LOCAL GOVERNMENT IN ALBANIA, THE EFFECTS OF FISCAL DECENTRALIZATION

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Abstract

Fundamentally, decentralization represents a democratic restructuring endeavor that seeks to transfer political, administrative, financial, and planning powers from the central government to local authorities. Its aims encompass boosting civic engagement, bestowing decision-making authority upon local communities, and fostering accountability and dependability. The overarching objective is to optimize the efficiency and effectiveness of resource collection, administration, and service provision.

My interest in comprehending the evolution of our country's decentralization initiative has driven me to delve into the subject of fiscal decentralization. This process entails endowing local governments not only with the entitlements arising from this empowerment but also the corresponding responsibilities that accompany it.

Before and after decentralization, there are several stages that can be observed. These stages typically involve policy formulation, legal reforms, capacity building, fiscal transfers, and institutional adjustments. By analyzing key indicators, we can assess the impact of decentralization on various aspects of governance.

The aim of this work is to take into consideration recent developments, both within the framework of central-level reforms and the work of local self-government bodies, primarily focusing on the period from 2005 to 2021.

The work is primarily based on analyzing the findings identified from the following sources: Primary data collected through questionnaires administered to citizens, Accountancy Experts, and Businesses.

Research from various reports, publications, or articles prepared as part of projects or activities of various public institutions operating in the field of local governance. Previous reports and analyzes on territorial-administrative reform have been conducted

by national and international institutions, and their findings have been extensively used in the preparation of this work.

Key words: Fiscal decentralization, local governance units, revenues, expenses

1. INTRODUCTION

Local governance is the pillar of democracy, as it affects the daily lives of citizens through the way it interacts with them and serves them. From this point of view, an effective local government requires a mutual communication between the government and the citizens. It is related to the various governance processes and how decisions are made, who makes these decisions, who and how is involved in decision-making and how control and accountability mechanisms are implemented.[1]

In many states, particularly those with centralized systems, despite numerous reforms and significant expenditures, Central Governments have been unable to deliver high-quality and enduring services that would enhance the quality of life for their citizens. This is primarily because Central Governments are distant from the daily needs and challenges faced by the citizens. (Kalin, 2002).

Decentralization is often implemented as a component of sectoral reforms. Its effectiveness in enhancing efficiency is closely tied to political, fiscal, and administrative accountability, which forms part of the broader framework of intergovernmental relations. Its impact on fairness largely hinges on the government's determination regarding the allocation of financial transfers. Initiating a discussion on sectoral decentralization without a thorough examination of the context of intergovernmental relations can lead to undesirable consequences, such as local-level corruption or exacerbation of regional inequalities. Across various sectors, there is still much to discover about the diverse outcomes resulting from different forms of decentralization implemented within varying institutional contexts. (Graham Kerr, 1999).[2]

Fiscal decentralization enhances the authority of local governments, empowering individuals. The engagement of citizens in the decision-making process plays a significant role, especially in prioritizing income distribution and promoting transparency. (Roy Bahl, 2008).[3]

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[1] Nationwide assessment of the situation of Local Government in Albania 2020 – By IDRA Research & Consulting and Human Development Promotion Center (HDPC) https://portavendore.al/wp-content/uploads/2020/12/Vleresimi-i-Qeverisjes-Vendore-in-Albania-2020_compressed.pdf

[2] Graham Kerr(World Bank)

[3] Bahl, R., "Pillars of Fiscal decentralization" http://www.caf.com/attach/19/default/200807Bahl.pdf

2. RESEARCH METHOD

The instruments used in the study are numerous and are specified according to the function they perform. Through questionnaires made with closed questions addressed to businesses, accounting experts, certified accountants, citizens, etc., information was obtained which is part of the methodology as well as the analysis of the findings and the discussion of the results. As far as the econometric models used in the study are concerned, they are among the most important models that fit the data and best serve the goal and objectives of the research.

The pooled OLS estimators, with fixed and random effects, are described in detail because they are then applied in the empirical part. Regarding the selected evaluation method, we use the Hausman test for its identification.

3. BASIC CONCEPTS OF DECENTRALIZATION

Decentralization is seen as being composed of three components: political, administrative and fiscal. All three of these elements cannot be understood separately from each other. Political decentralization[4]involves the transfer of political authority from central to local governments.

Administrative decentralization has three elements:

1. De-concentration[5]means the distribution of responsibilities between central and local governments. De-concentration means the horizontal transfer of power.
2. Delegation means a situation where local units operate as agents of the central government to implement its functions.
3. Devolution/transfer of power: means the power of local governments in decision-making, not only implementation but also the power to decide.

What is more important in this paper is the understanding of fiscal decentralization:

3.1. Definition of fiscal decentralization

Fiscal decentralization entails delegating certain authorities to locally elected bodies. This delegation allows them, within defined legal boundaries, to set the tax rates for specific local taxes and allocate the resulting revenues to meet their communities' needs. Fiscal decentralization primarily aims to achieve

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[4] At the institutional level, political decentralization is represented by the municipalities - as local units of the first level, districts – as local units of the second level and the Ministry of Interior – as drafting and coordinating body of the implementation of the decentralization reform.

[5] Litvack and Seddon, 1999---decentralization = de-concentration + delegation + devolution. He said institutional level, de-concentration is performed by the Prefect, that operates at regional level in terms of spatial administrative and regional departments of respective ministries and departments at the district level

economic efficiency, fairness, and macroeconomic stability. It encompasses two interconnected aspects: the allocation of resources and expenditures across various levels of government and the granting of authority to local governments to manage their revenue and expenditures.

3.2. Basic principles

In countries undergoing transition, decentralization is rooted in the subsidiarity principle, which asserts that, as a general rule, "the execution of public responsibilities should be vested primarily in the authorities closest to the citizens." This means that local governments will focus on providing services primarily benefiting their immediate communities and environment, with a strong emphasis on improving the efficiency of public services and allocating resources in the economy wisely. Discretion is another fundamental principle, granting local governments the power to determine the extent and nature of local services. At the core of fiscal decentralization lies the goal of establishing a sustainable and logically coherent domestic revenue system, one that does not impose additional burdens on national finances and is consistent with fiscal and macroeconomic policies.

4. DECENTRALIZATION AND ECONOMIC GROWTH

Various researchers have analyzed the relationship between decentralization and economic growth. Empirical evidence on the way in which decentralization affects growth has been contradictory and there have been problems with measures, specifications, and analyses. There is stronger evidence for a relationship in the other direction from growth to decentralization, but interpretations of this link between high incomes and decentralization have varied.

Empirical studies that have directly examined the relationship between decentralization and growth come with mixed results. Researchers (Zhang and Zou, 1997) show that decentralization has a positive and sometimes significant effect on India's economic growth. (Davaodi, Xil and Zou unpublished paper in the US, 1995), find fiscal decentralization associated with low growth.

In a number of developed and developing countries, (Davaodi and Zou, 1997) found that decentralization has a negative relationship with growth in developing countries and no discernible effect on growth in developed countries. Various methodological problems in these studies also account for these mixed results, and more needs to be done to ensure that the established decentralization-growth relationship is sustainable.[6]

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[6] See Tao Zhang and Heng-fiu Zou, "Fiscal Decentralization. Public Expenditures and Economic Growth in China," Journal of Public Economics 67:2 (1997) :221-40; H. Davaodi, D. Xie and H. Zou, "Fiscal Decentralization and Economic Growth in the United States, 1995 (unpublished); T Zhang and H. Zou, "Fiscal Decentralization and Economic Growth: A Cross-Country Study", Journal of Urban Economics 43(1996). A critical summary of the

Various analysts and development agencies during these decades that followed the decline of centralized and bureaucratic systems have had an increased interest in introducing fiscal decentralization as a primary instrument in promoting economic growth. (Nurja, P. 2016)[7]

The basic arguments in favor of fiscal decentralization relate to two assumptions, (1) decentralization can increase economic efficiency because local governments are able to provide better services and therefore have advantages of proximity and information, and (2) competition and mobility of the population across local governments for the provision of public services will ensure the appropriate matching of preferences between local communities and local governments. (Tiebout, 1956, p:416-424).

5. ANALYSIS OF THE MULTIPLE LINEAR REGRESSION MODEL

The use of statistical techniques such as the multiple linear regression model serves to model the relationship that exists between two or more explanatory variables, considered as independent variables, and a dependent variable. Each value of the independent variable x is associated with a value of the dependent variable y. Formally, the multiple linear regression model, given n observations, is:

$$Yi = ß0 + ß1Xi1 + ß2Xi2 + ... + ßpXip + \text{ for } i=1,2,....n.$$

In this way, in order to determine the effect of fiscal decentralization on economic growth, and how much is the effect measured in quantitative form, for the case of Albania, the econometric analysis of linear sum regression, over time series (OLS), respectively for the years 2005- 2021. The goal in a regression analysis is to estimate the mean of the dependent variable when given the values of the independent variables, the parameter (or partial parameters) must be statistically significant for the model to be good, which can be used to draw a conclusion in relation to a phenomenon or for prediction. For this reason, for a model with a higher explanatory power, except for the dependent variable: the rate of GDP (%), and the independent variable: the rate of fiscal decentralization, Inflation Rate (Year-End Change %), Investment Rate (% of GDP), Population Growth Rate (in%), Total Local Government Expenditure (% of GDP), Local Government GDP / GDP, Local government revenues (per GDP of local government).

To see the effect that fiscal decentralization has on the economy, we raised the following hypotheses:

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material is in "Fiscal Decentralization and Democratic Governance," by J. Martinez-Vasquez and R. McNab prepared for the USAID Conference on Economic Growth and Democratic Governance, Washington, DC , November 9-10, 1997.(WB)

[7] (United Nations, 1991), (Oates, 1994) & (Bruno and Pleskovic, 1996)

> **H1 - Fiscal decentralization has no direct impact on economic growth in Albania.**
> **H0 - Fiscal decentralization has a direct impact on economic growth in Albania.**

The independent variable: Measure of fiscal decentralization (Own income of local government / Total income) (TVQV/TT), Own income, Total income, Measure of fiscal decentralization (Local expenditure / Central government expenditure in %).

Dependent variable: GDP growth (annual %)

Pooled ordinary least squares (OLS): $Yit = B0 + B1xit + uit$
Fixed and random effect model: $itY = xitB + ci + uit$
Hausman-Taylor model: $Yit = X1iB1 + X2iB2 + Z1i\ \lambda1 + Z2i\ \lambda2 + ci + uit$

$$Y_{i,t} = \beta0 + \beta1\ MNE_{i,t} + \beta2 MDF\_v_{i,t} + \beta3\ TAV,t + \beta4\ TAT\ i,t + \beta5\ MDF\_q\ i,t + \varepsilon_{i,t}$$

Y - Score of Happiness
$\beta0$ - Beta
ε - Error term

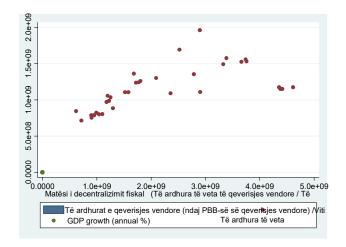| Variables	
DEPENDENT VARIABLE	
GDP	GDP growth (annual %)
INDEPENDENT VARIABLES	
MDF_v	Fiscal decentralization measure (Local government own revenue / Total revenue) (TVQV/TT)
TAV	own income
TAT	Total income -
MDF_q	Fiscal decentralization gauge (Local expenditure / Central government expenditure in %) -

DESCRIPTIVE RESULTS

Also, in this part we present the descriptive data which were used to prove the hypothesis that fiscal decentralization has a direct impact on economic growth in Albania, thus comparing between the two municipalities, Durrës and Elbasan. Within this part, we can present the results of the GDP which is presented for the time 2015-2021, with an average of .035, as well as a standard deviation of .026, a minimum negative value of -.03 and the highest value high positive of .0851.

variables	observations	average	Standard Deviation	Minimum	MAX
MNE	34	.0351265	.0269643	-.03	.08515
MDF_v	34	.5450088	.1215625	.105	.6713
TAV	34	1.16e+09	3.04e+08	7.14e+08	1.96e+09
TAT	34	2.20e+09	1.25e+09	6.22e+08	4.61e+09
MDF_q	33	.6685212	.0305442	.6127	.726

Within Durrës, we see that the average value was 0.351, with a standard deviation of .027, the lowest value was -.03 and the highest value was .0851, while in Elbasan the average GDP was .0351, with a deviation standard of .027, minimum value of -.03 and maximum of .0851.

Durres					
variables	observations	average	Standard Deviation	Minimum	MAX
MNE	17	.0351265	.0273824	-.03	.08515
MDF_v	17	.5053765	.1055108	.126	.603
TAV	17	1.21e+09	2.77e+08	7.88e+08	1.58e+09
TAT	17	2.30am+09am	1.02e+09	9.51e+08	3.76e+09
MDF_q	16	.6502	.0305	.6127	.7056
ELBASAN					
variables	observations	average	Standard Deviation	Minimum	MAX
MNE	17	.0351265	.0273824	-.03	.08515
MDF_v	17	.5846412	.1265234	.105	.6713
TAV	17	1.11e+09	3.30am+08am	7.14e+08	1.96e+09
TAT	17	2.10e+09	1.47e+09	6.22e+08	4.61e+09
MDF_q	17	.6857647	.0184984	.659	.726

CORRELATION

In this case, we will present only the correlation between MDF_v and GDP, where it is shown that we have a significant negative relationship (rho=-0.396), (p-value=0.020), which shows that the measure of fiscal decentralization (Income of local government employees / Total income) has effects on the reduction of GDP, p-value <0.05.

		MNE	MDF_v	TAV	TAT	MDF_q
MNE	cor	1				
	p-value					
MDF_v	cor	**-0.3967***	1			
	p-value	**0.020**				
TAV	cor	-0.2174	-0.2687	1		
	p-value	0.2168	0.1244			
TAT	cor	-0.1801	-0.3526*	0.6351*	1	
	p-value	0.3082	0.0408	0.0001		
MDF_q	cor	-0.1123	0.0676	0.0237	0.1618	1
	p-value	0.5338	0.7085	0.8960	0.3683	

LINEAR REGRESSION

The following results were realized within the two municipalities together, for the period 2015-2021, while the econometric model $Yi,t=\beta0+ \beta1$ GDP $i,t + \beta2$ MDF_$vi,t + \beta3$ TAV,t + $\beta4$ TAT i,t was applied + $\beta5$ MDF_$qi,t + \epsilon i,t$, where OLS regression, Random, Fixed effects and Hasuman test were used. The analysis of correlation and OLS regression was also carried out within Durrës and Elbasan alone.

According to the following results, we find that the factor which has a direct negative impact on the GDP in Albania, with a negative coefficient (coef=-.096), with a value of (t=-2.07) and (p-value=0.048), i.e.MDF_v has significant negative effects on Albania's GDP for the period 2015-2021. In other cases, we do not find any significant influence, p-value >0.05.

.   regression   MNE   MDF_v   TAV   TAT   MDF_q

. regress GDP MDF_v TAV TAT MDF_q

Source	SS	df	MS		Number of obs =	33
					$F(4, 28)$ =	2.15
Model	.00503346	4	.001258365		Prob > F =	0.1008
Residual	.016381859	28	.000585066		R-squared =	0.2350
					Adj R-squared =	0.1258
Total	.021415319	32	.000669229		Root MSE =	.02419

GDP	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
MDF_v	-.0963927	.0465736	-2.07	0.048	-.1917944	-.0009911
TAV	-2.19e-11	1.84e-11	-1.19	0.243	-5.95e-11	1.57e-11
TAT	-4.24e-12	4.68e-12	-0.91	0.373	-1.38e-11	5.35e-12
MDF_q	-.0411479	.1438625	-0.29	0.777	-.3358368	.2535409
_cons	.1491025	.0982481	1.52	0.140	-.0521496	.3503545

Below I have presented the results of the Random, Fixed effect and Hausman test.

RANDOM

As we can see below, even within the Random effect we find that the factor that affects GDP is the Fiscal Decentralization Measure (Own income of local government / Total income) (TVQV/TT) MDF_v, with a negative coefficient (coef=-.096), (t=-2.07) and (p-value=0.038). In other cases, no statistically significant influence was found, p-value >0.05.

```
Random-effects GLS regression              Number of obs      =        33
Group variable: Qyteti_R                   Number of groups   =         2

R-sq:  within  = 0.2564                    Obs per group: min =        16
       between = 1.0000                                   avg =      16.5
       overall = 0.2350                                   max =        17

                                           Wald chi2(2)       =         .
corr(u_i, X)   = 0 (assumed)               Prob > chi2        =         .
```

GDP	Coef.	Std. Err.	z	P>|z|	[95% Conf. Interval]
MDF_v	-.0963927	.0465736	-2.07	0.038	-.1876753	-.0051102
TAV	-2.19e-11	1.84e-11	-1.19	0.233	-5.79e-11	1.41e-11
TAT	-4.24e-12	4.68e-12	-0.91	0.365	-1.34e-11	4.93e-12
MDF_q	-.0411479	.1438625	-0.29	0.775	-.3231132	.2408173
_cons	.1491025	.0982481	1.52	0.129	-.0434602	.3416651

sigma_u	0				
sigma_e	.0239742				
rho	0	(fraction of variance due to u_i)			

FIXED

Also, within Fixed Effects, we see that the factor that has a negative impact on GDP is the Fiscal Decentralization Measure (Local Government Own Revenue / Total Revenue) (TVQV/TT) MDF_v, with a negative coefficient (coef=-.112), (t=-2.34) and (p-value=0.027), while in other cases no significant effect was found, p-value >0.05.

```
. xtreg GDP MDF_v TAV TAT MDF_q, fe
```

```
Fixed-effects (within) regression          Number of obs    =      33
Group variable: Qyteti_R                   Number of groups =       2

R-sq:  within  = 0.2726                    Obs per group: min =     16
       between = 1.0000                                   avg =    16.5
       overall = 0.2149                                   max =      17

                                           F(4,27)          =     2.53
corr(u_i, Xb)  = -0.3623                   Prob > F         =   0.0637
```

GDP	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
MDF_v	-.1123214	.0479565	-2.34	0.027	-.21072	-.0139229
TAV	-1.98e-11	1.83e-11	-1.09	0.287	-5.73e-11	1.77e-11
TAT	-4.13e-12	4.64e-12	-0.89	0.381	-1.36e-11	5.38e-12
MDF_q	-.170932	.177613	-0.96	0.344	-.5353637	.1934997
_cons	.2421794	.1234933	1.96	0.060	-.0112081	.4955668
sigma_u	.009511					
sigma_e	.0239742					
rho	.13598357	(fraction of variance due to u_i)				

```
F test that all u_i=0:     F(1, 27) =    1.50          Prob > F = 0.2310
```

HAUSMAN

The results of the Hausman test present differences between the randon and fixed effects model, since in this case there cannot be any difference between these two models, we say that significant negative effects on GDP are represented by the factor MDF_v exactly. The measure of fiscal decentralization (Income of local government / Total income).

```
                    ── Coefficients ──
                  │    (b)          (B)          (b-B)      sqrt(diag(V_b-V_B))
                  │  Random_h2    Fixed_h2    Difference          S.E.

            MDF_v │  -.0963927    -.1123214     .0159287             .
              TAV │  -2.19e-11    -1.98e-11    -2.05e-12         1.78e-12
              TAT │  -4.24e-12    -4.13e-12    -1.05e-13         6.15e-13
            MDF_q │  -.0411479    -.170932      .1297841            .
```

```
                        b = consistent under Ho and Ha; obtained from xtreg
             B = inconsistent under Ha, efficient under Ho; obtained from xtreg

    Test:  Ho:  difference in coefficients not systematic

            chi2(2) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                    =   -1.54    chi2<0 ==> model fitted on these
                               data fails to meet the asymptotic
                               assumptions of the Hausman test;
                               see suest for a generalized test
```

LINEAR REGRESSION BY CITIES

Within the municipality of Durrës, the factor that affects GDP is MDF_q, precisely it is the Fiscal Decentralization Measure (Local Expenditures / Central Government Expenditures in %) with a negative coefficient (coef=-.867), (t=-2.43) and (p-value=0.033).

```
    -> Qyteti_R = Durrës

      Source │      SS       df      MS              Number of obs =      16
─────────────┼──────────────────────────────        F(  4,   11) =    2.77
       Model │ .004689733     4  .001172433          Prob > F      =  0.0811
    Residual │ .004648267    11  .00042257           R-squared     =  0.5022
─────────────┼──────────────────────────────        Adj R-squared =  0.3212
       Total │  .009338      15  .000622533          Root MSE      =  .02056


         GDP │    Coef.    Std. Err.      t    P>|t|     [95% Conf. Interval]
─────────────┼────────────────────────────────────────────────────────────────
       MDF_v │  .1670735    .2889104    0.58   0.575    -.468814     .8029611
         TAV │ -2.15e-11    7.17e-11   -0.30   0.770    -1.79e-10    1.36e-10
         TAT │  2.31e-11    1.78e-11    1.30   0.220    -1.60e-11    6.22e-11
       MDF_q │ -.8674895    .3564543   -2.43   0.033    -1.65204    -.0829387
       _cons │  .4815158    .3352172    1.44   0.179    -.2562923    1.219324
```

While in Elbasan we also see that the Fiscal decentralization measure (Own revenue of local government / Total revenue) MDF_v has negative significant effects on GDP with a negative coefficient (coef=-1.36), (t=-2.94) and (p- value=0.012), while other factors do not have a significant impact on GDP, ,p-value >0.05.

```
-> Qyteti_R = Elbasan
```

Source	SS	df	MS		Number of obs =	17
					F(4, 12) =	3.04
Model	.00603962	4	.001509905		Prob > F =	0.0603
Residual	.00595713	12	.000496428		R-squared =	0.5034
					Adj R-squared =	0.3379
Total	.011996751	16	.000749797		Root MSE =	.02228

GDP	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
MDF_v	-.1368229	.0464917	-2.94	0.012	-.2381197	-.0355262
TAV	1.28e-11	2.37e-11	0.54	0.600	-3.89e-11	6.44e-11
TAT	-4.84e-12	4.56e-12	-1.06	0.309	-1.48e-11	5.09e-12
MDF_q	.6076125	.3919632	1.55	0.147	-.246402	1.461627
_cons	-.3055929	.2841444	-1.08	0.303	-.9246903	.3135046

Source: Author

Based on the results of the OLS regression within the two municipalities together, we find that the factor that affects GDP is the Fiscal Decentralization Measure (Own revenue of the local government / Total revenue, with a significant negative coefficient (coef=. 096), (p-value=0.048), while this effect is also found in relation to the other two analyzes in Random (coef=.096) and Fixed (coef=-.112), at 5% of the margin of Also based on the results of the correlation, we find that the measure of fiscal decentralization (Local government's own income / Total income) has a significant negative correlation with GDP growth (annual %) – GDP (rho=-0.396, p -value=0.020), which shows that the factor that directly affects GDP growth (annual %) – GDP,is Fiscal Decentralization Measure (Local Government Own Revenue / Total Revenue) (TVQV/TT) -**MDF_v, with a significant negative coefficient, p-value <0.05, and in this case we accept the hypothesis that fiscal decentralization has a direct impact on economic growth in Albania, p-value<0.05.**

6. CONCLUSIONS AND RECOMMENDATIONS

To see the impact that fiscal decentralization has on economic growth, most studies focus on real GDP growth per capita. Meanwhile, as independent variables, in addition to the rate of fiscal decentralization, other variables are also used that are thought to have an impact on economic growth.

In this way, in order to determine what effect fiscal decentralization has on economic growth, and what is the effect measured in quantitative form, for the case of Albania, the econometric analysis of sum linear regression, over time series (OLS), respectively for the years 2000- 2015. The goal in a regression analysis is to estimate the mean of the dependent variable when given the values of the independent variables, the parameter (or partial parameters) must be statistically significant for the model to be good, which can be used to draw a conclusion in relation to a phenomenon or for prediction.

For a model with a higher explain ability, in addition to the dependent variable: the rate of GDP (%), and the independent variable: the rate of fiscal decentralization, other additional factors that have an impact on economic growth have been taken into consideration, such as : investment rate, inflation rate, human capital, population growth rate.

Based on the results of the OLS regression within the two municipalities together, we find that the measure of fiscal decentralization (Own revenue of the local government / Total revenue) has a significant negative correlation with GDP growth (annual %) – GDP (rho=- 0.396, p-value=0.020), which shows that the factor that directly affects GDP growth (annual %) - GDP, is the measure of fiscal decentralization (Own revenue of local government / Total revenue) (TVQV/TT) -**MDF_v, with a significant negative coefficient, p-value <0.05, and in this case we accept the hypothesis that fiscal decentralization has a direct impact on economic growth in Albania, p-value<0.05.**

RECOMMENDATIONS

One of the main reforms in the field of decentralization and local government is the territorial-administrative reform, approved on July 31, 2014. The central government must take full advantage of the advantages and opportunities created by the effective implementation of this reform.

The use of public-private partnership (PPP) is seen as an opportunity for LGUs to obtain private financing in order to improve the quality and efficiency of public infrastructure. For this reason, it is necessary to include the implementation of this partnership in the legal framework for local borrowing. as a significant effort to develop the local capacities of LGUs.

Drafting and approval of a Law on Local Finances. After the Territorial Reform, the Decentralization Strategy and the Law on Local Self-Government, a law on Local Finances would further improve the legal framework in the field of local

finances. Also, since the law on Local Self-Government provides that local units are charged with all functions (in addition to the existing ones), the adoption of the Law on Local Finances would help the local units and clarify their position in the financing of these functions.

The increase in the unconditional transfer will mean more funds for the national units. Thus, local authorities have more opportunities to perform functions set by law and to provide services that the central government has decided not to provide on its own. –

The institutional cooperation between the central and local governments should be strengthened more and more. Also cooperation between local units with each other. This will affect the improvement of the quality of operation of local governments.

In the new strategy that the Municipality of Durrës and Elbasan is building, the greatest priority should be given to investments that have the greatest impact on the community, starting from its new geographical position.

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