C O - P L A N

Co-PLAN GAZETTE

A Biannual Publication of Co-PLAN - Institute for Habitat Development

A Biannual Newsletter

Issue No. 1 -June 2011

FACTS & FINDINGS

On matters of Urban and Regional Development, Urban Environmental Management, and Municipal Finances Management.

Co-PLAN's POSITION

And contribution in the field of Urban and Regional Development, Urban Environment Management and Municipal Finances Management.

LOGIN PLATFORM

More on the Local Government Information Network: objectives, resources and intended use for all local government units in Albania.

EDITORIAL

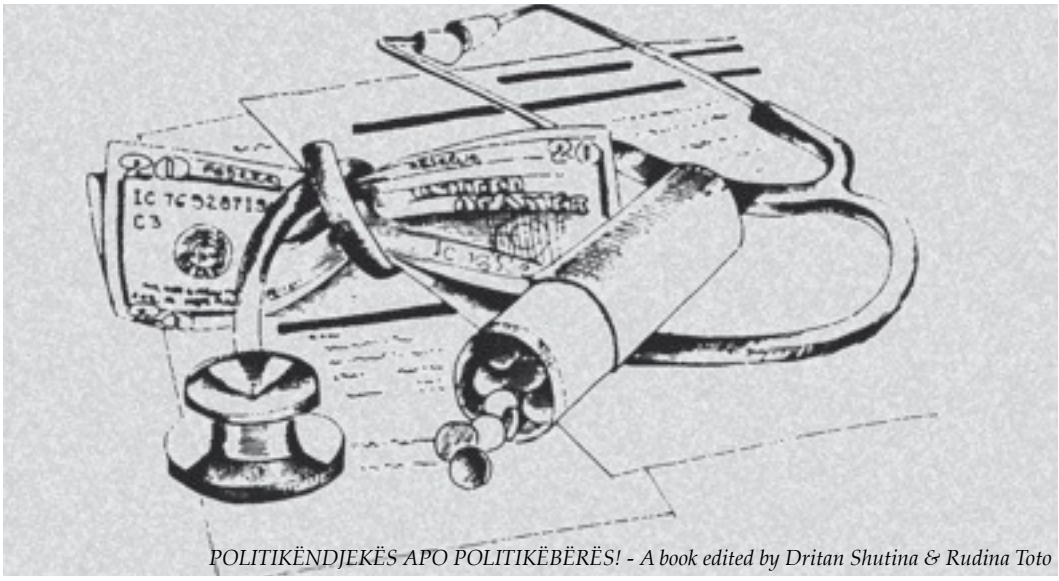
How do local revenues derive from national sources? The system of intergovernmental transfers in Albania analysed.

SUPPLEMENT

A thorough report focusing on Intergovernmental Transfers in Albania, is found appended in the 'Working Papers' session.

ACKNOWLEDGMENTS

This is an initiative of Co-PLAN, under the support of TTF - OSI Budapest. Special thanks go to LGI - OSI Budapest, whose support proved valuable in the publication of this issue of Co-PLAN GAZETTE.



POLITIKËNDJEKËS APO POLITIKËBËRËS! - A book edited by Dritan Shutina & Rudina Toto

Co-PLAN GAZETTE *launch*

At a time when knowledge and expertise on urban and spatial development, environment and public finances are critical to Albania's development process, Co-PLAN, Institute for Habitat Development wants to share with you how policies, legislation, practice, and research in all these fields are coming together and changing the picture.

Inevitably, the current Albanian reality triggers a natural interest in the matters of urban/spatial planning, environmental management, and public finances. Our capacity to fill the knowledge gap through our research results, project based experience, and a dedicated team of partners, donors and experts alike, has never been greater. At Co-PLAN, three distinct areas constitute our core-expertise — Urban and Regional Development, Urban and Environmental Management, and Public Finances, all of which with a particular relevance to Albania.

Over the past sixteen years, at Co-PLAN we have made concerted efforts also to increase civil society participation in our enterprises and projects. These efforts have resulted in exciting transformations and improvements on the field, some of which were reflected in respective policies.

To better serve our community, partners, and donors, we will add to our communicating means with you, this biannual publication: the Co-PLAN Gazette. This inaugural newsletter from the Institute will showcase our dedication to solutions for current problematic in each of our areas of expertise, and knowledge gained through the projects that promote debates at a governmental level, to possibly impact policy-making. This newsletter is a knowledge-exchanging tool and as such it will also provide snapshots of the policy, legal and development environment in our areas of expertise in Albania. The second part of the newsletter shall always be dedicated to the publication of working papers from Co-PLAN, IKSHPOLIS and also interested partners that would like to share experience and know-how.

Alongside our newsletter communications, we are already blogging, will be shortly launching our new Co-PLAN website, and would love to have you following us on both platforms.

The articles in this gazette provide useful facts and information on matters of urban development, environmental and public finances management. Any contributions, comments or suggestions are appreciated, and should be sent to co-plan@co-plan.org

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EDITORIAL

Intergovernmental Transfers in Albania

How Local Revenues Derive from National Sources?

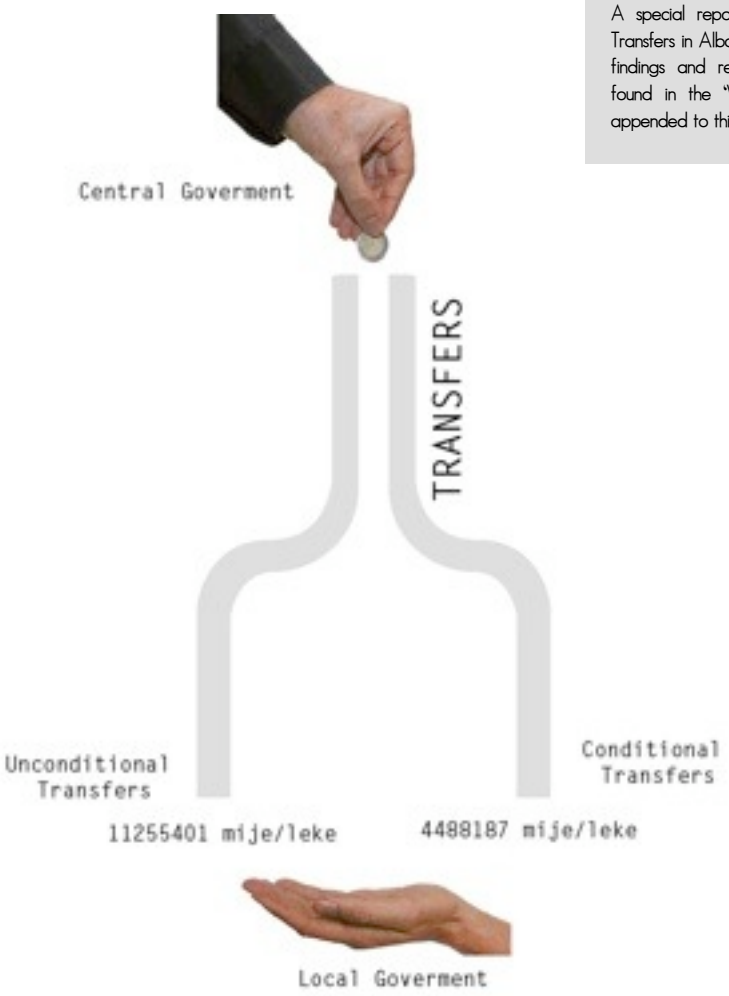
Co-PLAN GAZETTE SUPPLEMENT

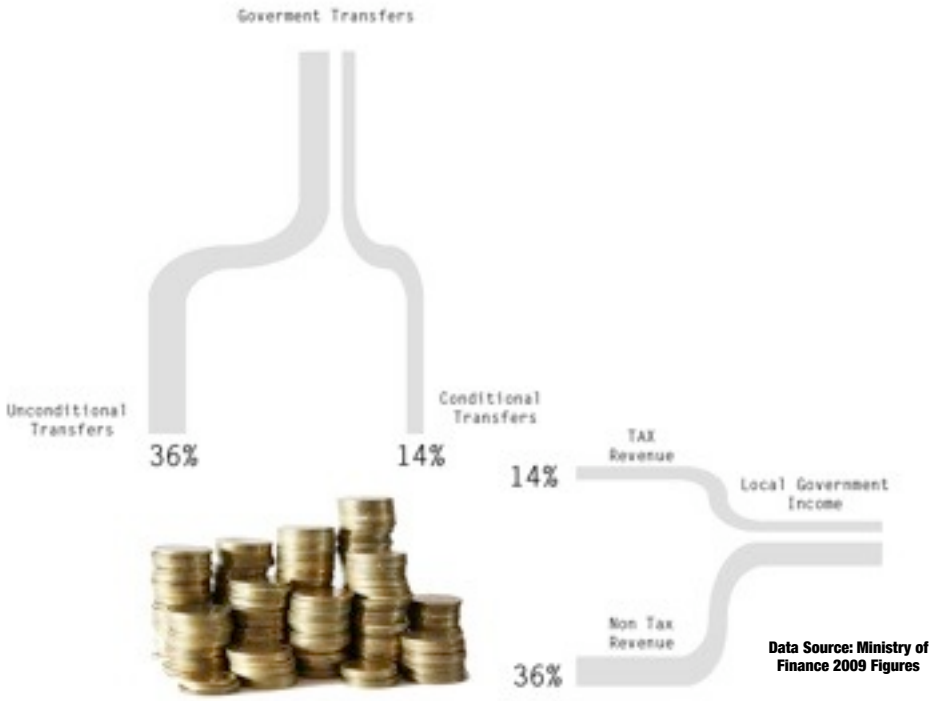
A special report on Intergovernmental Transfers in Albania, focusing on research findings and recommendations can be found in the 'Working Papers' session appended to this newsletter.

As much as 50% of any local budget in Albania relies on top-down Intergovernmental transfers. Whilst local government units are in the midst of a decentralization process, these feeds from central government to local level still constitute an important sources of local revenue. Most local governments in OECD member states, derive 15 to 40 percent of their income from own sources and indeed, in most countries local governments are still considerably dependent on central government transfers, although public finance theories promote the opposite. It remains arguable whether in the case of Albania, the figures and practices go in favor of our recent attempts to decentralize at a local level: one thing is certain for now, intergovernmental transfers constitute a crucial source of revenue, leading to high dependency from the central government.

In countries where local governments are responsible for the provision of basic urban services, but not responsible for social sector functions, it is expected that local government revenues constitute about 12% to 15% of State Revenues and 5% to 7% of the GDP. In Albania, local government revenues represent only 11% of the State Budget, and 2.9% of the GDP, resulting thus below the comparative "norms".

Even though Albania has undertaken major reforms in terms of intergovernmental relations, there are still several controversies to be addressed. Within this framework, Co-PLAN, financed by LGI/OSI Budapest, has undertaken a research study focused on the system of intergovernmental transfers in Albania, particularly unconditional transfers and competitive grants. The study aims to analyze the way local revenues derive from national sources as well as their relation to politics. More on findings and recommendations of this study can be found in the "Working Papers" session appended to this newsletter.





Data Source: Ministry of Finance 2009 Figures



URBAN AND REGIONAL DEVELOPMENT IN ALBANIA

Facts & Findings

Anyone could question the importance of urban and spatial development matters and to what extent they have been reflected in the socio-political and economic platforms of the past 20 years in Albania. The following snapshot-style [primarily] institutional account highlights some crucial facts on this important issue:

› During the early '90s, the Albanian Government undertook a number of reforms in the privatisation sector, that, when added to the constitutional amendments re-introduced the concept of 'private property'. Such incentives had a significant impact on individual behaviour towards 'property' and how the individual choses to use it [i.e. informal settlements]; nonetheless they were not sufficiently reflected in the 1998 legislation on urban developments (Law no. 8405, dated 17.9.1998, "Per Urbanistiken").

› In 2004, Law no. 9232, dated 13.5.2004 on "Social Program for sheltering residents of Urban areas", provided to the local government units the legislative foundation to exercise its social shelter services, as an own responsibility, as defined by law, no. 8652, 31.7.2000, "On the organisation and Functioning of Local Governance'. The Albanian government has supported a number of various local government units in applying the social shelter programs. However, from a financial point of view, in essence, this constitutes a communal problem and its sustainability is highly depended on the Ministries' programs.

› During 2004-2006, the widely spread phenomenon of informal settlements were under the spotlight. Law no. 9482, dated 3.4.2006 "On Legalisation, Urbanism and the Integration of the Informal Settlements', its amendments and a series of sub-laws, have not sufficed to conclusively finalise the informal settlement urban development. To this day, this phenomenon has not been resolved yet, and the legalisation process started in 2007, remains open.

› The initial registration, still incomplete, dates back to the first decade of the Albanian economic transition. In the meantime, "property reinstatement and compensation" complemented by an insight into property superpositions in the Immovable Property Registration Office's (IPRO) official registers, have grown into a priority as most seem to think it could in fact be instrumental to development in Albania.

› Law no. 10119, dated 23.4.2009, "On Territory Planning", proposes a fundamental change in the spatial development legislation. This amendment is not to be confined to concepts and new practices, but should also comprise of changes in attitudes and approaches at an individual, professional, and institutional level in terms of territory use and management, be it urban or not. In addition, the law stipulates a snowball effect highlighting the need for other legislative amendments of various fields, together with a significant government investment [both central and local], in human resources capable of managing the territory under a new legislative and conceptual frame. Inevitably, financial resources need to be allocated, particularly in the case of small local government units in urban and economic depression, which have however abundant natural and economic resources. Based on this law, no local government unit can grant development approvals in absence of a general territorial plan. Providing a sample planning regulation (valid only through a transit period), does not suffice to assist the local government units in managing urban development, or rural development for that matter. As law foresees it, the local plans are to be approved by the local councils, instead of the technical teams as is the Territorial Regulation Council (TRC) as implied in the Urban law. Nonetheless, all local plans are to be approved by the National Council of Territory (NCT) in the first drafting stage; local plans of first tier municipalities are to be approved by NCT at all instances; any plan; any local plan is to be approved by NCT, in the event it seeks to alter a regional plan, a national plan, or alternatively in the event it proves conflicting with the neighbouring units. Approvals for development, considering they are approved at a local level, constitute administrative acts of the City Major. The law determines other cases in which the approvals of any related nature (infrastructure, construction) are to be issued by the respective Ministries or NCT. Based on law provisions, National Territorial Planning Agency (NTPA) has drafted three key regulations: Uniform Planning Regulation, the Uniform Development Control Regulation and the Model Planning Regulation, which have already officially been issued feedback by the respective ministries, and were approved by the Ministers Council on June 22, 2011. Law no. 10119, is expected to come into effect on September 30, 2011.

› In 2007, the Ministry of Economy, Trade and Energy drafted a Regional Development crosscutting strategy, which was approved by the CM; it then followed to draft the respective law, which did not make it through to approval. In 2009, the Albanian government, supported by the UNDP and EC (project: "Integrated Support for Decentralisation-a project for Regional Development") engaged in the revision process of the strategy, the drafting of the national policy for regional development, and the support for a number of *Qark*s in drafting their regional strategies. In addition, the project supported the government in fulfilling a series of important obligations, crucial to the integration process from a regional development point of view, (IPA 3, EU access questionnaire, proposals on NUTS II division, capacity building etc). The project is still in process, until 2012, whilst in 2011 ADA and SCO have been involved in supporting the central government and two local government units (Shkodër and Lezhë) to further the regional development efforts, in accordance with the EU cohesion policy, but also, with the regional development policy for domestic needs.



Co-PLAN's Role and Position in

URBAN AND REGIONAL DEVELOPMENT IN ALBANIA

The urban / spatial development in Albania, otherwise increasingly referred to as "territorial development", although highly important, has yet to be thoroughly and fully investigated by the relevant institutions. People have absorbed the personal benefit of territorial development, and as a result have worked to maximise their personal gain and benefits. This approach has not been predicted or addressed by the institutions; the lack of cohesion between institutional and individual action, has resulted in a territorial development which is short of sustainability, aesthetics, and highly bias in profit matters. Thus, producing the type of development that does not serve to society and institutions in their entirety, but to select groups of individuals; alias translated into a distorted balance of public and private interest in the way territory and natural resources are utilised.

The institutional interventions in territorial development policies and matters have been of a "pre-emptive injection' nature, rather than part of a complete multipurpose platform. Such a platform is required since territorial development does not constitute an isolated realm; in fact it is the ultimate dimension in which various crosscutting policies, matters of land development, financial and human capacity building, as well as European integration matters are finely inter-twined. Although territorial / spatial development does not constitute a compulsive EU directive, or an MSA obligation for Albania, all EU recommendations thus far indicate as a precondition for integration, significant influence on territorial issues. It is worth noting the unsolved case of property right, or yet another delicate issue: regional development and EU cohesion policy employment in Albania.

Over the past 16 years, Co-PLAN has been working towards reducing the obstacle created between the society and the institutions in the way territory is to be used and developed. Since 1995, up to 2006, Co-PLAN focus, amongst other things, was placed on informal settlements. To this end, Co-PLAN has worked in Bathore (Kamëz) and Kënetë (Durrës) in order to create models, which were then put forward to the Albanian political agenda in 2005 in the form of a territorial development platform. Co-PLAN has empirically tested two highly debatable models: urbanisation and integration, then legalisation (Bathore); legalisation then urbanisation (Kënetë). Both models have resulted successful and have been followed by a series of public investments; in fact the integration process proved avant-garde if compared to the other informal settlement areas in Albania. In essence, the best part of the outcome was the fact that both models were good; but success is highly conditioned by the political will to make things happen.

public sector construction

only 2-5%

Data source: INSTAT. Processed by Co-PLAN

Co-PLAN is co-author (in collaboration with the respective local government units) in a series of territorial plans drafted between 2005 – 2011 (Fier, Elbasan, Fushë Krujë, Kukës, Librazhd, etc.).

Through these practices, Co-PLAN has gained the pioneering experience in spatial development in Albania, which has served as a domestic case for both drafting of the new territorial law, and donors support in the field of territorial development, such as World Bank, USAID, SCO, etc.

Informal Urban Development

88%

**of all constructed buildings 1990 - 2008*

Data source: ALUIZNI. Processed by Co-PLAN

In 2010, as part of USAID funded LGPA project, Co-PLAN engaged in assisting the NTPA in drafting three basic regulations of law no. 10119, on territorial planning. The drafting process of the three fore-mentioned regulations asked for the pro-active participation of both local and central government representatives. The regulations serve to thoroughly elaborate on the basic law concepts and principles, and to assist both central and local authorities with the understanding and implementation process. These regulations constitute an innovative instrument in Albania. Nonetheless, the implementation of the regulations and the law itself are highly dependable on the investment on financial and human resources at a local, and especially central level, to fully comply with the law provisions.



Facts & Findings

URBAN ENVIRONMENTAL MANAGEMENT IN ALBANIA

› Solid waste

The decentralization process in the context of waste management started as a necessity to protect the environment and improve the performance of waste management service. The waste management services were delegated to the LGUs without specification on the quality standards of the service. In time this fact led to the deterioration of the environment.

In the framework of the CARDS projects (2006), INPAEL has compiled the National Strategy of Waste and National Plan of Waste, currently in the process of being approved. According to these documents, the authorities at central, regional and local level should draft waste management plans. The National Waste Policy and Strategy is based on 4 basic policy pillars (PERL's) essential to the sustainable waste management in Albania:

› Planning: implementation agenda of the waste management plan; Regional Waste management Plan; Local Waste management Plan

- Education: The key system's stakeholders educated to perform in the system
- Resourcing: Finding adequate human and financial resources
- Legislation: (i) Law no. 8934, dated 05.09.2002 "On Environmental Protection"; (ii) Law no. 9010, dated 13.02.2003 "On environmental management of solid waste", aiming at the protection of environment and health from solid waste at every treatment stage: creation, collection, separation, protection, transportation, recycling, processing final disposal and reduction of their hazardous and dangerous impact; (iii) Law no. 9537, dated 18.5.2006 "On hazardous waste management" aiming to regulate the safe management of hazardous waste; (iv) Law no. 8094, date 21.3.1996 "On public removal of waste" aiming at the protection of the urban environment from waste pollution, and public removal of waste inside the administrative territory of municipalities and communes; (v) In addition, there are numerous secondary legislations , as Council of Ministers Decisions and guidelines complementing the waste management legal framework.

The waste management services were delegated to the Local Government Units without clear quality specifications. As a result, it led to the deterioration of both the service and the environment.

› Energy efficiency

Energy efficiency is instrumental in the preservation and cost reduction of energy and for this reason it is on the most important constituents of the global agenda for sustainable development. In Albania, energy policies also prioritize the promotion of energy efficiency, according to the EC Directive 2001/77 and the Energy Community Treaty principles.

Energy efficiency issues are incorporated in a number of strategies and action plans: the Strategic Energy Action Plan for Power Sector (February 2001), Action Plan for implementing the Power Sector Policy Statement (April 2002), National Strategy of Energy (June 2003), Action Plan for Implementing the National Strategy of Energy (September 2003), and Draft National Energy Efficiency Action Plans (2010-2016) –submitted to EU authorities. The National Strategy of Energy (2008-2020) has defined

CO_2 EMISSIONS



AVERAGE

34.2 M/T CO_2

ALBANIA

7.6 M/T CO_2

Data source: MMPAU (2009) "Raporti mbi gjendjen e Mjedisit"

broad and ambitious objectives due by 2020: (i) efficient energy sector from the financial and technical aspects; (ii) institutional and regulatory framework; (iii) Increase energy efficiency in final use of energy sources; (iv) Optimization of energy resources supply system; (v) Diversification of energy sector and construction of new generating plants and interconnection lines; (vi) Use of renewable energy resources (solar, small Hydro Power plants, wind and biomass).

This strategy comprises of two scenarios; the "passive scenario": the total energy demand up to 2020 will be at level of 4,167 Ktoe (in residential sector goes up to 930 Ktoe) and the "Active scenario" which foresees the implementation of several measures: increasing energy efficiency and application of alternative energy sources.

Legislation: (i) DCM no. 584, dated 2.11.2000 "On energy conservation and internal building heat" (2000), use of central heating facilities in the existing building stocks and services; (ii) law no. 8937 dated 12.09.2002 "On heat conservation in buildings"; (iii) DCM no. on the Energetic Code (2003), new buildings constructed shall be built according to established norms for minimizing thermal losses, and providing installations for central or district heating; (iv) One of the specific objective of the EE policy and government itself include law improvement on "heating/ energy conservation in building and to the new energy building code according to new EPBD "Energy Performance of Buildings Directive"; (v) Law no. 9379 "On energy efficiency" approved in 2005, aiming to the establishment of legal framework to encourage the efficient use of energy in its whole cycle, establishment of local energy offices, labeling of electric appliances, energy auditing, energy efficiency fund; (vi) new law complying with EU Directives 2000/55/EC, 92/75/EC and 96/57/ EEC (amended with 86/594/ EEC) is under improvement aiming to provide new standards on energy consumption of domestic appliances through information and labeling; (vii) DCM no. 141, dated 11.2.2009 "On improving the technical regulatory for the essential demand and comfort estimation for domestic appliances (refrigerators) and freezers, according to energy efficiency demands.

› EIA/ SEA – Environmental Impact Assessment and Strategic Environmental Assessment

The law on environmental protection is a cornerstone of the environmental legislation in Albania aiming to regulate the relationship between citizens and environment, and also other environmental issues. Legislation: (i) Law no. 8990, dated 23.1.2003 "On environmental impact assessment", defining a general, integrated estimation and in time of the environmental impacts from projects or activities on the way of development, preventing and mitigating the negative impacts on environment; (ii) In 2008, the law was amended, in regard with the timeline of the documentation processing for projects that require "in-depth" and "a summary" assessment process; (iii) Lately (June 2010), MoEFWA, with the technical assistance of CARDS projects (2006), INPAEL, as part of Stabilisation and Association Agreement measures, presented the new draft law "On environmental assessment" aiming to protect environment through adopting a preventive approach, defining legal obligation for every project potentially impacting the environment, should undergo environmental impact assessment prior to obtaining a license for their activity.

› Climate change

Albania in line with its EU membership ambition is committed to reducing its CO_2 emissions by 4% by 2025. Albania can profit from the Climate Green Fund established by the Cancun Agreement, in Mexico, . Albania is expected to report on its undertakings for reducing green house gases, particularly CO2. Current figures speak of app. 7,6 million ton CO_2 or 2,7 ton per inhabitant emitted in atmosphere. This indicator is 4-5 times lower than the average of industrialized countries. Official sources from MoEFWA state that Albania is planning to enter the carbon market with the intention to purchase quota reduction of CO_2 in exchange for financing sustainable development projects that do not pollute the environment.







URBAN ENVIRONMENTAL MANAGEMENT IN ALBANIA

Co-PLAN's Role and Position in

The main problem on waste management in Albania is not of a legislative nature, rather a lack of: (i) human and technical capacities; (ii) financial resources and investments on waste infrastructure (iii) technical standards for service provision, waste statistics and monitoring of environmental performance; (iv) economic mechanisms that will stimulate resource management (reuse, recycling, composting).

Co-PLAN has long been one of the main stakeholders in contributing to compile NSW and NWP as in the generation of technical data (waste characterization and analyze), and dissemination process. Co-PLAN Experts have facilitated and conducted 5 regional round tables (Shkodër, Lezhë, Kukës, Fier, Tiranë) to present the main points of these strategic documents, and the way these policies impact the LGUs. In addition, Co-PLAN is engaged in the process of drafting the conclusions into a document indicating the roles of LGUs.
Co-PLAN has played a crucial role in providing its technical assistance to various LGUs in compiling their waste local plans based on the National Waste Strategy and Plan:

2009 -Local Plan of Municipal Solid Waste Management in Commune of Guri i Zi – DLDP project Financed Inter-Cooperation Albania, SDC;
2010 - Local Plan of Municipal Solid Waste Management for Fieri city – EELGP project, financed by the Dutch Embassy; Local Plan of Municipal Solid Waste Management in Commune of Daiç, Shkodër – DLDP project financed InterCooperation Albania, SDC; Study on hospital waste management in UHCT (Universal Hospital Center Tirana) Nene Teresa
Local Plan of Municipal Solid Waste Management of Fushe Arrez; Local Plan of Municipal Solid Waste Management of Kamza.
2011 – Ongoing development Local Waste Management Plans, for the Commune of Velipoja, Municipality of Koplik and Pukë and Inter-municipal Waste Management Plan of Rrëshen and Rubik - DLDP project financed by InterCooperation Albania, SDC; also developing curricula performing training sessions on Solid Waste Management.

› Pilot projects

Waste characterization of municipal waste for 8 cities in Albania (2009): Tirana, Durrës, Shkodër, Lezhë, Fier, Berat, Lushnjë, Fushë-Krujë, Vorë, which had a national impact on the compilation of the NSW and NPW;
Piloting the waste collection services with three bins (2010): organic waste – green bin; recyclable waste – blue bin; other waste – gray bin.
Policy impact - 3 policy papers were prepared.
Processing and final disposal of municipal solid waste (2008, 2010): highlights the importance of MSW, (ii) encourages the debate on financial expenditures of different technologies to treat waste, (iii) analyzes in which level should be planned/ designed the respective facilities, analyzing the potentials of economy of scale;
Minimizing waste as key step in municipal solid waste management (2009, 2010): gave an overview why LGUs should play an active role in waste minimization, and some steps to comply with the objectives of the NPWM (ii) gave recommendations to policy makers at central level to compile or adopt policies/ instruments to support LGUs;
Policy of cost recovery of municipal solid waste management service (2010): (i) at central level – to compile standards of service provision and credible scenarios for cost recovery, (ii) at local level – to calculate the full cost of service provision, to plan the budget based on cost calculated, to define the differentiate tariff per each category that benefit the service, to monitor the service performance and to plan in a more efficient service.
Roundtables: several national, regional, local seminars and round tables to bring forward on national and local focus the debate and importance of waste management, improvement of national policy and its implementation at local level.

› Environmental Management Systems

EMS are voluntary schemes that help the private and public companies to evaluate, report and improve their environmental performance. Nowadays there are different EMS developed, but the best known are ISO 14001, EMAS, EMAS easy. In the framework of the EELGP project, Co-PLAN introduced "EMAS easy", one of the environmental management systems, to the Cleaning Enterprise of the Fieri municipality. The aim of this initiative was to provide a waste management system according to certified environmental standards. Additionally, Co-PLAN was the first to draft documents presenting the benefits of Environmental Management Systems to public and private enterprises:

Guideline for the Environmental Management Auditing Schemes (EMAS easy) for SMEs (2010): a brochure to assist LGUs or private businesses with the EMS implementation;
Policy paper "Environmental Management Systems in Public Institutions": (i) explains the concept of SMS; (ii) briefly describes the Albanian certification trade and current situation of LGUs as the key provider of public services; (iii) explains why LGUs should implement EMS.

› Environmental Impact Assessment/Strategic Environmental Assessment

It is worth noting that the Strategic Environmental Assessment does not constitute a proper legal framework. To date, the strategic environmental assessments are based on the EIA legislation. Still there are no rules to define that EIA/ SEA is a process to be undertaken by a group of persons specialized in different areas to cover all EIA/ SEA components. In this regard, Co-PLAN has given its contribution during the compilation of regulatory plans of cities, which are followed by respective strategic environmental assessments: Strategic Environmental Assessment for the Regulatory Plan of

MUNICIPAL FINANCE MANAGEMENT IN ALBANIA

Facts & Findings

Over the past 20 years, the decentralization reform in Albania has dealt with political, administrative, economic, and fiscal issues. In the 90s, the process of decentralization was focused on political and administrative issues, however, in the subsequent years the focus shifted towards issues of sustainable economic development and the efficient distribution of financial resources. In these regard, the Albanian decentralization process underwent three distinct stages:

(i)First Phase (1991-1998): There was a shift from de-concentration to decentralization; first tier LGUs (municipalities and communes) were created; overall the reform was focused on political decentralization. The European Charter of Local Self-government was adopted in 1998 and ratified in 1999.

(ii) Second Phase (1999-2006): in 1999, the government drafted the National Strategy for Local Decentralization and Autonomy, followed by law 8652, (31.07.2000) "On the Organization and Operation of Local Government" also known as the organic law. Fiscal decentralization started in 2002 and ended in 2006. Some of the main developments of this period were:

› The enactment of law 9632, date 30/10/2006 "On the Local Taxes System". According to this the collection of the small business tax became the responsibility of LGUs. This was the second most important development in the fiscal decentralization process. In 2002, the law 8982, date 12/12/2002 "On Local Taxes and Tariffs", for the first time, gave LGUs the right to manage their local taxes. However, law 9632, gave local councils more competences by giving them the right to issue new local taxes, determine their amount and the different administrative procedures related to taxation.

› Overall, law 9632 together with law 9920, date 19/95/2008 "On the Taxing Procedures in the Albanian Republic" harmonized all fiscal procedures for the collection and administration of taxes by the local government.

› However, the ability of LGUs to collect and manage their local taxes and tariffs was limited by the enactment of law 10117, date 23/04/2009 "On changes in the law 9632 date 30/10/2006". The reason behind the enactment of law 10117 was to reduce local taxes and tariffs to small businesses and families. However, this law had detrimental repercussion on the budgets of LGUs by:



1. Lowering the margins on the small business and property tax (prior to the enactment of law 100117, LGUs could change the taxes by +/- 30%, law 10117 changed it to +10/-30%)
2. The tax rate for temporary taxes and tariffs was changed, severely limiting the budget (now the tax rate for temporary taxes and tariffs cannot be more than 10% of the small business tax)
3. The repercussion to the budgets of LGUs included: (i) a decrease of 20% to the own income of LGUs; (ii) decrease of borrowing capabilities; (iii) decrease of the budget for capital investments.

(iii) Third Phase 2007-on going: The changes made to the legislation on local taxes during 2008-2010, aim to reduce taxes to businesses and at the same time increase the own income of LGUs. Own income would increase because when tax rates decrease so will the fiscal evasion and the informal economy, thus increasing the overall tax revenues. The main laws enacted in this period are:

› Enactment of law 9869 date 04/02/2008 "On Local governments borrowing", which aims to increase the independence of the local government with a financial instrument that enables the implementation of development strategies and of capital investments. Since the enactment of this law, 17 LGUs have applied to borrow and 7 of them

have succeeded in borrowing a total of 13,5 mil Euro.

› DCM no. 1058 date 21/10/2009 "On the decrease of the registration limit for the VAT" which means that the VAT threshold will decrease from 8 million Albanian Lekë to 5 million Albanian Lekë. DCM no. 149 date 03/03/2010 "On an addendum to DCM no. 1058 date 21/10/2009" which excluded 4 categories of tax payers from contributing to the budget of LGUs.

› The enactment of Law 9936 date 26/06/2008 "On the management of the budgetary system in the Republic of Albanian" represents another change in the budgetary reform in terms of predicting future income. Also, guideline 7/1 date 22.02.2010 "On the drafting of the Medium-term budget program at local level" which regulates the budgetary system in terms of: a) structure; b) principles; c) financial relations; d) responsibilities in the implementation of the legislation on budgets through the connection between the budget, development policies and medium-term objectives. This law is important because of its: (i) uniformity; (ii) clear separation of responsibilities (iii) internal financial control.

› Law no. 10355 date 02/12/2010 "On the budget of 2011" and Guideline no. 4 date 27/01/2011 "On the implementation of the 2011 budget" which establish a local budgetary system that connects the expenditure with local policies. The local policies are regulated by the Integrated Planning System (IPS) which is a decision making system at the central level of government, and serves as a coordinating mechanism of strategic development. The IPS creates a link between the midterm and long-term objectives of the National Strategy of Development and Integration (NSDI) with the distribution of the resources to the LGUs. Within this framework, the Midterm Budget Program guarantees that the priorities of the NSDI are addressed by the distribution of resources in the midterm period.



*) The current property tax calculation relies on building surface only; the estimated figures consider property tax calculated based on the property market value.

Co-PLAN's Role and Position in

MUNICIPAL FINANCE MANAGEMENT IN ALBANIA

Municipal financial management became one of Co-PLAN's core areas of expertise in 2007. However, the subject of municipal finance management was integrated in Co-PLAN's work since 2004 (Këneta Project, EGUG I&II, etc).

Through the years, Co-PLAN has assisted LGUs, NGOs and the business community in addressing issues of urban development by drafting guidelines and strategies such as: city development strategies, regulatory plans, neighborhood development plans etc. The progress of the decentralization process and the growing number of responsibilities attributed to the local government has augmented the need for clear policies regarding the funding and implementation of local economic development strategies. Between 2007 and 2009, Co-PLAN assisted 10 LGUs in improving their financial performance by drafting capital investment programs, drafting local budgets with the participation of citizens and assisting in the collection of taxes.

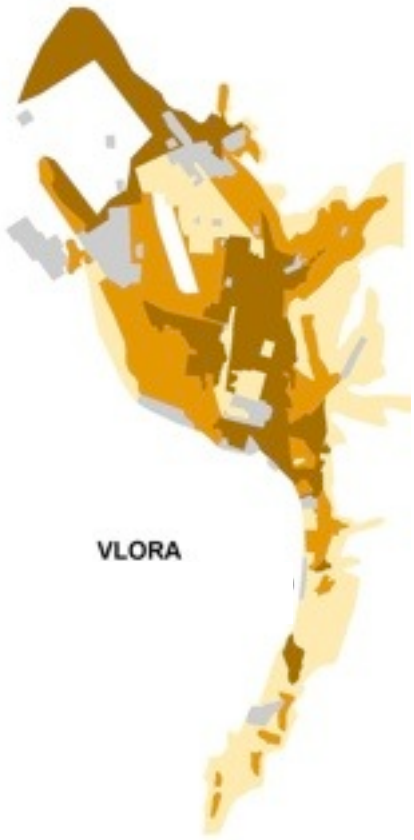
In the last years (2009-2011), Co-PLAN has worked on projects which besides their primary focus on urban development had also elements concerning municipal financial management. These projects included: a feasibility study for a public private partnership for the construction of a market in Kukës, a feasibility study for a public private partnership for the construction of a bus terminal in Fier, a feasibility study for the construction of an Industrial Park in Lezhë.

Building upon the experience and information gathered during its work, Co-PLAN has engaged in three research projects. The first is a research on the construction industry and housing sector in Albania (financed from our own resources). The topic was considered relevant due to the hardships the construction and housing sector was undergoing at the time. The findings of the research were used to draft a policy paper which was distributed during seminars on the same topic.

The second research topic, focuses on the property tax, and was considered as a continuation of the first research topic. This research was financed by the LGPA of USAID. In the study the property tax was viewed as an instrument that could be used both to manage urban development and to increase the own resources of LGUs. The findings of the research were drafted into a policy paper.

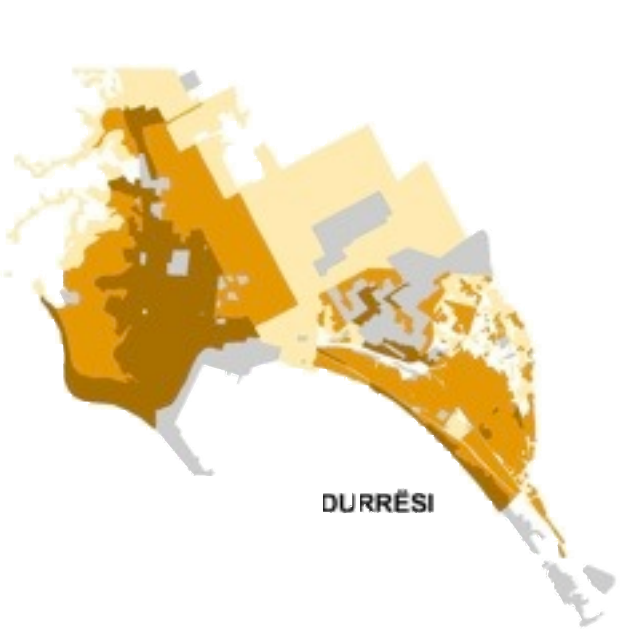
The third research focused on intergovernmental transfers in Albania. The findings of this research were also used to draft a policy paper.

Co-PLAN's ambition is to integrate urban policies with urban planning and urban finances. For this reason, on of our objectives is to offer consultancy on urban economics.



CITY EXPANSION MAPPING

Durrës - Sarandë - Vlorë





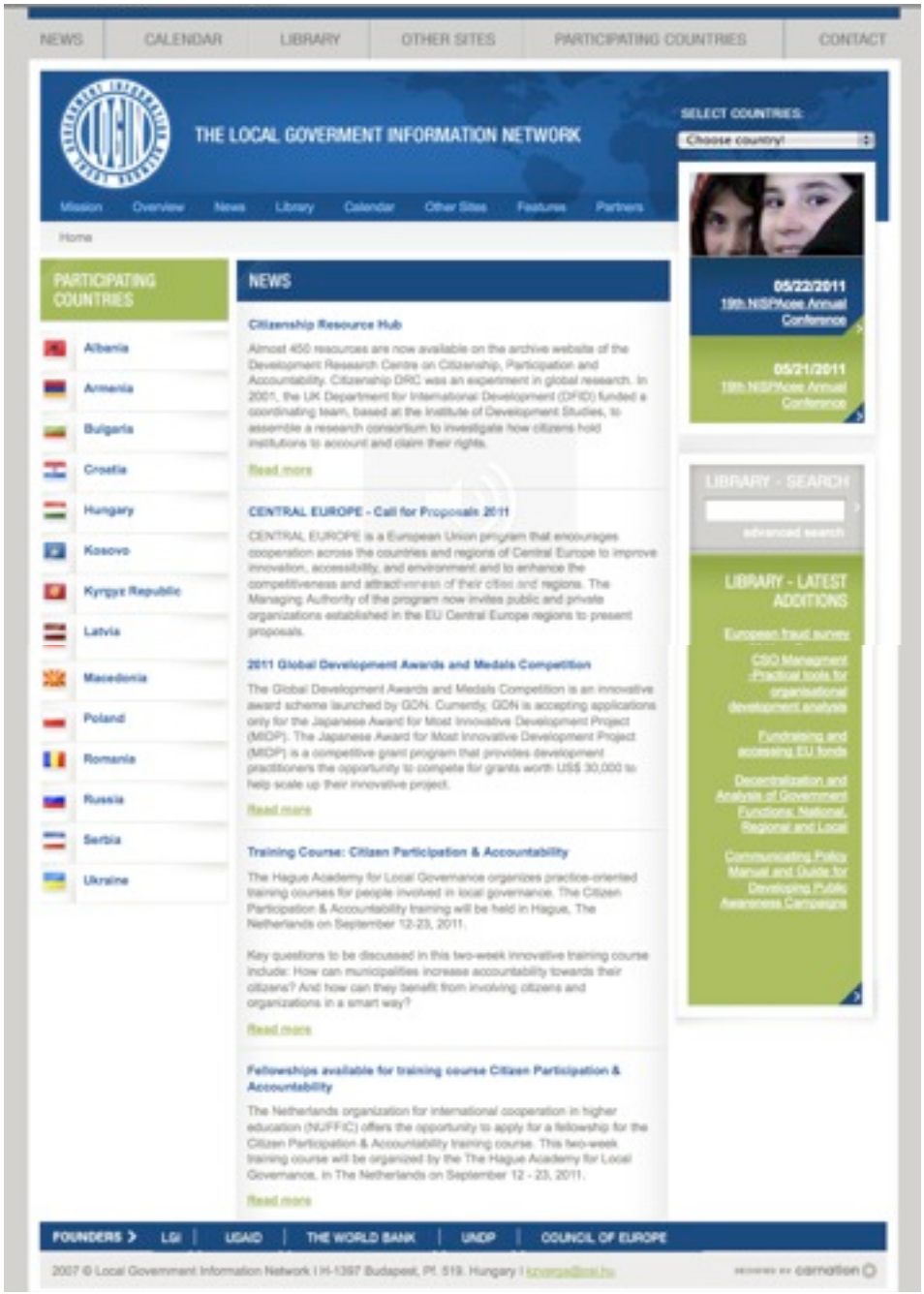
THE LOCAL GOVERMENT INFORMATION NETWORK

www.logincee.org

2010 marked yet another successful year in the promotion and further growth of LOGIN – the Local Government Information Network in Albania. A total of 515 documents, in Albanian or English, were added to the online platform, increasingly promoting the professional development of local government officials and to strengthening the capacities of organizations that support the reform of public administration at the local level.

This project is being implemented simultaneously in fifteen post-communist countries of Eastern and Central Europe that are committed to capacity building and decentralization reforms. LOGIN provides information on local governance issues such as new legislation, procedures, funding, and training opportunities. Amongst other purposes, the database will also provide news related to Albania's EU integration process, focusing on imperatives and opportunities.

2010 recorded a growing number of users, peaking at 23627 downloads by the end of November 2010. In addition to feedback received during national conferences, round tables and meetings organized by Co-PLAN and its partners, a survey was conducted a survey among 397 Local Governments units. This survey touched on awareness and accessibility issues; whilst all units are aware of LOGIN, poor internet infrastructure, impedes a part of them – primarily the remote areas of Albania, from using LOGIN online. This issue has been resolved by supplying all units the year's worth information input of LOGIN through DVDs.



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IKSH _ POLIS

Co-PLAN GAZETTE SUPPLEMENT

IKSH_POLIS Working Papers Series

This newsletter is a knowledge-exchanging tool and as such it will provide research conducted in the policy, legal and development environment in our areas of expertise. The results of these working papers from Co-PLAN, and The Scientific Research Institute at Polis University (IKSHLPOLIS), will be published in the second part of this newsletter. The working papers that we plan to share with you through this supplement, are selected by the IKSHLPOLIS Committee based on regularly reviewed criteria; Co-PLAN & U_POLIS research agenda and political and development priorities in Albania.

> On this issue

Through this supplement, we aim to share with you a research report on Intergovernmental Transfers in Albania, which builds on a recent project supported by LGI Foundation & Open Society Institute, in which Co-PLAN engaged between April 2010 and February 2011. The overall objective of the research was to generate policy debate concerning the way local revenues derive from national sources, and possibly put forward alternative policies to guide the design of intergovernmental transfers and measure their performance.

Through desk-review, qualitative and quantitative data collection and analysis, the study generated up-to-date information on the intergovernmental transfers and relevant criteria, analysed trends and patterns and provided policy recommendations for both central and local government and other interested parties.

"Intergovernmental Transfers in Albania:
A reflection on how local revenues are derived from national sources."

RESEARCH STUDY REPORT

Intergovernmental Transfers in Albania:

A reflection on how local revenues are derived from national sources.

Prepared by: Co-PLAN, Institute for Habitat Development

Tirana, January 2011

ACKNOWLEDGEMENTS

This Research Report was made possible by the Local Government and Public Services Reform Initiative (LGI) funded project "Investigation into the Politicization of Albania's Intergovernmental Public Finance System", which started to be implemented in April 2010. LGI during the last three years has supported Co-PLAN to develop products and offer assistance to local governments in Albania within the themes of democratization and decentralization; financial management and local economic development.

Co-PLAN's ambition to use the results of this study for drawing the attention of both central and local government and other interested actors on the need to improve/reshape the much-discussed legal framework on public finances would have not been fulfilled without the LGI support.

This research report owns its existence to the guidance and helpful assistance of Gabor Peteri, Local Governance Innovation and Development (LGID) Executive Director, Hungary. We are deeply grateful to his technical orientations and advice in all the steps of this research study.

This report reflects the opinion of the local governments in Albania related to the much discussed topic of intergovernmental transfers. This information was made possible through the contribution of the associations of local governments: Albanian Association of Municipalities (AAM), Association for Local Autonomy (ALA) and Albanian Association of Communes (AAC), to whom we are particularly grateful.

Finally, the entire effort would have been impossible without the contribution of Mr. Fran Brahimi, Director of the Department for Intergovernmental Fiscal Relations, Ministry of Finance, for all the data and information of the recent history of Albanian intergovernmental relations.

EXECUTIVE SUMMARY

Intergovernmental transfers from central to local level are an important source of revenue in Albania. They cover almost 50% of local budget. This importance will continue since the decentralization and especially fiscal decentralization is in process. Within the OECD countries, most[1] local governments derive only 15 to 40 percent of their income from own sources. Indeed, in most countries local governments are still considerably dependent on central government transfers, although public finance theories promote the opposite.

Even though Albania has undertaken major reforms regarding intergovernmental relations, still there are several controversies to be addressed. Within this framework, this study is focused in the system of intergovernmental transfers in Albania, particularly unconditional transfers and competitive grants, and analyses the manner in which local revenues are derived from national sources as well as their relation to politics.

The transfer mechanism has to resolve several issues such as the determination of total transfer pool and the allocation of this pool among LGUs. The determination of total transfer pool, in Albania happens each year during the preparation of the budget, and the way the pool is designated is not clear. Although there have been discussions in regard, so far the transfer pool is not yet based on any fixed formula or on the percentage of certain taxes to total state budget.

Once the total pool is set, the amount is distributed to individual LGUs based on a formula, whose coefficients have changed over years. As a result, the unpredictability of funds remains twofold: In one side, due to changes in total transfer pool and on the other side due to the changes of formula coefficients.

In general, in countries where local governments are responsible for the provision of basic urban services (Albania together with other Balkan countries[2] are the case) – roads, water, waste, parks, - but not responsible for social sector functions like education, it is expected that local government revenues constitute about 12% to 15% of State Revenues and 5% to 7% of the GDP. In Albania, local government revenues represent only 11% of the State Budget, and are thus still below the comparative "norm", though not by much. On the other hand, local government revenues as a share of GDP, only 2.9%, result very low. Although the justification is based on the fact that the total government sector in Albania is small in relationship to the GDP, only 27%[3], when compared to European norms of 35% to 45%, this share is still considered low.

The Albanian intergovernmental finance system rests on two pillars: transfers and own revenues. This is unusual because most European countries make fairly extensive use of a third pillar, shared taxes, particularly shared personal income tax (PIT). Indeed, Albanian legislation (law 8652/2000) contains provisions that foresee giving local governments PIT shares, but these provisions have never been used. Following this research study, in our point of view it would be logical to introduce PIT sharing as the third pillar in the Albanian intergovernmental finance system for a number of reasons: (i) first, the origin-based sharing of PIT provides local governments with a direct incentive to promote economic growth; (ii) second, PIT can be combined with the designation of the total transfer pool, so to guarantee the predictability of funding.

Another important factor which directly affects the predictability of transfers is the source of information and data used in calculating the formula, which is not always the same at different levels

[1] Large urban jurisdictions in all countries typically derive substantially more of their income from own sources than their smaller counterparts.
[2] This is the case, for example, in Croatia and Serbia,, (Levitas, T., 2010, Local Government Taxes, Fees and Charges in Albania)
[3] This mainly results due to the informal economy in the country and the problems in collecting taxes

of government. The sources of data used in should be made public. This way, local and national government can use the same data for the calculation of transfers thus, making them more predictable.

According to the definition, the main objective of unconditional transfers is the equalization of resources among local governments. On the other hand, the dispersion of per capita transfers seems to become more irregular after 2005, bringing some communes at maximum upper bounds.

Regarding the equalization, the formula faces a problem because the tax capacity of LGUs is based on the actual collections of the business and property tax and not based on the potential tax capacity. The equalization coefficients should be more stable, and, in the near future, the equalization should be based on potential tax capacity of local governments.

The equalization part of the formula tends to discourage resource mobilization since LGUs whose per capita revenues from two assigned taxes[4] exceeds the national average will contribute 25% (in 2010) of the excess funds (multiplied with its population) for LGUs which have per capita revenues lower than national average. A good formula in fact should not discourage resource mobilization.

Regarding the relationship between unconditional transfers and political affiliations, it is moderately strong after the parliamentary election of 2005 when the governing party was changed. After 2006 the statistical tests show a weak relationship between political affiliation and unconditional transfers. The local elections of 2007 changed the political affiliations between LGUs and the governing party (DP) but the relationship remained still weak. The results of 2005 are not in the margin of a significant relationship, thus, no conclusion can be drawn in regard to transfers and political influences during the SP governing. As a result, even though in the first year of the DP government a moderately strong relationship is found, it seems that when funds are distributed based on well defined rules then the political influences could have less impact on fund distribution.

Besides unconditional transfers and own revenues, another important source for LGU's capital investments are competitive grants, which are distributed on a competitive basis. The criteria for project selection are very general and not based on a scoring system. The mayors are of the opinion that these criteria should change. Most of them propose that the competitive grants should be distributed as part of the unconditional transfer in the organic budget law and to take into account the population of each LGU.

The fragmentation of competitive grants has lead to the inefficient management of funds. There are projects finished but not fully financed and there are also projects that have started and remain unfinished due to lack of funds because the committee approved more projects than the budgeted amounts.

Financially stable LGUs have more possibilities to prepare good technical projects and have more chances to win in comparison to poorer ones. The poor LGUs except for the lack of financial resources have limited staff capacity to prepare good projects. Thus, poor LGUs are disfavored by this grant transfer mechanism.

In 2010, the competitive grant is reorganized as regional development fund (RDF). RDF is seen as a preparatory exercise for regions to prepare themselves to apply for structural and investment funds in the financial institutions of EU. RDF bears similar criteria as competitive grant and the distribution process has been almost the same in 2010. Although not separately analyzed in this research study, the conclusions about the efficiency of competitive grants could be also valid for regional development fund scheme as implemented in 2010. The law 10190/2009 "On state budget for the year 2010" has defined the scoring system of development fund criteria, assigning a range of points for each of them. Meanwhile, in the framework of Integrated Support for Decentralization project,

[4] The basic fiscal adjustment compares the per capita tax collections in each LGU from two local taxes: (i) the small business tax; and (ii) vehicle registration tax with the average per capita tax collections for the country as a whole. If a LGU's estimated per capita tax is greater than the national average 25% of that difference times the population of that LGU is subtracted from original allocation of the unconditional transfer. If a LGU's estimated per capita tax is less than the national average from the two taxes, 25% of the difference is added to the original allocation.

financed by EU-UNDP and implemented by UNDP, new project selection criteria are proposed in the report for regional development funds[5].

The report found evidence of relationship between competitive grants and political party affiliation. However, this does not rule out the possibilities that this relationship is due to other factors. Even this relationship is not strong in all cases; it is evident that the relationship of competitive grants and political party affiliation is stronger than that of unconditional transfers. Thus, the competitive grants are more vulnerable to political influences.

[5] For more information see the report "*Assessment of design and performance, recommendations for improvements and support in reforming the Regional Development Fund"*, EU-UNDP project "Integrated Support for Decentralization", 2010

TABLE OF CONTENTS

ACKNOWLEDGEMENTS **14**
EXECUTIVE SUMMARY **15**
ABBREVIATIONS **20**
1. INTRODUCTION **21**
2. CONTEXT **21**
2.1 Intergovernmental transfers in Albania 21
2.2 Political situation for the period of the study 24
3. CONCEPTUAL AND THEORETICAL FRAMEWORK **25**
3.1. Objectives of Intergovernmental Transfers 26
3.2. Criteria on Intergovernmental Transfers 26
4. PURPOSE AND OBJECTIVES OF THE RESEARCH STUDY **27**
5. METHODOLOGY AND CONTENT OF THE RESEARCH STUDY **28**
6. LIMITATIONS OF THE STUDY **30**
7. ANALYSIS OF THE SITUATION AND FINDINGS 31
7.1 Unconditional transfers 33
7.1.1 Evaluation of general transfer pool for unconditional transfers 33
7.1.2 Evaluation of formula for unconditional transfer 34
7.1.3 Equalization and unconditional transfers 37
7.1.4 Unconditional transfers in relation to politics 40
7.2 Competitive grants 42
7.1.1 Criteria and process for competitive grants 42
7.1.2 Efficiency of competitive grants 44
7.1.3 Competitive Grants and disparities among local governments 45
7.1.4 Competitive Grants in relation to politics 48
8. CONCLUSIONS AND RECCOMMENDATIONS **51**
REFERENCES **54**
APPENDIX 1. Data collected **55**
APPENDIX 2: Distribution of transfers/grants per capita **56**
APPENDIX 3. Statistical results for Competitive Grants **57**

Tables

Table 1. Local government revenue structure 23
Table 2. Data about local elections 2003 and 2007 24
Table 3. The Evolution of Local Government Finances 2000-2008 in mln lek 31
Table 5. Descriptive statistics for unconditional transfers, 2005 – 2010 40
Table 6. Cross tabulation of political party affiliation and unconditional transfers 41
Table 7.Phi coefficient results for unconditional transfers 41
Table 9. Data collected 55
Table 10. Size Distribution of Unconditional Transfers per Capita, 2005-2010 56
Table 11. Size Distribution of Competitive Grants per Capita, 2006-2009 56
Table 12. Cross tabulation of political party affiliation and competitive grants, MPWTT 57
Table 13. Cramer's V Coefficient for MPWTT 57
Table 14. Cross tabulation of political party affiliation and competitive grants, MOH 58
Table 15. Cramer's V Coefficient for MOH 58
Table 16. Cross tabulation of political party affiliation and competitive grants, MOE 59
Table 17. Cramer's V Coefficient for MOE 59

Figures

Figure 1. Size Distribution of Unconditional Transfers per Capita, 2005-2010 38
Figure 2. Competitive grants disbursed to LGUs for 2006 – 2009 44
Figure 3. Number of LGUs according to applied and won projects 45
Figure 4. Distribution of competitive grants per capita for all LGUs, 2006 - 2009 47

ABBREVIATIONS

AAC – Albanian Association of Communes

AAM – Albanian Association of Municipalities

ADF – Albanian Development Fund

ALA – Association for Local Autonomy

ALL – Albanian Lek

DP – Democratic Party

IPFS – Intergovernmental Public Finance System

LGI – Local Government and Public Services Reform Initiative

LGID – Local Governance Innovation and Development

LGU – Local Government Unit

LSI - Socialist Alliance for Integration

MOE – Ministry of Education and Science

MOF – Ministry of Finance

MOH – Ministry of Health

MOI – Ministry of Interior

MPWTT – Ministry of Public Works, Transport and Telecommunication

MTBP – Mid Term Budget Program

OECD – Organization for Economic Co-operation and Development

PIT – Personal Income Tax

RDF – Regional Development Fund

SP – Socialist Party

1. INTRODUCTION

Co-PLAN has worked for several years in the Public Finances & Municipal Financial Management field. In the past six years, Co-PLAN has collaborated with various local government units in Albania to prepare and implement instruments aimed at improving the financial situation of local governments, preparing capital investment plans, annual budgets, Mid Term Budget Program (MTBP) etc. The main projects are financed by Local Government and Public Service Reform Initiative (LGI) Budapest, Local Governance Program in Albania (LGPA) through ARD Inc. and Soros Foundation in Albania.
Municipal finance management is a key issue in Albania at this moment. While the need for capital investments and other local services is becoming higher, the local budget management is becoming a crucial point. As part of local budget, the own revenues of Local Government Units (LGUs) are still not consolidated and unconditional transfers cover a considerable part of local budget. If competitive grants or regional development fund, as introduced in 2010, will be taken into account as local revenues[6], than the intergovernmental transfers are major sources of revenues for LGUs. "On the other hand, in most OECD countries local governments derive the majority of their revenues from some combination of general grants, conditional grants, and shares in central government taxes. Or to put the matter the other way around, in most countries, most[7] local governments derive only 15 to 40 percent of their income from their own sources. Indeed, it is fair to say that in most countries local governments are more dependent on central government transfers than intergovernmental finance experts - or for that matter, local government officials - would like" (Levitas, 2010). Thus, the design of transfers is of critical importance to the success of decentralization. Even though the allocation of intergovernmental transfers has been somehow '*defined*' there are still several controversies to be addressed, especially for competitive grants, known as such till 2010, time when the regional development fund was introduced. After the much-controversial elections in Albania, the impact of politics in the intergovernmental relations in general and regarding the distribution criteria of unconditional and competitive grants in particular has been a hot issue in the political arena..
In this framework, Co-PLAN, with an incentive from LGI, showed its interest to analyze the system of intergovernmental transfers in Albania in relation to politics with the ambition to answer some of the questions regarding the need to provide a clear basis for evaluating the manner in which local revenues are derived from national sources.

2. CONTEXT

2.1 Intergovernmental transfers in Albania

The collapse of Albanian socialist regime in late 1991 marked the outset of state restructuring, devolution of authority and transition to market economy. The initiatives for political and administrative decentralization after the alteration of political system included a new administrative-territorial division according to which 36 districts and 374 communes and municipalities were established. As part of reforms for democratization, the process of decentralization was carried out in two phases: (i) during 1992-1998 the emphasis was on political decentralization while (ii) from 1999-onwards the reforms focused at fiscal decentralization and strengthening of local fiscal autonomy. During the second phase Albania undertook a legalistic approach[8] to the decentralization reform by essentially enacting the basic legislative framework.

In 1999 Albania ratified the European Charter of Local Self Government, introduced its basic principles in the new Constitution, and adopted the first 'National Strategy on Decentralization and Local Government. The strategy was used for the implementation of constitutional dispositions in accordance to the principle of

[6] Competitive grant or regional development fund are not part of local budget

[7] Large urban jurisdictions in all countries typically derive substantially more of their income from own sources than their smaller counterparts.

[8] UNDP, 2005 "Albanian Regional Development: Opportunities and challenges"

decentralization of authorities. Law nr. 8652 "On organization and functioning of local governments" and law nr. 8653 "On administrative-territorial division of local governments in the Republic of Albania" provided the main pillars for the decentralization reforms introducing new territorial organization of local governments and responsibility assignment. Albanian territory was divided in 65 municipalities and 309[9] communes (first tier of LGUs) and 12 Regional Councils (second tier of local government). The Municipality represents a territorial and administrative unit in an urban area and in specific cases in rural areas. The Commune represents a territorial and administrative unit in rural areas and in specific cases in urban areas. The Region represents a territorial administrative unit compound of some municipalities and communes with geographic, traditional, economic, social ties and joint interests.

Regardless of the territorial differences, municipalities and communes are assigned the same functions. Local governments' functions in Albania consist of: (i) exclusive functions, such as water supply, public transportation, public lightening and garbage collection; (ii) shared functions, such as pre-school and pre university education, health care, public order and civil protection; and (iii) delegated functions, from the central governments which were classified as mandatory and non-mandatory functions. Regions were assigned broad yet, ambiguous roles and responsibilities; such as "to develop and implement regional policies and their harmonization with the national policies at the regional level, as well as any other exclusive function given by law".

The Albanian Constitution of 1998 provides very general and broad expenditure assignment for local governments. Concomitantly, "The National Strategy on Decentralization and Local Governments" states that "functions and responsibilities of local government will be defined in such a way as to make it absolutely clear which of the local bodies is entrusted with a certain function, and at the same time is held responsible for the results and performance" through the organic law on local governments. Article 17 of the organic law (Law 8652) addresses local revenues derived from national sources: (i) shared taxes (17.1.a), unconditional transfers (17.1.b) and conditional transfers (17.1.c). In the years after Law 8652 was adopted *de facto* concepts and principles have become to be accepted that are not reflected in that law.

According the Law (8652/2000) "On Organization and Functioning of Local Government", *shared taxes* consist of a portion of certain central government taxes, such as the personal income tax and the business profit tax. These taxes shall be collected and distributed to communes and municipalities by the central government on a regular basis not less than three times a year during the fiscal year. The decentralization strategy (2006) foresees that shared taxes will be: personal income tax (15% maximum to LGUs) and the corporate profit tax (5% maximum to LGUs). These taxes will be collected and distributed by the central authority. Up to now these percentages are not respected and shared taxes are not distributed as separate form of intergovernmental transfers to LGUs.

The Law 8652/2000 defines *Unconditional transfers* as funds from the central government to local governments based on the ratio of exclusive and shared functions performed by the local governments and for the purpose of achieving equalization of resources among local governments. Each local government shall have full discretion in deciding how to use all other sources of revenue which are not conditional transfers. Part of these funds that have not been used during a fiscal year can be carried over to the next year.

In 2001, the general transfer was introduced as a block grant, and the State Budget Law for the year 2002 has defined the formula for the unconditional transfer distribution. The determination of the total pool for the unconditional transfers is made during the budget preparation process and not based on the predefined criteria.

Conditional transfers are funds from central government which shall be used solely for the purpose for which the funds have been attributed, in the amount and according to the rules set by the central government for their use. The local governments cannot use them for other purposes and the remaining amount cannot be carried forward to next year.

[9] Today there are 308 communes since commune of Barbullush and Bushat in the region of Shkodra consolidated with their own request.

During 2000, local governments derived almost 42% of their revenues from Conditional Grants (refer to table 1). This means that they were not only dependent on the national government for a large portion of their revenues, but extremely constrained in their spending decisions.

This changes radically in 2002 when the amount of Conditional Grants in the system is cut substantially; and the size and share of the Unconditional Transfer increases dramatically, and the Law on Local Tax System gives local governments new own-revenue powers. Following this, the period 2002 - 2005 is characterized by rising own-revenue, and by low shares of Conditional Grants in total revenues.

Before 2006, the decision for investments through conditional grants was made by the responsible ministry. By 2006, the government re-injected very substantial amounts of money into the transfer system – but not in the form of the Unconditional Transfer. Instead, the money was put in the system as new form of Conditional Grant – *Competitive Grants*. As per law 9464/2005 "On State Budget for the year 2006", annex 4, the competitive grants are state budget funds, allocated to ministries or institutions, to finance capital projects which are own functions of local governments.

Table 1. Local government revenue structure (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Local own revenues	**26%**	**30%**	**32%**	**48%**	**50%**	**54%**	**42%**	**37%**	**35%**
Shared revenues									
Grants and transfers:									
- **general (unconditional)**	**32%**	**36%**	**57%**	**41%**	**35%**	**36%**	**34%**	**33%**	**33%**
- **conditional**	**42%**	**34%**	**11%**	**11%**	**15%**	**10%**	**24%**	**30%**	**32%**
- **competitive**									
Total revenues	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Memo item: local government budget in % of GDP	**2.16%**	**2.31%**	**2.65%**	**2.20%**	**2.35%**	**2.51%**	**2.74%**	**2.75%**	**2.91%**

The competitive grants include: (i) Competitive grants for local infrastructure; (ii) Competitive grants for water supply and sewerage; (iii) Competitive grants for health projects (health centers, ambulance); (iv) Competitive grants for education projects (pre-school and pre-university); (v) Competitive grants for agriculture; (vi) Competitive grants for culture and sports.

By law the competitive grants are allocated, monitored and controlled in collaboration with local government associations. Line ministries allocate grants to LGUs based on a competing process, according to the criteria set by law.

These criteria are: (i) Rate of impact on social and economic development and rate of compliance with local and/or regional as well as national priorities; (ii) Rate of impact on poverty reduction and on the increase of access over basic services; (iii) Number of direct and indirect beneficiaries; (iv) The extent to which the project is co-financed by foreign funds; (v) Preference was given to ongoing projects for which there are contract obligation; (vi) Technical quality of projects.

These criteria are not based on a scoring system. Each ministry has developed its own methodology for allocation of grants. The methodology has not been unified for all Ministries. The technical secretariat of each Ministry evaluates the projects submitted by local governments and lists all the projects that fulfill the technical criteria. This list is then sent to the Committee of Allocation of Competitive Grants at Ministry of Finance. The Committee selects the wining projects from the lists up to the ministry's budget for competitive grants.

The Committee is composed by representatives from Ministry of Finance, the relevant line ministry, the Ministry of Interior and representatives from local government unit associations. This Committee is chaired by Ministry of Finance (the chairman is the Vice Minister of Finance) and is assisted by Albanian Development Fund, in the case of local infrastructure, which makes assessment and preliminary listing of projects. The release of funds is made by the Ministry of Finance based on the decision of the relevant committee in which is specified: the name of the project, the full value of the project and funding approved for the year.

The scheme of Competitive Grants allocation has changed for 2010. According to law no.10190, date 16.12.2009 "For State Budget 2010", the Competitive Grants are transformed into "Regional Development Fund". While in the previous so-called Competitive Grants each ministry has developed its own methodology for allocation of grants, the new law 10190/2009 has defined the scoring system of criteria, assigning a range of points for each of the criteria. These criteria are almost the same as before, while the Committee is composed by Prime Minister (chairman), line ministers and representatives of local government associations. The Regional Development Committee approves projects on the basis of policy and program development of regions in Albania, while these are not on place yet.

2.2 Political situation for the period of the study

Being that the research study aims to analyze the system of intergovernmental transfers in Albania in relation to politics it is necessary to give a general background related to the political situation in the country. The research study covers the time span from 2000 to 2010. Considering the decentralization reform and the introduction of the different forms of intergovernmental transfers we focus our research between 2000 to 2009 for the Conditional/Unconditional grants and between 2006 (time when the Competitive Grants were introduced) to 2010 (time when the Competitive Grants were substituted from the Regional Development Fund) for Competitive Grants. The analysis of intergovernmental transfers covers the above period, but the test for the relation to politics is done for the period 2005-2009 for unconditional transfers and 2007-2009 for competitive grants. During this time span (2005-2009), two parliamentary elections (2005 and 2009) and two local elections (2003 and 2007) have taken place.

From1998 to 2005 the Socialist Party (SP) was the governing party, which during the last legislature[10] had 73 seats in parliament. During the elections of 2005 the Democratic Party (DP) won 56 seats in the Parliament from 140 seats in total (40%). This party governed until the last elections of 2009, where the Democratic Party Coalition won 70 seats in the Parliament, the Socialist Party Coalition won 66 seats and Socialist Alliance for Integration Coalition won 4 seats in Parliament. The Democratic Party Coalition and Socialist Alliance for Integration Coalition formed a new coalition which is presently governing.

After the local elections of 2003 most of local government units (52%) were representing Socialist Party Coalition, while 38% were representing Democratic Party Coalition. The contrary happened in 2007 local elections, where 60% of local government units were representing Democratic Party Coalition and 32% the Socialist Party Coalition. Table 2, "Data about local elections 2003 and 2007", below, shows details regarding communes and municipalities and their political affiliation. The mayor is elected through general, direct election and secret voting. The mayor is the head of the executive organ. He/she represents the political force to which he/she adheres. Table 1 below shows the political affiliation of mayor and not the political affiliation of the local elected council. Mayor political affiliation is used also in statistical analyses.

Table 2. Data about local elections 2003 and 2007

	Local election 2003 (PS -governing)			Local election 2007 (PD -governing)		
	Municipalities	Communes	Total	Municipalities	Communes	Total
Governing	55%	52%	52%	55%	61%	60%
Non governing	39%	37%	38%	40%	30%	32%
Other	6%	11%	10%	5%	9%	8%
Total	100%	100%	100%	100%	100%	100%

The process of how the intergovernmental transfers are distributed at local level and their relation to politics will be analyzed in this study. During the time span for which the statistical analyses are conducted in order

[10] Parlamentary elections in Albania take place every four years, the same for the local elections. Parlamentary and local elections have time span of two years with each other.

to test the relationship between political affiliation and transfers/grants, both main political parties have governed at the central level (the unconditional transfers of 2005 are set by SP which from mid 2005 is the opposite party). But since the competitive grants started in 2006, it was only DP governing during the period of their distribution. This creates the possibility to explore the attitude and policies applied from both political coalitions for unconditional transfers but not for competitive grants.

3. CONCEPTUAL AND THEORETICAL FRAMEWORK

Both central and local governments provide public services but local governments face the difficulty of financing the assigned functions. Thus, the gap is filled by intergovernmental transfers from the central to local governments.

The mechanism of transferring the intergovernmental funds has to resolve the issues of: (i) determination of total amount of revenues to be distributed to LGUs; (ii) allocation of total pool revenues to LGUs; (iii) restriction or not restriction of expenditure covered by intergovernmental transfers.

i. The determination of total amount of revenues to be distributed to LGUs can be done in three ways: (i) as a fixed proportion of central government revenues or other macro-economic indicators (e.g. % of GDP in Serbia). As the central government revenues are reduced, for example during crises, the transfers to LGUs will be reduced, or the contrary when the central revenues are increased; (ii) transfer allocation may be linked depending on the spending plans of local governments. These transfer pools can be closed - ended or open – ended. In closed – ended pools not all the funds set aside need to be distributed if the number of approved plans is insufficient. Open – ended pools are determined on the basis of all approved plans submitted by local governments and can potentially be unlimited. This can be risky for the central government since it is trying to control spending. For this reason they are less common in developing and transition countries; (iii) through annual budget decisions. Such ad hoc decisions can create uncertainty to local governments and make them vulnerable to fluctuating economies and the vagaries of political negotiation (Schroeder and Smoke 2003). However, the political reality in many transition countries is that the total available pool of local government funds is negotiated during the budgeting process.
ii. The allocation of total pool revenues to LGUs can be done by several approaches: (i) tax – sharing transfers to local governments as a proportion of central government revenues collected within its geographical jurisdiction. This is the origin based tax sharing mechanism, when those LGUs with higher fiscal capacity will receive more funds. Revenue sharing might be implemented by (ii) objective formulae, as well. This is popular in many transition countries. There is a limitation of formula-based revenue sharing and transfer allocation in developing countries because of the lack of timely and adequate data required to implement the formula; (iii) cost-sharing transfers which reimburse local governments for expenditures on particular priority activities that are deemed worthy of subsidization. Such transfers can be either partial or total cost - sharing; (iv) ad hoc decisions of the granting authority in determining the size for each local government. In this case the LGUs do not know which their part of transfers is and how this is distributed. Thus, they are subjective and non transparent (Schroeder and Smoke 2003).
iii. For the restriction or not restriction of expenditure covered by intergovernmental transfers a number a mechanisms are used: (i) general-purpose allocations which give a local government unit full autonomy over the funds; (ii) sector limited block allocations which permit the recipient government to choose how funds are to be used, but only within a particular sector; (iii) specific purpose transfers which can be highly restrictive in how the funds are spent. For example, funds for capital development projects may be spend according to the provisions of project plans approved by a central ministry (Schroeder and Smoke 2003).

3.1. Objectives of Intergovernmental Transfers[11]

Governments introduce intergovernmental transfers for different reasons. In general, there are two types of arguments. The first is an economic argument which covers the vertical imbalance, horizontal imbalance and the inter-jurisdictional spill-over effects. The second type of arguments is the political and institutional justification.

The three main economic arguments for intergovernmental transfers

Vertical Imbalance

In most countries, the national government retains the major tax bases, leaving insufficient fiscal resources to the sub national governments for covering their expenditure needs. The expenditure need would include tasks the local government has to perform in the capacity of an agent of the national government. It is not easy to measure the imbalance between the expenditure responsibilities of sub national governments and their revenue raising powers, and in countries in transition "unfunded mandates" contributed to the increase of the gap.

Horizontal imbalance

On one hand, some local governments may have better access to natural resources or other tax bases that are not available \for others. They may also have higher income levels than those in other local governments. These are referred to as differences in fiscal capacities. On the other hand, some jurisdictions may have extraordinary expenditure needs, because they have high proportions of poor, old, and young population, or because they need to maintain huge regional hospitals or national airports and harbors or simply the costs of mandatory basic services are different (e.g. smaller schools, more costly access to service users due to geographical conditions).

Inter-jurisdictional spillover

Some public services have spillover effects (or externalities) on other jurisdictions. Examples are pollution control (water or air), inter-regional highway, higher education (graduates may leave for other regions to work), recreation facilities (may be used by neighboring areas), etc. Without reaping all the benefits of these projects, a local government tends to under invest in such projects. Therefore, the central government needs to provide incentives or financial resources to address such problems of under-provision.

Political aspect of intergovernmental transfers

Intergovernmental fiscal issues cannot be discussed without understanding politics, especially in the case of transition countries. In the new democracies, decentralization has become one of the most important elements of the regime change. Legal changes alone without the proper financial mechanism could not lead to the necessary structural changes in the region. Revenue sharing and allocation of transfers are always in the center of political discussion. First of all, the size of the transfer (or the total revenues of the local governments) is much smaller than local governments consider as sufficient. However, exactly this fiscal stress was one of the most important factors forcing structural changes in public service provision. Secondly, politicians at the central level always regard transfers as a means of increasing political influences.

3.2. Criteria on Intergovernmental Transfers

The above discussion of objectives provides the basic rationale for the use of intergovernmental transfers. Also, the criteria for evaluating the intergovernmental transfer allocation and management mechanisms are

[11] *Source: Intergovernmental Fiscal Relations and Local Financial Management, Distance Learning Modules,* The Central European University Summer Program in association with World Bank Institute and Local Government and Public Service Reform Initiative of the Open Society Institute

equally important and worth mentioning. These criteria include autonomy, revenues adequacy, equity, predictability, efficiency, simplicity, incentives for sound fiscal management and safeguarding grantor's objective by allowing effective monitoring and progress reviews (World Bank Report, 2004b)

- **Autonomy**[12] - Transfers should have few or no strings attached, so that local governments could preserve their *independence in assigning their own local priorities.*
- **Revenue adequacy** - The volume of financing from transfers *should be sufficient* for local governments to discharge their responsibilities.
- **Equity** - Equalization transfers should vary *directly with needs and inversely with taxable capacity.*
- **Predictability** - The financing availability from grants should be known in advance. *Parameters determining the size of transfers should be fixed and stable* to promote sound budgeting practices.
- **Efficiency** - Transfers to local governments should be *neutral with respect to local governments' choices* on resource allocation to sectors and types of activity.
- **Simplicity** - The transfer formula should be transparent, *easy to comprehend and based on objective factors,* and be influenced neither by bureaucratic manipulations nor by political interests.
- **Incentives** - Transfers should preserve incentives for *sound fiscal management (e.g., tax efforts and expenditure control)* and should discourage inefficient fiscal practices such as deficit financing.

Safeguarding grantor's objectives - Transfer design should ensure that the grantor's objectives can be attained, by *allowing effective monitoring and progress reviews.* The above theoretical framework related to the transfer mechanisms, objectives and criteria of intergovernmental transfers form the basis for this research study. Of course not all of them can be analyzed in only one study. Nevertheless, in this study, the focus are the analysis of general pool of transfers, formula, equalization and efficiency of competitive grants as well as the relation of intergovernmental transfers to politics in Albania.

4. PURPOSE AND OBJECTIVES OF THE RESEARCH STUDY

The objective of this study is to analyze the system of intergovernmental transfers in Albania in relation to politics, with the ambition to answer some of the questions regarding the need to provide a clear basis for evaluating the manner in which local revenues derived from national sources.

The basic research questions will be focused on: (i) What are the scope and characteristics of intergovernmental transfer system in Albania?; (ii) What is the allocation process for each type of major transfers/grants in Albania?; (iii) Do the formula based unconditional transfers meet the requirements of a good grant allocation system: autonomy, revenue adequacy, equity, predictability, simplicity, incentives?; (iv) Are the allocation criteria of competitive grants properly followed in practice?; (v) Considering the historical background of the intergovernmental transfers in Albania, what has been the relation between the distribution of transfers (especially competitive grants) and political background at both central and local level?; (vi) How the regulations on intergovernmental fiscal transfers can be improved in Albania?

The study aims to generate up to date information on the intergovernmental transfers and relevant criteria through desk review, qualitative information collection and quantitative data analysis, field surveys and interviews. It plans to analyze trends and patterns, if any, and provide policy recommendations for both central and local government and other interested actors.

[12] All the criteria are cited in World Bank Report (2004b). *Original sources*: *Anwar Shah, The Reform of Intergovernmental Fiscal Relations in Developing and Emerging Market Economies*, Policy and Research Series 23, (Washington, D.C.: World Bank, 1994); Roy W. Bahl and Johannes F. Linn, Urban Public Finance in Developing Countries, Published for the World Bank, New York: Oxford University Press 1992.

This research study aims to analyze the influence of politics and more specifically the impact of political party affiliation of local leadership on the allocation of intergovernmental transfers in Albania. The main question is: Is there any measurable and statistically significant relationship between mayors' political position and central government for the distribution of intergovernmental transfers in Albania?

Hypothesis: Mayors or Head of Communes use their political contacts and party membership to influence the distribution of intergovernmental transfers. Our hypothesis is that local government mayors[13] with the same political affiliation of the governing political parties receive higher amount of grants/transfers.

That is the amount of the central budget grants received is a function of the political affiliation of the mayor:

f(mayor's political affiliation)=grants received

5. METHODOLOGY AND CONTENT OF THE RESEARCH STUDY

The methodology is designed taking into account the objective and questions set out above. In the beginning of this project it was decided that the components of intergovernmental transfers that will be studied are *unconditional transfers* and *competitive grants*. Another decision was that only the intergovernmental transfers allocated to communes and municipalities (*first tier* of local government) will be studied.

The above decisions were taken for these reasons:
(i) Conditional transfers are funds from central government which shall be used solely for the purpose for which the funds have been attributed, in the amount and according to the rules set by the central government for their use. The local governments act as an agent of central government in this case. They do not constitute a big part of local revenues. However, the competitive grants, as part of the former conditional grants, are analyzed. It was discussed and decided that conditional grants require another separate study which requires more time and different way of analysis;
(ii) According the MOI (2006) the role and function of second level (regional council) of local government is not completed yet (p.19). A region is a broader level of government and it does not play any major role, because at this time the law defines their functions only in general terms. But with the introduction of Regional Development Funds it will be of great interest to analyze them in the future.

This research study considers the period from 2000 to 2009 for unconditional transfers and from 2006 to 2009 for competitive grants. As already mentioned above, the competitive grants started for the first time in 2006 and are reorganized as regional development funds in 2010. Due to lack of the data and ongoing process of regional development funds, the latter are not analyzed in this study. The analysis is done separate for unconditional transfers and competitive grants because of different nature and criteria of distribution.

Data are made available from different sources (refer to appendix 1, table 9, for detailed data).

The population of this study is defined as all the first tier of local government, compound by 308 communes and 65 municipalities. For the purpose of this study, occasionally, a sample is selected from the population (see below).

The research methods and techniques used are as follow:

- *Desktop review:* Project staff reviewed the existing literature about decentralization and local government, documents, previous studies etc. Special attention was devoted to the legislation in place regarding intergovernmental transfers.

[13] In this study it is used mayor for both mayor and head of communes.

- *Semi-structured interviews:* 13 interviews were conducted with (i) mayors and head of communes; (ii) representatives of technical secretariats of competitive grants; and (iii) members of committee for grant allocation. The interviews are used to understandthe process of grant distribution to local units.
- *Questionnaires:* 76 questionnaires (21% of LGUs) with mayors and head of communes were administered in order to collect more qualitative information about the process of intergovernmental transfer allocation. The sampling of population was chosen based on randomly and stratified techniques in order to have representatives from both main political parties.
- *Statistical tests:* statistical tests are used to assess the relationship between the selected intergovernmental transfers political affiliation of first tier local governments. Crosstabulation and Phi/Cramer's V[14], correlation analyses are used in order to test the relationship between different variables.

Data that are analyzed in the statistical tests are:

Political affiliation (election results)	*Financial data*	
	Unconditional grants (grants per capita)	*Competitive grants (no. of projects won)*
Parliamentary election, 2001; LGU, 2003	2005	N/A
Parliamentary election, 2005; LGU, 2003	2006, 2007	
Parliamentary election, 2005; LGU, 2007	2008, 2009	2007, 2008, 2009

The unconditional transfers for 2007 are set at the end of 2006, before local elections of 2007, so, for the unconditional transfers of 2007 political affiliations before local elections of 2007 are considered.

The situation is different for competitive grants. The local elections were in February 2007 and the competitive grant allocation committee has mainly taken decision on June-July 2007. This is confirmed by the Supreme State Audit for the State Budget 2007. As a result, in this case, new political affiliations determined by elections of 2007 are considered when analyzing grants of 2007.

The political party networks are considered as strong when the local and central government belong to the same political party. For this reason, the LGUs are divided in two groups:

(i) LGUs, where the mayor adheres in the same political party coalition with governing party coalition, and, (ii) LGUs, where the mayor adheres in the main opposite political party coalition.

The remaining local governments, which are considered neutral, are excluded, even though some ad – hoc networks could be possible. As a result, the population is composed by a sample of 335 units from 2005 to 2007 and by 342 units from 2008 to 2009 (out of 373 units in total). This happened because of local elections in 2007 which has changed the political affiliations.

The political party affiliation is the independent variable and unconditional transfer per capita is the dependent one.

f(mayor's political affiliation)=grants received

These variables are measured:

[14] Cramer's v is used for tables which have more than 2x2 rows and columns. For 2x2 table Phi coefficient is used

Mayor's political affiliation in 2005, 2007: value 1=same as the governing coalition, value 2= opposition.

The dependent variable is the per capita transfer. Here are defined two groups: (i) LGUs with higher per capita transfer than national average, and (ii) LGUs with lower per capita transfer than national average. The national average per capita transfer is determined as total transfer pool divided by total population.

The analysis for competitive grants is made separate for each line ministry. The variables used are: (i) political affiliations, same as before; and (ii) number of projects won per each LGU[15].

Regarding the second variable three groups are identified: (i) LGUs which have not won any project in a certain year; (ii) LGUs which have won only one project; and (iii) LGUs that have won more than 1 project. The assumption made is that all LGUs have applied for at least one project in each line ministry. This division on (0, 1 and more than 1 project) is based on conversations with local leaders who confirmed that they would have been satisfied if they won at least one project per sector from competitive grants. This categorization was also used to avoid the effect of outlier (Municipality of Shkodra). If the hypotheses is true, it is expected a strong relationships between variables.

The quantitative data are processed in Microsoft Excel and SPSS[16]. For analyses of questionnaires descriptive statistics are used. For the closed questions the descriptive statistics techniques based on frequency calculations are used, while for the open questions, where the respondents give their free opinion, frequency calculations for certain types of responses are used. For analyses of interviews direct interpretation is used.

The research study report starts with explaining the conceptual and theoretical framework on intergovernmental transfers regarding reasons for their distribution. The theories of intergovernmental transfers discussed in this part form the basis of the study analysis.

The report continues with a detailed analysis of the current situation regarding intergovernmental transfers, general pool, criteria, formula, relation to politics etc. which concludes with the findings. Based on them, conclusions and recommendations are dawn up at the end of this study report.

6. LIMITATIONS OF THE STUDY

During working for this research study there have been facing several limitations such as: (i) the competitive grants started for the first time in 2006 and lasted up to 2009 (in 2010 they are reorganized). During all this time span the Democratic Party (Coalition) was governing. To this regard, there is no data for socialist governing period in order to make comparisons between two different governments but still there were LGUs closer to the governing PD and to the parliamentary opposition; (ii) the data for competitive grants are not made available for all the line ministries, which means that the results in relation to politics are on line ministry basis and it is not possible to make generalizations; (iii) the competitive grants are substituted by the regional development fund in 2010 and for this reason their analysis has only a historical value. (iv) the unconditional grants of 2010 in relation to politics are not analyzed because it was difficult to determine the political affiliation between LGUs and governing party coalition because of new governing party coalition formed in the beginning of July 2009. This new governing party coalition is compounded by the Democratic Party Coalition and the Socialist Alliance for Integration (LSI) Coalition. The latter has been in coalition with main opposite party (Socialist Party) in local elections of 2007.

[15] It is not used the amount of competitive grant per each project as the amount depends on the kind of investment, for example it is a reconstruction or a new investment. This would require a more sophisticated technique and other assumptions

[16] Statistical Program for Social Sciences

7. ANALYSIS OF THE SITUATION AND FINDINGS

After the year 2000, the decentralization process is going on through a strategic reform. This reform is based on the Albanian Constitution, European Charter for Local Self - Government and the Strategy for Decentralization. With the approval of organic law no. 8652/2000 "On the organization and functioning of local governments' and Law no. 8653/2000 "On administrative-territorial division of local governments in the Republic of Albania" the process of decentralization was furthered. So, in 2002, fiscal decentralization was initiated with the new fiscal package which has defined the local taxes and taxing powers of local governments. The new fiscal package entered into force in January 2003. The World Bank Report (2004a) points out that "Local revenue autonomy in Albania remains low even after the introduction, with the 2002 fiscal reform, of the Local Small Business Tax, the Simplified Profit Tax, the Agricultural Land Tax, and the Vehicle Registration Tax" (p.16).

Local government revenues have increased in nominal terms every year since 2000 with the exception of 2003 and over the entire period they have nearly tripled. Total local government revenues as percentage of both GDP and the State Budget show a modest, upward trend over the entire period, though both dipped noticeably between 2003 and 2005. This upward trend and the relative stability around it are positive indicators and suggest that the national government has been trying to improve the situation of local governments.

Despite this growth, however, the share of local government revenues to both the state budget and the GDP are low by European, and even regional standards. There are no hard rules here, but in countries where local government is responsible for the provision of basic urban services – roads, water, waste, parks, - but not responsible for social sector functions like education (particularly teachers' wages) we would expect local government revenues to be about 12% to 15% of State Revenues and 5% to 7% of the GDP. This is the case, for example, in Croatia and Serbia.

According to table 3, In Albania, however, local government revenues represent only 11% of the State Budget and are thus still below the comparative "norm", though not by much. Local government revenues as a share of GDP, 2.9%, are very low. This however must be understood in the context when the total government sector in Albania is small in relationship to the GDP, 27%, when compared to European norms of 35% to 45% because the Albanian government has problems collecting taxes.

Table 3. The Evolution of Local Government Finances 2000-2008 in mln lek

The Evolution of Local Government Finances 2000-2008 in mln lek									
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
GDP	523,043	583,369	622,711	694,098	750,785	814,797	891,000	982,737	1,090,305
State Budget Revenues	130,642	145,639	154,595	167,224	184,355	204,163	226,283	253,455	291,238
LG Revenue	**11,314**	**13,501**	**16,529**	**15,302**	**17,678**	**20,414**	**24,406**	**27,007**	**31,743**
Unconditioned transfer	3,643	4,870	9,500	6,300	6,277	7,300	8,300	9,000	10,500
Conditional Transfers	4,714	4,619	1,805	1,588	2,646	1,999	5,900	7,970	10,118
Own Revenues	2,957	4,012	5,224	7,414	8,755	11,115	10,206	10,037	11,125
LG Revenue as % of GDP	2.16%	2.31%	2.65%	2.20%	2.35%	2.51%	2.74%	2.75%	2.91%
LG Revenues as % of State Budget	8.66%	9.27%	10.69%	9.15%	9.59%	10.00%	10.79%	10.66%	10.90%

Transfers as a % of State Budget	6.40%	6.52%	7.31%	4.72%	4.84%	4.55%	6.28%	6.70%	7.08%

Source: Ministry of Finance

During 2000-2001, local governments derived almost 45% of their revenues from Conditional Grants. As such, they were not only dependent on the national government for a large portion of their revenues, but extremely constrained in their spending decisions.

This changes radically in 2002 when the amount of Conditional Grants in the system is cut substantially; and the size and share of the Unconditional Transfer increases dramatically, and the Law on Local Tax System gives local governments new own-revenue powers. This is probably the critical moment in the history of Albania's decentralization effort. It lasted till 2005 and is characterized by rising own-revenue, and by low shares of Conditional Grants in total revenues.

By 2006 these developments seem to have produced a two-sided response from a new government coalition. On one hand, the government re-injected very substantial amounts of money into the transfer system – but not in the form of the Unconditional Transfer. Instead, the money was put in the system as new form of Conditional Grant – Competitive Grants. On the other hand, the government sought to restrain local government taxation on small businesses by halving the base of the SBT in 2006.

As a result, the share of transfers given to local governments as a percentage of the State Budget returned to pre-2002 levels, 6.3%. This was undoubtedly welcomed from LGUs. But at the same time, the new money came in the form of Conditional Grants.

To date, the Albanian intergovernmental finance system has rested on two pillars, transfers and own revenues. This is unusual because most European countries make fairly extensive use of a third pillar, shared taxes, which indeed are foreseen from the Albanian legislation[17].

Transfers are shaped in unconditional and conditional (competitive grant is part of this last one). The total pool for both transfers is set during budget preparation process. Schroeder (2004) points out "that the determination of each individual pool has been dependent on the size of the other, i.e., it is a simultaneous process. When one pool was increased, the other was decreased" (p. 25). The conditional transfer consists on conditional transfers for delegated functions (economic aid for disabled and funds for social care) and conditional funds for capital investments. Before 2006 the funds for investment in local roads, water supply & sewerage, education and health were allocated to LGUs by line ministries. LGUs submitted their investment requests to line ministries and the latter made the decision of what projects should be financed. There have been too many debates in relation to this mechanism. Thus, Shehu (2006) states: *"*The process is far from transparent because it does not follow any rule or predefined criteria for investment allocation. Experience shows that the allocation of investment funding relies upon the personal judgment of central government officials or the influence of the mayors, members of Parliament, and community leaders*"*.

Schroeder (2004) points out that "Local governments have no say in their allocation and, furthermore, have little idea how the allocation decisions are reached. This is particularly the case for allocation of capital investment spending financed through the conditional transfer mechanism" (p.26). Also, the World Bank (2004a) recommended increasing the transparency and efficiency of conditional capital grants through the use of explicit rules for project selection (p. 21).

In order to invest in larger projects out of local budget (own revenues + unconditional transfers), in 2006 to the total unconditional transfer pool was added an amount for road projects, which was foreseen to be distributed on competitive basis.

In 2006, except for road competitive funds determined in state budget law, the investment funds for health and education are distributed directly to municipalities and/or through regional councils. This was only for 2006. In 2007, the investment funds for three above functions, as well as for water supply and sewerage

[17] Levitas, T., 2010

projects are distributed as competitive grants by relevant ministry. Later on, to the competitive grants are added funds for culture and agriculture projects. The total amount disbursed for capital investments from competitive grants during 2006-2009 is around 17 billion Albanian Lek (ALL), where the bigger part is constituted by roads projects (43%), education (32%) and water supply & sewerage (18%).

Considering that mostly the own source revenues of LGUs, including the unconditional transfers, are used for operational expenses, and the high need for capital investments, the intergovernmental transfers, especially competitive grants, play an important role for financing LGUs (capital investments).

The investment projects are not only a concern of local governments but also of central government as part of economic development of the country. In this framework, in 2010, the competitive grants are transformed to regional development fund. This is seen as preparatory exercise for regions to prepare themselves to apply for structural and investment funds in the financial institutions of EU.

Following this general background, the intent of this section was to highlight the changes that have been made in the intergovernmental transfer system (unconditional and competitive) since their first introduction and to evaluate those changes. Firstly are evaluated the unconditional transfers regarding the determination of general pool, evaluation of formula and equalization, and secondly, competitive grants regarding the evaluation of criteria, efficiency of funds used and disparities created during implementation of these grants. In the same time, in the last part of each session are analyzed both grants in relation to politics. In this part of the study are also incorporated the results of questionnaires conducted with local leaders and interviews conducted with local leaders, members of grant allocation committee and members of technical secretariat for project selection.

7.1 Unconditional transfers

As noted earlier, Unconditional transfers are funds from the central government to local governments based on the ratio of exclusive and shared functions performed by the local governments and for the purpose of achieving equalization of resources among local governments. Each local government shall have full discretion in deciding how to use the transfer. The unconditional transfer was introduced in 2001, but from 2002 the transfer is distributed based on a predefined formula.

7.1.1 Evaluation of general transfer pool for unconditional transfers

The World Bank Report (2008: p.12) points out that:

The key weakness in the transfer system is its unpredictability. This is partly because the overall level of the transfer is subject to annual budget negotiations. It is also because the formula for distributing the transfer changes from year to year. The result is a high level of uncertainty, which undermines local budgeting and a potentially excessive role for short term political considerations in determining the distribution of funds.

Table 3 above shows the evolution of Local Government Finances for 2000-2008.

The total pool of transfers is defined each year during budget preparation process. From the table above it is obvious that the percentage of unconditional transfers over the state budget has fluctuated over years. Shehu (2006, p.5) points out in his paper:

In 2002, the initial total pool of unconditional (general) transfer was based on the historic cost of services transferred and the taxing powers provided to local governments. Later, as spending responsibilities for delegated functions (health services, urban and rural road investments) were changed, the pool was adjusted.

Up to now there is no determined formula to establish the total transfer pool in relation to total state budget. The total amount to be transferred to LGUs is, therefore, dependent upon the priorities of the central government and fiscal conditions of the country. Thus, as the central government priorities can change the amount transferred to local governments can also change. How the transfer pool is set it is not clear and not defined in the organic budget law. There are different opinions about the determination of transfer pool. For example, Convey (2007) states that "The decision to fix the overall pool to the state budget should be

postponed for a later time, when financial and fiscal management has consolidated in Albania" (p. 18). While the World Bank (2008) in its report points out that "Legislation should establish a mechanism for determining the overall amount of the transfer each year-as a fixed share of aggregate national tax revenue, for example" (p. ii).

In the framework of Mid Term Budget Program (MTBP) preparation, Instruction no. 20/1, date 26.02.2009 "For the preparation of local budget" has foreseen the increase of the transfer pool by 7% in 2010, 10% in 2011 and 10% in 2012 compared to the previous year. But, Instruction no. 7/1, date 22.02.2010 "For the preparation of local budget" defines these figures to 3% increase in 2011, 7% in 2012 and 9% in 2013. Furthermore, the actual figures in 2010 show that the transfer pool is reduced and not increased by 7% as foreseen. Thus, the amount to be transferred to LGUs remains uncertain until the state budget law is approved. This issue was raised also by interviews with local leaders who indicate that they cannot predict the amount of transfer for their jurisdiction, particularly in the framework of MTBP.

7.1.2 Evaluation of formula for unconditional transfer

After the total transfer pool is set by government, this amount is distributed to LGUs based on a formula (based on law 8847/2001 "On State Budget for the year 2002"). As can be seen from the Table 4 "Formula for allocation of unconditional transfers, 2002-2010", the formula has changed frequently from year to year.

Table 4. Formula for allocation of unconditional transfers, 2002-2010

Allocation of total pool	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Regions	10%	19%	15%	9%	8.5%	9%	9%	8.5%	8.5%
Municipalities/Communes	86%	79%	83%	91%	91.5%	91%	91%	91.5%	91.5%
Compensation Fund	4%	2%	2%	-	-	-	-	-	-
Allocation of pool for Municipalities /Communes									
Formula	95%	88%	94%	100%	100%	100%	100%	100%	100%
Compensation Fund	5%	12%	6%	-	-	-	-	-	-
Formula for Municipalities /Communes									
Equal Amount	3.5%	3.5%	4%	-	-	-	-	-	-
Population	62.5%	62.5%	62.5%	73%	70%	70%	70%	70%	70%
Land Area of Communes	4%	4%	9%	12%	15%	15%	15%	15%	15%
Urban Population	20.5%	20.5%	18%	15%	15%	15%	15%	15%	15%
Coefficient for Tirana (Capital City)	9.5%	9.5%	6.5%	-	-	-	-	-	-
Fiscal Capacity Adjustment	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Other Adjustments	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Allocation of pool for Regions									
Formula	100%	85%	97%	98%	98%	98%	98%	99%	99%
Compensation Fund	-	15%	3%	2%	2%	2%	2%	1%	1%
Formula for Regions									
Equal Amount	30%	25%	25%	15%	15%	10%	10%	10%	10%
Population	15%	15%	15%	25%	25%	28%	28%	28%	28%

Geographical indicator[18]	30%	30%	30%	30%	30%	30%	30%	30%	30%
Length of Roads[19] Land area in 2002	25%	30%	30%	30%	30%	32%	32%	32%	32%

Source: Ministry of FinanceData of 2010 are entered by Co-PLAN

According to World Bank (2004a) "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" (p. 20). This formula has balanced the need to take into consideration objective criteria regarding the local services' costs and providing for a level of equality to support the poorest local government units (Ministry of Interior, 2006).

From 2006 to 2008 the unconditional transfer pool has been divided in two parts: (i) a general fund for administrative needs (part A); and (ii) fund for local investments (part B). There have been separate criteria for part A and part B. The criteria for part A are shown in table 4, while for part B there was only one criterion "equal funds per capita". After application of this last criterion the result is corrected by three other criteria: (i) fairness criterion; (ii) mountainous local units' criterion; (iii) local units in need criterion.

The unconditional transfer formula has been improved year after year in order to have more objective criteria. According to Decentralization Strategy (2006) the formula for calculating unconditional transfers according to part A was improved as following:

- Corrected data on population, which serve as a calculation base, according to the number of population verified in July 2005 elections.
- Corrected data on surface of communes, where the calculation base is the real surface according to data from the Institute History and Geography.
- Improved population coefficient, based on which the unconditioned transfer is calculated.
- Improved coefficient of surface, based on which the unconditioned transfer is calculated for the communes establishing a fairer proportion between the unconditioned transfer divided between communes and municipalities.

In 2009 and 2010 part A and part B are merged and the general fund for municipalities and communes is distributed using only one formula (see table 4). The general transfer pool is firstly divided in three sub-pools: (i) for municipalities and communes; (ii) for regions; (iii) compensation fund. The share of municipalities and communes is then divided into two sub-pools: (i) according to a specific formula; (ii) as a compensation fund for municipalities and communes.

The formula for allocation of municipality and commune share has these components: (i) an equal amount for all communes and municipalities from 2002 to 2004. After this year this component is removed; (ii) population size of LGUs. This is the main component of formula (70% from 2006); (iii) land area of each commune; (iv) urban population for municipalities; (v) an exclusive coefficient for Tirana (the capital city) only from 2002 to 2004; (vi) fiscal capacity adjustments and other adjustments (transitory regulation). Fiscal capacity is adjusted after the above components are calculated and the result is than corrected to reflect fiscal capacity adjustments and transitory regulations.

The basic fiscal adjustment compares the per capita tax collections in each LGU from two local taxes: (i) the small business tax; and (ii) vehicle registration tax with the average per capita tax collections for the country as a whole. If a LGU's estimated per capita tax is greater than the national average 25%[20] of that difference

[18] This is an indicator which takes the value 1, 3, or 5 where 1 indicates a plain region, 2 indicates a hilly region and 5 indicates a mountainous region

[19] In 2003 the land area was changed to km of roads in the region

[20] This figure is for 2010.

times the population of that LGU is subtracted from original allocation of the unconditional transfer. If a LGU's estimated per capita tax is less than the national average from the two taxes, 25% of the difference is added to the original allocation. After fiscal adjustment the amount is corrected for some transitory regulations and adjustment regarding the minimum per capita.

The equalization and regulation coefficients have changed over years and they are not known until the organic budget law is approved.

The major changes coincided with the local elections. So this is a signal of political influence: changing the grant allocation formula in order to support the local governments with similar political affiliation. Whether it happened or not, this is the research question of this study.

Assessment of the grant allocation formula

The data from questionnaires show that 39.7% of respondents are of the opinion that the formula for distribution of unconditional transfer is good. However60.3% think that the formula has to consider the actual situation in infrastructure, distance from village to village and village to urban area and the level of poverty.

How the formula is calculated is shown in the Instruction 20/1/ (2009) and 7/1/ (2010) but neither the law on state budget nor the instruction for the preparation of local budget do not show the source of the data regarding population, land area and urban population, for example, regarding to population if it is the data of Civil Registry Office or data of National Statistical Institute that are used.

The components and coefficients of the formula are defined in organic budget law, however, they are known by only 63% of respondents. Only, 44.9% are able to calculate the transfer for the next year. Those that cannot calculate the sum of the transfers (55.1%) see as the main difficulty the different sources of data used by local and central government and the fact that the formula is complex and the coefficients change every year, especially those of equalization part.

In the framework of MTBP the LGUs have to prepare the budget for the three coming years. Except for own revenues they have to include in the budget also the amount of unconditional transfer, but a considerable number of LGUs (66.2%) cannot calculate the amount of transfer for the three forthcoming years. The main concerns for not being able to calculate the amount of transfer are the change of total transfer pool every year, in contrary with the amount foreseen, and the changing of coefficients of formula. In both cases, calculation for next year or three next years, the part of formula regarding fiscal adjustments and transitory regulations is more problematic and hard to predict.

The criteria that unconditional transfers have to fulfill, as mentioned in the theoretical framework, include autonomy, revenues adequacy, equity, predictability, efficiency, simplicity, and incentives for sound fiscal management. But do the intergovernmental transfers meet these criteria?

- ***Autonomy*** – Theoretically these transfers are unconditional and local governments have the discretion to decide how to spend them. Law on State Budget 10355/2010, article 15 sets restrictions on the share of unconditional grants to be used for part of operational expenses (salaries, social insurance, etc. of administrative staff). Following this, we conclude that *criterion on autonomy of unconditional grants is harmed*.
- ***Revenue adequacy*** – In nominal terms the total transfer pool is increased except for when more taxes are transferred to LGUs. Exceptions are noted in 2006, when the government injected substantial amount of money in the form of conditional transfer – Competitive Grants, and sought to restrain local government taxation on small businesses by halving the base of the Small Business Tax. In 2010, the total transfer pool was reduced and some restrictions to local taxes and tariffs were made by central government. On the other side, the amount of transfer pool foreseen for 2010 is actually reduced. Therefore, taking into account the latest developments, it can be said the transfers *do not fully meet the criteria of revenue adequacy.*

- ***Equity*** - This is reflected in formula by the fiscal capacity adjustment. Also, equity is further insured through the use of the minimum per capita adjustment, compared to the national average. Regarding equity the formula faces a problem because the tax capacity is measured based on two actual collections of taxes and not based on real tax capacity. Moreover, as it will be discussed below the dispersion of per capita transfers has increased during the 2008-2010 period but the coefficient of variation is still low (refer to the next session). However, since the real tax capacity for each LGU is difficult to calculate, we can assert that *for the moment the actual formula tends to meet the criteria for equity.*
- ***Predictability*** - Parameters determining the size of transfers are not fixed and stable. The total transfer pool is subject to each year budget negotiations and the formula is changed every year. The LGUs know the exact amount of transfers only when the state budget for next year is approved. Moreover, interviews with local leaders indicate that they cannot predict the amount for their jurisdiction. This is really a concern for them, particularly in the framework of MTBP. To this regard the transfers *do not meet the criteria of predictability*. Even though LGUs may know approximately the total transfer pool, the inconsistency of data at local and national level as well *as the changing coefficients of equalization and othe*r adjustments make it harder for LGUs to calculate the transfer amount. As noted earlier, 55.1% of LGUs cannot calculate the transfer for the following year and 66.2% cannot calculate the transfer for the next three years.
- ***Efficiency*** – Due to the principle of autonomy local leaders can decide how to use the funds, but, if the funds are used efficiently depends on willingness of local leaders. This requires further investigations and in this report it cannot be drawn any conclusion about this criteria.
- ***Simplicity*** – *The formula is set in stat*e budget law but the criteria, especially those of equalization and transitory regulations have changed every year. The formula still lacks the updated data and sometimes data at national level are different with data at local level. This concern, as mentioned above, is also raised by local leaders in questionnaires. To this regard the formula is *moderately simple*.
- ***Incentives*** – The equalization part of the formula tends to discourage resource mobilization since LGUs that have per capita transfers higher than national average contribute for the LGUs which have per capita lower than national average. Also, after fiscal equalization results, those municipalities or communes that benefit transfers over 87.23% (in 2010) compared to 2009, contribute to the per capita minimum guarantee fund and compensation fund for the amount in excess to 87.23% compared with the results of transfer for 2009. To this regard the transfers *do not meet the criteria of incentives*, even though this perhaps is not known from local leaders as 37% of them do not even know the formula.

7.1.3 Equalization and unconditional transfers

As mentioned in the theoretical framework, the unconditional transfers are used for the purpose of achieving vertical and horizontal equalization of resources among local governments. Based on the definition of unconditional transfers on law 8652/2000 it seems that equalization is the main objective of transfers.

Vertical equalization, which is based on the division of responsibilities and functions between central and local authorities and supporting the expenditures for the public services and functions of local government, up to now is considered with the determination of general transfer pool.

During 2009 and 2010 the funds for salaries and social insurance for dormitory staff of pre-university education are incorporated to unconditional transfers. The law[21] says that the allocation for salaries and social insurances is done proportionally with the number of employees for dormitory staff. In the same time, funds for social service centers are incorporated in the unconditional transfers for 2010 for certain municipalities. This is an example which shows that when the function is transferred to local government the funds for financing these functions are also transferred. But, is the vertical equalization achieved?

The general transfer pool depends on the increase of the state budget and on the transfer of functions and powers to local governments. Since the determination of general transfer pool is still not transparent and

[21] Law 10025/2008 "On State Budget for the year 2009", annex 1

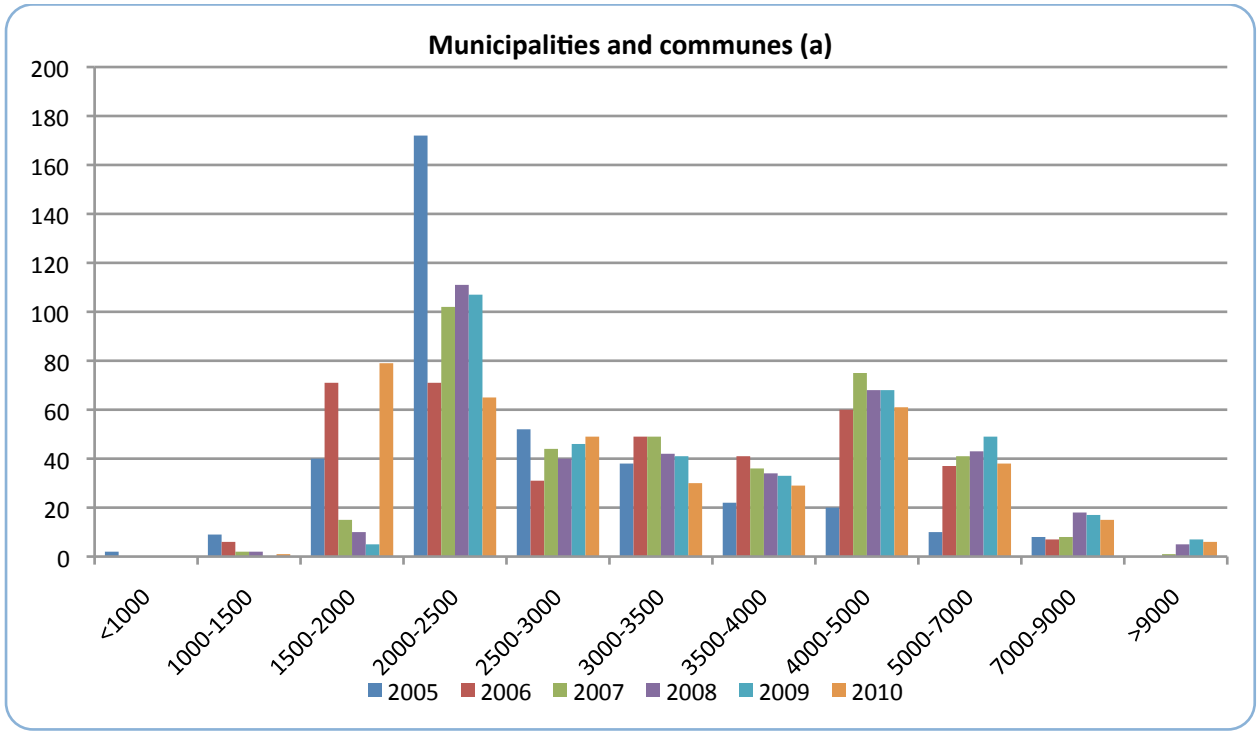
predictable, no conclusion can be drawn regarding vertical equalization. However, Convey (2007) states that "vertical equalization will be achieved when the size of the transfer pool maintains the same or greater ratio to total State revenues".

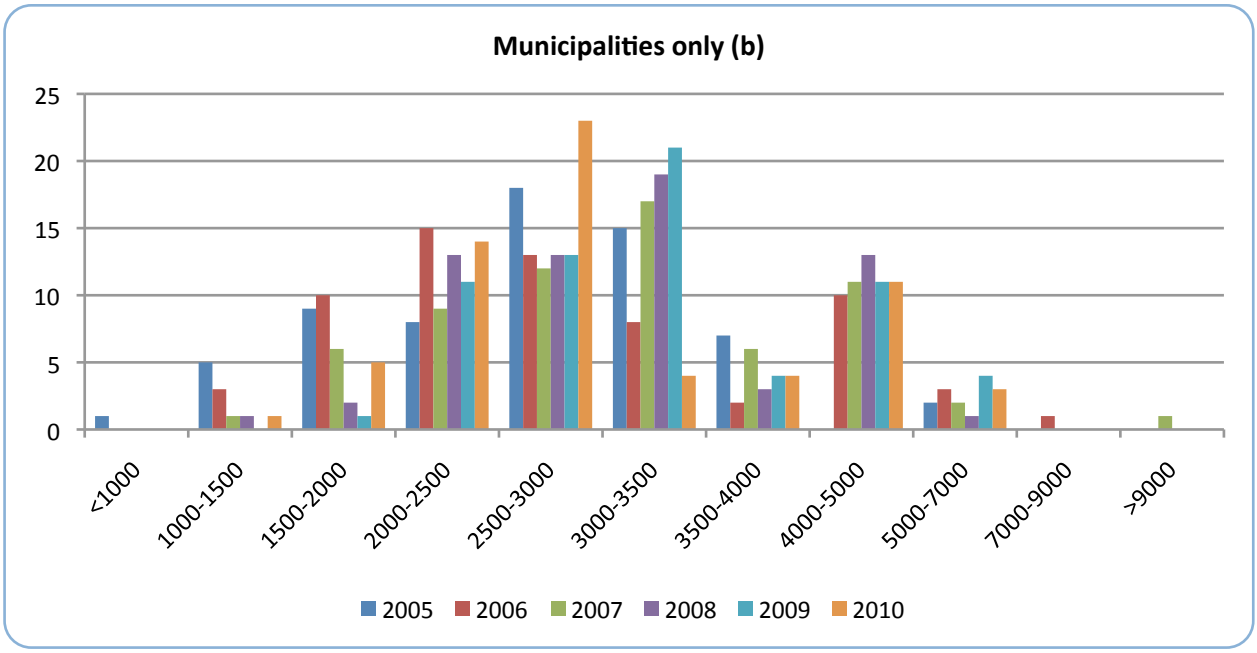
The horizontal equalization has to do with funds distributed to LGUs based on fiscal capacity and expenditure needs. Horizontal equalization tends to treat all the LGUs equally. One of the ways which are used to measure the horizontal equity is to calculate the dispersion of the per capita transfers as in table 10 in appendix 2 "Size Distribution of Unconditional Transfers per Capita, 2005-2010". This table shows that the dispersion of per capita allocation is improved regarding the lower bounds. In 2005 there are two LGUs with per capita transfer lower than 1,000 ALL, while from 2006 to 2010 there is none LGU in this level. Also, the number of LGUs which have per capita transfers between 1000 – 1500 ALL is reduced from 9 in 2005 to 1 in 2010.

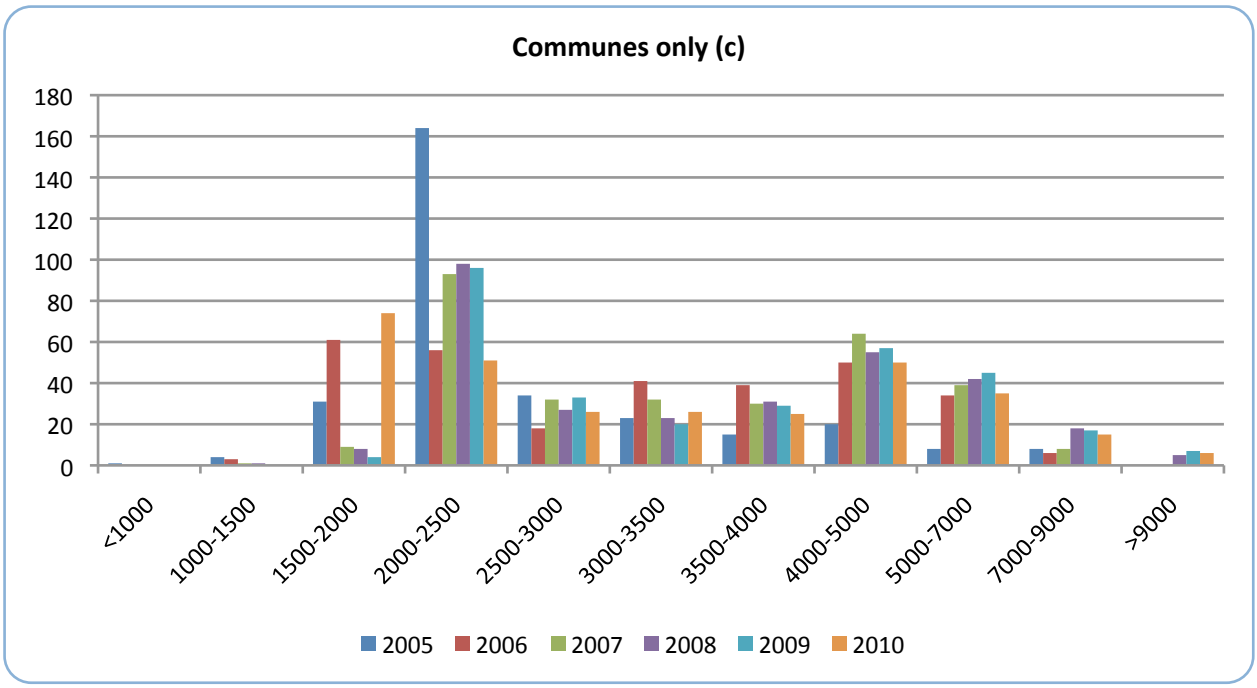
The number of LGUs in the upper bounds has increased and the dispersion is very irregular, especially after 2005. During the last three years there is no municipality that has a transfer per capita above 7,000 ALL, while there are 23 communes in 2008, 24 in 2009 and 21 in 2010. Table 4 is shown also graphically in figure 1 (a, b, c). As it can be seen from the figures the distribution is irregular for both municipalities and communes. The per capita transfers are concentrated between 2,500 – 3,500 ALL and 4,000 – 5,000 ALL for municipalities and between 2,000 – 2,500 ALL and 4,000 – 5,000 ALL for communes.

Table 10 shows that the dispersion is becoming higher in the last three years bringing the communes to the extreme upper bounds. This is shown also in the below figure.

Figure 1. Size Distribution of Unconditional Transfers per Capita, 2005-2010







The dispersion of per capita transfers is shown also in Table 5 through some descriptive statistics for the period 2005-2010. The mean of per capita transfers is increased up to 2009 and is decreased in 2010 compared to 2009, due to the decrease of general transfer pool. In 2010, also, the coefficient of variation is increased which means that per capita transfers are less clustered around the average per capita (mean) and the dispersion is high. As shown in table 5, the communes have higher per capita transfers than municipalities from 2008-2010.

Table 5. Descriptive statistics for unconditional transfers, 2005 – 2010

	2005	2006	2007	2008	2009	2010
			ALL LGUs			
Mean	2,759	3,304	3,550	3,703	3,829	3,523
Median	2,404	3,092	3,319	3,216	3,352	2,932
Std. Deviation	1,131	1,431	1,432	1,682	1,763	1,832
Coefficient of variation	41%	43%	40%	45%	46%	52%
Minimum	624	1,057	1,277	1,346	1,595	1,428
Maximum	8,669	8,222	9,301	10,296	10,811	11,413
			Municipalities			
Mean	2,684	2,964	3,279	3,176	3,377	3,088
Median	2,754	2,685	3,136	3,096	3,199	2,785
Std. Deviation	910	1,262	1,196	869	973	1,065
Coefficient of variation	34%	43%	36%	27%	29%	34%
Minimum	624	1,057	1,433	1,466	1,595	1,428
Maximum	5,795	8,156	9,301	5,143	6,114	6,742
			Communes			
Mean	2,774	3,375	3,607	3,814	3,925	3,615
Median	2,392	3,238	3,384	3,453	3,512	3,053
Std. Deviation	1,173	1,456	1,472	1,789	1,876	1,945
Coefficient of variation	42%	43%	41%	47%	48%	54%
Minimum	723	1,065	1,277	1,346	1,822	1,522
Maximum	8,669	8,222	8,636	10,296	10,811	11,413

Source: Data are made available by MoF, while the calculations are made by Co-PLAN. Data for 2000-2004 are not made available

The coefficient of variation which is higher in communes than in municipalities, especially in the last three years, confirms the result given above that the dispersion of per capita transfers in communes is higher than in municipalities. But, still the coefficient of variation is lower than 100%. In this way it can be concluded that the formula has achieved its purpose of equalization.

7.1.4 Unconditional transfers in relation to politics

In the theoretical framework it is mentioned that one of the reasons for distributing intergovernmental transfers is the political and institutional justification. Intergovernmental fiscal issues cannot be discussed without understanding politics, especially in the case of transition countries. In Albania, there have also been several debates in the political and professional arena about the distribution of transfers and their relation to politics. According to the report of The Supreme State Audit on Implementation of State Budget for the year 2007 results that were noticed some inaccuracies in the database used for calculating part B of unconditional transfers for 2006 and 2007. This raises suspicion for the way the transfers are distributed and for the potential manipulation of formula. One of the questions one can think is if the formula is politically manipulated. Since it is a formula based distribution, it seems unlikely, but in order to answer to this question more in-depth analysis including statistical tests is needed.

Since the population account for 70% of formula, it was expected that the relationship between change in population and change in transfers between two consecutive years to be strong or moderately strong. The correlation for 2006/2005 showed a strong positive relationship ($r = 0.832$, $n = 373$, $p = 0.01$), for 2008/2007 showed again a strong positive relationship ($r = 0.933$, $n = 373$, $p = 0.01$), while for 2010/2009 showed a weak positive relationship ($r = 0.223$, $n = 373$, $p = 0.01$). This means that when population increases so do the transfers and when the population decreases the transfers also decrease, but, in 2010 this relationship is weak. Therefore, a question is raised: Why is a weak positive relationship between change in population and change in unconditional transfers? Is the formula implemented properly? In order to answer

to these questions cross-tabulation and Phi coefficient are calculated. The variables used are political affiliation and per capita transfers. The political party networks are considered as strong when the local and central government belong to the same political party coalition.

Cross tabulations and statistical analyses (phi coefficient) are conducted for each year from 2005 to 2009. The results are presented in table 6 and table 7 below:

Table 6. Cross tabulation of political party affiliation and unconditional transfers

	2005			2006			2007			2008			2009		
	Governing	Non governing	Total	Governing	Non governing	Total	Governing	Non governing	Total	Governing	Non governing	Total	Governing	Non governing	Total
under the national average transfer	23%	18%	21%	23%	44%	35%	27%	43%	36%	32%	44%	36%	32%	45%	36%
above the national average transfer	77%	82%	79%	77%	56%	65%	73%	57%	64%	68%	56%	64%	68%	55%	64%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Table 7.Phi coefficient results for unconditional transfers

	2005	2006	2007	2008	2009
Phi coefficient	-0.063	0.214	0.158	0.123	0.131
Approx. Sig.	0.246	0.000	0.004	0.023	0.016
N (all)	335	335	335	342	342

As can be seen from the table 7, the relationship is moderately strong after the parliamentary election of 2005 when the governing party was changed from SP to DP. After 2006 the statistical tests show a weak relationship between variables which means between political affiliation and unconditional transfer. The local elections of 2007 changed the political affiliations between LGUs and governing party (DP) but the relationship remained still weak. The results of 2005 are not in the margin of a significant relationship, thus, it cannot be drawn any conclusion for transfers and political influences during the SP governing. As a result, even though in the first year of DP governing it is found a moderately strong relationship, it seems that when funds are distributed based on well defined rules then the political influences could have less impact on fund distribution. However, the statistical tests do not provide absolute assurance.

From the questionnaires, 35% of local leaders think that the transfer is distributed fairly among LGUs and 21.7% think the transfer is distributed based on political preferences. The data show that 58.9% of respondents have never met any person (deputy, minister or other officials) for the purpose of benefiting higher transfers and 26% have met between 2-5 times. 76% of those that have had at least one meeting with the officials declare that between them there is a political relationship. When the local leaders are asked about the perception they have about the mechanism used by others to increase the size of transfers, 61% of respondents declare that they have not heard for other local leaders if they use the meeting with any deputy, minister or other official as a mechanism in order to benefit higher transfers.

Based on questionnaires 50.7% of local leaders are of the opinion that the unconditional transfers are less dependent from politics and 31.5% think they are not dependent at all.

In your opinion, how do you consider the relationship of unconditional transfers from politics?				
	governing	opposite	neutral	total
Not dependent	41.3%	13.6%	20%	31.5%
Less dependent	56.5%	31.8%	80%	50.7%
Dependent	2.2%	36.4%	0%	12.3%
Very dependent	0%	18.2%	0%	5.5%
Total	100%	100%	100%	100%

Interestingly, 97.8% of local leaders that adhere in Democratic Party (coalition) think the transfers are not dependent or less dependent, while 54.6% of those that adhere in Socialist Party (opposition) think the transfers are dependant or very dependent on political relationships However, the statistical tests show a weak relationship (from 2007-2009). So the general perception of the local leaders was not justified by the analysis of statistical tests.

7.2 Competitive grants

Competitive grants started for the first time in 2006. As defined in law 9464/2005 "On State Budget for the year 2006", annex 4, the competitive grants are state budget funds allocated to line ministries to finance capital projects which are own functions of local governments. In 2010, competitive grants are reorganized as regional development fund which bear similar criteria. The analysis below consists on competitive grants only (2006-2009) as the regional development funds are in process and the related data are not made available.

The competitive grants are introduced to support local government to finance capital investments in several sectors. Before their introduction the World Bank (2004a) recommended adopting explicit rules, competition and project selection criteria for the allocation of conditional capital grants. Since the true objectives are not made public, below are evaluated the criteria for their distribution, efficiency of using funds and disparities as the most important objectives of competitive grants. Same as for unconditional transfers, these grants are evaluated for their relation to politics. This analysis is done for only 2007-2009 due to lack of data for 2006.

7.1.1 Criteria and process for competitive grants

Line ministries allocate competitive grants to LGUs based on a competing process, according to the criteria set in law. These criteria are: (i) Rate of impact on social and economic development and rate of compliance with local and/or regional as well as national priorities; (ii) Rate of impact on poverty reduction and on the increase of access over basic services; (iii) Number of direct and indirect beneficiaries; (iv) The extent to which the project is co-financed by foreign funds; (v) Preference was given to ongoing projects for which there are contract obligation; (vi) Technical quality of projects.

From the questionnaires, 61.6% of respondents declare that they know what the criteria are. The level of judgment if these criteria are measurable is as follows:

Ongoing projects for which there are contract obligation	72.1%
Number of direct and indirect beneficiaries	64.6 %
Rate of impact on social and economic development and rate of compliance with local and/or regional as well as national priorities	58.5%
Technical quality of projects	58.2%
Rate of impact on poverty reduction and on the increase of access over basic services	46.2 %
The extent to which the project is co-financed by foreign funds	35.9 %

In general it is noticed an average level of measurement of the criteria with "Ongoing projects for which there are contract obligation" being the most measurable criteria (72.1%) and "The extent to which the project is co-financed by foreign fund" being the least measurable (35.9%). The criterion which is considered as the most important for a project in order to be financed is the "technical quality of projects" (68% of respondents). From the above table it seems that only 58.2% of respondents have considered this criterion as measurable.

The process starts with LGU submissions of their projects to relevant ministries. These projects are than evaluated by technical secretariat of each ministry. The Albanian Development Fund (ADF) is the technical secretariat of MOI in the case of local road infrastructure. ADF uses a methodology based on scoring system taking into account the legal criteria as well. This methodology is based on the ADF experience for selecting projects financed by World Bank. The other ministries have assigned their staff to make the preliminary evaluation of projects and have designed their own methodologies. After the evaluation ADF and other ministries send the list to the committee for the grant allocation. The release of funds is made by the Ministry of Finance based on the decision of the relevant committee in which is specified: the name of the project, the full value of the project and funding approved for the year.

Most of the local leaders do not know how the committee for grant allocation is composed as in the table follow. Even though the percentage is low, the committee for local roads is more known then others.

	Yes	No
Roads projects	28.6%	71.4%
Water supply & Sewerage	14.3%	85.7%
Education	12.9%	87.1%
Health	8.8%	91.2%
Culture	7.1%	92.9%
Agriculture	4.4%	95.6%

Given that the number of those who know how the committee for grant allocation is composed is low, the number of those who thinks that this committee represents the interests of local government is also low (22%). It is very interesting the fact that 100% of opposite LGUs thinks that this committee does not represent its interests and only 32% of governing LGUs think it does.

Do you think that the composition of committee represents your interests?				
	governing	opposite	neutral	total
Yes	32%	0%	50%	22%
No	68%	100%	50%	78%
Total	100%	100%	100%	100%

The committee is composed by members of high political levels and it seems that LGUs are not satisfied with it. The LGUs are represented in committee for grant allocation by representatives of local government associations. Since 100% of the opposite LGUs think that the committee does not represent the local

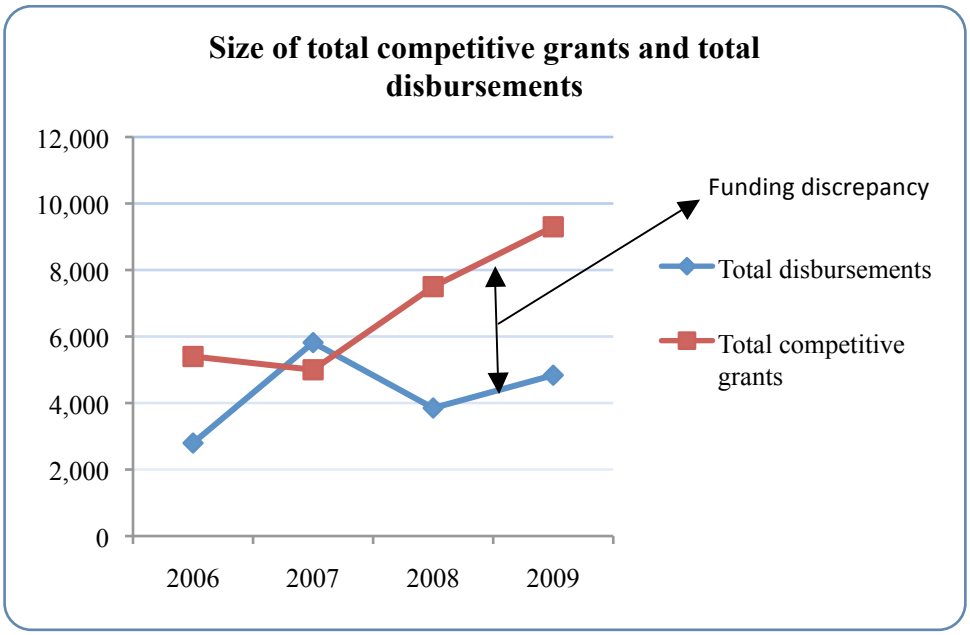
government interests, this could have lead to the division of association of municipalities in two associations (socialist in one side (opposite) and democrat + others on the other side).

The competitive grant criteria are very general and not based on a scoring system. 66% of respondents are of the opinion that the criteria should be changed. Most of them propose that the competitive grants should be distributed as part of the unconditional transfer in the organic budget law and to take into account the population of each LGU.

7.1.2 Efficiency of competitive grants

Intergovernmental transfers are designed primarily to support operational expenditures. The capital investments are often an afterthought. Most intergovernmental transfers, particularly regarding capital investments, are not well designed or operated efficiently. Normally, since the competitive grants are part of intergovernmental transfers one of the general criteria for their distribution should be the efficiency of funds. Local capital investments are different in nature from operational expenditure and may last more than one year. The release of funds is made upon the progress of the investments and the budget of ministries assigned for that year; therefore, financing of capital investments is made from the budget of different years. The Supreme State Audit points out in their report for the Implementation of State Budget for the year 2009, that for many consecutive years, many capital investment projects have been partially funded, while there has been a possibility to be realized within the budget year. This is made obvious also by Figure 2 which shows the total competitive grants and total disbursements to LGUs for 2006 – 2009 for all line ministries, as well as the funding discrepancy between them.

Figure 2. Competitive grants disbursed to LGUs for 2006 – 2009

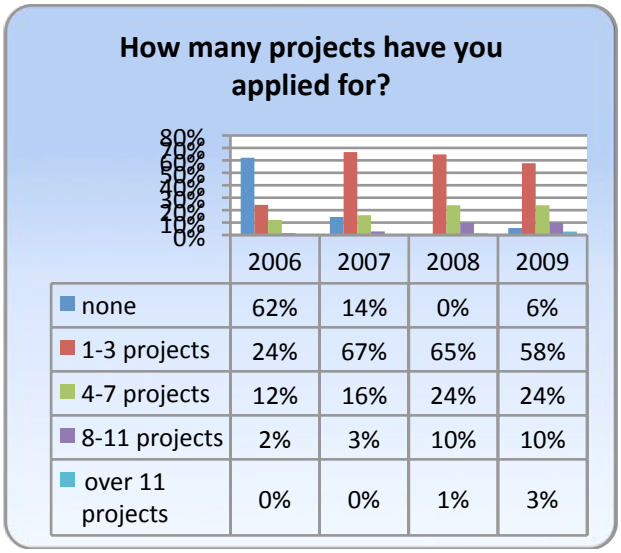


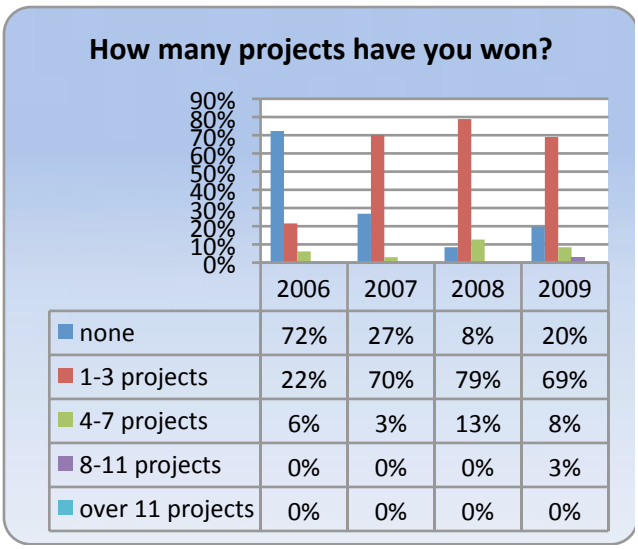
As can be seen from the figure the disbursement is about half less than the total amount of grants in 2008 and 2009. Thus, while the funding is fragmented during years it leads to unfinished projects which may be destroyed if the funds are not released in consistency with progress of investments. There are also several cases when the investment is finished but not fully financed. From the questionnaires resulted that 29% of the LGUs have 1-3 projects finished but still not fully financed. To this regard, the competitive funds are not efficiently managed.

7.1.3 Competitive Grants and disparities among local governments

Competitive grants are distributed on ad-hoc basis and not for all LGUs. The total budget for local roads is made public in the organic budget law as part of total general pool. The other competitive funds are assigned in the budget of relevant ministries. LGUs can absorb these funds on a competitive basis after the submission of projects to the relevant line ministries. The submitted projects should comply with the criteria and standards set in law. The largest and financially more stable LGUs have higher chances to absorb competitive grants than the poorer ones. The number of LGUs that apply for projects is increased but only a number of those projects have won. The figure 3 shows that in 2006, 62% of LGUs have hot applied for any projects, while this number is reducing in 14% in 2007, 0% in 2008 and 6% in 2009. In 2006 and 2007 the majority of LGUs have applied for 1-3 projects with 24% and 67% respectively, while in 2008 and 2009 the number of LGUs that have applied for 4-7 and 8-11 projects is increased.

Figure 2. Number of LGUs according to applied and won projects



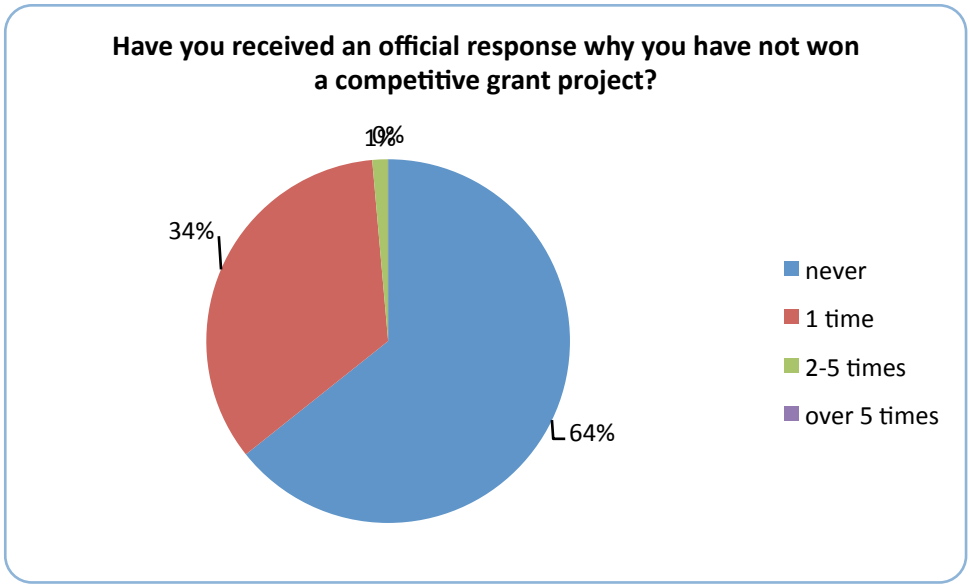


The majority of LGUs have won 1-3 projects during 2006-2009. The number of LGUs that have won 4-7 projects is increased in 2008 and 2009, and in 2009, 3% of LGUs have won 8-11 projects.

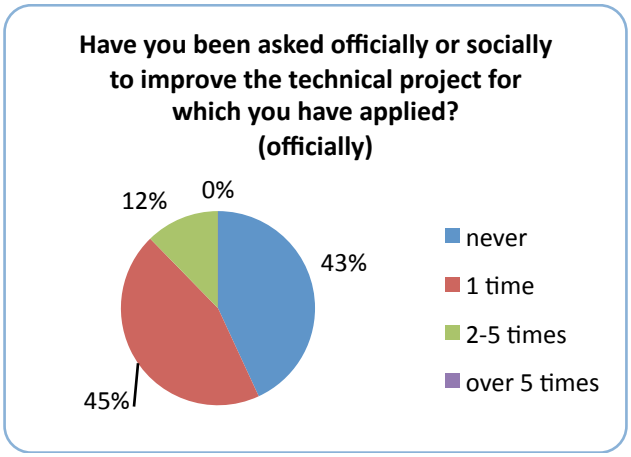
What can be noted from these results is that Competitive Grants have increased both in nominal and absolute terms every year since 2006, with the exception of 2007, and that over the entire period (2006 – 2009) they have doubled. Despite this growth, however they constitute only 2.3% of the state budget in 2006 and 2.8% of the state budget in 2009.

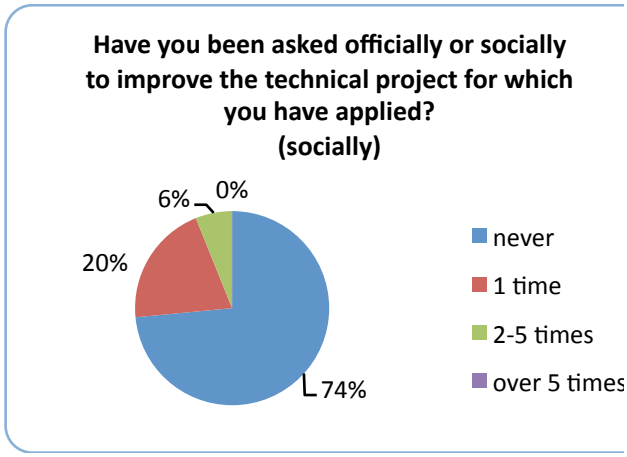
This trend is followed by an impressive increase of the number of local governments competing for these grants with more than one project. In the same time the number of successful projects for competitive grants is increased substantially. While in 2006, 72% of the LGUs do not have any successful project, in 2009 this share was reduced to 20 %. On the other hand 69% of the LGUs have had 1-3 successful projects in the Competitive Grants' scheme in 2009, compared with only 22% in 2006.

Based on the findings of the survey undertaken with mayors, almost all the LGUs do not know the reasons why they are disqualified. 64.3% of respondents tell that they have never received an official answer why they have not won a project as in figure below.



The interviews with members of technical secretariat of competitive grants in line ministries indicate that projects that are not properly and technically designed are disqualified in the first phase and are not sent to the grant committee for approval. 43% of LGUs have not received an official letter in order to improve the technical projects in case when they are not in the form required and 45% of them are asked one time, while a small percentage (12%) is asked 2-5 times. The social informative ways do not play a critical role regarding this issue. 74% of LGUs are not required in a social way to make improvements in technical projects, while only 20% of them are required 1 time and 6% are required 2-3 times.





Since the competitive grants are distributed on ad-hoc basis it is expected to be distributed unequally among local governments. Table 11 in appendix 2 "Size Distribution of Competitive Grants per Capita, 2006-2009" confirms the above saying. The dispersion of per capita allocation is much skewed compared to dispersion of unconditional transfer. Most of the LGUs have the per capita lower than 1,000 ALL. In 2006, 272 units have a per capita lower than 1,000 ALL. In fact 202 units have a per capita of zero (refer to figure 4). From the questionnaires most of LGUs have not applied at all (62% of LGUs questioned). 78.4% communes have not applied at all in 2006 and 86.7% of municipalities have applied from 1 to 7 projects. In 2007 it seems an improvement, especially in communes. In this year is increased also the number of communes that have submitted projects (76.5% of communes have applied for 1-3 projects). In the same time 50% of municipalities have applied for 4-7 projects. In 2008 and 2009 it is noticed that both communes and municipalities have a tendency to apply for a greater number of projects.

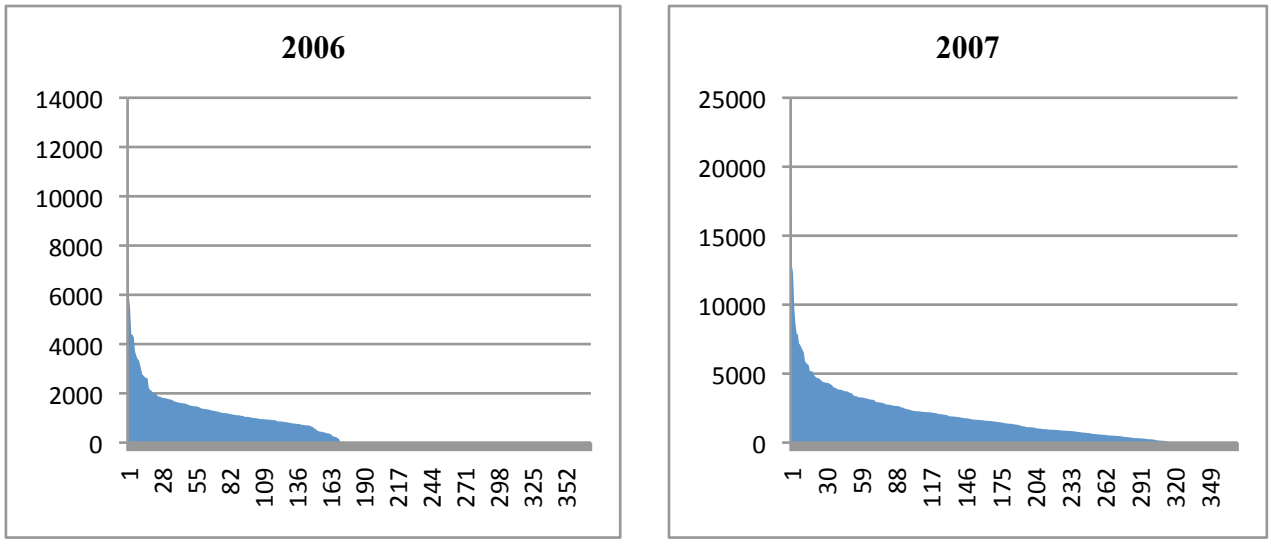
Table 8 shows also this dispersion of per capita grant but through some descriptive statistics for all the LGUs together. As it can be seen the coefficient of variation is very high. Even though the coefficient of variation is decreased from 170% in 2006 to 130% in 2009 it remains still high (more than 100%).

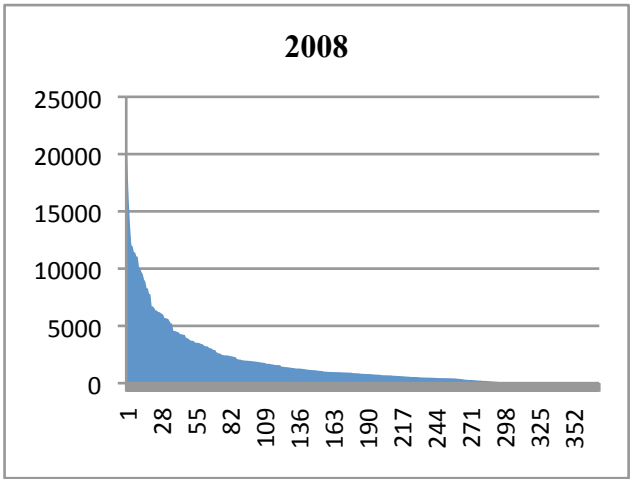
Table 8. Descriptive statistics for competitive grants per capita, 2005 – 2010

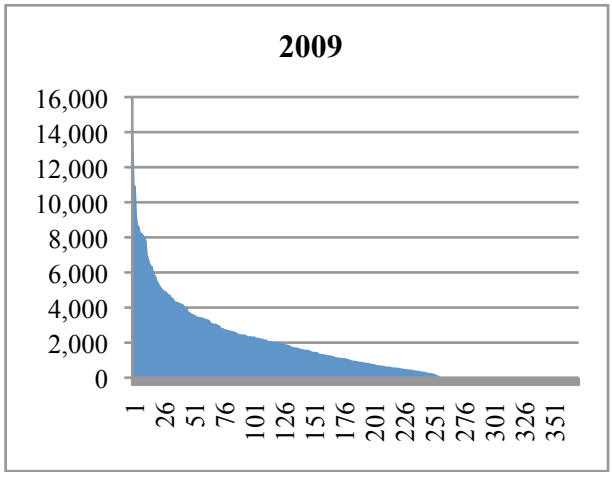
	2006	2007	2008	2009
ALL LGUs				
Mean	647	1,799	1,823	1,707
Median	0	1,326	816	973
Std. Deviation	1,100	2,051	2,854	2,216
Coefficient of variation	170%	114%	157%	130%
Minimum	0	0	0	0
Maximum	12,531	19,090	21,744	14,810

The figure 4 shows the competitive grants per capita in graphical way for 2006 – 2009 and the number of LGUs for each level of per capita grants. Most of them have a grant per capita of zero (202 units in 2006, 58 units in 2007, 76 units in 2008 and 116 units in 2009) and a small number have high grants per capita. The percentage of LGUs with a per capita grant below 1,000 ALL goes from 64% in 2006, 37% in 2007, 47% in 2008 and 42% in 2009.

Figure 3. Distribution of competitive grants per capita for all LGUs, 2006 - 2009







As a result, the dispersion is much skewed and only a small number of LGUs are benefiting higher transfers.

7.1.4 Competitive Grants in relation to politics

As noted earlier, intergovernmental fiscal issues cannot be discussed without understanding politics, particularly in the case of competitive grants. Since the criteria for project selection are general and not based on a formula, the competitive grants are more vulnerable than unconditional transfers. Competitive grants are distributed on ad-hoc basis and the way projects are evaluated is not clear. For this reason, one can think they can be subject to manipulation or can be used by central government to favor local leaders of the same political party. On the other side, since the own revenues of LGUs are still low and are not enough to finance capital investment projects, local leaders are motivated to seek funds from national budget in order to fulfill their promises to constituents. In Albania there have been too many discussions in the political and professional arena regarding the distribution of competitive grants. Thus, the report of the Head of OSCE Presence in Albania to the OSCE Permanent Council (September 2010, p.6) states: "The distributions of funds to the local authorities is also often less objective, meaning municipalities ruled by mayors of the opposition are less favored especially with regard to the so-called competitive grants which are allocated in competition on top of the standard grants". For this reason, cross tabulations and Cramer's V statistical tests are conducted in order to test whether the competitive grants are distributed in relation to politics or not.

The analysis is made only for three line ministries: Ministry of Public Works, Transport and Telecommunication (MPWTT), Ministry of Health (MOH) and Ministry of Education and Science (MOE). The data for these ministries are not made available for all the years. For MPWTT the data of 2007-2009 are analyzed as in 2006 there were not distributed competitive grants for water and sewerage projects. Regarding the MOH, the data of 2006 are not made available while in 2009 there was not budget for competitive grants for LGUs. So, only the data for 2007 and 2008 are analyzed. MOE has made available the data for 2006 – 2008 but not in the required format (not per each LGU but per districts), so, only the data for 2009 are analyzed.

It would have been interesting to analyze the data for the Ministry of Interior (MOI) which distributes competitive grants for local roads, but the data are not made available.

The other line ministries have distributed grants for a very small number of projects, so the analysis is not of great interest.

Appendix 3 presents the statistical results for education, water supply & sewerage and health sectors.

The data for MPWTT show that the relationship is moderately strong between political affiliation and number of competitive grant projects. The results of 2007 are not in a significant margin. The relationship is

becoming stronger from 2008 to 2009 and the relationship is stronger in municipalities than in communes (refer to tables 12 and 13).

The results for 2008 for MOH are not in a significant margin. The relationship between variables in 2007 is weak. The coefficient for municipalities in 2007 is moderately strong but since it is not significant it requires further investigation (refer to tables 14 and 15).

Regarding the MOE the relationship for all LGUs and for communes separately is weak. The results for municipalities are not significant (refer to tables 16 and 17).

To conclude, statistical tests show that there were noticed some evidence of relationship between competitive grants and political party affiliation as regard to MPWTT. In contrary to the relationship between unconditional transfers and political party affiliation, the competitive grants for MPWTT seem to be influenced by politics. However, this does not rule out the possibilities that this relationship is due to other factors. Given the data available for the two other ministries it can be concluded that the grants in these ministries are not influenced by politics.

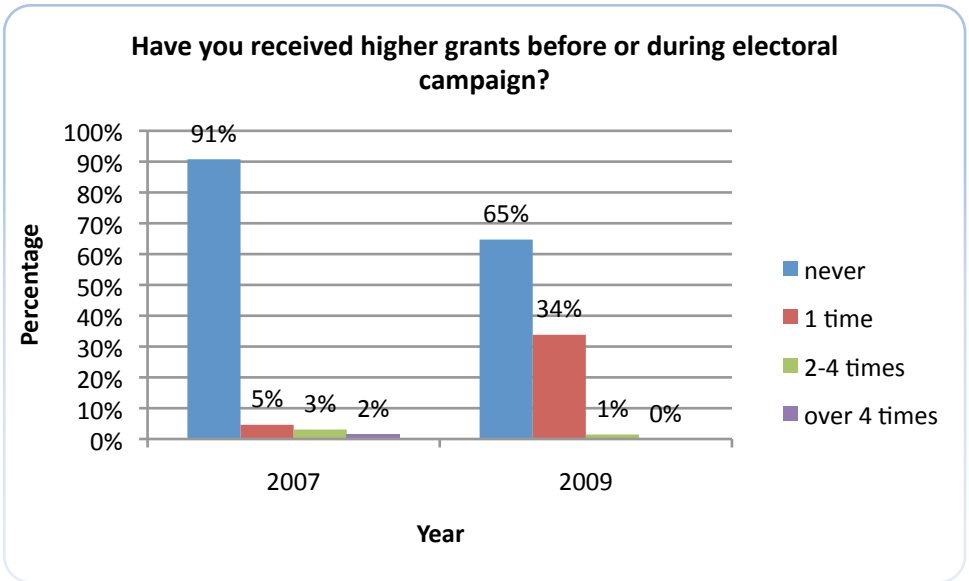
Regarding to questionnaires, 53.5% of respondents are of the opinion that the competitive grants are less dependent to political affiliation and 23.9% think they are dependent (refer to table below). It is the same situation as for the unconditional transfers. 93.2% of LGUs with governing party think that the grants are not dependent or less dependent, while 72.8% of opposite LGUs think that grants are dependent or very dependent. From the neutral group, most of them think the grants are dependent (80%).

In your opinion, how do you consider the relationship of Competitive Grants from the politics?				
	Governing	Non governing	Neutral	Total
Not dependent	18.2%	9.1%	0%	14.1%
Less dependent	75.0%	18.2%	20%	53.5%
Dependent	6.8%	45.5%	80%	23.9%
Very dependent	0%	27.3%	0%	8.5%
Total	100%	100%	100%	100%
n=				

While 54.6% of the opposite LGUs think that unconditional transfers are dependent or very dependent from politics, this percentage is becoming 72.8% in the case of competitive grants. Therefore, although the local leaders are answered politically, it is noticed a tendency of perceiving competitive grants as more dependent from politics than unconditional transfers. This perception is also in line with the results of statistical tests for MPWTT but not for MOH and MOE.

From questionnaires, local leaders of both main political parties seems to use their political relations in order to benefit more grants and this is confirmed by one third of them (67%). 52.1% of local leaders have never meet any minister, deputy or other official, but 39.4% of them have met from 1 to 5 times and 8.5% more than 5 times. Regarding the perceptions for other local leaders if they are favored by the political relations 25.7% of respondents have heard about this favor in one case, 7.1% of them in 3-4 cases and 10% for more than 4 cases.

Central government may be more inclined to increase the size of grants to partisan LGUs during elections period in order to increase their chances for reelections. 34% of respondents in 2009 from 5% in 2007 are answered that have received grants in 1 time before or during election period.



72.2% of respondents have received these grants in the form of competitive grants and 27.8% in the form of direct investment from the central government. So, it can be concluded that the increase to 34% could have come mainly from competitive grants.

8. CONCLUSIONS AND RECOMMENDATIONS

This study analyzes the system of intergovernmental transfers in Albania, particularly unconditional transfers and competitive grants. The study focuses on the process in which local revenues are derived from national sources as well as their relation to politics.

The intergovernmental transfer mechanism has to determine the total transfer pool to be distributed and then the allocation of this transfer pool to individual LGUs. The total transfer pool is subject to negotiations during budget preparation process and it is neither transparent, nor predictable. The amount defined for LGUs could be subject to government priorities in each year. Even though there have been different opinions about the determination of total transfer pool, up to these days there is not in place any formula or percentage to certain taxes to determine the amount of total transfer pool.

Although, in countries where local governments are responsible for the provision of basic urban services – roads, water, waste, parks, - but not responsible for social sector functions like education (particularly teachers' wages) we would expect local government revenues to be about 12% to 15% of State Revenues and 5% to 7% of the GDP. This is the case, for example, in Croatia and Serbia.

In Albania, however, local government revenues represent only 11% of the State Budget and are thus still below the comparative "norm", though not by much. Local government revenues as a share of GDP, 2.9%, are very low. This however must be understood in the context when the total government sector in Albania is small in relationship to the GDP, 27%, when compared to European norms of 35% to 45% because the Albanian government has problems collecting taxes.

The Albanian intergovernmental finance system has rested on two pillars, transfers and own revenues. This is unusual because most European countries make fairly extensive use of a third pillar, shared taxes, particularly shared personal income tax (PIT). Indeed, Albanian legislation (law 8652/2000) contains provisions that foresee giving local governments PIT shares, but these provisions have never been used.

From our point of view, it would be logical to introduce PIT sharing for a number of reasons. First, the origin-based sharing of PIT provides local governments with a direct incentive to promote economic growth while at the same time can be combined with the determination of the total transfer pool, so to guarantee the predictability of funding.

The coefficients of formula for distributing the total transfer pool among LGUs are changing every year, especially the equalization coefficients. This makes the unpredictability of funds twofold. In one side it is the change in total transfer pool and on the other side the changes of formula coefficients. The exact amount of unconditional transfer to each LGU is not foreseeable until the organic budget law is approved. Even though the total transfer pool is foreseen in the framework of MTBP for the next three years, Last year's experience showed that this has been subject to change. Moreover, when distributed to individual LGUs based on formula, the percentage of change could be more or less than the percentage foreseen for the total pool. This is due to the change of data (population) and equalization coefficients required in formula. Even if the amount of total transfer pool for the next three years will not change, the LGUs cannot calculate their share for each year because of inconsistency of data between local and national level and because the exact coefficients of formula are made public every year only with the approval of organic budget law. Lack of predictability makes it difficult for municipalities to plan expenditures, especially for capital investments. When transfers decline, the LGUs have to increase local taxes or to reduce expenditures. In order to improve the predictability of funds, especially in the framework of MTBP, the sources of data used in formula calculation should be made public. In this way, local and national government uses the same data for calculation of transfers making them more predictable.

In order to meet the requirements of a good grant allocation system, the unconditional transfers have to fulfill the criteria of autonomy, revenues adequacy, equity, predictability, efficiency, simplicity, and incentives for sound fiscal management.

Although these transfers are unconditional and local governments have the discretion to decide how to spend them, they do not fully meet the criteria of autonomy.

In general the total transfer pool was increased, except for when more taxes are transferred to LGUs. But, taking into account that the last year the transfer pool is decreased and central government has made some restrictions to local taxes and tariffs, it can be said that transfers do not fully meet the criteria of revenue adequacy. The autonomy of local governments to set taxes and tariffs is harmed.

The formula for allocation of transfers is moderately simple since the coefficients of equalization and transitory regulations change every year and this part of formula can be hardly calculated by beneficiaries.

By definition, the main objective of unconditional transfer is equalization among local governments. The dispersion of per capita transfers is made higher after 2005 bringing communes at upper extreme bounds. Regarding the equalization the formula faces a problem because the tax capacity of LGUs is measured based on two actual collections of taxes and not based on the real tax capacity. The equalization coefficients should be more stable, and, in the near future, the equalization should be based on real tax capacity of local governments.

The equalization part of the formula tends to discourage resource mobilization since LGUs whose per capita revenues from the two assigned taxes exceeds the national average will contribute 25% (in 2010) of the excess funds (multiplied with its population) for LGUs which have per capita revenues lower than national average. Also, after fiscal equalization results, the municipalities or communes that benefit a transfer over 87.23% (in 2010) compared to 2009, contribute to the per capita minimum guarantee fund and compensation fund for the amount in excess to 87.23%. A good formula in fact should not discourage the resource mobilization.

The criteria for project selection by competitive grants are general and not based on a scoring system. The criterion which is considered as the most important for a project in order to be financed is the "technical quality of projects" (68% of respondents). Nevertheless, the local leaders are of the opinion that these criteria should change. Most of them propose that the competitive grants should be distributed as part of the unconditional transfer in the organic budget law and to take into account the population of each LGU.

The fragmentation of competitive grants has lead to inefficient management of funds. There are projects finished but not fully financed and there are also projects that have started and remained unfinished due to lack of funds as the committee has approved more projects than the budgeted amounts.

The competitive grants are ad-hoc funds distributed among LGUs based on a competitive process. The dispersion of per capita competitive grants is skewed toward lower bounds compared to the unconditional transfers. An ad hoc approach to the horizontal allocation of resources, as noted by Boex and Martinez-Vazquez (2006), hardly ever results in a fair, efficient, and stable allocation of intergovernmental grants. Moreover, competitive grants go especially to richer LGUs. Financially stable LGUs have more possibilities to prepare good technical projects and have more chances to win in comparison to poorer ones. The poor LGUs except for the lack of financial resources have limited staff capacity to prepare good projects. Thus, they are disfavored by this grant transfer mechanism.

In 2010, the competitive grant is reorganized as regional development fund (RDF). RDF is seen as a preparatory exercise for regions to prepare themselves to apply for structural and investment funds in the financial institutions of EU. RDF bears similar criteria as competitive grant and the distribution process has been almost the same in 2010. Although not separately analyzed in this research study, the conclusions about the efficiency of competitive grants could be also valid for regional development fund scheme as implemented in 2010. The law 10190/2009 "On state budget for the year 2010" has defined the scoring system of development fund criteria, assigning a range of points for each of them. Meanwhile, in the framework of Integrated Support for Decentralization project, financed by EU-UNDP and implemented by UNDP, new project selection criteria are proposed in the report for regional development funds[22].

[22] For more information see the report "*Assessment of design and performance, recommendations for improvements and support in reforming the Regional Development Fund"*, EU-UNDP project "Integrated Support for Decentralization", 2010

Regarding the relationship between unconditional transfers and political affiliations, the relationship is moderately strong after the parliamentary election of 2005 when the governing party was changed. After 2006 the statistical tests show a weak relationship between variables which means between political affiliation and unconditional transfer. The local elections of 2007 changed the political affiliations between LGUs and governing party (DP) but the relationship remained still weak. The results of 2005 are not in the margin of a significant relationship, thus, no conclusions can be drawn for transfers and political influences during the SP governing. As a result, even though in the first year of DP governmental moderately strong relationship is found, it seems that when funds are distributed based on well defined rules then the political influences could have less impact on fund distribution.

As regard to competitive grants, there were noticed some evidence of relationship between competitive grants and political party affiliation (in case of MPWTT). However, this does not rule out the possibilities that this relationship is due to other factors. Even this relationship is not strong in all cases; it is evident that the relationship of competitive grants and political party affiliation is stronger than that of unconditional transfers. Thus, the competitive grants are more vulnerable to political influences.

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APPENDIX 1. Data collected

Table 9. Data collected

Types of Data	MOF	Line Ministries	Legal journals	Central Election Commission	Mayors / Head of Communes	Members of grant allocation committee	Members of technical secretariat of competitive grants	Notes
Amount of unconditional transfers per each LGU for 2005-2009	X		X					
Other general data about unconditional, conditional and competitive grants	X							
Projects financed by competitive grants per each LGU	X	X						The data are not made available for all the sectors
Disbursement of competitive funds per each LGU and per each sector for 2006 - 2009	X							
Population for each LGU which is used in formula calculations (2005-2010)	X							
Local and Parliamentary Elections		X	X	X				
Interviews					X	X	X	
Questionnaires					X			

APPENDIX 2: Distribution of transfers/grants per capita

Table 10. Size Distribution of Unconditional Transfers per Capita, 2005-2010

Number of local governments in each size group											
ALL per capita unconditional transfers											
	<1000	1000-1500	1500-2000	2000-2500	2500-3000	3000-3500	3500-4000	4000-5000	5000-7000	7000-9000	>9000
All LGUs											
2005	2	9	40	172	52	38	22	20	10	8	0
2006	0	6	71	71	31	49	41	60	37	7	0
2007	0	2	15	102	44	49	36	75	41	8	1
2008	0	2	10	111	40	42	34	68	43	18	5
2009	0	0	5	107	46	41	33	68	49	17	7
2010	0	1	79	65	49	30	29	61	38	15	6
Municipalities											
2005	1	5	9	8	18	15	7	0	2	0	0
2006	0	3	10	15	13	8	2	10	3	1	0
2007	0	1	6	9	12	17	6	11	2	0	1
2008	0	1	2	13	13	19	3	13	1	0	0
2009	0	0	1	11	13	21	4	11	4	0	0
2010	0	1	5	14	23	4	4	11	3	0	0
Communes											
2005	1	4	31	164	34	23	15	20	8	8	0
2006	0	3	61	56	18	41	39	50	34	6	0
2007	0	1	9	93	32	32	30	64	39	8	0
2008	0	1	8	98	27	23	31	55	42	18	5
2009	0	0	4	96	33	20	29	57	45	17	7
2010	0	0	74	51	26	26	25	50	35	15	6

Note: These calculations are made by Co-PLAN. The division of per capita transfer levels is following the division made for measuring the horizontal equalization in the framework of Local Government Assistance and Decentralization in Albania Project

Table 11. Size Distribution of Competitive Grants per Capita, 2006-2009

Number of local governments in each size group											
ALL per capita competitive grants											
ALL LGUs	<1000	1000-1500	1500-2000	2000-2500	2500-3000	3000-3500	3500-4000	4000-5000	5000-7000	7000-9000	>9000
2006	272	50	29	5	6	3	2	3	2	0	1
2007	163	38	42	35	24	19	16	16	11	5	4
2008	215	36	30	17	7	10	11	10	17	5	15
2009	190	33	26	35	16	19	9	19	13	8	5
Municipalities											
2006	35	12	10	2	1	1	0	1	2	0	1
2007	25	7	6	7	4	7	7	1	1	0	0
2008	43	7	9	2	0	1	0	2	0	0	1
2009	33	5	3	8	2	1	2	6	3	2	0
Communes											
2006	237	38	19	3	5	2	2	2	0	0	0
2007	138	31	36	28	20	12	9	15	10	5	4
2008	172	29	21	15	7	9	11	8	17	5	14
2009	157	28	23	27	14	18	7	13	10	6	5

APPENDIX 3. Statistical results for Competitive Grants

Table 12. Cross tabulation of political party affiliation and competitive grants, MPWTT

	2007			2008			2009		
	Governing	Non governing	Total	Governing	Non governing	Total	Governing	Non governing	Total
0 project	80%	88%	83%	68%	87%	75%	59%	87%	69%
1 project	17%	11%	15%	27%	13%	22%	38%	13%	29%
more than 1 project	3%	1%	2%	5%	0%	3%	3%	0%	2%
Total (N=342)	100%	100%	100%	100%	100%	100%	100%	100%	100%

Table 13. Cramer's V Coefficient for MPWTT[23]

	2006	2007	2008	2009
Cramer's V coefficient	no grants	0.111	0.220	0.294
Approx.Sig		0.124	0.000	0.000
N (all)		342	342	342
Cramer's V coefficient	no grants	0.118	0.334	0.402
Approx.Sig		0.649	0.031	0.007
N (only municipalities)		62	62	62
Cramer's V coefficient	no grants	0.133	0.196	0.269
Approx.Sig		0.084	0.005	0.000
N (only communes)		280	280	280

[23] Highlighted in grey are the results at significant margin ($\alpha <= 0.05$, confidence level >= 95%)

Table 14. Cross tabulation of political party affiliation and competitive grants, MOH

	2007			2008			2009		
	governing	non governing	total	governing	non governing	total	governing	non governing	total
0 project	37%	46%	40%	76%	84%	79%			
1 project	22%	30%	25%	18%	13%	16%	No grants distributed		
more than 1 project	41%	24%	35%	6%	3%	5%			
Total (N=342)	100%	100%	100%	100%	100%	100%			

Table 15. Cramer's V Coefficient for MOH

	2006	2007	2008	2009
Cramer's V coefficient	no data	0.170	0.099	No grants distributed
Approx.Sig		0.007	0.184	
N (all)		342	342	
Cramer's V coefficient	no data	0.239	0.045	No grants distributed
Approx.Sig		0.171	0.939	
N (only municipalities)		62	62	
Cramer's V coefficient	no data	0.161	0.121	No grants distributed
Approx.Sig		0.027	0.130	
N (only communes)		280	280	

Table 16. Cross tabulation of political party affiliation and competitive grants, MOE

	2007			2008			2009		
	Governing	Non governing	Total	Governing	Non governing	Total	Governing	Non governing	Total
0 project	No data			No data			39%	54%	44%
1 project							47%	36%	43%
more than 1 project							14%	10%	13%
Total (N=342)							100%	100%	100%

Table 17. Cramer's V Coefficient for MOE

	2006	2007	2008	2009
Cramer's V coefficient	no data	no data	no data	0.143
Approx.Sig				0.030
N (all)				342
Cramer's V coefficient	no data	no data	no data	0.119
Approx.Sig				0.645
N (only municipalities)				62
Cramer's V coefficient	no data	no data	no data	0.188
Approx.Sig				0.007
N (only communes)				280


Environment
Sustainability
society
Co-PLAN's
process
urban
change
best
Governance
policies
philosophy
success
Civil
Policy
partners
projects
governance
knowledge
Co-PLAN
work
development
good
habitat
tangible
people
People
growth
sustainable
past
years
part
seminars
backgrounds
decision-making
professionalism
important
stronger
city making
produce
serves
pride
foster
concerns
feature
outcomes
improvements
research
experience
positive
statement
organization
continuous
young
mission
values
peoples
Organisation
Since