

Draft Papers

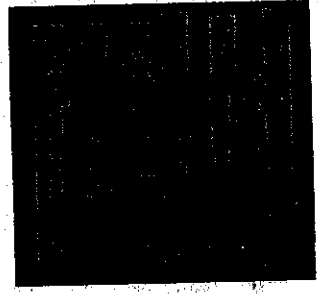
National Forum on Fiscal Decentralization in Albania

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**National Forum
on Fiscal
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Conference Draft Papers



**The Fiscal Decentralization Initiative
for Central and Eastern Europe**

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FISCAL REFORM AND FACTORS THAT DICTATE FISCAL DECENTRALIZATION IN ALBANIA

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A. Introduction

When the new fiscal system started to establish in Albania the first thing needed was abolishing the old system and setting up a new one, which required the approval of the new tax laws. During transition there were two phenomena occurring: on one side, people not used to tax system tried to avoid them; so some approved laws were not applied. Nevertheless anomalies make people find the ways to obey law.

The concept of Fiscal decentralization and the Rapport between decentralization and centralisation: Public sectors in many places are organised in different governing levels, where each of them has got its property, functioning and administration, of taxes to a certain rate. Decentralization means that the only authority in compiling and carrying out a decision is decomposed and transferred to local governments, which are responsible before their electors for these decisions. Economic factors dictating fiscal decentralization are geographical restricted extension of public materials, the relatively high costs of centralized decisions, the existence of scale economy, and elimination of vacuum which might be created from the tax payers, in which public services profit from one country to another. Limitation of concentrated ability of the authorities can be done only through decentralization which includes fragmentation and diversification in governing structure. The scale of decentralization depends on the autonomy that local government has in relation to the expenditure and tax forms. If we refer to the experiences of other countries we notice that the free hand they have, in carrying out fiscal duties, is different in different countries. Generally speaking, the public financial theory accepts that functions of stabilization and dis-

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tribution in the public sector will be accomplished by the central government, while local government is engaged in diversifying activities. One of the arguments that favors decentralized governance is the one that offers a profitable choice in public goods. It's quite clear that individuals differ in their preferences. The ability of a decentralized government in diversifying the public output, in relation to local preferences will improve the distribution of resources in public sector.

B. The Principles of Fiscal Decentralization

- *The principle of diversification*, which provides possibilities in arranging fiscal obligations in relation to different regions.
- *The principle of equivalence* which requires that every kind of service must be voted and paid in the region that gets the profits
- *The principle of centralized distribution*. The functioning of distribution in the fiscal polity will be centralized in national level.
- *The principle of local neutrality*. This means that executed tax categories or tax norms should be uniform to all kinds of individuals or subjects that operate in these regions.
- *The principle of central stabilization*. The use of fiscal instrument for the purpose of macro-economic policies must be on a national level.
- *Minimal bounds of the main public services*. Central government must provide every citizen with a minimum level of some essential public services such as: protection, health, welfare, education, in spite of the municipality it belongs to.
- *Equality of fiscal position*. This principal requires leveling of big differences in the balance between fiscal capacity and the needs of local government.

The experience of developed countries proves that fiscal activity facilitates the micro-economic duties of the central budget, the role of which is more than perfect tax-collecting, or the expenditures, when they are necessary. Consolidation and growth of independence of local budget has got only one positive side, when it is followed by a good administration of financial values.

For an economy in transition the main problem is financing in local governments. In this way we must define the actual cost of local services, then tax system transfers and tariffs of different services, which must provide enough income to realize settled expenditures. A part of the public services could be offered by different taxes, while the other part of expenditures could be financed mainly by taxes collected by citizens of a certain district. In many market economies local governments have as a basic tax resource those on properties, but in principle the incomes could be pro-

vided through many resources.
A good functioning of tax system must accomplish these principles.

Horizontal equality: People in the same circumstances must be taxed equally.

Vertical equality: This principle requires spreading of taxes in an honest way, between rich and poor, so that the rich could pay more taxes than the poor.

Profitable principle of taxes: People must pay taxes in a right proportion to the amount that they utilize state expenditures. The one who gets more profits must pay more.

The cost of tax gathering: Tax gathering costs money. So costs must be in those levels to have a relative proportion of the income they get.

Avoiding difficulties where we notice tax evasion.

No distortion: Taxes change market signals; it requires that while establishing taxes, they must keep in mind that influence is in the right direction.

Taxes must be desirable for tax payers: Tax system must be clear to tax payers to see that they calculate their liabilities towards taxes and feel conscious to pay them.

Taxes must be handy for the state too: Tax tariffs must be simple to be arranged. Government must consider in an exact way different tax effects, which must be done in two directions:

- Which would be the total revenues taken through the taxes.
- How would this taxes be divided among taxpayers.

Minimal restraining effects: While designing the tax legislation the restraining effects should be reduced to the minimum. Not everything must be considered within the same time. It is necessary to find a compromise, while we have to do with a conflict between different principles.

In all spheres of economy local government, except taxes, have as income source the transfers from central government which are given as grants. The reasons why these local budgets must be financed by grants are:

First, public benefits bring profits that are spread beyond region bounds.

Second, grants should be used to satisfy the objective of horizontal equality.

Third, they serve as a way of controlling if tariffs of local taxes must be increased or not.

Grants can be classified in to three big categories: open grants (without restriction in use), fixed grants (without restrictions in use) and fixed and restricted grants in use.

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But for countries in transition the most suitable form are conditional grants because:

- Central government doesn't have enough funds to put in disposal for local government.
- There exists a big possibility to harmonize local and national interest.
- The level of public services offered by local government is not sufficient to provide specific programs.
- Giving conditioning grants must serve as a guarantee for different donors to support different programs of local government.

C. Local Budget and Problems of Fiscal Decentralization in Albania.

Decentralization process was assessed as one of the priorities in the frame work of reforms in our country during 1992-1996, and this was reflected in compiling law base which would lead to decentralization process.

Local government which corresponded to the new system provided new laws, aiming at having a lot of competence and its authority, but the experience of these years proves that there has been a disproportion between laws and their application. The characteristics of current local governments are: *fiscal independence and conditional administrative competencies.*

Political reasons, dividing of government in to pro and against sections and interference of politics in economy.

Economic reasons, compiling of the budget regarding revenues; avoiding paying the taxes, administration of taxes and law competence of local government to operate through tax tariffs.

The law for local budgets predicts two parallel budgets for local government. *First*, "delegated" local budget which includes funds given by central government for programs that are "delegated" to local government. These funds are restricted in a very strict way and can't be transferred from one program to another. *Second*, local budget depended on the funds which might be used for specific purposes from local government. The revenues resources are:

- direct local taxes
- revenues that come from central tax sharing; and
- transfers

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Direct local taxes are those taxes whose incomes are settled and collected under the jurisdiction of local authority and all the amount is transferred to local government. Local taxes must be collected directly by local government or any enterprise under its jurisdiction. But a part of it might be gathered by central government and be transferred to the accounts of local government.

It would be of great interest that these tax collection is passed to local government which should be very interested in order to cover all the costs of services they offer, to get a higher tax income. The current way of collecting taxes is unfavorable. Second category of incomes of local budget has to do with the incomes provided by proportion of central taxes on the *corporal incomes and taxes on personal incomes.*

In many Eastern European countries taxes on personal incomes and taxes on corporal revenues are usually in proportion to local government needs. Taxes on personal incomes must become the main financial resource for the local government because of:

First, increasing the incomes of central government through a very good administration of taxes.

Second, There is a big responsibility in the local level of a good administration.

Third, it will be easy for the taxpayers to control the use of local taxes compared to the central ones.

Fourth, income taxes of a certain local place will improve social economic positions of the people.

Tax on property is a very important source especially for local budget. This tax is put on lands, houses, buildings, and must be based on its value too. The tariffs for these taxes must not be indicated from the incomes of the people that have got properties. Taxes on properties are the only central taxes which are done on certain percentages between local and central government in Albania. In 1994 with the settling of this tax there seemed to open a way towards functioning of local independent budget, but this tax is a big problem which might be solved.

Transfers make up the main resource that is put in their disposal from local budget to central budget. They have to do with 95 per cent of local budget. This doesn't mean independence but a total dependence from central budget. Transfers are given in conditional grant forms and local government doesn't have any possibility in changing its destination. Related to this there are many problems:

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First, transfers must have a smaller weight in local budgets. National taxes in proportion must be increased and serve as a resource for covering a lot of expenditures on public goods.

Second, transfers must be done based on the service costs that different districts have.

Third, there is required a big cooperation between two governments which would direct us to the exact planning of expenditures and finding sufficient funds for covering them.

Fourth, based on the conditions of our economy we are of the opinion that we must have conditional transfers. This is done to give a possibility to every citizen to provide a minimum level of essential public services.

Conclusions and Recommendations

1. Local budget provides its revenues from central budget. It's necessary to change its laws so that they can harmonize the income sources better.
2. Local autonomy is very restricted. In this period there is required the extension of these autonomy, making local government responsible in collecting taxes and financing different projects with local profits. One of the most important aspects is shifting a part of this tax on the personal income of local budget even having a very small percentage of profits at the beginning.
3. Decentralization must not create big differences among different regions. This restriction will require the interference of local government to avoid regional differences.
4. Infrastructure, being amortized and insufficient will ask that transfers for investments must be centralized, because only central government is able to harmonize national interests, but we don't include big investments that regard interests of individuals and not those of special regions.
5. It is necessary to consider administrative divisions, as the size of local government and the scale of urbanization influence in local governing costs.
6. Albania, being a very small country, we should decide to what extend decentralization must be carried out. There exist examples of other countries, with the same population as that of Albania, which must serve as different models in developing the relations between central government and local one.

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DIVISION OF IMMOVABLE PROPERTIES BETWEEN CENTRAL AND LOCAL GOVERNMENT

By *Sherefedin Shehu*¹

1. Actual situation

In the framework of political initiative for fiscal decentralization an important place occupies the system of owned properties of the local government and its effective administration. Such a thing is indispensable for these reasons:

- There exist domains (offices, schools, clinical centers, their equipments, which carry out services of the local government, but the latter does not recognize and consider the as proprietors. Thus, the owner of the existing domains should be defined properly.

- There exist patrimonial properties that are enterprises under local government's control but this one doesn't have any ownership rights on them and doesn't collect revenues.

- There are public investments to extend properties under the jurisdiction of local government, but there is no responsibility for their quality performance and standards for their administration and efficiency.

- The quality of services depends on the materials used, and we don't know if they are necessary for a certain level of services.

- It is not known which means are owned by the local government, so there exist no accountable reflection and capitalized public funds.

- Lack of proprietors, when property exists, hasn't promoted the development of necessary independent institutions, to assess and register immovable properties.

Local governments don't have an independent budget but are charged by Ministries to administer parts of their budget. Since the organs of local government don't decide upon funds according to their services, and don't even have the right to shift

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central government's funds from one service to another depending on the fiscal situation and priorities, it's quite understandable that they don't have any interests and responsibilities in guaranteeing current and future services.

2. Relations Between Functions and Properties of State Structures

Properties of every government make up physical and social infrastructure and express their capacity in providing services to citizens as we have inherited a weak infrastructure and public institutions that aimed at only offering bulk services, a primary task is the inventory, possession, rehabilitation and a good administration of existing properties. This provides the basis for acknowledging the real needs and defining the strategy of improving their structure.

The first step, depending on the political readiness is including local government in solving these problems. Its accomplishment requires a clearly definition of political, economic, social functions of each governmental level, respective physical properties, and necessary financial central and local recourses. We may conclude that a clear division of functions constitute the basis of property division among governments, because immovable properties represent the existing resources providing services, while financial resources provide the basis of their raising. Except infrastructure, the local government needs patrimonial property which increase its financial independence.

The advantages of shifting the properties to the local government are:

- Growth of responsibility, because those who are responsible for protecting and improving it are so close to it;
- Growth of interest for a good administration and making good use of properties, because through this, there exist the possibility of carrying them out as well as possible;
- Increasing new investments; because they will be conducted and based on the needs and preferences of local bodies, and so the number of people who are responsible increases;
- Restriction of standardization/average of central government, which applies and carries them out uniformly.

Development of new alternatives and promoting citizens' opinions and contributions, make citizens feel closer to governments and increase the need to cooperate and support each other. On the other hand there exist another possibility

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people to take part in their areas. Analysing the volume and structure of investments carried out for each local governmental body, results that they are cut to pieces and are not spread according to a good strategy. Different units of local government have got very little possibilities in increasing their properties. There doesn't exist the same possibility in relation to each-other. This is connected not only with the impossibility of being financed by state in general, even with political preferences, which are unavoidable in developed countries, considering the fact they are completely dependent on the central government, but also with the lack of criteria and settled standards in distributing funds.

In this circumstances, I recommend to undertake these measures:

1. Designing of a national strategy in some main directions, in carrying out public investments and priorities from the structural and geographical viewpoint.
2. A clear division of functions between governing organs and respective properties.
3. Defining through regulations of investments that every local government body has the right to carry out.
4. Accordance in investment funds for each level and unit of local government and distribution of concrete projects according to priorities.
5. Defining of objects for providing certain service levels and the criteria and standards in making investments in accordance with these objectives.

3. Defining of Purposes and Strategic Objectives for Increasing the Properties of Local Government

Local government functions are different from one country to another. In many countries local governments provide such functions as, education, public health, public utilities, social services, local police, fire-engines, lodging etc. We must accept that it is not necessary to mention the bulk of these functions. What is essential in this process, is to find out the appropriate ways for accomplishing citizens' services with optimal funds and efficiency. This could be realised through defining the objectives and quantity scale of the level of services offered to every citizen and finding out some ways in accomplishing them. Needs are a relative indicator because they depend on the economic level and the policy of a certain country. In the current circumstances of Albania we can not pretend to accomplish them immediately. It is important to clearly define some indexes which show the standards, objectives and goals through which activities will be conducted. Having concrete goals, institutions,

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on analyzing them according to groups. Some of the directions, on which analyses must be based are:

Inventory of the basic infrastructure of the community for defining the situation and the possibilities for its improvement;
The possibility of maintenance, repairing or replacing of proposed projects;
Risk and insecurity for each investment alternative;

Assessment of financial options;
Proposals for investments based on the above analyses;
Priority of means and properties must not only be their quantity reflection. In order to make it serve analyses' purposes, we must consider the evidence of certain
Engineering assessment just like: measuring of capacity losses of water pipes, assessment of the bridges etc.
Result indexes: the scale of sewer obstructions, frequent bus disorders, rate of serious demands etc.

Indexes of effective services: the rate of people's complaints on public utilities.

Legal, Institutional and Accountable Regulations for the Division and Administration of Public Properties

Division of properties between different levels needs a special legal regulation. Initially the law of "The organization and functioning of local government" and "law" On local budget" does exist. The first defines the framework of responsibilities of the local government, but it doesn't specify concrete functions that will be financed from local budget or shared with the central budget. The second arranges the budget process of local government and defines its rights. In the conditions that concrete field of local government activity and its financial independence are not mentioned yet, these laws are not applied. To provide a real independence, it would be necessary to improve the legal framework, as follows:

- Constitutional definition on local independence;
- Organic law on tasks, functions and responsibilities of local governments;
- The law on governmental properties;
- The law on local budget and financial management.

In constitutional definitions the principles of local and fiscal independence should be defined. It must sanction:

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charged to assess and use the funds, will be based on their subjective judgement which will reflect their personal elements and motives.

Objectives and goals to develop fixed are expressed in the form of indexes which are various, depending on the nature of their activities. The definition of goals and objectives to carry out investments should be based on:

- the actual level of the indexes accepted as a measure of property in each governmental entity;
- the trends of economic development;
- the demographic changes;
- the demand for services;
- the means and resources put in their disposal for carrying out these services.

Factors that influence on people's services and which must be taken into consideration in defining the objectives and distributing the investment funds are numerous. They can be grouped as follows:

- *External factors*, where we include changes in demographic characteristics economic activities, social tendencies, technological and scientific changes.
- *Total requests for services*, suppositions, standards and criteria used to express in figures and foresee the means and needs for services must be identified clearly and tested through the progressive analyses in previous years.
- *Responsibilities of offering services*: there should be examined and identified the actual function and prospective of different levels of government and private sector, in providing the means and public services. Based on this, the field of activity is defined, confusion is eliminated and functions are coordinated.

Programming of capital investment is connected with the needs of public services and objectives for its improvement. The experience has proved that during crises, organs of local government, and other public services, being in panic, provide no or super-extended economic investments. For this it is necessary to identify the segments of population or clients' groups which suffer growth.

Demographic changes are related and conditioned to economic development. That's why predictions and objectives of economic development, must be accompanied by improving public needs. Different governmental levels, especially local bodies, have in their disposals restricted financial resources. So capital investments, carried out by them, need a well-studied program, based on priorities that come from defined purposes and objectives. Setting of priorities and efficient capital investments must

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- All the public funds must be deposited and spent, based on laws,
 - Financial relationships between central and local government.
 - Divisions of sections in public financing between central and local government;
 - Division of sections of public financing between legislative and executive government.
- Regulations must sanction:
- Public functions and their division according to each level;
 - Institutions through which these functions are carried out;
 - Financial resources in accomplishing their functions;
 - Registration system, property assessment and administration.

The shifting of property to the local government's ownership should not be considered as a political act. It should aim at guaranteeing functions and increasing responsibilities to increase them. Formally, an Institution of Real Estates Registration does exist in Albania, but not registration liabilities. That is why Property is not an index influencing on the distribution of budget funds. There are not assessment or reporting standards. All these show that the division of property between governments is the first step, while their extension, administration and efficient utilization requires a series of legal, institutional and procedural arrangements. This is the basis of a sound registration system of properties and their assessment.

TAX ADMINISTRATION --AN IMPORTANT PART OF FISCAL SYSTEM

By Florian Mima¹

Among the conditions to carry out a strong, efficient and up-to-date tax system are:

- a simple tax system, understandable for all taxpayers and administration offices;

- the political will to support the managerial level, a political-administration dedication;
- a clear strategy, designed according to the international successful experiences.

When VAT was applied for the first time in July, 1996, it was said that this tax would not only raise incomes but it would also educate the administration office itself, thus creating a tax administrator to live and work after European standards; it would also educate tax-payers, through simple procedures, to increase his compliance.

Which are these procedures?

A. Identification

Using a unique identification number, which in itself is an algorithm revalued by the combination of letter-cipher characters, the fiscal code of the subjects registered in VAT was substituted, because, being simply a progressive serial number, it couldn't give more information than its ciphers. Meanwhile the information received by NIPF, mostly from computerized districts, is universal.

B. Registration

Registration, the same as identification, is one of the first steps taken to establish tax collection. It is a fact now that this process, without denying its values, has been

¹Expert, Ministry of Finance.

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B. Tax collection

The explanation of this term specifies its connection with keeping accounting records from the tax administration, supervision of statements and payments, evidence of debtors etc. In circumstances when work organization in tax branches was based on the following specific taxation, it was impossible to speak about tax collection.

The new organization according to functions provided the accomplishment of all the above-mentioned tasks by the accounting sector for other taxation and by the sectors of the supervision of statements and payments of VAT. These jobs are accomplished mainly in offices and its object is the supervision of statements and payments. It is divided in two stages: *formal auditing* and *real auditing*.

Formal auditing has to do with visual mathematical fiction of the data noted down in the statement. In case of formal mistakes in completing the statements, this sector should inform the taxpayer. The real auditing is the second stage of offices' audit that consists of logical judgement of the truthfulness of data reflected in the statement. As typical valuation of untrue statements can be the monthly creditor surplus of goods when at customs it doesn't result any great volume of import, or when subjects with a considerable monthly satisfactory VAT depositing declares losses or minimal profits. The supervising sector informs the auditing sector for all these anomalies, and for paying another control visit at the taxpayer's place.

C. Auditing

It is considered one of the strongest elements of the system, which consists of verifying statements and other fiscal documents of the taxpayer, the exactness of accounts the way of keeping accounting records and their accordance with the legal standard in force, the truthfulness of results etc.

The main object of auditing is to make taxpayers improve their attitude towards the execution of the fiscal legislation aiming at increasing continuously its compliance and not merely supervising the subject. There are two kinds of auditing taxpayers: the exact control at the place of work and the thorough control.

The first has to do with those taxpayers who do not present periodical statements, who are selected as having presented false statements or those who from other information sources (such as customs) banks or third suppliers) result to be potential. The thorough control has priorities in cases when the evasion is easily obvious, the taxpayer does not keep his documents in conformity with the legislation and when it is necessary that after the exact auditing

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subject, it has to undergo a thorough control.

of the main directions for the thorough control to focus are: verification of the taxpayer's disposable capital through comparing the incomes' level with expenditures, the thorough stock verification, information comparison from external sources and the data declared by the taxpayers etc. We would consider as successful the exchange of information with the customs Department, which makes possible the import verification with those declared by the subject, thus making impossible the avoidance of VAT in internal sales, and not allowing untrue import credit in the case of exports, the second auditing element is the exchange of information receiving customs in foreign countries.

field where information is extremely important is the goods provision and those to the budget sector by the private one. Getting the right monthly information from the treasury for the payment of invoices and respective VAT has been an attempt to limit to the maximum, as a conclusion we can say that their space is being due to the possession of two kinds of data: those declared by the taxpayer and those insured through external sources.

Investigation

is considered one of the most important sectors of the tax administration and its object is to provide an accurate information regarding fiscal law violations, among possible ways of smuggling etc. as well as supervising and collecting information on attitudes and execution of laws by the tax inspectors. Apart from this information sanctioned yet with respective regulations, it develops in sporadic forms of problems arising to the head staff and which require professional investigation.

is indispensable in the conditions when many of tax employees are not fit to work because of their incapability, but have been rewarded by politicians for their services during various electoral campaigns.

Punishment

respective violation penalties should be transparent, clear, understandable and specific, and the sanctions that exist in creating confusion. This has been primary for the purpose of improving the fiscal legislation. The punishment moral consists of: being careless, formal mistakes resulting from lack of information when being put at the disposal of taxpayers, and heavy punishments for fiscal law violations accomplished or attempted, document falsification (counterfeit), un-

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- roads and drainage amortization
- infrastructure facing national loads
- ecological damage
- creation of new dwelling areas, resulting from controlled and uncontrolled flux of citizens
- c) the number of inhabitants requiring a better life
- d) the ability of local government to carry out and self-liquidate investments.

In our present and future conditions, the local government depends on the central government because the conditioned budget occupies 85-90 per cent of the whole budget; that's why the proposed suggestions.

Even the independent local budget depends a lot on the central one which hinders their utilization according to the needs. It is a legal infringement on the local government revenues weeping the local budget under control on the part of central government through operative limitations mainly for investments.

The economic factors which further increase the local budget independence consist of:

1. revenues increasing through better collecting the existing taxes
2. the right to use them independently

Considering the first problem, we think that incomes increasing through taxes can be performed not only by improving the municipal organized work, but also by strengthening its executive power, including here the creation of the municipal police.

The increased revenues through market taxes can be achieved by collecting them through private tax agents, appointed through tenders between local government and private tax agencies; such relations will be established by ach-agreements or contracts.

The competence growth of the local government to cooperate and the auditing of the city tax branch to co-ordinate the tax collection is another subsidiary factor. Connected to it, it is given the permission to exercise the economic activity, through municipal approbation, to all judicial and physical persons that own such an activity. The municipal council of the city of Durres on

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In 1998 made a resolution that every economic activity practiced in the will be approved by the municipality, apart from the issuing of license by legal institutions. For this reason a permanent commission is formed, attached to the municipality, which includes all operative departments for examining the demands and issuing permits after an approved regulation. In increasing various sorts of taxes Durres is considered to have a wide economic activity not only as one of the main centers of naval, railway and road transport but also in trade, tourism and industry.

Through these activities, the central government insures considerable incomes, that are also made possible by the local government's services and parts of infrastructure, drainage, telephone services, cleaning of polluted environment etc.

As restoration and readiness requires financial means. So the local government should surpass 5-100 per cent of incomes. Designing the municipal property and their mortgage as grounds (sites), buildings, etc, besides the state and private ones, will make it possible for the local government through improving infrastructure based on a perspective urban study plan, to increase sites value in order to sell or to rent them, creating in this way sites business which will considerably increase revenues.

We suggest the modification of the government resolution no. 7980, dated 27.12.1995 on not issuing permit license to build, up to the compensation of the legal proprietors.

It is the municipality to deal with sites compensation, because it is interested to conclude it as soon as possible and start giving permit license to build. In this context, we think that the council of territory adjustment for such municipalities as Durresi, Shkodra, Vlora, Elbasan etc besides that of Tirana disposing it, should be passed to them, because the sites' problems and object constructions, in a high percentage, are within the yellow line of the city municipality. Considering the right to use, we think that the central government should decide only on those aspects that make part of the national policy while the budget difference should be approved by the municipal council deviding them according to the needs.

According to the laws in power, the conditioned budgets comes with titles, salaries' chapters, operative expenditures and investments, on which we don't have the right to steer from one item to another. The Investment Fund is disregarded, compared to the city needs. So it is necessary to receive a fund in value and to have free hand to use it, because the local governments knows the needs better.

The independence of the local government demands its treating as an economic institution, having a direct bank account without transferring it to the treasury.

Financial operations through treasury branch are rendered more difficult, regarding the operations; on the other hand the municipality having an account of its own is able to control the financial means at its disposal, at every moment. In these circumstances, as an economic institution, it creates the possibility to get and use short-term loans for investing with funds matured afterwards to carry out seasonal investments at their due time.

THE CURRENT STEPS TO DECENTRALIZATION AND THE FURTHER NEED TO DEEPEN THEM

by *Albert BROJKA*¹

1. Introduction

The economic and political transformations make decentralization indispensable. This process, aims at reforming local governments, improving their managing system, as well as influencing the local democratic development. It addresses democratic reforms of various fields, closely connected to each-other. The successful application of this reform requires the combination of all factors, which lead to a democratic results. This is a difficult process, if we take into account the specific conditions in which it develops, that have to do with the unstable economic environment, the current political situation, the insufficient revenues sources, lack of knowledge, etc.

But the political intention to deepen and strengthen the country's democracy remains an indispensability, favoured by other economic factors. The local government is in the process of their reformation, that started in 1992. The approved legislation created the conditions of local self-government to make it independent and decentralized. If we consider the transitional difficulties, it is noticed that first steps are taken towards their restructuring, in some directions, such as:

- Legal reforms are undertaken intending to diminish the role of the central government and to strengthen the local one;
- Through the approved legislation, local governments possess new competences, in conformity with the present conditions;

Mayor

THE CURRENT STEPS TO DECENTRALIZATION

- By establishing plural governmental structures;
- By establishing new executive structures and perfecting them continuously in compliance with the charged duties;
- By establishing a new financial system based on legislation, which paves the way to providing internal income resources, a basic factor for the local government independence;
- Improvement of the tax structure in a continuous way, influencing in increasing internal local government resources each year, e.g. increasing taxes and local imports and their cashing coefficient;
- Increasing the number of subjects and of citizens which pay taxes. Decisions on how to use revenues, that are provided by these taxes, are mainly made by local governments, to which are given all possibilities to establish temporary taxes by themselves;
- Though not yet applied, the legislation is being improved, especially in the managing and financial capacity of the local governments;
- In making decisions independently by these governments. This is especially connected to those decisions that have nothing to do with conditional fund utilization;
- Associations and organizations are founded to promote changes. They are in the way of their formation, but have evidently influenced in this direction;
- Efforts are made by the local governments to give the possibility to every citizen to be included in local governance, such as open confrontations for special services, offered by the local government, giving information to people through publications, press conferences etc. Regarding this problem, we are still in our first steps.

2. In the Field of Competences

Legal reforms aim at exactly defining local government competences, as well as their evident responsibilities.

- Some competences are still not clear in their formulation, are incomplete and lack instructions on their application;
- There are mingled competences especially those of public services;
- Competences are not clearly reflected, regarding the new local government roles in the market economy;

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Local budgets include funds with central and conditional financing resources. These funds are granted for delegated responsibilities. They seem to be local but in fact they are central funds, because local governments are merely transmitters or announcers;

- Their competences are limited; and
- Local governments can not operate out of specific competences.

Some Essential Recommendations on Competences

- Some future recommendation, regarding the deficiencies of the existing framework, would be:
 - Competences should be guaranteed and have a constitutional foundation
 - The basic ones should be specified in the constitution to provide a constant existence;
 - To increase the local government competences that deal with revenues, their administration, law enacting etc;
 - Local governments should act as independent judicial entities. It demands a great solution of the ownership problem;
 - Evident specification of competences has to do with the division of responsibilities between two governmental levels;
 - Legal guarantee to apply competences. It implies the establishing of responsible structures to it;
 - Indispensability in increasing competences and limitation of delegated competences should have adaptation possibility;
 - Providing participating possibilities for the local governments in those areas that are not in opposition with the legislation in force; and
 - Competences should be in balance with resources.

Structure of Financial System

Decentralization addresses the authority transfer from the central to the local level, which includes three main elements: administrative, financial and legal. The financial element is essential in providing competences, but at the same time, very difficult as it defines the necessary revenues, as well as all institutional capacities to apply all their decisions. The solution of this problem requires the identification problems, regarding income resources, to be followed, tax authorities in the favour of local ones, necessary

these structures.

F) Reforms Require Perfection Of Cooperating Forms Among Local Governments, Without Infringing On The Principles Of Independence And Decentralization

Local governments function on a municipal, communal or district level. They are independent entities, that conduct their activity on a territorial level. There are no concrete forms of cooperation, and this is conditioned by the lack of funds. But in certain areas they can cooperate, such as water supplies, green space maintenance, infrastructure etc. One of the voluntary cooperation forms is "the Association of Mayors and Communes". Efforts are made to support and strengthen the local governments, giving opinions on how to improve current knowledge, exchange of experience, etc. Regarding the circumstances, this association should play an important role in defending the rights of local elected people, defending the rights of the citizens, drafting the Constitution, improving legislation, and strengthening local governments. Its position should be clearly defined as a consultative, suggestive organism, participant in constitutional and legal reforms commissions etc.

G) Reforms Should Aim at Improving the Legal Relations Between Central and Local Governments

Based in laws, local governments are independent from the central one, but in reality it is not true. Prefectures supervise the legislation of local governments and coordinate the activities of Ministries and other central organs. It is also expressed in law, according to which the parliament can disperse the council or discharge the Mayor.

We can conclude that:

- Central control should be reduced, consisting of the application of legislation, not of possibilities.
- Controls on the quantity and quality of different services should be further strengthened; and
- Supervising competences from the central government should be provided.

FURTHER DECENTRALIZATION OF LOCAL GOVERNMENT IN TIRANA - AN ABSOLUTE NECESSITY FOR A DEMOCRATIC SELF-GOVERNANCE

by Luan Shahollari

Introduction

As we treat in this paper refers to decentralization (relations between central government and local) as well as to democratic governance (relations between local governments and citizens). Its distinctive feature is the viewpoint on some of the above mentioned - the framework of organization and functioning of the local government in the capital of Albania, the biggest urban center of the country. The main objective is to know the present achievements and deficiencies, mainly in providing new alternatives for further decentralization of the local government of Tirana City. We shall ensure democratic and more effective self-governance, aimed at improving the life.

Localities in the Organization of Local Government in Tirana from 1939

Localities in the organization and local government in Tirana have been subjected to the division of the country. There have not been any special laws to organize localities in Tirana.

In 1939 Albania was divided into 10 prefectures, 39 sub-prefecture, and 2555 villages. Tirana was a prefecture. After liberation, according to Law No. 284, dated 22 august 1946, "For the territorial administrative organization of the People's Republic of Albania", Albania was divided into 10 prefectures, 116 communes and 2711 localities. So, again Tirana had a prefecture.

Commission of Economy, Finance and Privatization, Assembly of People.

FURTHER DECENTRALIZATION OF LOCAL GOVERNMENT IN TIRANA

In December 1994, a group of aldermen from Tirana municipality, consisting of representatives from different political parties, payed a visit to Istanbul, the biggest city of Turkey and one of the biggest in the world. In the city municipality we learned that Istanbul was divided into other 49 smaller municipalities, in which elected representatives of the people exercised their competences.

In September 1995, another group of this council payed visit to Rome, Italy where similar practices were noticed. In May 1996, in visit to Vienna, Austria, the group of Tirana aldermen had the possibility to see not only the way how the Vienna municipality functioned, but also of one of its districts, district no. 23 of Lizing, the newest one in Vienna. Vienna, with 1,8 million inhabitants, was divided into 23 other smaller municipalities, with 75-80 thousand inhabitants each. Other experiences come from Prague, Budapest, Athens, Belgrade, Hanover, Riga etc. Riga, the capital of Latvia, is nearly as big as Tirana was divided into 6 districts. The council of Riga functions together with respective local governments of its divisions, where each of them has a Council, its chief, respective executive organs and a relatively independent budget. To coordinate the work in solving the common problems of the city, the Room of Riga has been established, with 60 representatives, 30 from the district council and 30 from the city council.

If resolution of the council of Ministers would legalize 11 administrative sub-division quarters of Tirana City, convening them in regular administrative divisions where the elected local government would be established, it would be the easiest and the most effective way, having priority compared to other variants, for the following reasons:

- *First*, the average number of 12 thousand families and 40 thousand inhabitants can be considered optimal to be governed.
- *Second*, a gradual increase of this number could be faced without difficulties from the respective division councils, being assisted by the experience gained through years, so this division would serve the average-range perspectives.
- *Third*, in this way we would pass from sub-divisions to divisions of local governments and its apparatus, as well as of the local population and respective jurisdiction.

These divisions may be called municipalities or regions, like Tirana 1,2,3, etc. up to Tirana 11. A number of 13-17 elected aldermen, depending on the population, would be sufficient to make decisions and apply them in Tirana municipalities, which then would elect the mayor and vice-mayor. In order to support better the vital interests of inhabitants and to prevent negative phenomena, as well as legal infringements, it is necessary to further deepen the decentralization of local government in Tirana, by creating sub-divisions, quarters with 4-5 thousand inhabitants each, with respective

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councils having a limited number of members (9 to 13) and competences, without executive apparatus. In this way the structure and composition of Tirana local government would be

- a. Tirana municipality with 45 aldermen
- b. 11 other Tirana municipalities with 143 - 187 aldermen
- c. 80 Tirana quarters with 720 - 1048 aldermen
altogether 908 - 1272 aldermen

Another problem to be carefully studied is the report of competences between the municipality of Tirana city and other municipalities and quarter councils. Always respecting well known principles of self-governance, independence, local autonomy and decentralization, we can provide a division of competences, grouped in these main directions:

- The municipality of Tirana should handle problems of coordinating development policies on a city scale.
- The municipalities of Tirana should handle vital citizens' problems in all aspects.
- The quarter councils should help in preventing infringements and applying laws.
- It is the time to possibly re-organize the local government in Tirana

The first stage: September - December 1998: creation of a group of representatives from Parliament, Government (Ministry of Local Government), the Council of Municipalities and Tirana municipality and from non-governmental associations (the main and most interested one), which should study and re-organize the local government in Tirana City.

The second stage: January - December 1999: from studying, to designing and approving totally organic law for a better organization and functioning of the local government of Tirana

The third stage: January - October 2000: (up to new elections for local government on a country scale) which can be considered as an expert stage in administrative division and legal competences that the local government of Tirana possesses. This stage will serve as preparatory one to pass quickly and more effectively into a new organization.

Conclusions

After liberation Tirana experienced a very high rate development. In 1997 against 1988 the population has increased 16 times, while on a country scale nearly 3 times. The highest rates of population growth, resulting from a mechanic movement are noticed during transitional years (1990-1997), with an average rate of

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10% per year. Tirana has 12.5% of the population of the country.

2. Since 1920 Tirana is the capital of Albania, while from 1940, it is the biggest city in the country. But though having such distinctive peculiarities, Tirana has always been governed by the same laws of the country. From 1939 to 1992, the local government organization in Tirana has undergone many changes, but in the essence it remained centralized. The experience of 1988-1992 (when Tirana had three regions in city), and that of 1992-1998 (when Tirana became a municipality on a city scale), as well as the foreign experience, need to be carefully studied and applied. Actually Tirana municipality has a mixed status with that of district council.

3. Tirana should have a new organization of local government. Its structure must have three levels:

- a. Municipality of Tirana
- b. Other municipalities of Tirana
- c. Quarter Councils

Tirana can be divided in some municipalities or regions, but I think they should be 11 and legalize the sub-division of territorial administrative quarters. Such a division serves not only for the present but for an average-term perspective. On the other hand, we can easily pass onto structures of this new possible new organizations.

This division further deepens the decentralization and democratic governance and follows the successful experience of such cities as Paris, Vienna, Instambul, Warsaw, Athens, Rome, Belgrade, Riga etc.

4. The main basic link of the overall new organization will be the municipalities of Tirana, equipped with total competences to solve essential problems of citizens and their jurisdiction. These municipalities should have their own budget independence, approved by the Parliament. These competences should have coordinating character, while those of the quarters should be subsidiary preventive and suggestive ones.

5. The deadline of such a possible re-organization of the local government in Tirana should be the coming elections for local government on a country scale, in October 2000. The period up to that moment should be divided in some stages which will solve and fulfil gradually all the institutional framework that will lead and support this re-organization.

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ESTABLISHMENT OF RURAL FINANCIAL INSTITUTIONS

by *Lavdash ZAHO*¹
Robert LUKAJ
*Drini SALKO*³

I. Introduction

Fiscal decentralization and establishment of the banking system from "down-up" is the best solution to hopefully develop and increase local revenues, increase investments and carry out an efficient fiscal decentralization through the re-distribution of free funds of farmers or private firms in the country in the eastern and central Europe, to initiate economic decentralization, and especially fiscal and banking one. The local financial market and the possibility to invest in rural and urban areas is insufficient. Especially, the agricultural sector in Albania, under the conditions of market economy requires a sound financial support.

The development of banking system and its transformation into a sound commercial banking system has been very slow, despite of the efforts done during these five years. The rural sector and the Albanian farmers have been left without the basic financial services. The lack of sufficient reforms in the financial sector has created an emptiness in providing loans to the agricultural sector and small farmers. Actually 3 state-owned banks have cancelled their loan-giving activities. A paradox exists in Albania: Although it is an agricultural country, no specialized financial institution operates in this sector.

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2. The Utilization Of Village Agents To Distribute Rural Loans

During these last decades, many countries, having low revenues, have provided a lot of money by various projects in rural financial markets, in order to help small farmers improve their way of living.

The object of the loan projects is to provide farmers with loans, with subsidized interest norms. Many of these projects have failed in rural areas, because they have been followed only by official financial institutions. This has made possible finding other possibilities for institutional agreements to distribute loans in rural areas. Members of the rural community have been used as agents in covering potential borrowers in collecting payments. The utilization of village agents has its own experience in Albania through the Albanian Development Fund.

3. Mobilization of Savings in Rural Areas

The economic analysis indicate that the rural sector possesses considerable monetary resources. These revenues have been provided by the agricultural sector as well as by emigrants. Free monetary values of rural economies, in a considerable amount, are not saved in forms of long-run deposits in banks. This is a consequence of the Albanian mentality and lack of banking services in villages.

It is difficult to assess the savings deposits in rural areas. The Rural Commercial Bank can provide some statistics on them, as it was the only bank operating in these areas through its branches. The table below gives the evolution of savings in rural

Time Deposits in ACB			
YEARS			
1993	1994	1995	1996
1.929.906	3.361.454	4.491.979	3.511.715
			2.971.472

Institute of Statistics

areas, recently:

From the data provided by agencies or banking offices in villages, the same evolution is noticed. Some of these deposits, by the end of 1996, occupy the largest specific weight in the total deposit amount.

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Deposit structure (31. December, 1996) in 000 leks

Districts	Amount	Deposit place		Banking agencies	
		Branches	in %	Amount	in %
Durres	281.877	37.875	13	244.002	87
Elbasani	277.726	79.59	28	198.136	72
Korca	337.773	2.195	1	335.575	99
Tirana	109.253	6.742	6	102.511	94
Vlora	172.619	25.342	14	147.278	86

Restructuring of ACB, and finally its closing, makes rural savings impossible to focus and mobilize in the rural sector. The development of rural financial market requires the collection of rural monetary resources and their utilization to finance this sector. The law of 21 March, 1996 "On the association of loan savings" provides the establishment of these organizations, in essence "mimibanks", in Albania, too.

The establishment of these cash-desks is an indispensability, because of:

- *First*, the lack of financial institutions, specialized in the rural sector and the growing need of farmers for financing.
- *Second*, the lack of banking services in rural areas, mobilization of free financial resources of rural areas and their utilization.
- *Third*, the rural cash-desk is considered as the only institution to serve local finances.

• *Fourth*, the existence of a legal basis to support this process.

- *Fifth*, positive premises, based on positive experiences, on those villages where such Committees operate.

Some limitations are:

- The presence of a weak cooperating environment among farmers. The basis of these associations is the mutual trust among members, that does not yet exist to the required rate.

• Lack of an appropriate infrastructure in rural areas.

• Impossibility to operate successfully up to their consolidation.

- The political risk, existing in Albania; an inadequate political climate.

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The lack of ADF-application of a new experience based on an average-run strategy, seeing that ADF actually finances individual loans to producers, it can give loans to associations too.

The programs of rural loans from ADF have achieved good results, compared to other financial institutions. Until September, there have been given 188 village loan funds, including 12.000 rural borrowers, of 420\$ on average per each of them. One of the best ways to develop this loan system in the village is the possibility to transform the credit programs into steady rural cash-desk. The development of loans is the only way for the Albanian farmers to administer their local economies. It would help personal initiative and entrepreneurship.

4. Premises of the Establishment of Rural Cash-Desks in Albania.

It should be realized in two ways:

First, through transforming Committees of rural loans to rural cash-desks. Its cost should be afforded by foreign donors. It includes three key problems:

- the way of shifting granted funds from the institutions to the Committees of rural loans.
- providing grants to afford expenditures for creating the necessary environment (e.g. offices for rural cash-desks)
- financing in training members of Rural cash-desks.

The first problem is the most difficult one. There are many alternatives regarding it. The current granted funds by various institutions, to support farmers are, in the essence, public funds (government's liabilities towards the World Bank). These funds should be put at the disposal of rural cash-desks, so they can provide funds for the initial capital, operating through three main sources:

- Membership dues
- Members contribution and deposits
- Granted funds to Committees by the FZSH; we think that about 70 per cent of the granted fund to be considered as loans given by the government and be paid off during 15-20 years with a minimal interest of 2-3 per cent.

The rest should be considered as the state's contribution to Rural Cash Desk, having the right to purchase at any time. It is necessary that members should know the procedures, rights and liabilities. Their operating with Rural cash -desks will be

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accompanied by the technical assistance on the part of various donors. During this stage, there would be a lot of technical and organizational barriers.

Second, establishment of New Rural Cash-Desks. This is the most original way because it bears the initiative of the farmers themselves. It is indispensable, especially for those areas whose population do not intend to move to bigger cities. The farmers in these areas have got bigger revenues. Such areas are those surrounding urban centers as: Vlora, Maliqi, Milot, Divjake etc. They will have their own Rural Cash-Desks and help in increasing banking services for farmers, the entire legal, and regulatory framework is based on law "For loan savings' associations", its statute, internal regulation and respective manual. Then, on a certain stage, it would provide the creation of cooperative Banks.

They will be subjected to all rules of the banking system, as in all other countries. They will have the function of a Commercial Bank, offering a wide range of services to farmers. It would firstly be organized in local or regional levels, and later in a national ones. Then cooperative Banks join each other and form the Union of Raiffersen Cooperatives. These banking operations would increase the range of banking services in the country.

5. Conclusions and Recommendations

- Inefficiency of the banking system that brought about the merging of the Agrarian Commercial Bank created a paradoxical situation in Albania; there is no institution, specialized in rural sector financing; farmers don't deposit their money.
- Only 1/4 of the monetary incomes for rural families represent free money.
- Savings deposits have been increasing, due to the functioning of banking agencies in those villages, where they exist.
- Lack of a financial institution specialized in the rural sector is a serious barrier for farmers' financing and agricultural development.
- Current circumstances make it indispensable to operate through financial institutions, specialized for rural areas. The most appropriate model is the establishment of Rural Cash-Desks, similar to Raiffeisen system.
- The mentality and psychology of the Albanian farmers in cooperation, lack of experience and in capacity to efficiently operate at the initial period,

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are the main barriers in establishing rural cash-desks.

- ADF, FEAD etc. should be the initiators and main supporters in creating RCD.
- Exchanging experience with German and Austrian banking systems would be useful.
- Providing a micro-loans system, adequate for changing committees to Rural Cash-Desks.
- The state should give its contribution to facilitate the establishments of such banks.
- Their establishment is prior in perspective areas, near urban centers and small agricultural-oriented towns, especially those where farmers associations operate.
- Based on an average-run scheme, during the 2-3 coming years, this model will extend on a local level. Later on, after its consolidation, we'll have joint federations, i.e. established institutions, like the bank of regional cooperative, which will be bound to laws and regulations of the banking system.
- Local financial resources and farmer's revenues will be provided only through the operation of this banking system, according to examples of other European developed countries.

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GOVERNMENT DECENTRALIZATION AND CHANGES IN THE LEGAL FRAMEWORK

by *Sefedin Guri*¹

1. The Need of Improving Fiscal Legislation and Tax Decentralization

The 7 years period of state functioning according to the pluralistic principles and market economy has provided a more or less satisfactory experience for the local self-governance. Now we can go further on the real strengthening of local government independence. Democratic decentralization implies on one hand the development of mutual relations between central and local government; on the other hand the establishment of these relations between the organs of the local government and the citizens. In this framework, decentralization considers government in development, shifts democratic processes up to the lowest governmental levels and takes measure to ensure the stability of democracy.

Decentralization is carried out through increasing the administrative responsibility of local governments, responsibility in collecting financial liabilities and administering them, as well as political-economic stability of the administrative units they govern. Government decentralization is conditioned by these factors:

- *First*, the need to overcome all totalitarian concepts and traditions of the past, characteristics of the socialist regime, with binding speed;
- *Second*, not to deprive local government of its functions (approved principle in Maastricht Treaty);
- *Third*, increase the local government responsibilities in privatization and

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the Ministry of Finances authorizes to the same extend the increasing of conditioned expenditures for the local government, presented by this law”

2. Decentralization Trends in Economic and Financial Field

Regarding decentralization of local government competences in the economic and financial fields, it is necessary to design a long-run program, which will take into account the increasing of capacities of local government organs to plan and administer revenues and local budget expenditures. The specific weight that local resources occupy in the budget of municipalities or communes relative to central budget financing is the main indicator that determines the level of fiscal decentralization of a country.

Possessing economic independence, organs of local government become more responsible problems concerning their electors.

- *First issue* requiring a quick and well-studied solution to strengthen competences of local government organs, is the legal division of local and national property. The biggest difference in competences of Albanian local government organs compared to other countries is the property problem. It doesn't yet exist any laws to determine the right on land ownership from communes and municipalities, the right to buy land to develop cities and their infrastructure.

- *Second issue* - It is important to continue with the study process of tax decentralization giving priority to tax collection according to the taxpayers' placings, without neglecting the national character of some kinds of taxes. The increasing number of taxes, put at the disposal of local government organs to collect and administrate, as well as given competences to use them, increases the financial resources of the communal or municipal councils, making possible the solution of social and economic problems.

Though, currently, in the framework of extending competences of the local government, some changes were made to the law "On the tax system in the Republic of Albania" and the amount of local taxes increased, there is still place to put other taxes to the disposal of communes or municipalities. Some national taxes, such as that of performing judicial operations, giving driving licences, private radio communication, etc. can pass onto the local government

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competences, together with the administration of personal income taxes. Under the attention of the government is the study and defining of adequate criteria on the amount of taxes, so that fiscal burden will be in a right proportion with the revenues, on which base it is established.

- *Third issue* is the problem of agricultural land taxation, which is established, but not applied yet in law no. 7805, dated 16 March, 1994 "On the Property Taxes in the Republic of Albania", because the Parliament has waived this tax for economic and political reasons, even though these taxes, especially in areas near cities, provide satisfactory incomes. The application of this law is an important income source for the communes' budget and, at the same time, in the interest of taxpayers as a way to solve economic and social problems in rural areas.

- *Fourth issue* - extension of the competence to local government organs, to design, approve and administer revenues and local budget expenditures. The existing law of "The local budget" needs improvements, regarding the extending of competences, to local government to decide on the utilization of financial resources. All the investment funds, given by the central government to local ones should be detailed and handled by these organs because they know administrative problems better, and can define the progress of public investment utilization more objectively. Competences should also be given for the purchasing of ground to develop city infrastructures. But it has to be defined by law.

- *Fifth issue* has to do with the running of local budget by the government. In no case, except natural calamities, should the Government make decisions to decrease revenues and budget expenditures of communes and municipalities. In cases of temporary shortening of circulating funds, the local organs can be given short-run loans, with no interest, from the Treasury Department in the Ministry of Finance. The needs for investments in infrastructure are greater than the financial sources to cover them. These circumstances grow less severe through local government crediting, if based on a sound plan of cost effectiveness.

- *Sixth issue* is linked with the establishing and strengthening of self-governing institutions and clear division of competences between governments, because the experience of these past years has shown that central organs sometimes intervene in the local government competences.

- *Seventh issue* is the qualification of civil service employees of the local government organs. The decentralization of competences in economic and financial field can not be effective without a qualified civil service, capable of

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preparing well-studied draft decisions, to communicate correctly with the employers and customers, to judge and solve property conflict situations, to understand and apply justly the methodology of designing and applying the budget and to foresee development strategy. There have to be established certain criteria for the civil service employees in the local government organs.

You can't pretend to administer incomes and expenditures properly without having qualified and trained people working in financial branches of municipalities and communes. The establishment of institutions for the qualification of civil service employees in municipalities, communes, districts or prefectures has positive results in society, economy and public administration reform, for the developing of material and human sources.

- *Eighth issue* is the study and improvement of administrative division based on scientific criteria. It would be useful to perform a detailed study on the territorial administrative division, approbated by law. The indispensability of performing such a study is enhanced by the great changes occurring as a result of population movement from rural to urban areas.

- *Last issue* is the establishment and the institutionalization of an adequate infrastructure to coordinate mechanisms of regional and national development.

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THE EXPERIENCE OF THE 20'S ON FISCAL DECENTRALIZATION

by *Koço BROKA*¹

The establishment of local government in communes and municipalities during the transitional period put forward, among other questions, that of experiences and models to follow and take into account. We will try to provide arguments that an albanian experience does exist and deserves to be recognized.

- *First*, the values of this experience are not only limited to the fact that they represent an albanian practice. As an authentic experience, applied in our country, it has a series of advantages compared to other countries experiences in establishing local governments.
- *Second*, these values do not consist only in the practical plan but also in conceptual theoretical one.
- *Third*, through the researches done addressing local government decentralization as a whole, and especially the fiscal one, in the 20's and 30's we think that this problem is addressed in a unanimous way, in establishing and consolidating a unique state.

One of the main protagonists of fiscal decentralization in the favour of local government in the 20's, honourable Mr. Teki Selenica, regarding this problem, wrote "The Ministry of Internal affairs in 1921, when designing the draft-law on municipalities, hadn't foreseen the need of preparing finance books and this caused a chaos in its operations, providing no certain directives. Forth, another important characteristic feature of the local government of the 20's was that it was considered not

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simply as an integral part of creating a unique character but as part of establishing, functioning and consolidating laws and the state as a whole. In this circumstance, the primary task was the integral consolidation of the central and local government, the world trust on the state formation and self-governance abilities of the country. This was due to the adequate needs of Albania, in the first years of independence, after the arrival of Prince Vid.

Communal organization was quite unknown. So it was indispensable to establish the local government through communes and municipalities, showing that albanians know what law is, as well as the other civilized countries. This was prior to the problem of the proportions between central and local government. Disarming of people, consolidation of the government authority, establishment of order, tranquility and laws are not only on the agenda, but prior tasks before the political government.

The proportion between local and central government, product of a series of historic, economic, social and political factors, is not treated as a goal in itself or in opposition with the overall state consolidation, but connected to its function. From the researches, we can conclude that the establishment and functioning of local government is considered in the function of this goal, in conformity with the circumstances of the country, carried out through some steps.

This is synthesized in defining two kinds of duties, when speaking about the tasks of the Head of the commune which are governmental task and communal task. A question rises here: Has this concept or duty formulation limited the space of the local government? The answer is "no". It has not impeded the establishment and functioning of local government in the form of communes or municipalities, specially regarding fiscal decentralization. Considering them as integral parts, as two parts of a whole, this concept has helped more or less in:

- Extending the area and responsibility of the local government, but at the same time consolidating the central one;
- Treating this problem, we have to be cautious not to confuse it with the democratic or dictatorial nature of the government of that time.

The efficiency of the local government in the 20's or 30's is shown clearly through

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establishing order and tranquillity, decreasing of the number of crimes etc. In 1938 the number of crimes was half the number of the beginning of 20's. A factor influencing this decrease was the functioning of municipal and communal police, that do not exist nowadays.

The albanian territory in the 20's, from the administrative point of view was organized in 10 prefectures, having under their administrative jurisdiction 39 sub-prefectures, where the central ones were headed by the Prefect. The central sub-prefectures had 10 other provinces 39 sub-prefectures were divided in provinces (regions). Their administrative jurisdiction was narrower than that of sub-prefectures. They were administered by provincials. By the end of 1926 the number of provinces was 69, besides districts of prefectures or sub-prefectures headed by Prefects or vice-Prefects. To evaluate properly the local government experience in the 20's-30's we should keep in mind the fact of shifting from the local administration to the establishment of local government. So it is a common duty to be accomplished, not only in content but also in forms and ways.

In the 90's, it is characteristic that after the supplements done to the main constitutional dispositions, or organization and functioning of the local government, the law was drafted and then the law on local budget, that are the same to all districts, communes or municipalities.

Another aspect, the most important one, in the local government decentralization experience of the 20's is fiscal decentralization a characteristic feature for drafting the initial law of municipalities' finances is that their revenues consisted on these main sources: real estates, property prices sold by the resolution of municipal council, price of land parcels within the bounds of municipality, and taxes or other penalties in the law.

The impossibility of the municipalities or communes to afford the expenses from their revenues made that the part of tax revenues, used by them, was defined by law, thus increasing their rate and volume. At the beginning, it was defined that 10 per cent of the customs' incomes go in the favor of municipalities. Customs' revenues have been the main source of the state budget. According to the municipal laws, everything that is imported to Albania, by land or by sea, is paid a tax of 7 per cent over the customs tax, based on the customs' tariffs. This tax is called municipal tax.

THE EXPERIENCE OF THE 20's ON FISCAL DECENTRALIZATION

All revenues collected at customs all over Albania, are divided to the municipalities as follows:

- First - class municipalities - 60 per cent
- Second - class municipalities - 30 per cent
- Third - class municipalities - 10 per cent from the total sum of money.

The capital municipality gets a 3 per cent tax over customs. Then other municipalities get a 5 per cent tax on cigarettes, and 30 per cent on alcohol. For the communes it was appointed a 10 per cent over the revenues-tax, 5 per cent on the customs revenues, 10.5 per cent on judicial, notarial mortgage, execution taxes, as well as 11 per cent on cattle tax.

From the above mentioned added taxes, in the financial years 1935-36, 565000 golden frangs were granted to municipalities, while to communes 445000 frangs. But the main feature of the law on municipal finances is the extended definition of taxes, simply communal or municipal, directly to their use. Municipal taxes in essence are the same. But they vary in their character, especially at that time when the role and responsibility of municipal authorities was evident. Other taxes in the 20's were local, whilst nowadays are national or do not exist at all.

So we can affirm that regarding the leadership of the local government, as a whole and fiscal decentralization, the albanian experience does exist, and should be acknowledged and reflected. The fact that fiscal decentralization in the 20's-30's was in a higher level than today indicates that the barriers to it are problems of mentality, political visions, etc.. But, with a good political will, we can go further towards government decentralization, extension of municipalities' and communes' governance and responsibilities.

WORLD EXPERIENCE,
IN THE SELF-GOVERNANCE AREA

by *Albana Dhimitri*

1. Introduction

The municipal level is the first level of local self-governance, established in only four countries: Poland, Czech Republic, Bulgaria and Slovakia, whereas Hungary and Romania have established a second level. Excluding Bulgaria, the number of communes is relatively large. In the Czech and Slovak Republics and in Hungary, the number of small communes has widely increased because of the division of many joint communes. In Poland they increased rapidly by the end of the '80. Meanwhile, the number of cities decreased. The same phenomenon occurred in Slovakia, too. In Hungary a lot of joint councils that administered some localities, disappeared in three years. Now there exist 3000 municipalities instead of 1610, existing before 1990. Only Bulgaria continues to preserve large municipalities; despite the fact that there are over 4500 villages, the municipality is the only local government. Contrary to this large division of communal model, the level of cooperation among municipalities is very low. The law guarantees the cooperation between joint authorities or enterprises.

Despite the fact that cooperation and deconcentration are the only possible ways to face reality, many communes do not support them. Recently, the links between local and central government are not yet established. Due to democratic movements, municipalities were given independence by new laws on local government and the central government preserved a small number of audit means. But the approved responsibilities of the municipality vary considerably from one country to another. It is wider in Hungary and Bulgaria, considering the fact that the greater amount of service expenditures of education and public health are financed by municipal funds, and these two functions are the largest charges for the public budgets. In Poland these responsibilities were assumed step by step. In 1994 only 25 per cent of municipalities assumed the education service, while in 1996 it reached to 75 per cent. While in Hungary in 1994, municipalities renounced their respon-

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sibilities on teaching expenditures (which represented 60 per cent of local budget expenditures) and transferred it to the central government. In Slovakia, decentralization of education and public health services depend on the region's future.

The deconcentration option, i.e. the performance of second hand services by the local government of certain tasks which can not be accomplished by the central government, is typical for the Czech or Slovak Republic. But the combination of decentralization and deconcentration differs a lot. Czech and Slovak Republics are inclined to apply honest divisions of responsibilities between local and central government, whilst Hungary and Poland tend to rely more on local government to put into practice the goals of national policy. The linking model depends a lot on the kind of second local government, established recently.

The world experience in transitional countries will be treated according to two models:

- 1) The Hungarian and, possibly Bulgarian model
- 2) The Polish, Czech or Slovak model.

1. The countries of the first model have established a wide range of local government's functions, supported by the local financial system, in which the main source is a total aid, based on need assessment, accounted for on the same basis (through division of taxes from revenues in Hungary, through a regulatory aid in Bulgaria). Nevertheless, capital expenditures of local government depend a lot on the state's support, provided by subsidies defined for certain goals or for savings.

2. In the countries of the second model, major services are guaranteed by the government in a direct way, and in some cases through cooperating with the local government. Decentralization will further accompany decentralization. Major sources are tax revenues and tax sharing. Central aids consist of the smallest amount of local government incomes. Capital expenditures are mainly covered by their own sources. In transitional countries, 5 political issues are identified:

- Further steps towards the structural local government reform;
- Further steps to functional reform;
- Equality issue;
- Capital revenues, problem; and
- Investment financing problem

2. Challenges for Successful Decentralization of Eastern European Countries

Three essential challenges, to make the decentralization of Eastern European Countries successful are: a) establishment of a national fiscal structure; b) government moving closer to people; and c) improvement of services offered by the municipality.

a. Decentralization changes the rules of the game in public finances. It displaces some of

NATIONAL FORUM ON FISCAL DECENTRALIZATION IN ALBANIA

responsibilities to perform public services to lower governmental levels. The fiscal structure established to carry out this transfer goes further, in creating new efficient arrangements, for both governments. In some countries, decentralization has been adapted in an explicit way, as a mechanism to decrease central governments' deficits and reduce public sector's expenditures.

It seems that in these countries, the central government tries to export budgeted deficits to districts or municipalities, which has also influenced the decentralization debate. Local authorities have tried to give guarantee not to make it happen. The Constitution of Colombia in 1991, for instance, required that all transfers covering service responsibilities from the central government be accompanied by a transferred source to finance their actual or delegated services. Currently, in many countries of Latin America, fiscal decentralization has been executed in order to favour local budgets. In this way, local authorities consider revenues' transfer from the central government as an adequate compensation for their present functions, and not as a usual income that may be counter-balanced by the shifting of responsibilities for new expenditures.

The risks of non-balanced fiscal decentralization, decentralization of revenues prior to that of expenditures bears risks for the inter-governmental financing system. A strategy which transfers revenues for overall purposes, first limited, and then negotiates on expenditures for responsibilities, brings ambiguity and instability in the macro-economic and national view. Revenues transferring makes the debate of the second stage indispensable, for the improvement of the central government's balanced budget.

b. The approach of the government to the people. Decentralization offers only a governance structure. It can't guarantee more effective participation of citizens in the social life or higher standards of public responsibility. Luckily, Latin American countries have got a lot of examples on how decentralized government gives a specific understanding of "coming closer to people", and is becoming more effective in this process. One of the most essential transformations in local governance is the strengthening of elected leadership. The democratic elections in Latin American Countries have been extended from the higher to the lower level.

Later, as a part of the decentralization process, they started the elections of the local elected organs, directly from the people, and not proclaimed on a national level. In the middle of 1996 the Mayors of the cities were elected everywhere, except for the city of Mexico, Costa Rica, where the elected municipal councils appointed the city managers as executive officers, as well as some few rural regions which preserved the traditional forms of electing their leaders. Another step in establishing local responsibility was separating local elections from national representative ones.

A special kind of partnership between municipalities and community organizations is presented in the people's participation law in Bolivia. The most essential link is the mu-

SOME OPINIONS ON THE LOCAL GOVERNMENT INDEPENDENCE

by *Dr. Fatmir MEMA*
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1. Introduction

In our discussion we will concentrate on problems regarding consequences of a relatively massive centralization, addressing tax system, leaving little space to the independence to local government concerning income-taxes. The proportion "central government - local government" is not a fixed one. It changes continuously, influenced by the current circumstances. One thing is essential: the efforts for a deeper decentralization addressing competencies in favor of local government. First we want to mention that there will always exist a relative non-comfort between political forces running different levels of local government and other forces running central government. Based on the Albanian psychology and the fulfilling of political goals by the forces in power, in our present policy it is noticed that it exists a priority in local government's budget distribution, in such areas where there is an accordance between political forces of local and central government.

2. Some Conclusions and Recommendations on Tax Collection System

To give further priority and independence to the local government we consider as necessary all the amendments we will treat in the course of our discussion addressing income-taxes of different levels

1. Taxation an buildings shift from national to local taxation. No one better than the local government can administrate dwelling houses and collect taxes, based on the surface of every building. With the existing legal framework, in the admin-

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municipal responsibility towards community. This law, which entered in force in 1994, has interpreted the overall concept of responsibility.

Increasing public participation in governing has been faced with formal government's conflicts of traditional municipal institutions, often producing considerable tensions. In Brasil, Itabu city, (population of 288000 inhabitants), which is divided in seven regions, the Mayor and his staff hold some public meetings during the year in every region, where they present the city budget, in current or capital expenditures. These meetings were concentrated on how to invest the budgeted amount for capital expenditures. Participation in budget, in this city, results in a great resource displacement for water and hygiene investments, the highest priorities expressed by citizens. Some municipal investments can't be delegated to community level. Some Majors have held referendums to have civil leadership in such investment decisions. Mayors use referendums as an advisory function to draw public opinions and focus public attention on the main political elections. Finally, the best indicator, on how decentralization shifts government closer to people, is the citizens' trust in municipal authorities.

c. The ministries often resist decentralization due to the disbelief on the local government's capacities to offer services. Even when responsibilities are formally included, central authorities can try to audit "de facto", for lack of professionalism of local authorities. But still there are some other factors encouraging decentralization:

- Citizen's demand for decentralization is great, promoted by the failure central services.
- In the average city, the present abilities of the municipal labour force are not a good indicator of the valuable potential capacities for the community.
- The effective cost of offered services requires an overall control of the municipal labour force.
- Changes in managing style can improve workers productivity.
- Improvement of labour force responsibility and service efficiency will require a greater managerial control on municipal labour force.
- Inter-governmental grant structure is critical for the efficiency of local services.

In the past, central level grants have been badly compiled.

Decentralization is not a goal in itself. It is an instrument to achieve more effective systems in distributing services, in extending governing institutions towards a wider civil participation, in increasing people's trust in the government. In fact, decentralization is one of the reforms showing that public sector should be managed in the region. Specific proposals on decentralization should be judged in conformity with the fact of how they serve more effectively and for a more democratic participation in governance. Decentralization should not fall victim to severe demands for more funds and competences to be transferred to lower governmental levels.

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istration scheme of this kind of taxation three entities are included: local government, tax administration and UEDA. Law gives to the local government the right to define the lists of buildings proprietors (individual or collective) and the surface in km. for every building.

This is defined since the privatization of dwelling-houses, ex-state property. This long list was sent to taxation branches which on its part sent a copy to the payment cashing office, for the electricity. The citizens, once a year, together with the consumed electricity paid also the property taxation. As you see, the scheme is complicated enough, specially in its first stage, i.e. the identification of taxpayer subject and the definition of tax-obligation. Even in the second stage, i.e. the revenues collecting and distributing, procrastinations were not less. Act-records were compiled separately for the district council and the municipality, to make it possible for the local government to have funds according to the percentages defined by the law.

In 1997, the percentage was 60 per cent for the local government and 40 per cent for the central one. What we suggest is "Centralized decentralization", that the whole scheme be delegated to the local government level, thus directing the central government from this tax administration and generating more revenues from better collecting of taxes only from the municipalities and communes of respective district. By our assessments the volume of entries from this kind of taxation can reach up to 2 billion leks, a value to be considered and serve as an important financial source for different activity levels covered by the local government. From the information we possess, it results that this idea is being discussed in technical and political levels to be converted to law. Time is a factor to be taken into consideration. Delays are to the detriment of financial possibilities of local government.

2. We suggest the re-examining of re-establishing of agricultural land taxation. This is not only to establish horizontal and vertical equalization of contributors (in the countryside there is about 60 per cent of the population not contributing to the state budget) but also to sensibly improve the local government's needs for financing. The agricultural land taxation has been applied in Albania since 1994 with the approbation of law no. 7805, dated 03.16.1994 "Taxation on immovable property in the Republic of Albania", which includes taxation buildings and agricultural land, which was abrogated by law no. 8110, dated 03.28.1996. Ac

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According to law no. 7805 this agricultural taxation is yearly and accounted with fixed tax rates, varying from 1500 leks per hectare up to 6000 leks per hectare, first class, instead of being based on the land value. It is administered and collected by the tax administration and is considered as national income. But local organs own the right to use as expenditure 40 per cent of the incomes collected by applying land tax, abrogated by treasury organs.

Taxation organs, in all districts of Albania, having data such as registered by treasury organs. Taxation organs, in all districts of Albania, having data such as registers on proprietors' lists, or land surface and rank, prepared the necessary documents used for fiscal purposes, informed by sending the tax invoice to the taxpayer, and followed this due collection. But during this course the agricultural land taxation sector faces many difficulties such as incomplete documentation, anomalies in land division, non identification of land position or being unable to collect this tax.

Based on the fiscal documentation prepared for the agricultural land taxation, it resulted that the theoretical surface of this land is 530.000 hectare, while the same surface divided by documentation is 350.000 hectare or 65 per cent. This difference is due to the refusing of owning unproductive land, on the part of farmers, and to the fact that land is still possessed by illegal proprietors. The number of families that benefit agricultural land is about 400.000, while only 300.000 families have been provided with ownership document. The average category of agricultural land all over the country is of 6th rank, responding, according to law, to 3500 leks per hectare. So for the whole land surface of 350.000 hectare, divided by documentation, the tax due is 1.25 billion leks, or 750 million leks than the planned one.

The cashing of this massive taxation extended over rural areas, has been only 20 per cent (i.e. a very low-level), not only because of their low economic level, but also the influence of psychological factors. On the other hand, the inhabitants of these rural areas ask for other investments such as road repairs etc., but where to find the money?

3. Small business should be taxed for all those firms having a yearly turn-over of about 2 million leks. While that part of the endorsement that varies from 2 million to 5 million leks should be left to the central government framework. It will

LOCAL GOVERNANCE IN PROVIDING REVENUES FROM BORDERING RELATIONS

By *Naxhim Mamani*¹

1. Introduction

The isolation of Albania for a long period of time made impossible the sharing of mutual relations with our neighboring countries. The experience of other countries proves the mutual effects that these relations have among neighboring countries, which derive from their economic differentiation and expenditure minimization through reducing the distance for goods and travel transport. The opening and functioning of some customs in our country, creates good possibilities for some bordering areas like Gjirokastra, Saranda, Pemeti, Leskovika, Pogradeci, Korca, Shkoder, Malesia e Madhe, Peshkopia, Kukesi, in discovering and exploiting real resources that are at their disposal, to provide local revenues from the establishment and perfection of international relations. In this paper we'll try to deal with some of the possibilities that might exist, in providing revenues and the interest on resources deriving from international relations between local governments of these districts, mainly in Gjirokastra.

2. Being partners in their relations would be of great interest for the Albanian party, which would profit a lot from the big economic differentiation existing among them, a profit reflected in different aspects.

1. In human assistance, given through sharing experience, in kind or in cash offered by governmental or non-governmental institutions for Albanian cultural, public health, educational or religious institutions.

2. The relations between Gjirokastra and Janina municipalities, of "Eqerem Cabej" and Janina Universities, hospitals, high schools, etc., through qualifying pedagogical and medical staff, grants in material base like books, computers, medications, office equipment, or by giving lectures and organizing seminars are good proofs of these relations.

3. Based on the fact that we have a considerable unemployment, and a great number of young immigrants, the good will exists to invest in our country, because here they can find free labor power and a high profit rate. On the other hand there is no capital and life security. There are many possibilities for the local government, through municipal relations or by contacting with private firms, to employ

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not only decrease fiscal flows, that are consequences of exercising activities without licence, but it also will educate businessmen to pay taxes and will strengthen the local government budget.

Alterations done lately to the added value tax "VAT", for small business and to the "revenue tax", increasing the stratification layers of taxed subjects, (that doesn't coincide with other countries), depending on the volume of yearly circulation in the first segment of 0-2 million leks, include very small subjects (like carpenters, craftsmen, watchmakers, tinsmiths etc.) that fulfil a daily circulation of 6000 leks. The second group includes yearly circulation subjects up to 5 million leks (retail business, wholesale business" free professions, restaurants, boutiques, jewelries etc.) that are considered average and pay double taxation in the sense of operating, but up to 2 million leks, their tariffs are the same as in the first segment: from 2 to 5 million leks they pay 4 per cent of circulation over 2 million leks.

The third segment includes all VAT enrolled subjects, whose yearly circulation surpasses 5 million leks so they are obliged to pay, VAT and revenue-tax. What we suggest is that the first segment, relatively great in number, be covered by the local government, thus making the fiscal local administration more responsible in collecting taxes of economic activity we assess this mass effects be about 1 billion leks, i.e. a considerable increase in local government revenues.

4. Another important field where local government should exercise its control are the fortune games. The Ministry of Finances should licence number loteries, instant loteries, football ones etc., but it is the local government which should focus on slot-machines. The central government is unable to identify their numbers and the regular liquidation of liabilities. Moreover, there exist a fixed tax per machine, not a revenue-tax.

The problem is the leading of these machines (from the metallurgical institute), as the profit probability should be installed according to wellknown international indexes. The local government can ensure a considerable income (up to 800 million leks per year) controlling this field, by also founding the municipal police. These improvements are assessed to bring an increase in income-taxes of about 10 times for the local government budget.

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people permanently or seasonally and be able to organize their transportation, thus providing revenues that spring not only from international sanctions but also from the workers' transportation tax.

4. The need that Janina has for construction or agricultural employment or Kortuz for seasonal workers in summer, create the possibilities to cooperate with Saranda and Gjirokastra municipalities.

5. Many people pass the borders every day, some welcome people, some see them off, but they all stay for hours at the customs. Kakavija customs turns back every day approximately 150-200 immigrants. A considerable number of Albanian drivers and Albanian and foreign businessmen pass throughout the customs and very often ask for places or offices where to relax or to conclude commercial agreements. All these people ask for commercial services which raise revenues only with a bit of stroke, and from which local government profits a lot if it organizes such services by itself.

6. The use of interurban lines between these two towns is another source of providing revenues by this local government. The travelers' needs are better fulfilled when they start their trip, from the center of the city to the neighboring city, through bus lines provided by the municipalities. The experience of Janina municipality using daily bus-lines from Janina to Gjirokastra, Janina - Tirana or Janina -Kakavija express clearly the effectiveness of raising revenues which are lost incomes. The experience of western countries proves the efficiency that border trade has in difference countries, eliminating transport expenditures and using different new resources. The long distance from customs to big industrial cities increases travelers' and goods' expenditures, which may be eliminated by border trade. A lot of less transportable goods or quickly consumed ones, such as vegetables, diary products, medical herbs construction materials etc, would be more efficient if they were consumed closer to their production. The development of border trade would influence increased regional economic levels and, through this, municipal revenues will raise, too.

7. Another way of increasing profits can be provided throughout the use of municipal property that exist as parking areas. It happens sometimes that travelers need to park for filling in documents, custom control, delays in paying custom duties etc. Parking is necessary not only for foreign people but for Albanians too. Taxis could also be placed in these car-parks so there will not be more confusion at customs. The local government can fix a certain payment in cash, to raise profits. Another way is leasing grounds to private agencies of custom duties. There are already 8 agencies in Kakavija and a lot of other commercial entities.

It's quite easy for the local government to lease its property or sell them, so as to raise its revenues, so it would be profitable if they organize it all by itself.

8. Shepherds of the neighboring countries need to make good use of pastures, especially in winter or summer, which may be fulfilled by municipal agreements, in which risk is included. Providing of revenues from bordering relations with neighboring countries must be assessed and exploited as a considerable income resource to have profits.

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FOR A BALANCED SHIFTING TO FISCAL DECENTRALIZATION

by Beatrice POLLO¹
Flora MUSTA²

1. Introduction

Foreseen within the framework of economic welfare, a question rises: Does a centralized or decentralized structure maximize the social welfare?

A public sector in both structures: centralized and decentralized one is based on those solutions for which the providing of public services is totally determined by the citizens' demands on these services. We can imagine situations where a centralized structure controls all the aspects of economic and fiscal activities, or the opposite extremity in which the decentralized structure conducts independently. Nevertheless, it is more universal and virtual to notice the extension of independence (decentralized structure) as a coordinating problem, than as a separate one. Centralization proportions differ according to different states. In France is 70 per cent, in U.S.A. 51 per cent, Canada 40 per cent, etc.

2. Advantages of a Decentralized Government Structure

The most important contribution of decentralization debate is given by political opinion. According to it, the local government superiority is based on one main acknowledgement. Decentralization connects government with people, favours the participation of citizens in administering the public affairs, strengthens the possible control over local authorities. One of the trends considered local government as the essential element to provide democracy³. Another trend called it "a gymnasium for an independent government"³. Political opinion attributes another advantage to the government decentralization, that of the minority attention in an ethnic

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³Ch.L. Montesquieu, *Lo spirito delle Leggi*. UTET, Torino 1952.

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differentiated society. Typical is the present situation of minorities in many European Countries, including Albania. The economic opinion defines the main priorities of government decentralization having the possibility to fulfil the preferences of a great number of people, compared to the centralized government. The larger the number of people in a certain territory the greater the impossibility to fit to their preferences. In this framework, the essence of decentralization consists in the division of local governments, which aims at rendering the population's preferences homogeneous. Some people like to use computers to educate their children, some others think that this is not necessary. Some other people frequent parks, some others not. In these circumstances, a centralized government aims at providing the same level of public services all over the country, without considering the fact that people have got different tastes.

According to economic opinion, it is not just to offer a homogeneous service over a wide territory. Such services for a narrow territory, means an advantage as a consequence, it is not efficient to provide to individuals, with more or less public goods than they desire. The contrary will happen during the supply with these two public goods, in the second jurisdiction. Such an action would not be considered economically right. It is often argued that in a decentralized system individuals, having similar tastes, get together. So, various jurisdictions provide all kinds and amounts of public goods required by their citizens.

A second motive in the favour of the local government is the possibility to experiment and renew the performance of the public services or further more the leading policies. No one knows how to answer exactly certain questions, or to select the best answer in different situations. One way out is up to each jurisdiction to choose its own way, and then compare results. A decentralized system extends chances to find new problem solutions, the supreme leading court in Louis Brandes surveyed that "It does exist one of the best promotions of the decentralized system that only a courageous jurisdiction, in case its citizens support it, can serve as a laboratory, and can perform economic social, and moral experiments without risking the other part of the country". Harvey S. Rosen Public Finance, 1992. It is to be stressed that among programs experimented in the past, now are turned into federal policies. During the big depression, the designers of the social security program have been conducted by the positive experience of different countries, having designed such programs before.

The third motive to be considered are the external effects. The public service per-

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ed in a local jurisdiction can be alternated because of its benefits to the citizens either jurisdiction or from the spreading of harmful effects in a neighbouring territory. More concretely a library financed by a local jurisdiction can be also frequented by the readers of a neighbouring jurisdiction, or the urban roads can serve interurban traffic, too, thus being useful to the national or neighbouring jurisdiction. On a local jurisdiction harmful effects can spread out of its territory, such as dumping of sewage into rivers, thus damaging the neighbouring jurisdiction. The possibility to limit these external effects, positive or negative ones, within the jurisdiction causing them, brings about causes the increasing of costs and extends the burden of the charges of these public services to higher levels.

Conducted by the criteria of responding to the public services' performance, they can be classified as follows:

- Public services having only local profits such as cleaning, secondary roads, sewer deposits, sewages, etc.
- Public services having at the same time local and regional profits or national ones: such as schools, urban transport, etc.
- Public services having general national profits such as: defence, national airports, police, etc.

The criteria of financial response in a decentralized structure requires that the first type of services be financed by independent revenues (of local government); the second type in a unique way with those regional or national, by the local governments too, and the third type exclusively by the central government. When the independent revenues are insufficient to perform services of the first and second type, the monetary transfers will cover the difference. Supporting the criteria of the financial responsibility, in our country the organic law of the state Budget operates, handling principles and conducting the designing and application of the central Government budget and of the local governments (communes, municipalities, districts)

In 1993, in the framework of increasing local governments independence and responsibility, the Parliament approved the law on local budget, no. 7776, dated 22 December, 1993. In conformity with this law, each commune, municipality and district has its own budget. Although the law on organization and functioning of local government passed to local government considerable number of responsibilities and functions, foreseeing their financial sources, we can say that there is still expectancy and that is because decentralization is considered as only making decisions and not providing incomes.

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3. For a Balanced Transition to Fiscal Decentralization

Though it is known that decentralization has got priorities compared to centralized government, there are some micro-economic functions that are efficient only in central level.

- *First*, it is the function of re-distribution of revenues. Based on the justice criteria, as one of the main ones standing on the base of every fiscal and economic system, on the philosophical, utilitarian frame, maximization of social welfare requires redistribution of revenues to poor people. The argument to support this thesis is very simple. Suppose that a local jurisdiction is engaged in conducting a re-distributing policy in the favour of its inhabitants, establishing a negative taxation on incomes, and by increasing taxes on the rich people, to finance it. If this re-distributing policy promotes the poor people of neighbouring jurisdictions to move to the above-mentioned jurisdiction, it is also an enhancement for the rich people of such jurisdiction, though less in number, to be placed to other jurisdictions, to avoid tax increase. In the conditions of an intensified movement of emigrants, the re-distribution scheme would not be supported and as a consequence it should be abolished. Re-distribution of revenues is one of the main objectives of state fiscal policy and its essential mechanism is the state budget.

- *Second*, another objective of the central government fiscal policy is the security of the economic stability of the country. The economic system is balanced when aggregate demands fit to the aggregate supply otherwise, the state budget with its expansive or restrictive fiscal policy, should act as a balance between aggregate demand and supply and allow the private sector to direct economy.

- *Third*, it is the economic growth, promoting primarily the development of those economy branches that enhance economic growth.

Its fulfilment is connected to these factors:

- The possibility to increase the accumulation of the investment level, where in order to have a developed process, the investment growth rate should be higher than the population growth rates.
- The increase of qualified employees, specialized through their vocational trainings.
- Intensification of technical progress through designing production processes, technically more advanced.

On this basis, we can conclude that, carrying out these fiscal policy objectives on a local level, it would be very difficult and expensive, compared to the policy conducted by the central level.

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FISCAL DECENTRALIZATION AND IMPROVEMENT OF LEGAL FRAMEWORK

by Zyher BECI

1. Introduction

The changes that have taken place, recently in the field of fiscal decentralization are really positive. In the centre is the general tendency to extend the local government profits because of fiscal system: meanwhile there are other changes in dividing and determining more clearly the role of different levels of local government, improving and designing better and more precisely the procedures, to accomplish the appropriate tax collecting etc.

2. Fiscal Legislation

A. During the implementation of the fiscal system attention has been paid to define the binds of taxes to increase incomes from the fiscal system, to improve their structure etc. In the framework of fiscal decentralization it is necessary to treat the motives why a certain tax is collected and who it serves, besides other factors that determine their national or local character. What's the aim of establishing taxes and what we do to make it go to its destination? For example, there are 2700 km. Of roads under the administration of General Road Department while 10.000 other km. Are administrated by the organs of the local government. If we confront this with taxes payed by road utilizers, it is noticed that they are all destined to the central budget.

On the other hand, fund profits of local government from the state budget in this destination are little. The local government's interest to improve road service is subjective and limited the increasing of revenues profited from taxes of road traffic and other taxes payed by road utilizers would bring changes in the

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respecture local organs' responsibility towards inhabitants, increasing preoccupation rate, defining local priorities in changing the difficult road situation. It's necessary to think of some other new taxes. These problems have to be considered very carefully. Improvements should be prudent, well-studied, considering been the opinions, of local government and respective specialists.

B. In our legislation taxes are fixed, defined by law both in their structure and value. This thing is quite normal. But two problems arise from here. Firstly, according to law nr. 7681, dated 04.03.1994 "For the administration of taxes in the Republic of Albania" article 1, it is specified that taxation organs, as the only ones to administrate taxes, are the General taxation Department and its organs in communes, municipalities and districts depended on it. In article 5 it is said that tax organs define the basis kind and rate of taxes for every subject through tax regulations. No other organ has the right to do it.

On the other hand, Law no. 7777, dated 22.12.1993 "For the taxation system in the Republic of Albania", with alterations done in Law no. 8338, dated 30.4.1998, foresees in some of the articles the right of the local government to define the tax rate, for every subject. Even the law of taxes on property that was recently changed, defined the local government and the Ministry of local government to administrate this tax. The status of the local in the fiscal legislation should be better conceptualized will they establish taxes and how? Will they profit from these tax-incomes or just remain tax agents, i.e. tax collectors. Actually, present legislation reflects these three roles but they are not well reflected in connection with their rights and duties in the whole fiscal system, and most of the time their position is not clear. The local government should be considered as the one which establishes taxes, but it needs to systematize all modalities in the law of tax administration, and not allow any misuse or exceeding of this status.

Secondly, based on the international experience and actual conditions of our country, the organs of the local government should have the right, within legal framework to distinguish between tax levels for different. For example: the cleaning tax is connected to the cleaning service cost, differentiated service level in different dwelling centres etc. Why not to accept, then, that the municipal council in Tirana establish a tax 20 per cent more for a certain subject, and in Leskovik 20 per cent less towards the average rate defined by law. So, foreseeing by law of a certain competence for tolerance will be useful and realistic. The same thing is foreseen in the European chart of local independence, item 3, article 9.

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In function of growing interest on the part of local government towards taxes necessary to specify clearly and improve the second level of local government (i.e. District Councils), in the fiskal system, and the profit tax rate. Actually they profit too little from local taxes, because in our legislation on fiscal system, it is not clearly defined who profits from income - taxes, or taxation.

Application of the Fiscal System

The organs of the local government have started to collect taxes and to deal with taxes. But there are still a lot of them, mostly communes, or any municipality that don't consider it at all. Some measures have to be taken so that they can exploit better the space created by law.

An indispensable measure is employment of certain people to collect taxes, considering it in two aspects.

- *First*, to make possible covering and collecting of all local taxes such as market tax, table tax, construction tax, 1 per cent of the turn-over, advertisement, parking and butchered cattle tax.

- *Second*, to appoint employees better and define them tasks to collect and administrate taxes. The organs of local government have to calculate certain data for tax-payers, impost-taxes included. They also have to contrroll tax agent's task in collecting taxes in the favour of the organ of local government. The work organization in municipalities, communes and districts needs to be improved, people who do it, too.

B. The agencies of the local government in the framework of self-governing have possibilities to increase the level of tax-incomes and taxation. The problems and difficulties arising from them should be studied and analysed, and the local government has to specify the direct way to carry out work by itself or through cooperating with other interested organisms. Sometimes, such problems are considered as problems of finance and not as such that have to do with the community development, so it's up to the respective councils to decide within their certain competences.

C. Measures should be taken to define tasks of the executive administrative organs, a separate fiscal system for every tax. So every organism included in the foreseen procedure of the fiscal system should know its duty. Meanwhile, every part of fiscal procedure should have the organism that completes it. More concretely:

- A. to complete clearly and correctly any tax with organisms performing separate

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operations since the determination of tax-payer subjects up to the complete balance-sheet of the rate of liabilities for every subject. The instructions of the Ministry of Finance need improving, mostly for some taxes which lack specifications.

B. to follow carefully and to be responsible legally all subjects that are forced to pay taxes. Here the tolerance is unjustified and absurd. The subjects which don't pay their liabilities should be made known, both private or state ones, or budgeted. The same attitude should be kept towards them. The taxation control organs or tax collecting ones should apply all sanctions. But the scheme of such applications has to be fully designed, according to certain procedures. The taxation control organs or tax collecting ones should be kept towards them.

The taxation organ first should define the tax-rate for every subject, to inform in due time, then to inform again just to draw the attention of the taxpayer for not applying the law; the third phase is by paying penalties (fines) and the fourth one is by sequestrating or stopping of the activity up to penal prosecution when it is necessary.

C. What is more important, is to strengthen the demand an explanation of the institutions or employees that are in Charge of procedures under the framework of fiscal legislation application, by the organs of local government or the Ministry of Finance.

D. The need of employees' qualification, especially those who deal with the application of fiscal system legislation mostly for the organs of local government' which have little knowledge of the laws and regulations or work procedures. This conference would be of great contribution to further improvements in this field.

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THE CURRENT SITUATION OF BANKING AND LOCAL FINANCIAL SYSTEM

By *Arrisa Abazi*¹
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Introduction

The reform of the banking system, though one of the most important sectors, has advanced very slowly and actually has insufficient results. Everybody expected an improvement of the salary system as a result of the experience and competitive circumstances within the market, but as it's obvious that it could be achieved only by our specialists and foreign ones attached to our banks.

• The lack of developing local banking and financial system has deprived local governments of the forms and possibilities of providing self-financing, based on the budget and revenues of necessary projects in the area.

• There has been much discussion of Banks inability to assess the risk of a given credit. They lack staff experience to conduct loans assessment and to undertake debt collection during the transitional period.

• In Tirana there is a concentration of population and the need for public utilities is great. Despite this the needs of other districts must also be taken into consideration.

1. The Role of Banking system in Fiscal Decentralization

One of the reasons why fiscal decentralization is required, is to strengthen local government. In designing a draft project for an effective functioning of local government, based on providing services, restrictions on their revenues and administration, as well as the micro-economic situation in Albania, we should consider:

• Administrative limitations - the need for a continuous macroeconomic audit and the superiority of the central government in establishing taxes.

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- A sharing of responsibilities on expenditures and grants through local government in certain areas and districts to increase efficiency; establishing of some autonomous taxes to enhance economic efficiency and mobilize revenues.
 - It's necessary to incorporate some mechanisms that support the development of public infrastructure and its financing through central or local government.
 - Capital markets must be developed to help decentralization.
- In providing capital it's important to define the capital risk, too. The effective development of the fiscal decentralization process would:
- allow local government to shift over excess amounts from the independent budget to the next fiscal year.
 - impede the freezing of independent budget funds.
 - permit the use of local resources, as it is necessary.
 - shift expenditures to appropriate lines, and allow local governments to determine on how and where distribute funds.
 - provide a transparent objective and consistent way of transfer accounting in local governments.
 - give possibilities to define the way of collecting taxes and liabilities.

Microeconomic Index/Year	1995	1996	1997
GDP	229.800	281.000	238.200
Total Government Expenditure	73.076	87.143	60.605
Government Expenditures (social insurance and local government expenditures excluded)	59.830	70.788	40.896
Local government expenditures (the independent budget excluded)	9.570	11.641	14.344
Local government expenditures/ GDP	4.2%	4.1%	4.2%
Local government expenditures/ Total expenditures of central government	13.1%	13.4%	23.7%
Local government expenditures/ Central Government	16.0%	16.4%	35.1%

The financial analysis is difficult to be made though we can give statistics about independent budget, it's difficult to get information how they are spent on building roads, schools, urban, transport etc.

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	Municipality 1996		Municipality 1997		Municipality 1997	
	1996	1997	1996	1997	1996	1997
Expenditures	8908.3	9072.3	7744.7	6797.3	3383.7	1929.7
Expenditures financed	7.821.9	8.533.8	7.691.9	6.761.4	1.879.9	1.430.1
Expenditure Budget	1.086.4	208.7	52.8	35.9	1.503.8	499.6
Independent budget (same)	425.6	224.5	33.3	17.6	226.2	69.6
Expenditures as a percent of the total conditional budget	12.2%	2.3%	0.7%	0.5%	44.4%	25.9%
Independent budget as a percent of the total budget	4.6%	2.4%	0.4%	0.3%	6.3%	3.5%

Regarding the current data, it's noticed that the volume of investments carried out by the conditional budget has increased, in spite of this they should be big.

The reasons for nonfunctioning are connected with the nonexistence of a big volume of savings provided by local government. This comes as a result of a very low income level collected by local government and malfunctioning of the banking system in other cities which would provide good possibilities for increasing investments. The role of banks is not merely in a passive role, such as handling deposits. It should be an active role in financial transaction, and in carrying out big investments in certain areas.

The banking system should participate in the creation of local government decentralization policy. It's necessary to increase the number of banks in other cities. Currently there exist only agencies/branches of savings banks in other cities which are dependent of the central Saving Bank.

A great attention must be shown to emigrants savings, so that they can be sent through official ways to create better possibilities for investments, especially in those countries where remittances are bigger. The establishment of such banks in other cities would require well-trained staff, to properly assess risk and define credit forms.

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In every case we must consider that the banking system must accomplish one important function: Addressing of savings in the real sector. The banks must gain people's trust to find new ways in attracting them, such as the case of emigrants' banks, offering improvement to all levels of bank services. In this way they provide greater possibilities in raising the level of investments, including those of local system.

Recommendations

1. Local banking system must estimate financial possibilities for reimbursement without being influenced by the governmental presence. Regarding this, it is advised to start with small projects, and based on their results, increase loans.
2. To assess carefully the collateral proposed by the borrower.
3. To pay great attention to local government characteristic details: locality size, experience in projects' dealings, etc.
4. To use cash payments so that they could control the project continuity.
5. To consider the fact that there exists no formula to control the debt reimbursement, so the bank must employ managers that know the problems of the area and way of its governing.
6. Bank must be sure of the use of loans in a correct way. Local governments are implicated in many projects, some of them not profitable. The use of loans in covering operating expenditures will cause a debt loss.
7. In loan collecting process, the bank should be very careful. It should assess methods and in some cases be aggressive, if necessary.

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FREE ZONES AND THEIR IMPACT ON ALBANIAN BUDGETARY SYSTEM

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1. Introduction.

The economic development of a country, affected by many general and specific factors, may follow various ways. However, the experience of every country may suggest instruments of economic policy, which can set into motion being adapted to the specific conditions of other countries giving, expected positive results for them. That is the reason free zones, an early concept highly developed in recent decades, are internationally taken in consideration. The economic and social advantages in many countries has led to their nomination as "motor of economic growth", consequently the good will to exploit these mechanisms of development.

The free zone represents an area, which is considered out of the country's territory from the juridical-administrative point of view. Free zone guarantees the physical security, freedom of operating and offers a set of incentives generally including fiscal, customs and other ones. These characteristics make the free zone attractive for foreign and native investors. The probability of free zone success may be highly increased by choosing an optimal set of incentives, an appropriate geographical location and being supported by an effective organization to assist investors in establishing and developing the zone.

Because of the immediate necessity of Albania to go towards market economy and the actual existing conditions, the free zone concept is considered as a development alternative of a high success probability. There are determined some types of free

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zones that would better adapt to Albanian economy in compliance with the actual infrastructure, the existing possibilities in different regions and objectives to be achieved. The inter-boundary commercial free zones, export-processing zones, free ports and agricultural free zones, are considered among the great variety of worldwide known free zones, as probable and suitable from the economic profile point of view.

Being aware of needs and possibilities in different regions, a master plan of free zones that may actually establish is drafted. The Albanian economy would generally feel the impact of their social-economic advantages in medium-run terms. The inter-boundary commercial zones in Bajza (Shkoder) and Kakavija (Gjirokastr) combined with internal or export-processing zones in Vlora, Durres and Elbasan, their economic profile probably enlarged in the future, is expected to promote the development of these regions having even broader positive impact.

There are more or less the same incentives offered for all zones. They generally relate to customs, fiscal and administrative aspects the Albanian law "On free zones" gives, as mentioned below.

2. Incentives in free zones - administrative, customs and fiscal aspects.

The necessity for a free zones program in a country usually arises when:

- There is a sufficient potential for economic development, especially for export-processing based on local or imported raw materials, and
- This development renders difficult because of physical infrastructure and administrative obstacles.

It is a known fact that Albania has a sufficient potential for economic development of the country, both for export processing and internal market, services and so on. At the same time there exist or are being established the majority of the considered as main conditions for successfully development of free zones including:

1. Appropriate geographical location related to international market (European and Balkan market)
2. Relatively low international transport cost
3. Low cost of manpower, compared to neighbor countries
4. Suitable infrastructure in some regions and plans for further development
5. Powerful governmental, legislative and executive support (fiscal, customs and administrative ones).

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There is no need to comment the role of the first four conditions in successful establishment and development of a free zone and nor their existence in Albania. As to fifth condition, regardless of its listing, we have to emphasize that it has been very important in free zones' success or failure the world economy has experienced recent decades. It is the reason incites us to a detailed analysis of this significant

fact.

In the economic context the term "free" means free from customs duties, taxes and fees. Free also implies freedom to export or import without constraints (except the legal ones). Simultaneously free means free of bureaucracy. The investors of free zone may be excluded by a lot of bureaucratic procedures, or may take advantage of some special agreements. All these aspects of freedom with physical security of a policed territory stimulate investors to come into a free zone more courageously than in other regions of the country.

Nevertheless, the term free does not mean free of country laws. Developers and investors in free zones have to respect all the laws of the country they are carrying out their activity - apart the specific exceptions. This necessary legal conditioning makes a complex the creation and evaluation of incentives set a country offers for its free

zones.

Economic, social and political, internal and external factors affect the legislative and administrative support for free zone in our country. The Albanian law free zones offers complete exemption from customs duties and some taxes, well as a limited exemption from tax on profit for activities into the zone. It cannot be considered a specific feature; it is known that tax and duties exemption is one of the greatest advantages a free zone offers in every country. What should be stressed in our case is that we are offering a similar competitive effect as other neighbor countries.

From the administrative aspect, an institution responsible for studying, establishing and administering free zones, licensing developers and users is established. This institution represents the state authority for opening a window to the potential investors for their activity, avoiding bureaucratic barriers of many offices. So established the National Authority of Free Zones facilitates procedures for receiving necessary permissions in different levels of central and local government. It realizes the same time the governmental presence in free zones, making possible the continuous functioning.

There are many economic and social benefits deriving from free zone development.

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that is stimulated by the set of incentives offered. Generally, the direct economic contribution of free zones appears in these main directions:

- Regional development stimulation;
- New job creation and revenues from them;
- Direct foreign investment attraction in early phases of development, when the infrastructure is less developed.

The indirect benefits include training and experience gaining by managers and workers; technology transfer, using of local raw materials; encouraging reforms in the country's economic policy.

In our opinion these are also the expected and desirable effects of free zone policy in Albania.

3. Consequences of free zone policy on budget revenues.

We would like to more analytically deal with the main topics of tax system principle evolution, being aware of actual conditions of Albanian economy.

All specialists favouring the development of free zones accept that it brings two immediate positive results: - development in general and - employment in particular. We are not looking how the free zone economic profile affects these parameters, but normally it does not happen to deny such positive impact. Development means that the zone creates around itself a satellite region, functioning depending on the zone, so increasing the number of taxable juridical persons outside the zone. So development generally means more taxation possibility.

Employment is an element which has a double impact. Increasing employment itself enlarges the basis of physical taxable persons; at the other side it affects positively the state expenditure. So, a new job creation by developing a free zone means less budgetary expenditures for social policy and over all higher effectiveness of their use. Let us mention an exemple: according to the studies on Durres Industrial Park it is planned to develop a 22 ha site that will make possible the creation of around 6600 new direct jobs within the parc and around 10000 indirect new jobs. These figures let us judge on employment, because the development of a free zone has almost the same impact on employment.

One of the most important problems for tax system all over the world, and especially in developing countries, is finding the mechanisms that avoid the

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fiscal evasion. In many cases there is no importance how much will be collected, the main thing is to receive as much as it is planned as taxable. It means that's preferable to put in place taxes completely encasable. It is true that all persons operating in free zones have considerable fiscal facilities, but at the same time it is quite true that encasing the payable taxes for these persons is out of every fiscal evasion. The free zone and licensing regulations clearly define functioning permission procedures within the zone. It makes possible to easily control tax payment, even reduced, for all persons. Simultaneously, the personal income and property taxes are totally controllable within the free zone, because people movement and all rent and other property user's documents are under control.

What are tax incentives offered in the free zone and what is their effect on state budget. According to the law on free zones all physical and juridical persons operating there are exempted from all taxes and duties, except the following:

- 1. Profit tax, that will be payable after the 10-th year of their activity
- 2. Property tax
- 3. Personal income tax.

At the first glance the impression is that "freedom" concept is unlimited in free zones. Really, at least from the fiscal viewpoint, it is based on equal possibilities for persons, consequently paying the duties for offered utilities. More in details: all goods entering to internal market from free zone pay customs duties and V.A.T., other imports; so the free zone creates revenues for the state budget, the same as every import does.

Looking carefully the state revenues the percentage coming from customs and VAT relatively high and it is not affected by free zones policy.

Causers of a free zone does not pay tax on profit for 7 or 10 years. But let's remind that tax is only a small percentage in tax revenues; moreover it may be recompensed other revenues the state receives from free zones (rent, tariffs, fees, and so on). So property tax and personal income tax there is an advantage for collecting them in a free zone: the fiscal evasion is almost impossible, because of free zone regulation and licensing procedures.

We have to point out the free zone gives other supplementary revenues for the state: rent into free zone is much higher than an usual rent; different payments for licensing and others the regulation of free zone includes. At the other side the evasion elements such as electricity, water supply, etc., is not possible. Other payments

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make possible for the Authority to increase its revenues, being not completely dependent on the state budget.

4. Conclusions.

We would like to recapitulate that free zone's development in Albania will bring many positive economic and social effects. The freedom from fiscal control of view, combined with normal control on law's implementation would be possible a fast increase of direct budget revenues.

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