FISCAL DECENTRALIZATION AND LOCAL GOVERNANCE IN ALBANIA
Case study of three rural communes

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ABSTRACT

Albania is in the process of democratization since the fall of communism in the early 90s. Since then it managed to move forward through the implementation of necessary legal and institutional frameworks on the path towards decentralization. Fiscal decentralization is among the crucial requirements for a smooth transition of powers from the central to local government. Fiscal decentralization is generally believed to bring future benefits for local government efficiency and effectiveness. Local government capacities in three case study communes in Albania were analyzed in order to assess the impact of fiscal decentralization on stakeholder participation and communes’ efficiency.

Keywords: Fiscal Decentralization, Albania, participation, local government efficiency
TABLE OF CONTENTS

CHAPTER 1

INTRODUCTION ...............................................................................................................................3

1.1. INTRODUCTION ..........................................................................................................................3

1.1.1. Albania ..................................................................................................................................4

1.2. RESEARCH QUESTION .............................................................................................................5

1.2.1. Sub-questions ........................................................................................................................6

CHAPTER 2: METHODOLOGY OF RESEARCH

1.3. METHODOLOGY ..........................................................................................................................8

1.3.1. Selection of the villages .........................................................................................................10

1.3.1.1. Vithkuq ..............................................................................................................................10

1.3.1.2. Shkrel ................................................................................................................................11

1.3.1.3. Shalë ................................................................................................................................12

1.3.2. Interviews ..............................................................................................................................12

1.3.3. Efficiency of Local Governance ..........................................................................................13

1.3.4. Effectiveness of Local Governance ....................................................................................13

CHAPTER 3: THEORIES OF FISCAL DECENTRALIZATION

1.4. INTRODUCTION ..........................................................................................................................15

1.5. FISCAL DECENTRALIZATION ...................................................................................................15

1.6. THEORIES OF DECENTRALIZATION ......................................................................................17

1.6.1. Revenue Collection .............................................................................................................20

1.6.1.1. Taxes .................................................................................................................................21

1.6.1.2. User fees ............................................................................................................................22

1.6.1.3. Governmental transfers ....................................................................................................23

1.6.1.4. Local government borrowing ............................................................................................23

1.6.2. Expenditure Decisions ...........................................................................................................24

1.6.3. Fiscal Autonomy ..................................................................................................................25

1.6.4. Post-communist Legacy .......................................................................................................26

1.7. GOVERNANCE AND PARTICIPATION ....................................................................................27

1.7.1. Institutions of Governance ..................................................................................................30

1.8. CONCEPTUAL FRAMEWORK .................................................................................................31

CHAPTER 4: FISCAL DECENTRALIZATION IN ALBANIA 1998 - 2009

THE NATIONAL SITUATION .............................................................................................................32

1.9. THE INSTITUTIONAL CONTEXT ...............................................................................................32

1.9.1. Accountability of Local Governments ..................................................................................32

1.9.1.1. Downward or Upward Accountability? ............................................................................32

i. Locally elected council ................................................................................................................33

ii. Locally approved budget ............................................................................................................33

iii. Local governments’ borrowing power ......................................................................................34

iv. The capacity of local governments to collect taxes ................................................................34

1.9.2. The Effects of Fiscal Decentralization on Macroeconomic Stability, Income Redistribution, and Resource Allocation .....................................................................................34

1.9.2.1. Macroeconomic Stability: Local Borrowing ....................................................................34

1.9.2.2. Macroeconomic Stability: Checks and Balances ............................................................35
CHAPTER 1
INTRODUCTION

1.1. INTRODUCTION

The European Union (EU) is in a continuous process of enlargement. In the process towards EU acceptance potential member states are required to adjust their policies, legal environments, and economic structures. One of the requirements is the move towards a decentralized economy and state. To decentralize is an imperative for post-communist countries in order to be accepted to the EU. The core countries of the EU, the founding members of the European Coal and Steel Community, are all states that have been economically as well as politically decentralized for a long time. The core countries have enjoyed positive economic development and the political situation since the Second World War has also been relatively stable. The belief thus persists across the EU, inspired by the success of the core countries, that decentralized economy and government is a recipe for a functioning economy and the state. To the contrary, communist countries were based on a centrally governed economy and politics. After the fall of communism in the late 80s, post-communist countries started moving away from the centralized system on their path towards democracy. The EU played a great role as a motivational force for post-communist countries to decentralize as it offered economic benefits through firstly preferential trade agreements and consequently through its (potential) membership. The EU membership has thus been a large motivating factor for post-communist countries to adjust their policies accordingly.

Decentralization is a long process and can be further subdivided into political, administrative, and fiscal decentralization. The focus of the research at hand is on fiscal decentralization in Albania. What is meant by decentralization in general is the release of power from the hands of the central government to its subnational constituencies. The subnational entities can be communes or municipalities (a commune in Albania stands for a local government in rural area, whilst a municipality stands for a local government in an urban area). The term subnational or local government (or governmental body) in this thesis thus stands for both, communes and municipalities. Specifically for fiscal decentralization, the important factors are the powers the local governments have over revenue and expenditure decisions. When assessing fiscal decentralization, the research focuses on the freedoms that local governments have with respect to their revenue and expenditure decisions. The research focuses not only on the general legal environment but also on the reality in three case study rural communes in Albania.
Fiscal decentralization is generally believed to have positive effect on participation of local population in decision making and hence improve democratic practices and local service delivery. It is thus expected to increase local governance. Nevertheless, decentralization reforms have often failed to lead to such results because the decision-making is usually captured by elites; it intensifies corruption and nepotism regarding the recruitment of district employees and hence negatively affects service delivery. This is especially the case where central state capacity is weak and can lead to the use of decentralization for the recentralization of power. Furthermore, the expected benefits of fiscal decentralization rest on assumptions of a functioning state apparatus, capable institutions, infrastructure, increasing state revenue, and a healthy competition between subnational governments.

In pre- or quasi-capitalist societies such as Albania, one of the means of accumulating wealth is by controlling the state and squeezing its funds. In such situations, government leaders can manipulate institutions and reforms to ‘gain access to power and resources and advantage over rivals’. Next to that, democratization can increase strategies such as short-term political gain, populist policy, patronage and the recentralisation of power – over coherent policy-making and long-term development planning’ for politicians that are threatened to be removed from office through elections. As such new institutions can create further uncertainty in a country and bring new opportunities for elites to gain advantage over opponents through parliamentary committees, constitutional amendments, and the courts. The institutional weakness has been presented especially in budgeting field where the planning and the realized budget are different, where the control process isn't regular, where the monitoring and the valuation do not exist.

### 1.1.1. Albania

Albania is situated in South-Eastern Europe, south of the ex-Yugoslav countries and North of Greece. Its past has been marked by an extremely rigid communist rule under the dictator Enver Hoxha. After the fall of communism in 1991, the country underwent wide political and economic change, similar to other Eastern European countries and moved towards democracy. The country established multi-party democracy as its political system. Albania is a mountainous country with large part of its population engaged in agriculture, which forms a large percentage of the national GDP (also due to the fact that other sectors such as industry are to date poorly developed). Albania remains the poorest country in the region due to its

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1 See for example Muhumuza, W. 2008: 49, 77-78  
2 Cammack, D. et al. 2007: Viix  
3 Cammack, D. et al. 2007.  
4 MoI Albania, 2006: 18  
5 The WB:a v  
6 CIA Wold Factbook  
7 Solji, E
problems with transition to democracy, unemployment, corruption, lack of or insufficient infrastructure, and a large informal economy.\(^8\)

Next to that, Albania experienced a major economic crisis in 1997 caused by the crash of pyramid / Ponzi schemes, which led to ‘lack of trust in both the government and financial institutions’\(^9\). The crisis led to a near anarchy in the country and was compared to a civil war by some. Currently, the economy is recovering with GDP increasing from 2007 to 2008 and inflation decreasing\(^10\). The official unemployment has decreased from 13.9\% in 2007 to 13.2\% in 2008\(^11\). Nevertheless, the unemployment in agriculture is said to be much higher. Albanian population has been growing by 0.3\% in the past 2 years and accounts for around 4 million Albanians\(^12\). Nonetheless, Albania has one of the ‘highest migration flows in the world with 20\% of its population living abroad\(^13\)’. Furthermore, 15\% of the GDP has come from remittances in 2007-2008\(^14\). In addition, a quarter of Albanian population lived below the poverty line in 2005 and has remained under it until now\(^15\). Rural poverty also remained considerably higher not only in economic terms, but also through the limited access to water, sewerage, and electricity as compared to urban areas, which show some improvements over time. It had recently become part of international organizations such as the NATO and is currently a potential candidate to the EU\(^16\).

The research focuses on the situation in the three case study communes and the national environment in terms of legal and institutional competency. It also includes interviews with local community to add the aspect of local participation.

### 1.2. Research Question

Of the total Albanian population of over 3.1 million\(^17\), the two regions in the South and the North of Albania (further described under methodology section), in which the case study was conducted accounts for almost 700 000 people (23\% of total population).

The research followed a nation-wide study conducted by the University of Shkodra\(^18\) where Artan Hoxha attempted to answer the question ‘Does decentralisation support good governance?’\(^19\). The aim of the research in

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\(^8\) CIA World Factbook
\(^9\) Sojli, E.
\(^10\) Sojli, E.
\(^11\) Albania Government. 2008: 9
\(^12\) The WB: b,
\(^13\) Albania Government, 2008: 32
\(^14\) Albania Government, 2008 32
\(^15\) Index Mundi
\(^16\) European Commission 2009
\(^17\) Instat, according to the census in 2001.
\(^18\) in cooperation with Swiss Federal Institute of Technology Zurich and Nadel Postgraduate Course on Developing Countries
\(^19\) Hoxha, A. in Gerdoçi, B. et.al, 2007
Korçë and Shkodra regions was to answer the same specific question on which Hoxha’s study focused; ‘Is decentralisation improving the effectiveness and efficiency of local governance?’ The research used Hoxha’s approach but focuses on the fiscal aspects of decentralization, leading to the following research question:

*How is fiscal decentralization influencing the effectiveness and efficiency of local governance?*

The period for which the communes and municipalities efficiency and effectiveness were studied were from 1998 until the present. However, in order to be able to analyze the given data in the time available for the research, only the following years were analyzed:

1998, 2000, 2002, 2003, 2005, 2007, and 2009 (the year 2003 is perceived as a breaking point in Hoxha’s study and is replicated in the current research as it is seen as a year where greater fiscal autonomy was granted to the local governments).

**1.2.1. Sub-questions**

The research focused on two main elements: the efficiency and effectiveness of local governance.

1. **Efficiency of local governance:**
   The local governments were analyzed based on the efficiency of their fiscal power. Specifically, the focus was on analysis of fiscal capacity and efficiency of local governments (communes and municipalities) in managing, collecting, and re-distributing their budgets back to the community with the following specific questions tackled:
   
   i. What was the fiscal autonomy – measured in net discretionary revenue index - of the communes in the years of interest?
   
   ii. What are own revenues of local governments’ (formed by local taxes and local fees)? Is the national growth of own local revenues visible in the localities studied (is it comparable)?
   
   iii. What is the effectiveness of the local revenue collection (assessed on collection levels per capita)
   
   iv. Capital expenditure: What is the capital expenditure of each of the commune studied 1998-2009 and what are the investments used for?

2. **Effectiveness of local governance:**
   In order to analyze the effectiveness of local governments in using to them available funds to improve local governance, not only local governments but all stakeholders involved and affected by the developments in the communities were interviewed. The subtopics were thus also aimed at

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20 Ibid, 4.
discovering the *perceptions of local stakeholders* (inhabitants, businesses, and civil society) about the capacities of their respective government representatives.
CHAPTER 2

METHODOLOGY OF RESEARCH

1.3. METHODOLOGY

Following the theoretical assessment of the state of fiscal decentralization in Albania through desktop research, a field study was conducted in Albania. The five month long field research took place in Albania from February – June 2010. It was made possible as part of a master study in International Development at the Utrecht University, faculty of Human Geography. The research was conducted with direct support in the field from SNV, Netherlands Development Organization, regional office for the Balkans in Tirana\(^{21}\). The field research was conducted by one local researcher/intern at SNV, Arberora Rreli, then student of International Business at the New York University of Tirana, and Marta Schäferová, then student of International Development Studies at the University of Utrecht.

After consulting the available information on fiscal decentralization from previous studies about Albania and the SNV staff in Tirana, the researchers decided to conduct a case study in two regions: Korça in the southeast and Shkodra in the north (see map \(\rightarrow\)).

The region of Korça was chosen to serve as an example and to discover how the local governments implemented policies to profit the local population (the commune selected was Vithkuq). Korça has been known to be among the more successful in implementing new (not only) government projects. Vithkuq

\(^{21}\) [http://www.snvworld.org/en/regions/balkan/Pages/default.aspx](http://www.snvworld.org/en/regions/balkan/Pages/default.aspx)
Commune was selected as an example because Vithkuq is a commune known for a good governance that promotes a developed agriculture and livestock, a modern infrastructure, and high quality services in order to ensure a comfortable living environment for its residents and an attractive environment for tourists due to the effective utilization of its human resources and its beautiful nature.  

The commune is regarded as successful also because it benefited from government grants for a variety of reasons. The commune is located in a touristic area for which there is a great potential, hence, the government is willing to invest money in this area. Also, the most recent mayor in power (the mayor was in power at the time of the research already for 3 years) comes from the then ruling political party (the Democratic Party, DP). During the research the employees of local governments but also some of the informed local population claimed that it is easier to gain conditional and competitive government grants if a mayor is in the same political party as the ruling party (potential political bias). Although the commune has been known for good governance practices, the DP mayor has most likely been trying to promote his achievements in search of re-election. He stated that since the 90s, the Vithkuq commune had been run by a mayor that belonged to the other big political party, the Socialist Party (SP). In that time, the DP mayor stated, little investments have been made despite the fact that the previous mayor belonged to the party that was in power in many of the years in which he was in the office. Some of the local population in Vithkuq also confirmed that local projects such as road construction and water and sanitation installation have been implemented only once the DP mayor came to power in 2008. However, the region in which the Vithkuq commune is located has been known for its good governance already for a number of years. Some villagers who were used to vote for the SP mayor (as the population of the commune has been predominantly voting for SP party and an SP mayor since the fall of communism), however, stated that the DP mayor was able to gain funds only because of the national government’s interest in the region (for its tourist potential). The mixed views about governance and investments represent the differing interests of the participants (the current staff of the LG commune together with the mayor are more likely to appraise the DP mayor’s work in hope for re-election).

The knowledge gained in Korça was used as a comparison to see what possibilities and options the local governments could have in Shkodra, or other regions. Vithkuq commune was thus chosen primarily as it has been considered to be a village with good governance practises in 2006.

The research in Shkodra region (the communes selected were Shkrel and Shala) was conducted using the same methods as in Korça with the assumption that information discovered in Korça improved researchers’

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22 The Urban Institute, WB, 2006: 40.  
23 The Urban Institute, WB. 2006: 40
understanding of possibilities in efficiency and effectiveness in local governance, which is considered high in the Korça region. All communes are located in the mountains, however, the communes in the north in Shkodra are more remote and hardly accessible (especially during winter) than the commune selected in the south, in Korca. Shkodra region has, similarly to Korça, a vast tourist potential. The region is among the poorest in the country also due to the fact that little investments were made there by the government under the communist regime (a statement confirmed by the residents of both, Korça and Shkodra). The two regions were chosen to give a contrasting picture of a richer (Korça) and a poorer (Shkodra) regions of Albania.

1.3.1. Selection of the villages
Each of the communes chosen for the research is further divided into small villages (for descriptive information available for each of the communes see Appendix A). Communes were chosen for the research as they represent one of the smallest units of government in Albania. The study aimed to discover local government practices in rural areas which the communes represent. Due to feasibility issues, the research was conducted in only two villages per commune of total of three communes – one village closer to the centre of the commune and one of the most remote. The sample population was 10% of each of the selected villages. The exact selection of the villages depended also on their accessibility due to weather and infrastructural (road quality) conditions, unfortunately creating a weather bias. The villages were chosen based on the advice of the SNV staff with experience in the area and also based on the advice of the mayors and other LG employees. This may have possibly created a bias during the selection process, however, the research was where possible always conducted in the closest village to the commune and the most remote one. The case study villages are described in greater detail below.

1.3.1.1. Vithkuq
Vithkuq commune is located in the Korça region. Korça is one of the biggest cities in south-east Albania. It takes around 30 minutes to travel from the centre of Korça to the centre of Vithkuq commune by a car. There is public transport available from Korça city to the commune and back, which runs once a day. Less than half of the road is a mountain road. The commune’s villages are all located in the mountains.
In total there are 12 villages in Vithkuq accounting for nearly 690 families or 2900 people. The
Village of Vithkuq was chosen for research as it is the village where the commune is located. The village is well accessible by asphalted road and there is public transport leading to it. In the winter the road gets sometimes blocked by snow. The more remote village for research chosen was village of Lubonja. Lubonja is less accessible because the road leading to the village is not asphalted and takes around an hour by car. There is no public transport leading to the village.

In the village of Vithkuq there are 214 families living whereas in Lubonja there are only 136. In 2009 there were 38 families (5% of the commune population) that received social aid in the whole commune (9 in Vithkuq and 7 in Lubonja).

Although the population complained of unproductive land, there is enough natural water resource in Vithkuq commune. The majority of the population currently residing Vithkuq commune were the elderly, mainly grandparents. Most of the young population migrated for work which was also represented by the fact that the high-school closed and there were very few new pupils in the elementary school.

1.3.1.2. Shkrel

Shkrel commune is located in the north-west of Albania in the region of Shkodra. There is an asphalted road leading to the commune which takes around 2 hours by car in good weather. There is public transport available from the center of Shkodra to the commune, which runs once a day. All the villages of the commune are located in the mountains.

There are in total 10 villages in Shkrel commune which account for over 6 000 families of which 628 (around 10%) received social aid in 2009. Dedaj was chosen as it is the village where the commune is located. There are 181 families living in Dedaj. In the more remote village of Bogaj, there are 139 families living. Bogaj is accessible by road of which the majority is asphalted. It takes around 2 hours to access Bogaj from the commune by car in winter. There is public transport available in Bogaj.

The two villages of interest are fortunate with its proximity to popular touristic areas but have nearly no natural source of water and the land is hard to cultivate. The population in Shkrel has been fairly unchanged in the past years as the area has not largely been affected by emigration.
1.3.1.3. Shalë

Shalë commune is also located in the Shkodra region. Shalë commune is hardly accessible during winter. The public transport takes 5 hours to arrive to the commune from the centre of Shkodra city and runs once a day. The road is extremely difficult and exhausting as it is an non-asphalted curvy mountain road. During the summer, it is easier to access the commune through asphalted road (the journey takes around 2 hours) through the well-known touristic village of Thethi.

In Shalë there are in total 1700 families living. In the remote village of Gimaj, there are approximately 60 families living. Gimaj was the only village studied as the village where the commune is located was inaccessible due to death in mayor’s family, inaccessibility, and general unwillingness of the LG staff to cooperate. The village was located near to the popular destination Thethi and there was enough water resources and fertile land. The village has not been accessible during winter until 2008 when a new bridge was built to connect it to the commune. From the commune the village is accessible by car which takes about an hour to access the village. Most villagers walk to the commune through the mountains which takes around 1 and half hours with a donkey carrying the load.

There were many land disputes in the village with the state due to which the people interviewed claimed they were unwilling to pay for land taxes and fees. Gimaj was the only case-study village where no taxes or fees were paid. Also, the people were said to still follow the traditional Kanun law.

For specific information about population for all villages in the years 1998 – 2009 see Appendix A

1.3.2. Interviews

Semi-structured interviews were chosen as the most suitable method for research. All the interviews were face-to-face. Although focus groups could be useful to gather in-dept data, they are time-consuming and would require longer planning and stay in the community. The researchers went to each of the houses of the people interviewed. Usually, the whole family was present during the interview contributing to the answers together. Researchers walked from the centre of the village and visited every third house for an interview until interviews with 10% of the village families were gathered.
1.3.3. Efficiency of Local Governance

Firstly, general information about the commune area was required, this included information about the commune’s population (number of people, households, villages, together with indicators of the number of families with social support). This was gathered in most cases from the communes themselves, and in case of Shalä commune in Shkodra from the Prefect’s office. The information required to understand the efficiency of communes in local governance was budget, local taxes and fees, and the descriptive information. Specifically, the focus was on analysis of fiscal capacity and efficiency of local governments (communes) in collecting, and re-distributing their budgets back to the community with the following specific questions tackled:

v. What was the fiscal autonomy – measured in net discretionary revenue index - of the communes in the years of interest?
vi. What were own revenues of local governments’ formed by local taxes and local fees?
vii. What is the effectiveness of the local revenue collection?
viii. Budget formation: How are budgets planned and by whom?
ix. Capital expenditure: What is the capital expenditure of each of the communes studied 1998-2009 and what are the investments used for?

1.3.4. Effectiveness of Local Governance

Every individual, group, or an institution in each of the communities that has an interest in the local government service or is (in)directly affected by it is considered a stakeholder. In order to analyze the effectiveness of local governance the perceptions of local stakeholders were studied. The semi-structured interviews were used so that the people were given the space to speak freely about every topic of the interview. In order to make people feel more comfortable, it took the form of a conversation where the order of questions changed slightly to suit each of the interviews (see the questionnaire in Appendix B).

The sampling frame chosen was random sampling with every 3rd house visited (until the interviews accounted for 10% of the village population).

The extent of participation in the sample areas was assessed on effectiveness of local governments measured through participation of the community in decision making. Effectiveness of local decision making occurs when ‘decisions are made and resources allocated based on the long-term well-being of the community.’ The effectiveness of local governments’ fund use and its effect on local participation were inquired. All stakeholders involved and affected by the developments in the communities were interviewed (business representatives, association representatives, farmers, local

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24 Capital expenditure is all investment that ‘will last and will be used time and time again in the provision of a good or service. In the case of the government, examples would be the building of a new hospital, the purchase of new computer equipment or networks, building new roads and so on.’ Welfare subsidies (economic aid) is included in current/operative expenses.
26 Glaser, M., 2007: 53
government employees, elders). The subtopics were thus aimed at discovering the *perceptions of local stakeholders* (inhabitants, businesses, and civil society) about the capacities of their respective government representatives.

The questions asked during the interviews can be found in Appendix B and are divided into four sections. Specifically, the interview was divided into categories in order to receive information regarding:

1) Basic information:
   a. General information about the stakeholder (age, occupation, marital status)

2) Personal information and livelihood (to discover the perceived impact of LG actions on peoples’ lives)
   a. Wellbeing of the stakeholder (assessed on poverty indicators)
   b. Perceptions about changes in the community and its effect on the stakeholder and the community
   c. Opinions of what is needed for the community

3) Perceptions about the activities of the local government and views about the needs for the village/community as well as information about own participation (and the willingness to participate) in decision-making in the community.

4) Quantitative data replicating the USAID study on perceptions of local governments (with the aim to compare the case-study data to the nation-wide data responding to years 2005 and 2007.)
CHAPTER 3
THEORIES OF FISCAL DECENTRALIZATION

1.4. INTRODUCTION
Western countries operate under decentralized political systems promoted in developing countries for a number of reasons. For example, it is widely accepted that decentralized governments are more responsive to local needs due to power distribution from central governments to local, sub-national units that are assumed to be better able to understand local needs. Decentralization is in general understood as the ‘transfer of authority and responsibility for public functions from the central government to subordinate, lower tier government organizations.’ Efficiently decentralized subnational governments are also believed to differ according to individual local preferences and individuals are expected to eventually move to a locality that would best suit their needs. This would in turn create competition between local governments. Such competition is said to prevent subnational governments from overspending or imposing too high taxes. The benefits of decentralization attributed to the responsiveness and proximity of local governments to local residents and their needs are believed to enhance accountability and transparency. Local representatives need to respond to local needs to be re-elected to their position, thereby bringing expenditures closer to revenue sources. Some studies have also found ‘that political participation tends to improve with decentralization.’ However, institutions of accountability and participation are required to establish citizens voice. Successful decentralization is thus an ‘institutionalized form of the participatory approach.’

1.5. FISCAL DECENTRALIZATION
Decentralization is subdivided into three spheres: fiscal, administrative, and political (democratic). Political decentralization can be directly related to participation as it allows the citizens or their representatives to influence the formulation of policies that interest or affect them. Administrative decentralization represents the ‘distribution of powers, responsibilities, and financial resources needed for the provision of services within the public

27 Nijenhuis, G.: 111
28 Ebel, Robert D., et al
29 Ebel, Robert D., et al; Mello De Jr, Luiz R.
30 Manor 1999; Crook 2003 in Hankla, Charles R.: 635
32 Ribot, Jesse C.: v
33 Nijenhuis, G.
sector. Administrative decentralization can be further divided into deconcentration (the sole extension of powers of the central governments), in contrast to delegation (the transfer of responsibilities, decision making, and the administration of public functions). Lastly, fiscal decentralization refers to the ability of (local) government to make independent investment decisions.35

Most of the literature on fiscal decentralization focuses on fiscal federalism that refers to the case of the United States and the effects on economic efficiency and intergovernmental competition36. Generally, decentralization is about empowering people to participate in and influence the decisions made within their close community37. Specifically, fiscal decentralization is the ‘decentralization of fiscal resources and revenue generating powers’ constituting a ‘cross-cutting element of both deconcentration and political decentralization38.’ Deconcentration is widely described as the sole extension of central government interests to localities. Deconcentrated constituencies are ‘upwardly accountable’ to the central government by which they are appointed39. We can speak of decentralization only when central government formally ‘cedes powers to actors and institutions at lower levels in a political-administrative and territorial hierarchy’ that are downwardly accountable (to the local population through popular elections, rather than to the central government) 40.

Fiscal decentralization is expected to achieve increased ‘efficiency, transparency, and accountability in the public sector41.’ To achieve such objectives, reformers must understand that it is embedded in an institutional reality that can enhance or hinder the process. The institutional context includes the ‘overall economic development, the nature of the legal system, ongoing process of economic and political reform, the organization of monetary and financial institutions, and tensions arising from ethnic, religious, or economic differences42.’ To measure the extent of decentralization thus also means including factors such as:

...the existence of elected local council, locally approved budget, local governments’ borrowing power, capacity of local governments to collect taxes 43.

The legal and regulatory framework should thus be developed in such a way as to enhance the positive effects of fiscal decentralization and guide and monitor subnational governments in their roles and responsibilities. To assess the extent of fiscal decentralization its core elements should be analyzed: the fiscal power of local governments in revenue collection;

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34 Nijenhuis, G: 112
35 Nijenhuis, G.
36 Bardhan, Pranab.
37 Inter-American development Bank, 1997 in Ebel, Robert D., et al.
38 Ribot, Jesse C.: v
39 For a description of upward accountability see: Ribot, Jesse C.
40 Ribot, Jesse C.: v
41 World Bank, 1999 in Ebel, Robert D et al.: 3
42 Wildasin, 1997 in Ebel, Robert D et al.: 2
43 Bahl, 1999 in Ebel, Robert D et al.: 5
expenditure decisions; and local service delivery decisions based on local preferences.

1.6. Theories of Decentralization

Theoretical assessments of decentralization focus on its effect on the prime functions of government, which are ‘macroeconomic stabilization, income redistribution, and resource allocation’ described below.

Firstly, macroeconomic stability can be weakened if local governments are allowed to take loans from the market and eventually are unable to pay; and if central governments bail-out local indebted governments. Some researchers have found empirical evidence ‘linking federal systems with higher inflation.’ Such effect of decentralization can lead to great indebtedness of a country and can destabilize its economy but ‘if central governments either restrict the freedom of subnational authorities to borrow on private capital markets or credibly commit to a “no-bailout” policy’ then decentralization need not pose challenges to macroeconomic stability.

In general, central governments are said to be ‘better equipped in dealing with spillover effects of local spending, inflationary pressures of monetization of local debt and cyclical shocks due to economies of scale in their operations. Local governments do not benefit from economies of scale and ‘are unable to offer attractive working conditions and salaries to qualified personnel and to plan.’ Therefore, what is needed are institutions that provide ‘checks and balances of intergovernmental relations system’ to prevent unnecessary spillover effects or excessive spending. Such institutions require time to develop this capacity. In addition, subnational governments should be regulated so that they do not ‘enact policies that interfere with the free flow of commerce within a country’ or with other national interests.

It is important to remember the experiences of former socialist states with regards to fiscal decentralization. Post-communist countries experienced fiscal imbalances (due to structural loss of revenues) and high inflation (due to price liberalization and the monetisation of large fiscal deficits) in the initial years of transition. In addition, fiscal decentralization might be better suitable for larger and more heterogenous countries such as Russia rather than smaller and ethnically less diverse transition economies.

45 Hankla, Charles R.: 637
46 Hankla, Charles R.: 637
47 Ebel, Robert D., et al.: 13
48 Prud’homme, Rémy.: 210
49 Ebel, Robert D., et al.: 13
50 Prud’homme, Rémy.
51 Hankla, Charles R.: 636
52 Tanzi and Tsibouris, 2000; Alam and Sundberg, 2001; and Valdivieso, 1998 in Dabla-Norris, Era.
53 Dabla-Norris, Era.
Secondly, with regards to income redistribution, central governments are said
to be better equipped to redistribute wealth from richer to poorer regions. 
Decentralization thus works well only if the central government redistributes 
wealth (e.g. through equalization grant) to prevent inequality in a nation\textsuperscript{54}. It 
is important to note that income redistribution is a tricky task. For example, if 
‘income levels in a poor region are more equally distributed than in a higher-
income region, transfers to poorer citizens will primarily benefit the richer 
region and actually increase regional disparities\textsuperscript{55}.’ This could happen in case 
the government decides to look at regions separately and tackle poverty 
within them, instead of equalizing for the inequalities between regions. 
Hence, if there are many poor people in the richer region and the central 
government assesses solely the equality in a certain region, the richer region 
might gain greater benefits on the whole. This would happen despite the fact 
that another region is poorer because the level of poverty might there be 
more equally spread across (disqualifying it for an equalization grant). Even 
the processes of calculation (of mathematic averages for poverty distribution 
across a country) thus has an immense effect on wealth redistribution. The 
policy choices will thus have an enormous impact on the income redistribution 
in the country. The problem is exacerbated further by the lack of legal and 
institutional framework in transition countries\textsuperscript{56}. For instance, the political 
environment in transition countries is notoriously unstable, which is reflected 
in poorly defined rules, division of power, and institutions\textsuperscript{57}. Whereas in the 
developed world, institutions have evolved slowly over time, transition 
countries are faced with a complex task for which they might yet be 
unprepared. The motivations behind institutional change or reforms towards 
decentralization stem largely from external and political reasons, rather than 
poverty reduction. For transition countries in Europe, the greatest source of 
motivation is the membership to (or at least the benefits of preferential trade 
agreements with) the European Union. The policy choice in a country hoping 
to enter the EU will thus also depend on EU accession requirements. 
In addition, cities in transition countries differ greatly. They are marked by 
rapid industrial modernization and de-industrialization, large population influx 
or outflow, and some of their economies can be production based, some more 
service based. In comparison, western economies are largely service based. 
Cities in transition countries are also marked by the past and present ‘social, 
economic, health and environmental ills\textsuperscript{58}’ that are of prime public concern. 
During the communist times, the economy was planned to such an extent 
that each region could have been assigned to a different role (industrial 
production, agriculture, etc). The central government would monitor and plan 
the developments and (in theory) redistribute the products and the income 
across the country. The western model of fiscal decentralization is based on 
laissez-faire model of the economy, developed over almost two centuries. It

\textsuperscript{54} caused for example by the freedom of regions to adjusts taxes without limits resulting potentially in 
busness friendly regions that profit from trade in contrast to poor regions that cannot afford to compete 
with similar low levels tax rates. In Hankla, Charles R. 
\textsuperscript{55} Prud’homme, Rémy.: 203 
\textsuperscript{56} Nam, Woon Chang et al. 
\textsuperscript{57} Nam, Woon Chang et al. 
\textsuperscript{58} Nam, Woon Chang et al.: 144
puts an emphasis on competition between municipalities, which are thence expected to make efficient (competitive) decisions in effect regulating themselves in a country. In reality, however, rural regions in transition countries are unable to compete with ‘large agglomeration areas [that] provide an unparalleled business environment to economic sectors.’ As a result, rural local governments, which already suffer from a ‘lack of necessary financial means to cover the increasing expenditures,’ experience emigration of population to the cities decreasing the tax revenues further. Fiscal decentralization in transition countries should thus occur slowly enough, after all western countries did not decentralize overnight. This might allow stable rules and institutions to develop to suit the needs of the countries themselves instead of satisfying external parties such as the EU. Differences in regions can in theory be equalized through an intergovernmental transfer that should be based on a fixed formula to work well (see government transfers below). The experience in transition countries illustrates, however, that many ‘small-sized municipalities in the Czech Republic, the Slovak Republic, Hungary and Poland have suffered from financial bottlenecks and have not been able to receive financial support from the central government that was necessary for their economic development.’ This can be attributed to either the general lack of national revenues or lacking rules and institutions that would redistribute national wealth equally without political bias. Besides, local governments are vulnerable to the capture by elites that may receive larger share of government welfare (for example through favourable taxes or by overprovision of service). In general, greater participation of locals ‘through decentralization can be a weapon against clientelism.’ To prevent capture, decentralization should focus on ‘strengthening local accountability mechanisms.’

Lastly, resources should, according to Musgrave, be allocated differently within a country according to the needs of each of the subnational units, to reflect the preferences of its residents. As such, claims Oates, ‘each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize benefits and costs of such provision.’ Responding to local needs, subnational governments will be able to act in the interest of locals and ‘allocate resources more efficiently than a central authority.’ Efficiency is thus said to increase due to the localized information and preference utilization. As stated in C.Hankla,

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59 Nam, Woon Chang et al.: 144
60 Nam, Woon Chang et al.: 144
61 Nam, Woon Chang et al.: 152
62 Bardhan, Pranab.
64 Bardhan, Pranab (2002)
66 In Ebel, Robert D., et al.: 3
67 Ebel, Robert D., et al.: 11
68 Ebel, Robert D., et al.:
‘efficiency is maximized when governments raise their revenues from the same citizens who will enjoy the benefits of the public goods they provide. In such circumstances, regional authorities will not have the incentive to overspend that they would if their funds came from central transfers made up primarily of revenue generated outside their constituencies.’

Nevertheless, critics of this model state that the theory assumes ‘that central governments are unable to target different bundles of public goods to different regions’ whilst subnational governments can target fiscal policies specifically to adjust for heterogeneous preferences. In theory, ‘if public goods are financed by local taxes that reflect costs, people will shop around for the community that best fits their preferences. In doing so, they will vote with their feet.’ This can ‘improve the efficiency of public goods’ as local governments will need to better use public resources to compete. Such competition should ‘discourage corruption, promote responsiveness, and check the growth of government.’ This is supported by for example Huther and Shah that ‘report positive correlations between decentralization and various governance indicators’ including corruption. The critics state that especially in developing countries, people will lack the resources to move to communities suiting their needs as that tends to be costly. In addition, some authors claim that decentralization worsens ‘or at best has no impact on, corruption.’ The argument stems from the fact that more levels of government offer more opportunities for corruption especially since leaders of subnational governments can be less professional and may lack administrative resources for effective governance. Furthermore, corruption can be worse at local government levels due to limited local accountability that may lead to local capture. Nevertheless, locally responsive governments ‘can at least provide the policies preferred by most current residents of their constituency.’ Accountability is thus an important factor determining partial success of decentralization.

### 1.6.1. Revenue Collection

Revenue of local governments is formed by local taxes, local fees, transfers from the central government, and through loans. Aside from traditional local government revenue sources subnational governments can gain subsidies from the EU, NGOs, or other governments.

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69 see von Hagen 2003 in Hankla, Charles R.
71 Breton 2002; Treisman 2007 in Hankla, Charles R.: 634
72 Tiebout, 1956 in Ebel, Robert D., et al.: 12
73 Hankla, Charles R.: 632
74 Hankla, Charles R.: 636
75 In Mello De Jr; Luiz R.: 10
76 Hankla, Charles R.
77 For example Treisman 2000, 2007; Tanzi 2002 in Hankla, Charles R.: 635
78 Bardhan and Mookherjee 1998 Mentioned in Mello De Jr, Luiz R.:
79 Hankla, Charles R.: 634
1.6.1.1. Taxes

Central government usually retains power over some taxes allowing local governments to have full freedom in setting (usually with upper and lower limits) and collecting local taxes. Typical local taxes, according to ‘theory of public economics\(^ {80} \) are recommended to be \(^ {81} \):

- evenly distributed local tax base to prevent large differences in tax practices among localities and hence large population or business movements
- ‘Local taxes should be accountable and local taxpayers should know what the tax liabilities are,’ and they should be easy to administer.
- There should be a clear link between the payment of a tax and a relevant local service received to illustrate the benefits of taxing to local payers.
- The local taxes should generate enough revenues (‘to avoid vertical imbalances’) and be less sensitive to business cycles

Fulfilling such criteria, the suggested taxes are land or property taxes and personal income taxes, whilst corporate income taxes are recommended to remain in the hands of central government\(^ {82} \). If local governments are allowed the freedom to decide the level of corporate taxes, it is expected that competition between local governments may escalate to unsustainable levels. This could occur in case one region introduces taxes favourable for corporations, therefore attracting industry and businesses and boosting local economies, rather than national interests (as occurred in China\(^ {83} \)). Other, poorer local governments with less favourable business conditions will find themselves unable to attract business and with them required employment. Such situation could further deepen regional inequalities. Hence, central redistribution in case of corporate taxes is recommended. On the other hand, allowing the power over corporate tax revenue in the hands of local government officials (that are presumably not corrupt) might increase the local representatives’ motivation to attract businesses to a locality.

Specifically in a number of Latin American countries and India, industry and commerce tax are important sources of revenues for subnational governments\(^ {84} \). In many developing countries the collection of property taxes is problematic ‘since there is no well developed real estate market\(^ {85} \).’ Also, the taxes typically collected in transition countries (mostly ‘property tax, user charges, and a number of ‘nuisance’ taxes with little revenue potential’) raised only a small share of the money needed to cover the expenditures of local governments. Furthermore, decentralization in developing countries is limited to the redistribution of centrally collected tax rather than local government empowerment and the increase in capacities to collect taxes\(^ {86} \). The reality in most transition countries ten years after transition showed that

\(^ {80} \) Oates, 1972; Musgrave and Musgrave, 1980; King, 1984 in Nam, Woon Chang et al.: 148
\(^ {81} \) Described in Nam, Woon Chang et al.; 148
\(^ {82} \) Paugam, 1999 in Nam, Woon Chang et al.
\(^ {83} \) Liansheng, Wua et al.
\(^ {84} \) Bird, 1995 in Ebel, Robert D., et al.
\(^ {85} \) Ebel, Robert D., et al.: 9
\(^ {86} \) Bardhan, Pranab.
only a few ‘advanced reformers’ had the control over 33-40% of own revenue. Furthermore, R.D. Ebel et al., concluded that from fourteen evaluated Eastern European and Central Asian countries, local governments of twelve of them did not have the control over their revenues. Subnational governments especially in developing countries tend thus not to ‘have adequate level of "own resources."’ For comparison, in the EU in 2006 ‘‘Taxes accounted for 43.1% of [total local government] revenue (62% of revenue for Federated States and 33% of revenue for just the local public sector)’ with remainder of resources coming from State grants, fees, and asset management.

Local governments should be empowered to generate large portion of their own funds and be able to influence their own tax revenues. For reasons already stated, local governments should thus have sufficient freedom for necessary revenue collection with limits to maintain national unity and macroeconomic stability. If a municipality is incapable to raise sufficient revenues and the government grants are not sufficient, it is difficult to speak of an increased local autonomy.

Next to that, local capture by elites poses a challenge to effective and fair local tax financing ‘whereby the non-elite bear the tax burden of providing services to the elite.’ This can be the case especially in developing countries for which ‘restrictions on the ability of local governments to levy taxes may then be desirable, even at the cost of reducing flexibility of service provision to local needs.’ However, such restrictions can hinder adjustments and responsiveness to changing needs in localities eventually preventing subnational governments from levying taxes that have the potential to ‘yield enough revenue to meet their needs.’ Local governments should hence have enough power in determining relevant local taxes according to their expenditure needs and the preferences of local citizens but with relevant checks and balances (limits) in place.

1.6.1.2. User fees

Secondly, user fees and charges should finance the ‘services provided by subnational governments.’ As with taxation, the direct beneficiaries of services will thence be able to see the link between a cost of a service and the service itself.

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87 Czech Republic, the Slovak Republic, Hungary, and Poland. See Dabla-Norris, Era.
88 Ebel, Robert D et al.
89 Ebel, Robert D., et al.: 7
90 EU Sub-national Governments: Sub-National Government Structures
91 Bardhan, Pranab.: 193
92 Bardhan, Pranab: 193
93 Ebel, Robert D., et al.: 9
94 Ebel, Robert D., et al.: 34
1.6.1.3. Governmental transfers

Thirdly, central government grants must be allocated effectively so that they prevent overspending and do not work as a disincentive to tax collection by local governments (that might be unwilling to raise local taxes if central government grants are too generous)\textsuperscript{95}. Intergovernmental grants serve two purposes, to distribute revenues between central and local governments: ‘the vertical dimension;’ and to allocate financial resources among the recipient units: ‘the horizontal dimension\textsuperscript{96}.’ The grant should be sufficient to ensure that subnational governments can carry out their responsibilities\textsuperscript{97}. Realities in transition countries, such as Albania, highlight that intergovernmental grants provided ‘negative incentives for revenue mobilisation by subnational authorities\textsuperscript{98}, often because an increase in own local revenues would lead to a reduction of the transfer.

The grant is usually formed by: a portion of revenues collected in respective local constituencies; equalization grant (that adjusts for horizontal inequalities between taxes bases of local governments\textsuperscript{99}); and conditional grant for specific projects (to assure national unity, objectives, and provide public goods with spillover effects to other constituencies)\textsuperscript{100}. The government will always have to choose between different objectives when deciding upon the conditional grant. The process of grant allocation should hence be as transparent and constant as possible (it should be based on a formula\textsuperscript{101}) so that subnational governments know what to expect and can base their expenditure planning accordingly\textsuperscript{102}. However, the reality in many countries highlights that intergovernmental transfers do not tend to be based on a formula but instead are unexpectedly assigned depending on political situation in a country.

1.6.1.4. Local government borrowing

Last but not least, local government borrowing can be used to finance specific projects. However, unrestricted borrowing autonomy for local governments can lead to unprecedented and persistent fiscal deficits causing macroeconomic problems, especially when the government bails out its subnational constituencies and when local governments are over-dependent on governmental transfers. Indeed, empirical studies have found that countries overly dependent on intergovernmental transfers experience ‘fiscal performance decline, especially when subnational governments have easy access to credit.'\textsuperscript{103} On the other end of the spectrum, local governments in transitional countries do not even qualify for loans under market conditions

\textsuperscript{95} Nam, Woon Chang et al.
\textsuperscript{96} Ebel, Robert D et al.
\textsuperscript{97} Hankla, Charles R.
\textsuperscript{98} Dabla-Norris, Era.: 115
\textsuperscript{99} Ebel, Robert D., et al
\textsuperscript{100} Hankla, Charles R.
\textsuperscript{101} Ebel, Robert D et al.
\textsuperscript{102} Prud’homme, Rémy.
\textsuperscript{103} Rodden, Jonathan: 670; also mentioned in Ebel, Robert D., et al.
because they lack creditworthiness that is required to access credit on the market\textsuperscript{104}. When provincial expenditures increase without sufficient revenue increase, the deficit is financed either through borrowing or central government grants. If the grants are not financed by central government revenues but by borrowing, the whole country can slip into a fiscal deficit\textsuperscript{105}.

An example from the Czech Republic and Slovakia illustrates the general problem with lack of local government revenues in transition countries. The central governments in the two countries did not trust local governments enough to transfer authority to them as they believed local governments lacked the financial and human capacity resources. Own local revenues in the two countries were comprised solely of a ‘property tax, a small and rather trivial assortment of local fees and taxes, and from the sales of state-owned properties that were transferred to local governments after 1989\textsuperscript{106}.’ The majority of local government incomes thus came from intergovernmental transfers or shared taxes, making local governments dependent on the central government leaving them little autonomy. The locally created revenue was insufficient to cover the tasks of local governments. Local governance in transition countries thus accounts to a ‘more or less arbitrarily limited set of activities’ instead of the freedom of revenue and expenditures hoped for by theorists of fiscal decentralization\textsuperscript{107}. The central government maintains its hold on many activities rather than de-centralizes them.

\textbf{1.6.2. Expenditure Decisions}

Local governments do not only need sufficient revenues, they also require the freedom to decide where to allocate their expenditures together with the relevant administrative capacities to perform such responsibilities\textsuperscript{108}. Once subnational governments have the ‘control over their expenditures’ they can act according to the preferences of their citizens\textsuperscript{109}. The expenditures of local governments usually consist of (i) operating expenditures to ensure ‘the proper functioning of existing local goods as well as public services and the follow-up expenses caused by the realisation of local infrastructure projects;’ and (ii) investment expenditures ‘for the provision of new infrastructure\textsuperscript{110}.’ The aim of fiscal decentralization is to make local governments more efficient in expenditure assignments. This means that investment expenditures should dominate operating expenditures. However, as was found in a case study of Hungary, Poland, Czech Republic, and Slovakia, operating expenses dominated largely the expenses of local administrations\textsuperscript{111}.

\textsuperscript{104} Dabla-Norris, Era.
\textsuperscript{105} Prud'homme, Rémy.
\textsuperscript{106} Bryson, Phillip J.: 340
\textsuperscript{107} Bryson, Phillip J.: 341
\textsuperscript{108} Hankla, Charles R.
\textsuperscript{109} Hankla, Charles R.: 639
\textsuperscript{110} Nam, Woon Chang \textit{et al.}: 154
\textsuperscript{111} Nam, Woon Chang \textit{et al.}.
Responsibilities such as ‘water provision, tourism, roads, building permits, sewage, trash, and libraries’ were found to be in the hands of subnational governments in the ‘established democracies of western Europe’ and form a crucial element of decentralized governments\textsuperscript{112}. Nevertheless many countries in Latin America and Eastern Europe did not assign clear expenditure responsibilities to subnational governments that led to weak decentralized systems and fiscally overburdened central governments\textsuperscript{113}. The reality in post-communist countries highlights that the ‘lack of clarity and stability in expenditure assignments’ negatively impacts accountability, undermines ‘the efficiency of public expenditures,... reduced incentives to prioritize budgets, lower costs of service delivery, [and] eliminate excess physical capacity\textsuperscript{114}.’ Furthermore, governments in transition countries were found to dictate norms and regulations to an extent that they influenced spending priorities of local governments to the will of the central government, thereby constraining the expenditure autonomy of local constituencies. In Albania, for example, about 90-95% of actual local expenditure was not in the control of local governments in 1999\textsuperscript{115}. Subnational responsibilities thus should be precise with well defined corresponding revenues.

### 1.6.3. Fiscal Autonomy

One approach to measure decentralization is by calculating the share of budget allocated to local governments from the total state budget, the so-called fiscal autonomy. When more than 20\% of the public expenditure is allocated to sub-national governments it can be called high-level of decentralization, followed by moderate decentralization at 10-20\%, and low decentralization where less than 10\% of public expenditure is allocated to sub-national governments\textsuperscript{116}. The level of fiscal autonomy in post-communist countries was on average 25\% in 2001\textsuperscript{117}. In developed countries, the rate of autonomy was ‘38\% for federal countries and 22\% for unitary countries’ in 1991\textsuperscript{118}. It is important to note, however, that federal republics such as Germany distribute the government income to large geographic units (federative states) rather than small provinces, usually inhabited by incomparably larger population. In addition, this measure does not take into account the ‘effective decision-making authority of subnational governments’ and the availability of financial resources to local governments\textsuperscript{119}. Local autonomy implies that local governments have the freedom to decide (based on voter preferences) what to spend their money on. It also assumes that local governments are not ‘fully dependent on the central government for their funds\textsuperscript{120}.’

\textsuperscript{112} Norton 1991 in Hankla, Charles R.: 638

\textsuperscript{113} Ebel, Robert D., et al.

\textsuperscript{114} Dabla-Norris, Era.: 111

\textsuperscript{115} Banks and Pigey, 1998 in Dabla-Norris, Era.

\textsuperscript{116} Nijenhuis, G.

\textsuperscript{117} According to Wetzel and Dunn in Dabla-Norris, Era.: 105

\textsuperscript{118} Ebel, Robert D., et al.: 6

\textsuperscript{119} Dabla-Norris, Era.: 105

\textsuperscript{120} Bryson, Phillip J.: 351
Furthermore, some transition countries face problems with 'the large number of small municipalities.' This poses problems for resource (human and capital) allocation. Small communities are said to be unable to 'fully benefit from a regime of fiscal autonomy, since their tax bases are not sufficiently large; they lack technical and administrative capacity because they are unable to retain qualified staff; they cannot exploit economies of scale in the delivery of public services.' To tackle the problem of too many and too small municipalities and as a requirement for EU accession, countries such as the Czech Republic and Slovakia have created new, intermediary regional administrative units. The division of an economic territory is ascribed by the EU according to the Nomenclature of territorial units for statistics (NUTS) classification. Regions are thus eligible for aid from the Structural Funds under NUTS 2 level.

However, the new regional institutions faced further problems such as: unclear division of roles between different institutions; the fact that the lowest tier of government is not subordinated to the regions; the regions do not have the mandate to assist small municipalities lacking the resources to manage their administrative functions independently; and regions report directly to the centre are so far not improving the effects of decentralization. As countries such as the Czech Republic and Slovakia were already granted the access to the EU, there is no pressure for further systemic reform. Goetz further claims that there is little possibility that public administrations in the EU countries will converge. Rather, administrative systems will continue to differ with EU-compatibility seen as the trademark against which the developments are measured and compared.

1.6.4. Post-communist Legacy

Specifically in post-communist countries, decentralization process is difficult due to the communist legacy of past ‘highly-centralized, over-bureaucratized, and overburdened’ governments. Yoder claims that in the case of Poland and Czech Republic the decentralization process was shaped by a country’s ‘historical legacy, the political environment at the time of its transition, the degree of regionalist sentiment in society, as well as the prospect of accession to the European Union.’ Goetz makes a similar claim regarding the importance of the legacy of the communist past. He adds that the state power under communism can be described as

... based on the explicit rejection of the idea of an effective separation of powers; a unified state administration comprising all

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121 Bryson, Phillip J.: 343
122 The World Bank in Bryson, Phillip J.: 344
123 The World Bank in Bryson, Phillip J.
124 In which 'NUTS 1: major socio-economic regions, NUTS 2: basic regions for the application of regional policies, NUTS 3: as small regions for specific diagnoses'
125 For more information, see: http://epp.eurostat.ec.europa.eu
126 Bryson, Phillip J.
127 Goetz, K.H.
128 Yoder, J: 263
129 Yoder, J: 263
tiers of the state apparatus, with strong hierarchical controls and subordination; the intertwining of party bureaucracy and state administration, with the former having directive authority over the latter; a general disregard for the rule of law, so that party decisions took precedence over legal norms; a personnel system that relied on politicized cadres and a party-controlled nomenclatura; the reluctance to acknowledge a separate public service identity; and an emphasis on economic planning and social control as central administrative functions.\(^{130}\)

The transformation towards greater decentralization thus requires that the ‘practical barriers to reform\(^{131}\) and legacies of the post-communist government system are all fully transformed. Decentralization and general democratization work under the exact opposite practices to the abovementioned barriers. Nevertheless, Goetz does not fail to mention that the legacies of the communist past might be overstated and comments that the specific transitional circumstances are ‘in fact, fairly typical of democratizing settings in comparatively poor countries.\(^{132}\) The inefficiencies and problems of public administration are commonly blamed, by policy makers themselves, on past communist practices but never compared to situations in other developing countries, which might be usable in the case of transition countries. In addition, Dryzek et al. goes even further in history to state that the traditions and ideas of republicanism (with emphasis on active citizenship) were present in Poland since the 18\(^{th}\) century. In the case of the Czech Republic, Masaryk, the first president of the first Czechoslovak Republic in the early 20\(^{th}\) century, represented a form of ‘humanitarian democracy’ (where ‘the pursuit of truth mattered above that of interest\(^{133}\)). The republican commitments ‘outlived the seeming abandonment of republicanism in the West in favour of a liberalism that emphasised the pursuit of private material interests through politics as well as the market.\(^{134}\)’ The researchers concluded, based on a discursive study, that public virtue in both countries remains stronger than private interest. This could be explained by past democratic legacies that were said to be more engraved within Polish society\(^{135}\). Participation in a country thus does not depend solely on the most recent past but also on other factors deeper engrained in social behaviour over the past generations.

1.7. **GOVERNANCE AND PARTICIPATION**

Governance can be illustrated by the strength of social capital, ‘which captures the strength of social institutions and public spiritedness\(^{136}\).’ Social capital can in turn be measured through the level of ‘confidence in

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\(^{130}\) Goetz, K.H.: 1033  
\(^{131}\) Goetz, K.H.: 1039  
\(^{132}\) Goetz, K.H.: 1043  
\(^{133}\) Dryzek et al. 1046  
\(^{134}\) Dryzek et al. 1046  
\(^{135}\) As the Polish nobility, constituting around 10% of the population in the 18\(^{th}\) century, produced republican ideas that ‘remained influential in 19\(^{th}\) and early 20\(^{th}\) century Poland.’ In Dryzek et al. 1046  
\(^{136}\) Mello De Jr, Luiz R.: 6
government\textsuperscript{137}, civic cooperation\textsuperscript{138}, and associational activity\textsuperscript{139}, all of which represent the extent of participation and trust in government.

An empirical study by Jeff Huther et al\textsuperscript{140}. assessed governance quality through:

1) citizen participation: ‘ensures that public goods are consistent with voter preferences and public sector accountability. Such participation is possible only if political freedom (voice and exit) is permitted and political stability prevails;’

2) social development: based on ‘human development [UN HDI] and income inequality;’

3) government orientation: based on ‘judicial efficiency, bureaucratic efficiency, and the lack of corruption;’ and

4) economic management: incorporating monetary policy (e.g. the freedom and roles of central bank are said to be better under decentralized systems\textsuperscript{141}), fiscal policy as well as outward orientation (better known as economic liberalization).

Similarly, a study by R. Charles Hankla found that decentralization improves governance when citizens’ preferences are reliably represented (through participation), regional disparities are equalized, and macroeconomic stability is protected.

In order to assure such conditions, developing countries need\textsuperscript{142}:

1) technical assistance that focuses on strengthening democratic governance institutions;

2) technical assistance that distinguishes between government deconcentration and fiscal decentralization;

3) avoid by-passing existing institutions and creating new structures through technical assistance (such as the creation of funds); and

4) technical assistance for the ‘direct election of heads of the executive, balanced and independent roles of councils [of] the executive branch, the ex-ante supervisory role of central governments, pre-emptions and mandates by the central government, creation of independent and voluntary associations of subnational governments, participation of the people in local government affairs, free flow of information on subnational government activities and budgets, independent ex-post audit function, potential for the privatization of public services, and

\textsuperscript{137} ‘measured with respect to four government “institutions” (education, the legal system, the civil service, and the police)’ in Mello De Jr, Luiz R.: 12

\textsuperscript{138} ‘measures respondents’ answers to questions related to patterns of civic culture and collective norms, such as social ethics, honesty and interpersonal trust, alignment of individual and social goals, and people’s perceptions of tax avoidance, unduly benefit receipt, and so forth’ in Mello De Jr, Luiz R.: 12

\textsuperscript{139} ‘measures the ability of social groups to organize themselves and to engage in collective action in pursuit of common, rather than individual, objectives. It also captures the level and character of political participation within local communities. These measures of organized group behavior are membership in trade unions, sports clubs, mutual aid societies, cultural associations, charities, and political and/or socialwork organizations.’ in Mello De Jr, Luiz R.: 12

\textsuperscript{140} p.11

\textsuperscript{141} Shah 1994 in Huther et al.

\textsuperscript{142} See Martinez-Vazquez, Jorge et al.: 33
improving the job environment and conditions, training and wages, of local government workers.\textsuperscript{143}

Decentralization is assumed to increase public participation in decision making. It is thus ‘believed to help internalize social, economic, developmental and environmental externalities, to better match social services and public decisions to local needs and aspirations; and to increase equity in the use of public resources.’\textsuperscript{144} Political participation can take direct or indirect form. Direct interaction with the state is defined by ‘active population involvement in local decision-making processes such as planning, formulating, and implementing public policy,’\textsuperscript{145} through legally recognized mechanisms. Indirect political participation is understood as the ability to elect representatives to the administration. Public participation can be improved when ‘active citizen participation and constructive interactions between social groups and the government are stimulated.’\textsuperscript{146} In addition, increase in political participation will in turn enhance grassroot accountability that can work against corruption.\textsuperscript{147}

Participation in developing countries differs to modern western image of participation. As mentioned by Rémy Prud’homme,\textsuperscript{148}

\textit{Local elections, when they exist, are usually decided on the basis of personal, tribal, or political party loyalties. People vote for a mayor they know, a member of their group, or a party they like… Finally, even if mayors wanted to satisfy the preferences of the electorate and had enough resources to do so (two heroic assumptions!), it is not clear that they would be able to persuade the local bureaucracy to go along…Local bureaucracies are often unresponsive, they may be poorly motivated and occasionally poorly qualified, and they might have good reasons to pursue their own agenda rather than the agenda of their principal.}

Many studies highlight the importance of public participation when assessing decentralization in terms of local governance. For instance, a study by P. Bardhan cited, amongst others, a successful example of decentralization in Bolivia where public resources shifted massively from the centre to smaller and poorer subnational governments in 1994 as well as from large-scale production to smaller sectors.\textsuperscript{149} After this shift, Faguet\textsuperscript{150} found positive effects on public investment in education, water and sanitation, and investments responded to measures of local needs. Another example highlighted that the costs of implementing (World Bank funded) projects are much higher in more centralized countries as compared to fully decentralized systems.
systems. Also, ‘projects with high participation in project selection and design were much more likely to have the water supply maintained in good condition than would be the case with more centralized decision-making.’

Furthermore, Huther’s study found a ‘high correlation between governance quality and per capita income’ that seems to be running both ways, ‘some components of governance do enhance the likelihood of higher per capita income and higher per capita income does increase the demand for higher quality governance.’

1.7.1. Institutions of Governance

The success of fiscal decentralization is, amongst others, dependent on how developed effective democratic governance institutions are. In addition, E. Dabla-Norris stressed the importance of cooperation between different levels of government as crucial for decentralization to work. In developing countries, representative institutions tend to be very weak, hindering the effectiveness (understood as governance) of fiscal decentralization. However, the causal relationship between governance and fiscal decentralization is difficult to establish. Some theories highlight the fact that fiscal decentralization has complemented existing democratic institutions and encouraged citizen participation in local governance. At the same time, it is also acknowledged in the economics literature that democratic governance is a necessary condition for effective fiscal decentralization. Hence, fiscal decentralization and governance are mutually reinforcing.

In conclusion, decentralization theories seem to focus on similar aspects when highlighting the effects of decentralization. Political participation, accountability, and macroeconomic stability are all cited by authors who describe their effect on fiscal decentralization, whether positive or negative. Empirical studies and the experience from post-communist countries highlight that fiscal decentralization must take account of the legacies of the communist past and primarily build participatory practices as well as suitable rules and institutions. Authors differ on the extent of each, some believe decentralization will increase participation, others claim that participation is a rudimentary requirement for the success of decentralization. In the view of some, decentralization ‘has to accompany serious attempts to change the existing structures of power within communities’ together with increasing participatory practices in a country. This stems from the motivation to make ‘governance at the local level more responsive to the felt needs of the large majority of the population.’ The transparent, well-defined rules and institutions should thus be created in such a manner as to enable and motivate active participation.

151 Bardhan, Pranab.: 199
152 Huther, Jeff et al.: 8
153 Martinez-Vazquez, Jorge et al.
154 Martinez-Vazquez, Jorge et al.,
155 Bardhan, Pranab.: 202
156 Bardhan, Pranab.: 202
1.8. **Conceptual Framework**

Fiscal decentralization is thus dependent on the political, legal, social, and economic stage or reality of a country. In order to assess the success of fiscal decentralization in Albania, the national (legal) environment together with local government capacities and citizen participation were studied. The success of fiscal decentralization is thus put in the national institutional context, local reality (capacity of local governments) and governance. Many theories of fiscal decentralization point out that it has a positive effect on governance and local government capacity, this effect was thus tested through the case study in three communes in Albania.

The research was thus conducted gathering information from two elements; efficiency measured in local government capacity (regarding its budget and financial resources management) and; effectiveness measured through people’s participation. The concept is illustrated in graph 1 below.

**Graph 1: Conceptual Framework**
CHAPTER 4
FISCAL DECENTRALIZATION IN ALBANIA 1998 - 2009
THE NATIONAL SITUATION

1.9. The Institutional Context

1.9.1. Accountability of Local Governments

1.9.1.1. Downward or Upward Accountability?
A crucial and widely discussed element of fiscal decentralization is accountability. As discussed in the theories, in case of deconcentration of power, instead of decentralization, the constituencies are held upwardly accountable. They are thus accountable to the upper levels of government instead of the communities they serve. In order for decentralization to work, subnational governments should be downwardly accountable to their (local) electorate.

To be downwardly accountable, the subnational governments must be representative, that is, they must be ‘systematically downwardly accountable to the population as a whole’ through ‘representative participatory processes.’ Accountability is thus dependent upon ‘what is devolved to whom.’ Accountability can be achieved through free and representative elections. However, elected officials need not be representative to the local community in case, for example, the ‘candidates for local elections can only be chosen by political parties,’ as is the case in many governments in Africa. Ribot enlists mechanisms that could improve downward accountability: legal recourse, separation of powers, polycentricity, balance of powers, third-party monitoring, lobbying, free media, transparency, information provision, public discussions, public reporting, participatory processes, social movements, civic education, discretionary powers for governments, proximity, embeddedness, ideologies, civic dedication, reputation, trust, administrative dependence on local government, taxation, central government oversight,...

To focus on each of the aspects of accountability is unfortunately beyond the scope of this research. The perception of citizens in some of the mechanisms

157 Ribot, Jesse C.: a: 1
158 Ribot, Jesse C.: a: 2
159 Ribot, Jesse C.: a: 10
160 Ribot, Jesse C.: a: 10
is, nevertheless, described in greater detail in Chapter 6. Other theories highlight the need to focus on ‘[i] the existence of elected local council, [ii] locally approved budget, [iii] local governments’ borrowing power, [and the] [iv] capacity of local governments to collect taxes’ when assessing accountability. Downward local government accountability in terms of the process of local government elections is hence described below.

i. Locally elected council:
The councils and mayors are elected democratically every four years (prior to 2006 the elections took place every 3 years) for municipalities and communes. This process was initiated almost immediately after the fall of communism in the early 1990s. The political move towards democracy was initiated in 1992, when the first democratic elections took place. Officially, it was outlined in ‘The National Strategy for Decentralization and Local Autonomy.’ Next to that, Albania set its principles towards the EU requirements by ratifying the European Charter of Local Self-Government and incorporating its core principles into its new Constitution of the Republic of Albania in 1998. Since then, local administrative and fiscal autonomy has improved but remained weak. Additionally, the government passed laws and reforms aimed at decentralization of the local governments. Specifically, the new laws set principles that consolidated political decision for decentralized government structure and at the same time, reduced the state’s direct political influence over the decisions of the local governments. The main principles of decentralization granted ‘autonomy, legality, and cooperation’ for the local governments. Specifically, fiscal decentralization was said to have been the most successful so far but with political and administrative decentralization lacking behind. It has been compared to de-concentration of powers rather than decentralization. The decentralization in Northern Albania was said to have been the least successful one.

ii. Locally approved budget:
Overall, the central authorities moved away from central management policies and started drafting regulations, which empowered local governments in: budgetary issues including accountability of local authorities for expenditures and revenues, uniform regulations for all financial issues such as tax, borrowing, intergovernmental processes. In order to achieve decentralization of local government administrations, the government

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161 Bahl, 1999 in Ebel, Robert D et al.: 5
162 The WB: a
163 Qtd. In ARCOTRASS 50
164 WB: a
165 WB: a
166 The WB: a. 2004: v
167 The WB: a
168 The WB:b. 2004: 7
169 The extension of powers of the central governments instead of the transfer of responsibilities (Nijenhuis, G).
170 Zuercher, D. in Gerdoçi et al. 2007: 17
adapted a national training program and strengthened ‘downstream monitoring and coordination by setting up an independent “National Forum for Decentralization Implementation (NFDI)”171.

From the field research in the case study communes, all the mayors or LG employees confirmed that the local budget is prepared yearly (at the end of the year). Prior to the final decision, village elders organize meetings with the inhabitants of their respective villages and discuss the problems of the village. All the village elders of the commune are then consulted in a meeting with the commune council and the mayor prior to the budget formation. The elders recommend priorities for next year budget representing the needs of each of the villages. The final budget is then approved by the commune council and the mayor.

iii. Local governments’ borrowing power
iv. The capacity of local governments to collect taxes

Both are described in the next chapter.

Regarding local government accountability, the local governments in Albania thus seem to have implemented many required laws and frameworks to improve local accountability. However, whether this represents downward local accountability is represented by perceptions of accountability of local governments (as described by Ribot above) and participation of local community in decision making, described in Chapter 6.

1.9.2. The Effects of Fiscal Decentralization on Macroeconomic Stability, Income Redistribution, and Resource Allocation

1.9.2.1. Macroeconomic Stability: Local Borrowing

Macroeconomic stability is said to be possibly weakened by fiscal decentralization in case local governments are allowed to borrow without limits and when the government bails out local governments that experience fiscal deficits. In Albania, local governments were already in 1993 allowed to make use of investment loans in accordance with law172. The law from 2000173 lists the possibility for communes and municipalities to borrow ‘for local public purposes, in accordance with methods prescribed by law.’ There is a specific ‘Law on Local government borrowing174, that allows local government units to borrow through175

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171 The WB:a. 2004: ix
172 In the law Nr.7776, from 12.22.1993 Law ‘On Local Budget’. 
173 Law Nr.8652, from 07.31.2000, Law on 'The organization and functioning of local government'
174 Law No. 9869, from February 4, 2008, the ‘Law on Local government borrowing.’
- Short-term loans: ‘For cash flow and investment purposes, from the capital market—financial institutions and banks, and, on the domestic and international markets.’
- Long-term loans: ‘For Investment for public purposes; and covering local functions—own, shared (and delegated if necessary)’.

The Ministry of Finance can decline a request for (short-term) loan from a local government. In that case, the mayor can ‘borrow directly from banks’. Limits to what local government can borrow are set to maximum 20% ‘of the average total actual revenues of the local government from the unconditional transfer, shared taxes, and local taxes and fees of the previous three fiscal years’ (in the case of short-term debt this is 10%).

The latest (instruction) law on local budget from 2010 sets ‘procedures and deadlines for the 2011-2013 medium-term budgeting’. The possibility for ‘other income’ for local governments is mentioned, amongst others, to be derived from ‘Investment fund from foreign sources based on agreements and contracts related to donors or different banks (loans)’.

The laws impose limits to local government borrowing. In the case of Albania, decentralization should thus in theory not pose great threats to macroeconomic stability as a result of over spending thanks to the enlisted restrictions. It is questionable whether the limits are reasonable considering that the local governments in Albania continue facing decreasing population and with it lower tax base in majority of its rural regions. This may lead to either overspending by local governments that will end up unable to repay loans or; the investments made in local communities may broaden services offered to the local population who might in turn be motivated to pay for local services (being able to see the benefits and results immediately). Local governments in Albania face additional human resource issues (especially in rural areas). This can lead to excessive local spending and borrowing. However, limiting local government borrowing powers may in turn be used for political gain.

1.9.2.2. Macroeconomic Stability: Checks and Balances

Due to limited human as well as financial resources, local governments do not benefit from economies of scale in comparison to central government bodies. Excessive spending or spillover effects can thus be amongst the negative consequences of fiscal decentralization. Furthermore, if local governments are

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178 INSTRUCTION No.7 / 1, dated 22.02 2010, ‘Government for budget preparation.’ In accordance with the law nr.9936, from 26.06.2008, Section 24, “On the budget management system in the Republic of Albania”, Minister of Finance
179 INSTRUCTION No.7 / 1, dated 22.02 2010, ‘Government for budget preparation.’ In accordance with the law nr.9936, from 26.06.2008, Section 24, “On the budget management system in the Republic of Albania”, Minister of Finance
180 Economic externalities on those not directly targeted by a service
allowed ‘too much’ freedom, they might interfere with greater national interests such as the free flow of commerce. Too much freedom could also run counteractive to regional equality within the country that requires central coordination. In case of regional organization, the Albanian Government introduced new level of government – the region as one of the EU entry requirements.

Based on the ‘principles of the European Charter of Local Self-government’, the Parliament of Albania approved the law ‘On the Organization and Functioning of Local Governments’ that, amongst others, set ‘the jurisdiction of councils and chairs of the local units’. The functions of a region are to build and implement regional policies and to harmonize them with government policies on the regional level. The law on ‘The organization and functioning of local government’ from 2000 outlines that regions shall perform delegated functions by communes and municipalities on their behalf and upon their agreement.

Regional governments are expected to equalize the imbalances within a region. However, from the field research became apparent that there were complaints by the regions of limits to their functioning due to insufficient funds as well as limits to their authority over the communes and municipalities. As the law from 2000 highlights, regions have authority over communes and municipalities only when communes and municipalities delegate such functions to the regional governments.

1.9.2.3. Macroeconomic Stability: Fiscal Imbalances, Income Redistribution, and Resource Allocation

Many post-communist countries experienced immediate fiscal imbalances as they progressed from planned to market economy. The initial years of transition were marked by structural losses of revenues and high inflation. Fiscal imbalances can be equalized through government transfers. As discussed in the previous sections, for local and regional governments to be able to effectively deal with fiscal imbalances (e.g. the mismatch between national policy and the financial needs of locality due to regional income differences), government must provide unconditional intergovernmental transfers. These must be predictable and based on a formula rather than political processes. The World Bank study highlighted in 2003 that:

Since the early 1990s, these mechanisms have evolved from an almost exclusively earmarked system of conditional grants (where local governments essentially performed the role of agents for the central government in the delivery of local public services) towards a mixed system of "conditional" and "unconditional" transfers... The
“conditional grants” mechanism still keeps its old features of being non-transparent, being unpredictable and depending basically on the bargaining powers of local authorities and the line ministries. The "unconditional grants" mechanism was initiated with a provisional formula for distribution based on differential local needs and is still evolving towards a true equalization transfer. Nevertheless, the size of the unconditional grant is neither transparent nor predictable: rather, it is an ad hoc amount resulting from purely bureaucratic and political bargaining without any technical rationale behind it.

The instruction No.7/1 from 22 February 2010 added additional rules to the formula for governmental (unconditional as well as conditional) transfers that seem to make the transfers more predictable and transparent, in theory.

The government thus maintains the power to redistribute national wealth, to equalize regional differences and hence redistribute income through the conditional and unconditional governmental transfers. The transfers are based on variables such as the number of population, location of the region (rural or urban, mountains or city), or income of the local population. Decentralization can thus work in Albania as long as wealth is redistributed in an equalizing, transparent, and predictable manner. The latest law in Albania seems to outline a move in the right direction as long as it maintains its technical (bureaucratic), and avoids political influences.

1.10. **FISCAL AUTONOMY**

The success of decentralization of a country can be measured by many economic and social factors. Amongst the gross economic measures is fiscal autonomy. It measures the level of local governments’ dependency on central government, specifically, the extent to which local governments are dependent of central government grants\(^{187}\).

Fiscal autonomy\(^{188}\) in Albania was very low until 2001 when the central government distributed only 5% of the total state budget to the local governments. Majority of this transfer took the form of conditioned transfers (only 16% were semi-conditioned). Fiscal autonomy in Albania from 2002-2005 was also low (only 10%)\(^{189}\). The level of decentralization decreased further to 6% in 2007 and was only 8% in 2009\(^{190}\). The local governments in Albania thus continue having only a small portion of the national budget. This implies that the central government in Albania continues to have the greatest power (in terms of monetary revenues that give the government power over

\(^{187}\) Muhumuza, W. 2008: 69-70

\(^{188}\) Calculated as the percentage of the total amount distributed to all local governments from the total state budget. Generally accepted formula is that 0-10% is considered as low level of decentralization, 10-20% moderate and above 20% is considered as high-level of decentralization.

\(^{189}\) Hoxha, A. in Gerdoçi et al. 2007: 3

\(^{190}\) Ministery of Finance 2010.
expenditure decisions) and allows localities little freedom to allocate resources. In comparison to other post-communist countries where the level of decentralization was on average 25% in 2001, Albania’s level of decentralization can be considered very low\textsuperscript{191}.

Artan Hoxha studied the level of decentralization through another measure, calculating the share of all resources that local government has full authority of spending (through so called net discretionary revenue index). Mr. Hoxha reported that in 2000, municipalities and communes had full authority over 4.3% of their resources, which increased to 45% in 2005\textsuperscript{192}. However, as Mr. Hoxha points out there are great regional disparities with small communes as the most disadvantaged.

The two measures thus highlight that local governments receive, albeit very slowly, larger share of national revenues and that their autonomy to decide what to spend the resources on is increasing. However, during the field research most of the LG employees complained that after paying for administrative costs, salaries, and distributing the social aid, they had no revenues left to be able to invest back into the community.

1.10.1. The Fiscal Freedom of the Case Study Communes

Communes access revenues from two sources: the state (grant) and the local revenues (taxes and fees). Fiscal autonomy highlights the dependency of the local government on the central government. To show how much freedom LG has in deciding where to spend the money available to them from the government, the net discretionary revenue index was calculated (for simplicity further referred to as fiscal freedom). In Tirana and other big cities with larger economic activity the fiscal freedom is around 60 – 70 % whilst small communes and municipalities are largely below the national average. As Mr. Artan Hoxha specified, fiscal freedom is measured in net discretionary revenue index:

“... the percentage of total revenues of all types of sources over which municipalities/communes have full discretionary authority of spending”\textsuperscript{193}.

The fiscal freedom for the case study communes was hence calculated as all revenues- except the conditional grant – as a share of the total revenue. Unfortunately, the communes did not register their revenues specifically for conditional and unconditional grants separately but registered them under one item in their budget. Therefore, the fiscal autonomy was calculated based on data gathered from the MoF. As mentioned previously, the data sent to the researchers by the MoF were inconsistent with the data found in the budgets of the case study LGs. In

\textsuperscript{191} Dabla-Norris, Era
\textsuperscript{192} Hoxha, A. in Gerdoçi et al. 2007: 3
\textsuperscript{193} Hoxha, A. in Gerdoci et al.2007: 3
addition, the MoF sent different data each time thus their accuracy is questionable. The average national net fiscal freedom of local governments was 46% in the years 2002-2005 and increased to 60% between 2006-2009. The fiscal freedom for each of the communes studied, based on the information from the MoF (provided June 2010) is represented in the table 1 below.

Table 1: Fiscal Freedom of the communes

<table>
<thead>
<tr>
<th>Year</th>
<th>Vithkuq commune</th>
<th>Shkrel Commune</th>
<th>Shala Commune</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>87%</td>
<td>73%</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>48%</td>
<td>90%</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>79%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>86%</td>
<td>57%</td>
<td>97%</td>
</tr>
<tr>
<td>2009</td>
<td>70%</td>
<td>100%</td>
<td>94%</td>
</tr>
</tbody>
</table>

Note: Calculated as all the revenues of the commune (local and national) excluding the conditional grant as a share of the total revenue.
Source: MoF.

The data was taken by the MoF with the help of director of finance Mr. Frani Brahimi and the director of treasury Mr. Eduard Ypi at the Treasury office. The results highlight that in general there is an increase of fiscal freedom for the communes. Only in Vithkuq it decreased by 16%. However, due to the disparities in the data sent by the MoF (highlighted in Appendix D) it cannot be taken seriously. The accuracy of this data is further disputable considering the fact that according to this data, the fiscal freedom of the case study communes is on average higher than the national average for fiscal freedom (which was less than 60% for all they years of interest to this study). Furthermore, as pointed out earlier, this measure does not tell much about the actual freedom the local governments have in deciding what to spend their money on. After paying for the legally required services, fees, and salaries they have no more money left for other activities or services. In case they aspire to provide further services, they can apply for the competitive grant (now called regional development fund). However, the LG employees stated that even the competitive grants were distributed based on the preferences of the national government. For example in Vithkuq, a new road was built recently. The LG employees claimed that the national government policy was to build more roads and it thus provided the required grant necessary for the project. As Vithkuq has a great tourist potential, the government further supported the area with other projects (electricity and lighting) that was financed by the competitive grant. In the North in Shkrel commune, a new road was also recently built as part of the government program (through the conditional grant) and as in the case of Vithkuq, the local government had no influence over this decision. Shkrel commune was surprisingly renovated, well furnished, and had new computers available. The researchers were told that thanks to the fact that the mayor had good contacts in the government then in power (the

194 Hoxha, A. Correspondence in May 2010.
Democratic Party) he was able to receive funds for the commune renovation.
1.11. Revenue Collection

Local governments can derive revenues from a mix of local sources, through taxes or service fees, and in the form of grants from the central government. In Albania, the income of local government is formed by:

**Taxes:**
- Share of the national tax revenue
- Income tax on property
- Local tax revenues
- Services and fees
- Income from economic activities
- Interest income from assets

**Grants:**
- Unconditional Grant
- Conditional Grant
- Competitive Grant

**Other:**
- Donations, investments
- Loans

Note: Grants depend on: Population, area of the commune, geographic position and the needs of the commune.; Competitive grants are since 2011 called Regional Development Grant.

Despite revenues from the income mentioned above, LG representatives from the case study communes complained that their resources have been insufficient for the provision of functions and competencies transferred to them by the central government. Local governments were thence analyzed based on the efficiency of their fiscal power given the resources available to them.

1.11.1. Intergovernmental Transfers

The revenues that local governments receive from the central government are

1) unconditioned transfer (based on a formula first used in 2002 State Budget and based on ‘equal funds per capita’ including ‘fairness criterion, mountainous local units and units in need criterion’);

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195 Ministry of Interior, 2006: 29
2) conditioned transfer from the central government (‘to achieve the national or regional objectives at local level\textsuperscript{197} and are ‘used solely for the purpose for which they were given in accordance with rules set by central government\textsuperscript{198}). The conditional transfer is given to finance solely the delegated and shared functions transferred from specific ministries and institutions for delegate purposes\textsuperscript{199}.

3) and competitive grant (this grant was initiated in 2006) awarded by ministries ‘based on a competitive system\textsuperscript{200’}. This grant was in 2010 renamed to Regional Development Grant. The allocation of the competitive grant is perceived by local government representatives as unfair and not transparent, according to the Institute for Democracy and Mediation\textsuperscript{201}.

Mr. Hoxha stated that the formula for distribution of the unconditional grant ‘excludes any impact from party affiliation\textsuperscript{202}. Thus according to him, the formula that was in place was free of political interests as it outlined criteria for equal distribution of state grant to its local constituencies. Nevertheless, from the research it became apparent that the local population was largely of the opinion that state grants remain to be politically biased. Specifically, the competitive grant (now called Regional Development fund) was viewed as biased (i.e. those communes whose mayors were from the same party as the then ruling party were more likely to receive the competitive grant). Nevertheless, in the case of the unconditional grant, the formula is based on factors such as the number of population and thus remains among the more constant and less likely to be influenced by political preferences. For a list of laws governing the grants available to the local governments from 1998 onwards, see Appendix C.

\textsuperscript{196} The formula is described in LAW No. 10 025 of 27 November 2008 is ‘the criteria and coefficients based on population, area, type of local government (commune), urban services, fiscal equalization (income per capita across LGs), Transition adjustment (supplementing minimal income per capita, negative or positive effects of transition ), and geographical indication (plains-hill-mountain).’ It is also aimed to equalize the revenues across communes and municipalities and to improve their opportunities to generate income (Article 17 of the Law 8652 on ‘The organization and functioning of local government’ from 2000). The formula also takes into consideration objective criteria regarding ‘the local services’ costs and providing for a level of equality to support the poorest local government units’ (MoF 2006:14).

\textsuperscript{197} MoI, 2006: 31.

\textsuperscript{198} Law nr. 8652, from 31.7.2000, on ‘The organization and functioning of local government.’ Section V, Article 19

\textsuperscript{199} Instruction Nr.4, from 17.1.2008, for ‘The Implementation of the State Budget for Year 2008.’ Article 83. The delegated functions include: expenses for social protection for economic aid and disability payments (financed by the Ministry of Labour Social Affairs and Equal Opportunities, article 69); Expenses for social care services (e.g. social care centers funded by Ministry of Labour and Social Affairs and Equal Opportunities, article 70); Expenses for central government duties which are not included in the local budget (Costs for the service registry, Expenditures for land administration departments at district, and Costs for the secretaries of Deputies, article 71). The Shared functions include: Education (financed by the Ministry of Education, including: Operation and maintenance of facilities to pre-university education, Investment, in article 72); Health investments (financed by the Ministry of Healthcare, article 72)

\textsuperscript{200} SNV, October 2007.

\textsuperscript{201} 2008

\textsuperscript{202} Hoxha, A. in Gazeta Shqip, 2009.
1.11.2. Local Revenue Distribution: Taxes and Fees

As described by theory, taxes should be evenly distributed across localities to prevent large population and business movements across the country. This is assured by the fact that taxes are set nationally allowing local governments to adjust locally collected taxes to 30% above or below the nationally set rates since 2003 (flexible indicative tax rates were introduced in 1998, the rate was then +/-20%203).

The study takes the year 1998 as the base year in which indicative tax rates were introduced. The flexibility (in setting taxes locally +/- 20% since 1998, and +/- 30% since 2003) is in theory expected to lead to a more efficient allocation of resources. The year 2003 is thus set as another base year due to the 10% increase in flexibility in the indicative tax rate. Locally generated revenues are thus expected to have been changing (both since 1998 and since 2003) depending on the needs in each of the case study localities. Indeed local government revenues have been increasing in nominal terms in Albania since 1998 as is illustrated in table 2 below, based on data acquired from the field research as well as the MoF and a national study by A.Hoxha.

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203 Hoxha, A. In Gerdoci et al. 2007
Table 2: Cumulative increase in locally generated revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>National Data</th>
<th>Vithkuq Data</th>
<th>Shkrel Data</th>
<th>Shala Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>100%</td>
<td>100%</td>
<td>0%</td>
<td>100%</td>
</tr>
<tr>
<td>2000</td>
<td>247%</td>
<td>151%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>457%</td>
<td>28%</td>
<td>1134%</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>2005</td>
<td>135%</td>
<td>131%</td>
<td>66%</td>
<td>168%</td>
</tr>
<tr>
<td>2007</td>
<td>135%</td>
<td>162%</td>
<td>1690%</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>181%</td>
<td>127%</td>
<td>130%</td>
<td></td>
</tr>
</tbody>
</table>

Source of the national data: Hoxha, A. In Gerdoci et al. 4, table 2.
Source of the local data: commune budgets, except for Shala data that were acquired from the Ministry of Finance

All locally generated revenues come from locally collected taxes and fees. As highlighted in the table 2 above, the revenue collection in nominal terms has been increasing both nationally, as well as in each of the case study communes in the years of interest. Local governments in Albania started collecting local taxes and fees only recently, as part of the process of decentralization and democratization. The field research highlighted that the knowledge of best practices, means of collection, capacities of LG employees, and other requirements for efficient revenue collection are thus to date limited. Furthermore, due to land ownership disputes across the whole country, the population is reluctant to pay for taxes for land of which rights to ownership are unclear. Local governments are, however, able to collect taxes from for example trash collection, business registration, or other services they provide.

In some communes, the revenues have decreased due to large population movements (see Vithkuq 2002 in the table 2 above), others implemented taxes and fees for the first time (as illustrated by the increase of locally generated revenues in Shkrel in 2002 in the table 2 above), or decreased their potential revenue by setting taxes and fees to the lowest allowed levels, i.e. 30% below the nationally set rates as happened in Shkrel (as illustrated by Shkrel in 2005 in the table 2 above). Both, the national as well as local data highlight that overall, locally generated revenues in communes in Albania are increasing. Nevertheless, collection levels as a share of the total budget continue to be low due to tax evasion, property disputes, lack of infrastructure, capacities, etc.

1.11.3. Local Budget Structure

The local budget structure is represented in the graph 2 below. It highlights locally collected revenues as a share of the total budget.
In all of the studied communes, the field research revealed that the national grant continues to form almost the entire budget, although locally generated revenues are slowly increasing as a share of the total budget. Due to the larger flexibility in locally set tax rates (+/- 30%) allowed by the implementation of the law of 2002, greater changes in locally collected revenues should have been visible. The law had an obvious effect only in Vithkuq commune where locally generated revenues as a share of the total budget continue increasing since 2003. The increase could be accounted for by the fact that the population in Vithkuq commune is said to be richer than in the northern parts. The population interviewed claimed that the Korça population is richer partly due to the location of Korça region on a trade route between Greece and Macedonia, the fact that it has been a popular tourist destination in the country, and as large part of the youth that comes from Korça works abroad and sends remittances home. Due to its potential as a tourist destination, the perception of the people interviewed during the research was that the central government has been more willing to invest in the Korça region in general. In addition, Korça region used to be the preferred region for central government support during the communist

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204 Law on 'Local Taxes’ / 'Per Sistemimin e taxave vendore' no.8982 from 12.12.s2002
regime (a claim confirmed by inhabitants of Korça as well as the rest of the studied population).

Moreover, locally generated revenues are often directly connected to the services provided in a locality. More services offered by the local government will thus require as well as motivate the local population to pay for such services. Broadening the tax base is thus directly dependent on the products and services offered. These are in turn dependent not only on local fee collection, but largely on the ability of local governments to provide locally required services. To illustrate, from the Vithkuq budget it became apparent that in Vithkuq commune, the mayor was able to receive competitive grant to build much needed road to the village and install sanitation facilities (over 9,000,000 Lek ~ €62,000 in 2007 and 35,000,000 Lek ~ €243,000 in 2009). The budgets of the remaining two communes did not mention competitive grant.

The population saw the improvements and was able to benefit from it directly. Such direct benefit motivated paying population (people on social aid are not required to pay local taxes as they are subtracted from their social aid automatically) to pay additional road and sanitation taxes. This illustrates that national grants in combination with the flexibility for taxes determine a successful and increasing local revenue collection. Generally in Albania, for approximately 1/3 of communes, own revenue (taxes and fees) constitutes only 0-10% of their total revenues. Next to that, ¼ of all communes in Albania have no income from the locally generated sources at all\textsuperscript{205}. In comparison to most transition countries ten years after the fall of communism, only the most advanced reformers had the control over 33-40\% of their own revenue\textsuperscript{206}.

1.11.4. Local Revenue ‘Per capita’

To be able to analyze the efficiency of local revenue collection by each of the communes, locally generated revenues, all extracted from the budget made available from the field research, were represented relative to the population in a commune. Specifically, the revenue was divided by number of families living in each of the communes creating ‘locally generated revenues per family ratio’ represented in table 3. This table highlights differences in each of the commune’s effectiveness of collection per family.

\textsuperscript{205} MoI, 2006: 24
\textsuperscript{206} Czech Republic, the Slovak Republic, Hungary, and Poland. See Dabla-Norris, Era.
Table 3: Effectiveness of local revenue collection

<table>
<thead>
<tr>
<th></th>
<th>Population in the commune (families)</th>
<th>Yearly Grant from nat.gov. ('000 Lek)</th>
<th>Competitive Grant</th>
<th>Locally generated revenues ('000 Lek)</th>
<th>Locally generated revenues per family (lek/family ratio)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vithkuq</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>1050</td>
<td>17308</td>
<td>530</td>
<td>505</td>
<td>100%</td>
</tr>
<tr>
<td>2000</td>
<td>1014</td>
<td>20190</td>
<td>800</td>
<td>789</td>
<td>156%</td>
</tr>
<tr>
<td>2002</td>
<td>946</td>
<td>20593</td>
<td>150</td>
<td>159</td>
<td>20%</td>
</tr>
<tr>
<td>2003</td>
<td>793</td>
<td>21638</td>
<td>1530</td>
<td>1929</td>
<td>1213%</td>
</tr>
<tr>
<td>2005</td>
<td>752</td>
<td>21688</td>
<td>2000</td>
<td>2660</td>
<td>138%</td>
</tr>
<tr>
<td>2007</td>
<td>742</td>
<td>14959</td>
<td>9185</td>
<td>2070</td>
<td>104%</td>
</tr>
<tr>
<td>2009</td>
<td>691</td>
<td>16607</td>
<td>35000</td>
<td>2770</td>
<td>145%</td>
</tr>
<tr>
<td><strong>Shkrel</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>6710</td>
<td>45362</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>6659</td>
<td>49020</td>
<td>97</td>
<td>15</td>
<td>100%</td>
</tr>
<tr>
<td>2002</td>
<td>6442</td>
<td>61050</td>
<td>1100</td>
<td>171</td>
<td>1140%</td>
</tr>
<tr>
<td>2003</td>
<td>6441</td>
<td>71700</td>
<td>1053</td>
<td>163</td>
<td>95%</td>
</tr>
<tr>
<td>2005</td>
<td>5798</td>
<td>74323</td>
<td>697</td>
<td>120</td>
<td>74%</td>
</tr>
<tr>
<td>2007</td>
<td>6015</td>
<td>106622</td>
<td>1708</td>
<td>284</td>
<td>237%</td>
</tr>
<tr>
<td>2009</td>
<td>6036</td>
<td>112703</td>
<td>19991</td>
<td>2837</td>
<td>165%</td>
</tr>
<tr>
<td><strong>Shala</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998</td>
<td>1794</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>1970</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>2049</td>
<td>7828</td>
<td>71</td>
<td>35</td>
<td>100%</td>
</tr>
<tr>
<td>2003</td>
<td>2071</td>
<td>7800</td>
<td>25</td>
<td>12</td>
<td>34%</td>
</tr>
<tr>
<td>2005</td>
<td>1785</td>
<td>9505</td>
<td>42</td>
<td>24</td>
<td>200%</td>
</tr>
<tr>
<td>2007</td>
<td>1740</td>
<td>19279</td>
<td>710</td>
<td>408</td>
<td>1700%</td>
</tr>
<tr>
<td>2009</td>
<td>1693</td>
<td>21002</td>
<td>920</td>
<td>543</td>
<td>133%</td>
</tr>
</tbody>
</table>

Generally, locally generated revenues per capita (family) have been increasing since 1998. To account inflation possibly affecting the increase in revenues the inflation rate is included (based on purchasing power parity index from the IMF compared to the same values from the previous year)\(^207\):

- 20% in 1998
- +/- 1% in 1999 & 2000
- 4% in 2001
- 5% in 2002
- Around 3% from 2003 – 2009

As the information in the table highlights, the changes in the revenue collection efficiency are quite random, that is to say, increasing and decreasing with little steady progress changing rapidly from one year to another.

However, some communes are more successful in the effectiveness of revenue collection than others. Vithkuq is an illustrative success case as the locally generated revenue per capita (family) increased in the past 10 years.

\(^207\) From Trading Economics.
despite large population exodus. As stated before, Vithkuq commune provides more services and is therefore able to charge fees and taxes for them (e.g. fee for street lighting, fee for drinking water with meter, certificate fees for transportation that are all not charged in the other two study communes). In addition, the commune charges higher fees, taxes, and tariffs than the other two communes. Specifically, the Property Tax for Business is 46% higher than in Shkrel; the agriculture land tax is at least 15% higher than in Shkrel; tax for advertisement banner is 50% higher than in Shkrel; and administrative service fee is 10% higher than in Shkrel. Specifically in Shkrel, most of the villagers do not pay fee for drinking water with meter. The only people paying for water services are those for which the water supply was installed in their locality. For example in one of the villages in Shkrel commune, Bogaj, only half of the village was paying the fee as only that half was provided the services. In Shala, according to the information provided by the Prefect\textsuperscript{208}, the commune was in 2005 collecting taxes only for the vehicle registration. There is no land tax charged and people refused to pay it because they were in land disputes with the government. People were also not charged for water because there was no water supply. In 2007, the Shala commune collected only automobile registration tax and other taxes.

The provided data thus support the theory that in order for local population to be motivated to pay for local taxes they should be accountable to the taxpayers so that they know what the tax liabilities represent in reality. As the perception of corruption in Albania is generally very high (see reports by Transparency International), the population needs to see that their money are not put in peoples pockets but to the benefit of the local population paying for the services. Furthermore, as the theory suggests, local taxes should be easy to administer and the local population should have relevant information easily accessible in an understanding manner.

1.12. Expenditure Decisions

1.12.1. Capital Expenditure

Another measure of local government effectiveness in revenue expenditure is the analysis of capital expenditure. It represents the money that the local government spends on long term investments (as opposed to operational costs\textsuperscript{209}). The Ministry of Interior (MoI) stated that local governments are

\textsuperscript{208} The Prefect is one of the main institutions granted concrete responsibilities for the coordination of local government with central institutions at local level. Acting as a direct representative of the Council of Ministers in the region and being the only central government administrative institution verifying the legitimacy of local government acts (at the municipal/communal and region level). \textsuperscript{208} SOROS, 2008.

\textsuperscript{209} Overhead costs are all costs that an organization uses on its own operations. The contemporary focus on organization efficiency tends to regard overhead costs as negative. However, in Albania, as in many developing countries, local governments tend to have little financial resources available to run it self. This can further de-motivate skilled people from working in local governments. Overhead costs are thus in this case not seen as negative per se, rather to show the current situation and the ratio between long-term investments and such costs. Furthermore, services such as trash collection can be included in overhead costs. Such expenditures are thus serving the community.
generally ineffective in their use of financial resources (or lack thereof). Specifically, most (72%) of the communes spent almost half (over 40%) of their budget on administrative expenses and 33% spent most of their budget (80%) for administration in 2006\textsuperscript{210}. The capital expenditure for each of the communes studied compared to the national capital expenditure is represented in the table 4 below.

### Table 4: Capital Expenditure as a share of total budget expenditure

<table>
<thead>
<tr>
<th>Source</th>
<th>National</th>
<th>Vithkuq</th>
<th>Shkrel</th>
<th>Shala</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>15 %</td>
<td>0</td>
<td>1.9%</td>
<td></td>
</tr>
<tr>
<td>2000</td>
<td>22.8%</td>
<td>3.3%</td>
<td>2.8%</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>4.7%</td>
<td>12%</td>
<td>6.8%</td>
<td>31%</td>
</tr>
<tr>
<td>2003</td>
<td>23.5%</td>
<td>7.1%</td>
<td>11%</td>
<td>18.7%</td>
</tr>
<tr>
<td>2005</td>
<td>33%</td>
<td>10.2%</td>
<td>16%</td>
<td>7.7%</td>
</tr>
<tr>
<td>2007</td>
<td>32.5%</td>
<td>21%</td>
<td>24.7%</td>
<td>53%</td>
</tr>
<tr>
<td>2009</td>
<td>47%\textsuperscript{211}</td>
<td>39.9%</td>
<td>61%</td>
<td>35.7%</td>
</tr>
</tbody>
</table>

Source National data: Hoxha, A. In Gerdoci et al. 6, table 4.; Source Vithkuq and Shkrel data: budget information from the communes; Source Shala data: MoF

The capital expenditure is calculated as the total amount of money used for long term investments shown as a share of the total expenditures (excluding social aid from capital expenditure and including it in the total expenditure). This illustrates how much money the LG invests in the community in contrast to expenditures on its own administration. In all the case study communes, there is an increase in capital expenditure over time (see the table 4 above), slowly converging with the national average. The measure of capital expenditure, however, also includes all transfers from the government. It thus says more about the general increase in investments in local areas, rather than about the powers of local governments in decision making (i.e. about decentralization).

In addition, there is an interesting disparity between capital expenditure depending on the source of information. From the data supplied by the MoF it appears that capital expenditure is on average much higher than from the data supplied by the communes them selves. This puts the reliability of the data into question. In addition, the MoF it self sent in data that were different from each other, despite the fact that same person sent them to the researchers. As the researchers requested more detailed data, the MoF seemed to add them in. This, however, changed total amounts that the case study LGs apparently received. The researchers were advised by SNV staff to consider the locally collected data as more reliable. As the EU as well as the citizens of Albania rely on data provided by the government the issue is rather worrying. See Appendix D for differences in data supplied by the MoF.

1.12.2. Efficiency: Operating versus Investment

\textsuperscript{210} MoI, 2006: 24
\textsuperscript{211} Progress of fiscal decentralization, from A. Hoxha based on data for 2006-2009
Expenditures

The expenditures of each of the communes can be further broken down to highlight:

- personnel expenses / overhead (including wages and health insurance of LG employees)
- operative expenses (including welfare assistance and recurrent costs such as road maintenance, office supplies, etc) and
- investments (including all long term investments in new tangible assets).

For the exact break-down of expenditures of each of the communes (data supplied by the MoF) see Appendix D. In general, the percentage of investments as compared to the other costs has been increasing, highlighting better **efficiency in the use of revenue sources**. For example in Vithkuq commune, personnel expenses were 60% and investments only 12% in 2002. Compared with year 2009, investments increased to constitute 61% of the total expenditures whilst personnel costs increased to constitute only 19% of the budget. This is similar across all three communes, which means that the general increase in investments has been much higher than the increase in expenditures on staff, highlighting more efficient allocation of resources.

Next to that, the data supplied by Mrs. Sabina Ymeri (from the ISB institute) show that the communes spent their money mainly on items related to direct service delivery (which includes social aid) with the exception of Vithkuq that spent half or more than half of their revenues on general public services in 2005 (see graph 3 below).

- Direct service delivery (DSD) includes expenditure on education, healthcare, social aid/welfare assistance, and other services such as road maintenance;
- The general public services (Ge. Admin) include mainly wages of LG employees.
The graph thus highlights that most of the communes’ finances were spent on social aid (which is conditional by central government and is only distributed by the local government) and other direct services and investments. The only exception is Vithuq, which spent most of their expenditures on general administration/overhead (which covers mainly salaries of employees in the years 2002, 2003, and 2005). This data thus shows that the case study local governments are increasing their expenditure on the population they are serving (through the increase of expenditure on direct service delivery (DSD), rather then on own administration). However, the DSD is largely formed by social aid thus the data show that most money the governments distributes back to the community is through social aid rather than other (investment) services.

In general, the communes studied are spending more money on investments in the community and this increases over time. However, these investments are covered largely by national grants and distributed in the form of social aid. Most of the population interviewed in the villages stated they required more social aid from the LG, whilst the LG employees complained that the population was reluctant to pay local taxes.
1.13. Governance and Participation

Fiscal decentralization is said to have effects on governance and participation. Specifically, it is about empowering people to participate in the decisions that affect them. People are expected to be more likely to participate as long as those representing their wishes and preferences (politicians) are democratically elected, held downwardly accountable, and have the powers over the required resources to do so.

There are numerous requirements for decentralization to occur smoothly: its incorporation into constitution, national laws (that assure the extent and quality of citizen participation as well as resources for local governments and their fiscal responsibilities), administrative procedures (legislation and institutions as well as appeal mechanisms such as ombudsman), and freedom of information (access to government held or generated information which should be publicly available – e.g. policies, budgets)\(^{212}\). Furthermore, voice mechanism (‘to incorporate citizen voice into budgeting and policy making\(^{213}\)’) must pay attention to procedural details (who, what, where, why, and how can participate).

Moreover, the MoI highlighted that ‘qualitative measurement of citizen perceptions about the local government’ was maybe the most important component of monitoring process\(^{214}\). Next to that,

... local government bodies should increase transparency towards the community regarding the collection and use of public funds. In the framework of better governance, the participation of communities should increase in terms if determining the priorities for public services and investments. The fiscal packages of local taxes and tariffs should be consulted with the business groups and other stakeholders. All the periodical and annual financial reports should be published and the public should be periodically informed on the public works of the LG units.\(^{215}\)

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\(^{214}\) MoI: 2006: 42
\(^{215}\) MoI: 2006: 32
Transparency and citizen participation is helpful in slowly decreasing the
culture of corruption\textsuperscript{216}. In order for Albania to move towards such
participation and transparency and incorporation of local stakeholder
interests, its institutions must increase its downward accountability (to the
local population) as well as improve the trust (of the local population and the
national government) in the management of resources and powers.\textsuperscript{217}

To summarize, active citizen participation requires that decentralization and
participation is assured through:
- national laws
- administrative procedures (participation-friendly)
- voice mechanisms
- powers of local actors
- (downward) accountability relations of local actors

To study the participation of local community in decision-making, and with it
the effectiveness of fiscal decentralization in changing participatory
behaviour, the local population of the case study communes was interviewed.
The effect of fiscal decentralization on governance is assessed based on the
extent of their (active) citizen participation.

\textbf{1.13.1. Stakeholders and Basic information}

The sample population was based on a random sample but also included
selected representatives of different interest groups (entrepreneurs,
associations). The number of people interviewed and their employment per
village is listed in table 5 below. The majority of the people interviewed were
engaged in informal employment (housewife, farmer, Sheppard, or
unemployed).

\textbf{Table 5: Stakeholder Employment}

<table>
<thead>
<tr>
<th>Vithkuq</th>
<th>Lubonja</th>
<th>Dedaj</th>
<th>Bogaj</th>
<th>Gimaj</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government employee</td>
<td>3</td>
<td>6</td>
<td>5</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Self employed</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Informal Employment</td>
<td>10</td>
<td>8</td>
<td>7</td>
<td>12</td>
<td>5</td>
</tr>
<tr>
<td>Association</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>\textbf{Total}</td>
<td>\textbf{20}</td>
<td>\textbf{16}</td>
<td>\textbf{16}</td>
<td>\textbf{15}</td>
<td>\textbf{6}</td>
</tr>
</tbody>
</table>

Note: numbers represent number of people. Informal employment in this case
accounts for all people employed as farmers, housewifes, or sheppards. It thus
accounts for all those that do not receive a salary.

Interviews were conducted in total with 73 people from the case study
villages, of which more than half were men (in all villages, there were more
interviews conducted with men, only in Vithkuq more interviews were
conducted with women). Most people were interviewed in the commune of
Vithkuq (villages Vithkuq and Lubonja), followed by Shkrel. Next to that, the

\textsuperscript{216} Glaser, M. 2007: 124
\textsuperscript{217} Ribot, Jesse C. 2001, b.
The majority of the interviewed were parents, followed by grandparents, adults without children and youth. Most of the sample population were informally employed (either as housewives, farmers, or shepards). Only in Vithkuq, the majority of the people went on holidays highlighting the better economic standing as well as opportunities to go abroad (especially to visit children working abroad). In Vithkuq many people were also engaged in civil activities or organizations such as a local female handicraft group. This group was engaged in making carpets in the traditional way. One representative of this group was also proud to say that she represented the group view at the LG meetings. Another such group was a bee hive keeping association in the more remote village of Vithkuq (Lubonja) where the male representative was very proud to state they have been able to access central government subsidy for training and access of further market. In the other case study villages in the north in Shodra, there were no comparable active self-organized groups.

The majority of the sample population had health insurance and paid taxes except for Gimaj. For detailed information see table 6 below. Gimaj village was the most difficult to access. It took about five hours to come from the nearest city (Shkodra) to the village. It was a mountain road that was not asphalted but covered in stones that the old-aged and half broken Mercedes mini-bus running once a day (unexpectedly for the researchers) managed to travel on (see illustration On the way to Gimaj). The access to the village by car from the Shalë commune continues to be a struggle also at the end of winter as the snow starts melting and brings with it massive unexpected water flows that cross what should have been a road (see the water road image).

The access to the village improved slightly two years
ago when a bridge was built to connect the village to the commune. Prior to that, nobody was able to leave or access the village in winter during which it was cut off for a couple of months. In Gimaj, the local population was not used to receive any services (such as water, sanitation, or lighting) and nobody in the village was hence used to pay any taxes. Gimaj residents also stated quite often that they did not need any LG services since they had enough natural water supply, used the old-style toilet (a wooden shed with a whole in a wooden plank), and tapped electricity illegally (a fact not stated out loud by many but obvious for the researchers). The population in the Gimaj village also appeared among the poorest and the village was said to follow the traditional Kanun law.

Table 6: Basic information and wellbeing/livelihood

<table>
<thead>
<tr>
<th>Gender</th>
<th>Vitkuq</th>
<th>Lubonja</th>
<th>Dedaj</th>
<th>Bogaj</th>
<th>Gimaj</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Female</td>
<td>11</td>
<td>6</td>
<td>5</td>
<td>7</td>
<td>2</td>
<td>31</td>
</tr>
<tr>
<td>Male</td>
<td>9</td>
<td>10</td>
<td>11</td>
<td>8</td>
<td>4</td>
<td>42</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Family Role</th>
<th>Vitkuq</th>
<th>Lubonja</th>
<th>Dedaj</th>
<th>Bogaj</th>
<th>Gimaj</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Youth</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>5</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Parent</td>
<td>10</td>
<td>8</td>
<td>13</td>
<td>10</td>
<td>5</td>
<td>46</td>
</tr>
<tr>
<td>Grandparent</td>
<td>6</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Adult no kids</td>
<td>3</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Holidays</th>
<th>Vitkuq</th>
<th>Lubonja</th>
<th>Dedaj</th>
<th>Bogaj</th>
<th>Gimaj</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doesn't go</td>
<td>8</td>
<td>11</td>
<td>9</td>
<td>9</td>
<td>6</td>
<td>43</td>
</tr>
<tr>
<td>Goes</td>
<td>12</td>
<td>5</td>
<td>7</td>
<td>6</td>
<td>0</td>
<td>30</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Economic Aid</th>
<th>Vitkuq</th>
<th>Lubonja</th>
<th>Dedaj</th>
<th>Bogaj</th>
<th>Gimaj</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>8</td>
<td>4</td>
<td>17</td>
</tr>
<tr>
<td>No</td>
<td>20</td>
<td>16</td>
<td>11</td>
<td>7</td>
<td>2</td>
<td>56</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pension</th>
<th>Vitkuq</th>
<th>Lubonja</th>
<th>Dedaj</th>
<th>Bogaj</th>
<th>Gimaj</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>No</td>
<td>14</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>6</td>
<td>65</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Health Insurance</th>
<th>Vitkuq</th>
<th>Lubonja</th>
<th>Dedaj</th>
<th>Bogaj</th>
<th>Gimaj</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>13</td>
<td>11</td>
<td>14</td>
<td>9</td>
<td>1</td>
<td>48</td>
</tr>
<tr>
<td>No</td>
<td>7</td>
<td>5</td>
<td>2</td>
<td>6</td>
<td>5</td>
<td>25</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Paying Taxes</th>
<th>Vitkuq</th>
<th>Lubonja</th>
<th>Dedaj</th>
<th>Bogaj</th>
<th>Gimaj</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>17</td>
<td>15</td>
<td>15</td>
<td>13</td>
<td>3</td>
<td>63</td>
</tr>
<tr>
<td>No, depends on money</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Total Interviewed</td>
<td>20</td>
<td>16</td>
<td>16</td>
<td>15</td>
<td>6</td>
<td>73</td>
</tr>
</tbody>
</table>

Note: numbers represent number of people

1.13.2. Perceived Community Needs and Investments

When asked about what the population thought was needed for the community, almost 40% of the total of 73 respondents claimed there were many improvements in the community necessary. A quarter of the
respondents claimed there were economic improvements necessary, equal number of people thought social or healthcare improvements were needed in the community. Specifically in Vitkuq, most people thought economic improvements were needed in the community whereas in Bogaj the people claimed the need for social improvements and healthcare as the most important. Bogaj village was very dry and the people mainly stated the need for water supply for personal use but also agriculture.

The population questioned was also asked about the past investments done in the community. More than half of the respondents stated that there were infrastructural changes done in the community (64%). In general, people claimed that the last investment done in their villages improved their life. Most people stated that they did not contribute (did not participate) to the planning of the last investment in their community. The general perception of many people asked in most of the villages was that the local government should implement programmes and invest as there were many needed infrastructural investments in each of the villages. Some people (mostly young and single women or those that have lost their job because of change of LG employees from one party to another) seemed angered for not being well represented by their local government.

Vithkuq commune had recently built a new road (see On the way to Vithkuq under snow →), lighting system, and the mayor promised to the population that if they re-elect him, there will be more economic improvements (more investments in Vithkuq’s tourist potential) done in the community. The mayor complained that the village population traditionally used to vote for a mayor from the opposition party (the SP). Although the current mayor (from the PD party) achieved many improvements in the village (the mentioned projects and investments), he was still unsure the population would vote for him. The local population confirmed that although further improvements were necessary, they acknowledged the past investments and claimed they improved their life. As the case of Bogaj showed, on the other hand, the people were more concerned with social / health related improvements. This comes as no surprise considering the remoteness of the village and the fact that the last project implemented for half of the village was water supply installation. In addition, the village is located in a very dry area in need of water installation for irrigation.

Furthermore, in all the villages there was a problem with land related to land disputes. During communism the land was nationalised and taken care for by the local associations. Shortly after the fall of communism, the land had been
redistributed in such a way so that everyone got something. The consequence is an extremely fragmented small land ownership with each family owning a small piece of land. In many cases the population questioned stated that the distribution has not been fair and that they have not been given back the land their family owned prior to Hoxha’s dictatorship.

1.13.3. **Awareness of Decision-making Procedures**

In order to assess awareness of the community about the procedures in the communes the sample population was asked about their knowledge of and interest in decision-making and budgeting.

With regards to general procedures, the majority of the respondents stated they are unaware of the general decision-making procedures in the community with half of the sample interested in knowing more. The answers revealed that generally, those that are aware of how decisions are made are also interested in knowing more about it. On the contrary, those unaware of decision-making in the commune are not interested in knowing more. The trend is the same for females as well as for males, those having the information are interested in knowing more and those unaware of decision-making of the commune are less interested. In contrast to men, most women are not aware of how decisions are made in the commune and are not informed about budget spending (For specific information see table 8 below).

This represents well the general traditions in all of the villages where the government employees are expected to do their job and the community is not used to participate. A few married women said that they influenced the decision making through their bedroom (their husband) and hence did not feel the need to be represented in the local decision making through other means. The commune employees were only male in all of the case study villages (see illustrative picture from local stakeholder representatives meeting organized by SNV Albania in Shkodra in spring 2010). It was also not widely accepted for women to participate in the communal meetings or meetings with the elder. Men are traditionally represented whilst women are not expected or willing to participate. There were few exceptions with women complaining they were not represented but those were rare.

Less people are informed about the budget spending decisions of their respective commune, as compared to general procedures, and less then half are interested in knowing more about the budget. For details, see table 7.
The trend for budgetary awareness is the same as in knowledge of general decision-making in the case study communes. Those informed about the budgetary spending of the commune are interested in knowing more and those unaware are not. However, most interviewed females are not informed about the budget as opposed to males who have such information. For exact information see table 8. Lubonja is the only village where even those that were uninformed about the commune’s budget were interested in knowing more. This difference stems from the fact that in Lubonja, significantly more young people (who explicitly expressed their disappointment with the fact that they were not included in the decision-making) were interviewed than in the other villages. The young boys expressed their anger with lack of their representation with the LG as they felt their opinions were not at all taken into account. The few young men also stated that as soon as it would be possible they would want to emigrate abroad for a better job as the Lubonja village did not offer any economic or professional opportunities. Lubonja (see picture on the way to Lubonja) was also the more remote village to which it took two hours to travel from the Vithkuq commune. The young men thus felt cut off from the society and the city life they were looking forward to join.

Table 7: Decisions information and interest

<table>
<thead>
<tr>
<th>Decision Information</th>
<th>Yes (%)</th>
<th>No (%)</th>
<th>Don't know (%)</th>
<th>Total (number of people)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you know how decisions in the commune are made?</td>
<td>47</td>
<td>53</td>
<td>0</td>
<td>73</td>
</tr>
<tr>
<td>Are you interested in knowing more about the commune decision making?</td>
<td>50</td>
<td>49</td>
<td>1</td>
<td>72</td>
</tr>
<tr>
<td>Do you have information about budget spending of the commune?</td>
<td>37</td>
<td>63</td>
<td>0</td>
<td>73</td>
</tr>
<tr>
<td>Are you interested in knowing more about the budget?</td>
<td>41</td>
<td>58</td>
<td>1</td>
<td>73</td>
</tr>
</tbody>
</table>

Table 8: Decisions awareness females – males

<table>
<thead>
<tr>
<th>Gender</th>
<th>Yes (%)</th>
<th>No (%)</th>
<th>Total (number of people)</th>
</tr>
</thead>
<tbody>
<tr>
<td>females</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>yes (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>no (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>males</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>yes (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>no (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (number of)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Do you know how decisions in the commune are made? 12 30 34 23 73
Are you interested in knowing more about the commune decision making? 13 28 38 21 72
Do you have information about budget spending of the commune? 5 37 32 26 73
Are you interested in knowing more about the budget? 7 34 34 23 73

The results show the same trend for those who pay taxes (those aware are interested, unaware are not interested irrespective of whether they pay taxes or not) see graph 4 below. However, the case is different in Lubonja village again, where even those that are uninformed about the decision-making of the commune are interested in knowing more. Next to that, only in the villages of Vithkuq commune majority of interviewees are informed about the decision-making in the commune. This supports the argument that Vithkuq commune has generally better tradition in local governance. In the remaining research areas, the majority of the interviewed are not aware of how decision-making is done in their commune (62% in Dedaj, 67% in Bogaj, and 67% in Gimaj). For illustration of this trend see graph 4 below.
In general, the trend is the same irrespective of whether the respondents paid or did not pay taxes. The researchers expected that perhaps those paying taxes would have been more interested in decisions made in the commune or in knowing more about it. By paying taxes the population is expected to feel the need for their payments to be linked to the service delivery. However, this was not the case.

Nevertheless, with respect to budget awareness, the majority of the interviewed who pay taxes are not aware about the budgetary spending of the commune. Finally, there is a large disparity between the sources of information for the different genders; females are generally not informed whilst males are mostly informed about the budget through formal meetings in the commune or through gossip. For specific data see table 9 below.
Table 9: How was the population informed about the budget?

<table>
<thead>
<tr>
<th></th>
<th>Males (%)</th>
<th>Females (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not informed</td>
<td>31</td>
<td>68</td>
</tr>
<tr>
<td>Gossip</td>
<td>19</td>
<td>32</td>
</tr>
<tr>
<td>Commune meetings</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Total (number of interviewed)</td>
<td>42</td>
<td>31</td>
</tr>
</tbody>
</table>

1.13.4. Participation

The population was asked whether they participate in meetings with the mayor and the elder of the village. Almost half of the population claim that they participate in the meetings with the mayor as well as with the elder. Half of those that do not participate in meetings with either the elder or the mayor (1/4 of the total questioned participants) claim they have never been invited. The other half (1/4 of total) claims they have not been interested in participating. The results were different across villages but the largest differences were found between men and women – see graph 5 below.

Graph 5: Participation with elder or the mayor: differences across gender
The graph above highlights the fact that men in general participate more in meetings with both the mayor and the elder of a village. Women are mostly not participating in such meetings because they are either not interested or not invited. Again, this illustrates the traditions kept in the villages where women are not expected to participate in the official meetings but rather are expected to take care of the household and the farm (see *Home made socks*).

The participants were also asked whether they participate more before or after 2005, to account for perceived recent changes in participation (to account for possible perceived changes over time). The majority of the population participates more since 2005. The majority also feel they are better represented by their LG since 2005. The research revealed that the sample population feel better represented after 2005 because of the investments done in their communes recently. They thus feel that their needs are better satisfied now (after 2005) than in the past as there were no or little projects implemented before.

### 1.13.5. Quantitative data replicating the USAID study on perceptions of local governments

*(with the aim to compare the case-study data to the nation-wide data responding to years 2005 and 2007.)*

A drawback of the analysis focused on peoples’ perceptions is that ‘perceptions change at a slower pace than performance does and are largely affected by other external factors. Tracking these qualities of governance requires systematic and coherent surveying mechanisms over time.218 Therefore, the last part of the interview included close-ended questions that were replicated from a USAID study conducted in 2005 & 2007219. The results of the original USAID study including the results of the case study are listed in the table 10 below.

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218 Hoxha, A. in Gerdaçi et al. 2007: 8.
219 Hoxha, A. In Gerdoçi et al. 2007: 8, Table 6.
Table 10: ‘Accountability and responsiveness in USAID national survey of urban population 2005-2007’.

<table>
<thead>
<tr>
<th>Accountability and responsiveness (% of sample)</th>
<th>2005</th>
<th>2007</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>My LG is interested in what I think</td>
<td>35</td>
<td>45</td>
<td>56</td>
</tr>
<tr>
<td>Budget decisions reflect citizen priorities</td>
<td>33</td>
<td>41</td>
<td>48</td>
</tr>
<tr>
<td>I receive good values for local taxes and fees</td>
<td>32</td>
<td>39</td>
<td>43</td>
</tr>
<tr>
<td>My LG applies taxes and fees fairly to all</td>
<td>33</td>
<td>44</td>
<td>69</td>
</tr>
<tr>
<td>My LG accomplishes what it says it will do</td>
<td>31</td>
<td>40</td>
<td>64</td>
</tr>
<tr>
<td>My LG solves local problems</td>
<td>51</td>
<td>55</td>
<td>69</td>
</tr>
<tr>
<td>LG manages funds well</td>
<td>42</td>
<td>54</td>
<td>58</td>
</tr>
<tr>
<td>My LG honours laws</td>
<td>52</td>
<td>61</td>
<td>70</td>
</tr>
<tr>
<td>Corruption is widespread</td>
<td>70</td>
<td>64</td>
<td>48</td>
</tr>
<tr>
<td>I know someone who paid a bribe</td>
<td>23</td>
<td>14</td>
<td>10</td>
</tr>
</tbody>
</table>

Note: the USAID study was based on a sample of 1000 interviewees whereas the current study accounted for 73 people in the selected areas in the north of the country - Shkodra and the south - Korca.

As illustrated in the table above, the general perception of the sample population regarding accountability and responsiveness increased in 2010 compared to previous years of the USAID national study. The results were similar across villages with the exception of Gimaj (the most remote village of all studied villages) where only a small number of people agreed with the statements represented above (only around 20% of those interviewed). The general trend in increased trust and accountability represented by the USAID study from 2005 and 2007 is continued (as represented by the 2009 case study).

In addition, there were larger disparities between the answers of men and women, represented in graph 11. The graph highlights that men were on average more satisfied with local government accountability and responsiveness than women. Fewer men also perceived corruption as widespread, perhaps showing more about their willingness to speak of issues rather than of the actual spread of corruption.

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220 Hoxha, A. In Gerdoçi et al. 2007: 8, Table 6.
Graph 6: USAID study vs Females and Males in all villages

- My LG is interested in what I think
- Budget decisions reflect citizen priorities
- I receive good values for local taxes and fees
- My LG applies taxes and fees fairly to all
- My LG accomplishes what it says it will do
- My LG solves local problems
- My LG manages funds well
- My LG honours laws
- Corruption is widespread
- I know someone who paid a bribe
1.13.6. General Citizen Perceptions

Some of the sample population claimed that some people received social aid illegitimately (especially the case in Shkrel commune). These were mostly people that did not receive the social aid them selves and perhaps were disappointed by that fact. The people questioned mostly recognized that there were improvements (investments) in their community done by the commune. Businessmen were generally more informed about the processes in the commune and also more interested in them as it had a big effect on their business. A few small business men (e.g. a bus owner that provided the transportation to and from a village) were, however, disappointed by the low quality of investments caused by high corruption stating that as little as 10% of the money available is invested. For example, the person in charge is said to give the job to a person he knows who over-prizes the service fee and passes some parts of the deal further to his family or friends who over-prize it as well.

After the water supply installation for half of the Bogaj village in 2009, the people receiving the water started paying the water tax. Paying this tax was new to them but since the village has little supply of water, the population was satisfied with the improvement. A few people complained that jobs were given to people close to the LG employees. Two people (a female teacher and a male former LG employee) employed by the previous administration stated that they had that lost their job without explanation after different people belonging to different political party than themselves came to power. The man complained that he had gotten no explanation of reasons for his layoff.

The male population seemed satisfied with elders as their representatives. However, a few women complained that they are not invited to the meetings. As it is not commonly accepted for women to take part in meetings with the elder or the mayor, most women did not feel the need to participate. Also, many of the interviews were conducted in peoples’ houses and thus with the whole family present. In such setting, women might feel more reluctant to speak out in front of their husband. Most of the women that were interviewed alone nevertheless stated that they did not want to take part in the meetings and that they influenced their husband in their bedroom. Young people interviewed generally stated that the communes did not organize meetings to listen to peoples’ opinions. They probably felt this way as they were not invited to such meetings. Participation was also more common among those that had more stakes in government decisions such as interest groups (e.g. handicraft groups). Some also complained that the mayor should inform the whole community, not only elders, about changes, meetings, and other decisions done in the community. However, others claimed that they do not participate since what concerns the decisions of the commune is not their business but the job of the LG employees. In sum, even when citizens claimed they are interested in participation, only a small number participated in events that would contribute the community (also supported by a study conducted in Vithkuq by the Urban Institute in 2006\textsuperscript{221}). Nevertheless, even in the countries of the European Union the population does not generally participate in municipal events other than elections (and even election turnout rate is decreasing in Europe). The case study population was generally more interested in the increase of social aid and the provision of

\textsuperscript{221} The Urban Institute, WB, 2006: 25s
machinery for land cultivation (as those are the most pressing needs) rather than about participation.

Business representatives generally complained of the lack of accessible loans (loans are available through the market for too high interest rates). The lack of financial means (including loans) for further investment in their business was the general complaint of entrepreneurs in all villages. Among the more successful businesses was the bee hives business in Lubonja that receives subsidy from Ministry of Economy and that is based on a membership fee. This association was started by the community and it seemed that in general, associations that were started by the community itself were continuing to function. Those that were initiated by an external organization (WB, SNV, etc,...) were either decreasing its activity, non-active, or ‘artificially’ maintained (funded and supervised) by the external organizations.

1.13.7. Participation Reconsidered

Even when legislative procedures and institutional mechanisms are in place, there are further barriers that hamper participation in budgeting:
‘...lack of notice, insufficient background information and documentation, overly complex budget documents, forums that are detached from the actual budgeting process, and the lack of a systematic way of capturing and transmitting the evidence or products of public participation222.

As a result, even if citizens participate in the local decision making (e.g. in developing priorities for the budget) they tend to lack the influence to assure that their suggestions are incorporated or implemented (they lack monitoring and evaluating mechanisms). As the research highlighted, the citizens that were interested in participating were participating. However, the aim of decentralization is to increase active citizen participation. To achieve that, the citizens would need to be actively encouraged to participate by the village elders and the LG employees. However, the culture in the case study communities seemed to be continuing and enforcing the old habits of elders as the active members. Furthermore, women were not motivated by the 100% male employees of the case study LGs to participate. For Albania, according to the World Value Survey from 2005, on average 9,9 percent of the Albanian population actively belonged to some civil organizations223. To compare, European224 citizens are active members of on average 0.5 organizations225. This means that every other member of the European society is an active voluntary member of some form of civic organization in comparison to just 9% in Albania.

In one case study commune, Lubonja, a community centre was renovated in which discussions took place. Alongside laws that emphasize the importance of participation, the community thus needs encouragement of local leaders (elders

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223 I calculated the average including all possible civic or voluntary organizations that the population mentioned that they belonged to. These organizations ranged from church, political, professional organizations, to voluntary organizations concerned with human rights, women’s groups, sport groups, or labour organizations. From World Value Survey 2005.
224 The study covered these countries: Denmark, Sweden, Finland, Germany, France, Austria, Netherlands, Belgium, UK, Ireland, Italy, Spain, Portugal, Greece, Estonia, Lithuania, Latvia, Poland, Czech Republic, Slovakia, Hungary, Bulgaria, and Slovenia.
225 Oorschot van, W. Et al. 2006
or LG employees) together with facilities that enhance citizen meet ups and participation (such as the community centre).

Next to that, citizens should be informed in advance about public meetings or decisions. However, Ribot claims that poverty alleviation, especially for the underprivileged strata of society (dependent of gender, age, race, ethnicity, etc), is a rare outcome of decentralization. Improvement of livelihood is ‘mainly associated with strong commitment by a national government or party to promoting the interests of the poor at local level....” rather than through decentralization. Therefore, ‘the local actors involved in decentralization, the powers they hold, and the accountability relations in which they are embedded are the basic elements for analyzing decentralization.’ For decentralization to have a positive impact on active citizen participation it should thus be accompanied by relevant training of local representatives in participatory techniques, alongside the provision of necessary facilities.

Additionally, ‘performance-based budgeting and positive organizational change’ which rests mainly on leadership that embraces change and value performance is crucial in improving budgeting participation. Budget should thus also be presented in an understandable format.

Finally, in order for local population to perceive their participation as beneficial, the benefits to them must materialize and continue doing so. For decentralization to succeed, national leaders must be honest and willing to ‘genuinely transform power relations.’ An analysis of peoples’ participation in local decision-making was conducted bearing the abovementioned issues in mind.

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226 Ribot, Jesse C.: b : 16
228 Ribot, Jesse C. for the UNRISD, 2001: 22
229 Muhumuza, W., 2008:  59-81
CHAPTER 7
CONCLUSION AND RECOMMENDATIONS

1.14. CONCLUSION

The case study was conducted in three communes in the mountains, one in the southern part of Albania Korca region – Vithkuq commune, and two in the northern area of Shkodra (Shale and Shkrel). The attempt was to answer the question ‘How is fiscal decentralization influencing the effectiveness and efficiency of local governance?’ To assess the efficiency of selected local governments, their fiscal capacities were analyzed. Specifically, the focus was on fiscal decentralization dependent of the national policies and grants and the capacity of the local governments in using available funds. Another element of the study was the effect of fiscal decentralization on participation of the local community in local decision making.

The theories of fiscal decentralization focus on the freedoms in investment decisions and revenue collection of subnational governments (together with improved participation of local community) as outcomes of fiscal decentralization. However, the process towards fiscal decentralization is dependent on institutional context of a country such as: locally elected council; locally approved budget; local governments’ borrowing power; capacity of local governments to collect taxes. In Albania, the council is locally elected, the budget is approved by the commune but discussed with the elders, and local governments recently gained the legal power to borrow. Despite the improvements in the laws that are in line with the assessment of a successful fiscal decentralization, the fiscal and human resource capacities of local governments in Albania are lacking behind. Such capacities are crucial to allow fiscal decentralization to realize its potential benefits to fiscal powers of local governments and with it local responsiveness.

The general argument is that fiscal decentralization improves democratic practices (and with it transparency, accountability, and efficiency) and local service delivery. However, although the laws in Albania follow the rules of the EU guidelines and recommendations, their implementation is cumbersome and has nearly no visible effect on local participation. The laws in Albania are not commonly followed, nepotism is perceived to be common in every level of the government, and the political figures have immense powers that lie above the legal environment (a perception of the researchers and the people we spoke to). For example, although legal compliance is required, the prime minister has the authority to appoint the Supreme Court judges that in effect act on his behalf. In such structures, politicians determine the decisions with little checks and balances in place. It is questionable whether the central government, with its power divided between two main governing parties, is downwardly accountable to its population. The same can be said of the case-study communes. The expected positive effects of fiscal decentralization on the effectiveness and efficiency or governance are dependent on such institutional reality. It can hence have little effect on governance without a change in the institutional reality. As
the theories of fiscal decentralization highlight, laws alone are not enough, what is required are institutions of accountability and participation.

Fiscal decentralization is also expected to increase local responsiveness because decisions are made closer to the people. Fiscal decentralization is expected to lead local governments to make independent investment decisions to be able to respond to local needs. In general, the local governments in Albania have the legal rights outlining their autonomy in expenditures and revenues (from local tax and fee collection), uniform regulations for financial issues (tax, borrowing) and the freedom for local decision making on the level of taxes (indicative tax rates). The high percentage of fiscal autonomy also highlights that the communes have the space for local decision-making independent from the government.

Fiscal decentralization in developing countries is limited to the redistribution of centrally collected tax rather than local government empowerment and the increase in capacities to collect taxes. This is highlighted by the still low share of locally collected taxes and fees as a share of total local budget. In the most advanced transition countries, local revenue collection forms 33-40% of the local budget (close to the EU average: 43%). In Albania, local revenue collection continues to form only less than 10% of the total budget in the three studied communes, although it has been increasing since 1998. Practically, from the fixed revenue sources available to the local governments (conditional and unconditional grant and local taxes and fees) they are able to pay solely for their own operation and for conditioned investments such as social aid. If a local government needs to implement a project, they need additional money that they can access through the regional development fund (previously the competitive grant). This process has been blamed by many for being used for political reasons and based on political preferences rather than a competitive and fair assignment. The basis for a successful fiscal decentralization is the independence of expenditure decisions for subnational governments. However, in Albania, as well as other transition countries, the independence is not met by sufficient and de-politicised revenue sources, which hinders the capacities and responsiveness of local governments to act on behalf of its local electorate. Furthermore, as local representatives have little or no financial sources with which to independently implement investments, one of the few mechanisms with which to satisfy the electorate (to be re-elected) is to distribute social aid (that forms part of the conditional grant) in the most favourable way to the voters. During the study some people (usually those that lost the right to social aid or that wanted higher social aid) complained that social aid was not distributed on the basis of needs of the people but rather on political grounds.

Next to that, from the case study it appears that locally generated revenues per family are very low in poorer areas or areas that have not benefited by tourism or other economic developments at large yet. This highlights the remaining regional disparities across the country. Fiscal decentralization is expected to lead to efficient allocation of resources between regions only as long as the government allocates resources according to a fixed formula based on poverty assessments. The unconditional grant is allocated according to such a formula. The governmental grant as well as the assigned locally collected taxes are thus in itself currently insufficient to cover the expenses of the local governments studied. An increase in central government grants would, according to the
theories, increase the dependency of local governments on the central government as well as form a disincentive to local revenue collection. The aim of fiscal decentralization is for local governments to be able to collect sufficient sources to operate and invest independently with only a partial help from the central government. The central government investments are required for the communes to implement investments in Albania as the local governments have no other sufficient revenue sources available. The investments made have the potential to increase the tax base of a commune (for example the investment in new or improved water supply in the Shkrel commune was perceived as a direct benefit by the community that was in turn motivated to pay additional water tax). The assessment of fiscal decentralization is thus also dependent on the interplay and function of each of the revenue sources available to local governments. Fiscal decentralization would require the central government to allow the local government to collect as many local taxes as possible to increase their revenue. However, in Albania, the local governments have troubles collecting even the few taxes assigned to them due to the fact that people have not been used to pay taxes and also due to land disputes.

In order to assess the effectiveness of LG’s governance, local stakeholders were consulted and interviewed to discover their general perceptions. From the total of 73 interviews in 5 case-study villages, most people were aware and appreciated the latest investments in their community. However, most people did not contribute to the planning of the last projects done in their respective communities. The majority of those questioned were unaware of decision-making in the community. Less people were informed about the budget and were mainly uninterested in knowing more about it. There was a significant difference between genders; most females were not aware but also not interested in both, decision-making and budget. Women that were informed gathered the information through gossip. Younger people wanted to know generally more and be included in decision making as they were not included in the decision-making. Overall, a majority (around 60%) of the interviewed was unaware of how decisions are done in the commune (except for Vithkuq). Additionally, half of the interviewees participated with mayor and/or elder meetings. Of those that did not – half was not invited and half was not interested. There was again a major difference between men and women (of which the majority did not participate). Generally, the majority of people perceived their government as accountable and responsive but more so for men than women.

For fiscal decentralization to improve the participation in the communities studied, the community would have to be actively involved in the decision making. Theories of fiscal decentralization highlight the need for participatory and accountable institutions as a requirement of effective decentralization. The participation of local community in the communes studied was, however, limited to participation by elders of the village. Other barriers to participation were for example the messy budgets of the communes in which it was hard to orientate even for the commune employees. Furthermore, the investments made in a community seemed to have been dependent on the individual drive and motivation of mayors. Mayors’ leadership, rather than the participation, seemed to have been the driving forces behind investments, improved efficiency and effectiveness of local governments.
Another major problem discovered was nepotism. The community was largely dissatisfied and de-motivated from participation due to the fact that jobs were offered and taken unfairly each time the administration changed – depending on friendships rather than qualities of people. Therefore, people could be informed by the LGs about whistle blowing practices and possibilities outside the local administration (for instance through independent ombudsman). Next to that, young people and women could be motivated to participate in local decision making by their inclusion in development. A few women participated in commune meetings in Vithkuq as they represented handy-craft groups of the village. This would be, however, unimaginable in villages further away from the commune or villages where women are traditionally not expected or willing to participate in any form of local decision making.

The theories of fiscal decentralization assign great importance to the institutional environment and focus on the types of taxes collected and rights given to the local governments. However, as the case study highlighted, improved rights and responsibilities given to local governments for revenue and expenditure alone are not enough. In poor transitioning countries such as Albania, the local population simply does not possess the financial means to pay for taxes and the local governments do not have the financial and human resource capacities to implement new investments (that have the potential to motivate further tax collection). To increase the tax base through investments, central government grants are, and will continue to be, required. With the population in the rural areas of Albania decreasing, however, it is hard expect any increase in the local tax base. Theories of fiscal decentralization outline the benefits of increased local responsiveness, local government efficiency and participation. However, for transitioning countries with decreasing rural population, measures of the institutional / legal environment in themselves are not sufficient to assess the stage of fiscal decentralization as the theories suggest.

There is no one-size-fit-all policy or assessment among fiscal decentralization theories. There are different conditions in each country and fiscal decentralization takes different forms and stages at different periods. Although fiscal decentralization theories focus on the improved participation and service delivery as the positive outcomes, such factors do not seem to be taking place in transitioning countries. Specifically, participation requires a cultural shift that theories of fiscal decentralization rarely discuss. Furthermore, fiscally decentralized countries in Western Europe continue experiencing decreasing participation highlighting increasing disinterest in politics in the region. Since fiscal decentralization has not changed much in Western Europe recently, it is disputable whether fiscal decentralization has much effect on the change in political participation. As fiscal decentralization has seemingly a little effect on the decrease of participation, it is unfounded to expect it to have a positive effect in transition countries. The causal relationship between fiscal decentralization and participation is thus questionable.

### 1.15. Recommendations
The study concluded some improvement in efficiency of local governance. Regarding the state level fiscal decentralization, the allocation of unconditional grant is based on fair distribution mechanisms (formula based primarily on the number of population) and on equalizing criterion that should in theory eliminate the economic differences in the country. However, whether the grant motivates local governments to increase efficiency is questionable. Although necessary for the coverage of general expenditures of local governments, it does not serve as a motivation to increase efficiency of local governance (i.e. local revenue collection). A motivational criterion would for instance be a requirement of local revenue collection levels per capita (a minimum amount of taxes and fees per family per commune) based on a yearly target specific for each region (e.g. based on past years’ collection levels or on geographical circumstances). In order to increase the local government efficiency, relationships with the national government should be results-oriented using techniques such as Total Quality Management, citizen evaluations, evaluations and audits by the government, scorecarding, and other publicizing of government service delivery performance by civil society organizations so as to provide feedback on how well demands were met. Next to that, the payment of taxes and fees must bring direct, visible, and continuous benefits to the population in order to motivate the citizens. The communes are under the current system and legislation free to choose not to increase tax collection levels which is part of their democratic decision making processes. They are thus free to decide freely and democratically to maintain low tax and fee rates that will result in a low efficiency. Furthermore, Article 3 point ‘dh’ in the Law 8652 on ‘The Organization and Functioning of Local Government’ from 2000 states that the mission of local government is to ‘promote effective community participation in local governance.’ Consultation sessions with community is mandatory in some instances according to the Law 8652 (articles 35 and 32), although the definition of community and specification of counselling sessions (their occurrence, requirements, etc) is lacking. It is further stated that the consultation with the community is subject to rules defined by the (commune/municipal) council (point 2 article 35). In order to increase participation, more informed people can be catalyst for the dialogue between local government and communes. Next to that, the community could be motivated to participate if budgets were presented with sufficient notice, documentation, through simple document presentation that should be uniform across Albania, etc. The central government has already taken some steps offering uniform budget format for possible use by LGs (which is however not a requirement).

Lastly, in order to assess the effect of fiscal decentralization on local government efficiency and effectiveness the participation of a community should be measured across different years. The thesis was based solely on the participation of the community in the year 2010, which makes conclusions about the effect of fiscal decentralization on participation difficult.

230 ‘… methods to develop productive interaction between administration and citizens, as well as management-for-results approaches (performance-based budgeting, benchmarking, regular reporting, activity-based costing) to meet citizen demands.’ Beall, J. et al. 2009: 50
231 Beall, J. et al. 2009
232 Muhumuza, W. 2008: 65
1.16. BIBLIOGRAPHY

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26. Law Nr. 7572 from 10 June 1992, the law ‘On the Organization and Functioning of Local Governments’. 

27. Law Nr.8652, from 07.31.2000, Law on ‘The organization and functioning of local government’

28. Law Nr. 9869, from February 4, 2008, the ‘Law on Local government borrowing.’


46. SNV meeting with Jetona Myteveli, Advisor Governance, Spring 2010, Tirana, Albania.


## APPENDIX A: POPULATION IN THE VILLAGES

### Vithkuq Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Nr. Of families living in the Vithkuq commune</th>
<th>Nr. of families living in Vithkuq village</th>
<th>Nr. of families living in Lubonja village</th>
<th>Number of families with ec. Aid in the commune</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>1050</td>
<td>278</td>
<td>197</td>
<td>-</td>
</tr>
<tr>
<td>2000</td>
<td>1014</td>
<td>262</td>
<td>182</td>
<td>-</td>
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<tr>
<td>2002</td>
<td>946</td>
<td>259</td>
<td>169</td>
<td>-</td>
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<tr>
<td>2003</td>
<td>793</td>
<td>254</td>
<td>161</td>
<td>-</td>
</tr>
<tr>
<td>2005</td>
<td>752</td>
<td>252</td>
<td>157</td>
<td>-</td>
</tr>
<tr>
<td>2007</td>
<td>742</td>
<td>233</td>
<td>136</td>
<td>-</td>
</tr>
<tr>
<td>2009</td>
<td>691</td>
<td>214</td>
<td>136</td>
<td>38 (9 in Vithkuq and 7 in Lubonja)</td>
</tr>
</tbody>
</table>

### Shkrel Population:

<table>
<thead>
<tr>
<th>Year</th>
<th>Nr. Of families living in the Shkrel commune</th>
<th>Nr. of families living in Dedaj village</th>
<th>Nr. of families living in Bogaj village</th>
<th>Number of families with ec. Aid in the commune</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>6710</td>
<td>129</td>
<td>152</td>
<td>800</td>
</tr>
<tr>
<td>2000</td>
<td>6659</td>
<td>129</td>
<td>145</td>
<td>760</td>
</tr>
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<td>2002</td>
<td>6442</td>
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<td>141</td>
<td>700</td>
</tr>
<tr>
<td>2003</td>
<td>6441</td>
<td>126</td>
<td>138</td>
<td>690</td>
</tr>
<tr>
<td>2005</td>
<td>5798</td>
<td>149</td>
<td>123</td>
<td>660</td>
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<tr>
<td>2007</td>
<td>6015</td>
<td>162</td>
<td>136</td>
<td>649</td>
</tr>
<tr>
<td>2009</td>
<td>6036</td>
<td>181</td>
<td>139</td>
<td>628</td>
</tr>
</tbody>
</table>

### Shalë Population

<table>
<thead>
<tr>
<th>Year</th>
<th>Nr. Of families living in the Shalë commune</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>1794</td>
</tr>
<tr>
<td>2000</td>
<td>1970</td>
</tr>
<tr>
<td>2002</td>
<td>2049</td>
</tr>
<tr>
<td>2003</td>
<td>-</td>
</tr>
<tr>
<td>2005</td>
<td>1785</td>
</tr>
<tr>
<td>2007</td>
<td>1740</td>
</tr>
<tr>
<td>2009</td>
<td>1693</td>
</tr>
</tbody>
</table>
**APPENDIX B: QUESTIONNAIRE**

The questions are culture specific, that is to say, the questions are where possible not direct as the SNV staff and others stated that answers are usually not given in a honest and direct manner. For example, as poverty is viewed by the poor in Albania as a situation in which people are unable to continue traditions such as baptisms, weddings, funerals, etc., it is incorporated into the questionnaire in such a way as to discover whether the person interviewed is poor or not. Specifically, the people will be asked about last couple of birthday celebrations and their last holidays as poorer people are assumed to be unable to travel and go on holidays and birthdays are one of the few celebrations that the family is assumed not to pursue if poor (as the SNV staff stated, every family will find funds for traditions such as funerals or weddings even if they are extremely poor). A question about social assistance is included but it is assumed that not all poor people might receive social support and vice-versa; not all people receiving social support are poor (but might receive the support due to connections).

The research is also based on the understanding that people should be given more say in government decision-making, in effect improving governance. This is coherent with the nation-wide belief of Albanians of which 93% thought it was important or very important that the national goals should be aimed at giving people more say, thus increasing participatory and inclusionary policies. Next to that, the UNDP reported that ‘local governments are evaluated among the most trusted public agencies being at the higher level together with religious organizations and NGOs, leaving behind central government agencies, prosecutor and judiciary.’

**Basic information:**

1) **AGE / FAMILY STATUS:**
   a. Female / Male
   b. Young (until 30s) / Mid-aged (until ±45) / Senior (above 50)
   c. Single / married / divorced / widow
   d. No Children / Children / Grandchildren
   e. Number of family members in the household:

3) **OCCUPATION:** ......................... ......................... .........................
   a. Employed / unemployed / self-employed

**Personal Information and livelihood**

4) **HOLIDAYS:** were you able to go on holidays as you wanted/would have wished?

5) Do you receive social support/economic aid? YES / NO
6) Do you have a health insurance? YES / NO
7) Do you pay the taxes? YES / NO
8) Do you receive pension? YES / NO

9) What are your dreams and wishes/future major plans or changes?
   a. What are the main constraints / opportunities preventing / allowing you from pursuing your dreams/wishes?

10) Were there any big changes in your village recently that affected your life?
11) Were there any big changes in your village recently that affected the life in your community?

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233 Arrehag et al. 29.
234 WVS 2006
12) What do you think is needed for your village/community?

Perceptions about the Activities of the Local Government

13) Are you aware of how decisions are made in the commune for your community and yourself?

14) Are you informed about the budget spending of the commune?

15) How do you get that information?

16) What would you like the commune to do for you in the future?

17) Last Investment or project that you remember done by the C / M?

18) How did that project change your way of live?

19) Did you contribute to the
   a. planning
   b. project implementation

20) Would you like to contribute your time and energy to such a project if there was one?

21) Did you participate more before or after 2005?

22) Did your LG represent your views better before or after 2005?

23) Do you generally participate in decisions of your local government through:
   a. meetings with the mayor
   b. meetings with the head of the village

24) How often do you participate in the local decisions (how frequently)?

Quantitative data replicating the USAID study on perceptions of local governments

25) My LG is interested in what I think............

26) Budget decisions reflect citizen priorities

27) I receive good values for local taxes and fees

28) My LG applies taxes and fees fairly to all

29) My LG accomplishes what it says it will do

30) My LG solves local problems ............... 

31) LG manages funds well ....................

32) My LG honours laws ......................

33) Corruption is widespread .................

34) I know someone who paid a bribe ........
APPENDIX C: LAWS FOR LG REVENUE

<table>
<thead>
<tr>
<th>Conditional Grant</th>
<th>Unconditional Grant</th>
<th>Competitive Grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 2000 described in Law 8652 ‘On organization and functioning of local government’ to achieve the national or regional objectives at local level and are used solely for the purpose for which they were given in accordance with rules set by central government.</td>
<td>Based on ‘equal funds per capita’ including ‘fairness criterion, mountainous local units and units in need criterion’</td>
<td>Started in 2006</td>
</tr>
<tr>
<td>First used in 2002 state budget Exact formula described in law 10 025 of 2009 and based on population and equalizing criteria ‘the criteria and coefficients based on population, area, type of local government (commune), urban services, fiscal equalization (income per capita across LGs), Transition adjustment (supplementing minimal income per capita, negative or positive effects of transition ), and geographical indication (plains-hill-mountain).’</td>
<td>2011 – 2013 (plan by the MoF): Given for own functions of the LG and shared function (healthcare and education, social institutions, protection of public and the environment) – if more functions are given to the LG, the grant will increase (not specified by how much) From 2010 onwards its share will increase by 3% from 2010-2011, by 7% from 2011-2012, by 9% from 2012-2013 (as a share of total state budget) Based on population, area for communes, and urban services for municipalities. Also based on fiscal equalization (commune which has below/above 499 Lek/person will receive/contribute the difference)</td>
<td></td>
</tr>
</tbody>
</table>

For delegated functions (expenses include salaries, social assistance, insurance, and all related expenses): civil office, secretaries of deputies, civil protection, land administration, business registry office. Also for shared functions.

In general the following has been the most important decentralization reform steps in Albania:
- *The approval of Decentralization Strategy in 2000*
- *Approval of the organic law “On organization and functioning of local government” (Nr. 8652, 2000)*
- *Law “On territorial- administrative division of local government units in Albania (Nr. 8653, 2000)*
• Law on Prefects
• Legal package on Public Property and the Transfer to local governments (2001)
• Establishment of a formula for distribution of unconditional budget to local government
• Approval in 2002 of a fiscal package which broadened the base of local taxes by transforming some taxes and establishing some new ones (Local small Business tax, Simplified profit tax, Property tax) as well as establishment of Agricultural Land Tax.
• Three council of Ministers Decisions (Sept. 2003- January 2004) on “Decentralization polices for the service of water supply and sewers” “Decentralization policies for the pre-university education system” and “Decentralization Polices for the health system”.
• Council of Ministers Decision on decentralization on social aid and social services (September 2004)\textsuperscript{236}.

\textsuperscript{236} IDRA 2005: 1
Appendix D: Data from the MoF
The amounts in red highlight the differences between the data sent by the MoF.

Data received from the MoF Eduard Ypi on May the 7th 2010

Komuna Vithkuq

<table>
<thead>
<tr>
<th>Year</th>
<th>1998</th>
<th>2000</th>
<th>2002</th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenues</td>
<td>0</td>
<td>0</td>
<td><strong>8.364</strong></td>
<td>8.431</td>
<td>10.607</td>
<td><strong>17.056</strong></td>
<td>30.523</td>
</tr>
<tr>
<td>Taxes and Tariffs</td>
<td></td>
<td></td>
<td>865</td>
<td>1.483</td>
<td>2.169</td>
<td>1.904</td>
<td>2.916</td>
</tr>
<tr>
<td>Unconditional Grant</td>
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<td>6.948</td>
<td>8.438</td>
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</tr>
<tr>
<td>Competitive Grant (infrastructure)</td>
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<td>11.000</td>
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Data received from the MoF: Fran Brahimi on June the 3rd 2010.

Komuna Vithkuq

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<th>Year</th>
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<th>2003</th>
<th>2005</th>
<th>2007</th>
<th>2009</th>
</tr>
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<tbody>
<tr>
<td>Total Revenues</td>
<td>0</td>
<td>0</td>
<td><strong>7.626</strong></td>
<td>8.431</td>
<td>10.607</td>
<td><strong>19.563</strong></td>
<td>43.523</td>
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<td>Taxes and Tariffs</td>
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<td>1.483</td>
<td>2.169</td>
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<td>Conditional Grant</td>
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Data received from the MoF Eduard Ypi on the May the 7th 2010

Komuna Shkrel

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<th>2003</th>
<th>2005</th>
<th>2007</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes and Tariffs</td>
<td>0</td>
<td>0</td>
<td>12.969</td>
<td>10.662</td>
<td>13.104</td>
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<td>48.867</td>
</tr>
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<td>Unconditional Grant</td>
<td>3.507</td>
<td>1.034</td>
<td>898</td>
<td>1.709</td>
<td>2.837</td>
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Data received from the MoF: Fran Brahimi on June the 3rd 2010.

Komuna Shkrel

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<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes and Tariffs</td>
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<td>0</td>
<td>11.434</td>
<td>22.362</td>
<td>16.504</td>
<td>45.017</td>
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<td>898</td>
<td>1.709</td>
<td>2.837</td>
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<td>11.700</td>
<td>3.400</td>
<td>19.200</td>
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<td></td>
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<tr>
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<td></td>
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Data received from the MoF Eduard Ypi on the May the 7th 2010

<table>
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<tr>
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Data received from the MoF: Fran Brahimi on June the 3rd 2010.

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