



Section 2. Economics, organization and management

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LOCAL FINANCE AND DECENTRALIZATION. THE CASE OF LOCAL GOVERNANCE IN ALBANIA

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Abstract

The financial situation of local government units in the Albania, even though it has improved compared to the decades ago, is still delicate and full of challenges for the future. Financial resources, without neglecting the capacity building of the local administration, are a key factor to the expanding of the decentralization between the central and local government. With decentralization we will understand the legal transfer of authority and resources from the central government to the local government, which changes the way in which services are offered and how they respond to citizens' requests. The local government gets more decision-making power, which means it gets more responsibility. Otherwise, decentralization can be defined as the more responsibility and more functions, and for this to be realized, the funds are needed and these funds must be used efficiently. The purpose of this paper is to present the current situation of the local government in Albania, to highlight the importance of the expansion of decentralization and to emphasize the impact of the funding sources in the increasing of the independence and decision-making of the local government. In Albania, local government is currently organized at two levels, Counties and Municipalities, based on the new territorial division that was made in 2015, our country has 12 counties and 61 municipalities. The financing sources of the Local Government in Albania consist of transfers from the central government, from its own income and other sources from different donors through competing projects. The increase of the local financial autonomy, with the aim of increasing the financing of the local government units' own functions, should be aimed the increasing of the their own income, especially from the real estate tax, increasing the share of joint taxes, lobbying for benefited from national taxes (such as VAT or Income Tax) as well as the increase in the efficiency of the use of resources.

The challenge of the local government is to ensure a sustainable development of the regional economy, providing high-level services for the community, on the other hand, to keep taxes at a relatively low level in order not to discourage individuals and businesses under the jurisdiction. Finding the optimal ratios in this regard constituted a challenge in itself. On the one hand, the local government is faced with the many difficulties in terms of the rural development, on the other hand, it is faced with the relatively low funding sources or the otherwise fiscal imbalances or inconsistencies in the balance of the resources and responsibilities between the central and local governments. The strengthening of local government and the decentralization of powers should be seen in terms of increasing the efficiency of local government. This paper shows that the activity of the local government in Albania performed below the expectations as a result of the poor funding, but also as a result of the poor resources management.

Keywords: *Local government, decentralization, financial resources, efficiency, taxation, taxes, capacity building*

Introduction

Albania with a communist past, before the 90s, power was centralized, everything was decided by the central government, and there was no freedom of thought or action, and furthermore, there was not possible to discuss about local decision-making or decentralization. After the 90s, with the change of the system, democracy began to be implemented and the organization of local government and its functions changed. During this period, the organization of power was made with two levels of central government and local government. The local government was organized in two levels, where the first level was the communes and municipalities, while the second level was the Counties. In this period there were 308 communes, 65 municipalities and 12 counties. This organization of local government in Albania continued until 2015. The new territorial division that was made in 2015, created 61 municipalities and 12 counties while the communes no longer exist. From 2015 and currently, the local government in our country continues to have two levels, the first level of the municipality and the second level of the counties. The 61 Albanian municipalities are distinguished by the variety of characteristics of some aspects, such as demographic diversity, economic diversity, cultural diversity, geographic diversity and socio-economic factors that exist within their jurisdiction. The long period of turmoil in Albania is having an impact on the growth rates of the economy as a whole, it also resulted in the implementation of various processes related to the local government and this impact is not positive. In relation to this issue, the Institute for Municipalities of Albania in its 2022 report states:

“Albania is going through a long period of turmoil accompanied by numerous problems that have made it very difficult to strengthen local finances” (Local Government in Albania. 2022).

Finance is immensely important in the running of organizations or governments. Local governments need financial resources to carry out their constitutional responsibilities as regards providing social services as well as mobilizing available resources for effective rural development and good governance at the grass root level (Olu Ojo, Paper, 2009). The financial resources of the local government are necessary to carry out all the functions defined by law, with the aim of increasing well-being of the individual/citizens. Setting a satisfactory tax package on the one hand and increasing the quality of services and the involvement of citizens on the other hand, it is a challenge in itself related to finding the optimal level of local government.

The activity of the local government in Albania is financed by several sources such as income from its own local sources (taxes, fees, income from the use of assets at the disposal of municipalities, etc.), income from unconditional intergovernmental transfers (general unconditional transfer and the sectoral one for the functions transferred in 2016), income from conditional intergovernmental transfers (conditional transfers from line ministries in function of the exercise of delegated functions), income from separated taxes. Qualified human resources, healthy finances, as well as the reduction of dependence on the central government, especially in decision-making, constitute a necessity for the realization of the mission and vision,

which are related to the existence of local government units that represent the level of government as close as possible to the citizens or community in remote rural areas. The existence of government units as close as possible to the citizens constitutes a necessity to recognize and solve the many and different problems faced by different areas of the country and therefore for regional and rural development.

Capacity building for the local government remains an issue that requires a solution, first of all in the perspective of increasing the efficiency of the use of funds as well as avoiding informality in the local taxes collection and fees with the aim of increasing revenues from the local units' own sources and expansion of the decentralization. Power decentralization of power is a necessity for any democratic state, the decentralization means the legal transfer of authority and resources from the central government to the local government, which changes the way services are provided and how they respond to the citizens' demand.

The decentralization of governance in Albania started after the 1990s, while we still cannot say that administrative or fiscal autonomy has been achieved, but we can say that the reforms that took place after the 90s are the cornerstones for the decentralization of the local government. One important moment for the decentralization of local government is the European Charter of Local Self-Government, ratified in 1998, as well as the Law on the Organization and Functioning of Local Government, approved in 200. Some foreign organizations that operate in Albania, such as The World Bank, the Organization for Security and Cooperation in Europe (OSCE), the United Nations Development Program (UNDP), the Swedish Institute for Public Administration (SPIU), etc. have continuously emphasized the improvement of local government decentralization by emphasizing to increase capacities as necessary for efficiency in the use of financial resources, efficiency in the provision of services, regional development and the creation of economic regions.

The financial autonomy of local government in Albania still remains a challenge. Governments generally do not have sufficient financial resources. Local authorities in Alba-

nia do not have adequate financial resources according to their own and joint functions. The local government units are still very dependent on the financial assistance of the central government, especially the small local government units, which face great difficulties. The local government in Albania actually deal a series of the difficulties and challenges regarding the provision of financial resources and well-trained human resources to carry out its own and joint functions otherwise called delegated functions. Local government units should lobby to make separate taxes such as VAT, corporate profit tax as part of their finances as well as to increase the percentage of profit from Income Tax. The dynamics of the development of the local government with the aim of expanding decentralization should go in sync with the dedication for necessary changes to the existing laws. The increase of transparency, the increase of the accountability of local government in relation to the community, the increase of the involvement of citizens and interest groups in the decision-making on the level of the local government, are the main pillars related to the improvement of the decentralization process of local public finances. The Local finance, among others, addresses issues related to decisions about incomes, expenditures, financial management, the process of the local budgeting and accountability in general. Local governments can make a huge difference when it comes to increasing the quality of life for the community in both urban and rural area, reducing inequalities across society, enhancing relations between people and public institutions and providing a platform for the voices of minorities (UNDP United Nations Development Programme Local governance and development).

The aim of the paper, objectives, methodology and research questions

The purpose of this paper is to present the current situation of the local government in Albania, to highlight the importance of the expansion of decentralization and to emphasize the impact of funding sources in increasing the independence and decision-making powers of the local government.

The objectives of this research are: (a) To highlight the challenges that the local govern-

ment faces, (b) To present the importance of financial resources and their good management in the realization of the functions of the local government. (c) To highlight the importance of raising the capacities of the local administration in increasing the efficiency of the use of resources. (ç) To present the importance of local governance in promoting the development of the local economy. (d) To emphasize the importance of strengthening local finances and increasing fiscal autonomy.

The research questions raised and answered throughout this paper are:

(a) Does the local government of Albania have financial autonomy? (b) Is the expansion of local government decentralization a necessity? (c) Should the capacity building of the local administration seen as a necessity for good management as well as for making decisions in accordance with the numerous climatic and technological changes that humanity is facing?

(d) Are there differences between local units that are located in different territories within the country in terms of resources and meeting the needs of citizens? (e) Are debt instruments used by the local government in Albania as a possible source of liquidity?

The methodology of this research consist on use of the secondary data method, referring to the scientific literature of different authors, statistics of the state institutions especially Finance Ministry, foreign organizations located in Albania as well as non-profit organizations. The most relevant cornerstone scientific literature related to the subject was “The dilemma of fiscal federalism: grants and fiscal performances around the world” (2002) written by Jonathan Rodden, which is widely cited from most of scientific researcher, Efficient Financial Management for Local Governments written by Olu Ajo, “Public Value ManagementA New Narrative for Networked Governance” written by Gerri Stoker, etc. The other important sources of secondary data for realization of this paper are datasets from the Ministry of Finance, Local Finance, and United Nations Development Programme (UNDP). The Important data sources to analyse the local finace dificulties are provided by Ministry of Finance, CO-PLAN Institute for Habitat Development as well as Institute for Municipalities of Albania.

Rishikim literature

The local government in different countries of the world is made up of different levels or formats of organization, and it is important in the perspective of being as close as possible to the community and in its function. In the entire democratic world, the expansion of decentralization is an important issue, as well as the participation of the community in the decisions they take for the use of resources and accountability on a large scale. Regarding this, Gerry Stker in his 2006 paper expressed: “In a democratic system, the participation of all is not required; rather, its defining characteristic is its openness to all. Democracy is more than a safety valve to protect basic rights and liberties. It has the potential to provide the basis for learning, to drive the search for collective solutions to complex and shared problems” (Gerry Stoker, 2006. p. 15).

Local governments can go beyond the minimum public hearing requirements to meaningfully engage all community members in budget decisions that affect them (Katie Hannon Michel, Cesar De La Vega Tina Yuen, 2018).

The expansion of decentralization, increasing the responsibilities and functions of the local government cannot be dealt with separately from local finances, which include broad issues related to what will be done, when it will be done, with what funds, with what human resources, etc. Regarding what local finances are, what issues they deal with, in the book published in 2009 by UN-HABITAT expressed: “Municipal finance is about the revenue and expenditure decisions of municipal governments.

It covers the sources of revenue that are used by municipal governments –taxes (property, income, sales, excise taxes), user fees, and intergovernmental transfers. It includes ways of financing infrastructure through the use of operating revenues and borrowing as well as charges on developers and public-private partnerships” (UN-HABITAT. Copyright © United Nations Human Settlements Programme 2009).

Borrowing or issuing debt instruments is an opportunity to cover capital expenses in the framework of local government activities, but the local administration must be

very careful in the efficient use of borrowing and must respect the time of debt repayment. Regarding the importance of borrowing using debt instruments, the authors Freire, Maria E. Marcela Huertas, and Benjamin Darche have said: “The use of debt instruments by local governments needs to be assessed with care, as imprudent borrowing lead to fiscal indiscipline and macroeconomic imbalances” (Freire, Maria E. Huertas, and Darche, 1998).

If the local government, in finding financial resources, will be inclined to seek as much income as possible from government transfers and not try to increase its own income from taxes and local fees, to increase the efficiency of the use of existing resources, this will make it more and more dependent on the central government. Rodden says about this addiction: “This dependence on revenue either through shared taxes or money transfers from the central government, reduces the incentive for local governments to act in an economically efficient manner” (Rodden J., 2002). Decentralization is often viewed as a shift of authority towards local governments and away from central governments, with total government authority over society and economy imagined as fixed. Attempts to define and measure decentralization have focused primarily on fiscal and to a lesser extent policy and political authority (Rodden J., 2004).

Large cities and metropolitan areas are different than smaller urban or rural municipalities, in large part, because of the size of their population, the high degree of concentration of population, and the presence of a heterogeneous population in terms of social and economic circumstances (The World Bank Institute Washington, D.C. The Centre for Urban and Community Studies University of Toronto 2001 Tony Mazi and Keith Jacobs Book 18 February 2008; Freire, 2001).

Urban policies are complex and have a big impact on the many aspects of community life and their treatment is very complicated. Regarding urban policies, the authors Tony Mazi and Keith Jacobs express themselves: “It is commonly accepted that the study of urban politics has become increasingly complex and fragmented, characterised by a shift away from formal local government structures to a diverse range of public, private and

voluntary agencies” (Tony Mazi and Keith Jacobs, 2008).

The analysis of ‘multi-level’ local governance in contemporary urban societies therefore requires a need to focus on informal relationships as well as formal institutions, acknowledging the role of a multiplicity of actors and their interactions within partnership and network structures (Gerry Stoker, 2006).

While decentralization legislation and policies exist in many countries, fiscal responsibilities have remained centrally controlled. In many cases, local governments are not financially equipped to manage their services. On the other hand, continued fiscal centralization is often justified by weak capacities at the local level (UNDP United Nations Development Programme Local governance and development).

Nawdays, the 61 municipalities of Albania and the respective Administrative Units have more responsibilities than ever. There are 42 functions and types of the administrative and public services, for which local units need serious budget support from the government transfer (Institute for Municipalities of Albania).

Finance is very important in the running of organizations or governments. Local governments have a number of functions to carry out. As such, its finances need to be efficiently managed and judiciously utilized (Olu Ojo, 2009).

Local authorities do, however, appear to vary considerably in their capacity to play a catalytic role in the formation of multi-organizational partnerships and to, more generally, function as suppliers of community governance and promoters of community development (Joe Wallis and Brian Dollery, 2002).

Monitoring local finances is an essential step towards assessing subnational governments’ financial capacity to exercise the responsibilities assigned to them and to design effective and efficient development policies (OECD and United Cities and Local Government (UCLG) Report, October 2016).

The current situation and the problems that need to be addressed immediately

Financial resources and their good management constitute the cornerstone (catalyst)

for the effective functioning of local government.

In Albania, the financial situation of local units presents challenges for the future, even though it has been improving but at a very low rate, so remains to be done a lot in this direction with the aim of expanding decentralization, development of regions and growth of the quality of life of the residents. After 1990, the most important administrative reform in the country is the administrative-territorial division of local government units in the Republic of Albania, where based on Law No. 115 of 2014, out of 373 (308 communes and 65 municipalities) local government units remains only 61 municipalities. This reform eliminated the unnecessary fragmentation with the aim of increasing efficiency and effectiveness in the services providing and improving local fiscal autonomy for the local governance.

Today, more than ever, municipalities have a considerable number of competencies and responsibilities to serve citizens according to their needs and in a democratic manner. The competences have been continuously accompanied by financial support from the Central Government, which considers the decentralization agenda very important in the process of good governance and European integration (Ministry of Internal Affairs. Intersectoral Strategy for Decentralization and Local Government 2023–2030).

The strengthening of the local finances and the decentralization of the local government is not an easy process and which addresses the several issues. In this framework, we consider increasing the capacities of the local government units with the aim of increasing the efficiency of the use of existing resources as well as creating new opportunities for financing, such as the use of borrowing to finance capital investments within the permitted legal framework, and increasing the amount of the benefit of the local government from national taxes. Another important point is the consolidation of local revenues, i.e. the revenues provided by local taxes and fees, as well as the improvement of fiscal administration.

Strengthening the public finance management system at the local level remains another important issue in the framework of strengthening local finances and fiscal

decentralization. Municipalities in Albania have several sources of funding in order to carry out its functions and competencies defined in the law that regulates the organization and operation of local government. These funding sources, in general terms, include: a) income from local sources (taxes, fees, income from the use of assets available to municipalities, etc.); b) revenues from unconditional intergovernmental transfers; c) revenues from intergovernmental transfers conditional on the exercise of delegated functions; d) income from taxes shared with the central government, as well as income from mining rents, income from labor income tax, income from road circulation tax, from the transfer of property rights. Based on the configuration of the legal system for local finance in Albania, local government units are allowed to borrow money for capital investments from financial institutions as well as from the central government, but currently only a very limited number of municipalities accessed to financial institutions and the use of debt instruments when there is a lack of funds cannot even be mentioned.

There is an discrepancy in the legal basis regarding the use of the income provided by the separate taxes, specifically based on the law no. 68 of 2017 “On the finances of local self-government” in article 4, point 4, it is mentioned that the revenues from the taxes allocated are used autonomously by the municipalities, so the municipalities must decide what they should use these revenues for, while according to law no. 9975 of 2008 “On national taxes” emphasize that municipalities must use the income provided by mining rents only for investments. The improvement of the legal framework related to the above issue, the increase of local capacities as well as the increase of the efficiency of the use of income remain issues that require immediate solutions. Since 2015, based on the law on local finances, they should benefit from 2% of the total income from income tax, but this was achieved in the first half of 2021, but only for 6 municipalities out of 61 the municipality that our country has. The data for the first six months of 2021 show that these 6 municipalities received in quantitative terms about 258.1 million ALL from personal income tax (PIT) (www.financatvendore.al).

In relative terms, about 19.4% of the income tax was absorbed by the municipality of Tirana (about 50 million ALL), followed by the municipalities of Durrës (6.7% or about 17.2 million ALL), Elbasan (4.9% or about 12.7 million ALL), Shkodër (4.8% or about 12.3 million ALL), Fier (4.4% or about 11.4 million ALL) and Vlorë (4% or about 10.4 million ALL). Together, the 6 mentioned municipalities received about 44% of the income tax distributed to the municipalities (Co-Plan December 2021, Separate Taxes Report – Personal Income Tax).

Property tax revenues calculated about 20% of local self-government revenues in Albania and remain low compared to other countries in the region.

For Albania, the income is about 0.3% of GDP, the average of 0.7% for the region, from about 0.4% of GDP for Bosnia Herzegovina and Kosovo, to 0.5% of GDP for Macedonia, to 1.0% of GDP for Serbia and to 1.3% of GDP for Montenegro. Montenegro and Serbia are closer to the EU average of 1.6% of GDP. Compared to OECD member countries, this average varies from 0.9% of GDP, from 2–3% in continental European countries and 1–7% of GDP in industrialized countries (Ministry of Internal Affairs. Intersectoral Strategy for Decentralization and Local Government 2023–2030).

The separate taxes in Albania are applied to the income on the circulation of cars, from the transfer of ownership rights, from the rent of exploitation of mineral resources, and in a certain percentage from income on personal income taxation. Revenues from allocated taxes remain low compared to countries in the region. Revenues from the shared tax in Albania are estimated at 0.1 percent of GDP, at 0.5 percent in Macedonia, at 1.0 percent of GDP in Bosnia, at 1.3 percent in Montenegro, and at 2.3 percent of GDP in Serbia. Albania transfers in favor of the local government about 10 million euros, Macedonia about 42 million euros, Montenegro about 63 million euros, Bosnia about 99 million euros and Serbia about 1.087 million euros.

Compared to the data for the countries of the region, Albania has the lowest level of unconditional transfer and sectorial grants. The total transfer from the central government in Albania is 1.6 percent of GDP, in Montenegro it is 2.0 percent of GDP, in Bosnia it

is 2.5 percent of GDP, in Macedonia it is 2.8 percent of GDP, in Serbia it is 2.9 percent of GDP, and in Kosovo is 5.9 percent of GDP.

Based on the relief of Albania, almost 50% of the municipalities have hilly and mountainous territory and consequently have poor access to infrastructure and communication, these and other factors constitute a weak point of local democracy. If we are going to aim for a wide decentralization of the local government, it must be given competences but also accompanied by finances. The expansion of the fiscal instruments to create new spaces for the local finances is one of the many challenges that the local government must overcome. Just as it became possible that six municipalities from 2021 onwards (the municipality of Tirana, Durrës, Elbasan, Fier, Vlore and the municipality of Shkodra) benefits in total 44% from the income distributed to the municipalities from the tax on the income from work, they should lobby strongly to increase the percentage of the profit from this source, as the current law has set it at 2%.

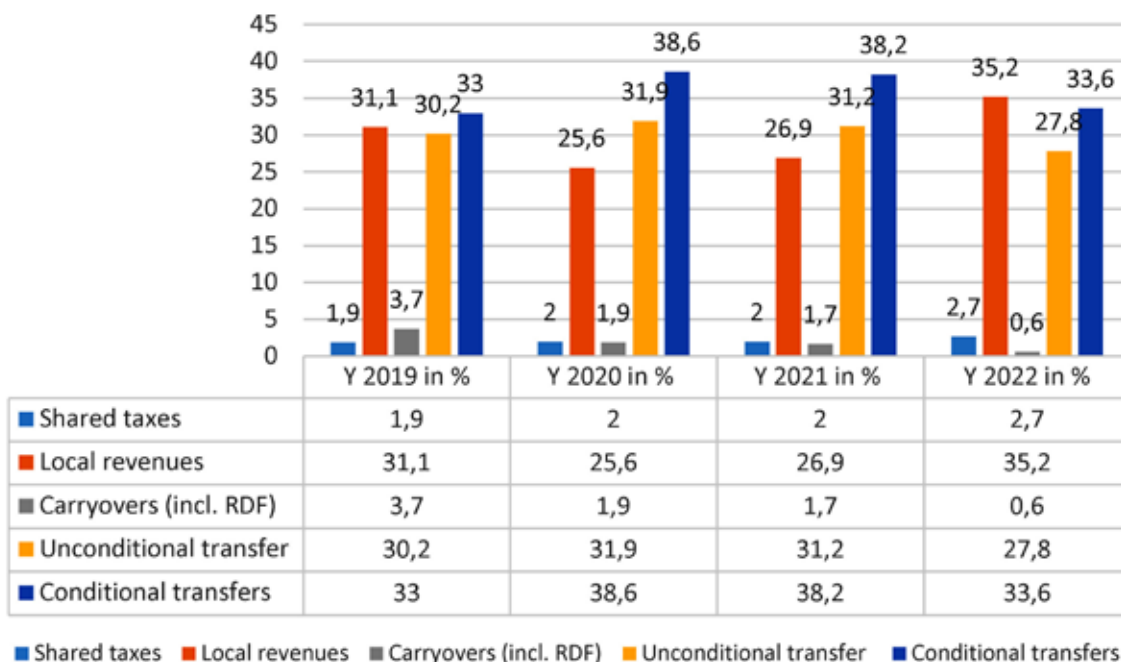
Meanwhile, in the framework of strengthening their finances, municipalities should lobby to benefit from other common national taxes such as tax on corporate profits, Value Added Tax (VAT) or other taxes, and they should increase efficiency, in order to realize the collection of existing local taxes at the rate of 100%. The availability of financial resources is a prerequisite for the exercise of functions and powers for the 61 municipalities in the country. In addition to financing through revenues from their own local sources, allocated taxes, unconditional and conditional transfers, municipalities have the right to access funds in terms of borrowing (short-term and/or long-term), but only for the financing of the capital expenditures or the re-financing of an existing loan. Based on Law no. 9869/2008 “For local government borrowing”. Access to external financial resources (borrowing) is also an indicator for the financial autonomy of municipalities in terms of income (either in the form of short-term and/or long-term loans) according to the OECD. The law gives municipalities’ access to the loans for capital expenditures, but a very limited number of municipalities use this resource, for example, at the end of 2022, only four out of 61 municipalities have active loans in the local banking

system, and specifically the municipality of Korce, Vlore, Elbasan and Lezhe.

Referring to the chart below (chart no.1), it is clearly seen that in the total sources of financing of the local government, the largest

percentage is the funds that the central government transfer to the local government in the form of transfers. While its own income, provided by local fees and taxes, has been increasing but at a very low rate.

Chart 1. Total revenue by funding sources
(P.S: for the year 2023, the data expected to be published in April)



Source: Authors' processing based on data taken to (www.fnancatvendore.al)

Local income still remains at a low level compared to the public income or the Gross Domestic Product. Specifically, for the year 2022, the local income is about 4.79% of the public income and about 1.34% of the Gross Domestic Product. Compared to the trend of a year ago, in relation to the public revenues, they have decreased by about 0.43%. Local revenues have had the same downward trend in terms of gross domestic product, where from 1.41% in 2021 they have reached 1.34% in 2022 or about 0.07% less (Ministry of Finance and Economy. May, 2023).

Referring to the data in chart no. 1 of the total local financial resources, over 60% is occupied by the funds that the central government gives to the municipalities. In nominal terms, the role of municipalities in general governance and the financial resources available have increased from year to year and account for about 6% of GDP, the contribution of income from their own local sources is estimated to be relatively low and below potential, since still there is a problem

with the collection of local fees, so the municipalities do not manage efficiently available fiscal space. In order for local finances to be strengthened, the largest part of the income in the total local income should be taken by the income provided by the municipality itself, while currently over 60% of it comes from the central government in the form of conditional transfers and unconditionally. The dependence that the municipalities have created on the state budget is harmful since the local government, in facing the challenges, manages to finance less than half of the expenses with its own resources. The difficulty of financing or the dependence on the budget of the central government is even greater if we add the debt that the local government has to the central government, financial institutions or third parties such as Albanian Energy Emulation Organization, etc. Debt, which keeps on increasing and therefore has led some municipalities to be at a critical point in terms of finances. This dependence leads the municipalities to not fulfill all their

responsibilities towards the residents within their jurisdiction and therefore makes it impossible for the municipalities to “walk on their own feet”. The informality, on the other hand, makes the local government less efficient in collecting local fees and taxes, and therefore weakens local finances and increases dependence on the central government.

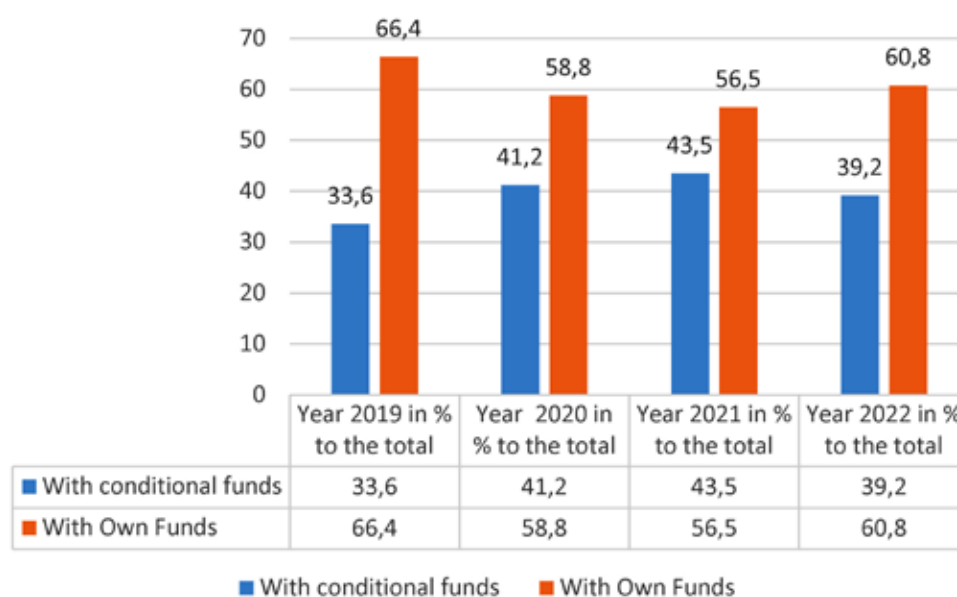
The municipalities of Kavaja, Tirana, Vlore, Pogradeci and Malsi e Madhe have the largest debt, where the debt of each of these municipalities reaches more than 10% of the total local tax.

The problem with the debt of the local government lies in the fact that this debt is mainly taken by the central government and that this debt is constantly increasing. But the debt of the local government also consists on the outstanding liability to the third

parties, as is the case of the obligation to the Albanian Energy Emetation Organization, for unpaid energy. The municipalities of Durrësi, Lezha, Kamza, Belshi and Fieri also have problematic debts. Some of them are in the serious economic difficulties, unable to make investments, while two of them, Kavaja and Vora, are considered at risk of the bankruptcy.

Referring to the chart below (chart no. 2), which compares the expenses incurred with own funds and financed by the conditional transfer for the last four years, a slight increase in coverage from own funds for 2020 and 2021 can be observed, while in 2022 we see a decrease to 4.3%. While the expenses financed by the conditional transfer, which is mainly for the delegated functions, are decreasing on average from year to year by 6%.

Chart 2. Expenses of LGUs according to the source of financing



Source: Authors’ processing based on data taken to (www.fnancatvendore.al)

Municipalities are faced with the financial difficulties in order to realize of the responsibilities they have in the framework of the realization of their functions, and as a result there is currently a fiscal imbalance or otherwise inconsistency in the balance of resources and responsibilities between the central government and the local governace. The amount of the expenditures made by the local governance for the year 2022 compared to the total Gross Domestic Product is 3.01% of it, while compared to the public expenditures it is 9.39% (Ministry of Finance

and Economy. May 2023 “Annual Report 2022 Local Public Finances”). While in all the countries of the region, local governance expenses are over 5% of GDP, with the exception of Kosovo, where these expenses are 4% of GDP. If we refer to the countries of the European Union, local governance expenses are about 15% of GDP or 45% of state budget expenses. Referring to the above figures, the responsibilities that the local government has, as well as the expansion of decentralization with the main purpose of strengthening the local governance, the increase in the per-

centage of local governance expenses, both in relation to the state budget and in relation to the PPB, constitutes of a challenge that must be solved.

Referring to the data of the Ministry of Finance for 2022, some municipalities are in financial difficulty, specifically the municipalities of Dimal, Cerrik, Vore and Kavaje, while eight other municipalities have financial problems, such as the municipalities of Poliçan, Dibër, Tropojë, Pogradec, Devoll, Libohova, Delvinë and Peqin (Ministry of Finance and Economy, Year 2022).

The municipalities and various organizations such as the Association of Municipalities, etc should lobby for an increase in the percentage of the local government expenses compared to GDP, even though from 2015 onwards the percentage has been increasing, but the rates of growth are very low. Decentralization requires an expansion of competencies and not an increase in the conditional transfers that the central government gives to the local governance, as this makes local decision-making even more dependent on the central government.

Conclusions and recommendations

Every government or organization, no matter how big it is, needs funding sources, so finances are important for the functioning of government units. On the other hand, not even a government has enough resources to fulfill its obligations to the community and to carry out all its functions, therefore the prudent and efficient use of existing resources is a necessity.

The local governance in Albania faces numerous challenges, challenges which vary from one municipality to another depending on the geographical position where the 61 municipalities perform their functions in the service of the community within their jurisdiction. The local government is still in need of financial resources even though no government level in the world has enough financial resources. But if we add the lack of qualified human resources, which is characteristic in all municipalities in rural areas, then the efficiency of using existing resources is at relatively low levels. An issue that requires an immediate solution for municipalities is integrated and systematic management, which makes it

possible to adapt in real time to different situations with a focus on local economic development. The municipalities should involve partners, donors and civil society and the community to ensure that local reforms are viable and credible and should be more transparent. Increasing community participation in decision-making at the local government level, which currently leaves much to be desired, will enhance better performance in providing social services that are truly local in nature and meet the developmental needs of local communities. To make local government work for the people requires an integrated approach to local governance reform aimed at local economic development. Efficiency and effectiveness in the use of resources, increasing the quality of services to citizens and increasing the level of development of the local economy should be at the center of the activity of each municipality.

In the framework of the response to the challenges of European integration and the absorption of funds from the European Union with a focus on the sustainable development of the local economy through the adaptation of the territorial reform in the country, the specialization and increase of the human resources capacities of the municipalities constitutes an important prerequisite. Municipalities should minimize the informality in order to increase the income provided by the local fees and taxes. If the local government in terms of securing financial resources will be inclined to seek as much income as possible from government transfers and not try to increase its own income from taxes and local fees, to increase the efficiency of the use of existing resources, this will make it even more dependent on the central government. Referring to the current situation local finance characterized by a low level of decentralization. In general, lack of finance resources are presented as the reason for the poor performance of the local government, but experience has shown that the poor management of finances against the lack of funds is the cause of the failure to realize the expectations of the local government's activity. The local government units in Albania should pay attention to the soundness of the finances, they should evaluate the budget planning process considering the sources of funding

for investment expenses and they should evaluate their possible fiscal capacities. The improvement of the legal framework related to local government finances should be part of the agenda of the central government and local government.

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