

Observations on Local Government Reform in Albania

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From February 13, 2003 to March 27, 2003, I had the opportunity to live and teach in the country of Albania.² The purpose of this paper is to provide observations on efforts to reform local government in Albania. These observations are, however, based on limited observations and discussions during my time in Albania and should be considered only personal observations informed by these conversations with a variety of Albanian and international public administrators.

What is obvious about governmental reform in Albania is that change is rapidly occurring and any assessment of effectiveness of these changes is currently impossible given the on-going process of this change.³ Three issues are especially prevalent in Albania: (1) reduction of corruption and increasing professionalism and civil service reform in government, (2) reduction in the overall size of government, and (3) devolution of responsibilities from the national level to the local level.

Corruption and Civil Service Reform

Albania's fifty year experiment with socialism and a one-party authoritarian regime ended in 1991 with the fall of then existing regime. Reform forces moved quickly to eliminate many of the most blatantly oppressive elements of the regime but instituted no massive purge. The result was a governmental system having limited governing capacity and a society eager for rapid change. This left certain vacuums in a society that was conditioned to acceptance of centralized control, an expectation of the continuation of certain collectively provided social safety net services, and a limited cadre of governmental "insiders". While there were no massive purges of officials from the previous regime, there was the creation of a two-party system of political control. Initial enthusiasm for "free market" solutions without experience with such solutions combined with high expectations for individual gain resulted in massive abuses in markets without effective regulation or clear determination of property rights. These circumstances lead to wide spread uncontrolled and illegal development and corruption along with ultimate economic chaos when massive pyramid investment schemes collapsed in 1997. These collapses resulted in scores of people losing significant amounts of money and, in turn, lead to a general country-wide crisis and the collapse of the government democratically elected in 1991. The last six years have been focused on renewing governmental institutions and reducing official corruption.

Attempts have been undertaken to institute a true civil service and thus protect governmental administrators and employees from some of the abuses by the ruling

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² I served as a visiting professor in the MPA Program at the University of Tirana, a program jointly sponsored by the Department of Management at the University of Nebraska at Lincoln and the Faculty of Economic at the University of Tirana and partly funded by the Soros Foundation. The views expressed in this short paper, however, are only mine.

³ The country of Albania has undergone persistent upheaval and reform during the past twelve years, since the fall of its long-time oppressive communist regime in 1991.

political leadership. In addition, attempts at increasing governmental wages as a means of reducing the incentives for official corruption have been undertaken with varying success given the limited budgetary resources available for such investment.

Under IMF and World Bank influence, substantial effort has been given to reform of the governmental finances. Some progress has been achieved at reducing the annual deficit at the national level to less than 10% of the GDP in recent years as well as better accounting for funding from external forces. At the same time, a Ministry of Finance document, "Budgetary Process in Albania", cites continuing problems with financial operations. These include the absence of effective classification in budgetary accounts, an absence of effective cash management, budgetary control, and auditing; and few computerized information systems in financial operations with continuing reliance on mostly manual systems of accounting.

There is substantial reason to believe that significant economic activity in the country continues to escape taxation. The absence of effective coordination between customs and the Ministry of Finance means that many imported goods escape value-added taxation. It is also estimated that the "underground economy" in Albania may be as large as 60% of the GDP.⁴ A study of regional tax yields showed that Albania yields about 20% of economic activity in its tax structure while its neighboring countries with similar tax structures yield about 30%, another suggestion of substantial tax avoidance in Albania.

Leadership for civil service reform is housed in the Ministry of Finance which is assisted by the Albanian Institute of Public Administration. With Soros Foundation seed money the Faculty of Economics at the University of Tirana in cooperation with the Department of Management at the University of Nebraska at Lincoln has established an MPA degree program with one cohort of 29 students and a second of 39 students currently enrolled.⁵ The first group of students in this program is scheduled to complete this professional masters degree program in December 2003.

Reduction in the Size of Government

Part of the task of reining in the size of government and reducing governmental budgets in relative terms has focused on substantially reducing or privatizing some activities and achieving improved operational efficiencies in other areas. Some efforts at streamlining government have met resistance from a of the need to balance the provision of employment with the need to reduce governmental employment. No where have results been more significant than in the military which has shifted from a consumption of 30% of GDP under the communist regime to less than 3 % of GDP at the present time. The U. S. military and NATO have been especially important in fostering both downsizing of the military along with modernization. Substantial declines in the numbers of military personnel have occurred and substantial external funding has supported modernization and realignment of the basic military mission to one with an emphasis on border security. Various actions to privatize governmental utilities and financial activities have been undertaken, especially in the telecom, banking, and insurance industries.

⁴ Approximately 30% of GDP is accounted for by remittances from abroad.

⁵ These students are drawn from a combination of governmental and NGO administrators with at least one prominent elected official included in the student body.

Decentralization and Local Autonomy

In November 1999 the National Kuvendi (Parliament) approved the ‘National Strategy for Decentralization and Local Autonomy’. This was part of the effort to dismantle the highly centralized governmental system that had prevailed under the communist regime. Local elections were authorized by the ‘Law on Organization and Functioning of Local Government’ (Law No. 8652 passed on July 21, 2000). This law resulted in elections which established a locally elected Mayor and Council in the City of Tirana as well as selected cities in other parts of the country.

During the current year, the City of Tirana is in the process of assuming responsibility for authorizing and collecting various taxes that were previously national responsibilities. This is putting a significant strain on local administrative capacity. In an conversation with the Jan-Peter Olters, Resident Representative for the IMF⁶, he identified a study conducted by the Urban Institute (Washington, DC, USA) was one of the leading advocates of the devolution activity and this action was actively endorsed by the U. S. government. He indicated some reservations that local governments in Albania currently had sufficient administrative capacity to effectively absorb additional functions without substantial capacity building activity.⁷

Post Note

Albania, like many of the countries in the Eastern Bloc of nations, is an interesting case from which much can potentially be learned about governmental reform and devolution of a highly centralized form of government. As the poorest of European nations and as a country that was extremely closed off from much contact with the rest of the world for almost fifty years, Albania forms a special case for examination. Reforms are at a formative stage right now and merit close monitoring and examination in order to build a base of *ex post facto* information against which developments can be assessed.

⁶ March 6, 2003, Tirana, Albania

⁷ One of my students was the Director of Taxation for the City of Tirana and she admitted that her office was struggling to organize a tax collection system without an adequate information base and effective coordination with the national Ministry of Finance.