



ADMINISTRATIVE AND **TERRITORIAL REFORM**

ANALYSIS OF THE LOCAL GOVERNMENT SITUATION IN ALBANIA

(EXECUTIVE SUMMARY)

GENERAL REPORT

TO THE COMMITTEE ON ADMINISTRATIVE AND TERRITORIAL REFORM

April 2014

This report has been prepared in the framework of the governing majority initiative to undertake the Administrative and Territorial Reform in Albania, under the auspices of Mr Bledar ÇUÇI, Minister of State for Local Government and with the support of a number of donors and international partners, under the coordination of STAR Project implemented by the United Nations Development Programme (UNDP).

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I. Introduction

The Albanian Government and Parliament have undertaken the Administrative and Territorial Reform with the ad-hoc Parliamentary Committee in close coordination and cooperation with the local government units. The Minister of State for Local Government is in charge of leading the Government work for the development and implementation of the Administrative-Territorial Reform in Albania, in line with the national legal framework, Albania's international commitments to local government autonomy, and the best international practices for such a reform.

The Administrative and Territorial Reform aims to increase the cost efficiency of local units, so that they can provide better services and make sure that citizens and communities enjoy more access to such services.

The current territorial division does not reflect the pace of economic and social, demographic and infrastructural developments in our country since 1992, migration, technological progress and the growing expectations of citizens regarding public services to be delivered by the local government. The great fragmentation and the smaller units capacity regarding service provision have hampered the development of a democratic local government.

The territorial consolidation shall enable the delegation of more services to the local government, which through larger local government units will have more capacity to exercise a greater range of functions and have a more opportunities to promote local democracy. The primary aim of this territorial consolidation is the establishment of economies of scale, absent up to now, which shall enable the larger local government units to provide more effective and cost-efficient services.

This report seeks to provide an empirical analysis of the current situation that will later serve as a starting point for the second report foreseen to be submitted to the Parliament with a concrete proposal for the new territorial division. The analysis is the outcome of the team of experts for the implementation of the Administrative and Territorial Reform at the Minister of State for Local Government, the technical experts and a large network of local coordinators funded by the STAR Project (Support to Territorial and Administrative Reform) implemented by the United Nations Development Programme (UNDP). This analysis was made possible through the serious commitment of all stakeholders at central and local level, and particularly of the Institute of Statistics (INSTAT), the Ministry of Finance and other line Ministries.

II. Executive Summary

Decentralisation of the government in Albania dates back at the beginning of the '90s when local authorities were for the first time elected democratically. Although we may not yet speak about administrative or fiscal autonomy, the 1992 reforms set the grounds for the establishment of democratic local authorities, that gradually paved the way towards taking over more responsibility and functions. Unconditioned ratification of the European Charter of Local Self - Government (8548/1998) and the approval of the Law "On Organisation and Functioning of Local Government" (8652/2000) mark the second important moment in the decentralisation of government, thus establishing the framework for full administrative and fiscal decentralisation. Both these documents determine as one of the main objectives of the decentralisation reforms in Albania the need for Local Government Units to be able to provide the transferred functions to the citizens.

In this context, the Law "On administrative-territorial division of local government units" (8653/2000) was approved as part of the government decentralisation reforms. Basically, the 2000 administrative division seeks to preserve the historical boundaries of municipalities, communes, districts or prefectures (referring to the beginning of the 20th century) by merging district administrative boundaries with regional ones.

This package of reforms, which defined the main government decentralisation framework in Albania, was built upon the presumption that local government units, unable to provide the transferred functions and responsibilities on their own, would make use of the option provided by the Constitution of the Republic of Albania and the Law "On organisation and functioning of local government" and merge, or engage in interlocal cooperation. It was upon this presumption that the laws and instructions that completed the fiscal and administrative decentralisation framework were compiled, and the intergovernmental transfers and grants were designed until 2006. However, except for a few cases¹, no voluntary mergers of LGUs have occurred in these 14 years of their functioning.

¹ In 2003, two communes, Barbullush and Bushat in Shkodra region merged into one local government unit, the Bushat Commune (Law 9123/2003)

Under these circumstances, in 2003 the discussion on the administrative and territorial reform was restarted, and pursuant to a policy paper prepared by the Council of Europe, in 2004 a bill on the administrative-territorial reorganisation of the country was drafted.

The bill provided for a number of criteria, basically aiming to meet the aforementioned objective for local government units capable of generating revenues and efficiently providing their functions stipulated in the Law. The bill failed to find political consensus and therefore was not approved in Parliament.

The year 2005 marks another significant moment in the government decentralisation process, and the change of government also changed the strategic approach to the fiscal decentralisation process. The intergovernmental transfers and grants system was reformed, introducing the almost full fiscal equalisation as the instrument that would solve the problem of small and very small local government units to generate revenues and provide services to citizens. This approach, supported by the idea that it preserved and improved democratisation of government, created instead confusion as to what was defined by decentralisation strategy as good and effective government.

The dilemma on establishing larger local government units, able to provide more efficient services, make better use of financial resources and respond to the need for representation closer to the citizens (government decentralisation) in fact constitutes the main topic upon which the discourse has focused so far.

But there are also a number of other issues to be addressed by the administrative-territorial reform:

- (i) large level of fragmentation - 20% of Albania's population live in 232 LGUs or over 75% of the total LGUs have less than 5,000 inhabitants - resulting in very high administrative costs in providing services to citizens;
- (ii) (ii) the issue of limited human resources frequently faced by small local government units, resulting in the inability to exercise local functions, generate and collect revenues and provide services;
- (iii) the pending administrative and fiscal decentralisation process, resulting to some extent from poor local government units capacity, but also from frequent and chaotic interventions to the legal basis, the reduction of fiscal autonomy and lack of financial coverage of mandates for shared functions;
- (iv) unclear role of regions as coordinators and supporters in exercising local functions;
- (v) the need for an internal regional development policy that complies with the EU integration requirements and the necessity for multi-level governance, including the regional one; etc.

A number of projects, donors, local stakeholders have, over the years, nourished the discourse on administrative-territorial reform or that of administrative and fiscal decentralisation of government.

Thus, following the 2003 Secretariat of the Council of Europe, the World Bank undertook a comprehensive assessment of the Government Decentralisation in Albania and proposed a number of reforms pertaining to administrative and fiscal decentralisation and the territorial reform, among which prevails the recommendation on asymmetric allocation of LGUs functions and responsibilities regarding human resources and fiscal capacity.

The Organization for Security and Co-operation in Europe (OSCE), the United Nations Development Programme (UNDP) and the Swedish Institute for Public Administration (SIPU) during 2005 - 2006 reinstated the need for administrative and territorial reform, associating it to the regional development and the establishment of economic regions, also regarding it as one of the preconditions towards EU integration and accession.

Planning and Local Governance Project (PLGP) funded by the United States Agency for International Development (USAID) in 2012, reiterates the need for administrative reform, closely connecting it to the improvement of decentralisation in governance and the local services delivery. Special attention is drawn to the negative impact the reforms undertaken had on the transfers system, fiscal autonomy, responsibility and functions transfer and the deadlock they create in local government.

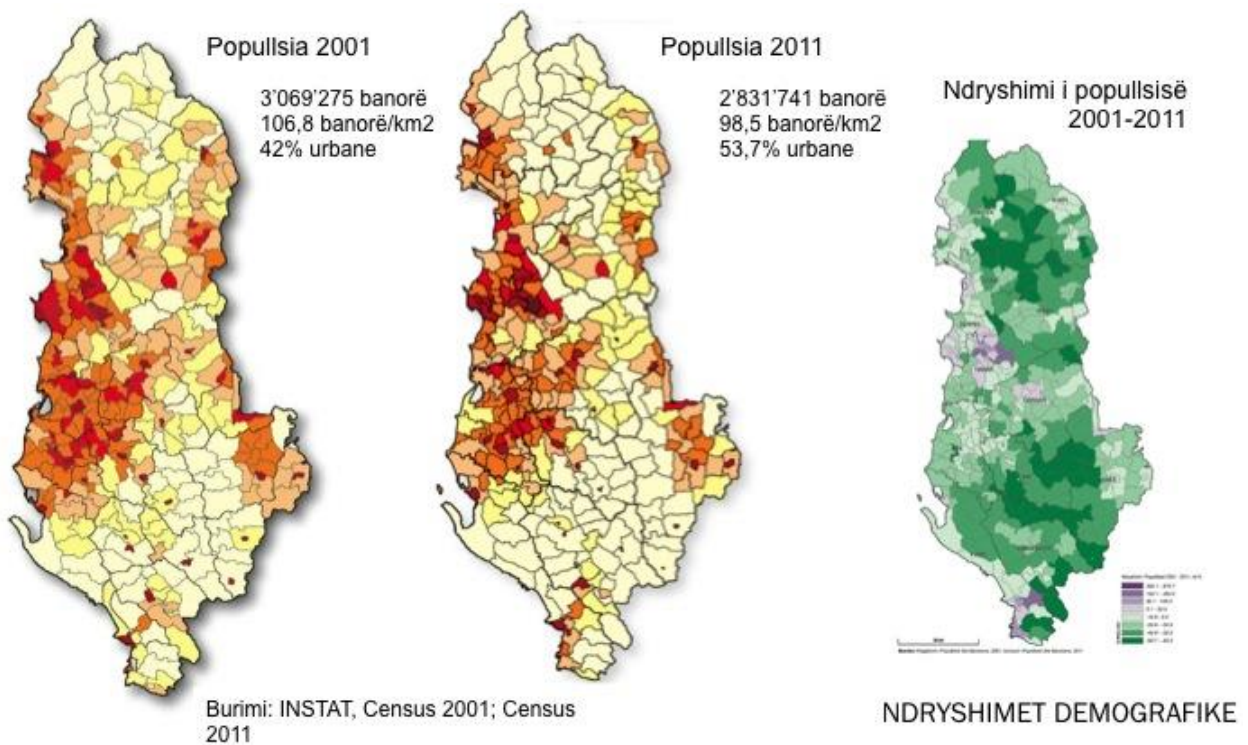
The Regional Development Programme funded by the Austrian and Swiss Development Agencies (ADA & SDC) enriches the discourse on the need for administrative and territorial reform, focusing on the role of second-level local government and scrutinizing the sub-national governance in terms of multi-level governance and regionalisation.

SKL International & the Albanian Association of Communes (AAC) funded by the Swedish International Development Cooperation Agency (SIDA) in 2012 add another study to the discourse, and based on previous contributions, come up with recommendations for administrative and territorial reform in the first level of local government.

Why is the administrative-territorial reform regarded as a necessity by all the stakeholders involved in the governance and decentralisation arena in Albania? We are hereunder advancing only four of the reasons that make it indispensable to undertake this reform as soon as possible:

1. Demographic changes

Over the ten or eleven years following the decentralisation reforms undertaken in 2000, the country has undergone a number of demographic, social and economic changes. The demographic map of Albania has changed as a result of people's internal migration and emigration abroad.



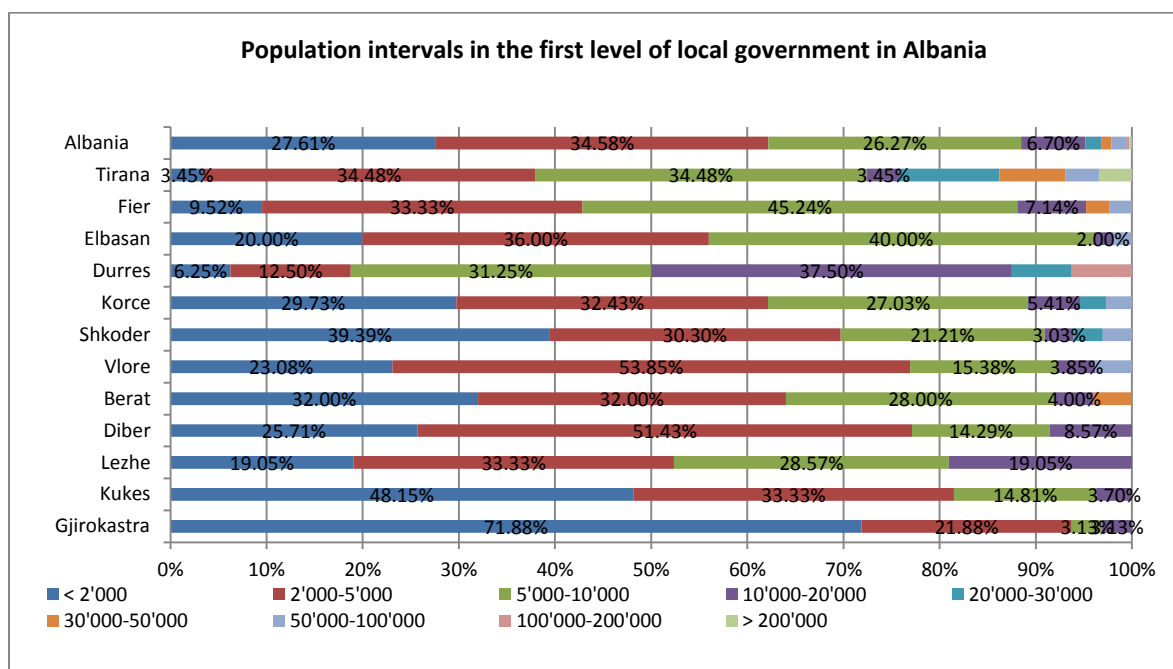
Resident population in Albania has declined based on the previous census results and for the first time the population is more concentrated in urban areas. About 2/3 of LGUs see a change in population by roughly 25%. This migration had its own impact on local government units in Albania, a part of which has had to accommodate the increasing needs of inhabitants for services, whereas other local government units suffer the consequences of the inhabitants internal migration.

2. Fragmentation of local government, both in terms of service delivery and democratic representation

Another important argument broadly discussed in terms of the need to reform is the high level of LGUs fragmentation. Even more than fragmentation itself, what impresses the most is the variety in size, surface area, population and especially in the density of local government units.

As mentioned above, the 2000 reform approach was the democratisation of government, namely the citizens will be represented in their local needs and have direct access to decision-making.

After the 2000 administrative-territorial reform, Albania resulted to have 373 LGUs with an average population of 7,579 inhabitants².



Source: INSTAT, Census 2011, Our calculations

² Based on the 2011 Census data

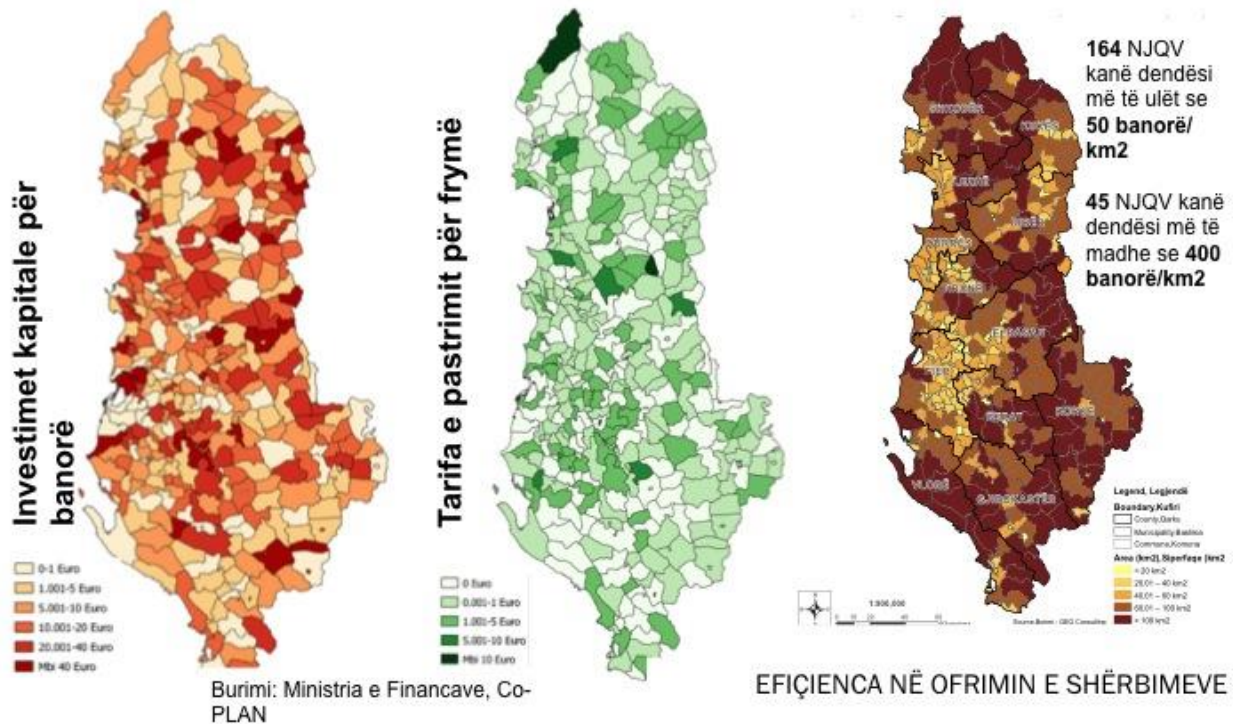
Considering the Albanian situation, this division is considered highly fragmented. As of today, 23 LGUs in Gjirokastra region (out of 32 total LGUs in this region) have less than 2,000 inhabitants. In Kukes region, out of 27 total LGUs, 13 have less than 2,000 inhabitants and 22 have less than 5,000 inhabitants. The situation is even more dramatic if we take as reference the population density in the local government units. 235 LGUs (accounting for 63% of LGUs) result to have a population density lower than the average national level of 97.4 inhabitants/km² (INSTAT, Census 2011). We should not forget that these LGUs have the same responsibilities and functions towards their citizens. This means that the unit costs for the service provided to citizens is significantly higher in this group of local government units.

While the argument related to the democratisation of governance goes hand in hand with smaller and directly represented local government units, the high degree of fragmentation in local government units seems to hamper the full decentralisation of services and responsibilities due to the lack of capacities and failure to guarantee economies of scale, hence the lack of economic efficiency in providing functions, serving also as a counter argument for democratisation.

However, as a result of this fragmentation, in Albania today there are 232 directly elected chairmen (62% of the total LGUs) and about 3,000 councillors at local level, representing only 19% of the population (referring to LGUs with less than 5,000 inhabitants). Whereas 45% of the population is represented by 18 chairmen directly elected and 620 councillors elected in the proportional system (referring to LGUs with more than 20,000 inhabitants). Hence, the representation of citizens at local level is unfairly distributed, putting into question also the achievement of the objective for governance democratisation at local level.

3. Lack of efficiency in service provision at local level

The third very important argument on the need for administrative-territorial reform is the efficiency in service provision. Let's see how LGUs have used public funds in providing services to citizens. If we refer to the data of the Ministry of Finance for 2012, we will notice that 70 LGUs (19% of the total) have not used any funds for investment during 2012. LGUs in Albania spend on average 27% of their budget on capital investment and 37% on salaries. 40 LGUs spend over 80% of their budget only for staff salaries, whereas 230 LGUs (63% of LGUs and representing 34% of the country's population) spend over 60% of their budget on staff salaries.



There is a positive correlation between capital investment per capita and the surface area of local government units, and if we also add the population density map we will notice this correlation is even more evident. Thus, the smaller the number of inhabitants settled in a large area, the higher is the need for capital investment. Reorganization of local government units enables the provision of more efficiently distributed investments; this especially with regards to education, road infrastructure, waste management, etc. Large fragmentation of units increases the costs for services delivery. The above map, which displays the value of capital investment per capita, is largely fragmented and shows that although the types of investments are generally the same, the cost for providing many services (and the construction of the respective infrastructure) varies depending on the surface area and the number of population, i.e. the density of inhabitants (without taking into account, at present, other factors). The map of cleaning and waste collection tariff per capita conveys the same message, but this time from the taxpayer's perspective. What may be noticed is that the waste collection service (although lacking the appropriate standards) has a different cost for citizens in local units with different sizes and density.

4. Inability to foster and support local economic development, and the high level of inequality between local government units

Another important argument emphasising the need for administrative and territorial reform is the inability of almost all the local government units today in Albania to support and foster local economic progress and the high level of inequality resulting not only from the administrative and territorial division but also from the fiscal decentralisation policies implemented over the years.

LGUs play an important role in the economic development. They are jointly responsible for attracting/fostering and retaining investments in their territory by improving the business environment. The most effective instruments for the local economic development are the various strategies/actions that enable the necessary infrastructure and facilities for the business. Based on this logic, some of the indicators³ we have used to evaluate the environment and opportunity for economic development that a LGU may offer are: (i) Revenues from business tax per capita (former tax on small enterprise, or the simplified profit tax) compared with the national average of the tax per capita; (ii) Revenues from real estate tax (land and building) per capita compared with the national average; (iii) number of businesses per LGU; etc.

Analyses indicate that LGUs with a higher potential (generally those more densely populated and with a higher number of economic activities) have a greater possibility to generate more revenues and consequently provide more services. Another important factor affecting the situation relates to human resources existing in large local government units and vice-versa, but are absent in small units. Consequently, the main contribution regarding the tax on small businesses (today the simplified profit tax) is given by 25 LGUs that have a high population density and manage to generate about 44% of the TSB. Tirana alone generates about 18% of the TSB.

Last, the high level of inequality existing between LGUs also becomes an important argument in favour of the need for reform (the distinction is more evident among urban units and rural units with a low population density). To this end, we have also referred to a number of indicators that assess the LGUs' fiscal and financial capacities compared with their counterparts in the region or nationwide.

³ These indicators are itemized for every local government unit in Appendix "Analysis of the financial and economic situation of the local government units according to the regions" attached herewith.

With reference to these indicators we may say that the level of inequalities resulting from the lack of equal opportunities of LGUs to provide services is closely linked to the LGUs size (surface, population, density) and capacity.

Furthermore, analyses show that subsidy policies addressing small local government units through fiscal transfers and equalisation have not, in essence, helped remove inequalities and have not guaranteed sustainable development.

II.1 Overview of the local government situation

Albania's administrative structure has undergone radical changes since the end of the '90s, which marks the beginning of the decentralisation reform. The decentralisation policy has not always been stable, but has had its ups and downs over the years.

One of the main challenges for the current local government in Albania is to fulfil the growing expectations of citizens for better services and governance. Decentralisation and urbanisation have resulted in higher pressure on local government units for funding public services and facilitating economic development. Whereas the functions and responsibilities of local government units have increased during the last decade, the fiscal decentralisation and funds transfer have not progressed at the same pace, thus resulting in considerable lack of financing in local infrastructure.

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The relative weight of local government to the Gross Domestic Product and to the total budget expenses remains relatively low with about 2.9% and 10.2% respectively during 2012. This ratio has fallen since 2009 (4.7% and 14.2%).

Weak and unconsolidated capacities, and the structural and institutional implications still remain obstacles to the intensification of decentralisation. Strengthening the local capacities for the fulfilment of their functions and especially for collecting the necessary financial resources depends on several factors, notably the strengthening of fiscal autonomy through fiscal authority to generate revenues (service taxes and fees) at local level; and the predictability and stability of intergovernmental fiscal transfers.

However, during this period substantial qualitative changes have occurred in the structure of local finances. Although a large part of local government units continue to depend to a great extent on the revenues from national sources, revenues generated from their own sources have increased and new sources are being used.

Under a situation of “competition” for budget funds and modest capacity to generate local revenues, the local government units continue to face considerable lack of resources for investment, especially for those requiring big capital such as the road infrastructure and water supply/sewerage infrastructure. Their budgets are generally low and unable to cover funding for large infrastructure improvement projects. Although state budget funds for investments in infrastructure (mainly competitive grants/Regional Development Fund) have been growing over the recent years, their impact is still modest compared with the needs. Coercive fiscal policies that started to be implemented by the Ministry of Finance during the recent years in order to handle the financial crisis also imply that no significant growth is to be expected for several years to come. Moreover, legal initiatives undertaken in 2009 (adjusted as of 2014) regarding the restriction of fiscal autonomy as well as the restriction of the borrowing authority in order to retain the public debt levels, have breached the financial potential of local government units even more.

Municipalities and communes constitute the first level of local government, having full powers in administrative, regulatory, services and investment fields on own functions (exclusive), including a wide range of local public services - communal services, economic development, and social and cultural services. Today municipalities and communes exercise a broad range of exclusive functions, starting from the construction and maintenance of local roads and waste management, as well as social and recreational functions. Moreover, municipalities and communes have a shared responsibility to perform other functions such as maintenance and investments in pre-university education facilities as well as social assistance and poverty mitigation.

Local government units are relatively high in number, therefore no wonder there are variations and inequalities among them regarding local capacities, ability to collect revenues and service delivery.

The topic of local government units consolidation has been constantly brought up by various policy-makers since 2003, but it was not clear whether it would really bring benefits with regards to saving administrative costs or the best potential for economic development.

Capacity building at local level is another reasonable concern, especially taking into account the fact that many local government units are located in remote areas, and are unable to attract qualified staff. Many local government units, in particular municipalities, have benefited from technical assistance and training programmes by various donors. Reaching a conclusion on the quality of local administration in general is not an easy task, as the latter depends on the local context and the needs and priorities of each community. Municipality administration (and the communal staff after the entry into force of the new law on civil service) is part of the civil service, which apart from the quality of staff, also implies additional costs for recruitment, training and qualification standards. This does not mean that the difference in quality between municipalities and communes is as large and sharp: there are significant asymmetries even between these two categories. Population is not the only criterion to be considered when distinguishing between municipalities and communes, since there are many communes with a population several times higher than certain municipalities. Additionally, a large number of municipalities (as well as communes) have suffered a considerable reduction of population resulting from demographic movements, whereas many communes, especially the ones near big cities or in areas with a more developed industrial activity have a higher potential for growth and for attracting better qualified staff.

Regions are the second level of local government, whose function is the development and implementation of regional policies in accordance with the national policies. Regions do not have their own fundamental functions and powers, but they exercise some functions delegated by the central government - such as the maintenance of the rural road network, or by municipalities and communes. The role of regions still remains somehow vague, since they have not managed to be confirmed as the regional policy-maker or as promoter of economic development⁴, at a time when the discussion on the need for regional integrated and sustainable development becomes more and more part of the agenda. Various stakeholders are discussing and reviewing the role and potential of the region in accordance with the Regional Development Strategy as well as the eventual perspective for EU accession.

⁴ See “Albanian Regional Development; Opportunities and Challenges”, UNDP Mission Report, 2005; World Bank Albania Local Finance Policy Note, 2009

II.2. Demography

The first level of local government in Albania is represented by 65 municipalities and 308 communes. Municipalities and communes have equal functions, competencies and responsibilities. The organic law on local government clearly stipulates the functions and responsibilities of municipalities and communes, defined as own (exclusive) functions, shared, and delegated functions.

The size of municipalities/communes in terms of population is highly varied. According to the data of the 2011 Census, there are 330 units (88%) with a population of less than 10 thousand inhabitants, whereas 232 units (62%) have a population of less than 5 thousand inhabitants. Average population for communes is 4,300, while half of the communes have a population of less than 3,100 inhabitants. About 53% of the population lives in municipalities, whereas 64% of the urban population or 34% of the total population lives in the 8 largest cities of the country - Tirana, Durrës, Vlora, Elbasan, Shkodra, Kamez, Fier and Korça. Only 15 local government units have a population higher than 20 thousand inhabitants. The average number of inhabitants in municipalities is 22,600, but over half of municipalities have a population of less than 7,800 inhabitants.

Table 1. Distribution and size of municipalities and communes

Population (in thousand inhabitants)	No. of units	Percentage	Cumulative percentage	No. of inhabitants	Percentage	Cumulative percentage
< 1	37	0.10	0.10	25,249	0.01	0.01
.1 - 5	195	0.52	0.62	527,976	0.19	0.20
.5 - 10	98	0.26	0.88	685,784	0.24	0.44
.10 - .15	15	0.04	0.92	175,666	0.06	0.51
.15 - .20	13	0.03	0.96	228,374	0.08	0.59
.20 - 30	3	0.01	0.97	67,913	0.02	0.61
30 - 50	4	0.01	0.98	148,303	0.05	0.66
50 - 100	6	0.02	0.99	409,129	0.15	0.81
>100	2	0.01	1.00	531,744	0.19	1.00
Total	373	1.00		2,800,138	1.0	

Source: INSTAT, Census 2011

II.3. Economic development and GDP

Local government plays an important role in local economic development. This section will provide a look on the data on the Gross Domestic Product (GDP) for every region; data on the workforce and employment (to the extent these data are available); as well as the entrepreneurship and business development, analysed both from the perspective of density in every region and the revenues they generate at national level and for every unit.

II.3.1 Gross Domestic Product

According to the data provided by the Institute of Statistics regarding regional GDP, Tirana region is clearly the engine of the Albanian economy, generating over 36% of the added value nationwide. Other significant regions are Fier (9.8%); Durres (9.4%) and Elbasan (9.2%). Vlora and Korca regions generate only 6% each of the added value nationwide. It is worth examining whether this relatively low specific weight for Vlora and Korca, as compared with the cities in the centre, is an indicator of greater inequality within the respective regions. GDP per capita at national level for the year 2012 was EUR 3,271. At regional level, the GDP per capita in Tirana is about 35% higher than the national one (EUR 4,439), followed by Gjirokastra (EUR 3,382) and Durres (EUR 3,276). The lowest GDP per capita is registered in mountainous areas, in Dibra region (36% lower than the national one) and Lezha region (24% lower than the national one). A region traditionally known as poor, such as Kukës, despite having the lowest specific weight in the national GDP, has the highest GDP per capita compared to Dibra, Lezha or even Shkodra and Korca.

II.3.2 Entrepreneurship and economic activity

According to the data provided by the National Registration Centre, by January 2014 there were about 157 thousand businesses registered in Albania, of which 8,441 were large enterprises (annual turnover over ALL 15 million); 3,430 medium-sized enterprises (annual turnover, ALL 8-15 million) and the remaining part were small or undefined enterprises. Geographic concentration of enterprises corresponds to the data on economic development: over half of general enterprises (52%) and large enterprises (56%) operate in the section Tirana - Durres, with a higher concentration in Tirana region. Fier and Vlora are ranked second by the number of active enterprises, along with over 15% of the total number of enterprises and large enterprises.

Data on revenues performance from the main tax sources reveal important indications on the distribution of assets, which shall be explored in detail during the elaboration of the next fiscal decentralisation policy.

At national level, the revenues deriving from Value Added Tax (VAT) and the profit tax (tax on large enterprises) have significantly declined from 2008 to 2013. Personal income tax, in contrast, has retained the increasing trend despite the difficult economic situation, most probably as a result of the tax base growth in the present case.

Distribution of revenues deriving from all these national taxes is largely concentrated in Tirana region, and the Directorate of Large Taxpayers (the so-called VIP businesses, with an annual turnover of over ALL 150 million), where over 80% of the VAT and profit tax and 75% of the personal income tax are collected. The regional directorate of Durres (which for administrative reasons includes also Kavaja, that would otherwise be part of Tirana region) collects about 5% of the revenues nationwide from each of these sources, whereas in other regions with a good economic development like Fier and Vlora, the tax specific weight remains at 2%. These data do not fully correspond to the measurement results produced by INSTAT regarding the regional GDP, according to which the specific weight of other regions should have been considerably higher. Under the decentralisation perspective, these data must be taken into account for separate taxes policies.

II.3.3 Employment and workforce

According to statistical classification, about 68% of the population nationwide is in working age (15 - 64 years old). According to INSTAT data, the employment rate is at the level of 50.1% of the working age population. There are no pronounced inequalities regarding this indicator at regional level, although regions like Tirana have a lower employment rate than many other regions. Whereas the registered unemployment rate is about 13% at national level, but significantly higher in Vlora (19%) and in Fier (16%). These data include also self-employment in agriculture.

Distribution of employment by specific sectors indicates a higher concentration of employment in urban areas in industry and services as compared to agriculture as the main source of employment in rural areas. In rural areas, the agriculture sector employs the majority of employees; whereas Tirana and Durres have the highest number of employees in manufacturing industry, services and construction.

II.4. Financial indicators of local government

The increase of local government financial autonomy, one of the successes of the decentralization reform in the first decentralization years, has regressed since 2009. The relative weight of local budget expenditures in the state budget remains relatively low, but it is comparable to similar countries⁵.

Table 2. Local budgets revenue over the years

	(in million ALL)	2005	2009	2012
GDP		815,000	1,173,760	1,389,791
Central government tax revenue		183,816	305,988	325,306
Local budget revenue		37,584	49,043	40,540
Local government own revenue		11,500	14,114	13,306
Unconditional transfers		7,300	12,923	11,465
Total unconditional revenue		18,800	27,037	24,771
Conditional transfers / Competitive grants		18,784	22,006	20,067
Local Government revenue to the		20.40%	16.00%	12.5%
LG unconditional revenue		10.23%	8.84%	7.6%
Weight of LG revenue		4.61%	4.18%	2.9%
Weight of unconditional revenue		1.41%	1.20%	1.8%

Source: The fiscal table and Treasury, Ministry of Finance

Total revenues available to local government units increased gradually until 2009 and have decreased since then. The high increase in the general level of income in 2009 is dedicated mainly to the growth of inter-governmental fiscal transfers. Actually, the unconditional transfer for local government units increased from ALL 7.3 billion in 2005 to almost ALL 13 billion in 2009, but it decreased again for the first time in 2010.

⁵ Albania Local Finance Policy Note, World Bank Document September 2008.

The unconditional transfer growth trend has been highly considerable during 2006-2007, but for the first time in 2009 the growth rate of the unconditional transfer decreased as compared to the previous year, whereas in 2010 it decreased even in absolute value by approximately 12% as compared to the transfer of the previous year. The unconditional transfer in 2009 was around the 2008 levels with ALL12.9 billion, whereas for 2010-2012 it decreased considerably by approximately ALL 11.4 billion due to budget expenditures cuts. A slight decreasing trend has been consolidated also because of the financial crisis and the need to retain budget expenditures.

The evolution in the size of competitive grants fund has shown a more stable trend, even though its implementation policy has not been very sustainable. In 2008 the full fund available for competitive grants was only ALL 1.6 billion, whereas it reached ALL 5.5 billion in 2009 and the estimation for the budgetary year 2010 was almost ALL 6 billion (Regional fund, although it has a slightly different character). Despite optimistic estimations, these funds were not achieved at 100%. Since 2011 the Regional Development Fund (RDF) decreased by ALL 2.9 billion in 2011, and ALL 2.3 billion in 2012. The estimation for 2013 was approximately ALL 4 billion.

Notwithstanding the increase of local government revenue in absolute figures as compared to the first years of decentralization, its specific weight to the state budget and the Gross Domestic Product has decreased continuously. Local government units own revenue have also decreased slightly since 2009. The changes to the legal framework on local taxes system⁶, that threatened the local fiscal authority by decreasing considerably the local discretion in imposing several taxes and also by limiting the fiscal burden by some other local taxes to no more than 10% of the indicative level of the small enterprise tax, had dramatic effects on the potential revenue from its own sources.

Even though the weight of local government expenditures has not changed much in relative terms with regards to the Gross Domestic Product and the state budget, they have increased constantly from year to year. It is also worth highlighting that the share of unconditional expenditures to the local budget total expenditures has increased considerably, from approximately 45% in 2005 to approximately 57% in 2009, and 61% in 2012, which shows the increasing discretion of decision-making bodies. However, the following data should be dealt with carefully: the increase of discretion is clearly concentrated in large cities and localities, whereas the vast majority of local government units totally depend on revenues from inter-governmental transfers.

⁶ Law no. 10117, dated 23/04/2009 "On some amendments to Law no. 9632, dated 30/10/2006 "On local tax system", as amended

Table 3. Revenues and expenditures of local budgets over the years 2005 – 2009-2012

	2005	2009	2012
<i>In million ALL</i>			
GDP	815,000	1,173,760	1,389,791
Expenditures from the state bu	232,339	384,834	396,922
Total local expenditure	38,196	54,729	45,101
Own expenditures*	17,246	31,174	27,335
<i>As relative weight to GDP</i>			
Expenditures from the state bu	29%	33%	28.6%
Total local expenditure	4.70%	4.70%	3.2%
Own expenditures	2.10%	2.70%	2.0%
Total local expenditures	16.40%	14.20%	11.4%
Own expenditures	7.40%	8.10%	6.9%
Own expenditures as a percentage to the state budget	45.00%	57.00%	60.6%
Own expenditures per capita	4,106	7,422	6,508

Source: Treasury, Ministry of Finance. (* Including competitive grants in road infrastructure)

The majority of local budget expenses are personnel expenses, followed by operating and maintenance expenses. The weight of investments from local budget unconditional funds (own revenue and unconditional transfers) has increased since 2002, when it was less than 1/4, to almost 45% in 2009, but decreased drastically in the recent years (26% in 2012).

Still, the budgets from unconditional transfers and own revenue are mainly used to finance relatively modest interventions in the local infrastructure (the vast majority being road interventions); whereas for bigger investments the vast majority of local government units depend on transfers from the central budget (or other investment funds, such as the Albanian Development Fund).

Table 4. Composition of own local expenditures

	2005	2009	2012
Total	17,246	31,174	27,335
Operating expenses	10,983	17,179	20,300
<i>Of which:</i>			
Salaries and insurance	5,788	9,448	10,227
Other operating expenses (maintenance and tra	5,195	8,012	10,073
Capital expenditures	6,263	13,988	6,998
Weight of capital expenditures to the total	36.30%	44.90%	25.60%
The weight of salaries to the total	33.56%	30.31%	37.41%

II.4.1 Income inequalities

There are deep inequalities in the revenue collection level between different local government units. The capital and the seven largest cities in the country⁷ collect the vast majority of their own revenue with a specific weight of 54% in 2012. The specific weight of large cities indicates that the larger local government units are favoured by the current system, despite difficulties in the recent years. Particularly, large cities collect over 65% of the total small enterprise tax and cleaning fee nationwide.

The per capita distribution of local tax revenue, a more accurate indicator of inequalities, also shows great differences in distribution. The variation coefficient for all the tax revenue per capita is very high (1.22). Small enterprise tax and cleaning fee have the most normal distribution, which seem to be revenues frequently collected by all local government units. However, there is a large number of units that do not collect any revenue at all, even from these two sources. 108 local government units (Communes) did not collect the cleaning fee in 2012, which indicates that they do not even provide this service. Similarly, in 63 communes there are no businesses (or the small enterprise tax is not collected), whereas over 80 communes collect less than 200 thousand ALL per year from this tax, which is less than the annual minimum salary.

Per capita revenue distribution is more equal for total local revenue, which indicates that the state budget transfers system somewhat fulfils the equalisation purposes. After this equalisation, revenue distribution becomes more uniform, which shows that the vast majority of local government units are highly dependent on the state budget to cover their current expenses and have less spaces to carry out services and investments.

⁷ Tirana, Durrës, Elbasan, Fier, Korçë, Shkodër, Vlorë, Kamëz

II.5. Own functions (infrastructure, water supply and sewerage, cleaning and waste removal)

II.5.1 Road Infrastructure

All the road infrastructure and related services are now under the ownership and administration of the local government. In order to maintain and improve it, municipalities and communes are autonomous in their decision-making. The municipal or communal councils must plan the respective funds from their own sources for their administration.

Around 45 per cent of the road inventory transferred to the local government is under the administration of the regions. Because the regions are not local government units that directly generate income to then use them for investments, it is totally unclear how the regions provide maintenance services or investments in the road infrastructure under their administration.

Roads distribution is more related to the geographic space than the economic potential of these local government units to administer this road network. Consequently, great disproportionalities are noticed in the inventory. For example, Shkodra Region has under its administration around 1,800 km of regional and communal roads; whereas Tirana Region - with a population several times higher and with greater budget and human and financial capacities has under administration only 600 km of road.

The transferred road infrastructure was and remains severely damaged. This inventory of damaged infrastructure and services transferred to local government set in the very fragile financial and administrative reality of the local government has mainly led this infrastructure to further degradation.

Most of the local roads are rural roads. They connect villages to one another and not all of them are paved with asphalt. Nearly all communes have insufficient financial capacities to build or asphalt roads. Most of the communes cannot provide any services on these roads. In cases of civil emergencies it is the government that intervenes with additional funds or measures for their normalization.

Only large municipalities allocate yearly funds to repair and maintain roads within their territory. However, these funds are never sufficient for providing all the maintenance services for the roads under their administration.

The Government remains the main investor in maintaining and constructing new local roads, financing the construction of new rural roads or asphaltting of existing roads through three financial sources: (i) The Albanian Road Authority, that intervenes in segments that connect the main road axes in the country, that also affect local territories, (ii) The Albanian Development Fund, that has practically been the main investor in rural roads construction, and (iii) through competitive grants from the Regional Development Fund (state budget), that, among others, finance road reconstruction projects for the local government.

According to Albanian Road Authority statistics, during 1996 - 2012 the central Government has invested in 767 km of regional and communal roads. Due to the lack of administrative and financial opportunities for local government units to provide maintenance services for these roads, and based on the importance of these roads after the investment made, by decisions of the Council of Ministers these roads have been removed from the inventory of regional or communal roads, and were added to the inventory of national roads under the administration of the Albanian Road Authority. They also represent the main share of investments carried out in local roads.

To conclude, by analysing the road infrastructure inventory in the jurisdictional map imposed by the current administrative division, it appears that:

The administrative jurisdiction of local government units is physically very limited to successfully administer the road infrastructure. Even if for a moment we would think that local government units possess the financial capacity to construct and asphalt roads, its use divided into small jurisdictions would not be effective. Practically, a road that connects one commune to another under these conditions would have to be tendered and implemented in two parts by each commune, with two different projects and not necessarily logically connected with each-other, without having the same effectiveness. Coordination and cooperation remains difficult when every local elected thinks and behaves like a “landlord” in his territory. The financial and administrative advantages of constructing a unique and turnkey infrastructure compared to the fragmented infrastructure are now well known.

The disproportional development in neighbouring local government units brings about difficulties in constructing and administering a common infrastructure. The physical barriers between large municipalities and neighbouring communes are particularly problematic. Today the differences in road infrastructure between a municipality and its surrounding communes are physically noticed due to the fact that the municipalities are more committed to ensure the necessary means for infrastructure maintenance. But as soon as you step on the neighbouring commune territory, although the quality of constructions might be better than in the municipality, the quality of the road infrastructure and access of its inhabitants to this infrastructure remain poor.

Central government investments or donors' investments in roads are made targeting territories with large population and affect several LGUs. The current distribution of responsibilities makes the design and implementation of these projects very difficult, because of the fragmented decision-making and budgeting process for complementing investments. Several times this has led to failure in attracting large donations.

The constructed road infrastructure requires sustainable maintenance systems. These are called sustainable systems because they overcome administrative barriers. If for instance the road Durrës - Kukës would be administered by the local government units it affects, there would be no public or private enterprise that would perform this successfully. Therefore, the road segments of this road that belonged to local road inventories were removed from the respective local government units and were added to the national roads inventory.

The same could be said for roads that run completely in communal territory, but because of their use they have national importance.

II.5.2 Water supply, and sewerage services

The transfer of water supply and sewerage companies created 58 operators, 55 of which are joint stock companies and one operator acts as a state enterprise under the ownership of the respective local government units, and the operator is the Directorate within the local government unit. Out of 58 operators, 28 are water supply and sewerage operators, 30 are water supply operators only.

The majority of companies, 20 of them or 35% of the total, belong to 2 or 3 units, whereas 26% or 15 companies belong only to one unit, whereas the rest, 22 companies or 39% are companies divided between more than three local government units. Typical cases of companies that belong to several local government units are Sha UK Elbasan (village), the General Assembly of which is composed of 19 local government units; the case of Sha UK Tiranë, which is composed of 16 local government units, and Sha UK Durrës, with 15 local government units, which have the typical sizes of regional companies in the Albanian context. The other 19 companies have 4 to 11 shareholders (local government units).

In 7 cases, district centre cities own 75% of the shares whereas the rest is distributed between their surrounding communes. The Municipality of Tirana and the Municipality of Durrës respectively possess 72.5% and 54.7% of the shares, whereas the rest is distributed between the communes in the company's service area. Extreme cases are those of the Municipalities of Elbasan and Gjirokastër, that own respectively 90% of the shares; whereas Korça, Librazhd, and some other units possess 100% of the shares, because the companies' coverage area in these units totally complies with the jurisdiction of the units they belong to.

The Report of the Water Regulatory Entity (WRE) for 2011, also referring to the data published in the framework of the Sectorial Strategy 2011-2017, estimates that 2.65 million inhabitants or 80.3% of the total inhabitants of 3.31 million that live under the companies' jurisdiction, of which 90.7% in urban areas and 57% in rural areas, have access to or coverage with water supply services.

Based on this report, around 1.65 million inhabitants or around 64.6% of the total population have access to or are covered with water supply and sewerage services, mainly in urban areas with 83% of the population and only 10.9% of the population in rural areas.

Actually, coverage with these services by licensed operators may be lower than reported by them, because in many cases a difference between the actual area covered with service compared to the area licensed for service coverage has been identified, with the latter being larger than the first.

The effect of the change in the number of local government units in order to achieve an effective administrative and territorial reform remains unclear. However, it is known and proven through several sectorial studies that the economy of scale is an indispensable condition to increase efficiency and improve access to water supply. The dilemma between regionalisation and/or decentralization of water supply systems has been one of the main factors that hindered the development of the sector together with objective factors related to the immediate needs for investments and the depreciation of assets. At least, the existing water supply and sewerage companies will be easier to administer due to the reduction of the number of shareholders, and this is expected to lead, in some cases even to a sufficient concentration of shares in a larger local government unit.

It is totally possible that the district as an administrative sub-division serves as a starting point for the reorganization of operators in this sector. This could be the first step towards the aggregation of water supply and sewerage companies. Alongside this, these operators would simultaneously provide the service of waste water disposal, by unifying the control with the two organic aspects of the same service, though so far this has not been possible.

However, the approach to aggregation as an effective means to improve the performance of operators in this sector can be briefly guided by the following principles: (i) Aggregation of the two service components, water supply and waste water utilities; (ii) Extension of the operators' service area in compliance with the administrative borders of the district; (iii) Merging of operators beyond the district borders in order to improve the main performance indicators.

II.5.3 Waste Management Service

Waste collection by local government units remains a crucial issue. The majority of communes, around 70%, do not provide waste collection service at all. These communes do not apply any tariffs for this service. Those communes that provide this service, do so insufficiently and in compliance with any legal standard. In large municipalities this service is provided regularly, but still not according to the integrated management scheme. The integrated waste management scheme is still considered difficult to implement. This scheme requires sustainable financing provided by the waste management tariff that must be collected in every local government unit. The government has built several landfills, but their administration by local government units remains problematic.

The average coverage with the usual waste management service from the municipalities in every region varies between 30%-100%; whereas for the communes the service varies between 0% to 30%. The majority of communes in each region do not provide this service. If we would make an attempt to organize the territory based on districts, the district centre municipalities would help in providing this service also for other municipalities and communes. Thus, in this case we could have higher efficiency in using funds by organising the waste management and transport.

II.6. Shared functions

II.6.1 Social Services and Health Care

Social policies and interventions in Albania are characterized by an overlapping of authorities and competencies which have resulted in a system that needs to be substantially reformed. This reform must solve all the challenges identified during the last 15 years and furthermore it has to be based on a highly detailed social and economic context, updated with the latest statistical and administrative data.

Actually, the social protection system is mainly based on the “ratification of damage” and not on active inclusion. There is large institutional ambiguity - although social care institutions were decentralized in 2006, they are still financially and operationally dependent on central government.

In terms of social issues, the central government is responsible for developing policies and monitoring their implementation. More specifically, it licenses social service providers and defines the standards and criteria that govern the provision of these services. On the other hand, local authorities reflect the objectives of the legislation on social protection, and the respective policies and procedures in their local strategies, programmes and budgets. They are responsible for setting up the respective social service structures, and providing services to their citizens. The economic aid and other cash benefits are financed by the state budget, but they are transferred to the beneficiaries through local government units pursuant to the criteria defined at central level. On the other hand, they identify the persons in need of social care and services, by timely planning their needs followed by requests for funds.

In this framework, the regional council plays a special role and is responsible for coordinating, assessing the needs, and planning the social service under its territories, based on the data and requests submitted by its constituent local authorities. However, the involvement and commitment of regional councils in assessment and planning initiatives has so far been very limited nationwide. Resources for assessment and planning functions are very limited, and often the social planning functions are performed by the personnel of the Regional Planning and Development Directorate. Furthermore, issues pertaining to social protection generally are not considered as a priority by policy-makers at a regional, municipality/commune level.

On the geographic perspective the distribution of social services is characterized by their concentration in the central and western regions of the country. While, the eastern and north-eastern regions, despite their greater need for social services - according to the economic and social indicators, remain uncovered. Most of the services are concentrated in large cities like Tirana, Durrës, Shkodra, Korça and Elbasan; whereas there are some cities where these services are totally lacking, such as Delvina, Përmet, Patos, Erseka or Kruja.

Distribution is still irregular in terms of type of service provided. Around 60% of social care services are focused in children. On the other hand, 90 per cent of the services are concentrated in urban areas. Additionally, the number of services funded by local government units is very limited, and they are mainly funded by donors and the central government.

In the framework of the priorities of social protection policies, social services decentralization and de-institutionalisation are the main processes of the social service reform. From this point of view, the development of social service policies should go hand in hand with the decentralization process. The financial decentralization and the ability of local government units to develop and implement regional policies, and the cooperation of the latter with the civil society are some of the greatest challenges. The central government must support and guide regional and local stakeholders in their new tasks related to planning, providing and managing social services, by making available for them adequate needs assessment tools, by planning social service decentralization, and monitoring the strategies at local level - a problematic link of strategy implementation in Albania.

Local structures should be prepared to support and promote the role of local administrators in their activity. The reform should be oriented towards the provision of services in remote and rural areas, and diversification of these services by also addressing the missing capacities at local level.

This institutional overview has a clear empirical orientation from the data that exist and are collected through many statistical and administrative sources. As a matter of fact, Albania's socio-economic situation displays different characteristics which are often distinctive, and worth being analysed from the regional development perspective, but also from the perspective of public services and their beneficiaries. A set of indicators are used to highlight the regional peculiarities of the country in order to analyse the different phenomena which can be addressed through sectorial or broader reforms.

Poverty

In 2012 poverty in Albania marked an increase (14.3%) as compared to 2008 (12.4%). Additionally, extreme poverty increased to 2.2% from 1.2% in 2008. It is worth highlighting that the increase in poverty rate, differently from before, has an urban character. Increasing poverty rate has led to an increased consumption of food and utilities at the expense of education and consumption of goods and non-food items. Other poverty indicators such as the poverty gap and severity have also worsened.

A more detailed view highlights that poverty rate in the regions of Durrës, Fier, Kukës, Lezhë and Shkodër is higher than the national average. The regions of Gjirokastra, Elbasan, Vlorë, Korçë, Berat and Dibër have the lowest poverty rate.

106,476 households in Albania benefit from economic aid. The regions of Shkodër, Dibër and Elbasan have the highest average number of households obtaining economic aid, whereas four member households represent the majority of households that benefit from this aid.

Health Care

One of the most important aspects of public services performance is the health sector. The indicators on the number of doctors reveal that Kukës and Dibër together with the regions of Elbasan, Fier and Shkodra are the most problematic.

Another indicator sheds light on the access and vicinity to health care centres, expressed in their distance from the rural and urban area for each region, and for poor and non-poor population groups. It is clear that rural indicators are the most problematic, but from the population groups perspective - the poor have less access to this service. The Gjirokastra region in both cases contains differentiated urban-rural, and poor- non poor indicators. It is quite interesting to note that Gjirokastër is the region with the highest old age dependency ratio: the ratio between people aged 65+ compared to those aged 15-64 is 23.8%. On the other hand, for the first time in Albania we have a total figure of those self-declared as people with disabilities - 137,435 people aged over 15 or 6.2% of the population. Gjirokastër has the highest disability prevalence rate with 8.0%. Interestingly in Gjirokastër region converge some complex health care characteristics which should be seriously reviewed by policy-makers.

Minorities and migration

In terms of minorities and ethnic groups, the Roma community - widely considered as disadvantaged in Albania, with around 8,300 self-declared people, is mainly concentrated in the regions of Tirana, Fier, Elbasan and Korçë. Whereas the Egyptian community is mainly found in the regions of Tirana, Korçë, Shkodër and Elbasan.

Recently, a phenomenon more obviously observed after 2008 is the return of emigrants due to the financial crisis that hit neighbouring countries, especially Greece and Italy. 73,231 people returned during 2009-2011, the majority of whom are men (50,311) with a prevalent age between 25-34. The highest return flow is observed in large cities such as Tirana, Fier, and Vlora.

The changing social dynamics and challenges that the country must overcome in the framework of European Union membership highlight the need for a more integrated approach and translation of policies by providing equal access, quality and the necessary categories for social or health care services, as well as the economy of scale.

The territorial reform provides a positive opportunity for local social planning on a broader scale, as well as for defining clearer roles and responsibilities. If the region is to remain an institution, even in reduced numbers, the reform should clearly articulate its mission in general, and its social role in particular. In addition to needs assessment and planning social services, the region should be prepared to improve the distribution of specialised services and the improvement at a broader scale within the territory, by ensuring the translation of national priorities at local level, in order for the implementation to take place pursuant to the adequate standard and through a coordination of all stakeholders. Meanwhile, the provision of social services remains a responsibility of local government units.

The real challenges for further steps will be the full and clear definition of the functions of local government units, availability of adequate sources and technical instruments, such as capacity building for proper management, under a new geographical configuration, nationwide, having at the centre of the daily mission the improvement of access to services and their equal distribution.

II.6.2. Education

In 2010–2011, the number of kindergartens in Albania was 9 per every 10,000 inhabitants. In half of the districts children enrolment rate in pre-school education is 1%. Tirana has one fifth of the overall number of kindergarten children nationwide, followed by Elbasan and Fier (6% each).

The ratio of kindergarten teachers per 10,000 inhabitants is on average 14 teachers, whereas the ratio of children per teacher is 19 teachers per 10,000 inhabitants. The ratio of primary schools is 4.8 per 10,000 inhabitants. The percentage of children between 9 to 14 years of age that attend primary education is 83%. Almost half of all students that attend primary school are registered in Tirana, Durrës, Elbasan, Shkodër and Fier. These districts also have the highest number of teachers. The number of teachers per 10,000 inhabitants varies from 57 to 163 or on average 86 teachers per 10,000 inhabitants, whereas the number of students per each teacher varies from 9 to 22, with an average of 17 students per teacher.

The ratio of secondary schools is 1.4 per 10,000 inhabitants. The percentage of children between 15 to 19 years of age that attend secondary school varies from 45 to 75%, with an average of 51%. Almost half of the students that attend secondary school are registered in Tirana, Elbasan, Shkodër and Durrës, which also have the highest number of teachers. The number of teachers per 10,000 inhabitants varies from 12 to 40 with an average of 24 teachers. The number of students per teacher varies from 12 to 38 with an average of 20 students.

Indicators analysis by the area of residence (rural and urban)

Schools by rural and urban areas: The number of kindergartens in rural areas varies from 11 to 98 kindergartens, and in urban areas from 1 to 57 schools. The number increases with the increasing density of the population. A difference between rural and urban areas with low population density is noted in terms of the number of kindergartens. After excluding the three districts with the highest population density, it results that rural areas have 3 times more kindergartens compared to population density than urban areas. The analysis is conducted based on the average population density per district: when the population density was classified according to rural and urban areas, the difference resulted to be higher.

Students registered in rural and urban areas: The number of children registered in kindergartens in rural areas varies from 136 to 3,902, whereas in urban areas the number varies from 183 to 9,639 children. The indicators are proportional to the number of population, and there are no obvious differences between rural and urban areas. Thus, there are significantly more children who attend kindergarten in urban areas than in rural areas, contrary to the distribution of kindergartens.

The number of students registered in primary schools in rural areas varies from 455 to 22,689, whereas in urban areas the number varies from 697-65,167 students, with very little differences between rural and urban areas compared to the number of population. The number of children increases with the increase of density.

The number of students registered in secondary schools in rural areas varies from 42 to 8,204, whereas in urban areas the number varies from 248 to 24,580 students. The difference for urban

areas is obvious as compared to rural areas, in terms of the number of children in relation to the population density.

Teachers ratio by rural and urban areas: The number of kindergarten teachers that work in kindergartens in rural areas varies from 12 to 194, whereas in urban areas the number varies from 8 to 414 teachers. The number of kindergarten teachers has increased proportionally to the number of population, with little differences between urban and rural areas. The number of teachers who work in primary schools in rural areas varies from 82 to 1,283 and from 43 to 2,666 teachers in urban areas, with little differences between the two in relation to the increase of the population number. The number of teachers increases with the increase of population density. The number of secondary school teachers in rural areas varies from 5 to 228, and from 14 to 1,137 in urban areas. Compared to population density, there are more teachers in urban areas than in rural areas.

Students-teacher ratio by rural and urban areas: The number of students per each teacher in kindergartens varies from 10 to 27 in rural areas, and from 12 to 25 in urban areas. In primary schools the ratio varies from 5 to 20 in rural areas, and from 13 to 25 students in urban areas.

In secondary schools, the ratio varies from 6 to 36 in rural areas, and from 12 to 52 students in urban areas. Both in primary and secondary schools there are twice as many students per teacher in urban areas compared to rural areas. Number of schools for 10,000 inhabitants by rural and urban areas: Rural areas have almost 5 times as many kindergartens per 10,000 inhabitants compared to urban areas, if compared to the average population density in the district, however the difference decreases with the increase of density. The difference is more evident when the population density is classified by the type of the place of residence.

Number of teachers per 10,000 inhabitants in rural and urban areas: The number of kindergarten teachers per 10,000 inhabitants varies from 3 to 17 in rural areas, and from 3 to 21 in urban areas, with decreasing indicators in relation to the increase of population density. The number of primary school teachers per 10,000 inhabitants varies from 19 to 119 in rural areas, and from 18 to 54 teachers in urban areas, with twice the average number in rural areas compared to urban areas.

The number of secondary school teachers per 10,000 inhabitants in rural areas varies from 3 to 19, whereas in urban areas the number varies from 8 to 35 teachers, with twice the average number in urban areas compared to rural areas.

III. Conclusions

The need for territorial reform is a topic discussed for many years in Albania, starting from the extreme fragmentation of the country's territory, which has harmed the community development potential, under the conditions of curtailed opportunities to mobilize income and provide services for the citizens. In particular, the territory fragmentation has created deep inequalities between municipalities and communes in the country, making the decentralization highly asymmetric; although the competencies and authorities were transferred in a fully symmetrical way.

The interlocal cooperation, as an intermediate solution for similar countries with a fragmented local government, has not been operational for years in Albania despite the continuous efforts of some international partners to support similar initiatives. Furthermore, municipalities and communes were not willing to delegate their competencies, not even to the second level of local government, in cases when the services or projects were not efficient for such small units. Lack of will of local officials to delegate their powers, together with the rigid and bureaucratic behaviour of the central administration have hindered the voluntary cooperation forms between the units.

This situation has brought about continuous deadlocks for local government units, particularly for important economic development centres, such as the largest cities of the country, that have faced *afait accompli* in the chaotic and intense urban development in their surrounding communes; which has resulted in an unjustified burden on their infrastructure and provided services. On the other hand, units in the most remote areas of the country have faced a complete lack of instruments to affect development, by being reduced to local administration payment and poverty payments agencies, all with state budget funds.

The average population of local government units has decreased during the last decade. The current configuration of local government units no longer reflects the population distribution. In the last twenty years a great number of European countries such as Sweden, Denmark, England, Finland, Greece, Macedonia, Georgia and more recently Ireland, Armenia, Ukraine, etc. have undertaken territorial reforms aimed at the establishment of larger local government units.

A series of arguments at European level support territorial consolidation in different countries, including:

- ☒ The need for more administrative and financial capacities to provide services and infrastructure (such as water supply, waste management, local roads);
- ☒ Demographic change that represents a challenge for local government both in areas where depopulation is occurring, and in areas with a continuous population growth;
- ☒ In some countries the reform has reflected the increasing role of local government units in service provision (particularly social services) and has served as an instrument to adapt the territorial division to the change in the distribution of functions;
- ☒ Recently the need to observe the European standards on local services (such as water supply and sewerage) or to strengthen the administrative capacities to attract EU funds;
- ☒ In particular, in the recent years in the countries affected by the financial crisis, the fund saving potential from the reduction of the number of local government units. The reforms in Latvia, Greece, Ireland and Northern Ireland are clearly guided by this principle, while discourse on the territorial reform has started or has become more intense even in other countries, for the same reasons.

Particularly regarding the situation in Albania, in conclusion we emphasize that:

1. The demographic changes of the last decade have brought about considerable changes to the size of LGUs;
2. The high extent of LGU fragmentation is an obstacle to further decentralization as a result of lack of capacities and inability to provide highly efficient services;
3. The high extent of LGU fragmentation has resulted in failure of government democratization, which was the main objective of the territorial division of 2000;
4. The government decentralization process has also been regressing. It has resulted to be asymmetric at local level by creating inequalities between LGUs in providing services to the citizens;
5. During the recent years the weight of administrative expenses at local level has increased, as well as the absolute value, regardless of the reduction of expenses in general. Budgets of smaller local government units are likely to be dominated by personnel expenses;
6. A large number of local government units collect no own revenues and do not provide services to their citizens;
7. Fragmentation of LGUs has led to public services fragmentation (public transport, water supply, urban waste management, etc.), mainly resulting from the LGUs low potential to generate revenues and make investments;

8. LGUs fragmentation, followed by the interrupted decentralization process has created a series of inequalities between LGUs, which despite some attempts to be addressed through equalisation grants, need a definite solution;
9. There is need for consolidation of communes/municipalities in order to guarantee efficient services and greater democratization;
10. There is need for a legal framework that clearly defines the responsibilities in shared functions, accompanied by a financial invoice and enables economic efficiency;
11. There is need to specify the territorial borders in compliance with all factors of division.

IV. APPENDICES

Analysis of the financial and economic situation of local government units according to the regions

Analysis of local government units situation and capacity to provide public services (road infrastructure; water supply and waste management)

Analysis of social, health care and education indicators