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# Local government modernization in Albania

# Historical background and the territorial reform 2015-2020

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#### Abstract

Purpose – An attempt will be made to shed light on the course and pattern of the decentralization process by analyzing the historical development of local government and the territorial-administrative reform of 2015-2020 in Albania and the factors that have been shaping it. The scope is to understand the impact of the reform elements on the subnational governments and in general their overall impact on the government. The purpose of this paper is to fill the gap in the existing literature for Albania and at offering some insights on the administrative-territorial reform. Furthermore, it will contribute to the current debate on fiscal decentralization in South Eastern European (SEE) countries and the public management model implemented after the last reforms.

**Design/methodology/approach** – The first section analyzes the historical development of local government reforms from the 1990s to today and will help to identify if there is instrumentalism advocacy. The second section explains the determinants of the local government's fiscal autonomy in Albania of the period from 2003 to 2016. Three indicators are used as proxies for fiscal decentralization: the proportion of subnational expenditure over national expenditure, of total subnational revenues over total revenues of central government and the indicator of own subnational revenues over total revenues of the central government. The data from the budget and the revised budgets are then compared.

**Findings** – Despite Albania's commitment to decentralize its government functions, there is still work to do. The territorial and administrative reform has not generated the expected results. Almost 90 percent of the revenues still come from the central government's unconditional transfers. Therefore, the Albanian Government should build capacities and skills, and train the employees of each level of government that currently benefit from international assistance.

**Research limitations/implications** — The analysis represents a single case study on the territorial-administrative reform in Albania. Its implementation started in 2015 and it is probably too early to discuss outcomes. However, it might be useful to analyze the first results after a two-and-a-half-year period of implementation of reforms. Despite contributing to the existing gap in the literature, additional research will be necessary to better understand the decentralization process not only in Albania, but in all SEE countries.

**Practical implications** – It is necessary to first understand the lack of initial output, as well as the various challenges faced, in order to take the corrective measures on time.

Originality/value — This paper discusses in detail the reform adopted and the progress made by the Albanian local government units. The reform attempts to develop better relationships between the central and local governments and hence improve their service delivery, transparency and accountability. This paper is the first one that is attempting to analyze the initial output of the territorial-administrative reform of 2015-2020.

**Keywords** Decentralization, Albania, Local autonomy, Territorial reform **Paper type** Research paper

#### 1. Introduction

As evidenced by other scholars, since the fall of Communism in 1991, Albania has applied its first governmental reforms. These reforms have been focused on the whole public sector and institutional building, driven by the ideology of New Weberianism (New Weberian State (NWS)), rather than by a proper management of the public sector (Stillo *et al.*, 2011).

Recently, the intent of the European Union (EU) accession has shaped attitudes toward fiscal decentralization reforms as a reaction to the planned system of the old regime. However, over the years, only few reforms were aimed at making a real effort toward



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institutional building and the decentralization of the local governments. Until now, the central government has kept tight control of fiscal reforms, and local governments have relied heavily on unconditional and conditional transfers. The new territorial and administrative reform of 2015-2020 aims to increase the efficiency of local public services and strengthen the power of local government units. The aim of this paper is to understand the first output of the reform. It will determine whether the decentralization process is successful and will offer an important contribution to the literature on the public management model.

The first territorial changes were introduced in 1992 by the Law No. 7572 "On the Organization and the Functions of the Local Government" where local governments were defined as the basic level of the Albanian Government. During the period 1992-2000 several partial changes to the administrative-territorial organization took place, but without any major structural change. During the same period, the existing legislation was completed through secondary regulations that created the Department of Public Administration (DoPA) and the Civil Service Commission. The new territorial and administrative reform 2015-2020 was determined by the Constitution of the Republic of Albania, the European Charter of Local Autonomy and the recommendations of the European Council. It aims to consolidate small local government units into larger and more efficient units capable of providing greater access and delivering adequate and high-quality public services. However, the dynamics of the ongoing local government modernization are being implemented under the heading of the NWS (New Weberianism), which makes it difficult to properly implement these reforms. The Government of Albania has published the Public Administration Reform (PAR) Strategy 2015-2020 that is mainly focused on reinforcing the central government.

Albania is a country that is facing several forms of economic, political and fiscal stress. It has high levels of corruption and poverty, and low levels of accountability, transparency, skills and capabilities. In addition, the political "fight" between the two main political parties is intense and they rarely reach a consensus on common issues. Furthermore, one of the greatest concerns of Albania is the high politicization of public services and the political interference of the political parties in power. Adequate resources are required to implement training plans for the staff in new municipalities. Historically, the central government interferes in the affairs of local government by dictating how and where to use their financial resources, thus violating the self-governance and the autonomy of the local authorities (Pajollari and Özcan, 2017).

The paper argues that the efforts to reinforce the central government through the improvement of legal framework, and procedures for drafting of policies, strategies, action plans and legislation, as well as on building the capacity involved in these procedures, will impede a successful implementation of the decentralization process.

#### 2. Development process and methodology

Despite the plethora of articles analyzing the development and the role of local governments in developed countries (Wollmann, 2000; Alba and Navarro, 2011; Bulkeley and Kern, 2006; Cole, 2012; Mäeltsemees, 2012; Schefold, 2012; Vandelli, 2012; and many others), few papers have analyzed the decentralization process in Albania and the territorial-administrative reform of 2015-2020. Reçi and Ymeri (2016) analyzed the designing process of the new territorial map. Kryeziu (2016) compared the Albanian Constitution with the Constitution of other South Eastern European (SEE) countries. Sherifi (2016) represented a historical background of the local governments of Albania starting from the Ottoman Empire period until 1992. Ndreu (2016a) analyzed the legislation related to the local government in Albania. Furthermore, Pajollari and Özcan (2017) analyzed the relationship between the central and local governments in Albania.

However, none of these articles has tried to analyze the first output achieved after the implementation of the territorial-administrative reforms. This is the first attempt to empirically evidence the initial impacts of the territorial reform in Albania. Besides, it aims to contribute to the existing literature on decentralization in two ways. First, it identifies problems and issues that are hindering the smooth implementation of the 2015-2020 territorial-administrative reform. Second, it provides new empirical evidence on the mechanisms linking PARs in Albania with the NWS model.

In this paper, an attempt will be made to shed some light on the course and pattern of the decentralization process by analyzing the territorial and administrative reform 2015-2020 in Albania and the factors that have been shaping it. The paper is a single case study analysis providing information and financial data on the territorial-administrative reform in Albania over the past two and a half decades. It aims to fill the gap in the existing literature for Albania and to offer some insights on the territorial-administrative reform (decentralization) and regarding the current debate on fiscal decentralization, not only in Albania, but also in other SEE countries (Figure 1).

Decentralization may arise from different factors like local, economic, political and ideological preferences that may lead to the transfer of power and resources from one level of government to another (Schakel, 2010). The administrative-territorial reform is the focus of this analysis. Thus, the decentralization process will be the starting point of this study. Before analyzing the development of the territorial-administrative reform in Albania, the paper will start with the literature review on the decentralization process (Box 1). Recently, one of the most discussed topics is fiscal decentralization, which aims to increase the autonomy of local governments and promote high-quality public services. The selected papers are focused on the decentralization process as a whole, as opposed to specific topics like health, education, welfare or other public services.

In order to link the literature on decentralization with the territorial-administrative reform in Albania, the analysis will continue with the historical institutionalism approach (Box 2). Historical institutionalism analyzes institutional formation and change, and organizational configurations (Steinmo *et al.*, 1992; Thelen, 1999; Pierson and Skocpol, 2002; Sanders, 2006; Steinmo, 2008). Arguments related to historical institutionalism approach involve the relationship between path dependency and development (Capoccia and Kelemen, 2007). Criticism associated with historical institutionalism revolves around its incapability to cope with change (Peters *et al.*, 2005; Sanders, 2006). Despite that it is still useful to note its importance in the present research work as it offers first insights into institutional genesis and their evolution in Albania.

This approach will be explained through basic features of the Albanian legislation and institutional development at the local level. Both of them are included as basic indicators

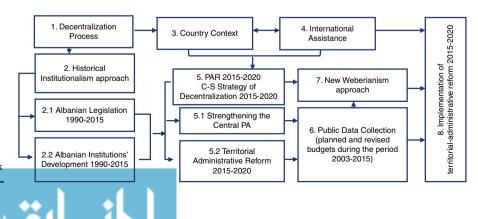


Figure 1. Conceptual framework

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needed for the explanation of the decentralization process in Albania, and will be explained in three stages:

- (1) 1990s the decade for establishing a democratic system after the communist regime;
- (2) 2000s the period of thinking for the first time for a real autonomous local government; and
- (3) 2014 to present the first attempt to implement the territorial-administrative reform.

Albania is characterized by lack of skills, competences and capacity building, high levels of corruption, political instability, inequality, low accountability, and citizens' low trust on public officials. These features compose the cultural and country context of Albania (Box 3). They have a strong impact on the implementation of reforms and should be taken seriously into consideration. PARs are closely associated with the process of integration into the EU. Consequently, the role of international institutions (Box 4) is of great importance. The territorial-administrative reform is designed according to the EU acquis meeting the EU requirements. The intent to join the EU requires professional administration, development of human resources and increase of financial resources in order to successfully implement national policies.

The country context analysis, the influence of international institutions and the historical institutionalism development compose the next step of research. This analysis, also helped by the PAR of 2015-2020 and the Cross-Sectional Strategy of Decentralization process of 2015-2020, will conclude if the changes would be actual reforms or just adjustment of the dominant pattern (Box 5). In Albania, the successful implementation of the decentralization reform can be inhibited by the need to enhance the central government. This last statement will be tested by analyzing public data. Budget and revised budget data are collected during the period from 2003 to 2015, as at the beginning of 2000s the Albanian Government started to consider the idea of an autonomous local government (Box 6). According to Albanian legislation, the budget for the upcoming year should be planned and approved in advance by the Parliament, within the end of November of the previous year. Throughout the fiscal year, the government can revise the budget due to unplanned expenses and/or revenues. Therefore, the comparison between the data and revised data is important in order to understand the expectations of the fiscal decentralization of the reform and the real performance of local governments. The scope is to understand the elements of the territorial reform through the fiscal impact of the subnational governments to the overall impact of government. The data will be presented as evidence of an implementation gap and would try to show a contribution to implementation theory in the field of territorial reforms.

What emerges from the analysis of PAR and Cross-Sectional Strategy of Decentralization is the fact that Albania is a country that needs to strengthen its central government, a feature attributed to the NWS. Before the 1970s-1980s crisis, governments worldwide were implementing the traditional model. It is a model in which public processes are implemented in strict compliances with law and regulations, therefore adopting high levels of bureaucracy (Wynen and Verhoest, 2015). Advocates of the traditional public administration model claim that higher efficiency and effectiveness could be achieved only by public institutions through integrated management units. New Public Management (NPM) emerged after the oil crisis in late 1970s. It is composed by two levels (Van de Walle and Hammerschmid, 2011; Manning, 2001; Pollitt and Bouckaert, 2011; Hood and Dixon, 2013; De Vries and Nemec, 2013; Robbins and Lapsley, 2014): reduction of public sector, and implementation of market-type practices and concepts. The cost-cutting and efficiency could be achieved by privatizations and concessions, decentralization of decision-making powers and through customer-oriented culture. Furthermore, it introduced the concept of competition among public departments and units.

However, it received much criticism as it could not match with ethical, cultural and political characteristics of public sector. Furthermore, undesirable social outcomes such as decline of equity, decline of public citizens' trust on government and social cohesion emerged (Bellé and Ongaro, 2014; Curry et al., 2014; Andrews et al., 2015). Therefore, NPM was claimed dead by critics (Dunleavy et al., 2006). In particular, in SEE countries NPM failed because of strong hierarchical bureaucracies (Manning, 2001). Some of the most important determinants that can influence the success or failure of NPM are country context, capacity building, functional knowledge, constant and effective control over reforms, and managerial and technical expertise (Pollitt, 2003; Manning, 2001; Pollitt and Dan, 2011; Dan and Pollitt, 2015; Liff, 2014). NWS and New Public Governance (NPG) were called into action after the recent and still enduring crisis (Pollitt and Bouckaert, 2011; Randma-Liiv, 2008; Osborne, 2010; Karkatsoulis, 2010). NWS recalled a unitary public administration that is based on a stable state and on regulation and administrative law. Unforeseen consequences of NPM revived the need for strong and centralized public sector (Common, 1998; Kolltveit, 2015), while NPG recalled a pluralist state organized in networks through partnerships and contractual relations.

The interpretation of the data and the relevant literature would help to validate the NWS approach (Box 7). The study claims that the implementation of reforms that aim to strengthen local government units cannot be correctly implemented in those countries needing to reinforce central government. Hence, the analysis of PAR combined with the empirical data will confirm the theory that a country that has weak analytical capacity, high turnover of staff in ministries, insufficient transparency, low levels of law enforcement, and high level of corruption should first strengthen its central government. The implementation process could improve if there is a strong central state that is able to monitor and control the process and intervene when needed in order to take corrective measures. Therefore, it could be suggested to gradually transfer of authority and power from the central to the local level of government as an adjustment of the dominant pattern that is NWS.

International funds and assistance, EU accession requirements, the budget data collected and the impact of NWS elements would have an interesting influence on the implementation of the territorial-administrative reform in Albania (Box 8). Strengthening the central government power reduces the possibilities of a successful implementation of the decentralization reform.

#### 3. Theoretical considerations on decentralization process

Local autonomy is a highly valued feature of good governance (Ladner et al., 2016)

Good governance is the exercise of authority through transparent and accountable political and institutional processes that encourage public participation (Reddy and Nemec, 2015). The key components of good governance are accountability, transparency and rule of law. In addition, public administration should be responsive, inclusive, equitable, effective and efficient and should promote citizens' participation in the decision-making process. Growth of governance is attributed to rise in awareness that governments alone are not able to address major social problems. Interaction with society at different levels is needed in order to tackle emerging challenges (Proeller, 2006). Decentralization means transferring the decision-making power and resources from central to local government (Schneider, 2003). Local government itself is defined as a public entity, which is a sub-unit of a state or region, charged with the determination to enforce certain public policies in a relatively small territory. The main challenge of local governments is to connect what is politically acceptable and administratively sustainable and the connection of the two is a must in order to achieve effective governance. This challenge is fueled by two global trends: administrative modernization, and the intent to create, maintain and preserve a sense of political identity and community (Nalbandian et al., 2013).

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The decentralization process can be theoretically divided by size and area. The size of local governments can be measured by population or surface area. Organization according to population seems to be the most popular and the most powerful indicator as it is directly related to the consumers of the services provided locally (Swianiewicz, 2014). Despite the size, each local unit has the following aspects of decentralization (Goel and Saunoris, 2016): physical decentralization, fiscal decentralization and virtual decentralization (e-government), which is a way to increase transparency by providing free access of information through internet. The results of the same research conclude that virtual decentralization reduces both corruption and shadow economy, while physical decentralization reduces only shadow economy. Corruption and shadow economy matter in determining the effectiveness of decentralization. Improved monitoring and oversight would reduce both shadow and corruption, while greater proximity between public and bureaucrats might induce some bureaucrats to engage in corrupt/shadow activities. It is useful to discuss the dimensions of the optimal size of local governments and the areas involved in the decentralization process as a whole. An interesting view is the one of Keating (1995) who identified four dimensions of the optimal size of local governments.

#### 3.1 Economic efficiency

Small municipalities produce costs related to spillovers, while large local governments can provide more functions. However, there are some arguments that ignore the size of local governments such as the potential to attract capital. Investments are usually concentrated in those areas that are more productive and experiment innovation (Swianiewicz, 2002). The research of Fan *et al.* (2009) reported that the larger the local governments income are, the more they would contribute in GDP and lower corruption level. Therefore, an increase in economic efficiency would reduce corruption at subnational level of government. Based on empirical results, indicators of democracy favor small communes, while indicators of efficiency favor larger ones (Hoxhaj, 2014).

#### 3.2 Democracy

According to Vetter *et al.* (2016), citizens can exercise control through: the right of free access to information, direct election of mayors and binding local referenda[1]. One of the main prerequisites for a successful decentralization process is effective local democracy (Reçi and Ymeri, 2016). A higher number of functions in large governments could lead to more public interest and participation, as there is the possibility of a stronger civil society (Swianiewicz, 2002). However, different opinions give more advantages to small subnational units as their councils and politicians are more accountable due to closeness with citizens, through voting system and participation in the decision-making process.

#### 3.3 Distribution

Small local government units are less bureaucratic and have homogenous population needs, which makes the distribution and delivery process easier, less costly and more transparent compared to larger ones. According to Fan *et al.* (2009), the administration or government with larger tiers will be costlier and with higher corruption level compared to those with fewer levels. In the same paper, the conclusion was that reducing the size of the lowest level local units would increase the level of corruption. On the contrary, giving to local governments a larger stake of locally generated income could reduce corruption level.

# 3.4 Development

Large local governments could promote local economic development (Swianiewicz, 2002). It is argued that in the absence of appropriate institutions and accountability mechanisms, local



governments will simply expand predatory taxes of public sector without a corresponding increase in marginal and social benefits (Baisalbayeva, 2013). The wealthier a country is, the higher the demand for public goods and services would be. As a consequence of the wealth effect, people would be more able to pay local taxes and to improve the collection of local revenues from local institutions. Decentralization can be affordable through economic development (Schakel, 2010). Therefore, higher levels of income and economic development would cause greater revenue decentralization, which would contribute to an increase in economic growth. The benefits of multi-level governance are manifested in regions that already possess institutional capability to take on responsibilities for local development (Scepanovic, 2016). Despite its importance, the shape of local governments goes beyond the size and territorial organization. Therefore, in literature are found three areas of decentralization process (Bardhan, 2002; Schneider, 2003; Rodriguez-Pose and Krøijer, 2009; Adams, 2016; Lessmann and Markwardt, 2016).

#### 3.5 Fiscal

Two of the many definitions of fiscal decentralization are: fiscal decentralization defines how much autonomy local governments have on fiscal impacts; and fiscal decentralization is devolution of authority over public revenues and expenditure, to local government (Enikolopov and Zhuravskaya, 2007). Revenues and expenditures offer the best available measures of fiscal decentralization and both exploit its main aspects. The collection of taxes offers the greatest degree of autonomy. Instead grants and loans offer somewhat less, while discretionary transfers probably the least autonomy level. Transfers, grants and loans generally arrive with conditions. On the contrary, unconditional transfers can reduce the initiative of local governments to generate resources on their own (Schroeder, 2007). Governance can be achieved in two ways: through decentralization of expenditure functions to subnational governments and through schemes to finance local government expenditures (De Mello and Barenstein, 2001). Higher share of subnational spending over total government expenditure and higher share of nontax revenues over the grants and transfers lead toward stronger relationships between governance and decentralization.

Different scholars have introduced controversial results about fiscal decentralization. Those supporting it, state it could bring spatial interactions of public spending. In addition, it could increase the accountability of local governments and may improve the efficiency of these entities (De Siano and D'Uva, 2017). In addition, higher fiscal decentralization is associated with lower levels of corruption (Fisman and Gatti, 2002; Treisman, 2006). This is especially true when government expenditure is instrumented by the origin of a country's legal system. Moreover, fiscal decentralization generates benefits for citizens as they profit by improved and high-quality services. It also provides a tailored delivery of public goods and services, offering thus incentives for more efficient and growth-oriented economic and fiscal policies (Psycharis *et al.*, 2016). Other positive results come from the research work of Enikolopov and Zhuravskaya (2007), proving that fiscal decentralization produces better outcome in countries where political decentralization is included in the program of strong national political parties.

However, other scholars have found side effects of fiscal decentralization. They are mainly associated with the availability and the use of financial resources. Resources can be used according to local government politician's preferences without considering the efficiency (De Siano and D'Uva, 2017), thus threatening fiscal sustainability (Faguet, 2014). Treisman (2006) indicated another side effect of fiscal decentralization, which obscures the role of central governance. Fiscal decentralization increases local influence over public sector (Dabla-Norris and Wade, 2002). Any positive effect on the behavior of local officials could be accompanied by negative effects on the central government behavior.

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Increasing tax sharing would improve incentives of local authorities and would worsen incentives of central officials as they delegate functions and responsibilities that once were theirs. Nevertheless, this effect could be especially evident in those cases where output is more sensitive to local rather than central government (Treisman, 2006). Disparity in resources and constraints can alter incentive structures and change the capacity of local government officials to achieve their goals and objectives (Adams, 2016).

Additionally, it has been found that fiscal decentralization is negatively correlated with economic growth in developing countries, but has no significant effects in developed ones. An explanation of this phenomenon is related to countries' historical, political and economic context, and the existence of less effective public institutions (Rodriguez-Pose and Krøijer, 2009). Another reason why fiscal decentralization provokes side effects is due to economic efficiency. For example, investments are usually placed in those areas that are more productive and innovative (Swianiewicz, 2002). Focus will be given to richer areas, rather than to poorer regions that need more resources and training, in order to attract foreign direct investments and funds from national and international institutions (Lessmann and Markwardt, 2016). In general, developed countries have a higher degree of decentralization regarding both expenditure and revenue decentralization (Baisalbayeva, 2013).

Furthermore, the study of Enikolopov and Zhuravskaya (2007) has demonstrated that strong national political parties improve the outcome of fiscal decentralization such as economic growth, quality of government and public goods provisions. Local revenues are usually considered a feature of effective local governments. The revenues collected by weak and non-responsive local governments tend to negatively affect economic growth (Baisalbayeva, 2013). However, this last statement differs from one country to another based on their context.

#### 3.6 Administrative

Its definition can be summed up in: how much autonomy local governments have in relation to central control. Administrative decentralization consists in deconcentration (policies are provided by locally elected politicians), delegation (delegation of powers, duties and responsibilities from central to local government) and devolution (empowering people politically and making the mayor responsible for any political and economic consequences of its decisions) (Schakel, 2010). Adams (2016) has concluded that devolution is strongly related to political decentralization. However, mostly in literature, as well as in this paper devolution is included as part of the administrative form of decentralization. This form of decentralization has been mainly applied in developed rather than in less developed countries (Schakel, 2010). Administrative subordination, appointing rather than electing politicians, does not improve the results of administrative and fiscal decentralization (Enikolopov and Zhuravskaya, 2007).

#### 3.7 Political

It represents the degree of undertaking functions of governance such as policy design and reputation. Political decentralization consists in three main components (Baisalbayeva, 2013): legislative and executive elections; direct democracy provisions; and local decision-making processes. Political considerations are an important element for the decentralization process (Bardhan and Mookherjee, 2006). The degree of political decentralization has different effects on foreign aid. The local political autonomy would increase the efficiency of foreign aid or will not have a significant effect at all (Lessmann and Markwardt, 2016).

Numerous scholars classify local autonomy in different groups. Hoxhaj (2014) has classified it in: normative autonomy, organizing autonomy and political autonomy. Instead, Ladner *et al.* (2016) has classified it in four groups: local government units that have the



power of initiative and immunity from higher levels of government; local authorities act in their own interest, but their decisions are subject to control by higher levels of government; local government units that enjoy no power of local initiation but have no fear of higher tiers of state because of their immunity; and local government units that hold no power of initiative and are subject to strict control. In the same paper, different elements on local governments autonomy have been analyzed institutional depth, policy scope, effective political discretion, fiscal autonomy, financial transfer system, financial self-reliance, borrowing autonomy, organizational autonomy, legal protection, administrative supervision and central or regional access. Any form of decentralization, whether it is fiscal, administrative or political, entails different levels of autonomy (Psycharis *et al.*, 2016). Finding the optimum level of autonomy requires careful estimation of trade-offs between economic efficiency, equity and stability.

Two groups of scholars analyze the benefits and drawbacks of decentralization process as a whole. The first group of scholars agree on the argument that decentralization will contribute to the creation of an accountable, transparent and responsive government that will lower the level of corruption (Fisman and Gatti, 2002; Bardhan and Mookherjee, 2006; Faguet, 2014; Goel and Saunoris, 2016). As local governments have more direct access to information compared to the central government, the service delivery would improve. Besides, it is also widely accepted that decentralization will increase political competition (Lessmann and Markwardt, 2010; Faguet, 2014; Adams, 2016), reduce political instability, improve public accountability and impose incentive-compatible limits on government power. Despite being a reasonable argument, it would be difficult to be tested directly as the information is not easily accessible (Alderman, 2002). An effective decentralization process delivers public goods and services efficiently, faster, with fewer transaction costs, and with a broad range of functions promoting transparency and accountability (Dabla-Norris and Wade, 2002; Reci and Ymeri, 2016). Yet, decentralization can lower corruption level only in those countries where efficient public monitoring exists (Treisman, 2006; Lessmann and Markwardt, 2010). However, this statement cannot be generalized as decentralization also suffers a number of inadequacies. Therefore, other factors should be taken into consideration (Bardhan and Mookherjee, 2006).

Many imperfections can impede the success of decentralization like poorly trained local bureaucrats, high levels of corruption, and inequality and diversity in each government level (Fisman and Gatti, 2002; Adams, 2016). The local government can be beneficial if there are homogeneous preferences and if politicians respond to the needs of local citizens, if they promote interjurisdictional competition, and deliver information (Enikolopov and Zhurayskaya, 2007). Nonetheless, it could happen that decentralization and the autonomy of local governments could bring conflicts between local and central government. It could happen especially when local governments do not share the same goals as the central level and consequently bring negative jurisdictional spillovers (Psycharis et al., 2016; Ladner et al., 2016). Higher levels of decentralization could undermine macroeconomic policy and stabilization, favoring local competitive interactions (De Siano and D'Uva, 2017). Furthermore, decentralization could be strongly related to the accountability and behavior of local bureaucrats, which can both differ between centralized and decentralized systems (Fisman and Gatti, 2002). Transferring the power and access of resources from national to local elites could lead toward opportunistic behavior and increase the corruption level at lower levels of government (Dabla-Norris and Wade, 2002; Rodriguez-Pose and Krøijer, 2009). Additionally, disadvantages and interjurisdictional spillover effects could erode economic efficiency (Psycharis et al., 2016). Thus, higher levels of decentralization could undermine macroeconomic policy and stabilization.

A third interesting result has been analyzed by Adams (2016). Negative components of a country's context such as corruption, inequality and low accountability do not determine



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whether decentralization is a wise policy or not. Instead, it will be determined by other characteristics of local governments such as the definition and allocation of functions, and the nature of the contract between local and central government (Swianiewicz, 2014). While the nature and extent of decentralization have been shaped in large measures by political, historical and ethnic realities, the effectiveness of decentralization is influenced by institutional design and capacities at all tiers of government.

It is important to note that there is not a unique design or optimal degree of decentralization that is appropriate for all countries (Dabla-Norris and Wade, 2002). It varies across countries and over different historical moments within a country (Psycharis *et al.*, 2016). Hence, it is necessary to be prudent in the use of decentralization as a tool to improve governance.

In order for the decentralization reform to be successful several strategies should be implemented: strengthening managerial, administrative and supervisory capacities at the local level; establishing sustained partnerships within government and with decentralized administrations, international institutions, private sector and NGOs; encouraging pragmatism and gradualism to allow communities to organize themselves and to respond to local expectations; fostering citizen's participation through civil society organization in local development: periodic review of jurisdictional assignments: creation of an environment that enables decentralization; improvement of civil service reform; the traditional administrative model can continue to be implemented but it should not impede the decentralization process; asymmetric decentralization can be implemented; spending and taxation decisions should not be separated; intergovernmental transfers in developing countries undermine fiscal discipline and accountability while building transfer dependencies that cause slow economic growth; fiscal discipline and fiscal policy coordination could be achieved by creating intergovernmental councils or committees. It would sensitize all levels of government to face the consequences of their own decisions; creation of a fiscal federalism system; establishment of an effective delivery system; capacity building measures for local bodies; constitutional changes especially in developing countries; implementation of e-government; and development of human resources (De Mello and Barenstein, 2001; Kandeva, 2001; Fisman and Gatti, 2002; Shah, 2004; Proeller, 2006; Reddy and Nemec, 2015).

#### 4. Historical development of local public governance in Albania

The Republic of Albania is established as a unitary parliamentary republic in 1991. It is based on free elections and on a governance system reflecting the classical separation of powers between the legislative, executive and judiciary branches. It is characterized by a very centralized political, administrative and fiscal structure. It is composed by two levels: the central and the local government.

Albania has a population of about three million and almost one-third of population lives in Tirana, which is the capital of Albania. About 20 percent of the population is below 15 years old, almost 70 percent is between 15-64 years old and 10 percent is 65 years old or older. The Albanian public sector consists of the following elements:

- The central government: the state level includes Prime Ministry that is managed by the prime minister and one deputy prime minister and 14 ministries, under the current government. This level has approximately 3500 employees.
- The local government: after the new territorial reform, approved in Parliament on July 31, 2014, the local government consists of 10 regions and 61 municipalities (compared to 373 municipalities and communes that existed previously). Currently, the total number of public employees is 164,635, a number that includes 5 to 6 percent out of the total population.

- Independent institutions: The High Council of Justice, the General Prosecution, the State Information Service, the Supreme State Audit, the Bank of Albania, the Financial Supervisory Authority, the Ombudsman, the Competition Authority, the Commission for Personal Data protection, the Supreme Court, the Constitutional Court, the Competition Authority and many others.
- Other institutions: The National Service of Employment, the Albanian National School of Public Administration and the Regional School of Public Administration (ReSPA).

Historically, there have been two significant turning points in the evolution of local government organization: the relevant legislation and the institutional building. In this paper, these events have been classified according to the time frame in which they occurred. The following section includes three periods: from 1991 to 2000, from 2001 to 2013 and finally 2014 that is the year in which the territorial-administrative reform of 2015-2020 was approved. The analysis of each period will be based on the fours factors identified by Reddy and Nemec (2015): contextual, structural, institutional and human resources conditions.

# 4.1 The period from 1991 to 2000

In 1991, Albania applied its first reforms after the communist regime. The breakdown of central planning caused a wave of closures of state enterprises, triggering an immediate increase of unemployment. Persistent macroeconomic instability, the legacy of 40-50 years of central planning and the presence of weak legal systems, represented important hurdles for the design of effective decentralized systems. From 1992 to 2000, Albania was ruled by 11 governments that were clearly not stable[2]. This set of circumstances created chaos, lack of political dialogue and continuous scarcity of reforms. At that time, the aim of reforms was to build democratic institutions. This tendency was in line with those of other SEE countries. However, no real efforts were made to reinforce the local government. The implementation of reforms has often been criticized for its lack of transparency, its absence of a clear vision and unavailability to divide powers between different government levels. The institutional crisis that affected transition countries, in the second half of the 1990s, convinced international institutions such as the World Bank, the EU, the OECD and the IMF that economic development could not be sustainable without parallel advancements in administrative capacities (Mussari and Cepiku, 2007).

On June 3, 1992, the Council of Ministers introduced the first changes on the territorial-administrative organization of the country by approving Law No. 7570. It established self-governance, independence, local autonomy and decentralization as the basic principles for the creation of local government. Article No. 1 of Law No. 7572, of June 10, 1992 "On the organization and the functions of the local government," amended 36 districts (*crethe*), 44 municipalities (*bashki*) and 313 communes (*komuna*). It determined the jurisdiction of the territorial-administrative divisions, the independence of local government bodies, the jurisdiction of councils and chairs of local units, the election process of local bodies, and the prefecture as the representative of the central government at local level. According to this law, mayors and heads of communes are directly elected by citizens. Local councils, at municipality and commune levels, are also elected by citizens. The law also indicates the duties and responsibilities of communes and municipalities.

Municipalities were established in cities/towns, whilst communes in villages only. Both were classified as bodies of the first level of local governance, while districts as bodies of the second level. Other important issues addressed by this law were: the preparation and approval of the local budget; levying taxes and other obligations as stipulated by law; appointment and dismissal of the steering committees of public enterprises. It took measure to ensure the functioning of the road system, local transport and postal services; preparation and implementation of urban development plans; local public service delivery; ensuring

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appropriate conditions for a proper function of local institutions in education, health and culture; and provision of housing.

Article No. 14 of the Law on Local Governments established that: "The Councils of Communes and the Councils of Municipalities have the right to decide on problems under their jurisdiction, except in those cases in which the law grants jurisdiction to other bodies." Furthermore, the legislation was enhanced with Law No. 7605/1992 that defined the "Administrative Quarters – Municipalities with over 40,000 Inhabitants." An administrator appointed by the mayor was expected to manage such units. This law addresses the status of cities, including Tirana, and their administrative subdivisions. On the same year, Law No. 7608/1992 "On the Prefectures" amended the establishment of 12 prefectures consisting of 2-4 districts each. The head of each prefecture was appointed by the Council of Ministers. Article No. 3 of the Law states that organs of local governments should act as independent organs even though they do not have any fiscal autonomy. Therefore, they act as branches of the central government (Schroeder, 2007). Thus, the central government decides on the number of employees needed on local governments, it pays their salaries and decides the amount that should be spent by local governments on capital infrastructure.

Law No. 7616/1992 defines two parts of the local government's budget: conditional (transfers and funds of central government used for specific purposes) and unconditional transfers. As distribution was not bringing satisfactory results, the Constitution proposed *Qarqet* (the equivalent of regions) that replaced the districts and incorporated two to three districts together. It was considered a second-level body that ensured coordination, programming and harmonization of policies at regional level. The *qarqet* were based on the Scandinavian model but they still did not manage to play the same role as regions in other EU countries (Hoxha, 2001). Experience has demonstrated that in local voting, the electorate tends to judge not the management abilities of *Qarqe*, but the platform of the political party.

In 1993, the Law "On Local Budgets" was approved. It created hope for financial autonomy and the strengthening of local governments' power. Despite this law, local autonomy remained very limited. In total, 90 percent of local revenues were still financed by the state budget. Law No. 7776 indicated the right of local governments to take loans, a right that was only exercised after 2008. In 1999, the law established the right of local governments to decide the rate of local taxes and fees within ±20 percent of the uniform national rates defined by the law (Hoxha and Gurraj, 2001). In July of the same year Value Added Tax (VAT) was introduced. Article No. 111/2 of the Albanian Constitution stipulates independent budgets for local governments. Moreover, Article 157 of the Albanian Constitutions defines the state and local budgets. Albania is one of the few countries where, until the late 1990s, one level of subnational government received more than half of its revenues from performance depending inter-level tax sharing (Treisman, 2006).

Furthermore, one of the most important steps was taken in 1998, the year when the Albanian Constitution was created. According to point 1 of Article No. 108 of the Albanian Constitution, communes, municipalities and districts are units of local government. Article. 12 of the Constitution stated that local government was founded upon the principle of the decentralization of power and it is exercised according to the principle of local autonomy. The chapter on local government (6th section of the Constitution) determined the local government units, the administrative bodies of local government, and authorizations and competences of local government. Article No. 13 of the Constitution stated "Local Governments in Albania are Founded upon the Principle of Decentralization of Power, Exercised According to the Principle of Local Autonomy." Article No. 108/1 of the Albanian Constitution contains a legal reserve for the further creation of new territorial-administrative divisions.

Less can be said about the institutional development during this period. Most of information found pertains to the central-level institutions. The main ministries were



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established in 1992. The Ministry of Local Government was established in October 1998. It was governed by different governments and it did not produce the desired results. Therefore, it ceased to exist in September 2001. The National Committee for Decentralization (NCD) is established in 1999. It is headed by the prime minister. The members of this institution belong to the central and local government and part of them come from the Group of Experts for Decentralization (GED) that serves as Task Force for drafting strategies and legislation (Schroeder, 2007).

Drastic changes on the decentralization reform happened during the period 1998-2000. They were based on the Albanian Constitution, European Charter of Local Self-Government (ratified in November 1999) and National Strategy of Decentralization (approved in 1999). In 2000, a very important step was the initialization of the Stabilization and Association Process with the EU. It has subsequently contributed in creating a legal framework, which is in line with the Acquis Communitarian's Standards (European Commission Albania, 2012). In Albania, the first attempt to establish a Civil Service Law has started with the approval of Law No. 8549 in 1999. It has defined the recruitment process, the rules and the administrative structure of the civil service, and the rights and responsibilities of civil servants. Additional territorial-administrative changes took place during this period, but none of them delivered a real contribution to the local government development.

# 4.2 The period from 2000 to 2013

In the beginning of the 2000s, despite some improvements, Albania continued to face several challenges. The absence of a National Development Framework policy, the lack of clear legal and regulatory framework, the extreme fragmentation of local authorities, the scarcity of consensus among the local elected officials and the behavior based on the political party's affiliation weakened the position of local government and delayed important reforms. Another important element was the insufficiency to deliver transparent information on how public money was spent. As a consequence, the citizens' trust in local government decreased, and citizens were hence inclined to evade the taxes. The high fragmentation of local government increased total administrative costs and made the delivery of efficient and high-quality services quite impossible. The 2002 reforms enabled phases that required long time frame for implementation, aimed to complete the legal framework and to build managerial capacities (Cepiku and Mititelu, 2010).

In general, the governance of local entities was "closed" and failed to include the community in the decision-making process. Also, the participation of local government associations in the consultation process with the central government was irregular and not systematic. In the 2000s reforms, the territorial and administrative mapping of Albania was not based on research analysis and did not include the distinctions between the size of local government units and their capacities to perform their functions (Reçi and Ymeri, 2016). Despite several laws, local government did not possess any asset yet (Hoxha, 2001). With the implementation of the new legislation, Albania had high level of administrative decentralization, a medium level of fiscal decentralization and a low level of political decentralization (Shah and Chaudhry, 2004). The same conclusion has been reached by Schakel (2010), who stated that a mix of deconcentration and self-governance at the same government level continues to exist in Albanian local government.

In 2000, Albania had 36 districts, 65 municipalities and 309 communes. The level of territorial fragmentation was high. The Council of Ministers adopted the National Strategy for Decentralization and Local Autonomy based on the work of the NCD and the GED. In addition, Law No. 8652/2000 was adopted. It defined the powers and functions of local governments. It was one of the most important laws. It has sanctioned the rights and competences of local government in line with the Albanian Constitution and the European Charter of Local Self-Government. Based on this law the counties (*Qarqet*) and districts (*rrethet*) were abolished

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and were instead created regions (*Rajonet*). In 2002, Law No. 8927/2002 "On the Prefect" was approved. The Prefect was appointed by the Council of Ministers and acted as the legal representative of the Council of Ministers at the regional level. Regional councils were elected by the municipal and communal councils.

Law No. 8653/2000 "On Territorial Administrative Decision of Local Government Units in the Republic of Albania" defined the specific format of all regions, municipalities and communes. After that, additional laws were approved such as law "On Transferring the Ownership of Government Properties to Local Governments," the law "On Organization and Functioning of Local Governments" and the specific Law No. 8684 "Organization and Function of Tirana Municipality." They embarked a turning point regarding the decentralization of the decision-making powers (Schroeder, 2007). These laws established that the relationships between different levels of government will be based on the principle of subsidiarity, according to which public functions should be assigned to the lowest level of government (Cepiku and Mititelu, 2010).

The responsibilities of municipalities and communes were divided in three categories:

- exclusive functions like water supply, waste management, local roads, street lightning, etc.;
- shared functions with the central government like pre-university education, health services, social assistance, etc.; and
- (3) delegated functions are those functions that the central government will delegate to local government based on its needs and will be funded by the central government.

From 2003 to 2004, the pre-university education and primary healthcare were transferred to the local government. However, local authorities were only responsible for the maintenance and functioning of these structures. Among others, starting from 2005, local government units were also responsible for the provision of water and sanitation services and were obliged to cover all financial issues related to these services. In those years, local government had full authority to manage economic aid funds and work programs.

In 2001, the State Budget Law was approved and it introduced for the first time the concept of unconditional transfers. The law was further developed by the fiscal reform approved by the Parliament in December 2012. The main benefits were related to an improvement of own revenues for municipalities and communes. Own revenues mainly increased due to the introduction of local taxes coming from small businesses, registration fees for vehicles' transfer, property tax, etc. In 2001, reforms addressed other important issues linked to the institutional status of local government and its financing. The public finance laws of Albania are, for the most part, clear and reflect the best practice in budgeting procedures and financial management. From 2000 to 2002, almost 45 percent of local revenues came from conditional grants transferred from the central to the local level. However, in 2002, this condition changed as the level of conditional grants diminished and the level of unconditional grants increased. Both the transfer of taxes collected from small businesses at the local level and the increase of unconditional transfers, intended to increase the financial autonomy of local governments. It was an historical moment for local government. Nevertheless, the financial autonomy of local governments still remains the biggest challenge. Local governments do not have enough own resources. Its entities rely heavily on transfers from the central government. After 2006, the scarcity in tax collection due to the lack of competencies, especially on tax collection on properties, small business and vehicle tax, had a negative impact on local government income. In the SEE area, Albania is among those few countries that still do not have a national system for the division of personal tax income between central and local government.

In 2003, Law on "Local Governments" was implemented to give to the local government the authority to impose property tax on buildings, agriculture lands, property transactions, small businesses, income from donations, inheritances and local lotteries. The law has also permitted local government to borrow funds for public purposes, to collect fees for services, properties, licenses and permits (Schroeder, 2007). According to Article 9 of this law, for the first time three different types of transfer instruments were introduced:

- (1) shared taxes: collected by the central government, but with revenues accruing to localities on the basis of where the revenues were collected;
- (2) conditional transfers; and
- (3) unconditional transfers: increasing the financial autonomy of the local government in collecting taxes and tariffs and in deciding their level.

During the period 2002-2004, the formula used for the allocation of unconditional funds was divided in three groups (Schroeder, 2007):

- (1) share for the regions (10 percent in 2002: 15 percent in 2004);
- (2) share for the municipalities and communes (86 percent in 2002: 83 percent in 2004:
  - · 95 percent of this amount was allocated according to a specific formula; and
  - 5 percent was calculated as a second form of compensation fund for communes and municipalities.
- (3) compensation fund (4 percent in 2002: 2 percent in 2004).

The formula for regions has relied on four factors: an equal share for all regions, a portion distributed according to the relative population size of the region, a portion based on the comparative economic advantages of different regions and a portion depending on the length of rural roads in a region. Meanwhile, the formula used for municipalities and communes has included five elements: an equal share for all municipalities and communes; a portion based on the relative population size of jurisdiction; a portion given to communes only, based on their surface area; a portion given to municipalities based on their population. The share of the municipality of Tirana is not included in this group, a portion exclusively to Tirana.

High turnover of governments continued to be problematic. From 2000 to 2013, there were seven elected governments[3].

Furthermore, Albania has enacted a variety of laws related to the public sector. In 2006, Law No. 9632/2006 "On Local Tax System" was amended and approved. It specified the composition of local taxes in local tax on small business, and local taxes on immovable property. The latter tax includes tax on buildings, agricultural land, hotel accommodation, impact on infrastructure of real estate, the transfer of real estate ownership, annual registration tax of vehicles, tax of public spaces occupation, table tax and also other temporary taxes. Local entities are also autonomous in deciding the level of taxes to be implemented in their territories.

On December 18, 2006, Albania modified Law No. 9665 "On State Borrowing, State Debt and Guarantees, and State Loan of the Republic of Albania." The amendment includes a restriction of total public debt that should not exceed 60 percent of GDP. It also prohibits borrowing for current expenditure. Borrowing will be available only for capital investments. The current expenditure must be covered by the country's revenues. The same requirements apply to the local budgets. In addition to that, the IMF has recommended the establishment of a fiscal rule on the limit of expenditures, which is aimed to keep the size of the public sector on track, as it will be closely related to debt reduction. However, obtaining the status of a candidate country, the EU may impose additional standards for fiscal rule enforcement. On February 4, 2008, were approved Law No. 9869 "On Local Government

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Borrowing" and Law No. 9920 "On Tax Procedures in the Republic of Albania." For the first time local government borrowing was allowed by law. In fact, debt levels of local government were extremely low due to the high state debt level.

Additionally, the legal framework in Albania allows budget surplus derived from locally generated revenues to be carried over into the next years. Actually, local governments have never been able to carry over their excess funds since each year, the Council of Ministers requires all or some parts of local budget surpluses to be transferred to the State Treasury account regardless of whether they derive from local revenues or from transfers (Cepiku and Mititelu, 2010). The budgetary system is composed of state budget, local budget and special funds. Law No. 9936 "On the Law on Management of Budgetary System in the Republic of Albania" was enacted on June 26, 2008. It has clarified the program budgeting, the rules on its preparation, timely control, and the roles and responsibilities of budgetary process. Also, it has established authorized officers for each budgetary institution. During this period, additional laws were approved by the Parliament: Law on Debt Policy (2006), Law on Public Procurement (2007), Law on Internal Audit (2007), Law on Public Financial Inspection (2010) and Law on Financial Management and Control (2010).

Improving the effectiveness of public service has been a clear indicator for increasing the capacities for economic development, as well as increasing the capacities of providing better services to all citizens. It can be achieved by asking the citizens about the services that should be strengthened and the priority level attached to each service (Gurraj *et al.*, 2003). Effectiveness can be measured through the commitment and quality of public services offered to citizens (Selami and Risteska, 2009). However, the effectiveness of expenditure autonomy at the local government level has been limited and unclear. In Albania, expenditures and transfers toward local government have had a negative correlation with national growth rates, while locally imposed taxation has achieved some slight positive economic benefits over time. However, tax efficiency will heavily rely on the real autonomy of subnational governments by determining their own tax base. Locally imposed taxes could have an impact on economic growth only in the mid-term. In countries like Albania, central governments have tried to reduce their transfers to local government and tried to increase local revenues in order to make them self-sufficient (Rodriguez-Pose and Krøijer, 2009).

Until 2005, the collection of taxes from small businesses was the main own revenue for the local authorities. The legislative changes of the tax base, tax rate and the boundaries of VAT have been hot topics and have faced several difficulties in recent years. These factors have also been influenced by the recent global crisis, which influenced the reduction of tax collection up to 13.9 percent in 2013. Nowadays, VAT has been simplified and the collection is done by the central tax administration, which transfers then 100 percent of the collection to the local government. Competitive grants were introduced in 2006 as a mechanism to increase the performance of local government entities and investments in the area. These grants were used for infrastructure building, education, health and culture. However, the way these grants were delivered has been always criticized as they were given based on political affiliations. In 2010, the Fund for Regional Development was created with the aim to manage the conditional grants. Yet, the financial mechanism for conditional transfers, including the Fund for Regional Development, should be revised. New local and regional development models should be applied. They must introduce performance evaluation criteria and the right to get funds from co-joint programs as well as from projects financed by the IPA.

Since 2010, the tax on infrastructure has been considerably reduced, while property tax remains the main source of fund for local government. Local tariffs create an additional important element of own revenues for local government. The revenues from these sources almost doubled from 2005 to 2013. Additional inflows of resources are coming from tariff collections from water entities and fees from fines. However, the main problem is related to tax and tariff compliance due to the lack of an efficient mechanism for tax and tariff collection.



What seems interesting during this period is the fact that governments for the first time were considering international integration. In 1998, the Ministry of Local Government was created. However, it was dismantled in 2001. It was then substituted by the Ministry of Local Government and Decentralization, established in the second half of 2001, which was dismantled in the first half of 2002. The lack of serious commitment in the decentralization process was evident. The same Ministry was revived for additional two years, from the second half of 2003 until the first half of 2005. In 2002, the Ministry of EuroAtlantic Integration was created. However, it did not last long. It ceased to exist in September 2005. Another Ministry that had the same end as the previous one was the Ministry of State for European Integration. It functioned between 2001 and 2002 only. In the second part of 2005 the Ministry of Integration was created and was not suppressed until mid-2013. As it can be clearly understood, the high turnover of government institutions brought continuous changes to the central level and it did not allow institutional and capacity building. Every change at the central level also had an impact on the relationships with the local level. Many insecurities and uncertainties aroused regarding the role of government and decentralized institutions. The Albanian Government did not have a serious commitment to implement reforms. It simply emended new laws and created new agencies (Cepiku and Mititelu, 2010). From 2009 to 2013, no particular decentralization developments were undertaken. Decentralization level in Albania was lower than in any other country in the SEE area (CSSoD, 2015-2020).

Some of the challenges that have threaten the successful implementation of decentralization process during this period are the following (Cepiku and Mititelu, 2010; Hoxha and Gurraj, 2001): first, the impact of external assistance in decentralization reforms – the EU requirements for integration require fast and efficient interventions on public policy and economy. However, Albania does not possess the capacity to implement reforms on time. Therefore, despite the assistance and funds received from the international institutions, the implementation process has always been insufficient. Second, weak administrative and governance capacities: in Albania, after each election the elected government changes all public servants, diminishing the possibility to create and maintain capacities in the long run. Third, poor coordination of decentralization implementation, high fragmentation and small local size units: high fragmentation characteristics of local governments created financial and organizational obstacles in implementing reforms properly. Undefined roles of the regions and the interactions between levels of government created conflicting authorities, duplications and inefficiencies. Fourth, absence of clear service standards and performance measurement criteria in local service delivery; currently, there is a performance monitoring system of crosscutting strategies, which needs to be reviewed and improved. Information systems are being set up for various components of public administration. Fifth, inadequate degree of revenue autonomy and predictability: local government units heavily rely on conditional and unconditional transfers sent by the central government. Sixth, lack of sufficient resources; seventh, tendency to concentrate wealth in few but large urban areas; eighth, weak citizen participation. Civil society and interested persons have little access to the administration's activities, which tends to be hermetic. Ninth, strong dominance of political interests. Tenth, strong tradition of the centralized state: the level of bureaucracy is still considerable and often generates corrupted practices. Institutions have not yet embedded in their daily activities the aim of simplifying the services and the creation of a friendly environment for the public. Institutions generally provide little information and are not transparent.

# 4.3 The territorial-administrative reform of 2015-2020

The actual local organization was not bringing satisfactory results and the pressure for EU integration led the government toward the necessity for more robust reforms. A serious

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commitment for the empowerment of local government was made in 2014 with the territorial and administrative reform called "The Cross-National Strategy for Decentralization of Local Government Administration 2015-2020." The proposal of the new reform division relied on a set of technical criteria adopted by an ad hoc parliamentary committee on April 28, 2014. The aim of the Cross-Sectional Strategy for Decentralization of Local Government Administration of 2015-2020 is the reinforcement of governance and democracy at the local level as required by the European Charter of Local Self-Government and European Administrative Space for Local Government. The objective is to reach political, administrative and fiscal decentralization at the local level.

The review on the decentralization process of the local government in Albania went through large and comprehensive reforms. They were based on a strategic view and on the experience accrued during the previous two decades of transition. Some of strategic objectives include: an increase in efficacy and improvement of public services; greater access of citizens and businesses in public services; growth of own revenues of local government; improvement of representative democratic mechanisms; empowerment of direct democratic instruments; improvement of local governments' capacities; and strengthening community structures. On August 22, 2014, the Parliament approved Law No. 1 aiming to create a special parliamentary commission dedicated to the territorial reform. The reduction of the number of regions and municipalities embarked a dramatic change. The necessity for territorialadministrative reform was driven by the following factors (Wollmann, 2000: Reci and Ymeri. 2016): demographic changes; high fragmentation of the country; lack of efficiency in service delivery at the local level; inability to promote and support local economic development; lack of financial autonomy; regions supporting coordination of local functions; EU requirements for local government and modernization discourse; policy goals and interests of the political elite; and European Accession Process. In Albania, the local government passed from 0 autonomy in choosing to implement new tasks to 3 (out of 10), which is a development seen as well in other East-European countries (Ladner et al., 2016).

On July 31, 2014, the Parliament approved Law No. 115 "On Territorial and Administrative Reorganization of Local Governments in the Republic of Albania." Its aim is to definitely solve the issues of high local government fragmentation, which is in line with the decentralization reform. The establishment of the State Audit Institution would help to create an effective monitoring process and a proper evaluation system of strategies, programs and legal frameworks.

Until now the political dialogue between the main political parties has been critical. On May 14, 2017, a peaceful protest was organized by the opposition party to impose the resignation of the prime minister and the creation of a technical government. Even more fatalistic is the collaboration between the central and local government that have different political affiliations. The decentralization process will be successful only if local and central level will collaborate with each other.

Currently, Albania has 61 municipalities (*Bashki*) belonging to the first level, and 10 regions (*Qarqe*) that belong to the second level of government. Local units are organized into municipalities with larger and more complex organizational set ups, which makes them able to face the challenges of economic development and service delivery to community. The main objective of the reform is the creation of a public administration with equal entry opportunities and the creation of a professional and impartial political administration.

Municipalities are organized in administrative sub-units (ex-communes) that can be established if the following criteria are met:

it should be a functional unit: a functional unit is the one that has a higher number of
inhabitants compared to other territories within the same municipality and offers all
the services to its citizens:



- despite the distance of each unit from its center, the unit should offer all public services to its citizens;
- the new established unit respects the principle of territorial continuity;
- there should be a minimum 30,000 inhabitants; and
- the local unit should have historical tradition and all the other territories composing it should be characterized by traditional links among each other.

Tirana currently has 24 sub-units. From an urban point of view, municipalities are organized in cities and villages. The number of districts has not changed, but their composition has changed radically. The role of the district is to harmonize local and regional policies with national ones. According to the new territorial-administrative reform, on average, every district has 5 municipalities and 31 local units. Therefore, the Albanian Government is moving toward the unification of centers, which are expected to provide better services to citizens (PAR 2015-2020, p. 11). However, the role of districts has not yet been effectively enacted. Their impact on socio-economic development has been weak due to the absence of clear administration models, shortage of financial resources, assets and capacities. These factors will create a partial and inefficient decentralization that the EU is trying to avoid. The supervision of the central government on financial consolidation will not be enough (Scepanovic, 2016).

Despite several improvements such as the creation of one-stop-shops, special windows of service delivery, and Information Communication Technology tools, fragmented means of providing services still prevail while institutions do not have any setup. Law No. 139 approved on December 5, 2015 "On Organization and Function of Local Government" improved the legislation on local governments and identified three competences of local government: own functions, common functions and delegated functions.

Own functions include: infrastructure and public services, local economic development, social and cultural functions, and social security. Several actions will be undertaken in order to increase revenues of local government such as the improvement of legislation and their harmonization with the European Charter of Local Self-Government (CSSoD 2015-2020). The law empowered the autonomy of local government and offered to them the right to decide tax levels in their territory. They will have no boundaries on public expenses. They will also be able to use funds for projects that are necessary for their community even though they are not part of their competences.

The contribution of property tax is 18 percent of the GDP. Despite its importance, it faces two critical issues: the registration of properties at the Local Office of Immovable Property Registration (LOIPM – ZRPP) and information delivery. Up to now, none of the local governments have access to the LOIPM databases. A process that started in 2000s and still continues is the registration of immovable properties for each local unit. An issue that makes the process last longer is related to the registration of land as the maps are not clear. Priority will be given to the management projects that are under the supervision of local governments. If local government is not able to finance its functions then the central government will finance the project. However, there are still uncertainties on shared functions and competencies mainly due to shortcomings and ambiguities of the legal framework that regulates the structure, the roles and competencies of central and local authorities. The actual laws will be revised and improved in order for local government to be able to take a part of common tax collection. Also, the legislation on local government will improve issues on financial autonomy as it will be required to adapt and improve the concept of division of national taxes, and will improve the criteria on general transfers from state toward local government.

A second objective is related to the improvement of competencies of local government units for tax collection. The local government can refuse to perform its functions if it does not receive full funding for the implementation of these functions. Meanwhile, those local governments that have sufficient human and financial resources could perform other functions (including common functions) in order to offer services with higher quality to their community.

Common functions include the education system, social services, social security and safety. The implementation of common functions experienced problems related to unclear division of competences and financial resources among different levels of government. The size, skills, and efforts of local government units, and the transfer of funds from central to local government are the most important factors that affect the quality of public services offered. The revenues received from common functions include intergovernmental transfers from the central government, and own revenues. Property tax will change. The owners will no longer be taxed on the surface area of their property but on the value of their property. Meanwhile, local government units received only a part from the registration tax of motor vehicles. In 2013, national taxes were reduced having a direct impact on revenues of local governments. Currently, local entities receive 18 percent of the taxes collected from this source. Albania, Kosovo and Bulgaria are the only SEE countries that do not share personal income tax with local government.

The delegated functions are those that by law or by a written agreement are delegated from the central to the local government, or from one local government to another. The organic law does not clearly specify what kind of functions will be delegated. It has usually been applied to functions such as the registry office and the National Registration Center for Businesses (QKR), whose expenses are covered by the state budget. Only in few cases the local governments have delegated functions to another local authority. However, they were not sustainable. An analysis up to 2013 indicated that only 15 percent of the local governments actually performed all three functions (Crosscutting PAR Strategy 2015-2020, p. 7). The lack to perform the functions is mainly related to the insufficient capacity to design and implement qualitative strategies, and low level of investments.

At the local level, governance is applied by:

- Municipality council: the council is the only internal body that controls and monitors the
  implementation of policies and acts as the representative of citizens. The role of the
  council must be reinforced and has to increase in proportion to the number of inhabitants.
- The mayor: support will be given from the state to increase the mayor's capacities and role in delivering efficient services, which is a feature strongly related to the leadership quality of the mayor. The mayor will approve the organizational structure of the municipality and the appointment of new administrators. The mayor's role will be strengthened through the delivery of public services such as water supply network, healthcare, environmental conservation and education. It is also important to reinforce the relationships with the prefect and other executive bodies at the local level.
- Administrative units: ex-communes will constitute the new administrative units of a local government. Their functionality will be a large challenge to the medium-term. These units will offer one-stop-shop services. The administrative units will have their functions decided by the organic law and by the Municipality Council. In the future, they would have a small and efficient administration. Local administrator will manage the administrative units and will be the person in charge, representing the mayor, for the delivery of services at the administrative units.
- Community centers: they will be included in the structure of municipalities and will
  be reinforced by new legislation and decisions on municipal councils. The aim
  is the inclusion of the community at the local level in the decision-making process.
  Another important issue will be the approval of laws on the volunteer work that
  would be coordinated by these centers.



Districts play an important role as intermediaries between local and central levels of government. Districts approve regional projects mainly in territorial development, environment and social service projects. They act as coordinators but they also make proposals in strategic projects at local and regional level. At the same time, it is an important body for the implementation of projects financed by the EU, and aim to receive additional funds for development. However, its influence will be lower after the territorial and administrative reform. In the past, districts were managing around 30 municipalities, while after the territorial-administrative reform they will manage six times less municipalities. Based on the European Charter of Local Self-Government, all the decisions that will have an impact on local government will be taken in collaboration with the representatives of the local government. This rule will be included in the organic law of local government. It will be achieved by establishing the Consultative Council for Central-Local Government.

HR training has started in the second half of 2015 and will last three years. Law No. 152/2013 "On Civil Service" enables the development of professional and merit-based civil service. Mandatory training courses will be held for career advancement by the Albanian School of Public Administration (ASPA) and the ReSPA. The transformation of the Training Institute of Public Administration (ITAP) into the ASPA is a step forward in terms of enhancing professionalism of civil servants. However, it must be strengthened and it requires a budget for specific training programs. The wage system will be reviewed continuously. The role of civil servants at the local level is not clear and remains still weak, contrary to the role of civil servants at the central level. Furthermore, the exact number of public servants at local level is not exactly known. The role of the DoPA in relation to the management of human resources at the local level has been weak due to the high fragmentation of local government. The salary system is classified in four categories based on the number of inhabitants of the local government. Law No. 44/2015 "On the Administrative Procedure Code" aims to offer effective public services to citizens as well as protect their rights and interests. The DoPA served as advisory and monitoring unit during the implementation procedure. The Civil Service Commissioner Office has been established and the commissioner has been appointed whereas the institution is still under consolidation. An improved version of the Human Resource Management Information System for the entire public administration sector has been implemented. However, the depoliticization of civil servants still remains a constant challenge for Albania.

Bureaucracy continues to prevail in the daily operations of state administration. The law that facilitates electronic circulation of documents between different levels of public administration has been in force since 2010, but it has not been fully applicable. In addition, the Albanian Agency of Integrated Service Delivery (ADISA) was established in 2014 offering one-stop-shop services. It has 12 members, 6 representatives from the central government and 6 representatives from the local government. It was supposed to operate in 2015. However, it started to operate in March 2017 by offering 230 services from 6 different institutions. The management of one-stop-shops services is placed in the central institutions but ADISA will continue to be responsible for determining and guaranteeing public services. This procedure separates the contact between citizens and the officials who are responsible for the service delivery. The adoption of the relevant one-stop-shop structures and staff will be accompanied by intensive training in relation to the capacity building and the improvement of communication and ethics when dealing with citizens. Some one-stop-shop examples are: the National Licensing Center, the National Registration Center, the State Police and the General Directorate. However, these agencies slightly simplified the services previously provided without any major change. Meanwhile, the National Agency of Information Society has developed an online platform called e-Albania that provides several online services. However, these are isolated initiatives and actions.

Law No. 49/2012 "On the Organization and Functioning of Administrative Courts and the Adjudication of Administrative Disputes" improved the legal framework about the



control of administrative processes. Additionally, the Albanian Government approved the draft on the new Administrative Procedure Code that entered into force in 2015.

Deconcentrated institutions at the regional and local level are represented by two institutions: the Prefect and the local offices of line ministries. The role of the Prefect is to assure that the legislation is being implemented at the local level. However, the role is not clearly defined in the law "On the Prefect." Therefore, it is also necessary to strengthen the role of the Prefect according to the European Charter of Local Self-Government. The deconcentrated local offices are established by the line ministries in areas such as education, health, employment and social sciences. The aim is to manage the implementation of sectorial policies at the local level. These offices operate at the local level but are completely under the responsibility of each ministry. Despite few levels of collaboration often there are overlaps of competences and uncertainties in different policy areas, especially on common functions. Based on the new territorial organization, the reorganization of these offices is expected to take place under the responsibility of local government, which will require better coordination with other entities of local government.

After winning the parliamentary election in June 2013, the government started to put real efforts on decentralization process of the local government. Among others, it created the Ministry of State for Local Government, the Ministry of European Integration, the Ministry of Innovation and Public Administration and the Ministry of Urban Development, After the parliamentary elections of June 25, 2015, the government has reduced ministries from 19 to 14. The territorial-administrative reform implementation was assigned to two decision-making bodies: the Ministry of State for Local Government and the ad hoc Parliamentary Committee for the Territorial-Administrative Reform, established in January 2014. The process of drafting the legislation was related to insufficient transparency and lack of consultation with stakeholders. In 2014, a law on public consultation of policy and legislation was approved. Recently, two working groups have been established for the Legislative Reform. One group is responsible for the strategic level and the second group for the technical level. Despite being supported with funds and technical expertise from the EU, Albania still needs capacities to be built. Local associations represent the interests of local governments in relation to the central government. Until now, the relationships between the central level and local associations have not been constructive. The process was leaded based on political affiliations and a formal structure was missing. The European Council with funds received from the Swiss Government is helping these associations to increase their efficiency and dialogue despite their political affiliations. However, it is important to note that after the oath of office of new ministers in September 2017, the Ministry of State for Local Government does not exist anymore – the ministry operated between 2013 and first half of 2017.

The communication among the two levels, central and local, is done in the following two ways: through local associations or through direct consultation with line ministries during the design of strategies and policies. However, the legislation is missing guidelines on this process. The consequence is seen in the weak collaboration between central and local government. The project of the Albanian Government foresees the creation of the Consultative Council for Central and Local governance. The right to prior consultation of local governments according to the principles of European Charter of Local Self-Government was introduced for the first time in the organic law of the local government that is approved on April 2, 2015. In order to create manuals about the administrative function and new profiles for the new administrative territories, it would be extremely important to evaluate the actual situation in each local unit. This process started in 2001 and was meant to be completed before the local elections of 2015. In charge of this process is the Agency for Inventory and Transfer of Public Properties[4]. This process has included three phases. However, the process has not yet been completed.

The agency for implementing the territorial reform is established, with the proposal of the Minister of State for local Government, based on the following laws and acts: Act No. 100 of the Albanian Constitution, Act No. 10 of law 9000/2003 "For the Organization and Function of the Council of Ministers," Act No. 6 of law 90/2012 "For the Organization and Function of State Administration" and Act No. 15 of law 160/2014 "Budget of 2015." It was supposed to operate as a central public institution under the responsibility of the Ministry of State for Local Government. The agency is financed by the state budget and other legal funds. It has 12 employees. Despite its important role, the number of employees does not seem to respond accurately in relation to the work-load that they must bear. The general director will be in charge and will manage the whole organization and processes of this agency. The general director will be appointed and dismissed by the prime minister order, after receiving first the proposal of the Minister of State for Local Government. However, since the Ministry of State for Local Government does not exist anymore, the appointing and reporting procedure is not vet clear. Some of the main objectives of this agency are as follows (CSSoD 2015-2020):

- reinforcing the decision-making power and monitoring the work of Municipality Councils and District Councils;
- supporting the mayors in the management of municipality structures and leadership;
- supporting the function of administrative units that are part of municipality;
- · improving the dialogue between the central and local government; and
- supporting community centers at the local level.

Meanwhile, social service agencies will be established at the local level, but will be financed by the central government. Whilst, the Order No. 107 of February 28, 2014 reorganized the existing Inter-Ministerial Working Groups. They were established by the acquis Law No. 119/2014 "On the Right to Information" that was adopted in 2014. It transforms the Commissioner for Personal Data Protection into the Commissioner for Freedom of Information and Personal Data Protection and guarantees the enforcement of the obligation of public institutions for transparency.

An important issue that must be addressed is the amount of funds allocated for the implementation of the territorial-administrative reform. It has a planned cost of 66 million of euro. In total, 16 percent of the cost is planned to be covered by the central government, the other 16 percent from the local government and 5 percent from foreign donors. The gap is around 63 percent of the total cost.

As part of the territorial-administrative reform the following actions have been planned to be implemented:

- Conducting a study on legal framework, functions and internal organizations of the
  administration at the central and local level. The aim is to analyze the functions currently
  performed by each level of institutions, elimination of overlaps and enactment of better
  resource allocation. A second step is to reinstate the subordinate institutions and branches
  of ministries in accordance with new administrative and territorial division of the country.
  After that, a manual on procedures and management systems will be prepared.
- Creation of the Civil Service Oversight Commissioner. The commissioner will have an
  adequate staff to exercise its powers and develop monitoring procedures.

# 5. What public management model has been implemented in SEE countries?

5.1 What public management model has been implemented in Albania

On June 27, 2014, the EU granted EU candidate status to Albania, a decision that reflects the progress it has made toward EU integration. With the candidate status Albania will benefit



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from the Instrument for Pre-Accession Assessment (IPA II), whose support is broadened by three more components; regional, rural and human resources development. Therefore, support to public administration and governance will continue to be a priority. The institutions that were responsible for the EU integration were mainly 2. The first one was the Ministry of European Integration, which had two dedicated departments: the Department of Harmonization of Albanian Legislation with the EU acquis, and the Department of Control and Monitoring of EU Funds. Under the new government this Ministry does not exist anymore. A new ministry is created the Ministry for European and Foreign Affairs. The second one was the Ministry of Innovation and Public Administration, which was responsible for drafting the Strategy for Development and Integration 2014-2020 that corresponds to the IPA II period. This ministry is abolished and there is no other ministry that is responsible for innovation and public administration. The integration process is also assisted by the Technical Assistance and Information Exchange Instrument (TAIEX), which is directed by the European Commission General Directorate for EU Neighborhood and Enlargement. It is responsible for the technical support for approximation of Albanian legislation with EU acquis. It will also provide professional expertise for the proper implementation of legislation. Additionally, the EU institutions are turning their focus toward the centralization process, as decentralization has been seen as an amplificatory of fiscal imbalances encouraging additional borrowing at the local level (Scepanovic, 2016). This can be true to the point that local government, especially in countries like Albania, cannot function well if the central government is not strong enough to maintain itself and deliver power and resources efficiently.

Albania, like other SEE countries, has several challenges that will be put to the test in coming years. These challenges include the necessity for autonomy within the national system, difficult financial conditions of transition, judiciary reform, the fight against organized crime, an anticorruption agenda, strengthening of fundamental rights, improvement of the civil service system and reduction in the turnover levels of staff ministries (Kandeva, 2001).

In 2009, the Government of Albania published the Cross-Sectional Strategy of PAR of 2009-2013. The aim was to strengthen the legislation on civil service, bolstering the role of key public officials at the central level and increasing the capacities of public employees. Regardless of international assistance, it failed to offer solutions to the many issues related to effective public administration[5]. Consequently, in 2015 the Albanian Government published the Crosscutting PAR Strategy of 2015-2020. It includes more objectives compared with the previous one that was focused only on the civil service reform. Despite a wider vision, the aim is to strengthen the role and influence of the central government. Three main dimensions were identified in the PAR Strategy 2015-2020:

- (1) Effective public service: it aims to ensure compliance with subsidiarity principles through delineating the respective competences of governmental bodies and local authorities. It focuses on the quality improvement of legislation, the organization and functioning of public administration, the improvement of civil service reform and administrative procedures, coordination between the various levels of governments, associations like ReSPA, NGOs, etc.
- (2) Anticorruption: the establishment of transparent rules, anticorruption bodies and the creation of independent research institutions. It proposes the introduction of regular audits by independent agencies that require ex ante and ex post evaluations and an increase in public awareness. Researchers, whistle-blowers, media and other agencies must be actively supported.
- (3) Justice: improve the efficiency, competence and law enforcement. It has been necessary to review the quality, efficiency and competences of judges and permanent court members, key public officials of the Ministry of Justice, universities



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and professional organizations. The improvement of judicial cooperation will be achieved through free access to information, cross-border enforcement and cross-border proceedings in bankruptcy, take-overs and mergers.

Law No. 90/2012 "On the Organization and Function of the State Administration" was drafted based on the objectives of the PAR 2009-2013 aiming to review the relationship of ministries and their branches with other relevant agencies. Decision no. 893 of the Council of Ministers was made official on December 17, 2014. It has founded the ground rules on the organization and functioning of supporting cabinets and internal organizations of the state administration. It has also drafted detailed procedures and rules about the preparation, proposals, consultation and approval of internal organizations. Under the current system, the decision making is placed on top of central institutions (PAR 2015-2020, p. 16). It means that the central government of Albania is trying to implement decentralization policies while attempting to maintain control over the macro-economy (Schroeder, 2007).

The Integrated Planning System Institutional Framework is further consolidated with the restructuring of the prime minister office, which aims to improve capacity building in regard to strategic monitoring and planning. In order to achieve these objectives, the Development Program and Strategic Planning Coordination Unit, the Foreign Funding and Aid Unit, the Legislation and Programs Monitoring Unit and the Priorities Implementation Unit were created. They all aim to avoid ad hoc policies and strategies, and the overlap between them. Furthermore, the Information System, the Foreign Aid Management Information System and the Government Financial Information system have been established and strengthened as part of policy monitoring mechanisms at the state level. Since 2006, Strategic Management Groups have been established in each ministry. They are chaired by the minister and coordinated by the secretary general of each ministry. This group, as the core basis for the policy management of line ministries, will review issues related to strategy, budget, donor funds and IPA. These working groups design the strategies but are not involved in the implementation and monitoring process. The draft of the strategies has been implemented using the top-down approach. Instead, Inter-Ministerial Working Groups are set up at the political and technical level. They are coordinated by the Ministry leading a specific project. Currently, three Integrated Policy Management Groups are being tested (water management; competitiveness and direct foreign investment; and employment, training and social policy), through the inter-ministerial structures. However, the coordination among different ministries faced great difficulties in terms of operation, collection of taxes and other revenues, including the coordination process in general. Therefore, one of the objectives of PAR is the improvement and reinforcement of the inter-institutional cooperation. It requires the enhancement of the central units, established at the prime minister office and Ministerial level (PAR 2015-2020). Nevertheless, restructuring the office of the prime minister leads to changes of administrative mechanisms, which often leads toward confusion and overlapping of roles and functions.

However, reinforcing the central institutions does not mean a country should abandon the efforts to strengthen the local level. Calling for greater re-centralization would be a mistake, as the problem is not the decentralization itself, but the lack of accountability and competencies. A balance between centralization and decentralization should be found in order for the reforms to be effective. As there are different varieties of power-sharing configurations between different levels of government the decentralization is not included as an EU acquis (Scepanovic, 2016). However, the intent to join the EU favors the transfer of the decision-making power toward subnational levels of government (Schakel, 2010). Purely national or purely local methods of resolving these issues are insufficient. In order for decentralization to be successful, the governments, together with international partners, non-governmental and the private sector, must collaborate in developing capacities for

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managing and utilizing the available resources effectively and efficiently (Kandeva, 2001; Reddy and Nemec, 2015). The successful implementation of fiscal decentralization requires the presence of comprehensive institutional framework. Budgetary autonomy should be supplemented by arrangements that monitor the system, enforce budget constraints, promote political accountability and economic efficiency, and reduces the possibility of macroeconomic instability. Therefore, a country should attempt to balance the budgetary autonomy with improved capacities for regional and local budgetary management and control (Dabla-Norris and Wade, 2002). Fiscal decentralization cannot be seen as a short-term tool for improving governance (De Mello and Barenstein, 2001). Its longitudinal feature combined with other types of decentralization such as administrative and political decentralization should be taken into consideration by developed and especially transitional and developing countries. The empirical results of Swianiewicz (2014) on Eastern European countries proved that the most common model of territorial reform is a mixture of union, such as the Albanian case, or fragmentation of local governments.

# 5.2 Public management model in other SEE countries

It is interesting to analyze SEE countries[6], as after the fall of Communism during 1989-1990, these countries embarked on a transition from highly centralized, planned systems to open-market economies. They have faced many challenges in meeting the necessary requirements to ensure a successful implementation of reforms. While throughout the region, subnational governments have been given greater fiscal responsibilities, in many cases their own revenue sources are still limited. These countries heavily rely on transfers from the central government. This phenomenon might reduce the incentives of local governments to act efficiently. In transitional and developing countries, local governments have been implementing the decentralization process in varying degrees of fiscal, administrative and political powers (Rodriguez-Pose and Krøijer, 2009).

Most of the problems are common to all the SEE countries. The SEE Strategy 2020 has established governance as one of the main pillars of economic and political cooperation through capacity building, strengthening the rule of law and justice, reduction of corruption levels, encouraging the economic development through business-friendly environment, reducing high levels of unemployment, building sustainable infrastructure, delivering efficient public services and implementing good public governance. It is designed to support common national goals through regional cooperation. Recently, the earlier enthusiasm of accession countries for decentralization of local level of government has been replaced by the need of centralization (Scepanovic, 2016). In general, the decentralization process is more successful in developed countries as its success does not depend only on its design but also on the country's context (Dabla-Norris, 2006). The lack of well-established democratic traditions and political culture can make civic control over authorities difficult especially in big and more anonymous communities (Swianiewicz, 2002). Despite that, several empirical studies like Bardhan and Mookherjee (2006) have shown that decentralization has improved the service delivery. What differs is the degree and nature of improvements across countries.

An additional important factor that reinforced the central government in SEE countries was the last global crisis and the exposure toward Eurozone crisis due to their dependency on EU funds and assistance (International Monetary Fund, 2012; Bartlett and Uvalic, 2013). Research on fiscal efficiency has been strengthened only after the last global crisis, which was concerned with spending and borrowing at the expense of growth (Scepanovic, 2016). It has had a severe impact on the region resulting in low growth rates, increasing public debt and rates of unemployment. The literature is consistently reporting positive relationships between severe, long-lasting fiscal distress and the result from the imposition of targeted cuts. The relationship between decentralization and governance depends also on the

financial schemes implemented for subnational expenditures (De Mello and Barenstein, 2001). Expenditures and the performance of local services prior to crisis determined the path and capability for maneuver during and after the crisis. During the crisis political instability, weak managerial leadership and the lack of skills and competences yielded a lack of strategic approaches and focused on across the board cuts (Cepiku *et al.*, 2016).

Recovery of SEE countries will depend on EU prospects but also on the respective governments in order to implement long-term and effective policies and strategies (Bartlett and Uvalic, 2013). This is one of the reasons why during the crisis the role of the prime minister and the role of the Minister of Finance became stronger. Post-crisis recovery demands long-term structural and fiscal reforms and an accountable system that promotes public value creation and improves the overall performance of central and local governments (Pollitt and Bouckaert, 2011; Cepiku and Bonomi Savignon, 2012; Meneguzzo *et al.*, 2013; Raudla *et al.*, 2013; Christensen *et al.*, 2014; Pollitt, 2014). In emerging and developing economies, where institutions are still in early stages of development, designing successful decentralization policies has been difficult (Rodriguez-Pose and Krøijer, 2009).

Apart from the SEE 2020 Strategy, the PARs of each SEE country have been analyzed[7]. A common conclusion aroused from this analysis. The scope of reforms for each individual country was the creation of an efficient, accountable and transparent public service that would offer high-quality services to citizens while meeting the conditions set by the EU.

#### 6. Empirical data

The empirical data will support the implementation gap and will also try to show a contribution to the implementation theory in the field of territorial reforms. These data will also help to identify whether the fiscal decentralization process is giving the expected results.

The decentralization process cannot be successfully implemented without own financial resources of local government. This is why, in this section of the paper the main focus will be on revenues and expenditures. The data of the planned budget (the projection) and the revised budget (the real data of revenues and expenditures) will be confronted. The re-budgeting process is strongly affected by the degree of incrementalism in the initial budgeting process, as well as followed by several internal and external determinants such as political variables, organizational features, financial conditions and local socio-economic environment (Anessi-Pessina *et al.*, 2012). Upward revisions to the budget are more frequent than downward adjustments, especially for current spending. Thanks to re-budgeting, the formulation of the initial budget can be conservative and spending limits can be gradually relaxed as revenues are actually recognized. However, attention should be made with the use of revised budgets. Re-budgeting can lead toward opportunistic behavior. The mayor might re-evaluate local expenditure during election years, thus increasing the chances of re-election of local officials (Anessi-Pessina *et al.*, 2012).

The income of communes and municipalities include their own resources and the resources coming from the national level. The internal resources of local governments include local taxes and fees on movable and immovable properties, transactions made on them and on small enterprises, local tariffs on public services, the right to use local public properties and granting of licenses, permits and authorizations and other local taxes determined by law. Resources of regions include their own resources (unconditional transfers, quotas of participation of the constituent communes and municipalities, conditioned transfers for accomplishment of delegate functions and competences from the constituent communes and municipalities, fees and tariffs settled at region level, and tariffs for the public services offered by the region itself) and also resources from the distribution by national incomes. The resources coming from national budget include unconditional and conditional transfers.

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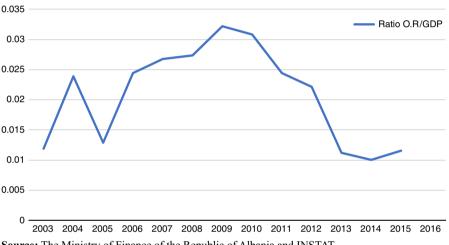


Figure 2.
The ratio of own revenues of local government over GDP

Source: The Ministry of Finance of the Republic of Albania and INSTAT

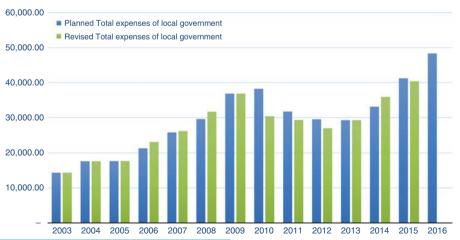


Figure 3.
Total
expenses of local
government – planned
vs revised budget

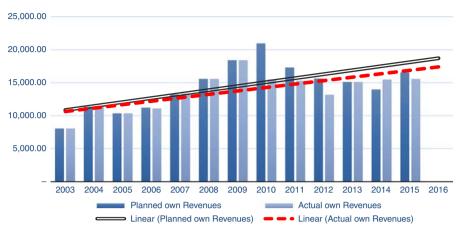
Source: The Ministry of Finance of the Republic of Albania



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Figure 4. Total own revenues of local government – planned vs revised budget



Source: The Ministry of Finance of the Republic of Albania

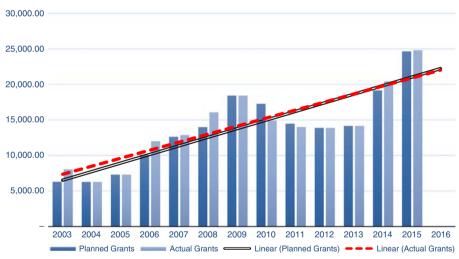


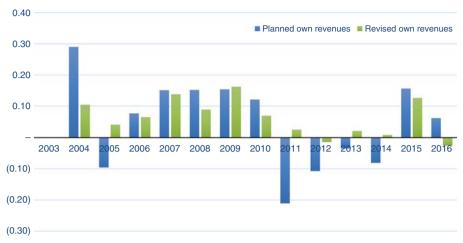
Figure 5.
Total
revenues of local
government – planned
vs revised budget

Source: The Ministry of Finance of the Republic of Albania

will be offered to citizens reducing the power and responsibilities of local government (Figures 6 and 7).

Comparing the indicators in Tables I and II between the planned and revised budgets, there are no big differences from 2003 to 2016. In 2015, only 4 percent of total revenues came from local government, while local government spends two times more than its tax collections. It clearly proves that the role of the central government continues to be strong. It covers more than 90 percent of local government expenditure. Unconditional transfers are key components of the fiscal decentralization effort in Albania. The proportion of resources allocated to local government units increased from 2.2 percent of GDP to 3.2 percent in 2016, which is the largest budget ever allocated to the local government in Albania. The 2016 budget does not represent a net increase in municipality resources. Transparency in local government finances increased by publishing local government budgets online.





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Figure 6.
Growth in percent of own revenues of local government – planned vs revised budget

Source: The Ministry of Finance of the Republic of Albania

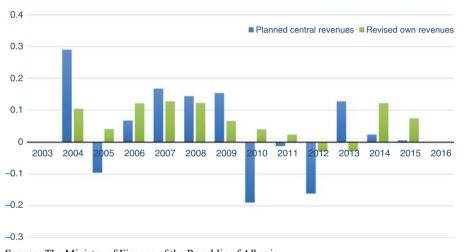


Figure 7.
Growth in
percent of transf
ers received by local
government – planned
vs revised budget

Source: The Ministry of Finance of the Republic of Albania

An interesting fact arouse from 2010 to 2013. As we can clearly see from Figure 6, the fiscal policy in Albania did not move counter cyclically, which is a similar trend of Western Balkan countries. Instead, local government overspent during growth periods and reduced spending due to financial constraints emerged during the crisis. Prior to 2009, the broad consensus played a limited role in the fiscal policy. During the crisis, all major countries adopted discretionary fiscal policy measures (Kóczán, 2016). Prior to 2008, Albania saw an increase in general government revenue as a share of the GDP. Despite some cuts in tax rates, cyclical factors resulted because of strong foreign financing and booming consumptions. Spending increased especially during the election campaigns in particular on public wages, pensions and ambitious infrastructure projects. Mandatory expenditures proved difficult to scale back in the Western Balkans, restricting thus the room to maneuver. The global crisis has significantly reduced the resources available to local governments.



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	Indicator own l.g revenues/Total revenues of c.g (%)	Planned budget Indicator total l.g revenues/Total revenues of c.g (%)	Indicator total l.g expenses/Total expenses of c.g (%)
2003	6	10	7
2004	7	11	9
2005	6	10	8
2006	5	10	8
2007	5	10	9
2008	5	10	8
2009	5	11	10
2010	6	11	9
2011	5	9	8
2012	4	8	7
2013	4	8	7
2014	4	9	8
2015	4	10	9

**Notes:** l.g, Local government; c.g, central government. <sup>a</sup>Own government revenues over total revenues of central government; <sup>b</sup>total local government revenues over total revenues of central government; <sup>c</sup>total expenses of local government over total expenses of central government – planned. The data are taken from the balance sheets (planned and revised) published by the Ministry of Economy and Finance of the republic of Albania. The balance sheets are found on www.financa.gov.al

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**Source:** Own elaboration of author

2016

Table I. Indicators

	Indicator own l.g revenues/Total revenues of c.g (%)	Revised budget Indicator total l.g revenues/Total revenues of c.g (%)	Indicator total l.g expenses/Total expenses of c.g (%)
2003	6	11	7
2004	7	11	8
2005	6	10	8
2006	5	10	9
2007	5	10	8
2008	5	10	9
2009	6	11	9
2010	5	9	8
2011	4	9	7
2012	4	8	7
2013	5	9	7
2014	4	10	8
2015	4	10	9
2016	_	_	_

**Notes:** l.g, Local government; c.g, central government. <sup>a</sup>Own government revenues over total revenues of central government; <sup>b</sup>total local government revenues over total revenues of central government; <sup>c</sup>total expenses of local government over total expenses of central government. The data are taken from the balance sheets (planned and revised) published by the Ministry of Economy and Finance of the republic of Albania. The balance sheets are found on www.financa.gov.al

**Table II.**Indicators (revised budget)

**Source:** Own elaboration of the author (The raw data are taken from The Ministry of Finance of the Republic of Albania)

Undertaking territorial reforms, such as the case of Albania, by merging local government units and decreasing the number of municipalities, might be clearly attributable as governance-related topics (Proeller, 2006). However, the territorial reform is associated with some problems during the implementation phase that are (Hoxhaj, 2014; Pajollari and

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Özcan, 2017; EU report on European Commission Albania, 2016; Ndreu, 2016b; Reci and Ymeri, 2016): previous fragmentation of local units that created problems with redesigning new divisions according to the EU standards, the reform is an ambiguous stance to counties completed with a lack of political consensus, capacities of local government units to prepare local development plans are limited and their adoption is slow, bad central-local government relationships, high level of corruption; historically, local governments that are governed by the same political party as the one of central government, receive more grants and facilitations compared to those local governments governed by the opposition party; high local government staff turnovers; the new division in 61 municipalities continues to be high and therefore, the same problems prior to the reform, will persist; the decentralization of social service is not accompanied by any decentralization of powers and this limits the success of the reform; finances continue to be decided at the central level while local units have to submit requests for funds according to their needs; and internal organization of local government units is still decided by the central government using a top-down approach. To the list of the problems identified in the literature is added to, probably the most important factor, the lack of 63 percent of the funds that are necessary for the implementation of the reform.

#### 7. Concluding remarks

This paper explores the historical development of the local government in Albania and analyzes its territorial-administrative reform of 2015-2020 and the factors that have been shaping it. From the first part of this analysis emerges that Albania has had unstable governments since the arrival of democracy. More than 20 governments have governed the country bringing instability and lack of capacity and institutional building. The reforms, from 1990 to 2013, were mainly based on drafting and approving laws and regulations. Very few institutional building "reforms" were implemented; instead, they were single actions that failed most of the time.

The territorial-administrative reform of 2015-2020 redefines the legislative powers of municipalities and their sectoral competences. The analysis distinguishes between the impact the reform has had on local authorities and their overall influence on the central government. Despite it being one of the best written strategies from the Albanian Government that is also in line with the European Chart of Local Self-Government, it still has limitations. The proper implementation of reforms is impeded by insufficient transparency, lack of analytical capacity, poor enforcement of court decisions and inadequate implementation of the adopted laws. Furthermore, the shortage of resources can be placed at the top of the list. Local government receives about 90 percent of local revenues from the central government. Thus, limiting the fiscal and decision-making autonomy of local entities, while increasing the importance and the influence of the central over the local government. Furthermore, the abolition of responsible ministries remains a factor that could seriously undermine the implementation of the decentralization reform.

Besides, the largest challenge that Albanian governance is facing is related to the identification of reforms that are politically acceptable and administratively sustainable. To find the balance between them, decision makers should have specific knowledge and analytical skills. It is thus necessary to invest in the capacity building of local officials, which has not yet become operational despite the fact that the implementation process started in 2015. It should be also considered that most of the institutions and policy frameworks in Albania are relatively new. The local government level will continue to rely on shares of central transfers for years to come, as there is a lack of political willingness to create an apolitical environment, culture in evading taxes, and adequate staff training. Without the support or resources, local authorities will not be able to deal with market forces and deliver high-quality services. Local entities have only achieved a limited extent of tax and other forms of fiscal autonomy. Low fiscal autonomy has always been an important policy problem in the decentralization process.

Fiscal indicators together with deficits and debts that are rising to record levels, will leave significant fiscal gaps in the national budget and will continue to shape public administration in the years to come. Central intervention is also required due to political, economic, cultural and social factors that have restrained the decentralization process rather than promote it. Therefore, the suggestion for Albania and other SEE countries would be to first strengthen the key institutions at the central level, law enforcement and the relationships with different stakeholders, before implementing a decentralization process. It does not mean that the decentralization process is not recommended to be implemented. Contrary to what the Cross-Sectional Decentralization Reform Strategy 2015-2020 has emended, the strategic objectives for the future would enable the mechanisms of monitoring and control over the central administration and simplifications of administrative procedures in the whole public sector. The importance of the reforms should not only be seen as the achievement of quick results because of the intent to join the EU. The focus should be on the long-term effects on stakeholders' inclusion and legitimacy. Despite the enactment of some crucial reforms Albania's real problem has always been the implementation process. Thus, it would be suggested to include the decentralization process as an adjustment to the dominant pattern.

The implementation of the territorial-administrative reform of 2015-202 is still underway, especially when it comes to the fiscal decentralization and the generation of own resources of local governments. In any case, it is believed that these preliminary results would offer a significant platform on which to build on future research about the fiscal decentralization in SEE countries. Additional, research regarding the implementation process of decentralization reforms would be suggested. It might be interesting to study the potential functional interactions between various government levels and their outcome on intergovernmental fiscal design. Future research work should give priority to: the analysis of the lack of competencies of human resources and what should be done in order to reduce the gap between the actual performance of local civil servants and the work required, and comparative studies in order to offer a broad view of possible future developments in SEE countries.

#### Notes

- Is the referenda mandatory? Can it be initiated by citizens or only by local authorities? Is the result advisory or binding?
- 2. The first government was elected on February 22, 1991 and lasted until May 10, 1991. The second government governed from May 11, 1991 to June 4, 1991. The third government governed from June 11, 1991 to December 6, 1991. The fourth government governed from December 18, 1991 to April 13, 1992. The fifth government governed from April 13, 1992 to August 6, 1993. The sixth government governed from August 7, 1993 to December 3, 1993. The seventh government governed from December 4, 1994 to July 10, 1996. The eighth government governed from July 11, 1996 to March 10, 1997. The ninth government governed from March 11, 1997 to July 24, 1997. The tenth government governed from July 25, 1997 to September 28, 1998. The eleventh government governed from October 1998 2, to October 25, 1999.
- 3. First government November 28, 1999-September 6, 2001; second government September 6, 2001-January 29, 2002; third government February 22, 2002-July 25, 2002; fourth government July 29, 2002-December 29, 2003; fifth government December 29, 2003-September 1, 2005; sixth government September 9, 2005-September 10, 2009; seventh government September 16, 2009-September 10, 2013.
- Law No. 8743/2001 "Immovable Properties of the State"; Law No. 8744/2001 "On Transfers of Public Immovable Properties from Central to Local Government"; The Decision of the Council of

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Ministers No. 500/2001 "On Inventory and Transfer of Public Immovable Properties from Central to Local Government"; Act No. 1/2002 "On Filling in the Form for Inventory and Transfer of Administrative Areas of Local Government"; Act No. 2/2002 "On Inventory of Immovable Properties and Fill of the Forms"; Act No. 3/2002 "On the Inventory of Immovable Properties from the Local Governments"; and Act No. 15/2003 "The Submission of Forms by the Local Governments for the Transfer of Ownership of their Immovable Properties."

- 5. World Bank: Albania has received about US\$1.8 billion in financing for various sectors (115 projects in total from which 55 projects are for central government administration, 16 for general PA, and 10 related with different subjects of PA). EU: funding allocation from 2014 to 2020: €649.4 million. IMF: offers assistance on government budget, structural reforms, and the Bank of Albania's governance and policy framework. OSCE: offers assistance in anticorruption initiatives, capacity building and law enforcement. USAID: delivered over \$500 million in foreign aid to support Albania's development, stability and integration into Europe. Strengthen the rule of law by building the skills of lawyers and judges, and increasing the ability of local governments to raise revenue and provide more effective services to citizens.
- 6. Albania, Bosnia and Herzegovina, FYR Macedonia, Kosovo, Montenegro and Serbia.
- Albania: PAR 2009-2013 and PAR 2015-2020; Bosnia and Herzegovina: PAR 2007-2014; FYR Macedonia: PAR 2010-2015; Montenegro: PAR 2001-2009 and PAR 2016-2020; and Serbia: PAR 2004-2008 and PAR 2009-2013.

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Appendi	X			Local government modernization
	1991-2000 11 Governments governed Albania from 1990 to 2000 36 districts, 44 municipalities 313 communes	2000-2013 7 Governments governed Albania from 2000 to 2013 36 districts, 65 municipalities 309 communes	2014-2020 61 municipalities 12 Regions	in Albania
Reforms	Law 7570/1992 Established self-governance, independence, local autonomy and decentralization as the basic principles for the creation and function of local governments. Municipalities and communes composed the first level and districts the second level of government. The mayors and local councils were elected by citizens Law 7572/1992 (amended law no. 8068/1996) Law amended 36 districts (rrethe), 44 municipalities (bashki), and 313 communes (komuna) Law 7605/1992 (amended law no. 8654/2000) Defined the administrative quarters – municipalities with over 40.000 inhabitants Law 7608/1992 (amended law no. 8209/1997) Amended the establishment of 12 prefectures where each of them was composed by two to four districts (rrethe) Law 7616/1192 Defined the conditional and unconditional transfers Law 7776/1993 (amended law no. 8399/1998) Indicated the right of local governments to take loans	Organization of Local Governments. Defined all regions, municipalities and communes in a specific format Law 8654/2000 For the municipality of Tirana Law 8744/2001 (amended law no. 9561/2006 and no. 9797/ 2007) The Transferring Process of Immovable Properties to Local Government Law 8927/2002 On the Prefect – The Prefect is appointed by the Council of Ministers	Republic of Albania The aim of the Cross-Sectional Strategy for Decentralization of Local Government Administration of 2015-2020 is the reinforcement of governance and democracy at the local level as required by the European Charter of Local Self-Government and	

delivery solutions that

Main Goals The main goal was the creation of democratic institutions. International assistance was deemed necessary for parallel advancements in administrative capacity, in Republic of Albania The main priorities included The main goal was the the assignment of public functions to the lowest level of government. Other important components of 2000-2013 reforms were information

implementation of political, administrative and fiscal decentralization at the local level of government. It would have positive impacts on efficiency of public service

Table AI. Summary of the main developments in the local sector

(continued)



TIDON #				
JJPSM 31,4		1991-2000 11 Governments governed Albania from 1990 to 2000 36 districts, 44 municipalities 313 communes	2000-2013 7 Governments governed Albania from 2000 to 2013 36 districts, 65 municipalities 309 communes	2014-2020 61 municipalities 12 Regions
506		order to achieve sustainable economic development. The law introduced for the first time the duties and responsibilities within their jurisdiction of communes and municipalities	improve in communicating the right information to citizens on how public financial resources are spent. Besides, for the first- time Albania was considering international integration	citizens and businesses in public services, improvement of representative democratic
	Problems	These reforms did not have any major change. An important step during this period was the initialization of the Stabilization and Association Agreement process with the EU that contributed in creating a legal framework with the Acquis Communitarian. Despite the improvement of the legislation, Albania lacked in a proper implementation process	and did not include the distinctions between size of local government units and their capacities to perform their functions. The Albanian Government did not have a	administration 63% of the funds required for the reform implementation are missing. Without own financial resources, the decentralization process cannot be successful and cannot be able to complete the other areas of decentralization. High level of centralization is still a characteristic of Albanian Government
Table AI.	Source: Own elaboration of the author			

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