

# Territorial reform in Albania

Study for the Albanian Association of Communes

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The views expressed in this report are those of the authors, not necessarily of SIDA, SKL International or AAC. All errors of fact or interpretation remain ours alone.

# Team

The territorial reform team was composed of:

Lars Eric Ericsson, Senior Adviser at SKL International and formerly State Secretary at the Ministry of Local Government, Mayor of Uppsala City and President of the Swedish Association of Local Authorities. Lars Eric has also served as President of the International Union of Local Authorities (IULA) and for ten years as a County Governor.

Karin Rudebeck, founder of consultancy firm Global Local Governance and former State Secretary at the Ministry of Finance. Karin has also worked as head of the finance department at the Swedish Association of Local Authorities and as a finance and planning officer at a Swedish municipality. She has long experience of international projects, including in Albania and as Head of the Department for Local Administration under the UN in Kosovo.

Björn Sundström, Senior Economic Advisor at the Swedish Association of Local Authorities and Regions. Björn has long experience from international engagements as well as at national (Ministry of Finance) and local level. He has served as lead secretary for a parliamentary committee on the Swedish financial equalisation system and has managed most of the major boundary changes in Sweden since 1977.

David Young, founder of On Record, a Stockholm-based consultancy providing research and reporting for government and business, and a former EU Commission official with a background in economic and financial affairs and the cabinet of the Commissioner for regional policy. David has worked on several recent projects relating to local governance in South East Europe.

# Summary and conclusions

## The case for reform

Albania is widely perceived – by senior government and opposition politicians, by international observers and even by local mayors and officials – as having too many local authorities. In particular, relatively small communes and municipalities find it difficult, if not impossible, to fulfil their responsibilities according to the local government law (which include water supply, sewage, public transport, waste management and spatial planning to name but a few).

Among the concrete advantages for larger local units would be:

- technical efficiency in service delivery (e.g. waste management)
- ability to dedicate skilled members of staff to specific services instead of relying on general administrators
- more effective collection of taxes and fees thanks to greater administrative efficiency
- greater ability to promote local economic development (e.g. through marketing of tourism or agricultural products)
- avoidance of ‘beggar-thy-neighbour’ policies (e.g. when a commune permits intensive property development without taking into account the need to maintain greenbelt space in the wider area)
- capacity to take part in international cooperation projects and to attract external finance (including from international donors)
- increased bargaining power vis-à-vis central government
- greater scope for inter-municipal cooperation (since there are fewer parties among which to reach agreement).

Against these benefits must be weighed the costs of moving local democratic representation and public administration slightly further away from the people. Safeguards to ensure continued access to local politicians and officials would be an essential part of any territorial reform. On the other hand, local governments will acquire greater democratic legitimacy by virtue of being better able to perform their intended functions, and citizens are likely to become better informed and more engaged as a result.

Furthermore, the balance of costs and benefits has shifted since the latest major reorganisation of local units in 1992, on account of massive internal migration, technological progress and the growing expectations of citizens for public services. Meanwhile, many other European countries have undertaken or at least attempted territorial restructuring to address municipal fragmentation.

Albania’s progress towards EU candidacy further raises the stakes. The country faces a choice: either empower local governments to meet challenging requirements in areas ranging from wastewater treatment to public procurement, or find other ways to meet these requirements.

What does seem clear is that the status quo is not compatible with Albania's ambitions for decentralised government, and is likely sooner or later to prove problematic in the context of EU accession. Enlarging local authorities would be one way to address the issue, and the situation in several other countries suggests that this is a perfectly feasible option (even if the process of getting there is not always straightforward).

There are alternatives. The EU will not (indeed may not) force Albania to change its system of local government. Other countries such as the Czech Republic and France manage with smaller local authorities, relying instead on extensive intermunicipal cooperation. But this has not flourished spontaneously in Albania and might well require large financial incentives. In any event, it is a complex solution, not far removed from transferring powers to intermediate (and often less democratically accountable) levels of government.

In the absence of reform, the likely consequence is that powers will be transferred (in law as well as in fact) from communes and municipalities back to central ministries or perhaps to strengthened regional governments. Needless to say this would be undesirable for local authorities themselves and scarcely in conformity with the current local government law. Our view is that citizens will be better served by a system of strong first-tier local authorities.

## Recommendations

If the aim of territorial reform is a meaningful improvement in the capacity of local government, then a relatively ambitious approach is called for. Our recommendation is that communes and municipalities should be restructured within the current regional boundaries. A target of between five and eight local authorities per region (*qark*) would in our view constitute a bold step towards the administrative and political decentralisation that will be needed.

This implies a figure of approximately 80 local units for the country as a whole, which is based on our judgement of what would be needed for local governments to be able to take on their responsibilities according to the Albanian law, on a comparison with Albania's neighbours and reforms elsewhere in Europe, and on our impression of what might be politically feasible in Albania. But the overall character of such a reform is fundamentally a political decision, and it is better in our view to be up-front about this while allowing genuine scope for flexibility in accordance with local conditions and preferences, rather than attempting to justify proposals by reference to top-down 'objective' criteria (such as thresholds for population or local resources).

The report outlines a roadmap for reform that we believe would be politically feasible while respecting commitments to local democracy. Parliament would adopt central guidelines setting out the overall desired outcome (for instance, the total number of local units in the country) and factors to be taken into account. But proposals for changes to the administrative map in each region would come from the Regional Council (that is, communal and municipal representatives) in cooperation with the Prefect and with appropriate technical assistance. Local citizens would be informed and consulted throughout the process.

Each Regional Council would be asked to draw up a comprehensive proposal, dividing the region into blocks representing the new local authorities and composed of several (four to five on average) existing units. Communes and municipalities would not be forced to merge along these lines, at least not during the first voluntary stage. On the other hand, nor would others in

the same block be prevented from proceeding if they so wished. An ‘amalgamation body’ consisting of communes and municipalities in each block would be established in order to make the necessary technical preparations and channel technical and financial assistance.

The government would need to provide considerable financial incentives to encourage voluntary participation (for example, targeting conditional transfers and competitive grants towards merged entities). The aim would be for a substantial number of voluntary mergers to be agreed in time for the 2015 local elections. Those not wishing to participate would then have until the next local elections (due in 2019) to consider their position. Parliament could decide whether to make a second stage voluntary or compulsory, although a commitment to a comprehensive reform by 2019 might well make the first stage more effective.

Among the advantages of this approach:

- it combines top-down effectiveness (clear guidelines, incentives and the prospect of later mandatory reforms) with bottom-up sensitivity to local interests
- reform proposals would begin with an appreciation of local conditions and preferences, with scope for flexible solutions rather than an exclusive prior focus on certain types of unit (e.g. the smallest communes)
- the reform would be anchored democratically (through the regional councils and local consultations) but without being held hostage to the interests of individual local politicians or officials.

Among the potential pitfalls are that deliberations in Regional Councils might become politically polarised. However, this may also be seen as an advantage, since postponing some of the inevitable party-political calculations until the regional stage may in fact lower the obstacles to reaching consensus at the national level, without which the reform process cannot begin. (The Albanian constitution requires a vote of three-fifths of all Members of Parliament to pass the final stage of the reform, i.e. the amendment of the administrative-territorial division.)

It must be emphasised that the timetable is tight. Supposing a window of opportunity were to open after parliamentary elections in June 2013 (provided that these proceed smoothly); the first stage would then have to be implemented in a little under two years, in time for the local elections due in May 2015. If Albania waits until the next local elections due in 2019, it may already be too late in some respects (for instance, EU accession negotiations are likely to be well under way by then, and national authorities will be under pressure to fill any gaps revealed in administrative capacity).

We also wish to stress that territorial reform alone is not a sufficient condition for effective decentralisation. In particular, further reforms to ensure the adequacy, transparency, predictability and fairness of local finances will be necessary. Territorial reform will help in as much as it should lead to a small increase (on average) in local revenues and cost efficiency, but these effects are in our estimation an order of magnitude or more below what is required. More importantly, perhaps, territorial consolidation will lower one important obstacle to greater financial decentralisation, namely the perception that higher transfers would be wasted on small and inefficient local government units.

The table below gives a broad assessment of the impact of the recommended reform (once fully implemented, i.e. by 2019 or later). We are aware of course that this is an ambitious proposal that can be expected to generate opposition in some quarters. For such a reform to

succeed, political leadership at the national level and the role of local government associations in focusing public debate on the real issues for the system of decentralised government as a whole will be crucial, which is why it seems particularly appropriate to us that AAC is the originator of the present study.

### *Preliminary assessment of the impact of the recommended reform*

<b>Area of impact</b>	<b>Expected impact</b>
Number of local authorities	From 65 municipalities and 308 communes today to 80 new local authorities
Average population	Rises from 7,592 to 35,397*
Average surface area	Rises from 77 km <sup>2</sup> to 359 km <sup>2</sup>
Revenue	Marginal increase (< 5%) in per capita revenue thanks to improved collection of taxes and fees.† More significant potential increase from donor funding if local authorities are seen as capable of managing larger projects, though this depends on local leadership as well as size.
Expenditure	Overall increase in line with revenue as local authorities are able to fulfil more of their responsibilities. For small communes, a shift of resources and personnel (max. 15–20%) from administration to service delivery. A similar reduction in unit costs for services might be expected on average, thanks to scale economies. Significant improvements expected in the quality of service delivery through dedicated and specialised personnel.
Number of representatives	The number of mayors falls from 373 to 80. The number of councillors will depend on the precise configuration of the reform, but is likely to fall by more than half, assuming no change to Art. 24 of the local government law.‡
Intermunicipal cooperation	Greatly facilitated: a regional landfill project, for example, would require the signature of 5–8 mayors instead of 30.
Administrative decentralisation	Positive: all local governments operating on a scale that should enable more efficient direct delivery of some services while facilitating cooperation on larger projects. Safeguards needed to ensure citizens' access to decision-makers and services in remote areas.
Political decentralisation	Highly positive: key political obstacle to <i>de facto</i> decentralisation (small and inefficient local units) removed; local government acquires a stronger and more unified voice vis-à-vis central government (in part through the removal of the distinction between communes and municipalities).
Financial decentralisation	Weakly positive: an increase in real local resources (revenue plus increased efficiency) in the order of 5–10%; but revenue increases of 100% or more will be needed to enable local authorities to fulfil their responsibilities according to the local government law.

*Notes:* \* Based on the 2011 preliminary census results. † Assuming other things equal as regards intergovernmental transfers. The limited increase in own revenues partly reflects the recent decision to shift collection of key local taxes to the central level. ‡ See the note to Table 1 for the current provisions, which allocate a higher number of councillors per capita to smaller communes.



# 1. Introduction

This report is the result of a request by the Albanian Association of Communes (AAC) for a study on territorial reform in Albania as part of the ‘Development of Albanian Association of Communes (DAAC) Phase-Out’ project. The project is supported by the Swedish International Development Cooperation Agency (SIDA) and managed by SKL International, a consultancy affiliated to the Swedish Association of Local Authorities and Regions.

The aim of the study was to develop proposals for communal boundary reform to be considered by AAC and other Albanian stakeholders, including recommendations on how to navigate the reform process. Naturally, detailed proposals for redrawing the administrative map must – for reasons of democratic legitimacy and political feasibility as well as familiarity with local conditions – come from within the country itself. What this report seeks to contribute is:

- an assessment of the case for reform in view of Albania’s ambitions for decentralised government, its European commitments and recent reform efforts in other countries, and considering factors such as efficiency in public administration and service delivery, human resource needs, local finance and the quality of local democracy
- a discussion of various proposals for reform that have been put forward in the national debate, as well as criteria that national, regional and local authorities might employ to identify scope for territorial restructuring
- concrete recommendations, including a roadmap for the reform process and ideas on how to overcome political resistance while respecting commitments to local democracy, drawing on examples from other countries and first-hand experience of similar reforms in Sweden.

Besides a review of earlier studies, relevant legislation and other documents, the background work for this study consisted of three visits to Albania in May, October and November 2012 during which we met and interviewed a large number of representatives of the local, regional and national authorities, senior politicians from different parties, academic and other experts, donors and other international organisations (see the acknowledgements above). In November AAC hosted a workshop in Tirana at which local representatives and other stakeholders openly discussed a number of concrete options for reform.<sup>1</sup> This workshop should also be seen as part of the output of the study. The feedback received there has been extremely helpful to us in finalising our recommendations.

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<sup>1</sup> A summary of these options as presented at the workshop is provided in Appendix 3.

## A note on terminology

We will refer to 'communes' and 'municipalities' as the most commonly used terms for the 308 *komuna* and 65 *bashkia* in Albania. Generally speaking, municipalities tend to be urban and more populous, communes rural and more sparsely populated. However, the distinction has become blurred in recent years with economic and demographic change (some communes on the outskirts of major cities are clearly large and urban, while some municipalities that were once industrial strongholds now have relatively few inhabitants), and legally there is no longer any difference between the two. We will use 'local authorities' to refer to communes and/or municipalities together. Unless otherwise specified, we will use 'regions' to refer to the 12 *qarku* (sometimes also known as counties, and sharing the same boundaries as the 12 prefectures) and 'districts' to refer to the 36 *rrethe*.

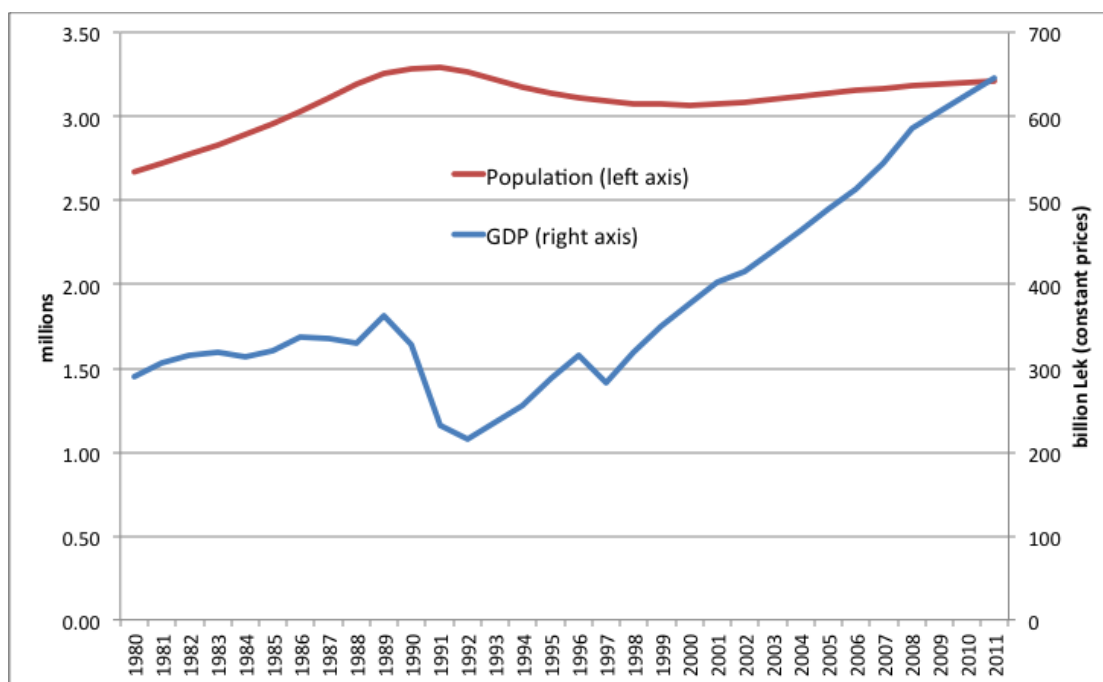
See Appendix 2 for an administrative map of Albania showing the current divisions.

## 2. The present situation

### 2.1 Economic geography of Albania

According to the official statistics, Albania's economic performance has been among the most dynamic in Europe in recent years. Figure 1 shows real GDP growth averaging 5 per cent since 2001 and remaining in positive territory despite the financial crisis and stagnation in neighbouring countries (although how long this can be sustained given recent developments in Greece and Italy is another matter).

*Figure 1: Real GDP and population, 1980–2011*

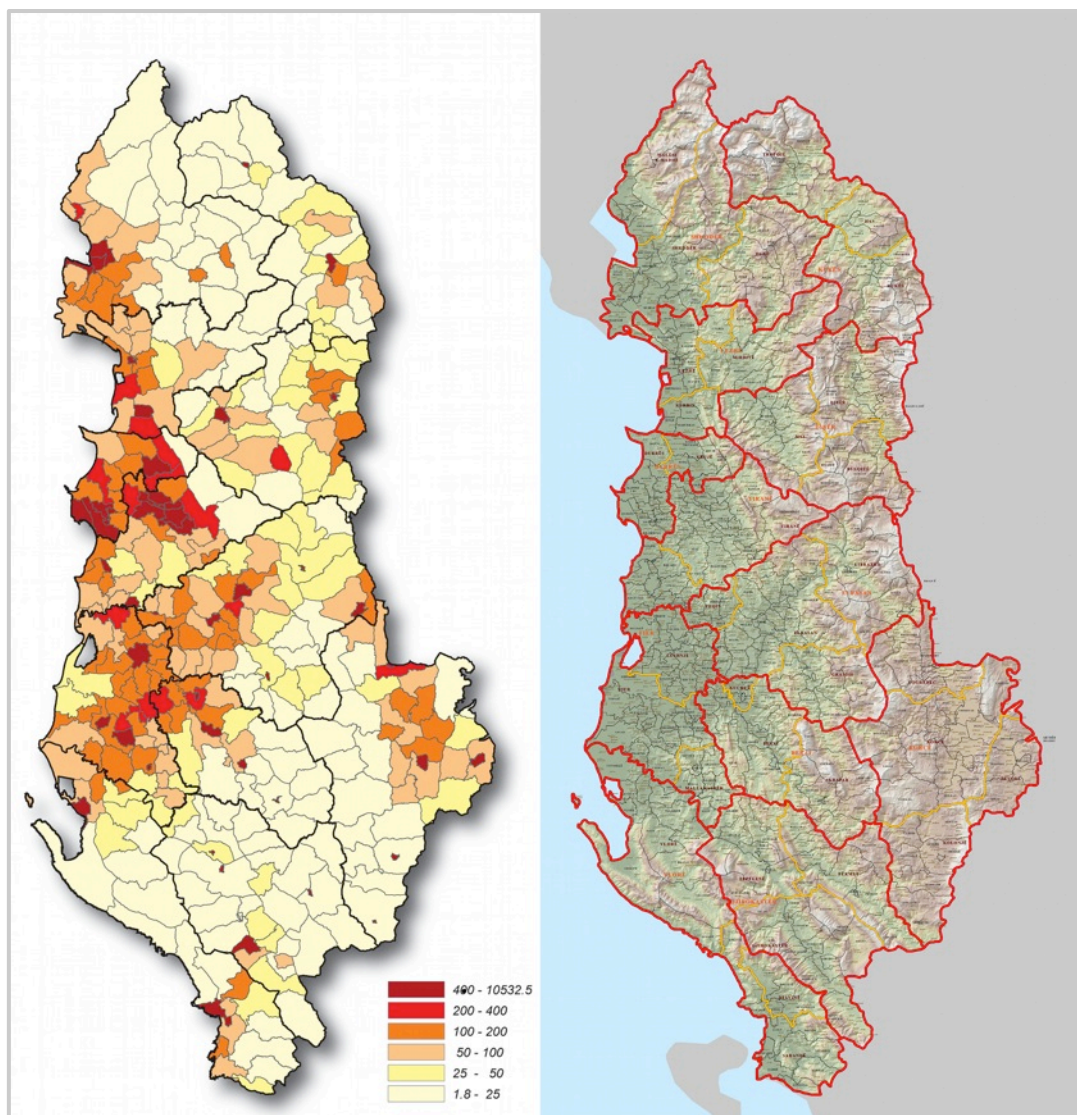


Source: World Bank

Moreover, while Figure 1 shows a rise in population from 3,069,275 in 2001 to a little over 3.2 million in 2011 (according to official projections), preliminary results from the 2011 census suggest that the population has in fact fallen by 7.7 per cent over the past decade, to 2,831,741 (INSTAT 2011). This makes the rapid GDP growth all the more remarkable, implying that GDP per capita has risen by some 65 per cent between 2001 and 2011.

The preliminary census results have generated debate over the methodology used.<sup>2</sup> But to the extent that the 2011 preliminary results are accurate, the fall in population may be explained by continued net emigration abroad. In any event, there is no doubt that migration trends within Albania have continued, with (broadly speaking) substantial numbers moving from remote, mountainous areas in the north-east and south-east to urban and coastal areas in the west, especially Tirana and Durres.

**Figure 2: Population density (left panel) and elevation (right panel)**



Notes: Population density in persons per km<sup>2</sup>. The average for the country as a whole is 98.5.

Source: INSTAT (left panel reproduced by kind permission from the 2011 preliminary census results); see Appendix 2 for a larger version of the right panel.

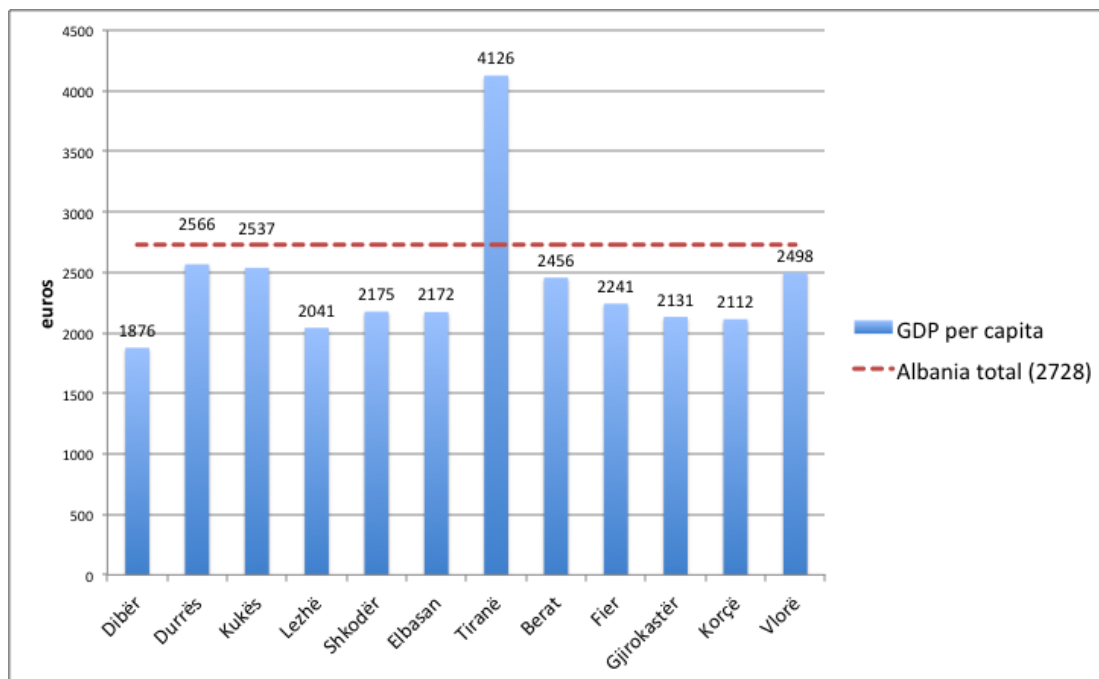
Figure 2 above provides a broad-brush illustration of the relationship between population density and topography. According to the preliminary 2011 census results 53.7 per cent of the

<sup>2</sup> Another issue is the difference between the census results and population according to the civil registry, which is used for calculating financial transfers to communes and municipalities (see section 2.3 below on local finance). Figures from the preliminary census results should be compared with the official results, which are expected in mid-December 2012.

population now lives in urban areas, compared with 42.2 per cent in 2001. The share living in the Tirana region has risen from 19.5 per cent in 2001 to 27.0 per cent in 2011, which appears high even by South-East European standards (see NALAS 2012, p. 15).

Figure 3 shows regional GDP per capita from the recently published regional accounts. This varies between 19.0 per cent of the EU average (in purchasing power terms) to 41.8 per cent for Tirana, with an average of 27.6 per cent for the country as a whole. Apart from Tirana, disparities between the other regions are not particularly striking. However, these figures conceal large variations within regions. UNDP (2005), for instance, estimates that the 11.8 per cent of the population living in mountain areas accounts for a mere 1.1 per cent of GDP (i.e. GDP per capita in these areas is below 10 per cent of the national average).

**Figure 3: Regional GDP per capita, 2009**



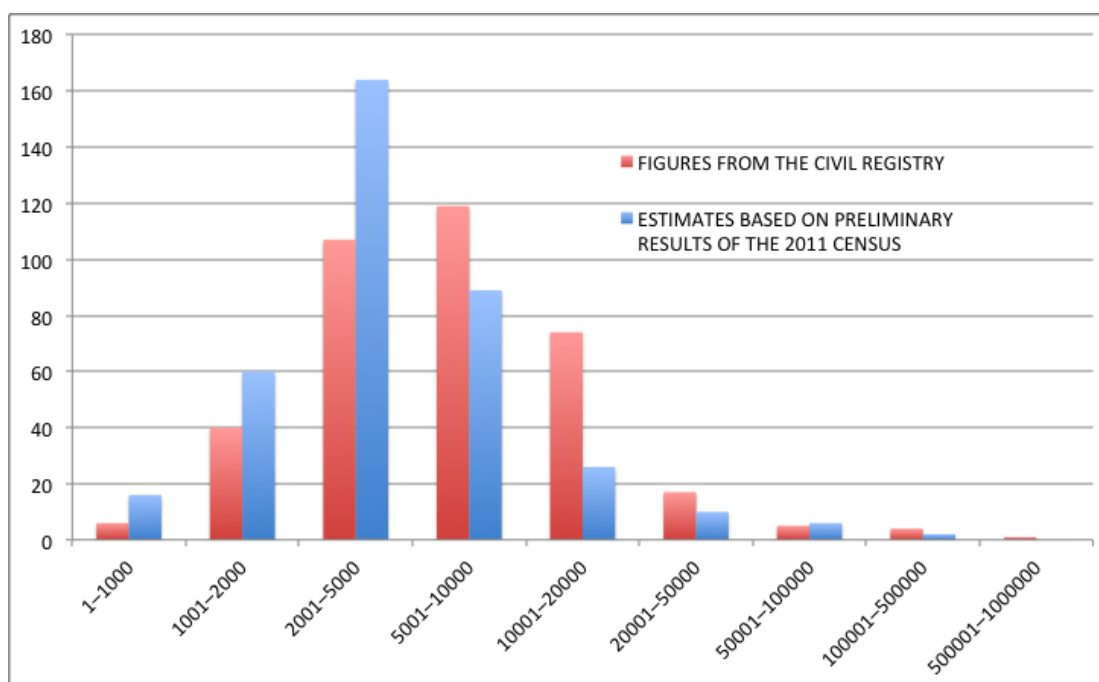
Source: INSTAT Regional Accounts for Albania

Figure 4 shows the distribution of communes and municipalities by population, according to data from the civil registry and estimates from the preliminary 2011 census results. The total population from the civil registry (4.27 million) is considerably higher than the resident population (2.83 million according to the preliminary results) since many emigrants are included. In addition, since internal migrants do not always register immediately in their new place of residence, the percentage of the population living in areas of declining population is likely to be overstated in the civil registry. Nevertheless, the civil registry figures are relevant since these are the ones used by the Ministry of Finance to determine unconditional transfers to local governments (see section 2.3 below).

Estimates from the preliminary census results (see the note below Figure 4 for details) suggest that the share of local authorities with a population of 5,000 or less is now well above 50 per

cent.<sup>3</sup> These results are indicative only and should be checked against the full results of the 2011 census, which are expected in December 2012. Nevertheless, they illustrate the implications of demographic change for the debate on territorial reform in Albania. To take another commonly mentioned threshold figure, the number of units with a population of 3,000 or less is estimated to have increased from 91 in 2001 (24%) to around 135 in 2011 (36%).

**Figure 4: Distribution of local authorities by population, 2011**



*Note:* The preliminary results for the 2011 census give figures for 44 municipalities and communes with more than 10,000 inhabitants as well as for the total population. These figures imply a 24% fall in population in the remaining 329 units since 2001. The estimates here assume for simplicity that this fall is evenly distributed (i.e. the same percentage change in each unit). In reality, since the population of smaller units around Tirana and Durres is known to have increased, this is likely to yield a conservative estimate of the number of small units elsewhere.

*Source:* Ministry of Finance (for the civil registry figures), 2001 census, 2011 census preliminary results and own calculations

Table A1 in Appendix 2 gives population by region and district according to the latest official INSTAT figures (for 2010, based on projections from the 2001 census together with data on births, deaths, etc.) and by region according to the preliminary 2011 census results.

<sup>3</sup> The proportion is 64 per cent in Figure 4, compared with 48 per cent according to the 2001 census results. See USAID (2012) for a comparison with the latest available official population projections based on the 2001 census, according to which the share of local authorities with 5,000 or fewer inhabitants is 52 per cent.

## 2.2 Historical background and recent moves towards territorial reform

While Albania does not have a long tradition of democratic local government, the current territorial-administrative division does have historical roots. Between 1920 and 1938 during the periods of parliamentary republic and constitutional monarchy, although mayors and commune chairmen were appointed by royal decree, the division into prefectures, districts, municipalities and communes grew to resemble today's arrangements.<sup>4</sup>

Politically autonomous local authorities with elected mayors and council members were created with the reforms of 1992. These gave the 313 communes and 65 municipalities greater powers (though without commensurate administrative and fiscal autonomy), while 36 district councils played a coordinating role (Hoxha 2002, p. 6).

The current division dates from the reforms of 2000,<sup>5</sup> which established 374 local authorities<sup>6</sup> and gave them extensive responsibilities (as detailed in Box 1 below). The reforms also created 12 regions (with the same boundaries as prefectures) as the second tier of decentralised government. Regional councils are elected indirectly by and from among members of local councils. District councils were abolished, although the 36 districts remain as sub-divisions of regions and administrative units for certain ministries.

Administrative-territorial reorganisation is provided for explicitly in the law on the organisation and functioning of local government. However, by Albania's constitution (Art 81), changes to the law on administrative divisions of the Republic must be approved by three-fifths of all members of parliament. Thus even voluntary mergers involve an onerous procedure of preparation and consultation. Since 2000 there has only been one such merger, between Bushat and Barbullush communes in 2003, and the circumstances for this were exceptionally favourable (the two having been a single unit in the past).

In 2004 a draft law on the reorganisation of the administrative-territorial division was prepared with the assistance of the Council of Europe, following a 2003 working paper based on expert contributions (Council of Europe Secretariat 2003). The experts proposed to identify 'unviable' units on the basis of objective criteria:

- population below 3,000 inhabitants
- costs of local administration 40 per cent of total current expenditure or 40 per cent above the average cost of local administration for 2003
- capital expenditure below 4 per cent of total expenditure.

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<sup>4</sup> In 1940, for example, there were 10 prefectures, 30 sub-prefectures (cf. districts), 23 municipalities, 136 communes and 2,551 villages (Dedja and Brahimi 2006, p. 11).

<sup>5</sup> Law 8652 'On the organization and functioning of Local Government', Law 8653 'On the administrative-territorial division of local government units of the Republic of Albania' and Law 8654 'On the organization and functioning of the municipality of Tirana', all dated 31 July 2000.

<sup>6</sup> Following the merger of Bushat and Barbullush communes in 2003, there are now 373 (65 municipalities and 308 communes).

**Box 1: Local responsibilities according to the 2000 Law**

According to Law No. 8652 (31 July 2000) on organization and functioning of local governments, communes and municipalities 'shall assume responsibilities for the following exclusive functions':

**Infrastructure and public services**

- Water supply
- Sewage and drainage system and [flood] protection canals in the residential areas
- Construction, rehabilitation and maintenance of local roads, sidewalks and squares
- Public lighting
- Public transport
- Cemeteries and funeral services
- City/village decoration
- Parks and public spaces
- Waste management
- Urban planning, land management and housing according to the manner described in the law

**Social cultural and recreational functions**

- Saving and promoting the local cultural and historic values, organization of activities and management of relevant institutions
- Organization of recreational activities and management of relevant institutions
- Social services including orphanages, day care, elderly homes, etc.

**Local Economic development**

- The preparation of programs for local economic development
- The setting [regulation] and functioning of public market places and trade network
- Small business development as well as the carrying out of promotional activities, as fairs and advertisement in public places
- Performance of services in support of the local economic development, as information, necessary structures and infrastructure
- Veterinary service
- The protection and development of local forests, pastures and natural resources of local character

**Civil Security**

- The protection of public order to prevent administrative violations and enforce the implementation of commune or municipality acts
- Civil security

Communes and municipalities may also undertake any of the following **shared functions**, either separately or jointly with the central government:

- Pre school and pre university education
- Priority health service and protection of public health
- Social assistance and poverty alleviation and ensuring of the functioning of relevant institutions
- Public order and civil protection
- Environmental protection
- Other shared functions as described by law.

In addition, central government may delegate functions to communes and municipalities. Delegated functions may be mandatory (by law) or optional (by agreement between central government and the local authorities concerned).



Subject to a number of other criteria and exceptions, small communes would be merged, first in a voluntary phase but ultimately, by the time of the 2006 local elections, mandatorily. The reform was blocked in parliament and subsequently shelved by the new government after the 2005 general election. Reasons no doubt included the generally charged political climate and lobbying by mayors of small communes at risk of losing their positions. But another important reason according to some observers was the perceived top-down nature of the process and the failure to generate the necessary consensus (Dedja and Brahim 2006).

Administrative-territorial reform remains on the agenda according to the government's Decentralisation Strategy (Ministry of Interior 2010), although it should be noted that this latest update of the strategy remains to be officially adopted. The arguments advanced for territorial reform in this document are covered in section 3.2 below.

The Decentralisation Strategy also mentions the need to clarify the role of the regions, notably in the provision of infrastructure such as regional roads and services such as water supply, wastewater collection, waste management and urban planning. 'Size of the regions' is one issue on which it says legislation is needed (p. 59). While no further details are given, this is consistent with the ongoing discussion in Albania on whether a smaller number of regions – 3 to 6, for example, instead of 12 – might be appropriate for the purpose of regional development programmes (see also section 3.2.3 on EU NUTS regions).

The office of Prefect (state representative at the regional level) was (re-)created with the reforms of 1992, and relations with local government were further clarified in a 2002 law 'On the Prefect'. Prefects exercise a degree of *ex ante* control on key issues such as the use of central government grants and donations from international organisations and are powerful in other areas such as urban planning. While there appears to be a spirit of cooperation between prefects and mayors as far as economic development is concerned, the Decentralisation Strategy also mentions the need for a new law 'to establish fairer institutional relations, preserving the local autonomy'.

## 2.3 Overview of relevant conditions

This section, while in no way intended to substitute for the in-depth local studies that would be needed to draw up detailed reform proposals, provides a broad overview of conditions in Albania that are relevant to assessing the potential for and likely consequences of territorial reform.

### ***Communications and diversity***

The challenges facing mountainous regions with a sparse and declining population have already been alluded to in section 2.1, but it is worth underlining that the distance between remote settlements and the administrative seat in some of the larger communes, though never more than 20 km as the crow flies, may be nearer 50 km by a winding mountain road. While road infrastructure in general has improved greatly in recent years, a visit to the local authority still means a long journey for many citizens. The role of villages and quarters (subdivisions of communes and municipalities under the current law) in executing local decisions should not be neglected.

In addition, investments in transport infrastructure do not always appear optimal from a district or regional perspective. The road between Voskop and Voskopojë, for example, is in

excellent condition (in part thanks to donor finance). But between Voskop and the district capital, Korçe – a more important stretch when it comes to attracting tourists to the area – traffic slows to a crawl to negotiate the frequent deep potholes.

Remote access through telecoms and IT may be a substitute for physical access to local authorities in some cases. The development of mobile telephony over the past decade, from luxury to near-ubiquity, is significant in this respect. According to data from the International Telecommunications Union, the number of cellular subscriptions in Albania rose from less than 400,000 in 2001 to 3.1 million in 2011. On the other hand, electricity shortages remain a problem in rural areas.

Socio-cultural diversity finds expression across a range of local and regional boundaries: between the north and south of the country (Gege and Toske, either side of the Shkumbini river), among different regions and districts, and between urban and rural areas. Diversity tends to be greater the more mountainous the area; differences in folk songs and costumes testify to the lack of communication in past centuries. Residents of highland and lowland areas may feel that they have little in common, since two villages less than 10 km apart on the map may still be separated by over 1,000 metres in altitude.

Nevertheless, diversity has clearly diminished in recent decades along with mass migration and increased communication. Local areas in both the east and west of the country are as likely today to define their similarities and differences in terms of economic development. Common interests in agriculture or tourism, for example, may serve as a focus for inter-communal cooperation.

Ethnic and religious tolerance is in general high, although there are instances of non-cooperation between localities, due sometimes to grievances between local clans, sometimes to political tensions at the national level. There are also cases of historical zones with common culture and traditions spanning current regional and district boundaries, such as the Zadrime area between Shkoder and Lezhe in the north-west of the country, where an inter-communal cooperation association focused on environmental issues was established in 2001.

### ***Service delivery and human resources***

Delivery of communal and municipal services varies greatly depending on the population and topography of the local areas in question. In mountainous areas there is little if any communal water supply, wastewater removal or waste management. In some cases plastics etc. may be deposited in a local dump for periodic recycling. But uncontrolled dumping of solid waste remains a manifest problem.

Service provision in these areas consists mainly of the maintenance of local roads and public buildings, including schools and primary healthcare facilities (teachers and health workers are paid by the relevant ministries). Communes also administer social assistance benefits on behalf of the Ministry of Labour but have little or no discretion over eligibility criteria.

Large communes and municipalities have greater needs and are therefore more active in water and waste management as well as in urban planning. But here it is important to note that the efficient scale of operations for some of these activities exceeds even the largest municipalities, so that some form of inter-municipal cooperation will still be necessary even after the most radical conceivable territorial reform.

There are both encouraging and less encouraging signs as far as cooperation is concerned. For example, the landfill opened at Bushat in 2011 serves both Shkodra and Lezha regions, although Shkodra municipality is not yet making use of the facility. Similarly, the central landfill due to open in Korça in 2014 will be operated by a joint-stock company owned by five municipalities and around 27 communes from the entire region.

Ownership of almost all of the 58 water supply and sewerage utilities has been transferred to joint-stock companies owned by local authorities. However, less encouragingly, much of the infrastructure is dilapidated and user charges do not cover operating costs, let alone investment. The new owners will face a challenge when central government withdraws subsidies, as it plans to do 'in the near future' (Ministry of Public Works and Transport 2011), and it seems clear that further consolidation will be necessary for efficient operation.

In urban planning, it is the largest and most rapidly expanding municipalities that face coordination problems. As surrounding communes are gradually absorbed into metropolitan areas, planning authorities may be tempted to grant permits for high-rise buildings and the like without taking into account the interests of the city as a whole (for example, the need to maintain greenbelt areas).

One of the key problems faced by small communes (in terms of population but not necessarily area) is the limited amount of human resources they are able to devote to the provision of specific services. Staff numbers are determined by the available budget and thus largely by population. Qerret Commune in Pukë District, for example, with a registered population of 3,230 in 2011 has just one member staff responsible for forestry in an area that covers over 100 km<sup>2</sup> of forests (Lowe and Qesku 2012, p. 52).

Table 1 further illustrates this problem with average staffing figures from a survey of communes. While it is not always easy to distinguish between service provision and administration, the results are nonetheless suggestive. In small communes only around 27 per cent of the staff on average are dedicated to service provision; in large communes the figure is 42 per cent.

**Table 1: Average staff numbers by size of commune**

	Councillors*	Administrative staff	Service staff
Small (up to 5,000 inhabitants)	13	12.5	4.6
Medium (5,000–10,000)	15	20.0	13.2
Large (over 10,000)	17.9	34.4	24.6

Source: Based on a survey of 118 communes by AAC. Staff figures are also reported in Lowe and Qesku 2012, Appendix 9. \* The number of council members is determined by Law 8652 according to population as follows: 13 (up to 5,000 inhabitants), 15 (5,000–10,000), 17 (10,000–20,000), 25 (20,000–50,000), 35 (50,000–100,000), 45 (100,000–200,000), 55 (Tirana municipality).

### **Local finance**

There is no need to duplicate here the excellent recent work done on fiscal decentralisation in Albania and the problems faced by local authorities (see especially Levitas 2010 and USAID 2012). For present purposes, those problems may be summarised as follows:

- Local government revenues, at around 2.2 per cent of GDP in 2011, appear insufficient in relation to the tasks that local authorities are expected (at least on paper) to perform. This

reflects not only the small size of the Albanian public sector in general, but also the low share of local government in total public revenues compared with other countries in the South-East Europe region (see NALAS 2012).

- Local authorities lack discretion over expenditure. Conditional grants have increased as a share of total revenue over the past decade, and conditions have also been attached to unconditional grants, while local governments' tax-raising powers have been curtailed in recent years (notably through a reduction in the base for the Small Business Tax).
- There are question marks over the distribution of revenues among local authorities. While unconditional grants are distributed according to a formula (see below), there is a lack of transparency and a widespread perception of political bias regarding the distribution of conditional grants (earmarked for investments in infrastructure, especially roads).

The focus in the present report is on the implications of local finance for territorial reform and *vice versa*. On the revenue side, the main difficulty faced by smaller local authorities lies in the weak tax base and ineffective collection of local taxes and fees, which on average account for around half of total revenue (see Table 2). This is mainly explained by the lower level of economic activity in many smaller communes, especially in mountainous areas, but perhaps also partly by ineffective tax administration. The latter may be less problematic in future in view of a recent political agreement to centralise the collection of key local taxes (including the property and small business taxes).

**Table 2: Revenue and expenditure for communes and municipalities, 2011 (million Lek)**

REVENUE		EXPENDITURE	
Total from local sources	12,670	Public services	14,222
Unconditional transfers	10,110	Transport	6,491
Conditional transfers	1,092	Education	1,768
Borrowing	85	Culture and sport	1,219
		Water supply	858
		Social protection	369
		Other	309
<b>Total</b>	<b>23,956</b>	<b>Total</b>	<b>25,236</b>

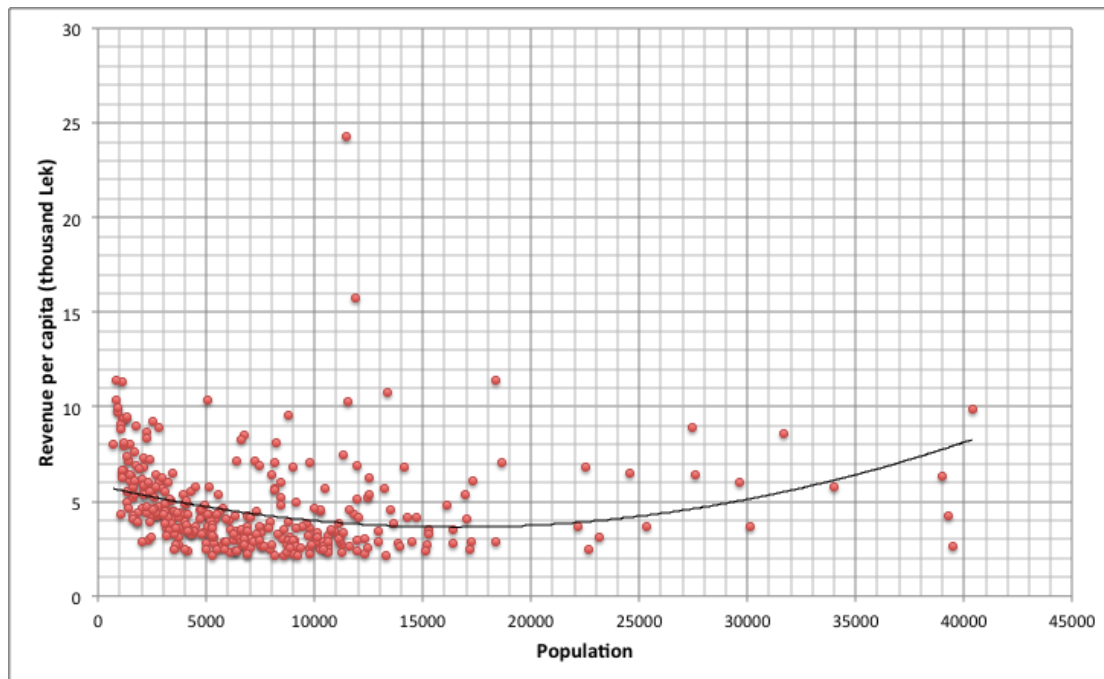
Notes: (1) Transfers from the Ministry of Labour to cover social assistance benefits are excluded from both revenue and expenditure. (2) As noted in USAID (2012, p. 39), it is unclear from the data exactly what is included in conditional transfers; grants from the Albanian Development Fund in particular appear to be excluded. USAID estimates total conditional transfers by subtracting own revenues and unconditional transfers from total *expenditure*. With the present data this approach yields an estimate of 2,457 mLek, or around 10% of total revenue.

Source: Data provided by the Ministry of Finance

Yet despite scarce own revenues in smaller communes, the relationship between per capita revenue and population is not far from constant on average, thanks to powerful financial equalisation within the system of unconditional transfers. If anything, as shown in Figure 5, the very smallest communes tend to do relatively well, since many of these are in sparsely populated, mountainous areas (15 per cent of unconditional grants are allocated according to

surface area, with a multiplier of four for mountainous communes).<sup>7</sup> Municipalities also receive higher initial allocations to cover urban services, with multipliers for those ‘in need’ and/or in mountainous areas. An equalisation formula is then applied to redistribute part of the revenue from certain local sources. Further adjustments are made to compensate local authorities whose income has fallen compared with the previous year and to ensure a minimum guaranteed income per capita.

**Figure 5: Local revenues for communes and municipalities with up to 50,000 inhabitants, 2011**



Notes: Ten municipalities with more than 50,000 inhabitants are excluded, partly for reasons of presentation; the line of best fit is slightly concave rather than convex with these included (in particular Tirana and Durres, where revenue per capita is below average). Kashar commune (Tirana region) is also excluded as an outlier (population 21,311, revenues 829,094). Revenues, as in Table 2, exclude social transfers and competitive grants.

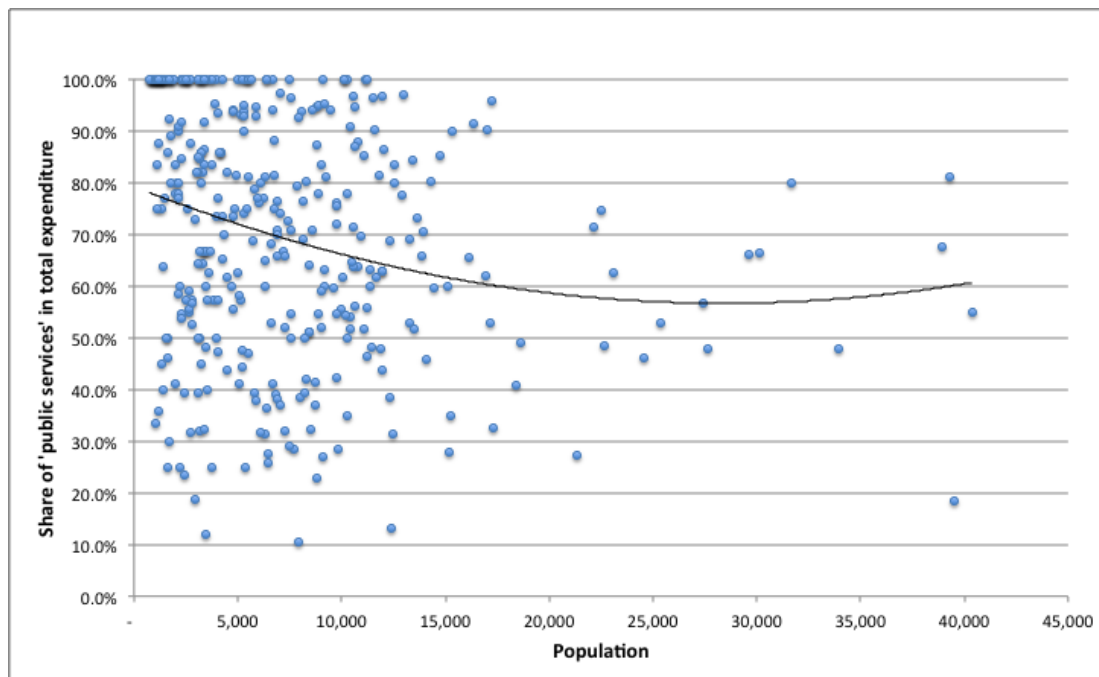
Source: Data provided by the Ministry of Finance

Table A2 in Appendix 2 confirms the equalisation role played by unconditional transfers, which account for close to 90 per cent of revenues in the smallest local authorities.

On the expenditure side, the main issue is the large number of small to medium-sized local authorities whose resources are largely consumed by general ‘public services’, with little or nothing available for transport, education, water supply or the other specific categories in Table 2. This is shown in Figure 6 and in Table A3 in Appendix 2.

<sup>7</sup> In addition, the use of civil registry rather than census figures for population may also favour areas of declining population, including many smaller communes, since it is thought that not all migrants register immediately in their new place of residence (some observers suggest there may be incentives not to, such as maintaining eligibility for social assistance benefits in the commune of origin). See USAID (2012, p. 19) for a comparison between the registry and preliminary census figures for the largest settlements.

**Figure 6: The share of general 'public services' in local expenditure for communes and municipalities with up to 50,000 inhabitants, 2011**



Source: Data provided by the Ministry of Finance

It should be noted that 'public services' cover not only pure administration but also some activities that citizens might regard as services (such as civil registrations or issuance of construction permits). Furthermore, the share of administration in total expenditure does not necessarily say much about the efficiency of individual local authorities. Those with the lowest share in Figure 6 generally spend most of their budget on transport, which is largely financed by conditional grants (including from sources not included in the revenue figures – see the notes to Table 2). Nevertheless, the tendency for public services to make up a larger share of the budget in smaller authorities (as shown by the line of best fit in Figure 6) is notable.

While this provides only a rough indication, it is interesting to note that, on average, the share of resources spent on general public services is around 20 percentage points higher in the smallest local authorities than in those with 25–30,000 inhabitants. This may be compared with Table 1 above, which suggests that local authorities with more than 10,000 inhabitants are able to devote 15 per cent more of their personnel to service provision compared with those with fewer than 5,000 inhabitants.

The relevant question for present purposes is whether this means that amalgamation of small local units might allow a similar shift of resources (i.e. 15–20 per cent) from administration to service provision. The answer is probably no, since the reasons for high administrative costs are related not only to size as such but also to the typical characteristics of small local authorities, including geographical remoteness and inaccessibility. These characteristics will not change with territorial reform, and indeed safeguards (such as maintaining some staff at old communal seats) are likely to be necessary to ensure that citizens enjoy continued access to the administration.

Thus, 15–20 per cent should be regarded very much as an upper bound for the scope for increasing administrative efficiency and shifting resources to service provision. Furthermore, small municipalities account for less than half of the population (those with fewer than 15,000 inhabitants account for 46 per cent according to the registry figures used in Figure 6). A more realistic figure for the country as a whole would therefore be 5–10 per cent – which, while significant, is not enough to make a real difference as far as fiscal decentralisation is concerned.

In other words, even with an ambitious territorial reform, further resources will still be needed to enable local government to fulfil its responsibilities. It is beyond the scope of the present study to go into detail on these reforms, except to concur with USAID (2012) and Levitas (2010) that a useful way forward would be clearer legislation on local government finance and the introduction of some form of sharing of personal income tax receipts or total tax revenues (already provided for in Law 8652, Art. 15).

In this context, an important issue relating to territorial reform is financial equalisation. Sharing of income tax receipts on an origin basis as usually proposed (i.e. according to taxpayers' place of residence) would most likely mean that an even larger share of revenues before redistribution goes to richer regions, especially Tirana. A new financial equalisation formula would be required, which is unproblematic technically, but may be politically divisive in that it makes redistribution more explicit.

A worrying sign in the territorial reform debate in Albania is that one of the criteria sometimes mentioned for 'viable' local authorities is self-sufficiency in revenue generation. The experience of Sweden and other countries is, on the contrary, that fiscal equalisation may if anything need to be reinforced if decentralisation is not to result in greater inequality. This is especially so if the government aims to maintain a critical mass of inhabitants in geographically less accessible regions that are prone to depopulation.

# 3. The case for territorial reform and experience in other countries

## 3.1 Theoretical considerations

The principal argument in favour of territorial consolidation is that larger local government units are able to perform a wider range of functions, and in some cases to perform them more efficiently. Reasons include economies of scale, access to finance, specialised human resources and reduction of spillover effects between neighbouring areas. In more concrete terms, the advantages of larger local units include:

- technical efficiency in service delivery (e.g. waste management)
- ability to dedicate skilled members of staff to specific services instead of relying on general administrators
- more effective collection of taxes and fees thanks to greater administrative efficiency
- greater ability to promote local economic development (e.g. through marketing of tourism or agricultural products)
- avoidance of ‘beggar-thy-neighbour’ policies (e.g. when a commune permits intensive property development without taking into account the need to maintain greenbelt space in the wider area)
- capacity to take part in international cooperation projects and to attract external finance (including from international donors)
- increased bargaining power vis-à-vis central government
- greater scope for inter-municipal cooperation (since there are fewer parties among which to reach agreement).

Moreover, these arguments are not merely theoretical, but – as the brief overview in the previous chapter demonstrates – reflect practical concerns as expressed by mayors of Albanian communes and municipalities.

By contrast, small local authorities (with under a few thousand inhabitants, say) and even some medium-sized ones are unable to perform some of the functions for which they are formally responsible (see Box 1 in section 2.2). Many have difficulties in collecting taxes and cannot employ sufficiently specialised staff even for relatively simple infrastructure projects, such as a 100-metre road extension. As noted in section 2.3, many spend all or almost all of their budget on general administration and are unable to make the kinds of local investments needed to foster economic and social progress.



However, there are limits to the potential for efficiency gains through larger local government units. Administrative inefficiencies are liable to outweigh economies of scale at some point. In addition, some of the potential benefits depend on geographical proximity or accessibility. Gains from combining public services in two remote or mountainous areas, for example, may be outweighed by the cost of additional infrastructure and operations needed to join them. On the other hand, for some aspects of service delivery (landfill sites or water treatment plants, for instance) the efficient operational scale may be greater even than the largest conceivable local authority areas.

There will also be costs in terms of local democratic representation when government moves further away from the people. Elected officials must serve a broader range of interests, and access to decision-makers may be impeded for some citizens if the administration in merged municipalities is centralised. Democratic control may also be weakened in the case of intermunicipal cooperation, regardless of the precise form that this takes.

However, local democracy is likely to be more meaningful if local authorities exercise greater powers. Furthermore, larger units make it easier for the media to devote more resources to monitoring local government, which may help citizens to form accurate opinions and to engage in local political debate. In truth, while the quality of local democracy depends partly on size, it also depends on the quality of institutions. Local authorities today need to provide flexible solutions with different territorial bases depending on the policy area in question. While a modern landfill site may serve two or three regions, important decisions about elderly care and social assistance, for example, will continue to be taken at sub-municipal level, in local communities.

Thus, the relationship between size, efficiency and democracy is by no means straightforward, and as one recent review of the academic literature has concluded, ‘establishing a universal minimum or optimal population size for municipalities will inevitably prove to be a futile endeavour’ (Hellsing Rydergård 2012).

Nevertheless, theory does suggest a couple of useful conclusions:

- The optimal size of local authorities depends on the extent of local responsibilities, and is likely to be larger on average in a country such as Albania, where communes and municipalities have substantial responsibilities (on paper at least) and where higher-tier decentralised authorities play a relatively minor role.
- Optimal size is clearly not uniform throughout the country, but depends on a wide range of factors, including topography, demography, history, local politics, and indeed anything else that might influence the efficiency and quality of service provision and local democracy. This suggests that account must be taken of local conditions in drawing up reforms.

### 3.2 Pressure for reform

While theory may not provide unambiguous answers on how best to organise local government, it does seem clear that, in practice, substantial pressure for reform has built up in Albania since 1992. In other words, even if the territorial division was ideal 20 years ago, it may not be ideal today, and indeed, there appears to be a broad consensus among the main

political parties at national level as well as international observers that there are ‘too many’ communes and municipalities.<sup>8</sup>

The Albanian government’s decentralisation strategy (Ministry of Interior 2010, pp. 45–6) gives four reasons why territorial reform is necessary. First comes the fall in the number of inhabitants (especially those with higher levels of education) in many communes due to migratory movements since 1990. The decline of the rural economy and growth of the urban economy is also mentioned, as well as low effectiveness in the use of financial resources (high administrative costs) and a lack of the necessary human resources.

Developments in transport and communications technology have also made it easier in some respects for local administrations to serve wider areas, as briefly outlined in chapter 2.

Another argument worth mentioning is the positive experience of the only two communes to have merged voluntarily since 2000, Bushat and Barbullush.<sup>9</sup> While there may have been first-mover advantages (for example in attracting external finance), it seems clear nonetheless that the merger led to tangible improvements in service delivery (such as regular waste collection, improved road maintenance and a modern ‘one-stop-shop’ communal administration) as well as an increase in revenues, investment and administrative efficiency. Moreover, 80 per cent of local residents expressed greater interest in the functioning of the commune after the merger, which suggests that there may even have been benefits for local democracy.

Besides the above-mentioned economic, demographic and technological developments, three further driving forces may be identified:

- First (and we would argue foremost), it seems clear that Albania’s ambitions for decentralised government, as enshrined in the 2000 law on the organisation and functioning of local governments, will be difficult to realise without some form of territorial restructuring.
- Secondly, it is often argued that Albania needs territorial consolidation in order to meet its European commitments and pave the way for EU accession. There is some truth in this, although the argument is not as straightforward as it is sometimes made to seem.
- Thirdly, territorial reforms in other countries – or problems due to the lack of reforms – have helped to move the issue up the agenda in Albania. Municipal ‘fragmentation’ is an issue that many other European states have had to confront in the not-too-distant past, with varying degrees of success.

These arguments are elaborated in the following sub-sections.

### 3.2.1 Albania's own efforts towards decentralisation

The functions that communes and municipalities are supposed to perform according to the 2000 law on the organisation and functioning of local government are listed in Box 1 in

<sup>8</sup> Besides the Council of Europe Secretariat (2003) working paper mentioned in section 2.2, a number of other reports from various international organisations and donors over the past decade have advocated territorial reform, including World Bank (2004), UNDP (2005), OSCE (2006), SIPU (2006) and USAID (2012).

<sup>9</sup> The authors visited Bushat during one of the fact-finding missions for this report. See also Hila and Sokoli (2007) for a case study of the merger.

section 2.2. As is clear from the discussion in section 2.3, this list represents a goal towards which the country is progressing rather than actual reality.

There have been significant developments in recent years (such as the transfer of forestry and water infrastructure assets to local governments, a new law on territorial planning which clarifies the role of local authorities, and reforms of the civil service law, which should see both communal and municipal employees granted civil servant status).

However, the fact remains that many local authorities lack the financial and human resources to fulfil some of their exclusive, let alone shared or delegated, responsibilities. According to the government's own Decentralisation Strategy, progress since 2000 has been slow. 'Short-term changes' such as the implementation of provisions dating from 2002 to share revenues from personal income and corporate profit taxes with local authorities are still pending.

Nevertheless, the 2000 law remains a legitimate expression of Albania's aims for decentralised government. We take it as read, therefore, that a key objective of any reform should be to enable local self-governments to perform their allotted functions.

The 2000 law also details the functions of the regions (*qarku*): 'developing and implementing regional policies and their harmonization with the national policies at the regional level, as well as any other exclusive function given by law.' Regions may also perform functions assigned to them by their constituent communes or municipalities, and central government may also delegate functions to the regions according to the same principles as for communes and municipalities.

The law also explicitly provides for various forms of intermunicipal cooperation (IMC), including:

- joint performance of functions by agreement between local government units (communes, municipalities, regions)
- contracting another local government unit to carry out functions
- contracting a third party to carry out functions
- together with central government, assigning powers to a 'joint powers authority' (a separate legal entity).

Some use has been made of these provisions. A manual for IMC produced by the Albanian Association of Communes (AAC 2010) lists some 50 cases. Wilson (2011), without claiming to be exhaustive, compiles an inventory of 16 cases and analyses some of these in more detail. Most are in the areas of infrastructure (waste, water, irrigation, roads) or planning and administrative services (including territorial planning and local economic development).

In some cases, such as landfill sites, water treatment plants or metropolitan transport, local authorities have little alternative but to work together in view of the scale of modern infrastructure. In many cases, finance from international donors has been instrumental in establishing cooperation agreements. The lack of other financial incentives to cooperate appears to be one of the main reasons why IMC has not taken off on a larger scale.

Nevertheless, there are cases of smaller-scale, apparently self-financed projects, such as joint building inspection in Rrajce and Qukes communes (El Basan region) or shared municipal police staff in Rrëshen and Rubik municipalities (Lezha region). In addition, Wilson (2011, p.

54) notes that large donor-supported IMC projects have led to further smaller-scale cooperation initiatives, building on the trust developed.

On the whole, however, the limited use of IMC to date suggests that substantial additional encouragement would be needed for IMC to be seen as a realistic alternative to territorial reform. As well as providing financial incentives (such as extra grants for cooperating entities), the government might need, for example, to set minimum service standards, with a requirement to cooperate or delegate functions if local authorities are unable to meet these standards on their own.

Thus, while not entirely out of the question, IMC is no easy option, as the experience of other countries also suggests (see section 3.2.3 below). Unless a culture of spontaneous cooperation develops in Albania, extensive IMC seems unlikely without encroachments on local democracy (for example, withholding of unconditional grants for certain functions). Moreover, since it is easier for the government to withdraw incentives than it is to amend the administrative-territorial division, encouraging IMC is less credible than territorial reform as a way to underpin decentralisation.

On the other hand, as noted above, territorial reform is almost by definition an effective way to foster the IMC that will continue to be necessary in the case of decentralised activities for which the efficient scale exceeds even the largest local government areas.

### **3.2.2 Albania's European commitments**

#### ***The Council of Europe***

Albania joined the Council of Europe in 1995 and ratified the European Charter of Local Self-Government in 2000. Unlike most member states, Albania did not subject ratification to any declarations or reservations, which makes it one of the few countries where all provisions of the Charter are in force. Moreover, according to the Albanian Constitution (Art. 121), ratified international agreements have direct effect and prevail over national laws. Among the key provisions of relevance to the present study are:

Local authorities shall be consulted, insofar as possible, in due time and in an appropriate way in the planning and decision-making processes for all matters which concern them directly (Art. 4 §6).

Changes in local authority boundaries shall not be made without prior consultation of the local communities concerned, possibly by means of a referendum where this is permitted by statute (Art. 5).

Local authorities' financial resources shall be commensurate with the responsibilities provided for by the constitution and the law (Art. 9 §2).

Article 9 contains several other provisions relevant to local government finance, including:

Part at least of the financial resources of local authorities shall derive from local taxes and charges of which, within the limits of statute, they have the power to determine the rate (Art. 9 §3).

As far as possible, grants to local authorities shall not be earmarked for the financing of specific projects (Art. 9 §7).

The Congress of Local and Regional Authorities, which monitors the implementation of the Charter, has found that its provisions have not always been fully implemented (CLRA 2006). Among the recommendations following the latest monitoring report on Albania in 2006 were that the discrepancy between the responsibilities allocated to local authorities and the resources necessary for carrying out these responsibilities should be addressed, and that small communes unable to perform the tasks assigned to them should be merged (by amalgamation or voluntary association).

### ***The European Union (EU)***

The EU imposes few if any requirements as far as territorial organisation is concerned, which can be seen from the wide variety of arrangements in existing member states (see section 3.2.3). Indeed the Treaty on European Union (Art. 4) specifies that the Union shall respect national identities as far as the political and constitutional structures of regional and local governments are concerned.

Nevertheless, local democracy as an aspect of democratic governance in general is relevant to Albania's EU aspirations. In this context, the European Commission (2012a, p. 51) takes up decentralisation in its latest enlargement strategy paper:

As regards local government, the decentralisation of state responsibilities has not been matched by appropriate transfers in administrative and financial resources from central to local level. The existence of two separate local government associations is not conducive to improving the institutional relations between central and local government in view of a successful and transparent decentralisation process.

Moreover, in the accompanying progress report (European Commission 2012b), the Commission staff note several weaknesses in local governance, including (p. 9) that 'no progress was made on territorial administrative reform. Small local government units are in many cases not economically sustainable.' And 'Significant additional efforts are needed to strengthen both the administrative efficiency and the financial sustainability of municipalities.'

However, the context of these remarks is not territorial organisation *per se* but rather the administrative capacity of government to implement EU legislation and funding programmes. Elsewhere in the progress report, particular weaknesses at the local level are highlighted in the areas of regional policy (p. 52) and the environment (p. 61), as well as revenue collection (p. 26). As the experience of other EU member states amply demonstrates, EU accession places huge demands on local administrations in these and other areas, such as public procurement, financial control and territorial planning.

Thus Albania faces a choice: either strengthen local government's capacity in these areas, or meet EU requirements through central and/or regional action. Needless to say, the latter option is hardly compatible with the local government law (in which areas such as water supply, sewage and waste management are exclusive local functions) or with the government's decentralisation strategy.

A further risk is that fragmentation of local authorities may weaken the capacity of the country as a whole to absorb EU funds. While funding programmes (even the regional ones) may be managed at the national level, local and regional authorities must participate in their preparation, implementation and monitoring in accordance with the 'partnership' principle.

Insufficient local capacity can (and often does) lead to a lack of high-quality project proposals, difficulties in attracting the necessary co-financing and *ex post* financial corrections owing to irregularities.

Thus, while the EU does not require territorial reform, it is easy to see why avoidance of the latter scenario may be a driving force, and why the prospect of attaining candidate status and commencing accession negotiations may bring forward the day of reckoning for Albania's decentralisation strategy.

### **EU statistical regions**

As a potential candidate country, Albania has begun compiling regional GDP data according to the NUTS classification (see Figure 3 in section 2.1 above).<sup>10</sup> While it would be wrong to say that this is merely a statistical issue (not least since economic indicators by NUTS region are important determinants of eligibility for EU structural funds), it must be underlined that the definition of NUTS regions neither requires nor prevents territorial reform.

NUTS regions are defined according to population thresholds: NUTS I (3–7 million inhabitants for larger countries or the whole country for smaller ones), NUTS II (800,000–3 million) and NUTS III (150,000–800,000). Generally speaking, they are aligned with existing administrative regions where these fall within the population thresholds. But if there is no administrative division corresponding to a particular NUTS level, there is no requirement to create one (or to amend an existing one). This does not prevent the NUTS regions being linked with questions of 'regionalisation' or regional economic development in the national political debate, but there are a number of member states where one or more NUTS levels are indeed purely statistical.

Albania's situation is as follows. The country as a whole will clearly be a single NUTS I region. Albania's 12 existing regions (*qarku*) correspond to the NUTS III level (150,000–800,000 inhabitants), but so too would a smaller number of *qarku* in the event of regional reform. There is some flexibility on the number of NUTS II regions: Albania could choose between one and three (which might each be composed of two or more of the current *qarku*). For the time being, the government has opted for three NUTS II regions, though that could still be changed before accession.<sup>11</sup>

Regional reform is somewhat beyond the remit of the present study, which focuses on municipalities and communes. However, reform is on the agenda, as noted in section 2.2. The essential point here is that the definition of statistical regions rules nothing out or in where territorial reform is concerned. All of the following, for example, are perfectly feasible:

- three (purely) statistical NUTS II regions with the existing 12 qarks as administrative NUTS III regions
- one statistical NUTS II region with four to six new administrative NUTS III regions
- one to three administrative regions as NUTS II regions with the old qarks remaining as statistical NUTS III regions.

<sup>10</sup> Nomenclature of Territorial Units for Statistics.

<sup>11</sup> Decision of the Council of Ministers (DCM) no. 1037, 15 December 2010. According to the Stabilisation and Association Agreement, Albania is due to formally present its NUTS II regional GDP figures to the European Commission by December 2014.

### 3.2.3 Comparison with other European states

The experience of other European countries illustrates the scope for variety in the size and configuration of local government (both between countries and, in some cases, in the same country over time). On average, the population of first-tier local authority areas in the EU is smaller than that of Albanian communes and municipalities, although many countries have powerful intermediate tiers of government that perform some of the functions allotted to the local level in Albania. In South East Europe, first-tier local authorities tend to cover a significantly larger population on average, which partly reflects the relatively large share of the population living in capital cities (NALAS, 2012).

While a comprehensive comparative analysis is beyond the scope of the present report, there are several examples of particular relevance to the debate on territorial reform in Albania that are worth mentioning. Table 5 provides an overview of basic local population statistics for selected countries.

**Table 5: Average population per local authority and other relevant factors for selected European countries**

	Population (thousands)	Number of first-tier local authorities	Average population per local authority	Average area (km <sup>2</sup> ) per local authority	Share of population living in capital (%)	Second-tier local/regional authorities
Albania*	3,195	373	8,566	77	19	12 <i>qarku</i>
Bulgaria	7,365	264	27,898	420	15.3	-
Croatia	4,291	556	7,718	102	18	21 counties
Czech Republic	10,517	6,249	1,683	13	11.9	14 regions
EU-27 average	501,465	89,149	5,625	49	7.3	n/a
France	64,848	36,697	1,767	17	3.4	101 <i>départements</i>
Greece	11,305	325	34,785	406	7.1	13 regions
Kosovo	2,237	38	58,868	295	17	-
Macedonia	2,023	85	23,800	303	25	-
Montenegro	620	21	29,524	658	30	-
Serbia†	7,365	145	50,793	609	21	-
Slovenia	2,049	211	9,711	97	13.2	-
Sweden	9,378	290	32,338	1,552	8.8	21 counties

Source: CEMR-Dexia (2012) for EU member states, except share of population living in capital from Eurostat Urban Audit database (latest available for each country); NALAS (2012) for other South East European countries.

\* But see section 2.1 for figures based on the 2011 census, which suggest a total population of 2,831,741 and thus an average by local authority of 7,592, and a higher share of the population living in the capital.

† Figures for Serbia exclude Kosovo.

Greece, Kosovo, Macedonia and Montenegro are naturally of interest as Albania's immediate neighbours. Local authorities in these countries cover substantially larger populations and surface areas despite similarities in topography and demography. The same applies, slightly further afield, to Bulgaria and Serbia.

Local authorities in Croatia and Slovenia are of a similar size to those in Albania, yet this has not proved a barrier to these countries' successful conclusion of EU accession negotiations. However, in the case of Slovenia, observers note that fragmentation of local authorities (of

which over 100 have fewer than 5,000 inhabitants and 25 fewer than 2,000) gives rise to problems in providing public services (CLRA 2011), and that most ‘do not have the capacity to conduct strategic planning or absorb EU funds in the given timeframe’ (OECD 2011). Similarly, the Congress of Local and Regional Authorities recommended that Croatia should review its territorial organisation ‘as a possible solution to the problem of the ineffective tiny municipalities’ (CLRA 2007).

France is often held up as an example of small local government in a unitary state with a healthy democracy and functioning public services. Repeated attempts at reform over the years, including proposed mergers aimed at rationalising service provision, suggest that the system is not without its problems. But reforms have foundered in part because of popular attachment to the present structure, which has deep historical roots. Extensive intermunicipal cooperation has served as an alternative in practice (Hertzog, 2010). In many respects, the ‘communities’ of communes resemble an intermediate tier of government, having assemblies (elected by the communes), own revenues (from local taxes and state grants) and wide-ranging competences (often including, for example, road infrastructure, water services, aspects of social policy and other areas that communes may decide to delegate).

The Czech Republic perhaps represents the extreme of municipal fragmentation in Europe. Again, while this did not prevent EU accession, various observers have highlighted the resulting problems for service delivery (see e.g. CLRA 2012, OECD 2004). Some competences in areas such as environment, roads, secondary education and health have been transferred to the 14 self-governing regions, but the situation has also given rise to various forms of intermunicipal cooperation, including:

- transfer of some competences (such as civil registry and building permits) to some 200 larger urban municipalities, which serve smaller surrounding municipalities
- French-style communities of municipalities which receive funding from central government
- voluntary unions (also known as ‘micro regions’), which lack a clear legal framework but nevertheless comprise over 70 per cent of municipalities and perform a wide range of functions on their behalf (Illner, 2010).

## Sweden

The case of Sweden is of interest because the challenges addressed by the territorial reforms between 1952 and 1974 were similar in many respects to those faced by Albania today: rapid depopulation of rural areas leaving many small municipalities unable to provide effective services, and geographical obstacles to common provision, especially in the sparsely populated North. These reforms have helped Sweden to retain a system of powerful decentralised government, with the municipalities playing the key role and the (larger) counties exercising further limited functions (including health care).

Sweden has carried out two comprehensive territorial reforms in the post-war period. Between the 1860s, when local self-government was established with the 1862 Local Government Act, and the 1940s Sweden had around 2,500 municipalities (*kommuner*). There were three different types of municipality: cities, market towns (*köpingar*) and rural municipalities, the latter almost 2,300 in number.

Industrialisation resulted in extensive internal migration. The rural population declined while that of cities grew sharply. Local self-government was being undermined on account of



growing differences in economic conditions between rural municipalities and cities along with rising demand for community services, especially schooling and social welfare.

With a view to making the conditions for municipalities more comparable, a far-reaching municipal reform was decided upon in 1952. Through amalgamations of rural municipalities into larger units, the total number of municipalities fell from around 2,500 to around 1,000. The reform did not affect cities.

During the 1950s, urbanisation continued at a higher pace, leading to a further decline in the population of rural municipalities. It was therefore decided in 1962 to implement a further comprehensive restructuring, this time addressing cities as well as rural municipalities. The new territorial division was based on the so-called central place theory, which meant that all new municipalities should in principle consist of a central settlement with a natural periphery. Through this reform, which entered fully into force in 1974, the number of municipalities fell further while their average population and tax base increased. Sweden now has 290 municipalities.

The second reform (1962–74) took a long time to implement, largely because municipalities were initially free to decide voluntarily when they wished to amalgamate, and progress was much slower than expected. Only in 1969 did the government propose that mergers should be completed by 1971 or 1974 at the latest. And even in Sweden, which is sometimes said to have undertaken the most ‘rational’ territorial reform, there was no shortage of local opposition, and the final compulsory stage was passed by only a narrow majority in parliament. Further details of the reform process are given in Appendix 1.

### **Other countries**

In other countries the results of voluntary stages of reforms have been mixed. In Denmark a radical amalgamation reform was proposed in spring 2004 and implemented in less than three years with relatively little public consultation. This reduced the number of municipalities from 271 to 98 and also created five new regions in place of 13 counties. The first stage was voluntary in principle, but with strong central guidelines and incentives. All municipalities were asked to produce an amalgamation plan by the start of 2005 with a target of at least 30,000 inhabitants per merged unit. Those not wishing to merge could opt for intermunicipal cooperation instead, but the institutional conditions were sufficiently unfavourable that none did so. By January 2005, all but four of the 271 municipalities had ‘voluntarily’ agreed on reforms that met the requirement of a minimum of 30,000 inhabitants (Vrangbæk, 2010).

A similar semi-voluntary reform stage was attempted in Greece (where it was a failure) and in Germany (where it was relatively successful in some *Länder*) (Swianiewicz 2010, p. 20).

Dafflon (2012) notes that compulsory amalgamation has been something of a northern European speciality, whereas southern European countries have tended to rely more on a voluntary approach. However, in the southern European examples he cites (p. 4) it is notable that voluntary ‘amalgamation reforms’ led to somewhat marginal changes: a decline in the number of municipalities of 6, 8 and 12.5 per cent in France, Spain and Switzerland respectively and an increase of 0.5 per cent in Italy.

OSCE (2006) draws on experience from Estonia, Finland and Latvia as well as Denmark in advocating a two-stage amalgamation process for Albania: voluntary and bottom-up in a first stage, and compulsory in a second stage, but only after sufficient attempts at voluntary reform

have been rejected by local authorities. Extensive consultation and preparation is also recommended even before the voluntary stage begins, which means (as noted in the paper) that the process would take a long time.

Judging by the experience of Albania and other countries, it is hard to avoid the conclusion that a degree of compulsion will be necessary to bring about anything more than a marginal territorial reform. In addition, a strong centrally driven process appears almost indispensable if the aim is to implement a reform within a relatively short space of time. This does not rule out a voluntary stage, but it does suggest that a clear vision of the longer-term objectives of the reform process would be needed, as well as strong incentives for local authorities to participate.

### 3.3. Conclusions

This brief review leads to a conclusion that may appear paradoxical at first sight. On the one hand, there is little in theory, in the requirements of EU institutions or in the experience of other countries to suggest that there is an urgent need for Albania's local authorities to merge. On the other hand, it is easy to see, considering all of these factors, why territorial consolidation is firmly on the agenda.

What does seem clear is that the status quo is not compatible with Albania's own ambitions for decentralised government, and is likely sooner or later to prove problematic in the context of EU accession. Reducing the number of local authorities would be one way to address the issue, and certainly the situation in several other countries suggests that larger municipalities is a perfectly feasible option (even if the process of getting there is not always straightforward).

There are alternatives. One is to rely instead on extensive intermunicipal cooperation. However, the experience of other countries suggests that this is a complex solution, and one not far removed from transferring powers to intermediate (and possibly less democratically accountable) levels of government. In addition, feasibility is likely to depend on a reasonably cooperative political culture at the local level. Further incentives (such as redistribution of state grants to favour cooperative projects) would almost certainly be needed.

In the absence of reforms of one kind or another, the likely outcome is that powers will be transferred (whether *de jure* or *de facto*) back to central ministries or perhaps to strengthened regional authorities. This is evidently undesirable for local authorities themselves and from the perspective of Albania's stated ambitions for decentralisation.

Our conclusion is that there is a good case for territorial consolidation to support political, financial and administrative decentralisation. It should be underlined, however, that it is far from a sufficient condition for effective decentralisation, which will also depend on political will and increased financial means.

It is clear – both from theory and from Albania's national and European commitments – that local knowledge and interests must be taken carefully into account in the design and implementation of reforms. In some parts of the country, relatively small local authorities may well remain the optimal solution and/or compensating measures may be needed to ensure that local democracy does not suffer. On the other hand, it seems clear that strong central

guidelines, incentives and at least the credible prospect of a compulsory reform stage will be necessary in order to bring about any significant change within a reasonable time frame.

# 4. Territorial reform in Albania

## 4.1. Introduction

Our impression – after having talked to local, regional and national politicians from both main party groupings as well as officials, academic experts and representatives of international organisations – is that there is almost universal agreement on the need for territorial reform in Albania.<sup>12</sup> Moreover, in these discussions we have heard a number of relatively concrete proposals, which form the basis for the ideas outlined in this chapter. These ideas, therefore, are grounded in Albanian realities, and the fact that reform is being actively discussed in the country suggests that it is not an unrealistic prospect, despite limited progress on decentralisation in recent years.

Nevertheless, a number of caveats are worth mentioning before proceeding. First, while almost all local representatives we spoke to were in favour of territorial reform, only a few saw any need for their own commune or municipality to be merged. Thus, widespread support does not imply the absence of local opposition when it comes to concrete proposals.

Secondly, there is little sign of active preparation for a reform, nor even of awareness of what the reform process might entail. Rather, a common assumption seems to be that the process will be straightforward as long as there is political agreement at the highest level. Our view is that, while high-level political agreement is without doubt an essential requirement, the process will not fall into place automatically. Indeed, its design is crucial to the success of any reasonably ambitious reform, and work on this will need to start soon if the current possible window of opportunity before local elections in 2015 is to be exploited.

Thirdly, it bears repeating that territorial reform on its own will not be sufficient to put Albania's decentralisation strategy back on track. Reforms to local finance in particular are necessary to ensure adequate, transparent, equitable and predictable funding, commensurate to local government's functional responsibilities. At present, as briefly outlined in section 2.3, the trends if anything are in the opposite direction. While territorial reform may well help to increase local revenues and cost efficiency, these effects are in our judgement an order of magnitude below what is required.

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<sup>12</sup> Moreover, at the workshop on territorial reform hosted by AAC in Tirana on 19 November 2012, all participants who expressed an opinion were in favour of reform. A summary of five options for reform presented at the workshop is provided in Appendix 3.

## 4.2. Broad features of a proposal for territorial reform

### 4.2.1. Voluntary and/or compulsory?

One common feature of territorial reform proposals in Albania and elsewhere is that there should be a voluntary aspect to the process, at least in a first stage. That no local authorities are forced to merge against their will can be seen as a clear advantage from the perspective of local democracy. Equally clear from international experience, however, is that a purely voluntary approach is likely to be ineffective. Indeed, voluntary mergers are already possible under the current Albanian law, yet there has only been one instance since 2000, and this in exceptionally favourable circumstances.

Nonetheless, the example of Bushat and Barbullush remains encouraging in some respects, since the merger seems to have helped the administration to attract investment and modernise service delivery (see section 3.2). Other pioneers might expect to reap similar benefits. While the preparations for the Bushat merger were complicated and time-consuming, the government might be able to lighten the administrative burden if several groups of local authorities were willing to merge at the same time.

However, the key political problem with a voluntary reform remains: how to persuade at least half of the mayors concerned (not to mention a large number of local councillors and officials) to give up their positions. In Sweden and elsewhere, the prospect of compulsory reforms was supposed to encourage voluntary mergers. But even then, the results of voluntary stages have often failed to meet expectations, as noted in section 3.2.3.

The government could also offer financial incentives (for example, changes to the formula for unconditional grants or to the criteria for awarding conditional grants so as to favour merged entities). But these might have to be substantial to make much of a difference. After all, the example of Bushat suggests that there are already considerable incentives for first-movers in the form of inward investment and donor support.

According to some local experts, it would be relatively straightforward to find a handful of groups of local authorities with similar interests who might be prepared to merge voluntarily. One possible example discussed during our fact-finding missions is Farke commune south of Tirana, part of which has become highly urbanised and could join with Tirana, while the other part could merge with neighbouring communes such as Petrela, Berzhita and Krraba.

A fundamental issue with *ad hoc* voluntary mergers is that they would not necessarily be of the same type (pairings of small communes, communes joining with municipalities, larger zones of cooperation, etc.), nor would they necessarily fit into a subsequent nationwide restructuring of local government. In other words, there is a risk that merged entities might have to restructure again. Thus, if voluntary reforms are intended as a first stage in a more comprehensive reform, it would be desirable to have an indication of the final outcome before proceeding.

A two-stage approach naturally entails the risk of missing a political window of opportunity for reform. This is a particular concern in Albania given the requirement of a ‘super majority’ in Parliament for amendments to the law on administrative-territorial organisation. If a sufficiently broad and stable political consensus can be found to embark on the reform

process, there is no guarantee that such a consensus will remain when the time comes to adopt the definitive act.

This risk probably cannot be avoided completely in view of the difficulty of implementing a comprehensive reform in a single stage. But it does suggest the need to make use of an initial political consensus to set out a coherent vision of the full reform, and to avoid extending the process any more than is necessary (e.g. with a lengthy preparatory stage). A piecemeal voluntary approach, on the other hand, is not to be recommended (and indeed might do more harm than good by taking the issue off the agenda without doing anything to improve the situation in the great majority of local authorities).

#### **4.2.2. Communes and/or municipalities?**

Much of the debate on territorial reform in Albania has focused on the least populous units (nearly all of which are communes as opposed to municipalities), where the most apparent weaknesses in service provision and revenue collection may be found. In 2003–4, for example, the proposal on the table was to shortlist candidates for amalgamation based on certain thresholds for population, administrative expenses, capital investment, and so forth.

The advantage of focusing on small communes is that this would address the most apparent problems with the current territorial division and might make for a relatively straightforward reform process, given sufficient political will. More complex criteria could be devised, for example taking into account population density and geographical accessibility. Local consultations could be held to verify genuine scope for improving efficiency without unduly compromising local democratic representation or cultural preferences. Exceptions could be made, for example where mergers would lead to excessive distances between remote settlements and the administrative centre.

Nevertheless, no matter how complex the criteria or extensive the consultations, the essentially top-down nature of this approach is prone to criticism. The presumption is that small communes should merge unless exceptional local circumstances dictate otherwise, whereas a more democratic approach would start by looking at local conditions.

This may seem like a subtle distinction, but it could make a big difference to the end results. For example, the method proposed in 2003–4 would have ignored potential improvements in service delivery through mergers of slightly larger (or larger groups of) communes. At the same time it would have pressured small communes in mountainous areas to pair with a neighbour even where this offered limited scope for efficiency gains. The focus on small communes would also do little or nothing to address issues faced by large municipalities and communes, including in the Tirana region.

A further issue is that this approach seems almost designed to generate a relatively focused and vocal group of opponents: mayors, local councillors and others from small communes, where one of the two main parties tends to perform relatively well electorally. Opponents of reform would be able to present it as politically non-neutral, which might undermine the necessary consensus.

In addition, this political sensitivity is likely to result in thresholds being set too low from the perspective of efficiency, so that only the very smallest communes are merged. This would leave many small-to-medium-sized units untouched despite poor service delivery and high administrative costs. If the case for reform is made in terms of efficiency, our view is that

some of the greatest gains are likely to be found not in the smallest communes but rather in larger units, including municipalities and urbanised communes and their surrounding areas.

#### 4.2.3. Asymmetric or comprehensive reform?

One way to avoid an exclusive focus on small communes would be to make restructuring voluntary, but to effectively remove competences from units that are unable to deliver services efficiently, yet unwilling to merge. These would be required to delegate the functions in question (to the regional or central level, to larger local authorities or perhaps to organs of intermunicipal cooperation) and would give up a corresponding share of their funding.

A thorough assessment of capacity would be required – a substantial and difficult endeavour in itself, but one that would have the advantage of shifting the focus from size to performance. Some medium-sized local authorities might, if judged inefficient in certain areas, be required to transfer functions to the regional level. On the other hand, while smaller communes might well have to transfer some of their powers and funding, they could still elect to remain ‘close to the people’ in areas where they were able to operate efficiently.

This approach resembles an enforced form of intermunicipal cooperation, with the advantage not only that no local units are required to merge, but also that efficiency at the regional (or intermunicipal) level might be fostered. A key issue would be how to ensure coordination between the regional level and local units that are judged to perform efficiently. But the main problem with this approach is democratic, since the result would be effectively to create different categories of local authorities. Citizens of inefficient units would lack representation in areas delegated mandatorily to the regional level.

A partial solution might be to introduce direct elections to Regional Councils (they are indirectly elected by local councillors at present). However, this serves to underline the question of whether a powerful second tier of decentralised government is appropriate for a country of Albania’s size. One view is that, since the two-tier system exists, it would be as well to clarify the responsibilities of the regions. Another is that the system has been misguidedly ‘transplanted’ from a model of regionalism found in much larger European countries (A. Alibali cited in Bogdani and Loughlin 2009, pp. 207–8).

Our view is that the regional authorities (whether the 12 current *qarks* or perhaps a smaller number in the event of regional reform) have a useful role to play in areas such as regional economic development. But it would be preferable, on grounds of administrative simplicity as well as local democracy, to enable all first-tier local authorities to perform their functions as prescribed in the law. Local authorities will naturally continue to differ in size, capacity and performance, and the option to delegate functions on a voluntary basis should remain open. But the principle that all communes and municipalities are equal according to the law seems worth preserving.

#### 4.2.4. Top-down and/or bottom-up?

According to Albania’s constitution and the law on local government, as well as commitments under the European Charter of Local Self-Government (see section 3.2.2), territorial reform requires extensive local consultation. Article 108 of the Constitution states that:

The territorial-administrative division of the units of local government are established by law on the basis of mutual economic needs and interests and historical tradition. Their borders may not be changed without first taking the opinion of the inhabitants.

Law 8652 on the organisation and functioning of local government requires formal consultation of communal, municipal and regional councils and documentation of methods used to collect the opinions of the community.

Thus, while a purely bottom-up reform process is likely to prove ineffective, so too is a predominantly top-down process on account of the popular (not to mention political) opposition this would be likely to generate. Territorial reform will throw up a host of issues, both technical and political, which will need to be resolved one way or another. (In 2003–4 the authorities attempted to deal with this behind the scenes, and the resolution was to abandon the reform before it even reached the stage of public consultation.)

Thus an intermediate solution, combining top-down effectiveness with bottom-up sensitivity to local interests, is called for. In Albania, the current regions would appear ideally suited to coordinate such a process. While they do not at present have extensive responsibilities, they do serve to divide the territory along coherent cultural lines, and the Regional Councils provide a representative forum for each region's communes and municipalities. They could help to anchor reform at the sub-national level while transcending the interests of individual local politicians. In addition, Prefects could assure coordination between Regional Councils and the central government.

Thus, Parliament would decide on the overall character of a reform, providing central guidelines on, for example, the desired number of local authorities and the timetable for restructuring. But the local authorities in each region would be free to develop their own proposals within the central guidelines.

The key advantage of this approach is that proposals would start out from a consideration of local conditions and preferences, and that a range of solutions could be considered (for example, mergers of both smaller and larger communes, mergers of municipalities with surrounding communes, perhaps even division of some units). There would be no obstacle to a special solution for the Tirana region, taking into account the size and rapid growth of the metropolis.

A potential disadvantage is the risk of deadlock in Regional Councils, especially when political calculations come in to play. However, the postponement of some of these deliberations until after the overall character of the reform has been decided may be seen as a major advantage, since this lowers the obstacles to reaching political consensus at the national level. Prefects might also play a coordinating role, helping Regional Councils to produce their own workable solutions. As a last resort, a central committee overseeing the reform process could step in and finalise regional proposals, taking into account the local conditions and preferences revealed in the process so far.

#### **4.2.5. Efficiency and/or subsidiarity?**

If the purpose of territorial reform is to help pave the way for decentralisation in fact as well as in law, then in our view there is little sense in tinkering at the margins. Rather, a relatively ambitious reform will be needed to see that all local authorities have the technical and administrative capacity to perform the role assigned to them by the local government law.



This implies a significant increase in the average population and surface area of local authorities, and a corresponding fall in their total number.

A figure commonly mentioned in the debate on territorial reform in Albania is around 100 local units (compared with 373 at present), which would represent a fairly ambitious reform while still leaving Albania with smaller local authorities than most of its neighbours. Average population would rise from 7,592 at present to around 28,000.

A more radical idea is to merge all communes and municipalities within each of the 36 districts. As noted in chapter 2, although the districts do not have an active role in local government today, they do have historical roots, and many citizens identify culturally with their district of origin. Allowing for a few further adjustments in cases of districts with two significant municipalities, this might result in around 40–45 new local authorities with an average population in the region of 67,000 (slightly larger than in Kosovo, and thus among the largest in Europe).

Proposals such as these, together with reforms of local finance, could substantially improve local authorities' capacity to deliver services, but the question is at what cost in terms of subsidiarity (or government close to the people). As noted in section 3.1, the relationship between the quality of local democracy and the size of local authorities is complex, and it is doubtful how much value should be placed on government being close to the people when government is unable to perform many of its assigned tasks.

Nevertheless, safeguards would be necessary to ensure that citizens enjoy continued access to local officials, elected representatives and services. In large areas with relatively poor communications, contact points could be maintained in the old communal seats, and/or mobile services could be arranged so that no citizen needs to travel long distances to make contact with the local administration. The central guidelines on territorial reform could mandate guarantees on universal provision or equal treatment as regards key services. Safeguards of this kind should be seen not as optional extras but rather as an important part of the reform itself, necessary in order to assure a positive outcome in terms of welfare and improve the chances of approval in popular consultations.

In cases where several small communes are integrated with a central municipality (or urban commune), citizens of the former may be concerned that their interests will be 'swallowed up' by those of the latter. At least in Sweden, these fears proved to be unfounded. Local interests expanded naturally to cover all areas within the new electoral division, and in many cases mayors of surrounding communes found themselves in influential positions within the new (and more powerful) administration.

It is sometimes claimed that amalgamation of local authorities poses a threat to small communities, but it is in our view a mistake to equate the local community with the territory of the local authority. Both larger (districts or regions, for example) and smaller communities (villages or other local areas in the cultural or educational spheres, for example) will continue to co-exist. In remote areas, the greatest threat to small communities is outward migration; their survival can best be guaranteed not by maintaining weak local authorities but rather by improving service provision and the prospects for local economic development.

### 4.3. Recommendations

Our recommendation is that communes and municipalities should be restructured within the current regional boundaries, as outlined in section 4.2.4 above, with a level of ambition somewhere in between the two options outlined in section 4.2.5. A target of between five and eight local authorities per region (depending on regional preferences and conditions), or approximately 80 for the country as a whole, would constitute a bold step towards strong political and administrative decentralisation. Together with complementary reforms to reinforce financial decentralisation, this would offer the prospect of substantial improvements in service delivery. Together with safeguards to guarantee continued access to local officials and services, we believe this would also improve the quality of local democracy.

The figure of approximately 80 local units for the country as a whole (or average population of approximately 35,000 inhabitants) is based, first of all, on our appreciation of what would be needed to make a meaningful difference to local authorities' capacity to fulfil their legal responsibilities. This is of course partly a question of judgement. As noted in chapter 3, any attempt to derive a theoretical optimum size for local authorities is bound to fail. Equally, it is difficult to provide precise indications based on Albanian experience because, as Lowe and Qesku (2012, p. 24) note, even larger communes (let alone small ones) find it difficult to deliver services owing to resource constraints. This means that there is very little available data on, for example, minimum staffing requirements or unit costs for a given service.

Nevertheless, in our judgement, local units around four to five times the size of today's would, given sufficient financial means, be materially better able to fulfil their responsibilities in several key areas where today's local authorities lack the necessary scale, human resources or organisational capacity. Examples include the organisation of solid waste collection, the exercise of influence as owners of water supply infrastructure, the conduct of public procurement according to EU standards, and cooperation with other local units on larger-scale activities.

Secondly, a comparison with other European countries – including Albania's neighbours and others such as Denmark and Sweden that have carried out territorial reforms with the explicit aim of rationalising service provision while preserving local democracy – suggests that local authorities with an average population of 30,000–50,000 would be appropriate and, moreover, feasible despite difficult geographical conditions (see section 3.2.3). This is especially so in view of the relatively limited development of intermunicipal cooperation in Albania, which suggests that this offers no easy alternative to territorial reform.

Thirdly, the figure of approximately 80 units is based on our impression of what might be politically feasible in Albania. Naturally, experts and decision-makers within the country will be better placed to judge this, and also to make a more refined technical assessment, especially at the regional level. But one should not be under the illusion that this is a purely technical issue. On the contrary, decisions about the overall character of the local government system are in essence political, and it seems to us entirely appropriate for Parliament to take a broad stance on reform without feeling the need to justify this in terms of ostensibly scientific indicators. Rather than attempting to apply centrally determined 'objective' criteria (such as minimum thresholds for local population or resources), it would be preferable in our view to be up-front about the political nature of the reform as a whole and then allow genuine scope for flexibility in accordance with local conditions and preferences.

The reform process must begin with a broad political consensus at the national level, without which detailed reform plans will lack credibility (in view of the ‘super majority’ requirement for changes of the law on administrative divisions). The first window of opportunity would seem to be immediately after the June 2013 general elections, provided that these run smoothly. (It is scarcely possible to imagine a reform going ahead in the kind of political environment that followed the 2009 parliamentary or 2011 local elections.)

In a first stage leading up to the local elections due in May 2015, Parliament would adopt central guidelines specifying a target range for the number of local authorities per region, key factors to be taken into account in drawing up regional proposals, safeguards to be put in place and a roadmap for the reform process. The government would then decide on financial incentives to be offered to local authorities that are willing to merge.

These incentives would in our view need to be substantial. Conditional transfers for infrastructure improvements and competitive grants from the Albanian Development Fund could, for example, be targeted towards merged entities on the grounds that these are likely to be able to make better use of available resources. Distribution of any additional sources of finance could similarly be targeted towards more efficient local authorities that are capable of delivering services. Technical and financial assistance could be provided to groups of local authorities that were willing to embark on the amalgamation process voluntarily.

Regional Councils together with Prefects would then be charged with preparing comprehensive reform proposals for each region, in conformity with the central guidelines.<sup>13</sup> Actual restructuring would not be mandatory, at least not in the first stage. But the whole region would nonetheless be divided into blocks representing the proposed new local authorities, even if some communes and municipalities were not yet willing to participate. For each block, an ‘amalgamation body’ of communes and municipalities would be established in order to begin technical preparations and to distribute financial assistance. For those units wishing to merge voluntarily, the law on administrative-territorial division would be amended in time for the 2015 local elections.

Thus, even if only some units within a given block wished to merge, they would be able to do so. This raises the question of what happens if two units without a common border wish to merge but their intervening neighbour(s) do not. In our view this is an extremely unlikely scenario as long as the unit containing the new local authority’s administrative seat is willing to participate. Therefore the key issue is how to ensure sufficient incentives for these central units (besides the prospect of being the ‘capital’ of a larger and more powerful local authority). This serves to underline the importance of additional financial resources to guarantee (for example) that the costs of improved service provision in outlying areas of the new local authority would be covered.

In many cases, the configuration of the blocks is likely to be almost self-evident, in particular where a relatively large municipality or urbanised commune is surrounded by a natural

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<sup>13</sup> Regional Councils are likely to require considerable technical assistance in compiling background information and drawing up high-quality, comprehensive proposals within the time frame envisaged. Indeed, as indicated in the road map sketched in Box 2, work on regional proposals at the expert level should ideally begin as soon as possible after a political ‘green light’ for reform. Since appropriate technical assistance may well depend partly on support from multilateral and/or bilateral donors, an early indication from the national authorities to donors that a reform effort is under way may greatly help to facilitate the process.

hinterland of smaller settlements. But there will be exceptions. In Sweden, for example, there are cases where the municipality is named not after its largest settlement but, for example, after a former parish or a smaller but historically significant town. There may be cases where a municipality whose population has declined in recent years nevertheless remains the natural administrative centre for a new local authority, or where there is more than one urban settlement in the same block. Administrative seats would be designated in the Regional Council's proposal, with the expectation that these should be geographically accessible and thus reasonably centrally located. But beyond such broad criteria, the central guidelines should leave a large measure of flexibility to the regions so that they may take account of local cultural and historical (as well as economic and political) factors that are difficult for central (not to mention international) experts to fully appreciate.

The aim would be to encourage a large number of local authorities to participate in the first, voluntary stage so that this might be credibly presented as part of a comprehensive reform that will address the issues facing local governments (not least in the context of EU accession talks, which are likely to begin during the 2015 local mandate).

Those choosing not to participate would then have another four years (until the next local elections due in 2019) to consider their position in the light of incentives provided and results in neighbouring areas. Parliament could then decide on whether to make a second stage voluntary or compulsory, although a commitment from the outset by the major parties to a comprehensive reform by 2019 would be likely to increase the effectiveness of the voluntary stage.

Box 2 below outlines a slightly more detailed roadmap for the process. It should be noted that, although there is a gap of nearly two years between the 2013 parliamentary elections and the 2015 local elections, the need for extensive consultations and two parliamentary votes means that the timing is tight. While it may be too much to hope for during an election campaign, political agreement on the need for a reform and commencement of informal preparations even before the 2013 elections could help to expedite the process. At the very least, a clear political signal directly after the elections would be desirable so that preparations at the regional level could begin.

### **Box 2: Outline of a roadmap for territorial reform in Albania**

Early 2013	Ideally, informal contacts between the main parties to establish political consensus on the broad parameters of a reform.	Common understanding of the likely impact of reform will be needed in order to launch the process as soon as possible after the elections.
June 2013	Green light from both governing and main opposition parties directly after the parliamentary elections with an indication of the overall desired character of the reform.	Conditional on a cooperative political climate following uncontested elections.

Shortly after 'green light'	Information campaign, public hearings and opinion surveys on the need for reform. Indication to donors et al. that technical assistance support for regional assessments may be helpful. Experts (enlisted with cross-party approval) may begin drafting of 'roadmap bill' and central guidelines.	Publicity to build support for reform, but also as part of the consultation methods to be documented in the final 'reform bill'. Background work on regional assessments could begin once parliamentary approval for launching the reform is in sight.
c. Sep 2013 (for adoption by end 2013)	Draft law on the roadmap for territorial reorganisation sent to Parliament. To include desired overall result, relevant factors to consider, consultation procedures, safeguards, composition of reform secretariat, timetable for adoption of reforms.	'Roadmap bill' serves to give the process legitimacy and credibility, but also as a formal basis for the role of Regional Councils.
By end 2013	Parliamentary committee (responsible for local government affairs, or an ad hoc committee on territorial reform) convenes reform secretariat, composed of relevant ministers, members of parliament, officials, experts, representatives of local government associations, etc.	The reform secretariat is an independent body that reports to a parliamentary committee (for democratic oversight) but may be hosted within central government (to ensure access to relevant data).
Jan 2014	Central guidelines finalised by reform secretariat and transmitted to Regional Councils. Regional assessments begin, supported by technical assistance to compile relevant background information and write reports (first draft due by April).	The central guidelines will give more details on overall outcome, criteria and safeguards, and might also provide comparable data. Regional assessments will consider concrete changes to the administrative map, taking account of local conditions, and assessing the impact.
Early 2014	Government decides on (and credibly commits to) financial incentives to be provided to merging entities.	Ideally, financial incentives would form part of a wider reform of local finance legislation.
Spring 2014	Regional Councils and Prefects organise local information meetings and public hearings on the proposed reform.	Law 8652 requires the final 'reform bill' to document methods used to collect the opinions of the community.
Apr–May 2014	Deadline for first draft of proposals from Regional Councils. Reform secretariat suggests amendments where necessary.	Proposals indicate a division of the region into X blocks representing new local authorities, even if not all constituent communes and municipalities agree to merge at this stage.
May 2014	Establishment of 'amalgamation bodies' for each block of communes and municipalities.	These bodies play a key role in technical preparations, but would also serve to channel financial and technical assistance.

c. Jun 2014	Further local hearings to gauge public opinion on concrete proposals.	
Jul 2014	Regional Councils submit an amended draft, taking into account comments and consultation results. Reform secretariat then finalises proposals for all regions for approval by the parliamentary committee.	
Summer 2014	Formal consultation of inhabitants of local authorities that would merge voluntarily in time for the 2015 local elections.	Constitution requires the opinion of the inhabitants to be taken before changing boundaries.
Sep 2014	Formal consultation of affected regional, municipal and communal councils and of interested state institutions.	Required by Law 8652 (Art. 68), which allows 60 days for responses. Official opinion of municipal, communal and regional councils and their chairmen, including those councillors opposed to the reform.
c. Nov 2014	'Reform bill' amending the law on administrative-territorial division tabled (with amendments to the legislation on local government organisation and finance where applicable).	Timing assumes that six months are required for Parliament to debate and adopt the bill, and for preparation of the new electoral divisions. Votes of at least three-fifths of all members required.
May 2015	First local elections under the new territorial division.	

This outline of course leaves many details of the process open for discussion. These would need to be resolved by Albanian experts and decision-makers in time for the 'roadmap bill'. In our view, for example:

- there should be scope for flexibility in cases of natural groups of local authorities that span current regional boundaries (e.g. the Zadrime inter-municipal cooperation zone between Shkoder and Lezhe)
- the central guidelines should require Regional Councils to include safeguards in their proposals, for example the maintenance of physical contact points with the local administration within a certain distance of all settlements, or equal treatment requirements for certain services
- the guidelines will also need to specify the form that public consultations should take, and although referenda are a possibility (according to Law 8652 and the European Charter), these are not necessarily a useful instrument when it comes to boundary reform.<sup>14</sup>

<sup>14</sup> The Albanian constitution requires the opinion of inhabitants to be taken but does not specify how. The example of Macedonia's national referendum in November 2004 (an unsuccessful bid by opponents of the territorial reforms passed in August to have these repealed) serves to illustrate the point that referenda often have little to do with the question posed on the ballot paper. According to Kreci and Ymeri (2010, p. 139), the referendum 'seriously affected the ongoing progress of decentralization in Macedonia, leaving lasting unwarranted misperceptions on decentralization of the general state of affairs, as well as inflaming ethnic

Table 6 below provides a first assessment of the impact of a comprehensive territorial reform as outlined (i.e. by 2019 or later, once the full reform has been implemented).

One important point from the table (also noted in the introduction to this chapter) is that, while territorial reform *per se* would lead to a modest increase in revenues and cost efficiency, these effects by themselves will not be on such a scale as to make an appreciable difference to financial decentralisation. Anecdotal evidence may suggest potentially large economies of scale in certain fields (for example, the integration of urban planning departments when surrounding communes join a large municipality). But the data presented in chapter 3 imply that increased revenues from better tax collection and increased cost efficiency might amount to an increase in real local resources in the order of 15–20 per cent at most for smaller communes, or perhaps 5–10 per cent for the country as a whole.

This is a significant improvement but still far below what will be needed in order to make decentralisation a reality. USAID (2012), for example, advocates a gradual increase in local government revenues from 2.2 per cent of GDP at present to 5–6 per cent over the next five years, i.e. an increase of well over 100 per cent. Thus territorial reform will need to go hand in hand with reform of intergovernmental finance. Still, a reform similar to that recommended here would lower one of the main practical and political obstacles to greater financial decentralisation – the perception that additional funds would be wasted on administrative expenses in small communes instead of leading to concrete improvements in services.

We have purposefully avoided going into too much detail regarding the party-political implications of territorial reform, not because we are unaware of the main parties' strengths and weaknesses in different regions and types of local unit, but in deference to the principle that territorial organisation ought to be decided upon in the interests of the country as a whole. The advantage of a relatively radical approach is that this may help to transcend party-political bickering, encouraging leaders to adopt a principled stance. Besides, we see little reason to suppose that reform along the lines proposed here would have a predictable impact on the balance of local political control in the country as a whole. Calculations at the regional level may be more complex, but as noted above, postponing these may actually help to facilitate the process.

Of course political calculations will be inevitable to some extent, which is why it is important for the main parties to reach a common understanding of the likely impact of a reform before proceeding. The prospect of influential posts within significantly more powerful local administrations may be sufficient to persuade some senior local figures that they stand to benefit. Nevertheless, one clear impact (other things being equal) will be a substantial reduction in the number of mayors and local councillors, which in itself can be expected to generate a good deal of opposition from some local party members. Political leadership will be decisive in focusing public debate on the real issues for local government rather than the personal interests of those who stand to lose or gain. The role of associations such as AAC in representing the interests of local government as a whole will also be crucial, which is why it seems particularly appropriate to us that AAC is the originator of the present study.

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tensions once again.' Local referenda on a mandatory reform may also be an unfortunate instrument, since areas that vote 'no' may well have to restructure anyway if most other localities are in favour (as has happened, for example, in regional reforms in England).

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**Table 6: Preliminary assessment of the impact of the recommended reform**

Area of impact	Expected impact
Number of local authorities	From 65 municipalities and 308 communes today to 80 new local authorities
Average population	Rises from 7,592 to 35,397*
Average surface area	Rises from 77 km <sup>2</sup> to 359 km <sup>2</sup>
Revenue	Marginal increase (< 5%) in per capita revenue thanks to improved collection of taxes and fees.† More significant potential increase from donor funding if local authorities are seen as capable of managing larger projects, though this depends on local leadership as well as size.
Expenditure	Overall increase in line with revenue as local authorities are able to fulfil more of their responsibilities. For small communes, a shift of resources and personnel (max. 15–20%) from administration to service delivery. A similar reduction in unit costs for services might be expected on average, thanks to scale economies. Significant improvements expected in the quality of service delivery through dedicated and specialised personnel.
Number of representatives	The number of mayors falls from 373 to 80. The number of councillors will depend on the precise configuration of the reform, but is likely to fall by more than half, assuming no change to Art. 24 of the local government law.‡
Intermunicipal cooperation	Greatly facilitated: a regional landfill project, for example, would require the signature of 5–8 mayors instead of 30.
Administrative decentralisation	Positive: all local governments operating on a scale that should enable more efficient direct delivery of some services while facilitating cooperation on larger projects. Safeguards needed to ensure citizens' access to decision-makers and services in remote areas.
Political decentralisation	Highly positive: key political obstacle to <i>de facto</i> decentralisation (small and inefficient local units) removed; local government acquires a stronger and more unified voice vis-à-vis central government (in part through the removal of the distinction between communes and municipalities).
Financial decentralisation	Weakly positive: an increase in real local resources (revenue plus increased efficiency) in the order of 5–10%; but revenue increases of 100% or more will be needed to enable local authorities to fulfil their responsibilities according to the local government law.

Notes: \* Based on the 2011 preliminary census results. † Assuming other things equal as regards intergovernmental transfers. The limited increase in own revenues partly reflects the recent decision to shift collection of key local taxes to the central level. ‡ See the note to Table 1 above for the current provisions, which allocate a higher number of councillors per capita to smaller communes.



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## Appendix 1: The reform process in Sweden

The primary motive for the two far-reaching territorial reforms in Sweden was the wish to preserve and strengthen local self-government. Swedish municipalities have traditionally had considerable responsibility for those community services that are closest to the people, such as primary and secondary education, childcare, elderly care, social welfare and technical infrastructure such as water, sewage, waste collection and cleaning. These activities are financed for the most part by the income tax that municipalities levy on their inhabitants and user charges (e.g. for water, sewage and waste collection).

Against this background, there was widespread recognition among municipal representatives of the need for territorial reform. This was true of the 1952 reforms, which addressed only rural municipalities, as well as the more comprehensive reforms in 1962. Internal migration, and the resultant growth in the number of sparsely populated municipalities, brought questions concerning the extent of local responsibilities into focus. Many municipal representatives feared that the alternative to amalgamation would be the transfer of certain functions from the municipalities to regional or central authorities. Local self-government would thus be undermined.

Support for the municipal reforms in Sweden was not universal. The balance between local democracy and efficiency was a key issue in the debate. But support for the reforms – as expressed by the municipalities' own representative associations, among others – was substantial.

As noted, the 1952 reform concerned only rural municipalities and involved mergers that reduced their number to approximately one-third of the previous total.

The 1962 reform created an entirely new municipal structure and affected towns and cities as well as rural municipalities. A state committee proposed the principles for the new territorial division, based on the so-called central place theory. The country would be divided into new municipalities, all of which would consist of a central settlement and a natural periphery.

Parliament approved the proposed principles for a new territorial division, with a considerable majority of MPs in favour.

The county administrative boards (the state administration at the county level) were given the task of planning the new territorial division within each county by constructing so-called municipal blocks, consisting of towns and surrounding rural municipalities. The government confirmed the division into municipal blocks, of which there were 282 in total.

The reform as adopted by Parliament was voluntary in so far as municipalities themselves could decide when mergers would take place. Within each municipal block a cooperation organisation composed of representatives of the different municipalities was designated, with the task of preparing for amalgamation.

However, it soon became clear that the planned amalgamations would take much longer than had been anticipated at the time of the parliamentary decision. In many municipal blocks, cooperation was progressing very slowly. To eliminate the risk of an excessively drawn-out process, which would mean a widening of the differences between communes that chose to merge quickly and those where cooperation was slow, the government proposed in 1969 to set

a deadline for the full implementation of the reform in the country as a whole. Municipalities were given the choice of merging either in 1971 or in 1974, these dates corresponding to the local (and general) elections in 1970 and 1973 respectively.

Parliament approved the government's proposal to abandon the voluntary aspect of the reform and instead lay down a firm timetable for municipal amalgamation. In contrast to the earlier parliamentary decisions on Swedish territorial reforms, there was considerably more disunity on this occasion. All of the opposition parties were against setting a firm deadline for the implementation of the reform.

After the completion of the territorial reform in 1974 a number of smaller adjustments in the territorial division have taken place. There are now 290 municipalities in Sweden.

## Appendix 2: Additional tables and figures

Figure A1: Administrative map of Albania



Note: red boundaries show regions, yellow districts and black communes/municipalities  
 Source: INSTAT

**Table A1: Population by region and district**

Region	Projections 2010	Census 2011	Difference	District	Projections 2010
Berat	170,845	140,964	-17.5%	Berat	117,066
				Kuçove	34,907
				Skrapar	18,872
Dibër	140,002	136,630	-2.4%	Bulqizë	28,374
				Dibër	62,825
				Mat	48,803
Durrës	310,499	265,330	-14.5%	Durrës	242,801
				Krujë	67,698
Elbasan	343,115	296,082	-13.7%	Elbasan	224,689
				Gramsh	24,230
				Librazhd	63,192
				Peqin	31,004
Fier	374,074	310,989	-16.9%	Fier	199,442
				Lushnjë	143,276
				Mallakastër	31,356
Gjirokastrë	102,549	75,172	-26.7%	Gjirokastrë	56,720
				Përmet	22,029
				Tepelenë	23,800
Korçë	257,576	220,438	-14.4%	Devoll	33,785
				Kolonjë	14,318
				Korçë	138,898
				Pogradec	70,575
Kukës	79,303	85,239	7.5%	Has	17,419
				Kukës	45,624
				Tropojë	16,260
Lezhë	158,829	135,609	-14.6%	Kurbini	54,977
				Lezhë	77,184
				Mirditë	26,668
Shkodër	246,060	217,375	-11.7%	Malësi e Madhe	36,091
				Pukë	24,323
				Shkodër	185,646
Tirana	800,347	763,634	-4.6%	Kavajë	82,921
				Tirana	717,426
Vlorë	211,773	184,279	-13.0%	Delvinë	11,985
				Sarandë	48,474
				Vlorë	151,314
<b>Albania total</b>	<b>3,194,972</b>	<b>2,831,741</b>	<b>-11.4%</b>		

Source: INSTAT

**Table A2: Composition of revenue by size of local authority**

Population	Revenue per capita (Lek)	Total from local sources (%)	Unconditional transfers (%)	Conditional transfers (%)	Loans (%)
Under 1,000	10,583	10.4	88.3	1.3	0.0
1–2,000	6,956	7.7	90.9	1.4	0.0
2–3,000	5,734	10.8	86.9	2.3	0.0
3–5,000	4,349	12.4	84.6	3.0	0.0
5–7,000	3,959	23.3	73.7	3.0	0.1
7–10,000	3,878	37.4	59.3	3.3	0.0
10–15,000	4,822	37.3	59.6	3.2	0.0
15–20,000	4,718	41.7	55.9	2.4	0.0
20–50,000	8,037	49.1	42.3	8.0	0.6
Over 50,000	6,250	58.9	33.4	6.9	0.9

Notes: See Table 2 in section 2.3

Source: Data provided by the Ministry of Finance

**Table A3: Composition of expenditure per capita by size of local authority**

Population	Total (Lek)	Public service (% total)	Transport (% total)	Education (% total)	Culture & sport (% total)	Water supply (% total)	Social protection (% total)	Other (% total)
< 1,000	7,861	100	0	0	0	0	0	0
1–2,000	6,967	81	16	1	0	1	0	1
2–3,000	5,942	71	24	1	0	2	0	2
3–5,000	4,477	73	22	2	0	2	0	0
5–7,000	4,435	68	26	2	1	2	0	1
7–10,000	4,767	63	26	3	2	6	0	0
10–15,000	4,977	69	19	4	3	5	1	0
15–20,000	4,765	60	24	5	3	7	1	1
20–50,000	7,847	57	23	5	7	6	2	1
> 50,000	6,578	56	20	9	10	1	2	1

Notes: See Table 2 in section 2.3

Source: Data provided by the Ministry of Finance



## Appendix 3: Options for reform as presented at the AAC workshop

<b>Option 1: Voluntary mergers</b>	
Method	Communes and/or municipalities that wish to merge agree to do so on a voluntary basis. Government might provide coordination, assistance with preparations and possibly financial incentives. The prospect of a second stage of compulsory reforms could also serve as an incentive.
Likely outcome	Initially, perhaps half a dozen mergers within groups of two to four local authorities. Reduction in the number of units from 373 to around 361. Average population up from 7592 to around 7844.* Substantial benefits for those that merge, but minimal impact elsewhere. Most small communes and municipalities remain.
Key advantages	No local authorities forced to merge against their will (at least in a first stage). <i>Ad hoc</i> reforms fully compatible with local democracy.
Key disadvantages	Likely to prove ineffective judging by both Albanian and international experience. <i>Ad hoc</i> reforms not necessarily compatible with a subsequent nationwide reform. Risk of missing political opportunity for a wider reform.
* Based on the preliminary results of the 2011 census	

<b>Option 2: Amalgamation of small communes</b>	
Method	Inefficient communes identified on the basis of criteria such as low population, high administrative expenditure, low investment or poor service delivery. Barring exceptional circumstances, they would be required to merge, albeit with some flexibility to take account of local conditions.
Likely outcome*	Supposing all communes with fewer than 3,000 inhabitants are paired with a neighbour, around half with larger units and half with another smaller one. The number of units then falls by an estimated 101 to 272; average population rises from 7,592 to 10,411; approximately 100 units with fewer than 5,000 inhabitants remain. Some efficiency benefits in the merged entities, albeit at the expense of local democracy. However, some relatively small and inefficient communes will remain, depending on the thresholds chosen, and in the case of poor, sparsely populated communes, amalgamation alone will not solve the problems they face.
Key advantages	Clear rationale that addresses the most apparent problems with the current territorial division. Straightforward procedure that might make for a swift and effective reform if there is sufficient political will.
Key disadvantages	Ignores scope for efficiency gains from mergers between larger units, or between municipalities and communes. Top-down approach liable to conflict with local democratic preferences. Political opposition from party members in small communes who stand to lose out.
* The figures here are highly approximate, being based on estimates using the preliminary census results. These estimates (see Figure 4 in the full report for details) indicate that there are around 135 local units with a population of 3,000 or less and a further 105 with population between 3,001 and 5,000.	

### Option 3: Asymmetric reform: amalgamation and/or delegation of powers

Method	Amalgamation on a voluntary basis, but resources and responsibilities assigned to local authorities depending on their capacity to deliver services efficiently. Smaller and/or inefficient units then liable to have powers and funds transferred to the regional level. May also be followed by a compulsory reform if voluntary restructuring does not occur.
Likely outcome	Depends largely on capacity assessments and the allocation of funds, but likely to fall somewhere between the 'voluntary' and 'small communes' scenarios. Some small communes would decide to remain independent, while other slightly larger ones might elect to merge.
Key advantages	No local authorities forced to merge, strictly speaking. At the same time, incentives also for larger units to merge where scope for efficiency gains. Action on a regional scale in some areas might also foster efficiency.
Key disadvantages	Creation of different categories of local authorities open to question democratically. Unclear how to assess capacity to deliver services or how to allocate resources among different functions. Potential coordination problems between local and regional governments.

### Option 4: Restructuring within regional boundaries

Method	Regional councils together with prefects prepare detailed reform proposals on the basis of central guidelines and thorough analysis of specific conditions in the region. The central guidelines would specify a target number of local authorities (an average of X) per region. Central authorities could suggest amendments and ultimately decide themselves if a regional council proved unable to agree on a workable solution.
Likely outcome	At present the average number of local authorities per region (X) is 31, with a range of 16 to 50. A target of 100–150 local authorities implies X of between 9 and 12. Average population would rise from 7592 to around 19–28,000. Most of today's small communes and municipalities would be merged, either with each other or (perhaps more likely) with a larger municipality.
Key advantages	An effective (compulsory) reform process, yet still democratically anchored at sub-national level. Open for a variety of solutions, thus avoiding exclusive focus on small communes. Regional focus might pave the way for greater inter-municipal cooperation between merged entities.
Key disadvantages	Top-down determination of central guidelines and arbitrary choice of X. Large increase in surface area of some local authorities in some scenarios. Risk of undermining political consensus for reform if debates in Regional Councils become polarised.

**Option 5: Return to the districts**

Method	In effect a special case of restructuring within regional boundaries with an initial target of 2–4 local authorities per region, which in most cases would be expected to correspond to the current 36 districts. There may be exceptions, for instance where there is more than one urban centre in the same district, or in the case of historical zones spanning current district boundaries.
Likely outcome	Supposing half a dozen exceptions where districts are split into two, this gives a total of 42 local authorities with an average population of 67,422 inhabitants (among the largest in Europe). All new authorities would have at least one urban centre, so that the distinction between municipalities and communes would disappear.
Key advantages	Bold step towards strong decentralised government with the prospect of substantial improvements in service delivery. New local authorities have some historical and cultural roots.
Key disadvantages	Government significantly further away from the people would require complementary measures to safeguard local democracy. Certain to generate substantial local opposition.



**Territorial Reform in Albania: Study for the Albanian Association of Communes**

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SKL International  
Hornsgatan 15  
SE-118 82 Stockholm, Sweden

**Phone:** +46 8 452 70 00  
**E-mail:** [info@sklinternational.se](mailto:info@sklinternational.se)

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