

## LOCAL GOVERNMENT'S MANAGEMENT

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### Abstract

Fiscal policy is one of the main instruments for promoting and controlling the economic activity. Fiscal decentralization is a process that usually requires many years to complete. Objectives of this reform all over the world are similar; they differ mainly due to the various stages of development of societies and due to different local values. Their accomplishment is a real challenge for the central and local government.

This process in Albania has started in 2000. The process of fiscal decentralization has been accompanied by a growth of interest in local government reforms, concentrated in restructuring and reorganization. The decentralization reform in Albania has increased the responsibilities of local government and local autonomy for the allocation of expenditure, but at a less rapid development of local autonomy for income.

The purpose of this paper is to provide wider information on the current situation of local government management, the problems which it faces and how they can be resolved.

Keywords: Local government management, Municipality of Shkodra, fiscal decentralization, EU integration, Economic development.

### Introduction

After almost half a century of centralized government, political decentralization in Albania started with the first local democratic elections held in 1992. It was an important path towards increased democratic representation, but the local administrative and fiscal autonomy remained very weak. However, this process received a second increase in the late 1990s. So, in 1998 the country formally subscribed to the Council of Europe's Charter of Local Self-Government—incorporating its key principles into the new Constitution—and in 2000 it passed legal reforms for local governments.

Although Albania is far from completing the landscape of political, administrative and fiscal decentralization, governance and accountability, it must be admitted that considerable progress has been made for the establishment of institutions and the basic legal framework, and implementation of policies towards decentralization.<sup>239</sup>

#### 1. The territorial division in Albania

##### 1.1 A Few History

In Albania, the organization of local government has been treated in different ways. It reflects changes in the whole system of organization and functioning of state. In a centralized system, local government organization is related to the need that central government has to find local structures in favor of state policy. In a democratic system, authorities of local government are independent, and the organization and its functioning makes it effective in realizing autonomous mission.

##### ▷ 1920-1930

The territorial division consisted in prefectures and sub-prefectures, regions, communes and municipalities. Local authorities are elected on the basis of a combined system

of appointments and elections, where the main role played appointments. Administrative autonomy was at a moderate level. However, state authority over prefectures was too strong. Local authorities, especially municipalities, performed a number of public services, administered a budget funded mainly by local taxes and owned property or natural resources. Administration was small in number, but efficient.

##### ▷ 1944-1990

Vertical units' centralized government became more dominant. Local government authorities include regional councils (municipalities and communes), as the first level of local government, and district councils, as the second level. In the cities there were even smaller units, known as the neighborhood councils. Councils of local authorities resolved through a formal vote, but had no political or administrative autonomy.

Various economic and social functions which were conducted by these organizations were part of the vertical division executive tasks in a centralized state as belonging to the decision-making and policy. Their budget consisted entirely of transfers from the state budget and was distributed strictly according to procedures and manner of use.

##### ▷ 1990-2000

Although an independent country since 1912, Albania began to build its democratic institutions only from the early 90's, after almost half a century passed under a centralized government. During the 90's, the most important decisions regarding the offering of services to 3.1 million residents and 374 municipalities and communes (the first level of local government) continued to be highly dependent on central government. The first prefectures were created in 1993. Prefectures played only a few functions.

<sup>239</sup> Shqipëria: decentralizimi në tranzicion (2004)

Local governments should provide local public services as ex: water supply, sanitation services, and local road maintenance, distribution of humanitarian and medical aid, as well as law enforcement and local maintenance of public order. Responsibilities of social sector (education and health) were central responsibility. Virtually all decisions concerning the allocation of expenditures were either influenced, or taken directly from the center.

Local governments had limited discretion as they could not decide on the basis of those little fees and taxes or payments for services. Also, they cannot manage collections of their income. In these conditions, service delivery efficiency was low and local fiscal and political accountability remains a major issue.

**1.2 The Importance and Influence of Administrative Division in Economic Development**

Economic development is a key function of local government. The influence of the latter in economic development can be seen in some areas as:

- Preparation of local economic development programs
- Establishment and functioning of free markets
- Development of small business and promoting the activities of private enterprises as: fairs, advertising, etc.
- Organization of services in favor of local economic development such as information systems, structures and infrastructure necessary
- Preservation and development of forests, pastures and natural resources with local character etc.

At various periods of development local, regional and national, has been very important the need for building strategic development plans. It is for this reason that the programs of international organizations already have in their attention on economic cooperation with regional structures. These structures are defined by the form of state organization and its administrative division. Socio-economic development of the country requires national development strategy. In order to fulfill the standards required, Albanian government is taking initiatives to design a National Strategy of Regional Development<sup>240</sup>. The Program for Development of Disadvantaged Areas is a program that will eliminate inequalities between disadvantaged areas and the average of Albania, giving opportunities at national, regional and local governments to cooperate to maximize the development potential in these areas.

**2. Local government in Albania**

**2.1 The Legal Basis of the Organization**

The Law No. 8652, dated 31.7.2000 regulates the organization and functioning of local government units in the Republic of Albania and states:

1. General dispositions
2. Units of local government
3. The rights of local government units
4. Functions and powers of the municipality, city and region
5. Finances of local government units

6. Composition, creation, the organization, powers and duties of Municipal & Municipal Council
7. The manner of election of the head of municipality or commune
8. The direction of the territorial subdivisions of the municipality, city and region
9. Composition, creation, the organization and powers of the regional council
10. Re-organization of local administrative-territorial units

Any municipality or commune has its chairman elected in general elections in the manner referred to the Electoral Code of the Republic of Albania.

Albania is divided into 12 units called regions (qarqe), which are further divided into 36 sub-units called districts. Administrative separation of territorial units in Albania consists of four levels:<sup>241</sup>

- 12 Regions
- 36 Districts
- 65 Municipalities
- 309 Communes
- 3020 Villages

The large number of first- and second-level units is necessary due to the distribution of the population in small dwelling centers, the steep terrain, and the lack of infrastructure and low levels of communication among such centers. Given these factors, it is difficult for first-level bodies, especially for communes, to conceptualize an alternative division, although a reduction of their number is foreseeable.<sup>242</sup>

The Regional Council is composed by representatives of municipalities and communes that take part in the region. They are always members of the regional council. The number of representatives of municipalities and communes in the district council is determined in proportion to its population. In cases where a municipality or the commune has only one representative, this representation is made directly by the head of municipality or commune. The prefect sets the number of representatives of each municipality and commune included in the territory of the region, based on population data. Autonomy of the Local Government is based in Albania Constitution and Charter of Local Autonomy of Council of Europe ratified by Albanian parliament.

**2.2 Local Government Functions and Competences**

The Law distinguishes exclusive functions, shared functions and delegated functions<sup>243</sup>:

**Exclusive Functions of Communes and Municipalities:**

The commune and municipality have full administrative, service, investment and regulatory powers for their exclusive functions. Exclusive functions include: (1) infrastructure and public services; (2) social cultural and recreational functions; (3) local economic development; and (4) civil security.

<sup>241</sup> Wikipedia

<sup>242</sup> Local Government in Albania, A. Hoxha

<sup>243</sup> Facts sheets on fiscal decentralization in the Western Balkans

<sup>240</sup> National Strategy for Development and Integration 2007-2013

**Shared Functions of Communes and Municipalities:**

Communes and municipalities may undertake any of the shared functions separately or jointly with the central government. Communes and municipalities may undertake any of the following shared functions: (1) preschool and pre university education; (2) priority health service and protection of public health; (3) social assistance and poverty alleviation and ensuring of the functioning of relevant institutions; (4) public order and civil protection; (5) environmental protection; (6) other shared functions as described by law.

**Delegated Functions of Communes and Municipalities:**

The central government institutions, allowed by law, may authorize the commune, municipality or region to undertake a function under their [central government institution] jurisdiction. The Local Government units may be authorized to undertake other functions or competencies of the central government which are non-mandatory [optional]. This should be done solely by an agreement between the central government representative and the local government unit. In any case, the central government guarantees necessary financial support to the local government units to exercise delegated functions and powers.

That local unit successfully performs its functions or the part that belongs to them by common functions and delegated, they must obtain the necessary authority or jurisdiction, within the space of norms, criteria and standards that the law allows:

**Administrative authority:** Local government has the authority to determine the structure of local authorities and the number of employees by funding additional costs on the fund from the state budget, with its own resources. Local government units decide on the nomination, dismissal and transfer of personnel and for determining the salaries and bonuses.

**Investment authority:** Local government is responsible for ensuring normal conditions of operation of public infrastructure, but no authority to plan and implement new investment. Investment funds offered through the conditional budget.

**Authority for maintenance service:** Since 1998, local government has the authority to plan and implement the maintenance costs of local institutions under its authority.

**Regulatory authority:** Local government units possess the authority to make decisions in the context of a regulatory framework to a particular function or service. They are authorized to grant licenses, to impose tariffs and sanctions and to establish local standards, which should not be contrary to national standards.

**3. Fiscal decentralization**

**3.1 The Meaning of Fiscal Decentralization, Advantages and Disadvantages**

Decentralization is a process that involves, within an appropriate legal framework, various components, such as political decentralization, administrative decentralization

and fiscal decentralization. **Fiscal decentralization**<sup>244</sup> (FD) means devolution of power and responsibilities of national (central), government towards sub-national (local), governments. Attaining economic efficiency, equality and macroeconomic stability can be considered among the main issues of concern for FD. Decentralization has created debates on economic experts, who based on the cases of countries with political and economic history have reached different to give a number of arguments or reasons for and against this process.

According, Elhiraika (2007) arguments for fiscal decentralization are as follows:

1. Fiscal decentralization enables sub-national governments to take account of local differences in culture, environment, endowment of natural resources, and economic and social institutions.
2. Information on local preferences and needs can be extracted more cheaply and accurately by local governments, which are closer to the people and hence more identified with local causes.
3. Bringing expenditure assignments closer to revenue sources can enhance accountability and transparency in government actions.
4. Fiscal decentralization can help promote streamlining public sector activities and the development of local democratic traditions.
5. By promoting allocate efficiency, fiscal decentralization can influence macroeconomic governance; promote local growth and poverty alleviation directly as well as through spillovers.

However, fiscal decentralization has its own limitations, which include:<sup>245</sup>

1. Failure to adequately address the question of how to manage intergovernmental fiscal relations in order to meet the growing needs for public services at the local level while preserving fiscal discipline nationally and sub-nationally. This requires institutional clarity and transparency to avoid coordination failures that lead to inefficient spending by local governments manifested in deficit bias and higher borrowing costs that can aggravate macroeconomic imbalances and instability. To avoid such undesirable outcomes, there is a need for incentives and capacity building on top of institutional checks and balances to ensure prudence in sub-national fiscal management.
2. Assignment of expenditure and financing responsibilities to sub-national governments can adversely affect service delivery in different ways. For example decentralization of water and sanitation services to small local governments in Latin America have led to a loss of economies of scale in service delivery. Many governments in Latin America and Africa keep the financing of health and education at national level because the spillover effects from health and education outcomes and their impact on equity are national. Assignment of certain business taxes to local levels in the United States have led to inefficient tax

<sup>244</sup>Bilin, Neyaptı, (August, 2005)

<sup>245</sup> Elhiraika (2007)

competition, constraining the ability of municipalities to generate revenue and deliver services.

### 3.2 Fiscal Decentralization in Albania

Fiscal decentralization is a process that usually requires many years to complete. Approval of the "Law on Organization and Functioning of Local Government" in July 2000 marked the official start of fiscal decentralization in Albania. This law often called the Organic Law or the Local Government Act defines the functional responsibilities of both levels of local government in place - communes and municipalities, and regions (qarqe). This law also gives local governments autonomous powers for revenue growth. Law, together with fiscal decentralization strategy, is a window of opportunity to increase local autonomy. He states:

1. National fiscal policy will guarantee fiscal support to local governments through diversified sources of income (Article 15);
2. Local governments (including regions, communes and municipalities) have the authority to collect taxes and other non-tax revenue in order to execute their functions (Article 15.16 and 18).

Local governments have the right to receive funding from national sources, such as from tax sharing, conditional and unconditional transfers. In the late 2002 came out a new fiscal package which provided new sources of revenue and local government powers which came into force in 2003. Particularly important in this aspect was that local governments were given authority to set tax levels on the local property (taxes on buildings and agricultural land tax), small business tax and the infrastructure impact tax on new buildings.

#### 3.2.1 Structure of Local Budget

##### **Incomes of local units are:**

**Taxes and fees:** including small business taxes, taxes on real estate, taxes on hotel accommodation, infrastructure impact fees for new construction, agricultural land tax, tax on transfer of property rights, annual registration fee of vehicle, tax for occupying public space, taxes and other taxes table temporarily. Fees for public services performed by local government units as cleaning, public lighting, issuance of licenses to exercise private activity, to advertising etc.

**Other non-tax income:** income from rent on land, the sale of capital assets of the local unit, revenue from grants, sponsorships, fees for nurseries, kindergartens, etc.

Transfers from central government: Unconditional transfers are funds that local units take to realizing their functions and common functions. Conditional transfers are funds to be used for the giving purpose of giving and in the end, if they are not used; they have to return to the State Budget.

**National shared taxes:** personal income tax and taxes on profits of companies. These fees will be collected and distributed by the central authority.

**Loan:** since 2008 can be obtained from local financial institutions, banks or the central government. The loan cannot exceed 130% of the unconditional transfer and not

more than 20% of the conditional transfer for three years. It is issued to finance temporary absences of cash, investments or short-term deficit.

##### **Expenses of local units are:**

**Expenses for its functions (exclusive):** which are financed from own resources and unconditional transfers from the state budget and are predicted at the beginning of the year during the creating of the budget. This category includes costs for administration as wages, contributions, expenditures and investments.

**Expenses for common functions:** are covered by unconditional transfers of state budget, its revenues of local units, competitive grants for investment education, primary health care, and public health protection.

**Expenses for delegated functions:** Expenses on salaries, social security and health for the QKR (National Registration Center) and Civil State, economic assistance financed by conditional transfers.

#### 3.2.2 Fiscal decentralization, as an important challenge...

Albania's integration into Euro-Atlantic structures, globalization, the rapid advance of technology, increased competition, make that our country is ready to prepare for crucial social and economic changes. All these phenomena pose a challenge not only for central government but also local government. This makes it necessary to create the space for a sustainable economic and social development. The goal of decentralization reform is to increase the effectiveness efficiency of government and to create a more stable basis for economic development. This reform in our country has made institutional and legal foundations to expand the autonomy of the regions, communes and municipalities to use local resources.

Decentralization and increased autonomy of local government move parallel with fiscal decentralization thus increasing the revenue from taxes and fees. Further deepening of fiscal decentralization is the key challenge of local and central government. Public finances are protected when are decentralized and is built an efficient and practical legal framework for financial accountability and public accountability to the taxpayers.

Nowadays, the general regulatory framework is almost complete, while his real function needs further consolidation. EU Priorities for Albania in terms of decentralization include the strengthening of local government in particular issues such as public procurement and environment<sup>246</sup>. For the EU, Albania is still considered as a place "in the process of decentralization".

#### Conclusions

1. In 1998 the country formally subscribed to the Council of Europe's Charter of Local Self-Government—

<sup>246</sup> 2008/210/EC: Council Decision of 18 February 2008 on the principles, priorities and conditions contained in the European Partnership with Albania and repealing Decision 2006/54/EC.

incorporating its key principles into the new Constitution—and in 2000 it passed legal reforms for local governments.

2. In Albania, the organization of local government has been treated in different ways. It reflects changes in the whole system of organization and functioning of state.

3. Socio-economic development of the country requires national development strategy. In order to fulfill the standards required, Albanian government is taking initiatives to design a National Strategy of Regional Development.

4. Albania is divided into 12 units called regions (qarqe), which are further divided into 36 sub-units called districts.

5. The large number of first- and second-level units is necessary due to the distribution of the population in small dwelling centers, the steep terrain, and the lack of

infrastructure and low levels of communication among such centers. Given these factors, it is difficult for first-level bodies, especially for communes, to conceptualize an alternative division, although a reduction of their number is foreseeable

6. Approval of the “Law on Organization and Functioning of Local Government” in July 2000 marked the official start of fiscal decentralization in Albania. This law often called the Organic Law.

7. Decentralization and increased autonomy of local government move parallel with fiscal decentralization thus increasing the revenue from taxes and fees. Further deepening of fiscal decentralization is the key challenge of local and central government.

8. For the EU, Albania is still considered as a place “in the process of decentralization”.

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