

**REPUBLIC OF ALBANIA
MINISTRY OF INTERIOR**

**LOCAL GOVERNMENT AND
DECENTRALIZATION STRATEGY**

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STRATEGY OF DECENTRALIZATION

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STRATEGY OF DECENTRALIZATION AND LOCAL GOVERNMENT

I. Local Government in Albania – Present Situation

The decentralization reform was anticipated by the gradual completion of the legal infrastructure in respective areas, according to the requirements of the 1998 Constitution of the Republic of Albania, the European Charter of Local Self-government, and the National Decentralization Strategy.

Starting in 2000, the decentralization process was seen as closely linked to the preparation of respective legislation to enable the transfer of responsibilities from the central government to the local government.

The most important laws approved in this period are:

- ? Law No 8652, date 31/07/2000 “On the organization and functioning of Local Government”, improved,
- ? Law No 8653, date 31/07/2000, “On the administrative-territorial division of local government units of the Republic of Albania”, improved,
- ? Law No 8654, date 31/07/2000, “On the organization and functioning of the municipality of Tirana”,
- ? Law No 8743, date 22/02/2001, “On real estate properties of the state”,
- ? Law No 8744, date 22/02/2001, “On the transfer of the real estate properties of the state to the local government units”,
- ? Law No 8978, date 12/12/2002, “On local small business tax”, improved,
- ? Law No 8979, date 12/12/2002, “On some additions and amendments to Law No 8438, date 28.12.1999, “On the income tax” with the respective amendments,
- ? Law No 8980, date 12/12/2002, “On some amendments to the Law No 8560, date 22.12.1999, “On the tax procedures in the Republic of Albania”, improved
- ? Law No 8982, date 12/12/2002, “On the system of local taxes”, amended
- ? Law No 8991, date 23/01/2003, “On some additions and amendments to the Law No 8405, date 17.9.1998, “On urban planning”, amended by the decision No 2, date 25.11.1999 of the Constitutional Court, and by Laws No 8453, date 4.2.1999, No 8501, date 16.6.1999 and No 8682, date 7.11.2000”.

The decentralization strategy is based on the present structure of Local Government in Albania:

first level: municipalities and communes
second level: region council

as well as their legal status, authority, competencies and responsibilities, administrative and territorial division, internal administrative organization, functioning as well as the relations between the central government and the elected bodies of local government.

The approval of Law No 8652, date 31.07.2000, on “The organization and functioning of local government” a an organic law providing for the decentralization of functions from the central government to the local government and its support by some other legal documents allowed for the transfer of authority and responsibility, the design of methodologies, guidelines and increase of management capacity of the local elected bodies in the area of infrastructure and public services, the field of social, cultural and sport services, the area of local economic development and in the area of order and civil protection.

Local Government in Albania, based on Law No 8653, date 31/07/2000 “On the administrative-territorial division of local government units of the Republic of Albania”, amended, is organized in two levels of government.

The Communes and Municipalities are basic units of local government and are the first level of government, while the Region, is the second level of local government. The local units are decentralized and autonomous public authorities, responsible for providing or distributing public services and goods in compliance with the law.

At present, Albania is divided into:

Communes 304
Municipalities 69
Regions 12

The surface and population according to civil registry data of 2005, is given in the following table per each region:

<i>REGIONS</i>	<i>POPULATION</i>	<i>SURFACE KM2</i>	<i>DENSITY</i>
BERAT	266401	1665.4	159.96217
DIBER	225800	2373.1	95.149804
DURRES	352673	704.7	500.45835
ELBASAN	437087	3251.2	134.43867
FIER	480589	1739.5	276.27997
GJIROKASTER	168879	2902.2	58.189994

<i>REGIONS</i>	<i>POPULATION</i>	<i>SURFACE KM2</i>	<i>DENSITY</i>
KORCE	357915	3503.3	102.16802
LEZHE	209584	1514.4	138.39408
KUKES	140437	2479.1	56.64838
SHKODER	337194	3184.2	105.89599
TIRANE	829885	1645.9	504.2135
VLORE	341100	2719.5	125.42747
TOTAL	4147544	27682.3	149.82603

The decentralization and local authorities represent the basic principles of consolidated democracies. The rights of the citizens to participate in the administration of public works and convinced that this right is directly and efficiently exercised at local level.

The existence of local government units, equipped with effective responsibilities, allows for the efficient administration of public works and closer to the citizens.

The consolidation of local autonomy and the status of local elected officials, constitutes an important contribution in the construction of a democratic society and in the integrating process of Albania, based on the principles of local democracy and Decentralization.

The decentralization and local autonomy implies the existence of local government units with bodies that are democratically elected and structured, having broad autonomy and authority as well as indispensable legal, administrative and financial tools for fulfilling their mission.

Based on the concept of local autonomy as “A right and effective capacity for local government units to regulate and administer an important part of public affairs, in compliance with the law, under their responsibility and for the benefit of their communities”.

In the decentralization process, the local government units have their role and responsibilities, which go beyond the service provider role regarding the design and implementation of short, middle and long-term programmes for local development, in compliance with the requirements of the local government organic law.

The decentralization reform creates premises that sectoral and national development strategies to be in complete harmony with the responsibilities of local government units.

THE DECENTRALIZATION STRATEGY TAKES INTO CONSIDERATION THE DEVELOPMENT OF THIS PROCESS:

- 1) Exercise of the mandate of local elected officials

From 2000 onwards, elections for municipalities and communes are organized (elections for mayor and councils) and at present the following operate:

69 elected bodies in municipalities
304 elected bodies in communes
12 elected bodies in region councils

In compliance with the Constitution of the Republic of Albania, European Charter of Local Self-government and Law No 8652, date 31.07.2000 “On the organization and functioning of Local Government”, their councils and mayors exercise their given mandate without any obstacle. The mandate of local government units is four years.

Article 109 of the Constitution of the Republic of Albania provides for the formation of region council as a local government body. In these provisions, the election of region council is carried out indirectly, against article 3 paragraph 2 of the European Charter of Local Self-government.

This situation, contradictory in theory, brings out two other shortcomings in the formation of region council.

- ? The practical effects of the representation of local government units in region council.
- ? The non-direct representation (election) in region councils, has caused essential deviations from electoral results in the respective territory.

Conclusion: a new approach for the election and composition of region council should be approved. The composition and election of region council should be in compliance with the European Charter of Self-government.

2. Institutional and administrative organization of local government units

The Constitution of the Republic of Albania and Law No 8652, date 31.07.2000, allows the elected bodies of local government units, local councils, to freely decide on the number and structure of the administration of the respective local government unit, as provided by Law No 8652, date 31.07.2000 “On the organization and functioning of Local Government. The mayor of the local government unit has the power to appoint and dismiss, in compliance with the law, the staff members of each local government unit, but the Albanian institutional reality has identified:

- that in different local government units we have different positions regarding the status of local civil servants. The staff of the administration in municipalities are covered by the civil servant status, but the administration of communes and regions are not. Until now, the Strategy of Government for the training of elected officials and local public servants has not been effective.

Conclusion: The public servants in the administration of local government should be included by law in the civil servant status. The government and the local elected officials should design a detailed plan to secure the training of elected officials and public servants in order to guarantee the quality of the activity of local government units.

3. In the area of their competences:

The local government has an administrative, service, investment and regulatory authority for its competences in the area of public infrastructure and relevant services such as: water supply, construction, rehabilitation and maintenance of local roads (rural and urban roads), public transport, urban planning, etj.

? **Water and wastewater service**

The transfer of water and wastewater services from central government agencies to local government units was done in compliance with laws and by-laws regulating the sector's activity.

This process has gone through several stages. The Decision of Council of Ministers No 550, date 7.11.2002, approving "The policy paper for the decentralization of water and wastewater service and the actions for its implementation", determining the transfer of water and wastewater services under the full responsibility of local government.

An important role in this process has been played by the joint group of the Ministry of Interior (former Ministry of Local Government and Decentralization), the Ministry of Public Works, Transport and Telecommunication (former Ministry of Territorial Adjustment and Tourism), and the Ministry of Economy, Commerce and Energy (former Ministry of Economy), which has drafted the timetable for the transfer of water and wastewater services to the local government units, and has followed the process of transferring the water utilities classifying the systems in:

1. Water and wastewater utilities and joint stock companies, whose state-owned real estate properties are completely transferred (a total of 12, with 5 utilities and 7 J.S.companies),
2. Water and wastewater utilities and J.S. companies, whose state-owned real estate properties are completely transferred, according to the parts of systems (a total of 8, with 2 utilities and 6 J.S. companies),
3. Water and wastewater utilities and companies, whose state-owned real estate properties are transferred only for unified systems of the local government unit (a total of 15 J.S. companies),
4. Water and wastewater utilities and companies, whose state-owned real estate properties are required to separate their systems (a total of 18, with 1 utility and 17 companies).

As one of the most important priorities of the government related to the decentralization reform, the transformations in the water and wastewater sector are regarded as very important, and four are considered as more important and complex aspects:

- the sector represents the biggest investments for each commune/municipality in Albania;
- the sector represents a critical infrastructure that can not be overlooked or replaced;
- this sector represents one of the most important functions and responsibilities at local level;
- this is an essential service for promoting the economic development.

The priority of the decentralization reform is how to recuperate the time lost, until now. The present structure has resulted in a bad debt accumulation, physical and moral depreciation of the systems, and most importantly, the inability of meeting the consumers' needs, the lack of the local government involvement and contribution, despite their great interest shown by them. The sector does not get the citizen pressure; there is a discrepancy between what the citizens feel and the possibilities of local government to act upon them.

Among the obstacles and difficulties of the process, the following stand out:

- The difficult financial situation of water utilities. The liabilities to third parties as of the end of 2005 are 10.5 billion lek, and the losses only for 2005 are approximately 440 million lek.
- The actual subsidy scheme assist the utilities to cover their losses, and results from their inability to collect. . On the other hand , the utilities in a market economy should be commercial entities and not institutions that implement social policies. In these circumstances, the subsidies should be transformed into schemes of social benefits for the groups that are unable to afford the water tariffs.
- The difference between the real cost and tariffs, for potable water, in several cases, is substantial
- The networks of water utilities supply several local government units, and in some cases even two regions. This has caused difficulties in: the separation of systems and their transfer to the respective local government units, the preservation of the present status of these utilities, and finding new forms and management approaches for them.
- The majority of these utilities, at present, do not have a system of water meters.

To implement the policy document for the transfer of water utilities, aiming at the improvement of the service and not fragmenting the water supply system, a proposal was sent to the municipalities and communes requesting them to express their opinion whether they want the transfer of water utilities and systems to the property of several local government units or one local government unit, when a certain utility serves several municipalities and communes.

Until now, following the reform for the decentralization of the water sector, the Council of Ministers has approved three decisions on the transfer of state-owned properties of water and wastewater systems to the ownership of local government units (DCM No 81, date 12.02.2004, DCM No 173, date 26.03.2004, and DCM No 809, date 26.11.2004), which have transferred under the ownership of 7 municipalities and one commune, 4 J.S.companies and 4 utilities of water and wastewater, as well as, 120 water and wastewater systems, belonging to 15 municipalities and 46 communes.

In the framework of the decentralization reform of the water supply sector, aiming at the complete transfer of competences to the local government units– the approval of the water and wastewater service tariffs – the Parliament drafted and approved the Law No 9352, date 03.03.2005, “On some additions and amendments to Law No 8102, date 28.03.1996, 'On the regulatory framework of the sector of water supply and wastewater treatment’”, which transfers to the local government the authority to approve the water supply tariffs.

The transfer of local water utilities that are administered by the municipalities and communes under the ownership of respective communes and municipalities,, has progressed slowly, because of delays in the inventorying and implementing the procedures related to this process. Until now, is completed the inventory in about 423 local water utilities . The respective communes and municipalities have been requested to express their opinion regarding the transfer under their ownership, and the process is still ongoing.

- **Urban planning and land management**

The approval of Law No 8991, date 23.01.2003, “On some changes to the law ‘On urban planning’” has made effective the exercise of their functions, with the creation of legal space for the

establishment and functioning of Territorial Adjustment Councils by each local government unit, for construction permits and sites, the law enforcement in construction, etc.

For this purpose, the territorial adjustment councils have been established in most of municipalities (55 municipalities and over 35 communes, while the other LG units, according to the law, have delegated this function to the region councils or neighboring municipalities.

The approval of the law is not a final solution. A new draft law "On special planning" is being prepared in broad consulting with the stakeholders, with the aim to be approved within 2006.

Based on the data from the 2005 statistical year-book, the land structure in Albania is the following:

- Total land surface is 2.875.000 ha, with 699.000 ha or 24% of the total being agriculture land. 1.041.000 ha forests comprising 36% of the total, 423.000 has pastures and grasslands constituting 15% of the total, and 712.000 ha or 25% of the total being other types of land.
- **The transfer of forests, pastures and natural resources under the ownership of the local government.**

The completion of the stocktaking process for local forests and pastures, which started in 2003, has allowed their transfer, together with local natural resources, to the local government. The approval of the Law "On forests and pastures", and the Strategy for the Development of Forests and Pastures has clearly defined the ownership of local forests and pastures as property of local government units, the operational and investment support, the competencies to determine tariffs, the use of revenues from local forests and pastures, etc.

- **Separation of authority in the environmental area**

The establishment of regional environmental consulting structures and the inclusion of local government bodies in decision-making have increased the attention and interest of local government units for the sector.

In the framework of joint competencies for the environment, the local government units are supported with technical assistance for drafting local environmental plans and concrete projects by the Ministry of Environment and its structures at local level and collaborate for funding and implementing these projects.

- **Strengthening municipal and communal police**

In the framework of decentralization tasks the operation of municipal or communal police and their organization at municipality and commune level have been followed. At present, all municipalities and the majority of communes have established the municipal/communal police structures. Their effectiveness has had an impact on the increase of local revenues, the enforcement of acts issued by their councils and mayors.

- **Stocktaking and transfer of properties to local government units**

The process of stocktaking and transfer of properties, foreseen by the approved laws to finish within 2 years, has not completed and is procrastinated for different reasons. Poor performance by several local government units as well as central agencies has obstructed the process of transferring the state properties to the local government units. It has especially delayed the process of decentralization and full exercise of authority by local government units for the administration and management of local properties, the increase of revenues and service provision.

During this period all administration buildings have been transferred to the ownership of local government units. The list of stocks of real estate properties within the territorial jurisdiction of about 130 municipalities and communes has also been approved. The stock list for about 25 municipalities and communes has been approved by the councils of local government units and await the approval by the Council of Ministers.

1. *Joint functions and competencies*

- **Definition of competencies for the joint functions in pre-university education:**

The transfer of competencies has been carried out in compliance with the Decision of Council of Ministers (DCM) No. 632, date 04.10.2004, “On the approval of the document of decentralization policies in pre-university education”, as well as the matrix designed for local government competencies and responsibilities.

The action plan for the immediate implementation and piloting of the decentralization reform in this area has been designed, for the transfer of competencies to the local government regarding the ownership of pre-university education buildings, their preservation, maintenance and funding, the planning and implementation of investment funds, reconstructions and materials, the improvement of curricula, the non-educational personnel, the administration of dormitories, the assignment of scholarships for students, the monitoring of the educational institutions’ performance, the participation in school boards.

The implementation of the decentralization of this competency has started in 2005. Thus, in compliance with Law **No 9464, date 28.12.2005** “On the 2006 state budget”, the Guideline “For the implementation of the investment budget in the Pre-university education in 2006” has been prepared in collaboration with the Ministry of Education and Science. *It foresees that the responsibility for detailing and managing the investment budget in education for 2006 fall on the municipalities (22 municipalities) and region councils, where 10 municipalities have been added.*

The Ministry of Education and Science establishes the standards and, in collaboration with the Ministry of Finance and Ministry of Interior, will monitor and assess during all the year the implementation of standards and investment budget in the area of pre-school, primary and secondary education. The assessment results will influence the planning and allocation of the conditioned grant for local government units in the next fiscal year.

- **Definition of competencies for the joint functions in primary health care service and public health protection**

The decentralization of this function has started in 2005. Thus, in compliance with the decentralization policies for the sectors of primary health care and public health protection, the Law No 9464, date 28.12.2005 “On the 2006 state budget”, has allocated a special item in the budget of 12 regions for 2006: “Conditioned grant for construction and reconstruction of health centers for the primary health care service”. According to this item, the region councils are responsible for the use of these funds for the investments in the territory of their communes and municipalities. The Ministry of Health determines and monitors the standards of this service.

- **Social care and poverty reduction**

In collaboration with the Ministry of Labour, the legal framework and the decentralization of competencies for the financial benefits (ndihma ekonomike) and social services have been improved. This has included drafting and approving DCM No 563, date 12.08.2005, “On the establishment of the responsibilities of the region in the distribution of social services”, DCM No 658, date 17.10.2005, “On the standards of social services”, DCM No 564, date 12.08.2005 “On licensing of social service providers”, DCM No 658, date 17.10.2005 “On the standards of social services”, DCM No 659, date 17.10.2005 “On the standards of child care services in residential institutions”. The work is already starting for the transfer of residential centers to local government units, for which no funds for the local government have been planned.

- **Transfer of cultural and sport services and the classification and transfer of cultural and sport institutions to local government**

The cultural and sport services of local nature and the majority of respective institutions, have been transferred under the administration of local government units, which have full administrative, service, investment and regulatory competencies. These services are supported by the budget of municipalities and communes (by the unconditioned transfer allocated by the state budget and the local revenues). As regards the transfer of financial resources for these services, problems have risen: not always the financial resource has followed the service, this being one of the reasons for the underperformance of these sectors.

Local government expenditure by sector

000 lek

Sector	2004	2005	Difference
	Total	Total	2005-2004
Road management	2412921	4625569	2212648
Public transport	425282	574777	149495
Tourism	1998	8484	6486
Other services	104180	58319	-45861
Other expenditure	58787	68156	9369
Administration	7305614	8160581	854967
Education	1132724	1309864	177140
Health	37048	75210	38162
Social care	389261	540400	151139
Water and wastewater	397464	504572	107108
Shelter/Urban planning	3652	6704	3052

Public services	2755535	3192005	436470
Sports' development	597089	623019	25930
Cultural programmes	281435	330279	48844
Total			

Role of Region Council

The region, based on the 1998 Constitution of the Republic of Albania, returns in the government organization after a long absence. It is a local government level, comprising several municipalities and communes of a compact territory.

The region council, as a community representative body, is established in compliance with Article 110 of the Constitution. It is based on representation and comprises the mayors of communes and municipalities, and members of respective councils, in proportion with the number of inhabitants of each LG unit. This was, the region council is created through indirect elections.

Essentially, the region council is established for the administration of resources in those sectors where efficiency can be achieved through economy of scale. Thus, it was conceived to optimize the action of economic, social and political factors securing a long-term governing efficiency in service of citizens at regional level.

The basic function of the region as a second level of local government is to develop and implement regional policies and programmes, follow the progress of sectoral programmes and their harmonization with state policies at region level. It can exercise functions delegated by other local government units or the central government, but always based on a mutual agreement between the parties.

The strategic developments and their programmed progress has highlighted the increasingly visible need to determine the role of region council as the harmonizer and coordinator of the reform progress, respecting the role of the first level of local government.

In this framework, with the support from UNDP, World Bank, SIDA, and SNV, the regional development strategies in all regions have been drafted and approved. The main objectives of these strategies are the design of a framework for sustainable development and the improvement of the life of communities, such as poverty reduction, education improvement, health care improvement, promotion of small and medium business development, sustainable environment, and good governance.

Despite these strategies being approved, their implementation leaves much to be desired. A good number of municipalities and communes, though they were involved in regional strategies, still do

not have their own development strategy for the urban or rural areas. Furthermore, they do not translate these strategies and programmes into working programmes and financial plans.

Matching the regional development strategies with the national priorities and the priorities of municipalities and communes remains a priority that is also required by the legislation. These development strategies should be improved and translated into documents in support of financial planning, matching costs with financial resources for a rigorous implementation by the local government units, which should be assisted by the central government activities.

The analysis of the whole legal framework in force shows that, in the legal point of view, the functions and competencies of regions, and their authority and responsibility are not clearly defined, even though some adjustments have been made in compliance with law No 8652, date 31.07.2000, as well as the policy documents in the areas of pre-university education, primary health care, ndihma ekonomike and social services approved by DCM No 632, date 4.12.2004, DCM No 636 and 637, date 30.09.2004, Law No 9335, date 10.03.2005, and DCM date 12.08.2005 "On the responsibilities of the region in the distribution of social services".

A new law on the Region, its composition, competencies and size should be taken into consideration even though complex and difficult.

FISCAL DECENTRALIZATION

The fiscal decentralization in Albania has progressed in parallel with all the economic development, the economic and political reform process, the organization of financial and monetary institutions, the economic differences between regions and population groups.

The decentralization reform in Albania has brought a fast increase of the responsibilities of the local government as well as the local autonomy for the allocation of expenditures, but with slower development of the local autonomy for the revenues.

As a result, the fiscal decentralization, which restarted in 1999, constitutes an essential aspect of this reform, focused on:

- Allocating the grant en block for the local operational and maintenance expenditures.
- Transfer to the municipalities the administration and revenues from taxes on buildings.
- Creation of the space for local decision-making on the level of local taxes (+/- 20 %)

However, up to 2001, the fiscal autonomy of the local government remained modest. The state budget expenditure for the local government was only 5% of the total state budget expenditure. On the other hand, the transfers from the State Budget were dominated by conditioned transfers, while the block grant (which was a semi-conditioned transfer) occupied about 16% of the local budgetary expenditure.

The entry into force of the law No 8652, date 31.07.2000, “On the Organization and Functioning of the Local Government”, highlighted a discrepancy between the level of public expenditure and the public service responsibilities and the fiscal autonomy, which was still modest.

Knowing that the decentralization of functions and competencies should be accompanied by the necessary revenues, the parallel priorities of the work were the consolidation of decentralization in the field of revenues and expenditures, and the improvement of financing schemes for local government units.

Unconditioned transfer

In 2002, the central government transferred to the local government the authority and competence in the area of public services and infrastructure, social, cultural and sports services, the area of local economic development, and public order and civil protection area. Also, the 2002 State Budget approved for the first time the concept of giving the unconditioned transfers for the local government based on a formula. This formula balanced the need to take into consideration objective criteria regarding the local services’ costs and providing for a level of equality to support the poorest local government units. The main impacts of the formula regarded the improvement of justice; the introduction of a greater link between the number of population and the amount of funds received; providing for an equalizing effect. For the first time, the local transfers from the State Budget became transparent and predictable, which constituted a very big improvement in assisting the budget management by the local officials. The effect of the formula on the local government transfers are positively evaluated regarding their criteria of proportionality, justice and equality (balance) in funds’ distribution.

Unconditioned transfer 2002-2006

	2002	2003	2004	2005	2006
Total of unconditioned transfer	9	6.3	6.28	7.3	8.3
Distribution for municipalities and communes	7.15	4.64	5.12	6.5	7.54
Distribution for regions	0.95	1.02	0.91	0.64	0.69
Compensation	1.4	0.64	0.19	0.15	0.07
Compensation as a % of the total	15%	10%	3%	2%	0.8%

The formula of distributing the unconditioned transfer has been improved year after year in order to have more objective criteria and representation of the need of local government units. Thus, with the transfer of the taxes to local government units in the formula, an equalizing element was introduced to regulate the transfer to local government units, matching their fiscal capacities. The correction of fiscal capacities also corrected the equalizing coefficient, like in the case of 2006.

For the year 2006, a special formula for the usual transfer (according to column A of annexes to state budget law), and for the first time a special formula for the unconditioned transfer (according to

column B) were used. The formula for calculating the unconditioned transfer according to column “A” was improved as following:

Corrected data on population, which serve as a calculation base, according to the number of population verified in July 2005 elections.

Corrected data on surface of communes, where the calculation base is the real surface according to data from the Institute History and Geography.

Improved population coefficient, based on which the unconditioned transfer is calculated.

Improved coefficient of surface, based on which the unconditioned transfer is calculated for the communes establishing a fairer proportion between the unconditioned transfer divided between communes and municipalities.

The correction of the database has introduced additional adjustments of the coefficients for the fairest distribution of the transfer between local government units, promoting the small and poor municipalities.

Coefficients for municipalities and communes for 2002-2006

	2002	2003	2004	2005	2006
Fixed amount	3.5 %	3.5 %	4 %	0	0
Population	62.5 %	62.5 %	62.5 %	73 %	70 %
Surface of communes	4 %	4 %	9 %	12 %	15 %
Urban services	20.5 %	20.5 %	18 %	15 %	15 %
Urban services Tirana	9.5 %	9.5 %	6.5 %	0	0
Equalization	-	35 %	35 %	35 %	30 %
Further adjustments	Yes	yes	yes	yes	yes

For the first time in the division of the unconditioned transfer, a formula for the distribution of investments has been applied, added to the unconditioned transfer for municipalities and communes.

The application of this formula has the following advantages:

Avoids subjectivity in the distribution of investments, securing a fairer distribution based on the needs.

The only criterion of distribution is “equal funds per capita”.

The formula takes into consideration the application of three criteria respectively: fairness criterion, mountainous local units’ criterion, and units in need criterion.

The “Competitive Grants” scheme is also applied for the first time. These funds are from the state budget. They fund projects that are in sectors of local government, and they are distributed and monitored in collaboration with the local government representatives. They are destined to be used for capital expenditure related to their functions as local government units.

Local taxes and tariffs

The fiscal package was approved in December 2002 comprising: Law No 8978, date 12.12.2002, “On the local tax of small business”, Law No 8979, date 12.12.2002, “On some additions and amendments to the Law No 8438, date 28.12.1998, “On the income tax” with the respective amendments, Law No. 8980, date 12.12.2002, “On some amendments to Law No 8560, date 22.12.1999, “On the tax procedures in the Republic of Albania”, and Law No 8982, date 12.12.2002,

“On the system of local taxes”. The approval of this package allowed the local government to come closer to a substantial fiscal autonomy, creating the necessary spaces to increase the local budget, the flexibility in coordinating the interests of the business community with the local government units, the right to design promoting policies in the respective territories, opening the way to the development of the municipality, commune or even the region itself.

1. Through this package, the municipalities and communes have greater possibilities for:
 - a) Establishing the level of local taxes ($\pm 30\%$ of the indicatory level of the tax),
 - b) Increasing the revenues through the re-introduction of the Agriculture Land tax,
 - c) Improving the definition of the tax base and the independence in establishing the level of taxes for: hotel accommodation, the impact of new constructions on the infrastructure, the sign tax, the tax of using the public spaces, the temporary taxes.
 - d) Transferring the annual vehicle registration tax and the real estate transactions tax from national to municipal/communal taxes.
 - e) Transforming other present taxes in tariffs, for which the municipalities and communes enjoy complete independence in introducing and determining their level.
2. The transformation of the present Small Business Tax into a Local Business tax, in two components:
 - Local Small Business Taxes, whose level can be determined by the municipalities and communes can determine the level ($\pm 30\%$ of the indicatory level of the tax),
 - Simplified Income Tax which, though remaining a national tax, will be distributed to each municipality and commune, based on the records and activity of the small business.

At the same time, this package institutionalized the collaboration and relationship between central and local government, favoring the increase of public funds and reducing fiscal evasion.

1. Small business tax

The small business tax has been applied as a national tax since the beginning of the '90. The small business tax covers the businesses that are not a subject of VAT. The VAT limit has gradually increased following the economic development and the lek's devaluation, starting with 2 million to 5 million, and from 2001, this limit was brought to 8 million lek annual turnover.

The categories of the tax base are especially detailed in activity categories and this detailing was further increased with the changes made in the end of 2001.

The law, which divides the small business tax into two components, the local small business tax and the simplified small business income tax, expresses the following changes:

- a) A more compatible differentiation between different parts of the country, making a division in compliance with the business development.
- b) The local government authority in determining the small business tax level with $\pm 30\%$ of the indicatory level.
- c) The local government units benefit from this tax according to the business location.

- d) Cancellation of municipal/communal turnover taxes for bars, restaurants and coffee shops, which is a double tax for the small businesses.

2. Agricultural land tax

The agricultural land tax was implemented as a national tax from 1994 and was suspended in 1996 with a decree of the then President of the Republic. This tax operated within the limitations of the existing framework, which was not changed since 1994. Some issues regarding the implementation of this tax are:

- ? The tax level was determined in 1994 and is not regulated anymore, keeping in mind that the tax was suspended for many years.
- ? The law determined a single fixed level according to land classification, without any chance to increase or reduce the level of the tax, in order to take into consideration the local conditions and needs.

The approved Law “On the system of local taxes” brought the following changes:

- a) The change in defining the tax base according to districts, dividing them in 4 groups and 10 categories according to the land fertility.
- b) The autonomy of local government units to approve sub-categories, based on the local irrigation typology, market access, etc.
- c) The level of decision-making $\pm 30\%$ of the indicatory level of the tax,
- d) Other administrative rules related to ownership documentation, land parcels on the boundary of communes or municipalities. For the communes where the land is not registered yet, the additional documentation of ownership will temporarily serve as a documentation of land ownership (e.g. Land title, decision of property restitution commissions, privatization documents), till the land registration is completed,
- e) The autonomy of municipalities/communes to determine the tax collection agent and/or to collect the tax themselves,
- f) Possible exclusions for agricultural lands planted with young fruit trees and vineyard (five years), taxpayers classified as poor.

The agricultural land tax is important to the communes, because it established a ground for locally sourced revenues, which serve to improve local public services and the conditions of taxpayers.

Even though in the longterm framework the change of the tax base from hectares into market value can be taken into consideration, this was impossible for a period of time due to the under-developed land market and lack of information.

The reform, while increasing the opportunities for bigger local revenues, also represents a minimal risk reform. It is based on the experience gained by the local government units in the administration of local taxes and is based on an increasingly solid tax base and within a general forecast of economic growth.

Fiscal reform effects

The 2003 local revenues from the unconditioned transfer, local taxes and tariffs, have increased by 1.9 billion lek or 13.5% more, compared to 2002; the 2004 revenues are 2.4 billion lek more than

2003; the 2005 revenues 1.879 billion lek more than 2004. The 2005 revenues, compared to 2004, are 6.3 billion lek higher or 47% more in relative figures.

The positive effects of the reform in the local fiscal area are reflected in the 2003, 2004 and 2005 budgets. Thus, the local revenues for 2003 are 15.1 billion lek compared to 13.3 billion lek in 2002. The revenues for 2004 and 2005 are 100% of the plan. The significant fact is related to the change in the composition of these revenues, where the percentage of income from the State Budget is significantly reduced. Thus, the income from state budget for the local budget in 2002 was 9.5 billion lek or 72%, and in 2003 it was 6.3 billion lek or 41.5 % and in 2004 this income was 6.277 billion lek or 35.6%, and in 2005 was 7.3 billion lek or 37%. The opposite trend affected the local tax revenues which increased from 3.8 billion lek or 28% of the local budget in 2002, to 8.88 billion lek or 58.5% in 2003, to 11.3 billion lek or 64.4% in 2004, and 12.2 billion lek or 63% of the revenues.

This represents an increased autonomy of municipalities and communes to determine their local revenues and their level. It increases the capacity to secure a more efficient collection, increased responsibility and autonomy collecting these revenues based on the local needs and priorities. The bigger autonomy regarding the local revenues supports the process of increasing the accountability of local government units towards their local communities.

Compared to 2004, the wage and social benefits expenditures in 2005 were reduced by 5.5%, the operational costs were reduced by 6.4%, while the investment expenditures increased by 12.5%.

Despite the good fiscal performance during this period, there are still some fiscal shortcomings and weaknesses. A main issue remains the local unit capacities in the collection and management of local taxes.

Beside the achievements and improvements in the collaboration between the local and central tax administrations, there are still existing problems regarding lack of information exchange, excessive bureaucracy, lack of coordination in the fight against fiscal evasion, etc. The level of collection of the tax on the buildings is still low, while the potential exists to collect 2 – 3 times more compared to the present collection level. The agricultural land tax during these years hasn't had the expected achievements. Thus several regions do not enforce this tax causing considerable losses to the budget of communes and several municipalities. In the collection of the hotel tax fiscal evasion and other phenomena have been identified, negatively impacting the revenue collection. The tax of the impact on infrastructure had a very good performance in the beginning, but after that declined. The local government units have not established the necessary links between this tax, the regulatory plans and the development of the construction sector.

The consolidation of decentralization process

the Decentralization has been continuously coordinated by the Inter-ministerial Committee of Decentralization and Local Government, established by a special order, comprising representatives of central institutions, associations and local elected officials, civil society representatives and Prefects and other invited persons, depending on the topic to be discussed.

The Inter-ministerial Committee of Decentralization and Local Government examines proposals for draft laws and draft decisions based on the program of the government for decentralization and Law No 8652, date 31.07.2000, “On the organization and functioning of local government”.

The Group of Experts of Decentralization is a supporting structure of the Inter-ministerial Committee on Decentralization. This group examines draft documents, draft laws and by-laws, in close cooperation with all the stakeholders, in support of the decentralization reform in our country.

Good governance, effective governance, increase of local democracy and civic participation.

The decentralization strategy and the reforms undertaken in its framework, have created the legal opportunities for broad civic participation in decision-making aiming at increasing the quality of services in favor of communities.

The inclusion of municipalities and regions in the area of the Law “On civil service”, has created the opportunity for attracting capacities through competitive procedures, the improvement of service quality as well as motivation among staff. The inclusion of communes in the scope of this law is a priority.

Final conclusion

The decentralization process in general is appreciated as a consensual process, accepted by all actors and assisted and appreciated by the international factor. Based on the volume of transfers of functions and competences from the central to the local government the process has been slow, but the steps taken have been confident and during these years no failure or step back has been seen in the process. The fiscal decentralization during these years has been developed in compliance with the fundamental principles of the strategy, improving and consolidating the schemes of local finances, the increase in local fiscal and financial autonomy.

The first level of local government has been more consolidated in comparison with the second level (region councils) whose role and function is not completed yet.

The Strategy of Decentralization, approved in 1999, generally preserves its values and is an important instrument leading the process. Nevertheless, for due to interconnected problems, this strategy was not taken into consideration by specific sectors.

II. Vision, strategic priorities and goals.

A. The local government vision in Albania is in compliance with the provisions of the Constitution of the Republic of Albania, the principles of the European Charter of Self-government, and the objectives of Stabilization and Association Agreement.

The Constitution has determined the basic structure of local government in Albania. It has established two levels of local government – regions and municipalities/communes, which will be the decentralized and autonomous public authorities, responsible for providing/distributing public services and goods. The system will also include de-concentrated institutions/entities of central government.

The institutional relationship between them will be characterized by collaboration and clear division of works within a coherent legal framework. On the other hand, the responsibilities and authority will be shared between levels, in order to promote the bottom up governance process.

The local self-government will be exercised by:

- i. Commune/Municipality as the basic unit of local self-government. As the first level of local government, the commune/municipality will be the closest administration to the beneficiaries.
- ii. The Region is the higher level of local government. It comprises a number of communes and municipalities.

The first level of local government is more consolidated and with a clearer role and functions compared to region council.

In these circumstances, some of the roles and responsibilities of the region will be:

1. In the area of drafting and implementing regional development programmes.

The social-economical development of the country requires national development strategy, which in order to be realistic should meet in first place the demands of citizens.

In order for the region council to have its defined responsibility in drafting and implementing regional development programmes, the following should be clarified:

- i/ its programme and development competences,
- ii/ its coordinative role in relation with the communes and municipalities, which on their side have obligations regarding the social-economic development of the community as well as keeping an interest their inclusion in regional development programmes,
- iii/ its role in coordinating the regional development programmes with national policies, which are the responsibility of the central government,
- iv/ sustainable financial resources.

In this function we can identify some specific issues.

- a. **The region council needs a well organized and systematic information** in order to fulfill the coordinating mission, in drafting and implementing regional strategies for social-economic development.
- b. **The region council**, in order to be able to draft and implement regional development programmes, **should clearly know which are the responsibilities** it has to undertake that are of interest for the communities in the region and can not be included in the programmes of specific local government units.

The answer to this issue is related to areas of responsibility such as:

- 1)- The development of regional infrastructure, including roads, waterworks, regional power resources, telecommunication, etc.
- 2)- The organization of several services that are evidently useful and more effective when organized at regional level.

3)- The improvement of the water supply and wastewater service often demands solutions with regional and long-term projects.

4)- The provision of regional road service. The local and international experience has shown that, beside the responsibility of municipalities and communes regarding the local roads, or the responsibility of the central government on national roads, there should be a responsible care and competent bodies at regional level that should undertake the harmonization of the regional road service and network with the internal network of local government units and the national network.

5)- The waste collection and treatment remains an issue that often demands solutions at regional level.

6)- In the area of urban planning exist a number of issues for which regional solutions are needed. This demands commitment and responsibility from the region council.

7)- In the organization of regional social, cultural and economic activities. The region council will have the responsibility to develop regional activities. Here we can mention the responsibility of the region council to organize regional fairs and exhibitions, for the development of social-cultural activities such as competitions, festivals, championships, olympics, etc., which have a regional extension and importance and often require coordination of the involved actors.

c. The institutionalization of the relations in drafting and implementing development programmes. We notice that there are present shortcomings, especially regarding the procedures and relations between the first and second levels of local government, as well as between the local and central government, which highlights the need to harmonize and prevent overlapping. Obviously there is a need for defining the way to build the relationship between municipalities and communes with the region council in the stage of drafting development programmes, to determine procedures for examining and submitting programmes approved by respective bodies and agencies, to retrieve reciprocal information during the implementation, etc. In any case, it is necessary that the regional programmes should define regional objectives, after taking into consideration the development programmes of involved municipalities and communes. On the other hand, the regional programmes will serve as an important and irreplaceable background in the national development programmes and vice versa.

2. In the delegation of functions or competencies from central government.

The central government exercises several functions and competencies in different activity areas. There are functions and competencies which, in order to be close to the stakeholders, need further deconcentration and which can be delegated to regions.

3. In support of the exercise of functions and competencies by municipalities and communes.

The region council, built with representatives from all the local government units, can have a significant influence in increasing their role in governance, through the coordination of the works within the region and in relation with other external organizations.

Some of the areas for the coordinative role of region council:

1)- Training of local elected officials and respective administration. Especially the training can be better organized in centers at region levels for issues of regional character, to examine practices

based on national or regional standards , as well as specific issues for which the training can be organized only at region level.

2)- The region council should be able to fulfill the tasks delegated voluntarily by the municipalities and communes in its territory.

Deconcentrated government bodies

The central government can create its deconcentrated bodies at central level. The relationship between the local elected bodies and the deconcentrated bodies of the central government are regulated by law, which should be further improved in the future in compliance with SAA, in order to avoid the risk of controversies/conflicts from the overlapping of responsibilities and authority. The main deconcentrated bodies will be:

The prefect who, as the representative of the central government at regional level, will be responsible to monitor legality of the normative acts issued by the local self-government bodies and will coordinate the policies of the central government at regional level. The role of the prefect in the region will be clearly defined in compliance with the role of the prefect in EU countries.

The local offices of ministries and agencies of the central government will be responsible for the implementation of policies and programmes in one or more districts of each region.

The Prefect is thought to have a greater role in the central institutions at local level, in the appointment and dismissal of their directors as well as the implementation of policies and program of the government at region level.

The prefect and the local government bodies

There is no dependence relationship between the prefect and the local government bodies. Their relations are established based on legal provisions. The prefect verifies the legality of the acts issued by the local government bodies and coordinates, in compliance with the law, the work between the local government units and the state institutions at local or region level.

The prefect monitors the implementation of functions and responsibilities delegated by the central government and the use of funds planned for them, either in the case when they are foreseen by law, or in the case when they are determined in joint agreements, between a central institution and the local government body.

Main functions and responsibilities. Respective autonomy of LG

The basic principles leading the division of responsibilities between the central and local government and between the levels of local government, is “securing the highest level of public service at a government level as close to the public as possible” or the principle of **subsidiarity**. This implies the maximal effectiveness and efficiency in exercising the functions and providing the services and accountability to the public.

Trans-border collaboration

In order to promote the trans-border collaboration the EU and CoE practices should be adopted to our legislation. In this context, these initiatives should be regional, in order to reduce the legislative barriers in trans-border exchanges and cooperations.

Provision of information, guidelines and assistance to local government in order to promote trans-border cooperation. In order to achieve it, conferences and activities on trans-border cooperation and experience exchanges should be organized, as well as participation in bilateral and multilateral activities.

In the framework of Ohrid-Prespa Euro-region, both countries should support this agreement with funds and different reforms that support the economic and social development.

The financial support of the local government units that have joint projects with the local government units of bordering countries is another policy that should be included in policies of bilateral and multilateral relations.

The training of the administration and elected officials of local authorities to strengthen the capacities for trans-border collaboration.

Inter-communal cooperation

the Inter-communal cooperation is a very important issue for the implementation of public service and works projects. This is indispensable in the framework of the objective for a sustainable local development, the increase of efficiency of using the public funds, as well as the concentration of financial resources in big inter-communal and regional projects.

Administrative-territorial reform

The demographic movement after 1990 in search of a better life, as well as the development of the decentralization and other structural reforms have made the population to move from one area to another in search for a better life.

Some of the reasons that make a territorial reform necessary are:

1. **The loss in population numbers in a considerable part of communes during these years.** The change in the population as the result of the migratory movements has caused many educated human resources from these areas, which makes difficult the absorption and utilization of reforms for the improvement of life in these communities.
2. **Low effectiveness in the use of financial resources and high cost of administrative expenditures.** The number of local government units that have a poor financial situation is high and this phenomenon is mainly seen in units with small population and little resources. About **220** communes spend for the administration over **40%** of their budget and **100** of these communes spend **80%** of their budget for administration. In about **110** communes the revenues from local taxes and tariffs fill **0-10%** of their budget and in **71** communes from these the level of tax collection is zero.
3. **The lack of necessary human capacities.** The existence of small local government units due to demographic movements is accompanied by a low education level of its administration. This has caused a reduction in the quality of work of the local administration, in a time when the decentralization process is deepening. About **80** communes, mainly with a population below 5.000 habitants, have more than **70%** of their administration without higher education. This situation has limited the opportunities to select the administration in compliance with the requirements of the job position.

4. Taking into consideration the quick change of the economy with a fall in rural economy and a growth of urban economy, the territorial reform acquires an additional argument.

The reduction of the number of administrative units is a trend in almost all the EU countries and the candidate states.

The positive effects that can be expected from a reform that should be harmonized with the regions and regionalizations, will be:

- The merged local government units will have greater capacities to utilize their resources, and a better provision and distribution of services.
- Increased local budgets and reduced administrative expenses; improved quality of the administration, because there will be more options to select and recruit staff; facilitated capacity strengthening for the efficient exercise of functions and concentration of resources.
- Mitigated polarization of the social and economic development, creating optimal opportunities for development.

Local economic development

This field includes functions related to 1) small and medium business development, 11) agriculture and agro-industry, iii) commerce and exchange, and iv) natural resources, environmental management and protection, etc.

In this field, local government has full authority to establish the local instruments and policies, within the general national and regional policies.

The local government exercises its activity in this field, through:

- i) The regulatory role: establishing rules and standards, monitoring their implementation; issuing licenses and authorizations and if necessary, regulating the utilization of natural resources and the environment.
- ii) Promotion role: undertaking promotion activities through policies and instruments, funding technical assistance, services, exchanges between the community of different businesses, local and regional fairs, the activity of the associations, as well as promoting the participation of the business community in policy-making.
- iii) Development role: investing or supporting investments in infrastructure (e.g. Information network, physical infrastructure, irrigation systems), which support the local development.

The local government units should initiate and support the local and regional sustainable development.

The inter-communal cooperation should be promoted for big inter-communal public projects. This initiative should be promoted and supported through different financial incentives.

Another aspect to be encouraged is the creation of economic regions through the cooperation between regions. This initiative should be supported through big inter-regional projects, through financial incentives and through the support in planning structural funds from the EU financial sector.

The support for the inter-communal and inter-regional cooperation (economic regions), should include the creation of sectoral, national, regional and local development funds and agencies. Also in support of these structures, necessary space should be promoted and supported for the regional and national development banks.

The strengthening of institutional capacities for the management of natural resources and the environmental agencies at central, regional and local level, as well as the support for a coherent legal, political and economic framework for the decentralization and management of communal forests and pastures.

The regionalization can be a powerful and effective instrument for mitigating the polarization between different zones of the country and in this framework it is very important to reduce the development “gaps”.

If carried out and oriented properly, the regionalization can eliminate the concept of size of states that feed the polarization and later bring antagonism and conflicts. In the future, Europe should not be a union of “small” or “big” states, rich or poor, but a union of regions equal in size and interests.

Social development functions

This field includes functions such as education , public health, traditions and culture, social development, minorities, civil society development, human rights, information, etc.

In areas such as traditions and culture, the local government units will have complete promotion responsibility through the support of local initiatives and activities, local cultural groups, etc. The local government units will have administrative, service, investment and regulatory authority, through the respective local public institutions.

In the area of education, health and social assistance, the local government units may play an important role, sharing the responsibilities with the central government, within the national policies defined by law. The local government units can have administrative, service and investment authority, and partially regulatory authority, within well-defined national policies and minimal standards of inputs and outputs. The local government may be given resources to achieve higher standards in the interest of local community.

Social assistance (ndihma ekonomike) and social services

The local government units should identify the families in need based on the assessment of poverty indicators. The data taken into account in calculating the full ndihma ekonomike are linked to the family structure, number of members in working age, under the working age, above working age, pensionists, disable, income from self-employment, employment in the private or public sector, emigration, etc.

The program for the benefits of disabled people is totally financed by the state budget.

The responsibility for planning and funding the benefit scheme for disabled people is double.

The local government units identify the needs of these categories, assist in drafting the documentation and submitting it to the Medical Commissions which are under the Institute of Social

Insurance and State Social Services. Based on the medical decisions by these commissions, the local government units formulate the request for funds and send it for approval to the Ministry of Labor, Social Affairs and Equal Opportunities.

The social care service programme

The decentralization of the social assistance and social services implies the transfer of competences and funds to the local government units. The funding of “ndihma ekonomike: programmes and the benefits for disabled people will continue to be covered totally by the central state budget.

The funding from state budget is implemented according to the needs presented by the local government units, in conformity with criteria and standards that are established at national level, as well as the capacity of state budget. The possibility has been foreseen for the municipalities/communes, with their own funds, to be able to increase the budget for ndihma ekonomike, on top of what they benefit from the central budget.

The process of decentralization and delegation of responsibilities and funds for social care services is foreseen to be implemented through two complementary paths:

Funding the social care services will be the responsibility of the central government, securing the service sustainability. The local government will support the funding needs for social services from the local revenues. The central government will decentralize the social service funds, which will be given to the local government as conditioned funds en block. The respective line ministry will approve the rules, standards, and criteria for their use and will monitor the process, while the local government will administer and be accountable for the implementation of social services.

The financial resources for the social care services provided by the public and private institutions, at region or municipality/commune level, in residential institutions, daily canters, in families or mobile community services, will be the state budget and the local budget. The local government bodies can use their income to fund social services.

The Social Fund is created for the development of new social policies and services. The rules for using the Fund are determined by special acts of the Council of Ministers.

Primary health care and public health protection

The Local Government Bodies can have regulatory, service, administrative, financing and investment authority (their own or delegated), within the policies of the National Strategy for the primary health care and the protection of public health, and in compliance with the EU standards.

The Local Government Bodies, as the public authority closest to the beneficiaries, have the independent authority to undertake initiatives in the interest of the community, if they are not the exclusive responsibility of another public authority at local level (point 1, Article 7, Law No 8652, date 31/07/2000 “On the organization and functioning of Local Government”).

In the Public Health area

The Local Government Bodies have complete responsibility and authority for specific sectors of vital importance for the protection and improvement of the population’s health, such as:

- Supply the population with hygienically clean water,
- Provide for an appropriate environment (waste collection and removal, etc.),
- Removal and treatment of wastewaters,
- Food security for consumer protection,
- Cleaning and greening.

The Local Government Bodies have a supporting role in the process of implementing the national programmes in the public health area (vaccination, the fight for the prevention of HIV/AIDS, the reduction of the use of drugs, alcohol, smoke, etc.). They cooperate with health institutions, the Regional Health Authorities and the Public Health Institute, in supporting these programmes and if necessary, they can commit their material capacities, human and financial resources for implementing parts of the program, in cooperation with the responsible units and institutions. The responsibility and authority will be determined through mutual agreements for each specific programme.

In the primary health care

The municipalities and communes exercise their right of ownership on health centers and clinics, with their buildings transferred from the central government.

The transfer will be carried out in compliance with the legislation in force such as Law No 8743, date 22.02.2001, "On the real estate properties of the state", Law No 8744, date 22.02.2001, "On the transfer of public real estate properties to the local government units", DCM No 500, date 14.08.2001, "On stocktaking of real estate properties of the state and the transfer of properties to the local government units", as well as the guidelines issued by the Ministry of Local Government and Decentralization for the implementation of this process.

The local government units can not change the use of these properties. The transfer of properties is carried out for the buildings constructed by the state budget, local budget or different donors. In this context the local government units will have administrative, service, investment and financial authority.

Pre-university education

Since 2000, a number of strategic documents have addressed the issue of decentralization of all government functions in general and the educational system in particular. Despite the achievements to date, it is necessary to formulate a clearer decentralization platform, accompanied by a concrete action plan.

The goals of decentralization in this area are:

- a. The division of functional responsibilities in the education sector between government levels, and
- b. The identification of the conditions to increase the responsibility on the functions to be decentralized, from the central to local level.

The central institutions (Ministries) will determine principles, regulations and standards. The needs will be identified by the local government bodies (municipalities and communes), will be elaborated at region level, including specifically the municipalities, and will be sent to central Institutions.

The local government bodies at region level and the municipalities are responsible for the use of this budget.

The local government units can finance, from their revenues, the construction or reconstruction of kindergartens and pre-university schools.

The Municipalities and Communes are accountable for the implementation of new construction investments and capital repairs with funds from the state budget, their funds or donors', based on the annual plan and respecting the standards established by the Ministry of Education and Science.

Civil security

This area includes function such as i) public order and ii) civil protection. The local government will share the responsibilities with the central government within the national policies. For this purpose, the local government units can establish their own structures (e.g. communal police, inspectorates, civil security teams, etc.). The local government can issue legal acts and norms, undertake the indispensable measures for their implementation, distribute resources, etc. The clear responsibilities of local government in each sub-field, will be accompanied with full administrative, service, investment and regulatory authority, within the clearly defined national standards, norms and procedures.

Local finances and budgeting

In order to independently regulate and administer the local issues under their jurisdiction, the local government will have the right to collect and spend revenues under its authority and discretion.

The revenues of the local government comprise: i) local revenues and ii) revenues generated from the share of national revenues.

Locally generated revenues

The locally generated revenues are i) local taxes, ii) local tariffs/fees, iii) loans, iv) different donations, and v) other revenues generated by the economic activity and rents.

The local taxes are a very important instrument for the revenues of the local government and at the same time constitute a basic condition for local autonomy.

Local tariffs/fees. The local tariffs are applied for local services provided to their communities.

The central government continuously supports with equipment and different modules and programmes the strengthening of the local capacities for the collection and management of local taxes and tariffs. The representative bodies of the local government and the central government, in compliance with the provisions of legislation, carry out the exchange of fiscal information, in order to reduce fiscal evasion, increase public revenues, increase the efficiency in collecting and managing the public revenues as well as create the possible, non-bureaucratic facilities for the business.

Due to the fact that the Government of Albania has started the process of legalization for illegal constructions, a process that will soon be concluded, and the development of the capital market – mainly real estate, the property tax will be applied on its real value in a middle term period.

In order to increase the autonomy of local revenues, we can consider as important the development of three main action lines:

Promotion of fiscal efficiency and accountability, as a main goal of the strategy of the Government for the decentralization.

Maximizing the collection of local revenues to supply the local authorities with the necessary means to exercise their responsibilities.

Improvement of the impartiality of the fiscal system through the compensation of horizontal inequalities, which are aggravated by the fiscal reform of taxes and service tariffs on a derivative base. The use of fiscal equality mechanisms should be completed, adapted and strengthened respectively in order to be compensated for the limited capacity of the potential revenues of the poorest jurisdictions.

Other revenues. The local government has the right to utilize other sources of revenues such as *economic activity, rent and sale of properties, donations, profit from interests, etc.* These are secondary means, because they are not an essential function of the local government. Except for the donations, which are used in compliance with mutual agreements between the government and the donor, the recommendation for the other types of sources is to be used for infrastructure investments in function of the public services of the local government.

Loans will be a limited instrument in the LG hands for securing revenues. In the conditions of a broad fiscal autonomy and the transfer of an increasing number of competencies to the local government units, in order to guarantee the effective exercise of the mandate by the local elected officials and to guarantee more public services provided by the local government units with a higher quality, the issue of loans for the LG units would significantly strengthen their financial and economic capacities.

The legal framework for central and local governmental loaning should respect the EU standards and be in compliance with the Stabilization and Association Agreement. The laws should respect the integral limits of public debts in the framework of the macro-fiscal indicators.

The public policy of the Republic of Albania is the care for the financial integrity of the Local Government for securing the health, safety and wellbeing of citizens; to pay within the deadline the principal and the interests on the loan, to meet the financial obligations towards the employees and suppliers, and to provide for adequate procedures of accounting, budgeting and tax practices. The failure of the Local Government to meet all the above is decisive and has a negative impact on the health, safety and wellbeing not only of the citizens of the Local Government but also for all the citizens of Albania.

In order to guarantee the market (lender-borrower) and the preservation of macro-fiscal balances and macro-indicators of public debt, the legal framework on loaning should carefully address “The financial problems of the local government and the inability to pay”.

Revenues from national sources

These sources comprise i) shared taxes, ii) unconditioned transfers, and iii) conditioned transfers.

The national shared taxes will include revenues from specific taxes. Shared taxes will be: personal income tax (15% maximum to LG) and the corporate profit tax (5% maximum to LG). These taxes will be collected and distributed by the central authority.

The unconditioned transfers will be:

- i) Transfers for vertical compensation, which are based on the division of responsibilities/functions between central and local authorities and aim at supporting, in general without any specific purpose, the expenditures for the public services and functions of the local government.
- ii) Equalizing grants or the horizontal compensation grants which aim at supporting the LG units that have an objective lack of local revenues and resources.

In a short-term period and with a specific formula, based on essential indicators of the sector, unconditioned or semi-conditioned grants can be used for small and medium investments in the pre-university education, primary health care, water and wastewater sector, etc.

Both types of the transfer will be determined by law on a clear and simple formula, and their goal will be to increase the security of local government revenues. The transfer funds will be freely used by the LG according to their sphere of responsibilities and functions. The remaining funds will be carried forward for the expenditures of the following year.

The Conditioned Transfers will be funded by the central government to achieve the national or regional objectives at local level. The conditioned transfers will have to gradually pass from the strict conditioning and use for small projects to a lighter conditioning and use for broader sectors and areas. The monitoring will focus more on the outputs than inputs. The present conditioned transfers, for specific budget items such as wages, investments, etc., can take the form of conditioned transfers en block (without specified items). The distribution of these transfers should be carried out with a maximum transparency for all the local government units.

Local Budget

The local government budget will be drafted, approved and managed by the local government bodies themselves in the beginning of the fiscal/budgetary year, independently from the state budget. The law will have to determine the rules for the management of the local budget, but without affecting the financial autonomy of the local government. The approval and amendment of the budget will be the task of the executive body of the local government. The authority of the national government will be limited only in the rules of disbursing the conditioned and unconditioned transfers and the rest of the local revenues coming from the division of national taxes. The local budget will have a unique structure determined by law for the whole country. The local budget will be drafted and implemented with zero deficits. The local budget will be executed through the unique treasury system, which will improve the procedures to avoid the possibility of affecting the local autonomy. The criteria and rules of fiscal relations between the central and the local government are determined by specific laws. In

the case of transactions for borrowing or other cases determined by law, the local government units can open a current account in a bank selected according to the conditions of the interest market.

Financial audit

The local government will establish specialized bodies for internal financial audit. The law designates the authority of the elected local council in relation with the executive body regarding the financial audit. In cases when a local government unit (especially communes) will not be able to establish its auditing bodies due to the high costs, they can cooperate for the implementation of the internal audit through the establishment of a joint unit. The internal audit can be ex-post and ex-ante. The members of the local government council will have the right to exercise financial audits on the executive body of the local government through third units or agencies specialized in financial auditing.

The external audit will be exercised by the State Supreme Audit. It can audit the implementation of laws and rules/procedures related to financial administration. In the cases of optional delegated functions, the contracting bodies will decide on the auditor. As regards the external audit, the law will specifically provide for the authority of the auditing agency. The disagreements between the local government and audit agencies will be solved in court.

Accountability

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

Reporting and statistics

The local government bodies are obliged to report the statistical data of local finances, public works and other data, to the central governmental bodies. The central government is obliged to give the necessary information to the local government units for drafting and implementing the budget, etc. The methodology, type of information and period of reporting the information by the central and local government are determined by specific laws. The statistical data should be printed and published periodically and annually according to legal provisions.

The statistical data will be used by the central government for drafting and implementing new policies in the field of public finances and works, to deepen and consolidate the decentralization process, in the interest of drafting new effective policies for local public works, to achieve the transparency for public finances and works, as well as for a better local and central governance.

III. Implementation of Decentralization Strategy

A. Main stages in the decentralization process

Fulfilling the decentralization vision and the goals requires a long-term action, which will combine different components, factors, conditions, and actors. This will allow the achievement of the strategic objectives in a measurable and timely manner.

A *Reform Stages*

A.1 Immediate reforms (till January 2007)

The immediate reform includes several actions and measures, whose implementation is possible in short term. The implementation of these measures would have a visible impact on the local government and, on the other hand, would be a strong positive indicator of the real political will of the government for change.

Some of the main actions will be:

Improvements of the local financial system

The local tax and tariff system has improved significantly transferring to the local government a considerable volume of taxes and increasing the autonomy in collecting, managing and using them. Nevertheless, in the present financial system, keeping in mind the present decentralization stage and the macroeconomic conditions, there is room for some changes, which are risk-free and would improve the financial system of the local government, would give to LG more freedom of action and at the same time would constitute an experience, based on which other bigger changes will be undertaken. These changes are:

- Improvement of local tax and tariff system. The short-term changes will include the division by law of the personal income tax and the corporate profit tax between the central and local government. Merging two components of the small business tax (local tax and simplified profit tax) into a single tax. Also transferring to the local government the full rights to collect and administer the small business tax.
- The improvement of the legal framework on the inter-governmental fiscal relations to guarantee the implementation of the fiscal package for the local government and adopt the system of the unconditioned transfer based on the division of responsibilities. The following steps should be undertaken to achieve this:
- Drafting and implementing the law on local government borrowing. This law aims at introducing the local government into the market of loans and shares. This law also aims at guaranteeing a risk-free market, through the creation of a new quick alert system to identify Local Governments that have financial problems for loan payment.

A.2 First year (till January 2008)

Strengthening the professional status of local government staff

- The amendment of the existing law “On the civil service” to include the administration of communes. At present this law is applicable for the central government administration and the administration of Regional Council and Municipality at the local level.
- Establishment of standards for recruiting, training and promoting local government staff.

Improving the role of the Prefect

- Drafting a new law on the Prefect, in order to establish fairer institutional relations, preserving the local autonomy.
- Improving the role of the Prefect regarding the deconcentrated services and a better coordination of these services at local level.

Package of Laws on the transfer of Public Property

During 2007, the transfer of the properties to the local government should be completed. ...provisions and proposes the procedures for the registration of state properties.

The Law on local public companies

One of the most important short-term actions to be undertaken is to guarantee that the existing state companies, responsible for providing the basic service infrastructure which, according to Law No 9652, date 31.07.2000, belong to the local government, should be transferred to the local government. At present, there is a confusion in this area, with some ministries continuing to exercise effective daily control on such companies. Furthermore, it is not clear for the moment which will be the role of the local government in the privatization of these companies. Lastly, even though everybody agrees that the companies should be under the control of the local government, there is no law describing the type and extension of the local government authority on these companies or the procedures to exercise this authority.

The position to resolve the problems of transferring the Water and Wastewater Utilities to the local government:

- The companies exercising their activity within the jurisdiction of the local government are transferred 10% to the local government.
- The companies exercising their activity in more than one local government unit keep their status quo giving to the local government units a number of shares matching the number of beneficiaries.
- The liquidation of bad debts accumulated by these companies in years should be undertaken by the central government.
- The present subsidies to cover the losses of these companies should be transformed into social policies and schemes for the population groups who can not afford the water supply tariffs.
- The water regulatory entity should draft and approve the methodology to calculate the cost, which will serve as the ground to determine the water tariffs by the local government units.
- In compliance with the above methodology, the local councils should approve the water supply tariffs.
- The difficult situation of some water utilities, as a result of their depreciation, requires a special commitment by the state budget to support the local government units with investment funds.
- Drafting and implementation of a subsidizing policy that would support the citizens or groups in need and not the water utilities.

The economy of scale aims at increasing the efficiency of the use of inputs in the provision of public services and products, but when the balance efficiency/effectiveness in relation to the consumer is broken, its application is limited. Presently, there is a big debate regarding the preservation of the existing companies, their reduction or regionalization. The water and wastewater utilities in Albania are not efficient and have many management problems. In these conditions, it is necessary to study all the alternatives, measuring them with the economy of scale, and bringing this service closer to the consumer, but not allowing the further fragmentation of these companies or the delay of this process.

The wastewater and waste treatment in Albania has the same priority. Based on the European approach, they are part of the complex solution of the water issue. Nevertheless, there is an immediate need for investments to construct wastewater treatment facilities, highlighted by the economic trend towards the development of the industry and tourist sector. This requires an increased cooperation between central and local government, cooperation between communes, better inter-institutional coordination, institutional complementariness, collaboration between the local authorities and the community for the introduction of a new service tariff, as well as a greater interest and attention by the investors and donors to address and find new investment approaches in the sector. We think that the cooperation in the water sector is a priority also for the trans-border cooperation, including the EC projects such as Interreg, and lately, the IPA.

Inventory of other normative acts (Laws and by-laws)

The local government is affected by a big number of laws and by-laws. This legal framework should be analyzed to discover those aspects that can be an obstacle to decentralization and go against the strategy and constitutional principles. These analyses will identify the future interventions. Some decision of the Council of Ministers, which can be quickly amended, will be addressed at this stage.

The legal framework for local finances

This framework will determine:

- The definition of key budget and finance terms;
- The rules / approaches to guarantee openness and transparency of local public finances;
- Definition/list of revenue resources of local government units; details regarding the local taxes / tariffs that will be included, the expression of general principles of local government autonomy in determining the level of local taxes and tariffs, within the minimal-maximal range defined by law.
- The rules for the national shared taxes, including specific taxes that will be shared, the percentage given to the local government, and the procedures for the transfer of funds into the local government accounts;
- Rules for unconditioned transfers, including principles and formula for their calculation and division, procedures for informing the local government on the amount and means of transfers;
- Conditioned transfers, including the principles for their division, use, management and supervision;
- The rules for the local government borrowing;
- The rules for the budget drafting, budget approval, implementation and execution, changes in the budget, audit, and final closure of budget results.

- Obligations in cases of violations public finance discipline;
- Cash operations and relations with the treasury.

The urban planning law

This law will determine the legal sphere of the local government authority and responsibility; the national standards and methodologies of urban planning, in conformity with the trends and needs of urban development, the institutional relations, etc.

A.2 Second year (until January 2009)

This stage will solve several other important issues, which require more time to be formulated and implemented. The elements of this stage try to complete the legal framework that was preliminary developed in the previous stages.

Drafting laws and by-laws for the establishment of public service standards, their uniformity and determination of their minimal level.

- Adopting the standards in public service areas and financial support,
- Piloting new competencies in some LG units,
- Adopting at national level.

Clear division of local and central government responsibilities and competencies in the area of joint roles.

- Drafting and adopting laws and by-laws for the division of responsibilities in the area of:
 - Pre-university education,
 - Primary health care,
 - Social Care.

Strengthening the role of the Regional Council as the second level of the local government

- Drafting and adopting the necessary legislation on:
 - Type of competencies,
 - Election method,
 - Size of the Region,
 - Sustainable and independent resources.

Improvement of the legal framework and strengthening the capacities for internal and external financial audit for the local government.

Assessment of existing legal provisions for financial audit; drafting and approval of new legislation, which will provide for a clear definition of the competencies of the audit structures, detailing the implementation modalities and preventing double/overlapping audit.

Strengthening the capacities and improving the audit structure. Improvement of the relations between internal and external audit.

A.3 First year (until January 2010)

Increasing transparency and accountability

Drafting a specific law on the transparency and accountability of local government bodies (administration/mayor with the local council, and the two institutions with the public)

Statistical system

Drafting a law for the forms and methods for reporting and exchanging information between central and local government.

B. Confronting the main obstacles to the decentralization process

Decentralization is a process that has to confront different types of problems and obstacles and should identify the appropriate policies and instruments to overcome them. The main actions in this direction will focus on the following areas:

B.1 Legislative component

The most important priority is drafting a legislative package that will implement the reforms recommended in this strategy. It is important to understand that the legal framework of the local government system comprises many laws that operate together. This framework should cover the main areas as follows:

- Legal framework for fiscal relations between central and local government,
- Legal framework for local government borrowing,
- Legal framework for clarifying the regional councils' functions,
- Legal framework for determining the legal competencies between central and local government in the sectors of pre-university education, primary health care, and social affairs,
- Legal framework on urban planning,
- Legal framework for establishing the standards of public services provided by the local government units,
- Legal framework for local statistics, and local internal and external audit,
- Legal framework for the operation of local public companies and properties,
- Legislation elaborating the specific authorities of the local government.

These elements are established through several structural laws, which will articulate the basic and sustainable principles, and will elaborate the legislation and regulations that will implement these principles. It is necessary to make sure that all the separate laws are in harmony with each-other and create a coherent and sustainable framework for the local government.

B.2 Further analyses of legal and administrative reforms¹

The Group of Experts for Decentralization can not address in a single document all the issues affecting local government, because of the high number of difficult political and technical issues. Therefore, a number of specialized studies should be carried out in order to continue defining the content of local government reforms. These studies include:

Studies preceding the approval of the Law on local borrowing and local finances

? Study on local government borrowing and finances

It addresses the issues related to national and local costs of public services and works, present stage of decentralization, the need, conditions and criteria for local borrowing. The study will include the fiscal progress during the last years, the advantages and disadvantages of the unconditioned transfer criteria used in the last 4 years, as well as determining the coefficients for dividing the personal income tax and the corporate profit tax between the central and local government.

Survey on the local finances, in compliance with the role and competencies of regional councils, will determine the financial resources (local taxes and tariffs and national transfers).

The study will address and define the institutional fiscal relations between the central and local government.

? Study to monitor the local government performance

The strategy emphasizes the importance of the local government accountability towards the citizens and the community they serve. One way to increase the accountability and improve the local governance is the establishment of a system to measure the performance and outputs at local level.

Performance measuring is an effective mean of communication with the specific beneficiaries of local public services and the community in general. It serves four main goals: a) the improvement of the product quality; b) improvement of the decisions for sharing the resources; c) making them accountable for the processes related to the outcomes; and d) increasing the trust of all people involved in the process. The study will examine how these concepts and techniques can be applied in local government and will propose specific measures for the implementation of such system. The results will be included in the Law on the public service standards and the law for the division of competencies for joint functions. The study will also propose an assistance plane to help the local governments to implement performance measuring in their communities.

Studies preceding the following stage of the reform

¹ This part suggests some activities mentioned as "studies", which implies research, analysis, discussion and drafting of conclusions/manuals/methodologies and draft norms that enable administrative and/or legal action

- ◆ The study on the delegated functions – addressing issues such as the types of delegated functions and their list, formulas and norms, negotiation and decision-making process, optional and mandatory delegated functions (rules and respective procedures).
- ◆ The study on local public services – addressing issues such as: the standards, tariffs (formulas and regulations), subsidies, investment needs, type of technical assistance.
- ◆ Special studies on local police and civil protection – addressing issues related to the responsibility and authority of the respective bodies, typology of organization, institutional relations with the respective bodies of the local government, status of the staff, relations between the local autonomy and national standards, type of technical and financial needs.
- ◆ The study on urban planning – addressing the issues related to the methodology, procedures and regulatory process and the type of technical assistance.

B.3 Financing the decentralization costs

This strategy recommends the establishment of a completely new system of local government finances. This highlights a number of difficult political issues related to the relations between the local finances and the general fiscal and macroeconomic policy. It also raises a number of technical issues related to specific aspects of the new system of local finances. This strategy defines the basic orientation for the fiscal decentralization.

The basic principle that will lead the fiscal decentralization reform is: *“The reform will create a logical, adequate and sustainable system of local revenues, without creating additional costs for national finances and in compliance with the fiscal and macroeconomic policies”*.

The studies for political and technical issues will determine the details and time for reform implementation. The studies will address:

- ? Analysis of the fiscal decentralization policy

The strategy recommends the implementation of a system that foresees/includes equalizing grants and division of revenues to complement the revenues from possible sources of the local government, the local taxes and tariffs. It is very important to examine these measures under the point of view of the general fiscal policy. How can we adjust/change this division of revenues when the economical and fiscal conditions change? This has been a very delicate and risky issue in other East European countries such as the Czech Republic, Hungary, Romania.

- ? Technical analysis of fiscal decentralization

Beside the fiscal and macroeconomic issues, there is a high number of technical issues that should be addressed during the design and consolidation of the new local finance system. This includes issues such as the mechanism, process and formula for equalizing grants, the administration of local taxes and tariffs, the process and structure of the local budget, cash operations and relations with the treasury, the standards and procedures for financial and audit accountability. At this stage of the fiscal decentralization process, the goal of the analysis is to ensure essential inputs for the law on local finances, the law on local borrowing and guarantee functioning from the initial stage after the approval of the law.

- ? Technical assistance and institutional building

When the laws on local finances and local borrowing are approved, the need will arise for assistance in successfully implementing the new local finances' system. This assistance will focus on establishing the system and detailed procedures at local level in the field of financial management in general. The assistance will also focus on the specialized training and building the skills of the staff responsible for local finances. For this purpose, it is necessary to outline the profile of assistance. In fact there will be more than one profile. For example: the need might arise to have an assistance programme only for the local accounts and their audit. These profiles will help GED and the government in negotiating with the donors regarding the support to the implementation of fiscal decentralization reform.

B.4 The transfer of properties to the local government units

In the process of transferring the properties to the local government units and after the process is over, GED, Interministerial Committee for Decentralization and the Ministry of Interior should design an action plan for the administration of the local public properties, the increase of revenues and their usage as loan collaterals.

B.5 The development of local action skills

The decentralization will be supported by a great investment in human capital, related to the local staff, the elected members of local councils, as well as the community groups.

The development of management skills of local government

The study will address the issues of:

- ? The criteria for the creation of the local staff based on the function

The increase of the LG responsibilities and the extension of the functions they will exercise, will require a more qualified and professional staff. Each of the functions or competencies will require a different staff number and quality. Several pilot studies and projects will be carried out to determine these needs accurately.

- ? Potential strategies for the identification, recruitment and legal protection of staff

The need for qualified staff can be resolved keeping in mind that i) LG is autonomous in staff recruitment, ii) the staff should be recruited like civil servants, with contractual agreements as employees of public entities, iii) the transfer of other responsibilities to the local government will change the role and functions of the central government and its deconcentrated bodies, which will release a considerable number of their staff, with experience in the respective areas. This staff can be a potential group to be recruited by LG. The norms and rules of the Law on civil service will apply also to the commune staff.

- ? Financing the costs of the new staff

The increase in LG staff will be funded by different sources: the increase of their revenues (taxes, tariffs, etc.) and the share from national revenues (shared taxes, transfers). It is important to stress that the decentralization will not bring additional costs for the staff (or other expenditures) if we keep in mind the current expenditures of the central and local government. In fact, it is expected that the

decentralization will increase the management efficiency. Nevertheless, there will be many technical and legal aspects that should be addressed and resolved in time in order to make the process run smoothly and with little risks.

? Profile of training assistance

The improvement of local skills will be considered as a very important issue. For this purpose appropriate structures and training opportunities will be offered to the local elected officials and staff, such as experience exchange and technical assistance, etc. one of the objectives is the establishment, strengthening and consolidation of a special center or structure for LG training. It is necessary to carry out a study to assess the training needs and design the training system. This would help to clearly determine the organization of the training unit, staff and necessary funds, identification of organizations that can be involved in developing the training curricula, etc. The study would also give a detailed description of the type of foreign assistance that might be needed to assist the efforts for the implementation of the new training system.

Strengthening the direct participation of local communities in local governance

One of the obstacles to the decentralization is the lack of tradition in this field, which is emphasized by the low level of the sensitivity of local communities towards the local government bodies and the continuous rely on the central government. The increase of the sensitivity of the local communities and their direct participation in local governance will be an important objective. The aim will be to promote the role of NGOs through activities, local media, publications, public debate, establishment of consulting bodies near the LG authorities, logistical support to the local government councils, increased participation of the communities in the decision-making, increased transparency for the public expenditures, the use of referendums, etc.

The first action in this direction can be the involvement of national and local NGOs in the process of reviewing and later disseminating the strategy, and all the legal framework on decentralization and increase of local autonomy.

C. Monitoring the decentralization process

The continuation and deepening of the decentralization reform will be a measurable process. In this framework, the aim is to develop an independent and measurable evaluation of the concrete results achieved through the decentralization strategy. This would be used to evaluate the effectiveness of the process, to modify the Strategy according to the needs and to inform the leaders and the public about the achieved results.

C.1 Components

The main components of measurement will be:

- ? compliance with the principles of the European Charter of Self Governance,
- ? compliance with the objectives of the Government of Albania for SAA.

These components will monitor the compliance of the local government system with the principles of ECSG and the SAA objectives of Albania. This can be summarized in a simple table showing the

level of compliance with each of the Charter and SAA principles. Due to the fact that EU and CoE are active partners in the decentralization process in Albania, they can undertake the responsibility for the annual verification of the concrete results.

? Benchmarks that show the progress in key reforms

This component will comprise the establishment of several benchmarks related to the reforms, in order to see what was achieved through the new legislation. For example, one benchmark might mark the time when the local governments receive full authority on the local services to be transferred (water, local infrastructure, etc.), or the urban planning, or the time when the new scheme for local financing and local borrowings. In this case, it is important to carefully define the precise meaning of each benchmark. This monitoring can be carried out by GED, maybe with an external independent evaluation for two-three years during the reform implementation process.

? Quantitative measurement of fiscal decentralization

This component would monitor the fiscal decentralization process, using indicators that represent the expenditures and the revenues of the local finances. For example, one indicator can be the local expenditure as a percentage of GDP or the general expenditures of the Government. The revenues might include another indicator for their "own" local revenues as a percentage of the total local revenues. Their "own" revenue can be determined in two ways. One way is to sum up all the revenues entering directly the local government, including local taxes and tariffs, as well as shared taxes.

Qualitative measurement of the citizen perceptions about the local government

this component is maybe the most significant among the components of the process monitoring, but also the most difficult to be implemented. The ideal solution would be to involve several groups with national representation. It is very important to carry out as soon as possible the first survey/poll in order to determine the baseline. After that, this can be periodically repeated, maybe every second year. A more frequent measurement raises no interest, because the citizen perceptions change more or less slowly. The issue is the cost, logistics and orientation of the survey so that it will be as representative as possible and present statistical value. A separate issue is who will undertake the responsibility for this component of the system monitoring.

Plan of Action for Decentralization

Main Reform Tasks	Supportive Tasks	Deadline ²	Notes
I. Immediate Reforms		January 2007	
Immediate changes in local finances	Division of the personal income tax and the corporate profit tax between the central and local government. Join two components of small business tax (local taxes and simplified profit tax) in one single tax. Also, transfer to local government the full rights to collect and administer the small business tax.		
Local loaning	Law on loaning by local government		
II. First Year		January 2008	
Legal package(s) on Public Property (regulatory framework and their transfer)	Law on Local Public Enterprises. Inventory of normative acts		
Improvement of the Prefect's role	Law (amendment) on Prefect		
Laws on Local Finances	Manual/survey of fiscal decentralization, formula of distribution of unconditional transfer and separated taxes		
Urban planning	Law on urban planning		
III. Second year		January 2009	
Standards for public services, uniformity and determining their minimal level.	Design of laws and by-laws for the establishment of public service standards, their uniformity and minimal level. Adoption of these standards in public service areas and financial support. Piloting new competences in some local government units. Adoption at national level.		
Clear separation of responsibilities and competences between local and central government in the area of joint competencies.	Drafting and adopting laws and by-laws for separating the responsibilities in the area of: <ul style="list-style-type: none"> ➤ Preuniversity education, ➤ Primary health care, ➤ Social Care. 		
Strengthen the role of Region Council as the second level of local government	Drafting and adopting the necessary legislation on: <ul style="list-style-type: none"> • Type of competencies, • Election method, • Size of Region, • Sustainable and independent resources. 		
Improvement of legislative framework and strengthening the capacities for internal and external financial audit for local government.	Assessment of existing legal provisions on financial audit; design and approval of new legislation, which will provide for a clear designation of competencies of audit structures, detailing implementation modalities and avoiding overlapping controls.		

² The specific deadlines will be determined based on the resources and other conditions but without changing the deadlines of stages. They are subject of future discussions and planning.

Strengthening Local Capacities and Training	Manual/assessment survey on the type of training needed.		
Other packages Manuals and surveys	Manual/survey of the formula of distribution of unconditional transfer and separated taxes, Manual/survey on local public services, Manual/special surveys on local police and civil protection, Manual/survey on the role of region councils, regions and regionalization in the economical concept, Manual/audit and statistics on local indicators, Manual/survey on the methodology for assessing the decentralization process.		
III. Third year		January 2010	
Increase transparency and accountability	Draft a special law on transparency and accountability of the local government bodies between institutions (administration-mayor with municipal council and these institutions with the public).		
Statistical system	Draft a law on forms and ways of reporting and exchanging information between central and local government.		
Law on delegated competencies			
IV. Continuation of decentralization		Beyond 2010	
Assessment of decentralization	Complete assessment of decentralization, successes, challenges and failures		
Further laws and actions connected to decentralization	Further surveys and actions that will be identified according to needs and trends of decentralization		

