

Municipal performance, territorial reform and development during the gaps in Albanian businesses - An overview of ADP principles and financial management

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Abstract

Territorial reforms are the most radical and contested reorganization of the sub national administration. The academic interest for this phenomenon is substantial. However, a cleavage divides the literature dealing with the issue: In a first strand, economists provide primarily quantitative ex-post analysis of such reform ventures. As a matter of research design and method applied, this work more than often focuses on selected financial aspects as reform outputs. Mostly, a narrow focus on economies of scale is chosen, defined as budget cuts or tax reductions. From an economist's perspective, spending per capita (in total or in certain policy fields) seems probably the most salient variable to look at. ¹For most citizens and the administrative 'boots on the ground' this perspective is secondary. Questions of availability and quality of services can easily mobilize considerable shares of a population – the outlook for a smallish tax reduction will not. While the overall findings in this cost-centered debate are still inconclusive a predominantly critical connotation characterizes many of these economies of scale-centered publications ²recently politicians and economists have often talked about structural reforms as the path toward sustainable economic growth.

The implementation of the Competition Policy and Law is the most effective and less costly reform because its daily consistent implementation leads to direct benefits for businesses and citizens. The direct outcome of the implementation of this reform is increased market awareness, which, in turn, leads to increased efficiency in resource use by the society. The European Union has established, in the framework of Enlargement and the Public Internal Financial Control concept (PIFC), a set of principles in relation to sound financial management of public resources, resulting from both national and international financing. This set of principles is suggested to be followed and adhered to by the Republic of Albania in their relevant legislation and implementation. Internal Audit is present in Albania for developing this system.

In the assessment carried out by the EU in July 2008, they identified that the internal audit law needed to be brought up to date in light of the PIFC requirements.

Their main points were we are focus in this paper research are: 1. Over-lapping audit process between the High State Control and Internal Audit; 2.The audit of smaller entities should not be carried out by Albanian business.

However, if the audit work does not represent a considerable workload, the audit could be

¹ See: Ebinger,Kulhmann, Bogumil, LCS 49,2019, Vol 1.

² (See: Allers and Geertsema 2016, 660). (Holzer 2009), Vol 2.

maintained in Albania at least as a temporary solution. The Albania government would be responsible for assessing the training needs, provide training and certification of internal auditors, including developing continuous training programs in Republic of Albania.

Keywords: Municipal performance, Audit and finance system, Albanian territorial reforms, State control, internal municipal role.

JEL Classification: M10, M11, F12, F14, M14, M16, M38, M48.

Introduction

In the process of its enlargement the European Union adopted the principles for sound financial management of the public funds, regardless if they come from an internal or international financing. It has been recommended these principles should also be laid down in the legislation of the member states and the candidates for accession. Following the recognition, at the Helsinki European Council in 1999, of Albania as a potential candidate for EU membership, the Republic of Albania has produced a National Strategy for Development and Integration (updated in 2008) and a Policy Paper on Public Internal Financial Control (PIFC) in 2005.

Two remarkable examples shall be singled out from the countries observed. During the most recent territorial reform of 2007 in Denmark, the number of municipalities declined from 271 to 98 and the 14 counties were fused into five regions.³ The newly established municipalities count on average around 55,400 inhabitants. Among the southern European countries, the case of Greece is similarly striking (*Doulinn 1990*). During the two reform waves of the 1990s and 2000s the number of municipalities was reduced from originally 5800 to 325, increasing the population to up to 33,600 inhabitants on average ⁴In so doing, Greece came closer to the so-called North European reform type The increasingly large number of contacts between businesses and consumers and the Competition Institution in relation to market concerns or failure indications is a direct indicator of the achievement of objectives under that mission; this is at the same time the main challenge of our Institution. The improvement and sophistication of investigation tools and the reduction of investigation time characterized our activity in 2012, leading to an increased number of market interventions by the Competition Institution (*Aneler and Bogumil 2012*).

With the launch of the transitional period in Eastern Europe, a tendency of fragmentation occurred in many countries, perhaps a natural outcome of the stronger need for democracy and local democracy (*Aneler and Bogumil 2012*).

1.1 Municipal performance, territorial reform in different countries

However, in many countries such as Albania, Armenia, Azerbaijan, Czech Republic, Hungary, Macedonia, Montenegro, Slovakia, and Ukraine, issues of costs and effective of services have risen to the surface and pushed the consolidation debate to a new level. The issue remains a very contentious one as consolidation impacts the access

³ See: Ebinger, Kulhmann, Bogumil, LCS 49, 2019, Vol 1, (*Aneler and Bogumil 2012*).

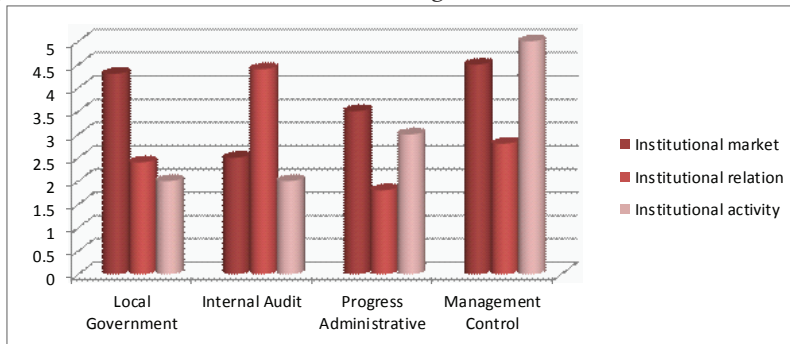
See: Albanian Municipality reforms, year 2012, 2013.

⁴ (Hlepas 2010, 233ff.; 2016). (Capodistria reform in 1998 and Kallikratis reform in 2010).

of citizens in the smallest units to their basic rights and services.⁵ Thus, as the title in the introductory chapter rightly points out; consolidation may not always be the right solution to fragmentation. The solutions are country-septic and recipes from outside may be hard to implement, but the lessons from some implemented reforms may be well-assessed and the mistakes avoided. (*Doulinn 1990*)

More than Status Quo looks at Armenia, Czech Republic, Hungary, Slovakia, and Ukraine where a variety of inter-municipal structures and associations of small municipalities were de-bated. These cases are a response to the need to provide effective services and yet keep local democracy intact. (*BB Report, 1996*)

The success or failures of these may still remain to be seen.⁶ The heads of central and local government institutions are responsible for setting up financial management and control system and the internal audit function within their organization. Some progress was made in strengthening the administrative capacity of the parliament Secretariat through training of staff and expert advice, including by international experts. A multiannual training strategy for the parliament's staff was adopted in May 2012. The unit for legal approximation in the parliament was strengthened by the hiring of a further adviser. (*Aneler and Bogumil 2012*)



Graph 1: The heads of central and local government institutions, Source: Albanian CI report 2011

The authorizing officers - are the highest ranked employees of general government units (central and local government institutions), responsible for planning, execution, performing financial management and control, monitoring, reporting, accounting and for responding to the recommendations made by internal audit and are accountable to the principle authorizing officer.

Many countries, over the past 40 years a trend to consolidate local governments

⁵ See: Ebinger, Kulhmann, Bogumil, LCS 49, 2019, Vol 1, (Aneler and Bogumil 2012).

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in Europe has become evident ⁷the phenomenon concerns not only countries of the northern European group (Denmark, Sweden, the United Kingdom, and some German *Länder*) typically operating with up-scaling strategies, but also southern and eastern European countries ⁸this trend often parallels it. It is vital to the good functioning of the markets—which, in simpler words, means increased consumer wellbeing—that the justice system absorbs and conveys the philosophy of competition protection in the fairest manner possible. Not only is the reasoning of decisions in the light of the protection of public interest a legal obligation under the Law, but also, and above all, it is a moral duty since it affects the wellbeing of the citizens. (*Aneler and Bogumil 2012*)

1.2 Development in competition law and policy implementation

However, we should mention that the same rule is not necessarily followed when the countries of Central and Eastern Europe are concerned. Of course, the amount of municipal spending is just one single, but not the most important (but the easiest to use for international comparisons), indicator of functional decentralization. There are equally important indicators, such as actual discretion to decide upon local revenues and spending allocation, the number of national norms and standards binding local governments in service delivery, and the extent of formal and informal impudence national administration has over local decisions, etc. Nevertheless, the illustration in Graph 1; there is no clear relationship between size of municipalities and size of municipal accounting and management.

There are countries (like Azerbaijan and Armenia) in which territorial fragmentation coexists with the minimal role of municipal budgets, or such as Poland, in which the large size of basic sub-national jurisdictions corresponds with a wide scope of locally delivered public functions. But there are also contrasting examples—for example, ⁹Macedonia, which represents a much lower size, and Hungary, which has a much higher share of spending comparing to predictions one could make on the basis of the size of municipalities.

The economic system in Albania¹⁰ is enshrined in Article 11 (1) of the Constitution, which specifies that the economic system of the Republic of Albania is based on private and public property, as well as on a market economy and on the freedom of economic activity. This constitutional principle is also ensured through the implementation of Law No. 9121 of 28 July 2003 “On Competition Protection,” as amended, and the National Competition Policy. The responsible institution for its implementation is the Competition Authority. It operates pursuant to the Competition Law and Policy, in addition to public administration norms and best practices of European competition

⁷ (See also Kuhlmann and Wollmann 2014, 150 pp).

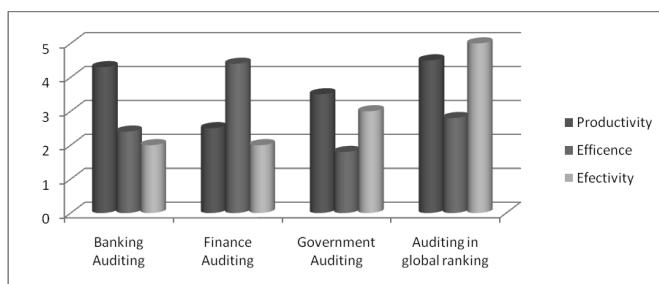
⁸ See: Greece, Bulgaria, and Lithuania). Rather than precluding inter-municipal cooperation (‘ Baldersheim and Rose 2010; Hulst and van Montfort 2007; Franzke, Klimovský, and Pinterič 2016),pp 123, 146, 187.

⁹ In some countries of Eastern Europe, the factor Mourtizien called “homogenization of lifestyles” is also much less pronounced—the deference’s between capitals (or major cities) on one hand, and small, remote towns and villages on the other—are still very much visible.

¹⁰ See: Greece, Bulgaria, and Lithuania). Rather than precluding inter-municipal cooperation; Baldersheim and Rose 2010; Hulst and van Montfort 2007; Franzke, Klimovský, and Pinterič 2016), Albanian progress report 2018, pp 21, 23

law.

Are the same factors explaining decreasing role of size for democratic performance significant also in countries of Central and Eastern Europe? Perhaps there are important differences between Western and Eastern Europe, as well as variations among countries of the region in our focus. In general, the level of professionalization in local administration is much lower in Eastern than in Western Europe.¹¹ The second level authorizing officers - are public administration employees in each dependent unit of central and local government institutions, responsible for planning, execution, internal financial control, monitoring, reporting, finance and accounting and for responding to the recommendations made by internal audit and are accountable to the authorizing officer.



Graph 2: The heads of central and local government institutions, Source : Albanian CI report 2011

The executing officers - are public administration employees of central and local government units, responsible for implementing financial management rules, keeping the accounts, and preparing management reports and financial statements and are accountable to the authorizing officer of the respective level.

1.2.1 Concept of public internal financial control

Level in consideration: While some European countries comprise a local system made up of several tiers with roughly a municipal level and a county level above it, others only feature a single tier. The territorial reforms in the former group of countries can concern the lower or the higher level as well as both.

The experience in the East German states shows that in two-tier systems reforms are generally required on both levels. Nevertheless, reforms on the county level appear to be more urgent. Public Internal Financial¹² Control includes the overall, consolidated system of control, based on internationally accepted standards, established and performed by the central and local government or by delegated organizations, in order to guarantee the sound financial management and control of the public funds. The PIFC system consists of three main pillars: Republic of Albania, The sound Financial

¹¹ For more see: In some countries of Eastern Europe, the factor Mouritzen called “homogenization of lifestyles” is also much less pronounced—the differences between capitals (or major cities) on one hand, and small, remote towns and villages on the other—are still very much visible.

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Management and Control (FMC) systems, as a prime responsibility of managers of each public spending centre, with particular emphasis on minimum requirements of internal control.

A functionally independent and objective Internal Audit (IA) service, supporting management and giving assurance and advice, that management and control systems are established in accordance with the rules and standards, and with the principles of sound financial management.

2.1.1 Definition and types of foreign (debt) loans

Recent years has almost no country which a good part of public expenditure not to finance with debt. Besides the different classifications, the debt can be classified as internal and external (on territorial source of the loan) debt that may be borrowed from the sources of Interior or by external financing sources, according to the duration can be short and long term. Public debt may be in cases when the state takes its place or borrow from abroad to finance their economic activities and private sector debt to finance their businesses (Blake, R.R & Mouton 1964).

As all political processes, administrative reform policy and even more so territorial policy is not a straight forward rational process but also – and especially – a power driven exercise ¹³The following factors appear to be particularly important to explain impact and results of the reforms, especially in international comparative perspective: 1: Administrative system¹⁴ and culture of the Land or region in question. Amalgamations in one Land do not automatically lead to the same effects in another Land;

Initial status of the territory before the reform, especially size, number of participant municipalities, type of association (Merger vs. Amalgamation theory and analyze), and reforms already occurred in the past. Firstly, amalgamations can trigger follow-up investments and professionalization inputs in the administration, which exceed the eventual gain in economies.

Secondly, up to a certain point of territorial size and number of partners (which still cannot be clearly defined), the benefits of the reform may decrease again rather than further increasing * The focus of our research will focus on the impact of the foreign debt in the economy of Macedonia, Kosovo and Albania.

Through different periods of time, economists thought the loan has changed, some support the loan, arguing that represents an important source for a sustainable economic growth while another group what they see as harmful to the economy. Study of the effects of debt in the economy represents need, because the country through debt may accelerate the development process or alternatively to induce financial and economic damage the national economy (Source: Albanian Progress Report 2011).

¹³ (Sabatier 1991; Bogumil and Ebinger 2008a; Ebinger and Bogumil 2016).

¹⁴ See more: This constitutional principle is also ensured through the implementation of Law No. 9121 of 28 July 2003 “On Competition Protection,” as amended, and the National Competition Policy. The responsible institution for its implementation is the Competition Authority. It operates pursuant to the Competition Law and Policy, in addition to public administration norms and best practices of European competition law.

2.1.2 *The concept of borrowed money (Blake, R.R & Mouton 1964)*

*Public debt represents the amount of borrowed money that the state owes the creditors at a given moment in time. Since our interest is in foreign loan, then we can define similarly the foreign loan-it represents the amount of money borrowed from foreign financial resources with the private sector the state owes to foreign creditors. In recent years there is an expansionary trend of debt in our country, in particular the public sector as a result of increased public spending, have equal opportunity and the private sector but not the same size. Central service in the Ministry of Finance (MOF),for developing and implementing a harmonized methodology and standardized quality of the FMC system and of the internal audit service. This will in turn ensure sustainability of existing training facilities. On the other hand, the PIFC must be seen in the context of the National Strategy for Development and Integration (NSDI). This paper of March 2008 replaces the previous National Strategy for Socio-Economic Development and sets out Albania medium-to-long-term national strategic priorities and goals.

2.1.3 *Control of Concentrations*

However, the relationship between municipal size and citizens' satisfaction with government performance is ambivalent. A study about the impact of territorial reforms in Denmark showed that amalgamations are generally associated with lower citizens' satisfaction with local and municipal performance as well as with the infrastructure facilities. The author infers a negative relationship between size and satisfaction (Hansen 2015, 385). However, the background for such observation might be the intervening factors linked to municipal size.

The international comparative study by Denters et al. (2014) reveals that at least two factors intervene in the interplay of size and satisfaction: citizens' perception of government challenges and local political confidence. In light of these factors, the authors established that the effect of size is but indirect. A negative effect could only been seen in the personal performance, while the satisfaction with local problem-solving and municipal facilities also did not present any negative indirect effects linked to size (Denters et al. 2014, 210).

The control of concentrations is the third pillar of the Competition Protection Law, under which the Competition Institution supervises any changes to market structure. In order to increase the efficiency of law implementation, it continued to supervise any transactions carried out and filed with the National Registration Centre in 2012. Based on the close cooperation with the National Registration Centre, the Competition Authority has identified transactions in shares which had not been communicated to it, i.e. the undertakings involved in those transactions had failed to comply with their legal obligations to notify them.

1. Territorial consolidation reforms, why they happen and why so rarely?

The introduction of all these standards to the whole public administration in Albania is a necessary condition to recognize the observation of all legal norms and the EC requirements for the candidate countries intending to join the EU. The full activities of the Action Plan, has an exceptional importance in the achievement of a strong and adequate management and control system and internal audit function. The Action Plan also highlights areas where further technical support is required. The goal

for the Competition Institution in 2013 will be to complete or continue conducting monitoring and inquiry and investigation cases that were initiated in the previous year, and read as best as possible all indications coming from complaints, the media, the business community or consumers.

Last year, the Competition Authority initiated four inspections of share transactions, of which two were cases of concentration with changes to the control structure. The acquiring undertakings which had violated the law for failure to submit a notification within one month were penalized with light fines (three cases of failure to submit timely notifications of transactions) (*Bowers, D.G & Seashore, 1966*).

Share the conviction that the debt represents an evil without which economies of many countries find it difficult to operate. Both the private sector and that public is needed loan when their costs exceed the financial revenues. This situation in economics is known as budget deficits when revenues exceed expenditures budget,

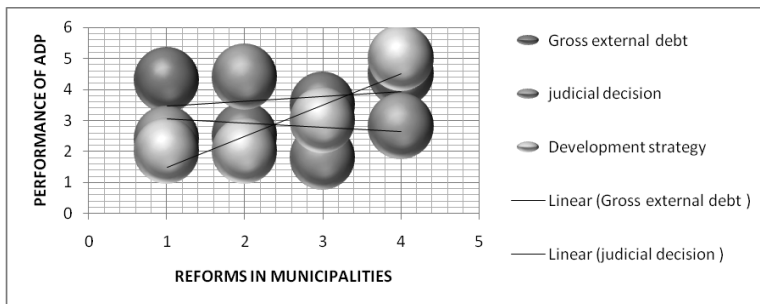
I want to emphasize that there is a distinction between debt and budget deficit, the debt represents the cumulative deficit by the time given.

Gross external debt (in% of GDP)

2009	2010	2011	2012	2013	2014	2015	2016
51.3	49.8	50.3	51.1	47.4	58.2	60.0	62.0

Gross external debt (in million \$) If the supervision was carried out, further measures concerning execution in the state which passed the judicial decision shall be temporarily suspended.

(2) The Administering State shall inform the Sentencing¹⁵ State on the supervision measures and on all circumstances that could lead to revocation of the suspended sentence, as well as on the expiration of the probation term.



Graph 3: Administering State shall inform the Sentencing State 2015

(3) The right of the state which has imposed the judicial decision to enforcement shall finally cease if in the course of probation term none of the circumstances has occurred for which the suspended sentence should be revoked under its law

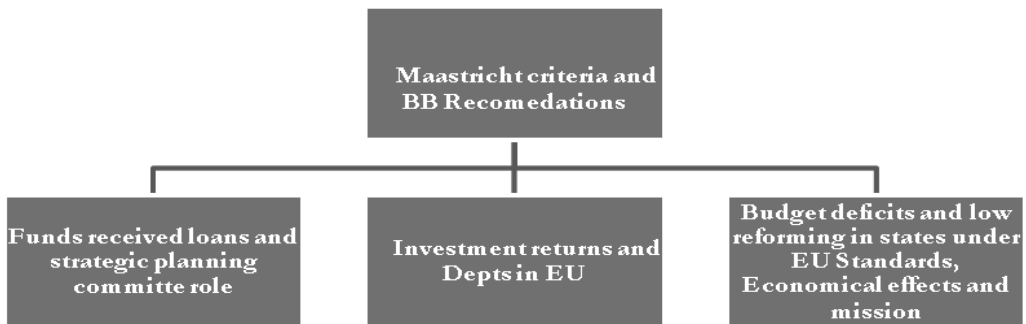
15 Dansereau, F, Graen, G & Haga, W.J. A vertical dyad linkage approach to leadership within formal organizations: A longitudinal investigation of the function-making process. "Organizational Behavior and Human Performance" 1975, 13(1), 118-127.

2008	2009	2010	2011	2012	2013	2014	2015
2.080	2.528	2.503	2.841	3.304	3.780	4.133	4.874

Under the Maastricht¹⁶ criteria, the total debt should not exceed 60% of GDP, while the budget deficit could reach up to 3% of GDP. The following sections present the table in which we will see how it looks gross external debt of RM, from 2004-2011.

Source: www.ADLBB,

The purpose of this document (IFC) is to describe the current Albanian PIFC system and the control environment and to determine the key directions and obligations of public sector units in Albania, in order to enable them to provide a reasonable assurance that public resources are managed with economy, efficiency and effectiveness. The main elements of the PIFC system in the Republic of Albania defined in the PIFC Policy Paper are: the financial management and control system (FMC), independent internal audit (IA), and a central coordination and harmonization service in the Albanian Ministry of Finance (MOF)



Tab 1 : Source: www.Dansereau, F,Graen, G & Haga, W.J.2019

The NSDI was agreed by the Strategic Planning Committee under the Integrated Planning System, which includes a set of operating principles to ensure that government policy, planning and implementation takes place in a coherent, efficient and integrated manner. Auditing and control guidelines for internal control standards in the public sector define internal control as: “an integral process that is effected by entity management and personnel and is designed to address risk and to provide reasonable assurance that in pursuit of the entity mission, the following general objectives are being achieved: 1. executing orderly, ethical, economical, efficient and effective operations; o fulfilling accountability operations; 2. complying with applicable laws and regulations; 3. safeguarding resources against loss, misuse and damage”.

Internal control is a dynamic integral process that is continuously adapted to the changes an organization is facing. Management and personnel at all levels have to be involved in this process to address risk and to provide reasonable assurance of the achievement of the entity-mission and general objectives”.

16 See: This document (IFC) is a revised and updated version of the Policy Paper on Public Internal Financial Control (PIFC)) in the Republic of Albania, adopted by the Council of Ministers in June 2005.

Conclusions

As delineated above, the arguments for consolidation reforms are usually built on the ground of economic efficadency, and are more likely to occur in countries that primarily have a functional perspective of the role of local government. An additional argument, recently used in some European countries, mentions the needs arising from European integration. It is done so in two possible ways. Direct, in which pro-reformers argue (not quite correctly, but sometimes effectively) that a certain form of sub national institutions is a requirement of the European Union. Or indirectly, in which it is argued that the challenge of competition with regions/cities in other countries of a uniting Europe, requires stronger local government institutions. But even if the arguments are real, it is usually very difficult to implement the reforms. Albania has made much progress in the past three years with many changes introduced to Albanian public administration. Those changes helped to improve the functioning of Public Budgetary Organizations (Entities), and adjusting the laws and practices to international standards. Some of these implemented changes can be compared to best practices which are in force in the EU (for example, the new Management of Budgetary System Law and its references to internal control).

Making changes demand not only institutional reforms - taking into consideration the recent rapid economic development of Albania - but also changes in culture and in the way civil servants perform their work. Albania will continue to develop Public Internal Financial Control in compliance with the EC requirements and international FMC and IA standards. Competition Law Implementation will development in this year. In 2013 the main priority for the Competition Authority work will be the protection and promotion of free and effective market competition through increased efficiency of market interventions, investigative tools and procedures for identifying and preventing cartels, abuse of dominant power and control of concentrations on the domestic market

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