by the competent organ.

## ***Second chapter: Local government territorial organization***

### *ii.1. Introduction of Local government levels:*

According to the law OFLG that entered in force in 1 October 2000 (local government election day), The Albanian LG is organized in two levels: communes/municipalities and region. According to the Constitution (article 108/1) the other units of level government may be established by law.

#### *First level*

The basic units of local government are communes and municipalities, which are considered its first level. They have the same public responsibility and possess the same types of authorities/competencies. The only difference comes from the fact that they act respectively in rural and urban areas.

- **Commune**, represent a territorial-administrative unit and community, settled as a rule in rural areas and in specific cases in urban areas. Territory, name and center of commune are determined by law. Subdivisions of commune are called villages and in some special cases they are called towns. Council of Commune determines every subdivision's territory. (Law OFLG, article 5/1)
- **Municipality**, represent a territorial-administrative unit and community in urban area and in specific cases in rural areas. Divisions of municipality in urban areas are quarters. Territory and name of municipality are determined by law No 8653 (explained in follow). Urban subdivisions of municipality are called quarters. A decision by Council of Municipality determines the quarters that must have more than 15000 inhabitants. Rural sub-units of municipality are called villages. A village must have more than 200 inhabitants. The town is established by law. (Law OFLG, article 5/2)

The organs municipalities/communes are representative authorities and executive authorities. The representative authority of commune/municipality is the Council of Commune/Municipality and the executive authority is the Mayor/Head of Commune.

#### *The second level of LG:*

Region is the second level unit of LG. It represents a territorial-administrative unit compound from some communes and municipalities with geographic, traditional, economic, social ties and joint interests. The borders of region fit with the borders of communes and municipalities that compound it. Subdivisions of region are called districts.<sup>5</sup>

The representative organ of region is the Council of Region, that is created with the representatives from elected organs of communes and municipalities in proportion of inhabitants number, but in any case at least one representative. Mayor and heads of communes are always member of council of region. The other members are appointed from each municipal/communal council among the counselors. (Constitution article 110). The number of members of CR are shown in chapter one of the paper shows Board of council is composed of Head of CR, vice head and 1 up to 9

---

<sup>5</sup> Up to October 2000 the second levels were the districts and the local organ was the district council which was composed of a number of councilors proportionally directly elected. The district councils are abolished while the district, as a territorial administrative sub-unit of the Region will remain. In the district the region can set up different bodies for supplying its services. On the other hand the district is the minimum territorial level in which the Central Governmental Bodies has set up their branches.

members. The Chairman and vice/chairman Council board are elected and dismissed with the majority of votes of the members present in the meeting. (Law OFLG, article 58/1-2). They are performers of executive functions.

Actually, the organization and functioning of Tirana Municipality (capital city) is based on a special law (No. 8684, dt. 31.7.2000), which defines the division of Tirana in 11 sub-municipal units, whose Mayors and councils are elected directly by the peoples vote. The structuring of this units is the same as that of municipality – Unit Council and Unit head. All these units are under the authority of Mayor of Tirana.

ii.2. *Territorial administrative division*

Law on “Territorial-administrative division of local government units in Republic of Albania” No.8653, dated 31.7.2000, defines all the regions, municipalities and communes in Republic of Albania in a specific format. A sample of it is given in the example below. According to the same law the total number of regions in Albania are 12, districts (sub-division of region) 36, municipalities 65 and communes 309.

Table: Sample

**I. Region Berat**

No	Units of local government			District	Name of center	No	towns and villages included
	Region	No	Name of Municipality/Commune				
1	2	3	4	5	6	7	8
I.	Berat				Berat		
				Berat	Berat		
		1	Munic/Berat		Berat		Town/Berat
		2	Comm./Ura Vajgurore			1	Town/Ura Vajgurore
						2	Bistrovice
						3	Guri i bardhe
						4	
						5	
						contin	continue



According the Constitution (article 108) territorial-administrative divisions are established in a specific law, based on mutual economic interests and needs as well as historical tradition. Those borders can not be changed without having the opinion of inhabitants settled in they.

This principle is further developed in Law OFLG. The existing administrative -territorial division can be reorganized either with or without a change in boundaries, in compliance with the local economic, social interests, tradition, culture, and other local values for the efficient provision of functions to the benefit of the local community and the implementation of local, regional and national policies.

**Reorganization with border change** (article 64)

Reorganization with border changes can take place when:

- a) A unit of LG is divided into two or more units of local governments;
- b) Two or more units of LGs are merged to form a territory of a single unit of LG;
- c) A part of the territory of one local government unit is transferred to the territory and administration of another local government unit; or
- ç) A combination of the cases listed above is necessary.

**Reorganization without border change** (article 65)

Reorganization without changing the borders can happen in the cases of a Change of the name of the local government unit of a Change of the geographic center of a local government unit.

**Legal support and the initiation of the reorganization** (article 66)

The reorganization of the existing territorial – administrative division with or without changing borders can be made effective only by a special law.

Final decision on territorial reorganizations belongs to PA. Based on Constitution, the CM, every deputy as well as 20000 electors have legislative initiative (or the right to propose a draft law to parliament). In other words who ever will be the initiator of a territorial-administrative reorganization's process must:

- ◆ Promote or convince the action on his favor of one of the subjects having the right to initiate draft laws
  - ◆ accompany the proposal for reorganization of one or more units of local governments for each case submitted to the Parliament, by the following facts and justifications: (article 67, Law OFLG)
- a) The economic, social, cultural, demographic, administrative reasons in favor of the need and advantages of reorganization proposed;

- b) The methods, materials or documents used to inform the public on the reorganization and the issues related to it;
- c) The opinion of the community that lives in the local units that shall be affected by the reorganization as well as the opinion “For” and “Against” expressed directly or indirectly by various interested subjects or groups in this reorganization;
- ç) The methods used to collect the opinions of the community such as public hearings, open meetings, surveys and referenda if it is possible;
- d) The administrative territorial maps, in which are reflected the changes which would result from the reorganization;
- dh) The expected economic, financial, social, demographic impacts that will result from the reorganization, as well as the civil and administrative liabilities or obligations which will result, will be inherited or will be shared;
- e) Agreements and proposals for existing liabilities and assets and the way they will be administered after the reorganization.

### ***Third chapter: Legal competence of local self –government***

#### *iii.1 Rights as established in the law OFLG*

The current legal framework defines clearly the rights and duties for each of the local government levels. The law contributes to strengthening local autonomy through granting to local governments a series of rights that enable it to exercise its authority in the interest of the community.

*Right of governance:* LG units based and to carry out their functions and orders and ordinances, which are jurisdiction. They can take any functions and exercise their authority. They can carry out their functions and exercise They can establish economic units and LG may create committees, boards, exercising specific functions. Each LG may create any administrative-territorial sub-division within its jurisdiction to perform its governing functions, in the manner as set forth in the Law.

Example: on administrative structure

Based on this legal right, the LG units can decide their own administrative functions. With a proposal from the mayor/commune chairman, the respective council can decide on how many and what kind of departments they want to establish..

on the Constitution, laws and normative acts, exercise powers, they can issue directives, obligatory for all its entities within its necessary measures for carrying out their LGs can create administrative structures to powers, in compliance with the laws in force other institutions under their authority. Each commissions as it deems necessary for

*Property rights*

LGs have the right to purchase, property or use its property, as well forth in the law. LGs may exercise acquiring any movable and accordance with the procedures set forth in a special respective council, and they may

Laws gives to local authorities the property right, but in reality LG units, for the moment, do not own anything mobile or immobile, they are all properties of CG. This right will be exercised after full implementation of the law nr. 8744 dt. 22.02.2001 "On Transferring of immobile properties to Local Governments Units" The law established that the transferring process will last for a period of 2 years going step-by-step with the transferring of functions.

seller rent its movable and immovable as to exercise other rights in themanner as set the right of eminent domain for the purpose of immovable property for the public interest in

law. The property rights are exercised by the not be delegated to anybody else.

*The right of fiscal autonomy:* a.LGs may obtain revenues and make expenditures related to the execution of their functions. They have to set taxes and fees in compliance with the legislation in force and the interest of the community. LGs have the right to adopt and execute their budget. There will be only a unified local budget as compared with two budgets as it was the case before the approval of the law (independent and conditional budget). The unconditional and conditional transfers (see chapter 5 of the paper) will be reflected in the unified local budget.

*Economic development right:*

LGs have the right to undertake every initiative for economic development in the interest of their residents, provided that these activities do not contradict the fundamental direction of economic policies of the State. The major part of revenues from economic activities of local governments shall be used to support the execution of public functions. The economic activity of the local government units is regulated by legislation on economic activities.

*The reality shows that albanian LG units do have modest experience in managing such economic activities. Up to know they have deal only with some small activities regarding different transactions for executing some of their exclusive functions. But that is not a big deal.*

*The right of cooperation:*

LG units have the right to carry out specific inhabitants, two or more units of LG may exercise implementation of mutual agreements or contracts, responsibilities to one or the other, or contracting a units of LG in other countries and are represented accordance with special legislation in force. LG associations in conformity with respective

Up to know two main associations that are a clear example of the right of cooperation of LG units exist. They are Association of municipalities, whose head is Mayor of Tirana Municipality and Associations of communes. They are created in order to facilitate the cooperation between them and to find mutual ways aiming at increasing the effectiveness of the functions exercised by them.

functions on behalf and in the benefit of their any competence given to them by law, through delegation of specific competencies and/or third party. LGs may collaborate with similar in international organizations of LGs, in units have the right to be organized in legislation for associations.

*The right of being a juridical person:*

LGs are juridical persons and may exercise RA and in the legislation in force:..  
LG units have the right to make contracts, to civil accusation; the right to keep accounts, compliance with the laws and normative acts

Bank accounts  
The only bank accounts of LG are in State Treasury. The right to open a bank accounts it is

all the rights set forth in the Civil Code of the  
establish other juridical persons, to bring a  
other rights to carry out functions, in

*Other rights:.*

LG may grant honorary titles and moral and material stimulus, each LG may determine the denominations of territories, objects and institutions under its jurisdiction in accordance with the criteria set forth in law.

**Fourth chapter : Local public service**

Local public services otherwise called functions of LG units appear in the following categories: exclusive, shared and delegated functions  
In order to exercise these functions they have full *administrative, service, investment and regulatory competencies* (these competencies are explained in the boxes below)

iv.1: *Exclusive functions of communes and municipality*

Law OFLG defines clearly the meaning Exclusive functions, which is: they are functions given by law to the LG unit, 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. Following are the four main categories of them:<sup>6</sup>

---

<sup>6</sup> Regarding functions' implementation, every unit of first level of LG (municipalities and communes) has the right to exercise its own functions from January 2001, except the functions of: *Water waste water supply, Urban planning, land management and housing and functions of civil security*, which implementation will start on January 2002. While the region starting from January 1<sup>st</sup> 2000, has the total responsibility in exercising its own functions granted by law

Infrastructure and public services:

- Water and waste water supply<sup>7</sup>;
- Construction, rehabilitation and squares
- Public lighting
- Public transport;
- Cemeteries and funeral services
- City/village decoration
- Parks and public spaces;
- Waste management,
- Urban planning, land<sup>8</sup> management and housing according to the manner described in the law.

*Administrative competence:* The LGs have the discretion and authority to decide on structures and personnel, appoint, recruit and dismiss the people as well as for deciding on salaries and remuneration

maintenance of local roads, sidewalks and

*Service competence* they have the authority and discretion to determine the way in which a certain function or service is to be carried out, e.g. will it be provided by a municipal enterprise/department or will it be contracted out. They have the authority to decide whether they want to collaborate with other municipalities for the provision of a service. LGs, under this authority, can decide on how the objects, assets and other properties are going to be maintained

Local economic development

- The preparation of programs for
- The setting [regulation] and network;
- Small business development as activities, as fairs and advertisement in public places;<sup>9</sup>
- Performance of services in support of the local economic development, as information, necessary structures and infrastructure;
- Veterinary service
- The protection and development of local forests, pastures and natural resources of local character.<sup>10</sup>

*Investment competence:* The LG units have the authority to determine the capital improvement plan, to allocate the funds and monitor the implementation of investment

local economic development; functioning of public market places and trade well as the carrying out of promotional

<sup>7</sup> Regarding water and wastewater service supply, under the initiative of National Decentralization Committee were organized during August-November 2001 4 round tables of the extended team of experts for decentralization as well as 12 regional meetings. The outcome of this meeting is the Policy Paper For Decentralization of the Water and Waste Water service supply during 2002. The process will be combined with the transfers of property title over the water & wastewater networks to municipalities, communes and/or regions. (see attachment)

<sup>8</sup> Regarding the Urban Land Management under the initiative of Minister of Local Government and Decentralization in cooperation with the Minister of Public Works and Tourism is under preparation and discussion a policy paper and the related guide documents to decentralize such function and the linked competencies to local government units within February 2002

<sup>9</sup> This group function is already transferred to LG units while it is expected that the related Tax on Small Business will be transformed in local Tax by 2003. NDC has already approved the policy paper on this issue.

Social cultural and recreational functions

- Saving and promoting the local cultural and historic values, organization of activities and management of relevant institutions.
- Organization of recreational activities and management of relevant institutions
- Social services including orphanages, day care, elderly homes, etc.

Civil Security

- The protection of public order to implementation of commune or
- Civil security

*Regulatory competence:* The LG have the discretion and authority to regulate a certain function and service. They have the authority to issue licenses, to set fees and impose sanctions and fines. LGs, under this competence, can also establish local minimum standards for public health and safety which should be in compliance with national standards.

prevent administrative violations and enforce the municipality acts<sup>11</sup>;

iv.2. *Shared functions*<sup>12</sup>

“Shared [Joint] functions” are functions for which the LG unit 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.

Communes and municipalities may undertake any of the following shared functions<sup>13</sup>:

---

<sup>10</sup> There is already under implementation a large program of GoA and WB on transferring local forests and pastures on use to communes. After full implementation of the law on Transferring of Immovable Properties to LG such forests and pastures will probably be transferred under full property rights to communes.

<sup>11</sup> On September 2001 was established the first municipal police of Tirana Municipality (the Capital). The legal frame for setting up municipal police bodies is already completed. The barriers are only of Financial type. It is expected that during 2002 some other big municipalities will set up their own police.

<sup>12</sup> Beginning on January 1, 2002, the manner of carrying out the following shared functions and competencies will be determined by specific laws.

- a) The functioning of pre- school and pre- university education;
- b) The functioning of the priority health service system and the protection of public health;
- c) Social assistance and poverty alleviation and ensuring of the functioning of relevant institutions;
- ç) Public order and civil protection;
- d) Environmental protection.

<sup>13</sup> Although the Law on Organization and Functioning of LG determines January 1<sup>st</sup>, 2002 as the date in which each shared function would be regulated by a specific law, the government was not able to meet this target. It is expected that the regulations will be available by 2003.

- 1-pre-school and pre university education
- 2-primary health service and protection of public health
- 3-social assistance and poverty alleviation and ensuring of the functioning of relevant institutions
- 4-public order and civil protection
- 5-environmental protection
- 6-other shared function as difened by law.

iv.3. *Delegated functions.*

“Delegated functions” are functions of CG or other CG institutions that by law or by a contractual agreement between the CG and the LG unit are assigned to a LG for performance in a manner and to a degree which is determined by the CG or other CG institutions. In any case, the CG guarantees necessary financial support to the LG units to exercise delegated functions and powers.(article 12/6). The LG units may, at their own initiative, commit their own financial resources to the performance of delegated functions in order to achieve a higher level of service in the interest of the community. (article 12/7).

Central institution may authorize commune/municipality or region to undertake specific functions of central institutions, determining the procedures for carrying these functions and the manner in which it will control its provision.

According to law, delegated function can be mandatory or nonmandatory. If they are mandatory they should be explicitly described as so in a law. The law that will delegate to the communes and municipalities a function of CG should also clearly and fairly determine the necessary funds for carrying out this function and the way these funds are going to be transferred, disbursed to the LG account.

In the case of non-mandatory delegate functions there should be a mutual agreement between the commune/municipality/region and the CG authority

iv.4. *Functions and competences of region*

Region, as a LG unit, has its own funtions that consist on developing and implementing regional policies and their harmonization with the national policies at regional level, as well as other exclusive functions given by law.

In addition each region may perform any functions that are delegated to it by one or more communes or municipalities within the region, according to an agreement between parties as well as by CG.

The region can also perform functions that will be delegated to it by the CG. The CG may delegate a function to the region provided that it guarantees the region financial support for the provision of this function. The function cannot be delegated without a law or a mutual agreement.

Implementing subsidiary principle the law has assigned more functions to municipalities and communes rather than to regions. Therefore it can be said that municipalities/communes have strengthen enough their position. On the other hand regions are very new units of LG, therefore they will need some time to define their profile.

### ***Fifth chapter: Local government finances and economic resources***

#### *v.1. Revenue structure*

Actual legal framework gives the right to local authorities to fix local taxes as well as to determine fees in accordance with the law. Also communes and municipalities and regions have an independent budget. This new situation seeks a long process of changing the existing laws and designing ones. According to the Law OFLG, the LG units are financed by revenues yielded from:

1-locally derived sources

2-Funds from national sources (funds transferred from the CG and funds derived from shared national taxes)<sup>14</sup>

#### *v.1.1: The own revenues*

Communes and municipalities may derive revenues from local sources through local taxes, local fees as well as other sources defined by law.

1- Local taxes<sup>15</sup>

---

<sup>14</sup> See table 1: The revenues of municipalities by forms (in %) in annex 1.

<sup>15</sup> Before this law's approval number of local taxes was 14(see table 2 in annex 1). The main part of them (for e.g. tax on collection and transportation of wastes) classified as local taxes before now are turned to local tariffs (article 73)

- local taxes and levies on the mobile and immobile property, as well as on the transactions conducted on them<sup>16</sup>
- local taxes and levies on economic activity of small businesses and on hotel residency, restaurants, bars and other services<sup>17</sup>
- local taxes and levies on personal income derived from donations, inheritances, testaments and from local lotteries<sup>18</sup>
- other taxes and levies given by law.<sup>19</sup>

A new tax that is expected to be very important in increasing financial capacities of LG units is the tax on small businesses. However, this tax is not included in the potential local sources for the current fiscal year (2001). (see table 3 annex 1).

## 2-Local Fees

Law defines clearly that LG units have the right to derive revenues from local fees for:

- Public service they provide
- The right to use local public properties, assets or public spaces.
- The issuance of licenses, permits, authorization and issuance of their documentation, at the discretion of LGs.

Beginning on January 2001, they have full authority to set local fees, the manner of their collection and administration in compliance with general national policies and principles. (see table 4 annex 1).

## 3- the right to take loans for local public purposes

---

<sup>16</sup> This tax incorporates two taxes: i) Tax on Buildings which is already a local tax. There is already adopted a policy paper which is going to increase the local autonomy on deciding the local tax rate. ii) Tax on Agriculture land which is a local tax but suspended from 1996 by Presidential decree. On Medium Term Expenditure Framework 2002-2004 the GoA has declared to re-introduce this tax by July 1<sup>st</sup>, 2002 while NDC is already preparing the related draft-legal acts.

<sup>17</sup> Small business tax is a national tax. Tax base and tax rates are defined in the law nr. 8313 dt. 26.03.1998. The Central Tax administration is responsible for its collection. NDC has already is consulting the interested parties for transforming this tax in a local tax by 2003. Nevertheless 100% of the revenues from small business tax were transferred from State Budget 2001 through the unconditional transfer pool to LG units. The same policy is adopted even for 2002 State Budget.

<sup>18</sup> This tax is already a national one but the revenues from it are financing the Total Pool of Unconditional Transfers from the State Budget 2002.

<sup>19</sup> Except Tax on Hotel Lodging and Tax on impact on local infrastructure form new building construction all other existing local taxes fall under the definition of local fees. NDC is adopting the related legal acts to transform them in local fees. Such transformation will make able the local government units to decide by themselves for the base and rate of the fee based on local conditions, costs recovery etc.

The law gives LG the right to receive loans for public purposes, in conformity with respective laws. Beginning on January 2002 the LG units will have the right to borrow funds for investments projects.

#### 4-Other sources of LG revenues

According to law OFLG, LG units are entitled to generate revenues from their economic activity, rent and sale of property, gifts, interests, fines, aids and donations. A source of revenues for LG is its **economic activity** or local businesses, financed from the own local organ. Despite the fact that this is one of the possibilities determined by law, the up to now reality does not present such practices. Other sources of revenues are gifts and aids or donations. These kinds of revenues are not directly linked with local inhabitants (taxpayer) and are not a permanent source, therefore they do not have any important effect in the total revenues of LG units.

##### *v.1.2: Revenues from national sources*

#### Funds transferred by CG

##### *Unconditional transfers & Revenues from shared taxes*

According to NSDA the unconditional transfer will be:

- ◆ Transfer of vertical compensation based on the ratio of responsibilities and functions between the central authorities and local ones, for general and untargeted support of expenses for public services and functions of LG.
- ◆ Equalization grants to support those LGs that have an insufficient local revenue and resources base.

Shared taxes, consisting of a portion of certain CG taxes, such as the personal income tax and the company profit tax. These taxes shall be collected and distributed to communes and municipalities by the CG on a regular basis not less than three times a year during the fiscal year. The part of the tax and levy which goes to their favor, as well as their collection and administration will be determined by law for each shared tax or levy. (Law OFLG, article 17/1.a)

The total amount of unconditional transfers will be defined every year in the state budget. It is the target of negotiations between CG and LG. Actually it is thought to set up a fixed percentage on amount for unconditional transfers, but it is too early for that. It will be subject of discussion in the coming couple of years.

The State Budget 2002 allocated around 9.5 billion of Lek as unconditional transfers to municipalities, communes and region. This amount constitutes around 9% of the Total Government Budget 2002. On the other hand this amount is equivalent of 100% of small business tax+100% of

the Personal Income tax + 20% of the Corporate Profit tax. By this point of view the sharing level of these national taxes is very high compared to other CEE countries. Nevertheless these three taxes contributes modestly to the state budget revenues because there are problems of effectiveness on collection by the central tax administration. On the other hand VAT and Custom Tariffs are the major contributors to the State Budget.

The Total Pool of the unconditional transfers was distributed among the LG units based for the first time in a formula which outcome is evaluated in a higher equity and equalization effect compared to previous years transfers which were done based on ad-hoc transferring.

Each local government unit decide on full discretion the purpose and ways of spending the respective amounts they received by the formula without any intervention of by Central Government. So it is the discretion of each LG units to decide the field or the type of economic expenditure (wages, operational, investment) to use such funds. By this point of view the local autonomy on expenditure decision making is increased considerably on 2002.

**Table 1: Unconditional transfer formula - criteria and coefficients**

Criteria	Coefficient	Value (millionlek)	Rationale
<b>1. Allocation of total pool [TP] (10.2 billion)<sup>20</sup></b>			
Share to Regions [R]	10%	1,020	This ratio allocates to Regions sufficient funds for administrative expenses, while simultaneously adjusting for the 2001 over-funding of the regions from the unconditional transfer. <sup>21</sup>
Share to Municipalities/Communes [M/C]	87%	8,874	To ensure financing of major functions exercised by the first level of LG.
Reserve Fund [RF]	3%	306	Legal requirement for reserve fund.
<b>2. Distribution of Municipalities/Communes Share [M/C]</b>			
General Grant [GG-M/C]  = [M/C] * 0.8	80%	7,099 <sup>22</sup>	The major part of the transfers will be distributed to cover needs for wages <sup>23</sup> , operating costs and some local investment for own functions and non-personnel operating costs for shared functions. <sup>24</sup>

<sup>20</sup> From the original pool of 10.3 billion proposed in the MTEF technical note, 100 million is subtracted to cover the operating costs of Tirana district health authority (pilot project).

<sup>21</sup> Regions can also receive conditional funds for delegated functions. They are also financed from budget funds transferred through the statutory quota of their constituent municipalities and communes.

<sup>22</sup> Based on the same criteria, the respective amount in 2001 is 6.3 billion lek.

Criteria	Coefficient	Value (millionlek)	Rationale
Equalization and Compensation Grant [ECG-M/C]  = [M/C] * 0.2	20%	1,774	This part of the transfer will be used for equalization as well as for compensation purposes. As the general grant formula has an equalization effect, the share allocated to equalization should remain limited.
<b>3. Municipalities/Communes General Grant Distribution</b>			
Fixed amount [FA-M/C]  = [GG-M/C] * 0.035	3.5%	248	The fixed amount allocates an equal sum for each M/C (664,000 lek per local government unit). Although this accounts for only 0.1% of the total general grant for Tirane, it can account for 15-25% of the general grant for many communes. The total amount of [FA-M/C] is divided equally by the number of M/C (374).
Population [P-M/C]  = [GG-M/C] * 0.625	62.5%	4,437	This is the dominant criterion as population is an indicator, which is closely correlated with expenditure, and service needs. The allocation [P-M/C] is divided proportionally to the relative population of each Municipality/Commune over the total population.
Proxy for surface of communes [S-C]  = [GG-M/C] * 0.04	4.0%	284	This item is only applied to communes. Larger surface area implies (all other conditions being equal) that there are longer roads and other costly infrastructure challenges. Data on surface by commune were not available; the surface area by district was equally distributed among all the communes in that district. The average surface ranges from 22 to 179 square kilometers. The allocation of [S-C] is divided proportionally to the relative surface of each commune, over the total surface.
Proxy for urban services of municipalities (excl. Tirane)	20.5%	1,455	This coefficient takes account of the fact that municipalities provide a larger number and range

<sup>23</sup> This covers wages of budgetary units of M/C, excluding the wages of shared and delegated functions.

<sup>24</sup> For M/C in Tirana district, non-personnel operating costs of primary health care will be handled (and the respective transfer received) by the Tirana district health authority.

Criteria	Coefficient	Value (millionlek)	Rationale
[US-M] = [GG-M/C] * 0.205			of local public services than do communes. The allocation of [US-M] is divided proportionally to the relative population of each municipality over total municipal population.
Proxy for urban services of Tiranë [US-T] = [GG-M/C] * 0.095	9.5%	674	Tiranë is treated separately from the urban service proxy, and provided a specific allocation, to account for the fact that the municipality is also the capital and provides greater levels and range of urban services than the other municipalities.
<b>4. Regions General Grant Distribution</b>			
Fixed amount [FA-R] = [R] * 0.30	30%	306	The fixed amount allocates an equal sum for each Region. The differences between types and quantity of services to be provided by regions is not large, so this coefficient must have a greater weight than was given for the fixed amount coefficient of M/C. The total amount of [FA-R] is divided equally by the number of regions (12).
Population [P-R] = [R] * 0.10	10%	102	The types of services provided by the regions have a negative correlation to the population. Allocation of a greater weight to this criteria would unduly penalize the least inhabited and poorest regions. The allocation [P-R] is divided proportionally to the relative population of each region over the total population.
Geographic indicator [GI-R] = [R] * 0.20	20%	204	This is an important indicator which takes into account the natural advantages and disadvantages of region location. A scale of 1-3-5 was used to characterize the three typical areas of the country: plain – hill – mountain, respectively. (e.g., Durrës = 1, Elbasan = 3, Kukës = 5). The higher the score, the more funds are allocated for this coefficient. The allocation [GI-R] is divided proportionally to the score of the region over the sum of the scores of all regions (32). For example, the region of Kukës will receive score of 5/32 of 204

**LOCAL SELF-GOVERNMENT AND DECENTRALIZATION  
CASE OF ALBANIA  
HISTORY, REFORMES AND CHALLENGES**

Criteria	Coefficient	Value (millionlek)	Rationale
			million lek.
Proxy for surface area of Regions [S-R]  = [R] * 0.40	40%	408	Larger surface area implies (all other conditions being equal) that there are longer roads and other costly infrastructure challenges. This is justified by the fact that one of the principal activities of the regions is the maintenance of rural roads. The allocation [S-R] is divided proportionally to the relative surface of each region, over the total surface.

**Table 2: Comparison of the impact of the formula based on equity**

year	L/C = lek per capita										
	<1000 L/C	1000 < L/C <1500	1500 < L/C <2000	2000 <L/C <2500	2500 < L/C <3000	3000 < L/C <3500	3500 < L/C <4000	4000 < L/C <5000	5000 < L/C <7000	7000 < L/C <9000	L/C >9000
2000	141	88	41	41	28	6	10	10	9	0	0
2001	62	88	63	32	42	23	19	24	12	6	3
2002	0	0	218	68	72	6	6	4	0	0	0
M 2002	0	0	0	0	62	3	0	0	0	0	0
C 2002	0	0	218	68	10	3	6	4	0	0	0

### *Conditional transfer*

They are funded by CG to achieve regional or national objectives at the local level. Conditional transfer will shift gradually from strict conditions and small projects to more general conditions and larger projects and sectors. Existing conditional transfer for specific expenditure items such as salaries and investment can take the form of block conditional transfers (not specified per item).

The NDC is considering some improvements on the planing and distribution of the conditional transfers for capital investment purpose for 2003 State Budget. The improvements consist of shifting from a planing and negotiation of line ministries with individual LG units during the current state budget year (eg. during execution of 2003 state budget year) for allocation of the unconditional transfers to a planing and negotiation during the state budget preparation process (which starts by July 2002 for the budget 2003). This change will allow that such transfers will appear clearly in the state budget law for each commune and municipality by late 2002. This will also allow that each LG units will adopt an consolidated budget which would include all revenues and expenditures<sup>25</sup>. The overall impact of such change promises for an increase in transparency, improvement of the efficiency of planing and execution of the satate budget as well as the individual budget of LG units.

### *v.1.3: Second level of LG (Region)*

<sup>25</sup> In the current situation the conditional transfers in the state budget law 2002 are allocated only in the accounts of line ministries as expenditures without mentioning their allocation by LG units. There are the line ministries that during the current budget execution allocate such funds in different LG units on their full discretion.

Regions shall obtain their financial resources from regionally derived revenues and from national sources, in the same way as communes and municipalities and applying all criteria and norms described in law for the last ones.

v.2. *Local government budgeting (fiscal planning)*

The budget of LG units includes: (article 19/7, law OFLG).

- Revenues and expenditure tables with the following indexes:
  - Its own revenues of LG units, revenues from national sources.
  - Detailed expenditures in accordance with the functional and economic classification
  - Reserve fund that doesn't exceed 3% of total expenditures.
- Forecast of revenues and expenditures for the next two budget years
- Forecast of expenditures for investments with the following information
  - Finance purpose
  - Finance plan, including ways and sources of financing
  - Annual expenditures that serve to pay the loan, if it is used
  - Cost estimation of operative expenditures that rise as a result of investment fulfillment.
- **Operating expenditures** consists of: salary fund (expenditures for salaries, rewards bonus), social contribution, maintenance and furnishing, expenditures for goods and services etc.
- **Capital expenditures** include expenditures for capital investment, and reconstruction. However, it doesn't appear to be clear definition of what constitutes investments nor of the distinction between new investments, rehabilitation and renovation.

The adoption of the unconditional Transfers from the state budget 2002 and their distribution through the formula has already increased the LG units autonomy to decide how to spent this funds.

Internal Financial Controls

1. Each communal, municipal and regional council shall appoint a Finance Commission that shall act during the council mandate.

2. The Finance Commission (FC) controls the revenues and expenditures made by the executive body, in compliance with the budget adopted by the Local Council. The executive of the LG shall report to the FC regularly during the year and shall provide all documents requested by it. The executive organ of the LG or its administration may not be a member of the FC.
3. In order to perform its functions, the FC shall have full access to all accounting documents, including the tax rolls. The FC may request an external audit of the accounts be carried out by a certified accountant

### External Finance Controls

1. Each unit of LG shall be subject to external control by the HSC which is based on the principle of legality of use of financial resources.
2. Each unit of LG shall be subject to external finance control by the organs of CG, in the manner as stipulated by law. This external control will be based only on the legacy of operations and on the use of conditional funds<sup>26</sup>

Finally, based on the Constitution (article 115), the direct elective organ of LG because of severe violence of constitution and laws may be dismissed by CM. The dismissed or dissolved organ may complain to CC within 15 days and in this case the decision of CM is dismissed. In case of non-exercising the right of compliance within 15 days, or in case of approval of CM's decision by CC, the President of Republic decides the election date for the respective local unit.

### **Final conclusions**

Decentralization process of local government in Albania is going through a large and comprehensiveness reform based on a strategic view and in the experience build during the first decade of transition.

The next 3 years 2001-2003 will be the phase of completing the legal reform in issues linked with functions and respective authority, fiscal/financial authority, and regulation of the relation with the Central Government.

On the other hand the implementation in practice of the decentralization means in the same time some hard challenges. The difficulties to be faced are linked with the weak governance capacities at local level, lack of sufficient resources in a big number of communes, specially in mountain rural areas, tendencies of concentration of wealth in some large but few urban areas, weak citizen participation in community affairs, strong

---

<sup>26</sup> The parliament is discussion a new law on Prefect. This draft if approved will improve the relations between the Prefect and the LG units which today are still ambigüe and created room for intervention by the side of Prefect in the local affairs

dominance of political interests rather than the community interest, a strong tradition of a centralized state. In such conditions the level of decentralization in practice will take a long time

Some question can be raised such as

- Is the local administration professionally capable of implementing the law, especially the part regarding revenues raising? What are the costs of a bad financial management in local units? Does the local units' administration need some training course on financial management and specifically on revenue raising? Should any central authority or independent specialist subject set up some general rules on revenue raising?
- What will be the impact of low efficiency and the level of corruption among the civil servants?
- How the opinions and priorities of beneficiaries of public services (taxpayer) are or will be involved in the decentralized local governance, assuming that Albanian electors mostly vote for the political affiliations, without considering political parties/candidates programs?

Such questions are addressed in the Decentralization strategy. They are also finding echo to some Government and Donor's program which aims to strengthen the local capacities for effective local governance

**Annex 1:**

- ◆ The resources for the following tables are:
- ◆ Ministry of Finance Departement of state Budget,
- ◆ GoA/Urban Institute-Fiscal Decentralisation Study 2000
- ◆ ISB/LGI-Fiscal Decentralisatrion in Albania First Report 2000
- ◆ GoA Strategy of Decentralisation

**Table 1: Thew revenues of municipalities by forms (in %)**

No	Revenues and Transfers	1996	1997	1998	1999
	TOTAL	100,00	100,00	100,00	100,00
<b>A</b>	<b>Own Revenues</b>	3,80	1,73	2,75	3,72
<b>B</b>	<b>Transfers by central government</b>	96,20	98,27	97,25	96,28
1	Conditional	96,20	98,27	97,25	86,58
2	Unconditional	0,00	0,00	0,00	9,70

**Table 2: Revenues from local taxes and fees (in %)**

No	Revenues	1996	1997	1998	1999
	TOTAL	100,00	100,00	100,00	100,00
<b>A</b>	<b>Revenues</b>	<b>3,80</b>	<b>1,73</b>	<b>2,75</b>	<b>3,72</b>
<b>I</b>	<b>Taxes</b>	<b>0,5</b>	<b>0,72</b>	<b>0,43</b>	<b>0,92</b>
1	Land Tax	0,00	0,00	0,00	0,00
2	Building Tax	0,22	0,16	0,26	0,62
3	Turnover (1%) fee	0,12	0,05	0,06	0,06
4	Hotel fee for foreigners	0,16	0,11	0,11	0,29
<b>II</b>	<b>Local Fees</b>	<b>2,57</b>	<b>0,78</b>	<b>1,95</b>	<b>2,51</b>
3	Carbiage collection	0,27	0,25	0,26	0,45
4	Advertisement fee	0,01	0,00	0,01	0,03
5	Fee on local lotteries,	0,00	0,00	0,00	0,00
6	Market stalls fee	0,71	0,59	0,84	0,76

LOCAL SELF-GOVERNMENT AND DECENTRALIZATION  
CASE OF ALBANIA  
HISTORY, REFORMES AND CHALLENGES

7	Various registration fees	0,46	0,17	0,34	0,58
8	New construction Fee	0,02	0,01	0,02	0,20
9	Hunting fee	0,03	0,00	0,00	0,01
10	Other fees on services	0,06	0,01	0,06	0,07
11	Livestock slaughter fee	0,03	0,01	0,02	0,02
12	Public signs fee	0,03	0,01	0,01	0,01
3	Nursery Charges	0,10	0,05	0,11	0,10
5	Kindergarten charges	0,00	0,00	0,15	0,00
6	Own local govt. fees	0,09	0,04	0,10	0,17
7	License renewal fee	0,03	0,00	0,01	0,01
1	Other fees	0,71	0,03	0,03	0,08
<b>III</b>	<b>Other revenues</b>	<b>0,73</b>	<b>0,23</b>	<b>0,37</b>	<b>0,24</b>
2	Rent on Land	0,34	0,22	0,35	0,21
4	Sponsorships	0,39	0,01	0,02	0,03

**LOCAL SELF-GOVERNMENT AND DECENTRALIZATION  
CASE OF ALBANIA  
HISTORY, REFORMES AND CHALLENGES**

**Table 3: local taxes based on strategy of decentralization**

Type of taxes	Tax base	Tax rate	Administration	Collection	Sanctions	status
Category A	Decided by law	Local discretion within a national uniform interval of discretion with a +/- % around a fix national level	Local tax administration	Local tax administration or authorized agent	Local tax administration	Beginning on January 1, 2001, communes, municipalities and regions shall have the authority to impose local taxes and tariffs, defined by special law.
A.1. Tax on buildings						Actually a local tax
A.2. Tax on land						Actually a local tax
A.3. Tax on small business						tax is not included in the potential local sources for the current fiscal year (2001).Expectation for 2002, state budget 2001 all incomes from small business tax will be transfer to local governments as an unconditional transfer
Category B	Decided by law	Fixed nationally	Either national or local tax authority	Either national or local tax authority	Local tax authority based on information provided by the national tax authority	
B.1. Tax on testament						Still unapplicable
B.2. Tax on heritage						Still unapplicable
B.3. Tax on donations						Still unapplicable
Category C	Decided by	Local discretion above a national	Either national or local tax authority	Either national or local tax authority	Local tax authority based on	

**LOCAL SELF-GOVERNMENT AND DECENTRALIZATION  
CASE OF ALBANIA  
HISTORY, REFORMES AND CHALLENGES**

	law	minimum			information provided by the national tax authority	
C.1. Tax on real estate transaction						Still unapplicable
C.2. tax on incomes from lotteries						Still unapplicable
C.3. Vehicle tax						There is an efective law , but the tax is not not local. Part of it is trasfered to localgovernment.
Categoria D	Decided by law	Full local discretion	Local tax administration	Local tax administration	Local tax administration	
D.1. Tax on tourist						There is an effective law
D.2. tax on animals						Effective law on it
D.3. communal tax						Effective law on it

**Table 4: local tariffs/fees (actually in force)**

<b>Local tariffs</b>	<b>Tariff algorithm</b>	<b>Tariff level</b>	<b>administration</b>	<b>collection</b>	<b>Decision for sanctions</b>	<b>status</b>
Public service tariffs (water, sewage, solid waste, heating services (if local), public transport, public lighting).	Uniform national basic standards	Full discretion	Service provider or other agent authorized by local government	Service provider or other agent authorized by local government	Service provider with support of local tax authority and police	These incomes often are not on the budget of local units. They are used and collected by respective municipal companies.
Tariffs for the right to use a public good (markets, cementry parking, sign in public areas, use of public spaces for celebrations or shows)	Uniform national principles	Full local discretion	Local government	Local government	Local government	These are always present in the budget.
Tariffs for issuing licenses and documents (construction permits, vehicle registration, land development, certification and other documents)	Uniform national principles	Full local discretion	Local government	Local government	Local government	These are always present in the budget.
Finishing or hunting licenses		Local discretion above a national minimum				These are always present in the budget.

LOCAL SELF-GOVERNMENT AND DECENTRALIZATION  
CASE OF ALBANIA  
HISTORY, REFORMES AND CHALLENGES

**Table 5. The conditional current grants by functions**

Allocation of conditional transfers across sectors (% of total transfers)

Nr.	Sector/Ministry	Conditional transfers				Block grant	
		1997	1998	1999	2000	1999	2000
1	of agriculture and food	0.0	0.0	0.0	0.0	0.2	0.0
2	of public works	10.1	11.1	9.7	3.8	18.6	0.0
3	of Economic coop. and trade	1.7	1.7	0.6	0.7	0.0	0.0
4	of Finance	0.0	0.0	0.0	0.0	0.0	0.0
5	of Education	44.4	43.1	43.8	64.9	24.7	0.0
6	of Culture, Youth and Sports	2.6	2.3	1.7	2.2	2.4	0.0
7	of Health	9.5	8.7	7.6	12.6	9.6	0.0
8	of Labor and social Affaires	0.0	0.1	23.5	0.0	0.0	0.0
9	of Local Government	9.7	8.6	13.1	15.8	44.6	100.0
10	Social assistance	22.0	24.3	0.0	0.0	0.0	0.0
11	Total	100.00	100	100	100	100	100

**Table 6. Total expenditure by functions**

Functions	1996	%	1997	%	1998	%	1999	%	99/96 (%)
Education	6268070	47,59	7564826	32,65	8174879	41,51	8932314	39,78	42,51
Health & Social	4600444	34,93	4843702	20,91	7172043	36,42	7727170	34,41	67,97
Public Services	872109	6,622	1491775	6,439	2072948	10,53	2129161	9,481	144,14
Administration	1086821	8,252	8839757	38,16	1788195	9,081	3419294	15,23	214,61
Culture & Sports	342687	2,602	426139	1,839	483451	2,455	248653	1,107	-27,44
<b>Total</b>	<b>13170131</b>	<b>100</b>	<b>23166199</b>	<b>100</b>	<b>19691516</b>	<b>100</b>	<b>22456592</b>	<b>100</b>	<b>70,51</b>

**LOCAL SELF-GOVERNMENT AND DECENTRALIZATION  
CASE OF ALBANIA  
HISTORY, REFORMES AND CHALLENGES**

**Table 7 Cross classification of local expenditure**

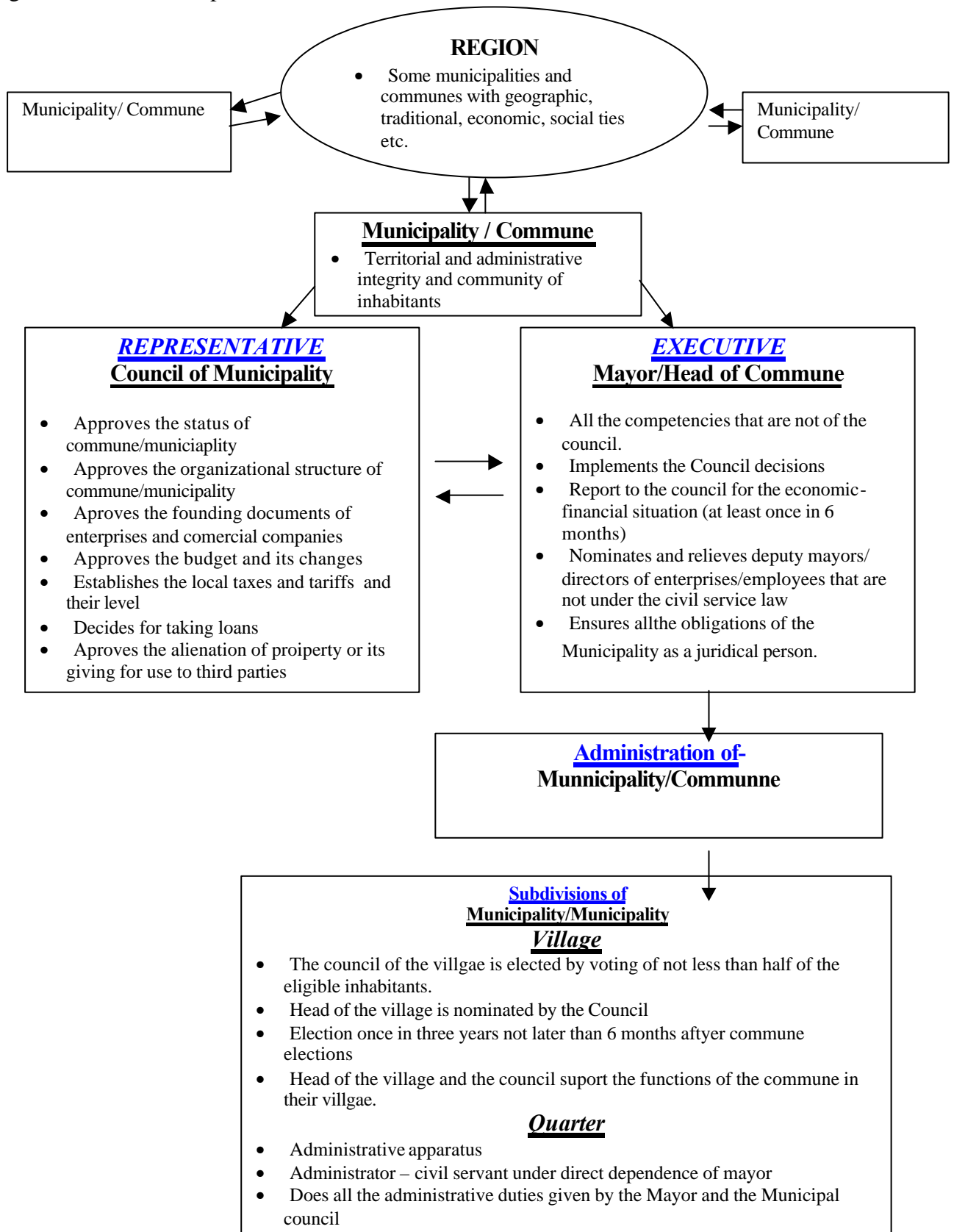
*Table 7. Municipal expenditure by functions and economic categories, 1999 (in thousands leks)*

Functions	Salaries&Contrib				Operating&maintenace				Investment				Transfers			
	1998	%	1999	%	1998	%	1999	%	1998	%	1999	%	1998	%	1999	%
Education	7452613	71,5	8377113	71,7	709805	34,2	516144	25,6	11641	2,2	32264	2,4	820	0,0	6793	0,1
Health & Social	969331	9,3	1412541	12,1	218560	10,5	494884	24,6	14095	2,6	6539	0,5	5970057	89,6	5813206	78,5
Public Services	598097	5,7	496877	4,3	863672	41,6	481231	23,9	218433	40,9	212726	15,8	392746	5,9	938327	12,7
Administration	1063055	10,2	1163819	10,0	167440	8,1	519307	25,8	260345	48,7	1087582	81,0	297355	4,5	648586	8,8
Culture & Sports	336869	3,2	239813	2,1	116597	5,6	4174	0,2	29870	5,6	3992	0,3	115	0,0	674	0,0
<b>Total</b>	<b>10419965</b>	<b>100,0</b>	<b>11690163</b>	<b>100,0</b>	<b>2076074</b>	<b>100,0</b>	<b>2015740</b>	<b>100,0</b>	<b>534384</b>	<b>100,0</b>	<b>1343103</b>	<b>100,0</b>	<b>6661093</b>	<b>100,0</b>	<b>7407586</b>	<b>100,0</b>



**Annex II.**

Fig.1. Structure of municipal administration



**Fig 2: Structure of region administration**

