

FISCAL DECENTRALIZATION AND ECONOMIC DEVELOPMENT IN ALBANIA. CASE OF VLORA CITY HALL

Albert QARRI
Faculty of Economic and Law, University of Vlora
Arqile MISHTAKU
Bashkia Vlore

Abstract:

The realization of the decentralization process has been and yet is the most contested one even nowadays, independently from the political consensus performance shown until now. The cause of it is not so simple as it might seem; it is deeper and more complex. The issues of this process in Albania are taken into account to initiate the analysis of the impact of the economic, political and social factors, in order to compose and plan a new strategy that would have positive impact on the public sector efficiency growth, on the stimulation of country economic development, on the improvement of the services distribution and on the diminution of the poverty. The way this process is implemented in Vlora City Hall will be the main point in our paper.

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JEL classification: *H71, H72, H73, H74, H75, H76*

I Common Features In The Process Of Decentralization In Countries That Are In Transition

The process of decentralization in countries that are in transition displays more or less the same features, especially as far as their deficiencies are concern. These deficiencies are obvious in the fiscal intergovernmental relations such as: inadequate local governmental structure, unclear transfer of responsibilities to local government, the lack of a total autonomy of the control of income and the intergovernmental problematic transfer systems. An in-depth analysis leads to the conclusion that such deficiencies can cause other more general problems such as:

- the lack of a clear and coherent strategy of the fiscal decentralization
- the lack or the inappropriateness of the mechanisms that coordinate the policies
- the overfragmentalizm of the structures in the local government
- the undervaluation of the importance, the policies have in the specific results of decentralization

1.1 The lack of a clear and coherent strategy of the fiscal decentralization

Theoretically, there is a logical progressive action or a chain of action of the elements of the fiscal decentralization, in the themes of its development in its technical, fiscal aspect and its reforms. In technical terms, this chain of actions must respect the maxim” the finance must follow the function ” which means that the appropriate way would be to first define the structure of local government and then to define the people responsible for the expenditures. This phase will be followed by the definition of income resources, development of the transfer systems and the creation of the right situation for the local borrowings. The dynamic of reforms must stars with:

- the design of a strategic vision for decentralization
- the arrangement of legal base that is necessary for the realization of this vision
- the establishment of the same strategic vision and legal base between institutional central goverment and the regulator frame (law regulator package)
- the establishment of a regulator and institucional frame for the local government
- the establishment and the implementation of the mechanisms of partnership necessary for the involvement of civil society and privat sector.

This does not mean that these sequences must be strictly followed, but if the reform processes suffer greater changes than those mentioned above it is sure that there will be problems. For example: the transfer of income resources significant for the local government before that the responsibility for expenditure is decided, might be a reason for intergovernment tension and fiscal destabilization. In the same way, the procedure with specific initiations for decentralization without a clear strategic vision-or at least of a consensus between those who lead these policies-will probably degenerate in unsuccessful reforms. The reforms of fiscal decentralization must be designed and implemented in a consistent and comprehensible manner, because even a single element of decentralization can not be comprehended or implemented separated from the other elements related to it. It is important to understand that different steps in the implementation of this process must refer to each other and be part of a decentralized strategy which must be consistent and comprehensible.

1.2 The lack or the inappropriateness of the mechanisms that coordinate the policies

The design and the implementation of fiscal decentralization ask for a coordination between local government and central government as well as other governmental agencies. Without a central institution or a coordinated institution it is hard to achieve the coordination between different institutional actors. Many countries in transition have many inefficient mechanisms of central government responsible for the coordination of the fiscal decentralization. In some case an institution created to lead this process was absent.

1.3 The overfragmentalism of the structures in the local government

Many countries did a mistake at the very beginning of transition by beginning the reforms for fiscal decentralization for political reasons without taking into consideration the economic consequences that would follow. One of these results is the the establishment of small comunas, which are really close to the citizens and can better reflect their needs and preferences, but they are smaller than the necessary efficient minimum to offer public services in an effective way. Unfortunately, fragmentarism is not an easy matter to be solved politically. The governments usually prefer volunteering consolidated models to those imposed on them.

Volunteering models may be successful but they often seek for encouragement through the giving of significant resources. Anyway, even the most successful consolidated volunteering models need time. Other methods used to achieve this goal, consist on the the creation of a special unit of public service that can realize economies of degrees and the undersupply of services at private company which can offer services for some of central government. On the other hand, some countries can decide to tolerate diseconomies of degrees on behalf of the representation and the responsibility of local government toward their electorate.

1.4 The undervaluation of the importance, the policies have in the specific results of decentralization

The technical dimensions of fiscal decentralization do not change the fact that intergovernmental fiscal relations are political issues. The fiscal decentralization influence the relation within the vertical authority and the allocation of resources between central government and local ones. If central governments consider its influence in these relation as “ a vector with zero resultant” they might not be in favour of it, or might even feel afraid of the fiscal decentralization. Because decentralization (as well as the other reforms) in countries in transition seek political support, a successful decentralization seek tough “supporters” in high governmental levels. The decrease speed in the process of decentralization in some countries speak clearly about those problems.

1.5 The undervaluation of the importance, the policies have in the specific results of decentralization

One of the definition of the local decentralization reinforces the importance of strong local communities through the empowerment of their local government. This definition underline the potential benefits of decentralization in efficiency, the objectivity and the government of the public sector. These potential benefits done well are large in number: decentralization can help the empowerment of states, can increase

the efficiency of public sector, can urge the local economic development, can improve the distribution of services, and can decrease poverty. To achieve these results it is necessary to fulfil certain conditions for a successful decentralization, mentioned above. In order for the decentralization to work properly the initiations or its reforms must be carefully designed, run parallel and adapted with the initiation for politic and administrative decentralization and fiscal decentralization.

The mechanisms of political decentralization must give the local communities the opportunity to send their preferences and priorities to the appropriate local government, to encourage the local governments to be responsible toward these priorities and toward the citizens they represent. A well designed reform of fiscal decentralization will fail(as the consequence of this the foreseen profits and the increase of efficiency will not be the desired results) if the mechanisms of an appropriate government will fail in maintaining a optimal level of responsibility on the part of central government toward community. At the same time the local government need tools an appropriate administrative process (such as participation and transparencies in the process of budget design, correct system of taxes administration and control over staff) in a way to be responsible toward the needs of community. One of the demands of decentralization is to give more autonomy to the local governments in the employment, firing or compensation o their staff.

It is a fact that many of these countries in transition have failed, at least partially, in the realization of fiscal decentralization as it should be. Let's have a look at what can happen if these reforms will not be designed or will not be implemented as it should.

Table-1: The possible consequences of fiscal decentralization. "Not good"

Problem	Possible consequences	Risk evaluation
Over-fragmentalism	Inefficient production of public local services; weak distribution of services; problems with local income administration;	Relatively low risk for as long the right to do small expenditures is delegated to certain jurisdictions
The inappropriate transfer of responsibilities over the expenditure: the transfer of great responsibilities to irresponsible local governments	Inefficient production and optimal distribution of public services; potential possibilities for corruption	High risk compared to the relatively great mass of included resources and the difficulties to secure the correct financial management and the responsibility to all jurisdictions
Decentralisation or autonomy over the income	Can lead to vertical fiscal disequilibrium (in favor of local government) andd in macroeconomik tension. Too much local control over tariffs and taxes can lead to an over load of taxes	High risk because of the fiscal dis equilibration and the overload taxes can threaten the macro economic stability
The use of criteria to define the intergovernment transfers (for exp. The transfer that fill the)	Systems of trasfers designed not very well can favour local irresponsible expenditure and to reduce fiscal attempts	The level of risk depends on the degree of decentralization. The greater the decentralization the greater the negative consequences
Fiscal, vertical disequilibrium and nonfinancial zones	Security under the appropriate level of local services	The risk depends on the level of decentralization and the nature of non financed serveces or under financed. The greater the level of

		decentralization the higher the damage
The lack of appropriate procedures in designing a local budget and the restriction of local budget	Deficiencies of local budget and local debts should be paid from the central government	High level of risk at an absence of a good financial management and reporting structures. Low level of risk in case when processes of designing, implementing, and monitoring the local budget and borrowing processes do not work well.

The impact of a “deficiency” caused in the design of fiscal intergovernmental relations, depends on the fiscal system of every county. Potential risks can be identified since they are in proportion with the relative part of fiscal income that are decentralized, which became a responsibility of the public sector if decentralization is unsuccessful multiplaje this with the probability of failure.

With this in mind fiscal decentralization that includes few budget resources bears less risks. In the same way decentralized initiatives that face with difficulties the implementation (for example initiative or reforms that look for important changes in the processes and procedures) have a great probability for failure and bear potentially a higher fiscal risk. Of course, risks that accompany the fiscal decentralization can be reduced by redusing the forseen results from it, but this will bring the loss of potential profits that accompany it.

II Decentralization Reforms In Albania

2.1 Reforms history

After a half century of centralization government, Albania joined the decentralization policy and in 1992 happened the first democratic election. Although the significance of this political movement toward the growth of democratic representation, the local administrative and fiscal autonomy remained undeveloped . During the years 1998-2000, Albania confirmed officially the European Card of local self –government, its principles took part in new Constitution and Albania approved the legal reforms of local government.

The formal approval of local government principles consolidated the political decision for a centralized government structure, in compliance with Albania’s laws. The new organic laws “The organization and functioning of local government ” and “The administrative & territorial division of local government units in Albania” marked the end of Administrative Division Councils, decreasing the direct indication of central government toward the local government. Obviously, it was created a resistant policy helping the functioning of decentralized administrative and fiscal structures which include local government, municipalities and communes.

Since, the year 2000, there are made some important institutional arrangements, there are approved new regulations and sometimes are applied the first reforms of policy. This activities include:

- The creation of National Committee for Decentralization, supported by the Technical Group of Experts with international survey in decentralization process .
- The approval of decentralization strategies and the local autonomy from National Committee for Decentralization.
- The approval of the new law about the role of the Prefect and the relationship with local authorities.
- The approval of the law about the State Property, the Transfer process at local government and the creation of the Inventory Public Property Agency

- The transfer of some particular functions in hand of local authority(including some second rank function in hand of regional district) as determinate in local government laws.
- The creation of a mechanism for a good distribution of unconditioned grants (which partly replace the conditioned transfers)
- The approval of an important fiscal reform packet during the year 2002(including the taxation of small business, the profit tax, the properties tax, the system of tax and tariffs) extending the autonomy of local government incomes.
- The approval of local tax law for small enterprises during the year 2006, which gives the right of encashment the incomes from local government.
- The approval of a new law about the taxation in Albania, giving the local government more rights and responsibilities during the registration, application and gathering of tax obligations.
- The public property transfer of local government level as water- supply, social services for retired persons, social services for boarder students of secondary schools.

The new fiscal packet of 2002, offered to the local government an substantial fiscal autonomy, allowing the growth of local budget, the flexible coordination of interests between the business community and the local units, the right to compose the encouraging politics for development of municipality, communes and district. Based on the law in force, the local government independently decide about:

- The base level and the tax level up to +/- 30 %.
- The administration procedures and the way of gathering taxes and tariffs.
- The exception or the facility of some categories from local tax and tariff payment.
- The utilization of collected incomes from local taxes

2.2 The executing ability of local reforms.

The improvement of executing ability, especially at local level, is an indispensable condition for a successful decentralization process. The quick decentralization reforms without the necessary ability and institutions (the cooperation between the government and donators) dangers the governing and interrupts the distribution of local public services. This conclusion interferes the object of decentralization process.

So, it is necessary to say, during the application of decentralization, the government must have a good planned strategy. The strategy helps creating the ability and institutions needed for this process. One of the problems consists at the difficulty of small municipality and communes keeping and supporting the new talented professional people. These persons immigrate to look for a work , high wage and better life conditions. The immigration has been a big challenge from south and nor regions toward the center regions and abroad due to the lack of a national program helping the creation of ability and institutions at local government. The institutional weakness has been presented especially in budgeting field where the planning and the realized budget are different, where the control process isn't t regular, where the monitoring and the valuation don t exist.

Besides this, not all the ministries have reacted in satisfactory way to the decentralization functions in according with the decentralization strategy. It is comprehensible, the new role of central ministries can imply the renouncing from some of their competences of local public services distribution and taking the proactive role related with planning, regulation, cooperation, compilation of policy, determination of rules, monitoring, controlling and valuation process.

The following practice is realized at Vlore's municipality where we have on the role of the consultant. It is an evidence to valuate the executing ability.

III Implementation of the new fiscal methodology in Vlora City Hall

3.1 The stability of local fiscal policy

There are some factors influencing the performance of local government. One important factor is the presentation of local budget as a tool of managerial leadership in economic management. The compilation of budget from local government gives the authority to gather the incomes making expenses toward the needs of public costs. During the presentation of public budget, there are two important factors:

- The prediction of public costs.
- The stability of local fiscal policy.

The stability of local fiscal policies is realized through a questionnaire composed from local administrate where the important questions were:

- Are really recognized the tax administrate by business trade and public?
- Are really recognized the types of local taxes and tariffs by the public sector?
- Does exist direct relationship between tax administration and businesses?
- does the tax office is professionally prepared?
- Which kind of tax procedures the local government use during the registration of subjects?
- Which is the hierarchy of job responsibilities?
- Is there delegated the fiscal authority?
- Do existing the ledgers?
- Which kind of tax we use: the application of tax is a priori or based on the records of tax office?
- does the administrate of tax office know the political instructions?
- have the business associations an active role in decision making process?
- Which kind of legal measures are applied during the compilation of taxes?
- does exist the fiscal financing?
- does exist the control over tax administrative?
- What measures you use for encashment of taxes?

The above questionnaire which is applied in December 2003 brought out three important elements:

- The recognition and the application of fiscal legislation.
- The organization of tax office structure.
- The new fiscal methodology.

3.2 The fiscal legislation.

The Municipality Committee has the fundamental role in approval process of taxes and tariffs system. It is the only decision-making authority. Taking in consideration this attributes the municipal administrate in Vlora's region has compiled and approved these two decisions:

- The decision of municipal committee "About local taxes and tariffs"
- The decision of municipal committee "The Administrative Contraventions"

There are approved some types of taxes as below:

- Local tax of small enterprises.
- Annual tax of real estate
- The tax of hotel accommodation
- The tax of infrastructure influence.
- The tax of occupied public spaces
- Label tax
- The temporary local tax
- The tax of transfer the property right
- The annual registration tax of vehicles.

- The urban sweeping tax.
- The annual tariff of veterinary service.
- The registration tax of economic activity.
- The tariffs of new building
- The service tariff from local government
- The city lighting tax

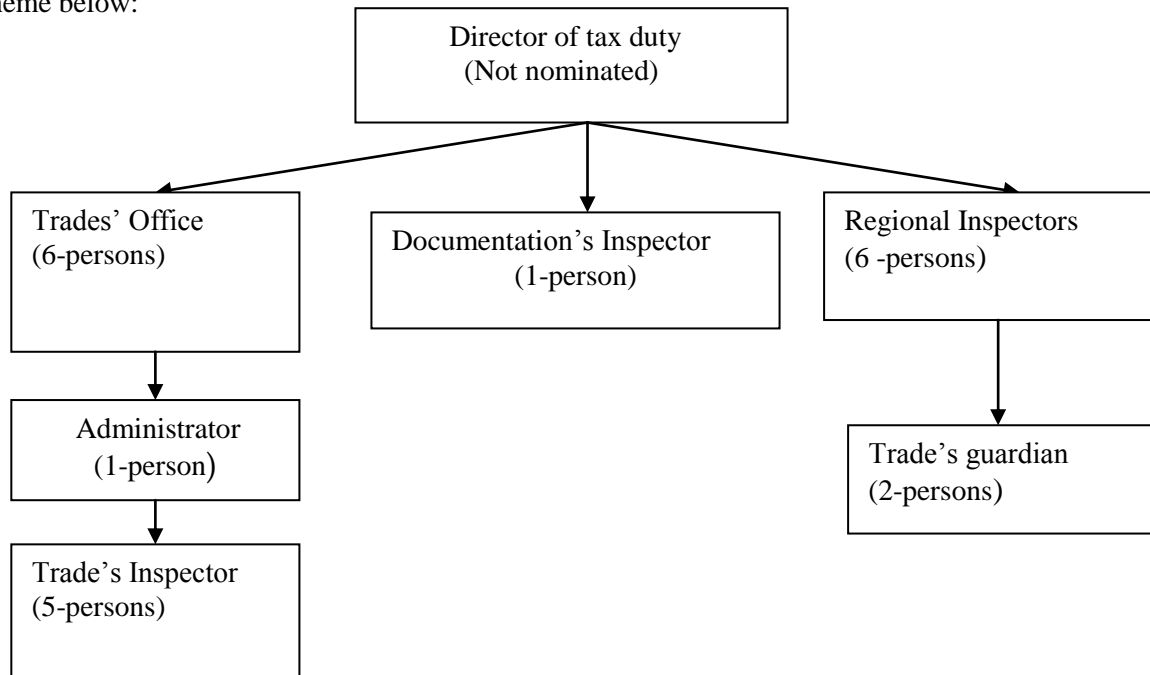
The approval of “administrative contraventions”:

- Non payment of local tax within the due date.
- The classification of fiscal obligation.
- The fiscal obligation hiding.
- Non giving information to the tax office.
- Non informing about changing the address.

3.3 Administration of locative taxability

For the implementation of the fiscal system according to the lawful norm and the decisions of the municipal council, is necessarily the foundation and organization of one taxability locative structure for the pickings and administration of the locative taxes.

The organization structure of the taxes and tariffs in the end of 2003 came across in accordance of the scheme below:



The analyse of the structure above mentioned shows the negative sides of this method.

- The structure above mentioned was incomplete with the respective persons
- The role of the director was made by the vice-chairman of the city hall
- The district was uncovered with taxability inspectors
- The register of identification of the taxability subjects was maintained by the taxability inspectors and not by the office of accounting taxability
- The announce taxability was applied only for one part of the locative taxes and without the elements of identification such as: the number of the announcement taxability, the address, NIPT, the taxability code of the tax payers
- The announce taxability was applied in one copy by the taxability inspector and in most of the cases it was began like an obligation for the subject and not in the office of taxes

- The taxes for the parking of the vehicles and the services for allowance of the vehicles that was applied by the office of the services was not registered in the office of taxes. This made it impossible to calculate the pickings of taxes and the sector of taxes was sufficient only with the reconciliation act of the department of thesaurus
- The announce taxability was not accounted like an obligation begined in accounting (the register of the taxability obligations), but like an announce receivable taxability (receivable register)
- The method of maintaining the register handful created lack of information in the right time to the superior organs of the city hall
- The lack of inside control created a real possibility for tax evasion
- The weakness management of the taxability section
- In the department of market was applied the daylong ticket, witch was hard to control, the merchant who operate in market are not identified with the respective names for those was created lack of information for the other sectors of the city hall (the sector of assistance and social support, the sector of employment)
- The application of the locative tax for the veterinary service was made by the veterinarian inspector. This thing was against the mission of the veterinary service

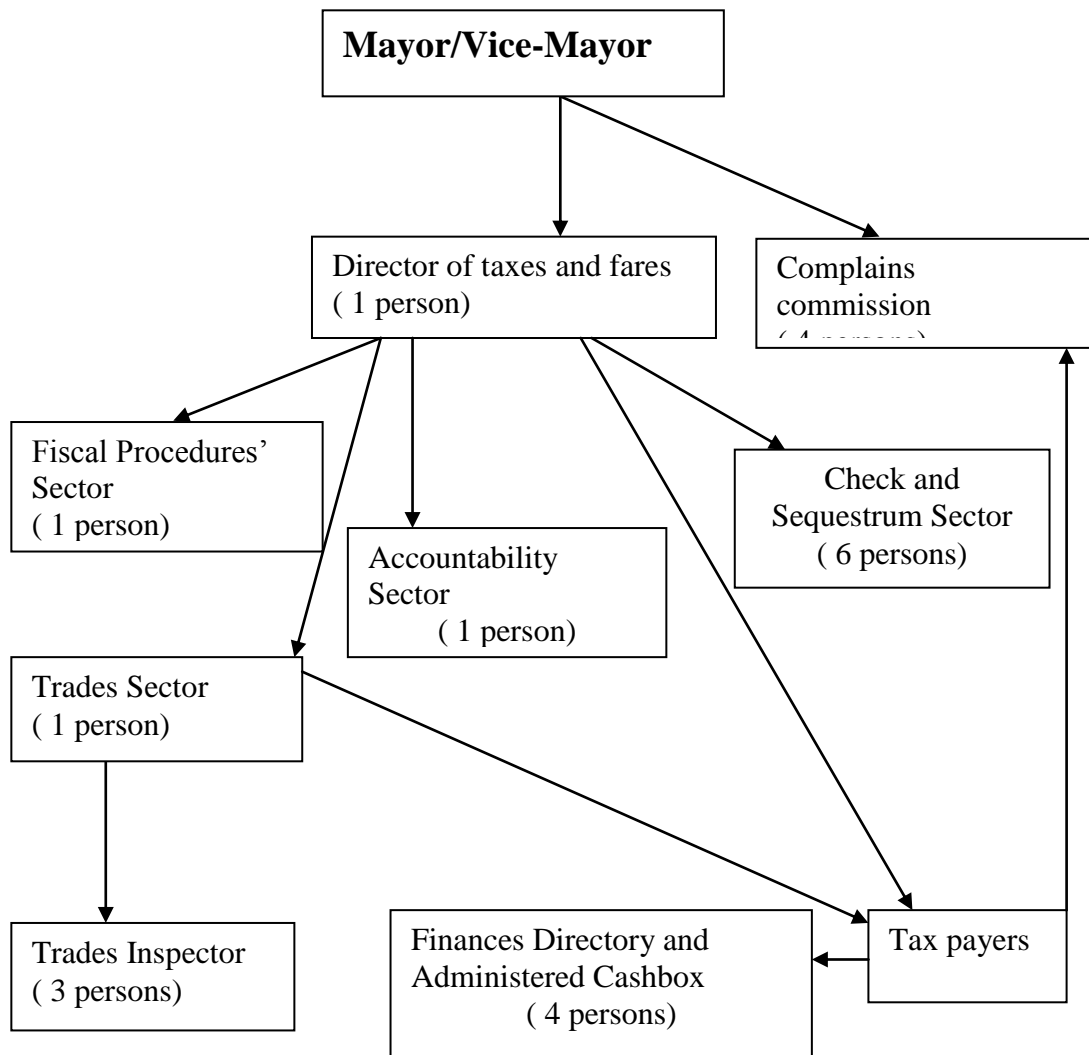
For having a locative taxability system within the lawful norms its necessary the implementation of such a system, which makes possible the identification, accounting and administration of the locative tax. The administration of tax is direct liability of locative power and its his right to define the way of administrating the picking of tax and locative tariffs in accordance with the law and the decisions taken out from it. This administration asks:

- Hole organization of the locative structure
- Computerizing of the tax system
- Right definition of the kind of tax and tariffs and their level
- Identification and registration of the tax payers
- Calculation of the tax obligation
- Announce of the tax payers for the obligation
- Accounting of the tax obligation
- Analysis of clamour of tax payers for the applied tax toward them by the structure created by the chairman of the city hall
- Accounting cash of the tax payers
- Periodic emission of the debtor of the tax payers
- Fulfilment of the information for the superior organs of the city hall

With the purpose of improving and administrating the tax, the organization of the taxability structure was created like the structure below:

- The analyze of this new situation defines the advantages of applying this scheme:
- Efficient in realizing the target
- Right and hole definition of the tax payers
- The division of the functions and liability
- Pellucidity in defining, accounting of tax
- Descent of the fiscal evasion
- The right of complaint of the tax payers
- Taking out the information fast
- Realization of the tax payers for the payment

Firstly (2003)



The locative administration was composed from 5 inspectors, according to the administrative separations of the city, 8 market inspectors and 1 sequestration inspector.

Totally: 14 employments

Actually (2008)

The locative administration is directed or administrated by the director of the tax directory and is formed by the sectors:

- Sector of fiscal procedure (1 inspector)
- Sector of fiscal accounting (1 inspector)
- Sector of control (4 inspectors)
- Sector of fiscal market procedure (5 inspectors)
- Sector of picking the obligations with force

Totally: 13 employments

3.4 New fiscal methodology.

The analyze of the situation based even in the information taken from the study done, recommends the application of a new methodology for the application of the tax and tariffs, in difference from the previous periods that was as it follows:

- Registration of the tax payer from the tax inspectors.

- Giving the tax obligation notice.
- Registration of the subject in the register for the obligation cash.
- Emission of the debtors list.

This method to collect the taxes was applied only for the taxes (cleaning, area with no permit, , 1% of the turnover, service tax, hotel sleeping tax, advertisement and shop sign , residence tax) . For the other taxes it was done only the coordination with the department of thesaurus for the cash deposit done by tax inspector.

In the analyze of the above elements, implementation and reconciliation of one new method aims to improve the situation passing in much more stages as it follows, intending to rise the efficiency:

- Bringing out in areas the subject registration commissions
- Creating the subject's register
- Local fiscal codification
- Filling the subject's file and application of the Tax Order
- Accounting of the Tax Order
- Accounting of the tax incomes
- Periodic evidences emission
- List of debtors emission
- Compilation of the tax reminiscence for the debtor subjects
- Application of the fine for the debtor subject
- Emission of the Obstruction-Order of the activities of the debtor
- Emission of the accounting of the subjects that cashed liabilities after the emission of Obstruction-Order.
- Emission of the unblocking-Order for the subjects that cash the liabilities
- Emission of the Sequestration-Order for the subjects that continue to be debtors
- Accounting of the final list of debtor subjects.

This fiscal package composed by the City Hall administration staff and approved by the City Hall Council, served to the Tax and Fares Directory to improve the cashbox of the taxes and local fares.

Conclusion

As a conclusion, it is important to recognize explicitly that it is easy to set forth the general arguments, both economic and political, in favor of substantial fiscal decentralization, the actual design and working of fiscal and regulatory system is an intensely individualized matter. There is no single blueprint that applies everywhere. On the contrary, the appropriate structure and functioning of a taxability system of finance must take place in the context of the existing culture, institutions, and history of each City Hall and Region.

Each level of government should have its own source of tax revenues distinct from the sources at other levels. Where local government has its own tax base distinct from those of higher levels of government, local residents and firms can see clearly the local programs that their taxes finance and have a real sense of the cost of these programs.

The implementation of well thought methodologies not only improve the performance of the public services, but also increase the income. Nevertheless, the corruption level goes in the contrary of the decentralization process.

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