

THE PARLIAMENT

NO. 2572/1 DATED 23/07/14

**REPUBLIC OF ALBANIA
THE PARLIAMENT**

REPORT

ON THE BILL

**“ON ADMINISTRATIVE AND TERRITORIAL DIVISION OF LOCAL
GOVERNMENT UNITS IN THE REPUBLIC OF ALBANIA”**

THE PARLIAMENT

Remark of the Speaker _____ to the Committees and the Session

	dated _____
Registration in the agenda	dated _____
Review in the plenary session	dated _____

July 2014

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I. Introduction

The bill "On administrative and territorial reform in the Republic of Albania" is submitted to the Parliament of Albania as the proposal of a group of Members of Parliament, pursuant to Article 81, paragraph 1 of the Constitution.

Article 81, paragraph 2, letter f stipulates that the law on administrative reform shall be subject to approval by qualified majority of 3/5 of the votes of the Members of the Parliament, and paragraph 2 of Article 108 defines that "The administrative and territorial division of local government units shall be established by law on the basis of mutual economic needs and historical tradition. Their borders may not be changed without first hearing the opinion of their inhabitants".

This bill is the result of the implementation of the governing majority priority for the preparation and implementation of the administrative and territorial reform (ATR), as determined in the Government program, approved by the Parliament in September 2013.

The preparation and implementation of the administrative and territorial reform (ATR) was performed pursuant to the legal requirements set out in:

- The Constitution of the Republic of Albania;
- European Charter of Local Self-Government;
- Law no. 8652, dated 31/07/2000 "On the organisation and functioning of the local government in Albania";
- Recommendation Rec (2004)12 of the Committee of Ministers of the Council of Europe on the processes of reform of boundaries and structures of local and regional authorities.

This bill includes the relevant tables and maps detailed for every region, the explanatory report and the annexes in support thereof, as part of the legal package, and determined and required by the relevant provisions of Article 67 of the Law no. 8652, dated 31/07/2000 "On the organisation and functioning of the local government", as amended:

Article 67, letter b), c) and ç)

"The proposal for the reorganization of one or more units of local government for each specific case shall be submitted to the Parliament accompanied by the following facts and justifications:

- b) The methods, materials or documents used to inform the public on the reorganisation and the issues related to it.
- c) The opinion of the community living in the local units affected by the reorganisation, and the opinion "in favour of" and "against" this reorganisation, as the case may be, expressed by parties or groups directly or indirectly interested in this reorganisation.
- ç) The methods used to collect the opinions of the community such as open meetings, public consultations, public hearings, opinion polls duly certified by competent authorities, or an opinion expressed through local referendum or any other adequate and reliable method.

Based on the provisions of Article 67 above, the whole material supporting the proposal on the

administrative and territorial reorganisation has been included as a full package comprising over 2,000 pages of written material, maps, tables and charts.

Attached to the bill there are 13 maps of the new administrative and territorial division, printed in A1 format, including the map of the administrative and territorial division of the Republic of Albania and the maps of the administrative and territorial division for each region, together with the detailed description at city and village level. Apart from the cartographic material, the bill details also the administrative division in table format.

The bill report includes several chapters starting with the introduction, the executive summary, the explanatory report, the information on the process and the results of the administrative and territorial reform, arguments on the need for the administrative and territorial reorganisation, the methodology and criteria applied in the preparation of the new map of administrative and territorial division, the description of the public consultation and information process, the methods for regulating financial, property and obligations issues regarding local units affected by the reorganisation and the findings.

The bill report includes also the records and complete and detailed reports on all the materials, reports, minutes of the meetings, which have resulted from the entire process of the administrative and territorial reform.

II. SUMMARY

The current administrative-territorial division with 12 regions, 65 municipalities and 308 communes was approved by Law No. 8653, dated 31/07/2000 "On the territorial-administrative division of local government units in the Republic of Albania".

This Law, together with the Law No. 8652, dated 31/07/2000 "On the organisation and functioning of local government" and the Law No. 8654, dated 31/07/2000 "On the organisation and functioning of Tirana Municipality" was part of the legal package of the decentralisation reform, approved in 2000.

Apart from the change and the inclusion of the region as a new unit replacing the former district, the Law No. 8653/2000 on administrative-territorial division, as regards the level of municipalities and communes, retained in essence the division determined by the Decision of the Council of Ministers No. 269, dated 25/06/1992.

The division determined by the DCM of 1992 was mainly based on the territorial organisation inheritance from the former communist system, transforming the former agricultural cooperatives into local units called communes, and the cities into municipalities.

The same as in 1992, even in 2000 the administrative-territorial division was not based on thorough studies or analyses of the capacity and ability of government units to perform their functions and competencies in a decentralised manner.

The great decentralisation reform carried out in 2000 was based on the concept of symmetrical decentralisation of functions and competencies, thus making no distinction between the size of LGUs or their capacities to perform these functions.

In addition, the approval of the administrative-territorial division, both in 1992 and in 2000 was not preceded by public consultation processes with the local communities or the local government representatives, which as of 1998 constitute a constitutional obligation and are also binding pursuant to

the European Charter of Local Self-Government.

Transition to the governance model through decentralisation after 1992, and the administrative and fiscal decentralisation reform approved in 2000 by the organic law on local government, would naturally be accompanied by a change in the administrative-territorial organisation structure of the country.

Most studies and analyses on local government in Albania after 2000, reveal the great fragmentation of the territory and the large number of LGUs with a very small population and very low resources and capacities.

The territory fragmentation, and the small LGUs constitute the main reasons behind the high inefficiency in the performance of public services at local level and the failure to reach the objectives of the decentralisation reform by most of the LGUs in Albania.

Based also on the reports and studies as above, the entire political factor in the country has recognised the need for an administrative and territorial reorganization of the country. Furthermore, the main international partners of Albania have recommended the conduction of the administrative-territorial reform.

In this context, the governing majority determined the implementation of the administrative-territorial reform as one of the key priorities of its program, aiming to increase efficiency of local public services and to empower the local government units. Moreover, the government program defined that the timeframe for the approval of the reform was before the 2015 local elections.

The implementation of this priority was assigned to the Minister of State for Local Government, and in order to ensure at the same time the involvement of the political factor the Parliament approved by Decision No. 1/2014, dated 22/01/2014 the establishment of an ad-hoc Parliamentary Committee for the Administrative and Territorial Reform.

III. CONTENTS OF THE BILL

The bill "On administrative and territorial division in the Republic of Albania" contains 6 Articles and the accompanying maps and tables.

Article 1 determines the administrative-territorial division with 12 regions and 61 municipalities.

The administrative and territorial division at regional level remains unchanged, with 12 regions.

The district as a territorial unit and sub-division of the region has been abolished, in a situation where the number of municipalities has been reduced to 61. In some cases, the territory of the new municipalities corresponds to the regions' boundaries, and on average each region is composed of 5 to 6 municipalities. Under this new configuration of the territory, the proposal to remove the division into districts as territorial unit/sub-division of the region seems reasonable.

The first level of local government is proposed to be reorganised into 61 LGUs from 373 current municipalities and communes. The administrative-territorial division with 61 municipalities is based on the methodology of functional areas. In order to establish 61 new municipalities, the existing municipalities and communes have been merged to form 1 functional area, in view of the technical criteria approved by the ad-hoc Parliamentary Committee.

Article 108, paragraph 1 of the Constitution stipulates that communes or municipalities and regions shall be the units of local government. Other units of local government are defined by law. From the legal viewpoint, both the commune and the municipality are the equal.

The Law 8652/2000 defines municipalities as urban local units, as a rule, and communes as rural areas. The main criterion of functional areas determines the merger of urban and rural areas into single administrative units, by merging municipalities (urban areas as a rule) with communes (rural areas as a rule). All the 61 new municipalities include on average 5-6 existing municipalities and/or communes, which means that they will be composed of urban and rural areas.

Accordingly, given that the Constitution stipulates that local units may be the municipalities or the communes, and the fact that the new administrative division will result in the new units including in their composition urban and rural areas, we propose that all the new basic local units be called municipalities. This proposal gives an end, once and for all, to the artificial division into municipalities and communes or urban and rural areas, which has often conveyed also a negative connotation. The designation as municipality itself is closer to the Albanian language terminology than the term commune.

The existing communes and municipalities to be absorbed by the new local unit shall be regarded by law as sub-divisions of the municipality, called *administrative units*, and shall retain the existing current boundaries. This proposal is put forward in order for the administration of the new LGUs, especially during the first period after the new system of administrative-territorial reform is functional, to guarantee uninterrupted provision of direct administrative services to the citizens in the existing municipality and commune offices. This will also be enabled by sanctioning in the organic law on local government the obligation to have a local administrator/local administration in these administrative units (former local government units).

Article 2 refers to the centres of the new municipalities, the territorial extension and the municipalities sub-divisions, which are determined in the tables and maps attached to the bill, constituting a part thereof. Villages and cities within the existing municipalities and communes shall be inherited as such, even in the new administrative-territorial division proposed in this bill, and no changes will take effect in this regard.

The bill determines that the administrative-territorial reorganisation of Tirana Municipality shall be made by merging the Tirana Municipality and its 11 municipal units with 13 existing communes. The new municipality of Tirana is proposed to include 14 current local units. The Law 8654/2000 "On the organisation and functioning of Tirana Municipality" stipulates that the 11 municipal units shall have their directly elected bodies.

Keeping on one hand a system of direct election of the Mayor and the councils of the 11 municipal units of Tirana Municipality, which has over the years been identified as problematic and dysfunctional for administering the city as a whole, and the inclusion of 13 new administrative units with no directly elected bodies (when merged with Tirana Municipality) on the other hand, would create inequalities among constituent administrative units and problems in the organisation and functioning of the new Municipality of Tirana.

In order to identify the issue of concern as above and guarantee an equal status among constituent administrative units, we propose that the Law No. 8654, dated 31/07/2000 "On the organisation and functioning of Tirana Municipality", that provides for the organisation and functioning with 11 municipal units with directly elected bodies be repealed. Under such situation, the 11 existing municipal units in

Tirana Municipality and 13 communes to be added to Tirana Municipality shall be regarded by law as sub-divisions of the municipality, designated as administrative units and holding an equal status.

Article 3 and Article 4 determine the provisions stipulating that the existing LGUs elected bodies shall continue to exercise their four-year mandate, uninterrupted, until the end of this mandate, in accordance with the applicable legislation on local elections. In this regard, the new territorial division shall extend its effects upon the new local elections, and it does not affect the current mandates of the local elected officials.

The bill is not expected to generate any additional financial impacts on the state budget for 2014. The local budgets for 2015 shall be regulated by the law on state budget, considering that the next local elections shall be conducted in the middle of 2015, and after that we will have a new arrangement of local government units, and new budgets accordingly.

In addition, starting from 2016, the local budgets are expected to have positive effects due to the good administration and rationalization of personnel and operating costs. This positive financial effect is expected to amount from ALL 3 to 6 billion for one budgetary year.

Article 5 provides for the abrogation of the Law no. 8653, dated 31/07/2000 "On administrative-territorial division of local government units in the Republic of Albania", as amended, and the Law no. 8654, dated 31/07/2000 "On the organisation and functioning of Tirana Municipality" immediately upon entry into force of this bill.

Article 6 contains the standard provision for entry into force of laws. This Law is proposed to enter into force 15 days after its publication in the "Official Journal".

IV. REFORM PROCESS

The Administrative and Territorial reform process started with the National Conference held on 17 October 2013. This process was designed to be carried out in several main phases, pursuant to the Recommendation REC (2004)12 of the Committee of Ministers of the Council of Europe.

Setting up the structures

The administrative and territorial reform process, based on DCM No. 1012, dated 22/11/2013 "On defining the scope of responsibilities of the Minister of State for Local Government", was assigned to the Minister of State for Local Government and to the ad-hoc Parliamentary Committee for the Administrative and Territorial Reform established by Decision of the Parliament No. 1/2014, dated 22 January 2014 as the decision-making body in the reform process.

In the beginning of October 2013, the Minister of State for Local Government set up the team of local and foreign experts and the Technical Secretariat of the reform. Upon the Order of the Prime Minister No. 36, dated 5/2/2014, 12 regional working groups in every region and 12 regional technical coordinators were established. More than 30 experts were engaged altogether.

The entire process and structures were supported by the technical and financial assistance of STAR project, funded by the Government of the United States, the Swiss Government, the Italian Government, the United Nations Development Programme (UNDP) as well as the Council of Europe, OSCE, the Embassy of the Kingdom of the Netherlands, the Embassy of Austria, etc.

Study and analysis phase

The administrative and territorial reform process was based on detailed analyses of the situation and studies carried out by the team of technical experts, and study visits organized in countries that have already or are implementing territorial reforms. A series of conferences, seminars and roundtables were organised by the Minister of State for Local Government or by organisations, institutes and associations that have assisted in the preparation of the proposal for the new administrative and territorial division.

Additionally, during this phase a peer review was conducted, with the presence of 8 experts from the Member States of the Council of Europe that provided their assistance in the preparation of the technical criteria.

This phase resulted in the production of 2 detailed reports that analyse the local government situation in Albania, justifying the need and advantages of the administrative and territorial reorganisation of Albania, and the report on "functional areas" which served as the basic methodology in the preparation of the new map of administrative and territorial division of Albania. These reports were prepared in the period November 2013 - May 2014.

Consultation and approval of the technical criteria

The proposal on the new administrative and territorial division was based on a set of technical criteria approved by the ad-hoc Parliamentary Committee on 28 April 2014. The technical criteria constitute the main and the most important basis upon which the new administrative and territorial map will be developed. Approval of the technical criteria by the ad-hoc Parliamentary Committee was preceded by a phase of thorough analyses and studies performed by the team of experts during the period November 2013 - March 2014.

These criteria further underwent an extensive public consultation process across all the regions in Albania in the period March-April 2014 with representatives from the local government, associations of local elected officials and the stakeholders (the first round of public consultations). More than 1,400 persons were involved in this consultation process.

Preparation and approval of 5 versions for the new administrative and territorial division

After the approval of the technical criteria on 28 April 2014, upon which the proposal on the administrative and territorial division would be based, the ad-hoc Parliamentary Committee charged the Minister of State for Local Government with the preparation of the proposal for the new administrative and territorial division.

On 16 May 2014, the Minister of State for Local Government, based on the approved criteria, submitted the proposal with 5 versions of the map of the new administrative and territorial division.

On 22 May 2014, the ad-hoc Parliamentary Committee approved the version of the map with 39/47 local government units, which based on Article 108, paragraph 2 of the Constitution and Article 67 of the organic law no. 8652/2000 on local government, was subjected to public consultation.

Public consultation and information process

The administrative and territorial reform, being a very important structural reform must go through a broad public consultation and information process in accordance with the provisions of the Constitution of the Republic of Albania, the European Charter of Local Self-Government and the organic law no. 8652/2014 on local government.

A large number of tools were used to inform the public on the progress of the administrative and territorial reform, including the online platform, social media, visual and print media, open meetings, public consultations and hearings including also the national opinion poll.

The public consultation, as provided by the Constitution and the organic law on local government was conducted along different phases of the reform, with 3 main groups.

With representatives of the local government and the associations of local elected officials:

- Throughout the first phase of the reform, information and consultations were carried out through meetings, seminars, conferences and written reports.
- During March-April 2014, the first round of public consultation was conducted, including public meetings with representatives of local government across all the regions of the country with the aim of providing information on the reform process and consultation of the technical criteria.
- During the period 28 April - 16 May 2014, the ad-hoc Parliamentary Committee held a number of public hearings, where representatives of the local government and their associations could be heard.
- The opinions of the local government bodies on the version 39/47 approved by the Committee on 22 May 2014, were asked to be submitted officially on 23 May 2014, pursuant to Article 68 of the organic Law no. 8652/2000. According to this Article, the local government units must provide their written opinion within 60 days. This term expired on 22 July 2014.

With stakeholders, civil society and the business:

- Throughout the implementation of the administrative and territorial reform, representatives of stakeholders, civil society and the business took part in the meetings organised. Specifically, during the period May-June 2014, 37 meetings were held in cities and district centres with the stakeholders and the civil society, and 5 meetings and one national opinion poll with the business.

Community consultation:

- As regards the community consultation, the national opinion poll was used, pursuant to Article 67 of the organic law no. 8652/2000 on local government. 16,000 persons were interviewed in this opinion poll, making it the biggest national poll ever conducted in Albania. The poll was performed by an Albanian organization, selected by UNDP and funded by STAR project.

Decision-making process for the final version of the new map

On conclusion of the two-month public consultation process for the version 39/47, in the meeting of 17 July 2014, upon Decision No. 5, the ad-hoc Parliamentary Committee approved the final version of the map for the new administrative and territorial division, with 61 municipalities.

The Committee decision, together with the map and the relevant tables was forwarded to the Council of Ministers for consideration, pursuant to paragraph 2 of Article 68 of the Law no. 8652 dated 31/07/2000 "On the organisation and functioning of local government", as amended.

V. ANALYSIS OF LGUs FUNCTIONS¹

Decentralisation of the government in Albania dates back at the beginning of the '90s when local governments were for the first time elected democratically. Although we may not yet speak about administrative or fiscal autonomy, the 1992 reforms set the grounds for the establishment of democratic local authorities, that gradually paved the way towards taking over more responsibility and functions. Unconditioned ratification of the European Charter of Local Self - Government (8548/1998)

¹ The detailed report on justifying the need for administrative-territorial reorganisation has been included as part of Annex I of this report.

and the approval of the Law "On the Organisation and Functioning of Local Government" (8652/2000) mark the second important moment in the decentralisation of government, thus establishing the framework for full administrative and fiscal decentralisation. Both these documents determine the need for Local Government Units to be able to provide the transferred functions to the citizens as one of the main objectives of the decentralisation reforms in Albania.

In this context, the Law "On administrative-territorial division of local government units" (8653/2000) was approved as part of the government decentralisation reforms. Basically, the 2000 administrative division seeks to preserve the historical boundaries of municipalities, communes, districts or prefectures (referring to the beginning of the 20th century) by merging district administrative boundaries with regional ones.

This package of reforms, which defined the main government decentralisation framework in Albania, was built upon the assumption that local government units, unable to provide the transferred functions and responsibilities on their own, would make use of the option provided by the Constitution of the Republic of Albania and the Law "On the organisation and functioning of local government" and merge, or engage in interlocal cooperation.

It was upon this assumption that the laws and instructions that completed the fiscal and administrative decentralisation framework were drafted, and the intergovernmental transfers and grants were designed until 2006. However, except for a few cases², no voluntary mergers of LGUs have occurred in these 14 years of their functioning.

Under these circumstances, in 2003 the discussion on the administrative and territorial reform was restarted, and pursuant to a policy paper prepared by the Council of Europe, in 2004 a bill on the administrative-territorial reorganisation of the country was drafted.

The bill provided for a number of criteria, basically aiming to meet the aforementioned objective for local government units capable of generating revenues and efficiently providing their functions stipulated in the Law. The bill failed to find political consensus and therefore was not approved in Parliament.

The year 2005 marks another significant moment in the government decentralisation process, and the change of government also changed the strategic approach to the fiscal decentralisation process. The intergovernmental transfers and grants system was reformed, introducing the almost full fiscal equalisation as the instrument that would solve the problem of small and very small local government units to generate revenues and provide services to citizens. This approach, supported by the idea that it preserved and improved democratisation of government, created instead confusion as to what was defined by the decentralisation strategy as good and effective governance.

The aim of establishing larger local government units, able to provide more efficient services, make better use of financial resources and respond to the need for representation closer to the citizens (government democratisation) in fact constitutes the main topic upon which the discourse has focused so far.

But there are also a number of other issues addressed by the administrative-territorial reform, such as:

- the large level of fragmentation - 20% of Albania's population live in 232 LGUs or over 75% of the total LGUs have less than 5,000 inhabitants - resulting in very high administrative costs in providing services to citizens;
- the problem of limited human resources often found in small local government units, resulting in the inability to exercise local functions, generate and collect revenues and provide services;

²In 2003, two communes, Barbullush and Bushat in Shkodra region merged into one local government unit, the Bushat Commune (Law 9123/2003).

- the pending administrative and fiscal decentralisation process, resulting to some extent from poor local capacity, but also from frequent and chaotic interventions to the legal framework, the reduction of fiscal autonomy and lack of financial coverage of mandates for shared functions;
- unclear role of regions as coordinators and supporters in exercising local functions;
- the need for an internal regional development policy that complies with the EU integration requirements and the necessity for multi-level governance, including the regional one; etc.

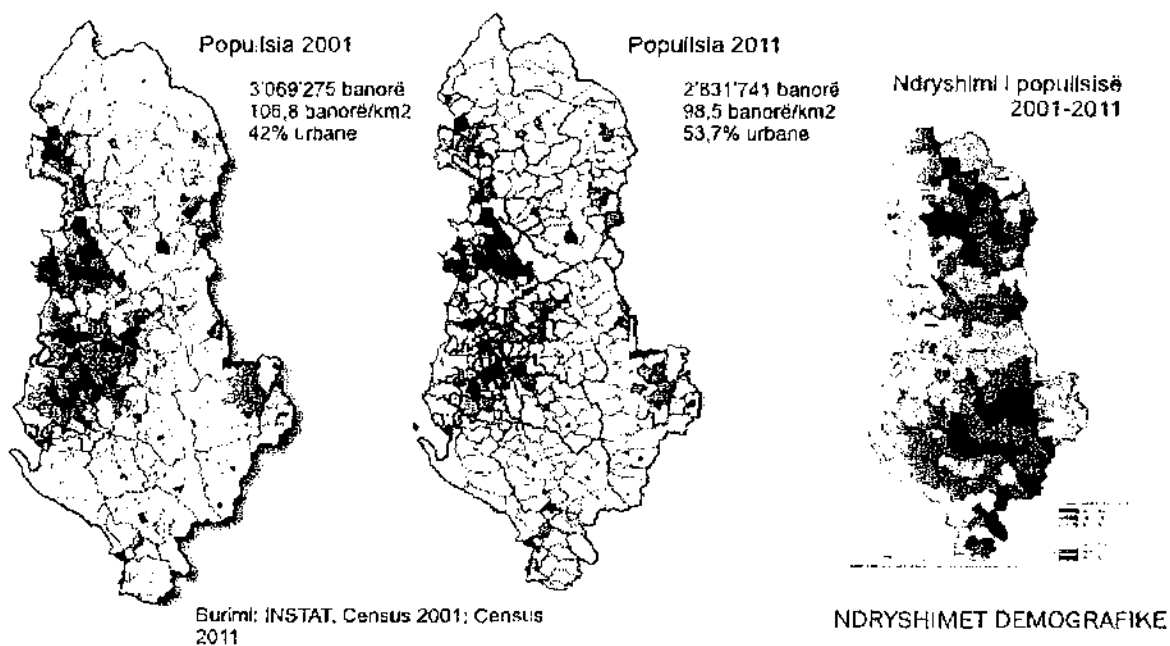
Justification of the need for administrative-territorial reorganisation is supported by several key factors that have contributed to the necessity for administrative and territorial reform.

These factors are analysed in detail as follows:

i. Demographic changes

The size of municipalities/communes in terms of population is highly varied. According to the data of the 2011 Census, there are 330 units (88%) with a population of less than 10 thousand inhabitants, whereas 232 units (62%) have a population of less than 5 thousand inhabitants. Average population for communes is 4,300, while half of the communes have a population of less than 3,100 inhabitants. About 53% of the population live in municipalities, whereas 64% of the urban population or 34% of the total population live in the 8 largest cities of the country - Tirana, Durrës, Vlora, Elbasan, Shkodra, Kamëz, Fier and Korça. Only 15 local government units have a population higher than 20 thousand inhabitants. The average number of inhabitants in municipalities is 22,600, but over half of municipalities have a population of less than 7,800 inhabitants.

Over the ten or eleven years following the decentralisation reforms undertaken in 2000, the country has undergone a number of demographic, social and economic changes. The demographic map of Albania has changed as a result of people's internal migration and emigration abroad.



The resident population in Albania has declined compared to the previous census results and for the first time the population is mostly concentrated in urban areas. About 2/3 of LGUs see a change in population by roughly 25%.

This movement had its own impact on local government units in Albania, and some of them had to face the issue of accommodating the increasing demand of inhabitants for services, whereas other local government units suffer the consequences of their inhabitants internal migration.

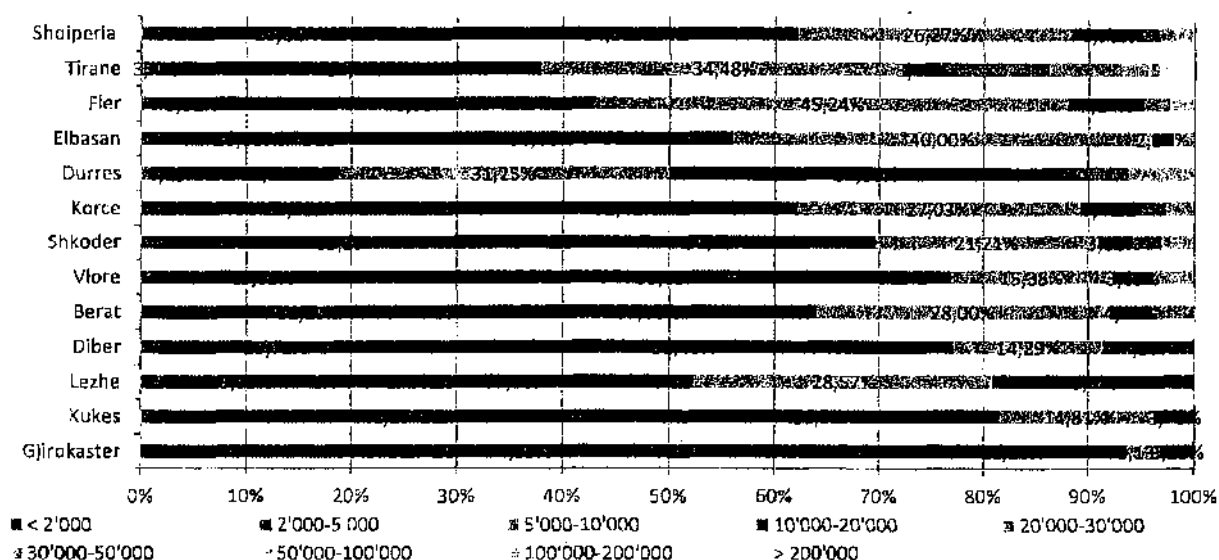
ii. Fragmentation of local government

Another important argument broadly discussed in terms of the need to reform is the high level of LGUs fragmentation. Even more than fragmentation itself, what impresses the most is the variety in size, surface area, population and especially in the density of local government units.

As mentioned above, the 2000 reform approach was the democratisation of government, namely the citizens will be represented in their local needs and have direct access to decision-making.

After the 2000 administrative-territorial reform, Albania resulted to have 373 LGUs with an average population of 7,579 inhabitants³.

Population intervals in the first level of local government in Albania



Source: INSTAT, Census 2011.

Considering the Albanian situation, this division is considered highly fragmented. As of today, 23 LGUs in Gjirokastra region (out of 32 total LGUs in this region) have less than 2,000 inhabitants. In Kukës region, out of 27 total LGUs, 13 have less than 2,000 inhabitants and 22 have less than 5,000 inhabitants.

The situation is even more dramatic if we take as reference the population density in the local government units. 235 LGUs (accounting for 63% of LGUs) result to have a population density lower than the average national level of 97.4 inhabitants/km² (INSTAT, Census 2011). It must be pointed out that these LGUs have the same responsibilities and functions towards their citizens. This means that the unit cost for the service provided to citizens is significantly higher in this group of local government units.

While the argument related to the democratisation of governance goes hand in hand with smaller and directly represented local government units, the high degree of fragmentation in local government units seems to hamper the full decentralisation of services and responsibilities due to the lack of capacities

³Based on the 2011 Census data

and failure to guarantee economies of scale, hence the lack of economic efficiency in providing functions, serving also as a counter argument for democratisation.

As a result of this fragmentation, in Albania today there are:

- 232 directly elected chairmen (62% of the total LGUs) and about 3,000 councillors at local level, representing only 19% of the population (referring to LGUs with less than 5,000 inhabitants).
- Whereas 45% of the population is represented by 18 chairmen directly elected and 620 councillors elected in the proportional system (referring to LGUs with more than 20,000 inhabitants).

As it may be noticed, the high level of local government fragmentation has brought about deformations concerning the fair and equal representation of citizens at local level, putting into question also the legitimacy and achievement of the objective for governance democratisation at local level.

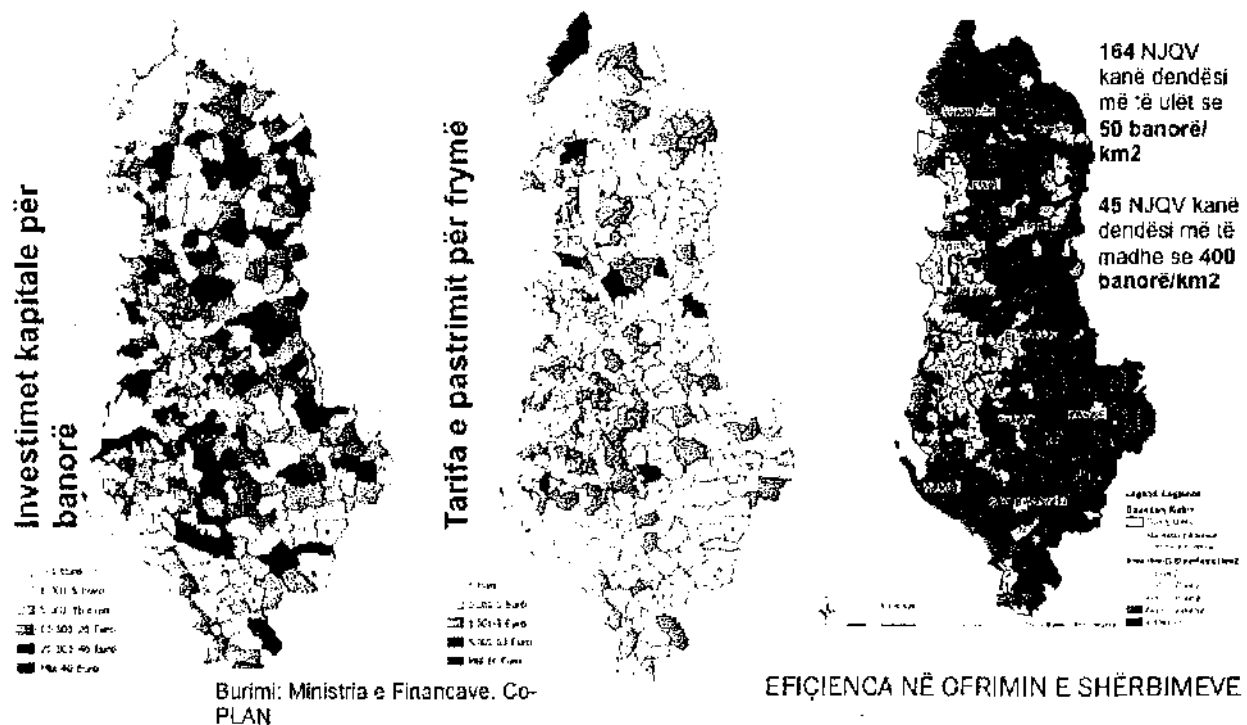
iii. Lack of efficiency in service provision

The third very important argument on the need for administrative-territorial reform is the efficiency in the performance of functions and delivery of services. The following analysis provides a detailed view on the local government functions and service provision.

Let's see how LGUs have used public funds in providing services to citizens. If we refer to the data of the Ministry of Finance for 2012, we will notice that 70 LGUs (19% of the total) have not used any funds for investment during 2012.

LGUs in Albania spend on average 27% of their budget on capital investment and 37% on salaries. The aggregate of these figures is even worse according to the division of units in more itemized categorisations.

- 40 LGUs spend over 80% of their budget on staff salaries,
- whereas 230 LGUs (accounting for 63% of LGUs and representing 34% of the country's population) spend over 60% of their budget on staff salaries.



There is a positive correlation between capital investment per capita and the surface area of local government units, and if we also add the population density map we will notice that this correlation is even more evident. Thus, the smaller the number of inhabitants settled in a large area, the higher is the need for capital investment.

Reorganization of local government units enables the provision of more efficiently distributed investments; this especially with regards to education, road infrastructure, waste management, etc.

Large fragmentation of units increases the costs for services provision. The above map, which displays the value of capital investment per capita, is largely fragmented and reveals that although the types of investments are generally the same, the cost for providing many services (and the construction of the respective infrastructure) varies depending on the surface area and the number of population, i.e. the density of inhabitants (without taking into account, at present, other factors).

As regards the waste management service, as one of the basic services to be performed by the local government, the situation is critical. No dump sites, compliant with the standards, exist in all the communes and the waste collected is either deposited in non-certified dump sites or thrown along riverbeds.

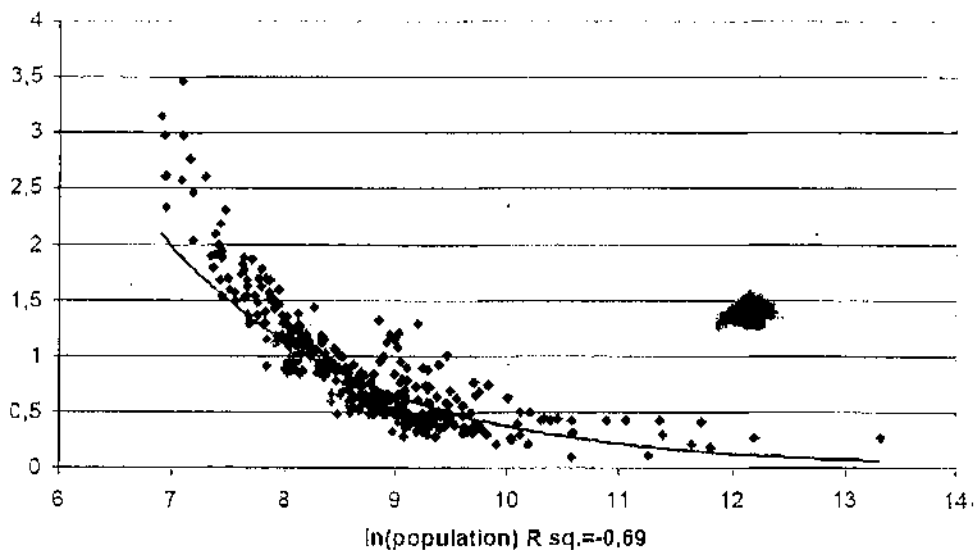
Likewise, in those units where the service of waste management is actually performed, the costs of this service are even higher in LGUs with a small population. The map of cleaning tariffs per capita conveys the same message, but this time from the taxpayer's perspective.

What may be noticed is that the waste collection service (although lacking the appropriate standards) has a different cost for citizens in local units with different sizes and density.

Both studies carried out by Co-Plan and the Swiss program DLDP confirm that optimal costs of integrated waste management service may be achieved in local units with over 200,000 inhabitants (Co-Plan study) and the service costs may be reduced by 40% when these are organised in territorial units that correspond or are bigger than district boundaries (DLDP study).

It has been identified and proved that fragmentation of local government units generates high administrative costs. International literature and practice confirm that the optimum size for achieving efficiency in public services is that of local units with a population from 25,000 inhabitants to 250,000 inhabitants (McKinlay Douglas Limited, 2006; Holzer et al., 2009).

In the case of Albania, this is confirmed in the administrative cost analysis of local government units, as shown in the following chart. This chart clearly shows that the administrative costs start to fall significantly with the increase of LGUs population.



Analyses indicate that LGUs with a higher potential (generally those more densely populated and with a higher number of economic activities) have a greater possibility to generate more revenues and consequently provide more services.

Another important factor affecting the situation relates to human resources existing in large local government units and vice-versa, but are absent in small units.

Consequently, the main contribution regarding the tax on small businesses (today the simplified profit tax) is given by 25 LGUs that have a high population density and manage to generate about 44% of the TSB. Tirana alone generates about 18% of the TSB.

Last, the high level of inequality existing between LGUs also becomes an important argument in favour of the need for reform (the distinction is more evident among urban units and rural units with a low population density). To this end, we have also referred to a number of indicators that assess the LGUs' fiscal and financial capacities compared with their counterparts in the region or nationwide.

- With reference to these indicators we may say that the level of inequalities resulting from the lack of equal opportunities of LGUs to provide services is closely linked to the LGUs size (surface, population, density) and capacity.
- Furthermore, analyses show that subsidy policies addressing small local government units through fiscal transfers and equalisation schemes have not, in essence, helped remove inequalities and have not guaranteed sustainable development.

iv. Inequalities in local revenues

There are deep inequalities in the revenue collection level between different local government units. The capital city and the seven largest cities in the country⁴ collect the vast majority of their own revenue with a specific weight of 54% in 2012. The specific weight of the largest cities indicates that the larger local government units are favoured by the current system, despite difficulties in the recent years. Particularly, large cities collect over 65% of the total tax on small business and cleaning fee nationwide.

The per capita distribution of local tax revenue, a more accurate indicator of inequalities, also shows great fluctuations in distribution. The variation coefficient for all the tax revenue per capita is very high (1.22). The tax on small business and cleaning fee have the most normal distribution, which seem to be revenues frequently collected by all local government units. However, there is a large number of units that do not collect any revenue at all, even from these two sources. 108 local government units (Communes) did not collect the cleaning fee in 2012, which indicates that they do not even provide this service.

Similarly, in 63 communes there are no businesses (or the small enterprise tax is not collected), whereas over 80 communes collect less than 200 thousand ALL per year from this tax, which is less than the annual minimum salary.

Per capita revenue distribution is more equal for total local revenue, which indicates that the state budget transfers system somewhat fulfils the equalisation purposes. After the equalisation, revenue distribution becomes more uniform, which shows that the vast majority of local government units are highly dependent on the state budget to cover their current expenses and have less spaces to carry out services and investments.

v. Own functions

Road infrastructure

All the road infrastructure and related services are now under the ownership and administration of the local government. In order to maintain and improve them, municipalities and communes are autonomous in their decision-making. The municipal or communal councils must plan the respective funds from their own sources for their administration.

Around 45 per cent of the road inventory transferred to the local government is under the administration of the regions. Because the regions are not local government units that directly generate income to then use them for investments, the regions have shown serious problems in their administration and maintenance.

⁴Tirana, Durrës, Elbasan, Fier, Korçë, Shkodër, Vlorë, Kamëz

Roads distribution is more related to the geographic space than the economic potential of these local government units to administer this road network. Consequently, great disproportionalities are noticed in the inventory. For example, Shkodra Region has under its administration around 1,800 km of regional and communal roads; whereas Tirana Region, with a population several times higher and with greater budget and human and financial capacities has under administration only 600 km of road.

The transferred road infrastructure was and remains severely damaged. This inventory of damaged infrastructure and services transferred to the local government, set in the very fragile financial and administrative reality of the local government has mainly led this infrastructure to further degradation.

Most of the local roads are rural roads. They connect villages to one another and not all of them are paved with asphalt. Nearly all communes have insufficient financial capacities to build or asphalt roads. Most of the communes cannot provide any services on these roads. In cases of civil emergencies it is the government that intervenes with additional funds or measures for their normalization.

Only large municipalities allocate yearly funds to repair and maintain roads within their territory. However, these funds are never sufficient for providing all the maintenance services for the roads under their administration.

The Government remains the main investor in maintaining and constructing new local roads, financing the construction of new rural roads or asphaltting of existing roads through three financial sources: (i) The Albanian Road Authority, that intervenes in segments that connect the main road axes in the country, that also affect local territories, (ii) the Albanian Development Fund, that has practically been the main investor in rural roads construction, and (iii) through competitive grants from the Regional Development Fund (state budget), that, among others, finance road reconstruction projects for the local government.

According to Albanian Road Authority statistics, during 1996 - 2012 the central government has invested in 767 km of regional and communal roads. Due to the lack of administrative and financial opportunities for local government units to provide maintenance services for these roads, and based on the importance of these roads after the investment made, by decisions of the Council of Ministers these roads have been removed from the inventory of regional or communal roads, and were added to the inventory of national roads under the administration of the Albanian Road Authority. They also represent the main share of investments carried out in local roads.

To conclude, by analysing the road infrastructure inventory in the jurisdictional map imposed by the current administrative division, it appears that:

- The administrative jurisdiction of local government units is physically very limited to successfully administer the road infrastructure. Even if for a moment we would think that local government units possess the financial capacity to construct and pave roads, its use divided into small jurisdictions would not be effective.
- Practically, a road that connects one commune to another under these conditions would have to be tendered and implemented in two parts by each commune, with two different projects and not necessarily logically connected with each-other, without having the same effectiveness. Coordination and cooperation remains difficult when every local elected thinks and behaves like a "landlord" in his territory. The financial and administrative advantages of constructing a unique and turnkey infrastructure compared to the fragmented infrastructure are now well known.

- The disproportional development in neighbouring local government units brings about difficulties in constructing and administering a common infrastructure. The physical barriers between large municipalities and neighbouring communes are particularly problematic. Today the differences in road infrastructure between a municipality and its surrounding communes are physically noticed due to the fact that the municipalities are more committed to ensure the necessary means for infrastructure maintenance. But as soon as you step on the neighbouring commune territory, although the quality of constructions might be better than in the municipality, the quality of the road infrastructure and access of its inhabitants to this infrastructure remain poor.
- Central government investments or donors' investments in roads are targeting territories with large population and affect several LGUs. The current distribution of responsibilities makes the design and implementation of these projects very difficult, because of the fragmented decision-making and budgeting process for complementing investments. Several times this has led to failure in attracting large donations.
- The constructed road infrastructure requires sustainable maintenance systems. These are called sustainable systems because they overcome administrative barriers. If for instance the road Durrës - Kukës would be administered by the local government units it affects, there would be no public or private enterprise that would perform this successfully. Therefore, the road segments of this road that belonged to local road inventories were removed from the respective local government units and were added to the national roads inventory. The same could be said for roads that run completely in communal territory, but because of their use they have national importance.

Water supply and sewerage services

The transfer of water supply and sewerage companies created 58 operators, 55 of which are joint stock companies and one operator acts as a state enterprise under the ownership of the respective local government units, and the operator is the Directorate within the local government unit. Out of 58 operators, 28 are water supply and sewerage operators, 30 are water supply operators only.

The majority of companies, 20 of them or 35% of the total, belong to 2 or 3 units, whereas 26% or 15 companies belong only to one unit, whereas the rest, 22 companies or 39% are companies divided between more than three local government units. Typical cases of companies that belong to several local government units are Sha Uk Elbasan (village), the General Assembly of which is composed of 19 local government units; the case of Sha UK Tiranë, which is composed of 16 local government units, and Sha UK Durrës, with 15 local government units, which have the typical sizes of regional companies in the Albanian context. The other 19 companies have 4 to 11 shareholders (local government units).

In 7 cases, district centre cities own 75 % of the shares whereas the rest is distributed between their surrounding communes. The Municipality of Tirana and the Municipality of Durrës respectively possess 72.5% and 54.7% of the shares, whereas the rest is distributed between the communes in the company's service area. Extreme cases are those of the Municipalities of Elbasan and Gjirokastrë, that own respectively 90% of the shares; whereas Korça, Librazhd, and some other units possess 100% of the shares, because the companies' coverage area in these units totally complies with the jurisdiction of the units they belong to.

The Report of the Water Regulatory Entity (WRE) for 2011, also referring to the data published in the

framework of the Sectorial Strategy 2011-2017, estimates that about 2.65 million inhabitants or 80.3 % of the total inhabitants of 3.31 million that live under the companies' jurisdiction, of which 90.7% in urban areas and 57% in rural areas, have access to or coverage with water supply services.

Based on this report, around 1.65 million inhabitants or around 64.6% of the total population have access to or are covered with sewerage services, mainly in urban areas with 83% of the population and only 10.9% of the population in rural areas.

Actually, coverage with these services by licensed operators may be lower than reported by them, because in many cases a difference between the actual area covered with service compared to the area licensed for service coverage has been identified, with the latter being larger than the first.

However, it is known and proven through several sectorial studies that the economy of scale is an indispensable condition to increase efficiency and improve access to water supply. The dilemma between regionalisation and/or decentralization of water supply systems has been one of the main factors that hindered the development of the sector together with objective factors related to the immediate needs for investments and the depreciation of assets.

At least, the existing water supply and sewerage companies will be easier to administer due to the reduction of the number of shareholders, and this is expected to lead, in some cases, even to a sufficient concentration of shares in a larger local government unit.

The approach to aggregation as an effective means to improve the performance of operators in this sector can be immediately facilitated with the administrative-territorial reform, which will *de jure* merge many of the 58 UK SHA enterprises.

Waste management service

Waste collection by local government units remains a crucial issue. The majority of communes, around 70%, do not provide waste collection service at all. These communes do not apply any tariffs for this service. Those communes that do provide this service, do so insufficiently and in compliance with any legal and environmental standard, and they do not manage to cover the whole perimeter of the local unit.

In large municipalities this service is provided regularly, but still not according to the integrated management scheme. The integrated waste management scheme is still considered difficult to implement. This scheme requires sustainable financing provided by the waste management tariff that must be collected in every local government unit. The government has built several landfills, but their administration by local government units remains problematic.

The average coverage with the usual waste management service from the municipalities in every region varies between 30%-100%; whereas for the communes the service varies between 0% to 30%. The majority of communes in each region do not provide this service.

vi. Summary of the arguments on the need for the administrative and territorial reorganisation

The need for territorial reform is a topic discussed for many years in Albania, starting from the extreme fragmentation of the country's territory, which has harmed the community development potential, under the conditions of curtailed opportunities to mobilize income and provide services for the citizens.

In particular, the territory fragmentation has created deep inequalities between municipalities and

communes in the country, making the decentralization highly asymmetric; although the competencies and authorities were transferred in a fully symmetrical way.

The interlocal cooperation, as an intermediate solution for similar countries with a fragmented local government, has not been operational for years in Albania despite the continuous efforts of some international partners to support similar initiatives. Furthermore, municipalities and communes were not willing to delegate their competencies, not even to the second level of local government, in cases when the services or projects were not efficient for such small units. Lack of will of local officials to delegate their powers, together with the rigid and bureaucratic behaviour of the central administration have hindered the voluntary forms of cooperation between the units.

This situation has brought about continuous deadlocks for local government units, particularly for important economic development centres, such as the largest cities of the country, that have faced a *fait accompli* in the chaotic and intense urban development in their surrounding communes; which has resulted in an unjustified burden on their infrastructure and provided services. On the other hand, units in the most remote areas of the country have faced a complete lack of instruments to affect development, by being reduced to local administration payment and poverty payments agencies, all with state budget funds.

The average population of local government units has decreased during the last decade. The current configuration of local government units no longer reflects the population distribution.

The following arguments are mainly based on the findings of the local government situation analysis:

- The demographic changes of the last decade have brought about considerable changes to the size of LGUs;
- The high level of LGUs fragmentation is an obstacle to further decentralization as a result of the lack of capacities and inability to provide highly efficient services;
- The high extent of LGU fragmentation has resulted in failure of government democratization, which was the main objective of the territorial division of 2000;
- The government decentralization process has also been regressing. It has resulted to be asymmetric at local level by creating inequalities between LGUs in the provision of services to the citizens;
- During the recent years the weight of administrative expenses at local level has increased, as well as the absolute value, regardless of the reduction of expenses in general. Budgets of smaller local government units are likely to be dominated by personnel expenses;
- A large number of local government units do not collect any own revenues and do not provide services to their citizens;
- Fragmentation of LGUs has led to public services fragmentation (public transport, water supply, urban waste management, etc.), mainly resulting from the LGUs low potential to generate revenues and make investments;
- LGUs fragmentation, followed by the interrupted decentralization process has created a series of inequalities between LGUs, which despite some attempts to be addressed through equalisation grants, need a definite solution;
- There is need for consolidation of communes/municipalities in order to guarantee efficient services, legitimacy and greater democratization of local government bodies.

VI. CRITERIA

i. Preparation of the criteria

Based on the analysis of the local government situation and the detailed argumentation of the reason why Albania needs an administrative and territorial reform, on 28 April 2014, the ad-hoc Parliamentary Committee approved the technical criteria that were applied in the preparation of the proposal for the map of the new administrative and territorial division.

The preparation of the criteria was preceded by a phase of thorough analyses and consultations. First, the baseline for preparing the criteria was the legal framework in force. Then, models of the European countries that have performed territorial reforms were identified and analysed by the expert team, selecting those models that are most suitable to be implemented in the reform concept in Albania. Third, all the specific studies done in the recent years on the territorial reform in Albania were analysed.

Legal framework and the technical criteria

The preparation of the technical criteria was based on the following legal framework:

- Article 108, paragraph 2 of the Constitution of the Republic of Albania stipulates that "The administrative-territorial division of local government units shall be established by law on the basis of mutual economic needs and historical tradition".
- Article 63 of the Law 8652, dated 31/07/2000 "On the organisation and functioning of local government in Albania" provides as follows:
"The administrative-territorial division in force may be reorganised with or without changing the existing borders of local government units, in compliance with the economic and social interests, tradition, culture, traditional bonds and other local values, for a better fulfilment of functions in favour of the local community or the implementation of local, regional or wider development policies".

European countries experience

The analysis on the criteria used in the European countries, has singled out the experiences of Ireland, Denmark and Sweden which have been studied by the team of experts.

Ireland

Ireland, an EU Member State with a population of 4.6 million inhabitants and a territory twice as big as Albania, has carried out the administrative and territorial reform, which started in October 2012 and entered into force after the local elections of May 2014, being implemented over a period of 19 months.

The administrative and territorial reform in Ireland was performed within a relatively quick time, passing from a system with 10 regions, 34 districts and 114 municipalities to an administrative-territorial organisation system with 3 regions and 31 municipalities. This reform reduces the number of LGUs by 65% and the number of local councillors by more than 45%.

Denmark

Denmark is an EU Member State with a population of 5 million inhabitants, and with a dispersed and greatly diverse geography that includes the mainland and islands. Denmark has undertaken an administrative and territorial reform during 2005-2007 (around 24 months) by substantially reducing the number of LGUs from 250 to 98 municipalities.

Territorial reorganization in Denmark aimed to maximise public service efficiency by reducing administrative expenses and achieving administrative-territorial consolidation.

The reform was based on 2 simple criteria:

- One city - one municipality (according to this criterion the territory is reorganized around urban centres (cities) by not allowing the inclusion of rural local units that do not have an urban centre);
- Any new unit must have at least 20,000 inhabitants (the criterion of minimum population).

Sweden

Sweden, an EU Member State with a population of 9.7 million inhabitants, 85% of whom live in urban areas, has undertaken 2 administrative-territorial reforms in the 1950s and 1970s as a result of the fast urbanisation and industrialisation of the country after World War II.

The reasons for the conduction of these 2 administrative-territorial reforms were the challenges related to demographic changes, the massive migration towards urban areas and the depopulation of rural areas that brought about differences and inefficiency in local public services.

The territorial reforms in Sweden were based on the design and reorganization of local units in clusters around the so-called “natural area” concept, that included the rural areas organized around commercial/economic centres.

The 1950s reform resulted in the reduction in the number of local government units from 2,500 to 1,000. 20 years later, in 1970, Sweden concluded that the reform had not achieved the intended aim regarding public service *efficiency* and economy of scale, so it undertook a second reorganization of the territory by reducing the number of local government units from 1,000 to 290 units, that they have at present.

The territorial reforms in Sweden reduced the number of local government units by 85%, from 2,500 to 290.

Studies on the administrative-territorial reform in Albania

The current administrative-territorial reform in Albania did not start at level “0”. The Albanian Government, with the assistance of the Council of Europe, undertook a serious effort in 2002-2004 as a continuation of the decentralisation reform implemented in 2000. For political reasons that reform was never developed into concrete decision-making.

Since then, a series of studies performed by international and Albanian organizations or institutions have been conducted, and they have recommended specific proposals regarding the criteria and alternatives to be used in developing the administrative and territorial reform in Albania.

The findings and recommendations of these studies are briefly outlined below:

Local government performance audit report - The Supreme State Audit

In 2013, the Supreme State Audit undertook a performance audit study with the topic "Territorial and administrative land division in the Republic of Albania". The key message of this study is: “The current administrative-territorial division has resulted in the slowdown of local development and a dependence of the LGUs on state budget revenues. Albania needs a new administrative-territorial division based on clearly-defined criteria, in order to increase the efficiency and effectiveness of LGUs in fulfilling their

objectives for providing higher quality services to the community".

Through this study the SSA recommends, among others, that the merging of local government units be carried out by preserving the minimum population limit of 10,000 inhabitants for communes and 15,000 inhabitants for municipalities.

SKL Study (Swedish Association of Communes)

Upon request of the Albanian Association of Communes, a team of Swedish experts have conducted a study on the territorial reform in Albania, by recommending 5 options for the administrative and territorial division in Albania. The experts of the working group have carefully reviewed the options of the Swedish study, by aligning with the proposal on version 4 and 5. The versions are shown below:

- Voluntary reorganisation - this option includes LGUs that take the initiative to merge voluntarily. This has been considered as a process that might take years and inadequate for Albania, taking into consideration that since 2000 there has been only one case of voluntary merger of 2 communes.
- Amalgamation/merger of small communes - the main criterion of this option is the merger of small communes, which essentially represents the concept of mechanic amalgamation of LGUs and is considered inadequate by the experts.
- Asymmetric decentralisation of functions and competencies - this concept recommends that decentralized functions and competences be performed only by units that have the capacities to perform them. According to this option, the functions of small units, without the necessary capacities, are transferred to larger units. This option is against the symmetrical decentralization concept provided by the organic law, and by preserving the current fragmentation it increases the burden for larger units. It is considered as an inadequate option.
- Region-based reorganisation - this option proposes that reorganization be made within the borders of the 12 existing regions by grouping LGUs in larger clusters of 5-8 LGUs per region. Ultimately, the recommended total number of LGUs can vary from 60 to 80 LGUs.
- Return to district-based reorganisation - the idea behind this option is the reorganization of municipalities/communes based on the former district-based administrative territory. According to the team of experts this option was considered as the most adequate and applicable.

DLDP Study (Decentralisation and Local Development Program)

The DLDP programme for local government funded by the Swiss Government in 2013 conducted a study on "functional areas" in Albania in 5 regions, Durrës, Lezhë, Shkodër, Dibër, and Kukës.

The concept of the functional area in the context of this study is used to define a space where interactions between the inhabitants and the cooperation between government entities are frequent and intense. "Functional area" refers to the notion that the understanding of a space – whichever level this may be (municipalities, regions and so forth) – is not to be defined along administrative or historic lines, but rather on the basis of how various interactions happen within that space for economic purposes (employment, consumption, markets, income), social purposes (health care, education), and collaboration between various local institutions.

In order to define the functional areas in the five regions of interest, a detailed analysis of several

interactions amongst the inhabitants driven by the economic and services relations, as well as the institutional interactions between the LGUs was carried out. In conclusion the analysis indicated that in these 5 regions, Durrës, Lezhë, Shkodër, Dibër and Kukës, from 133 current LGUs the territorial reorganization based on the concept of functional areas goes down to 18-24 local government units called "functional areas".

The functional areas methodology, used as the main criterion in the reform framework has been borrowed by this study.

i. Criteria approved by the Committee

When determining the criteria for the new administrative-territorial division the team of experts considered all the above models and recommendations, and after intense consultations with local and foreign stakeholders, proposed that the best alternative is the determination of a small number of clearly defined technical criteria that give flexibility and legitimacy to the reform implementation process by guaranteeing the involvement of all actors and stakeholders.

The criteria proposed were objective and technical, and exclude the application of mechanic or artificial amalgamation of local government units that cannot achieve economic efficiency and the economy of scale.

The criteria prepared comply with the legal requirements on the criteria provided for by the Constitution and organic Law no. 8652/2000 and the models used in some European countries, and the specific studies for Albania.

Based on the above process, the ad-hoc Parliamentary Committee approved on 28 April 2014, the technical criteria that served as a guide for the team of experts in preparing the report on the functional areas, upon which the whole concept of the proposed administrative-territorial division was built. The approved technical criteria are as follows:

Criteria

Basic level of local government: Municipalities and Communes

- The administrative-territorial division process will begin with the "districts" as a basic local government unit, pursuant to Law no. 8653, dated 31/07/2000 "On the administrative and territorial division of local government units in the Republic of Albania".
- New basic local government units can be created within the borders of the districts, or from the territory of two or more districts if the following criteria are met:
 - a) The newly created unit is a separate functional area. The concept of "functional area" shall mean a territorial space where there is a frequent and intense interaction between the inhabitants and institutions for economic, social, development and cultural purposes. The functional area is organised around the urban centre with the highest population compared to other centres within the area, and has the capacity to provide a full range of public services that should be provided by a local government unit.
 - b) The distance of the territory from the unit centre enables the provision of the full range of services for its inhabitants.

- c) The newly created unit observes the principle of territorial continuity. The "territorial continuity" shall mean that the territory of a local government unit goes uninterrupted and it includes no territorial "islands" that belong to another local government unit.
- d) It should have a considerable number of inhabitants, based on the geographical characteristics of the area. A considerable number of inhabitants shall mean an average population of over 30,000 inhabitants.
- e) It has a historical tradition and is characterized by traditional bonds between the inhabitants of all its constituent territories.
- f) As a rule, the boundaries of communes to be merged with the new units shall not be divided, but they shall be merged to the new unit as a whole.
- Cases that take into consideration the best international practices for the protection of ethnic minorities, where these minorities represent the majority population of existing LGUs can be reviewed as an exception from the above criteria, and as an exclusive special criterion.

VII. FUNCTIONAL AREAS

The concept of "functional area" shall mean a territorial space where there is a frequent and intense interaction between the inhabitants and institutions for economic, social, development and cultural purposes. Thus, functionality is viewed in the light of cooperation and analysis of the vectors of economic, social, developmental and cultural interactions.

In this sense the "functional area" is a local government unit organized around an urban centre with the highest population compared to other centres within the area, that has the capacity to provide a full range of public services that should be provided by a local government unit, by also applying the efficiency of the "Economy of scale".

According to the notion of "functional area" any new local government unit should guarantee the necessary critical extent for the functioning of the local government unit, starting with the existence of at least one urban centre with the necessary socio-economic infrastructure such as a network of schools, hospitals, social care centres, police services, fire fighting stations, interurban transport services, state or private services for the citizens and businesses, such as branches of tax office, post office, bank network, etc., and the existence of an economic foundation and sources for generating sufficient local income for a certain number of businesses or other economic assets that allow for an adequate development perspective.

The concept of "functional area" is based on and promotes polycentric development of local government units, presuming that several development centres exist within the LGU besides the main urban centre. Additionally the "functional area" breaks away once and for all from the current concept of artificial division of urban and rural areas in municipalities or communes.

According to this concept, new local government units are considered as large administrative spaces regarding territory and population that include both urban and rural areas, allowing for an alignment of development policies by reducing deep inequalities between urban and rural areas. "The functional area" also allows for the provision of services with the same quality for inhabitants of urban and rural areas, by guaranteeing the "adequate economy of scale" for the provision of public services, which is impossible for the present development of the country, with the current parameters of service provision.

Preliminary analyses and studies indicate that "functional areas" correspond to, or in the majority of cases, overlap with former districts' administrative territories. Statistical data also indicate that district centre municipalities are also economic, social and public services centres for the majority of the country, and they remain a point of reference for development policies and achievement of the economy of scale.

In this respect, the concept of "functional areas" starts its implementation from the administrative territories of the districts as the territorial unit between the regional and local level. From the local government perspective "the district" as an administrative unit is no longer applicable as an administrative organisation level, but the former districts are identified by the organic Law On Local Government as a concept of administrative subdivision of the Region, and also for the distribution of decentralized services of different Ministries. Moreover, in the institutional and community memory "former districts" clearly continue to preserve a reference role and are known as a unifier of cultural and traditional identity of inhabitants.

The restoration of the concept of "district" territory size proved to be a very good option, because the main municipalities today are located in the former-district centres. The above criterion enables the newly established local government unit to provide the full range of public services for all its citizens by not losing sight of the aims of this reform, the territorial consolidation, or to put it in other words, the enlargement of the current LGUs to ensure better performance of the functions, and quality in service provision.

The citizen and their needs for continuous exchanges in the territory, which typically exceed the current administrative boundaries, is put at the foundation of the concept of functional area. This is exactly the main factor of the analysis of the definition of functionality of a certain area. Citizen interactions with the state administration, business and employment centres, service provision centres, education and health centres, art and culture centres.

Functional areas are built on the economic and social structure of the territory and are mainly identified through migration for employment, economic potential and the value chain (concentration of enterprises); the supply of services and the physical infrastructure network. The centres of functional areas have larger population and density; they are travel destinations for work purposes with a concentration of enterprises and a variety of activities. The criteria defined have been used to analyse the interaction vectors within every region, by highlighting the main trends and pillars that support development in each area. In this way, the functional areas according to the institutional, economic, services and distance interaction with the centre of the functional area, and the population and traditional bonds have been identified for every region.

The application of the technical criteria in the designation of functional areas is explained below with the example of the functional area of Elbasan. The methodology of functional areas, the same as in the example of the functional area of Elbasan has been applied for all the regions of Albania. The detailed report of the functional areas may be found in Annex 1 of this report.

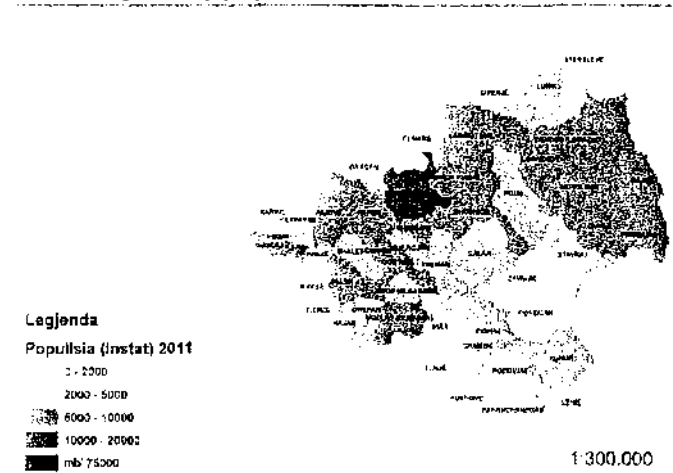
i. The example of Elbasan region

Profile of Elbasan region

Elbasan Region is composed of 50 local government units in four districts: Elbasan district (23 units,

centre of Elbasan); Gramsh district (10 units, centre of Gramsh), Librazhd district (11 units, centre of Librazhd) and the district of Peqin (6 units, centre of Peqin). The population of Elbasan region was 295,827 inhabitants in 2011, of which 64% (188,662 inhabitants) live in Elbasan district, 19% (56,798) live in Librazhd district and only 9% respectively live in Gramsh and Peqin. (INSTAT, Census 2011).

Figure 1. LGUs in the Elbasan region, by population



Source: INSTAT, Census 2011, Calculations of the authors

The Elbasan region has seen a net decrease of the population by about 31% or over 131,000 inhabitants compared with the official data of the National Civil Registry of 2011. According to the official data of the NCR of January 2012, the Elbasan region has 427,114 registered inhabitants, with a concentration similar to the one reported by Census 2011, thus 65% in Elbasan, 17.7% in Librazhd and 8.7% and 8.4% registered in Peqin and Gramsh respectively.

Table 1. Difference between the population according to INSTAT and NRC in 2011 in Elbasan region

Region	District	Unit	Census 2011	Civil registry 2011	Change in population	Change in %
Elbasan	Elbasan	Rrasë	1594	2294	-700	-31%
Elbasan	Elbasan	Zavalinë	1622	2100	-478	-23%
Elbasan	Elbasan	Fierzë	2065	3738	-1673	-45%
Elbasan	Elbasan	Funarë	2122	3137	-1015	-32%
Elbasan	Elbasan	Gracen	2192	2521	-329	-13%
Elbasan	Elbasan	Tregan	3036	4282	-1246	-29%
Elbasan	Elbasan	Grekan	3138	5014	-1876	-37%
Elbasan	Elbasan	Klos	3262	4160	-898	-22%
Elbasan	Elbasan	Gjinar	3478	4808	-1330	-28%
Elbasan	Elbasan	Shalës	3842	6831	-2989	-44%
Elbasan	Elbasan	Kajan	3925	6423	-2498	-39%
Elbasan	Elbasan	Gjergjan	5126	7532	-2406	-32%
Elbasan	Elbasan	Labinot Mal	5291	5474	-183	-3%
Elbasan	Elbasan	Mollas	5530	7673	-2143	-28%
Elbasan	Elbasan	Papër	6348	8895	-2547	-29%
Elbasan	Elbasan	Cërrik	6695	14711	-8016	-54%
Elbasan	Elbasan	Labinot	7058	6263	795	13%
Elbasan	Elbasan	Shirgjan	7307	9789	-2482	-25%
Elbasan	Elbasan	Gostimë	8116	12 297	-4181	-34%
Elbasan	Elbasan	Shushicë	8731	10 543	-1812	-17%
Elbasan	Elbasan	Belsh	8781	13 675	-4894	-36%
Elbasan	Elbasan	Bradashesh	10 700	12 428	-1728	-14%
Elbasan	Elbasan	Elbasan	78 703	123 884	-45 181	-36%
ELBASAN total			188 662	278 472	-89 810	-32%
Elbasan	Gramsh	Sult	631	1353	-722	-53%
Elbasan	Gramsh	Kushovë	659	1062	-403	-38%
Elbasan	Gramsh	Lënie	779	1807	-1028	-57%
Elbasan	Gramsh	Skënderbeg	1239	2291	-1052	-46%
Elbasan	Gramsh	Poroçan	1269	1050	219	21%
Elbasan	Gramsh	Tunjë	1393	2230	-837	-38%
Elbasan	Gramsh	Kodovjat	23 55	3244	-889	-27%
Elbasan	Gramsh	Kukur	2560	3417	-857	-25%
Elbasan	Gramsh	Pishaj	4906	6307	-1401	-22%
Elbasan	Gramsh	Gramsh	8440	13 243	-4803	-36%
Gramsh Total			24 231	36 004	-11 773	-33%
Elbasan	Librazhd	Stëblevë	809	1198	-389	-32%
Elbasan	Librazhd	Stravaj	2427	3059	-632	-21%
Elbasan	Librazhd	Lunik	2621	3715	-1094	-29%
Elbasan	Librazhd	Polis	3385	5011	-1626	-32%
Elbasan	Librazhd	Orenjë	3883	5210	-1327	-25%

Elbasan	Librazhd	Hotolisht	5706	6926	-1220	-18%
Elbasan	Librazhd	Përrenjas	5847	8459	-2612	-31%
Elbasan	Librazhd	Librazhd	6937	9760	-2823	-29%
Elbasan	Librazhd	Qukës	8211	10 604	-2393	-23%
Elbasan	Librazhd	Rrajcë	8421	10 289	-1868	-18%
Elbasan	Librazhd	Qendër	8551	11 234	-2683	-24%
Librazhd Total			56 798	75 465	-18 667	-25%
Elbasan	Peqin	Karinë	1350	1799	-449	-25%
Elbasan	Peqin	Shezë	3177	5253	-2076	-40%
Elbasan	Peqin	Përparim	3423	5376	-1953	-36%
Elbasan	Peqin	Gjocaj	5207	7012	-1805	-26%
Elbasan	Peqin	Peqin	6353	9150	-2797	-31%
Elbasan	Peqin	Pajovë	6626	8583	-1957 .	-23%
Peqin Total			26 136	37 173	-11 037	-30%
Gramsh Total			295 827	427 114	-131 287	-31%

Source: INSTAT, Census 2011, NRC 2012

The population of Elbasan region constitutes about 12.8% of the population of the country, referring to Census 2011 data, and the average population per local government unit in this region is 5,917 inhabitants/LGU or 25% lower than the national average of 8,016 inhabitants/LGU. There are small and bigger units in every region, but the highest concentration of units with a small population may be noticed in Gramsh region with an average of 2,423 inhabitants. The smallest units in the region are the communes of Stëblevë in Librazhd and the communes of Sult, Kushovë and Lënie in Gramsh.

Table 2. Classification of LGUs in Elbasan region according to the number of population compared with the figures nationwide

	No. of units	Minimum	Maximum	Average/ unit	Amount	% of population	Albania
Albania				8016	2 311 848	100%	
Elbasan				5917	295 827	12,8	
0-2000	10	631	1622	1135	11 345	3,8%	27,61%
2001-5000	18	2065	4906	3100	55 797	18,9%	34,58%
5001-10 000	20	5126	8781	6964	139 282	47,1%	26,27%
10 001 - 20 000	1	10 700	10 700	10 700	10 700	3,6%	6,70%
20 001-30 000						0,0%	1,61%
30 001-50 000					78 703	0,0%	1,07%
50 000-100 000	1	78 703	78 703	78 703		26,6%	1,61%
100 000-200 000						0,0%	0,27%
200 000+						0,0%	0,27%

Source: INSTAT, Census 2011; Calculations of the authors

The average population density is 335 inhabitants/km², compared with 97.4 inhabitants/km² nationwide. Urban areas have a higher density, such as the city of Elbasan (3,548 inhabitants/km²), Librazhd (3,778 inhabitants/km²), Gramsh (3,404 inhabitants/km²) and a smaller level for Peqin (1,690 inhabitants/km²). The smaller communes of the region also have the lowest density, from 7 to 12 inhabitants per km², whereas half of the units have a density lower than 63 inhabitants/km².

Identification of functional areas in Elbasan region

With reference to the definition of the Functional Area (FA) according to the criteria approved by the Parliamentary Committee on the Territorial and Administrative Reform (PCTAR) - "a territorial space where there is a frequent and intense interaction between the inhabitants and institutions for economic, social, development and cultural purposes" - below we will analyse specifically these forms of interactions to identify the functional areas in Elbasan region.

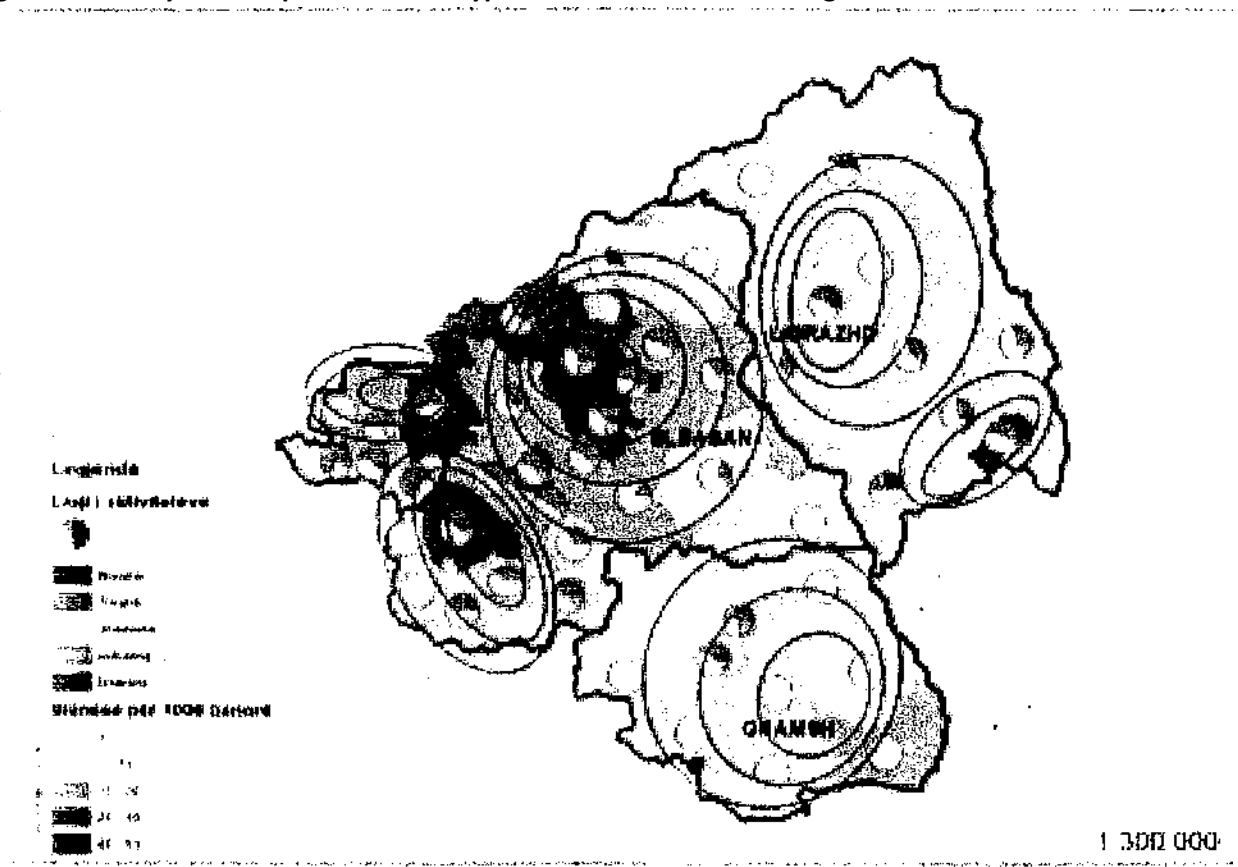
Institutional interaction in Elbasan region

As the rudiment of the earliest organisation of the state and government, the district centres today in Albania constitute the main concentration of central institutions (mainly the line ministries) closer to the citizen. Education offices, employment offices, regional health directorates, forest service directorates, district court, prosecution office and tax branches are located in the district centres. A number of social, health and education institutions have been established in some district centres, such as: nursing homes, orphanages, vocational training centres, development centres, etc.

This is one of the main reasons why the district centres turn into contact points as regards the institutional interaction (i.e. institutions with each-other) but also of the citizen with the institutions. Businesses also seem to prefer being located in district centres for the same reason; the presence of institutions, which is at the same time accompanied by better human resources, higher quality of service and better choice as regards the field of activity.

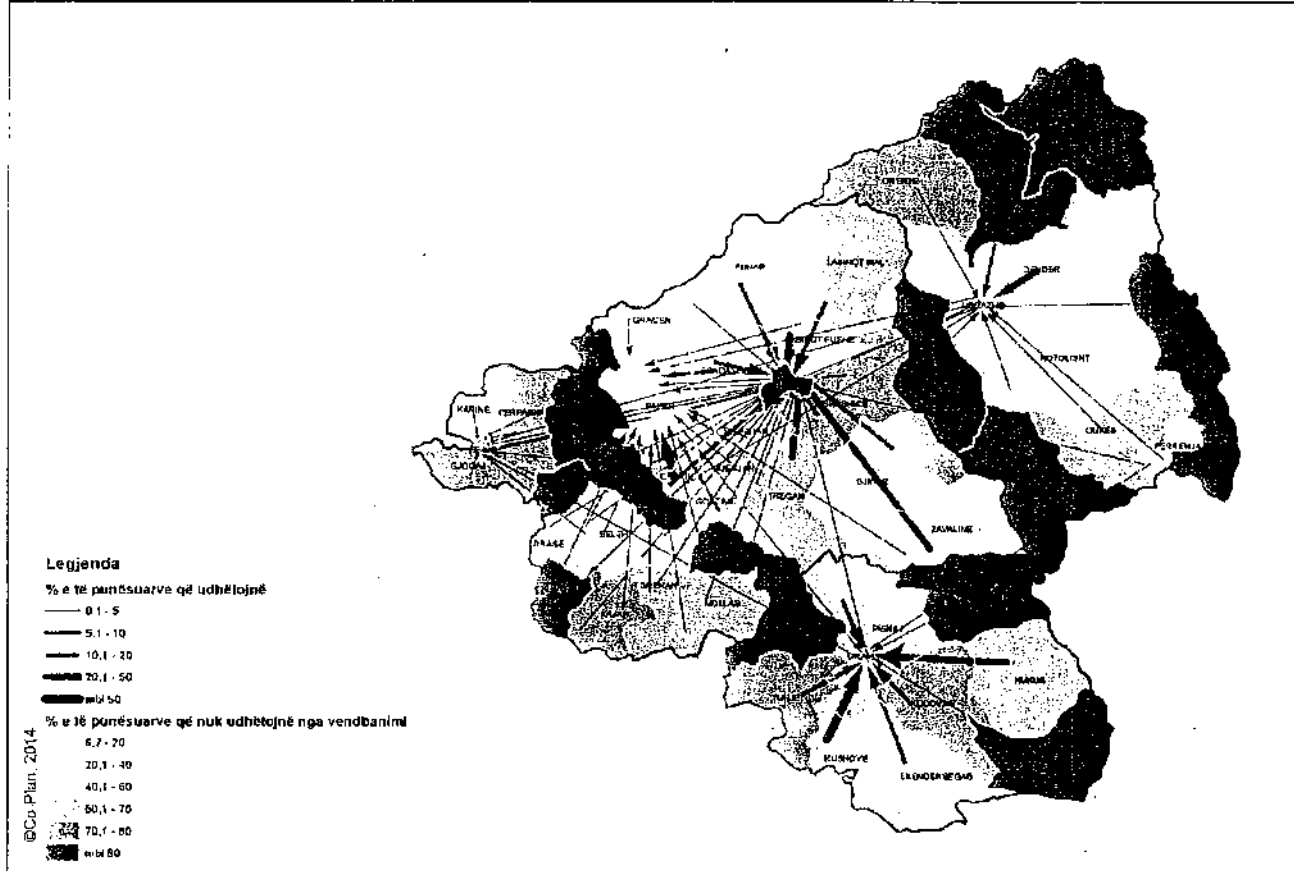
Cërrik and Papri. Another functional area, a lot more modest is also being identified around Përrenjas.

Figure 3. Density of enterprises and the type of activities in Elbasan region



In order to further clarify the functional areas, let's see the main directions of employees' movement within Elbasan region.

Figure 4. Population density and the main direction of employees' movement in Elbasan region



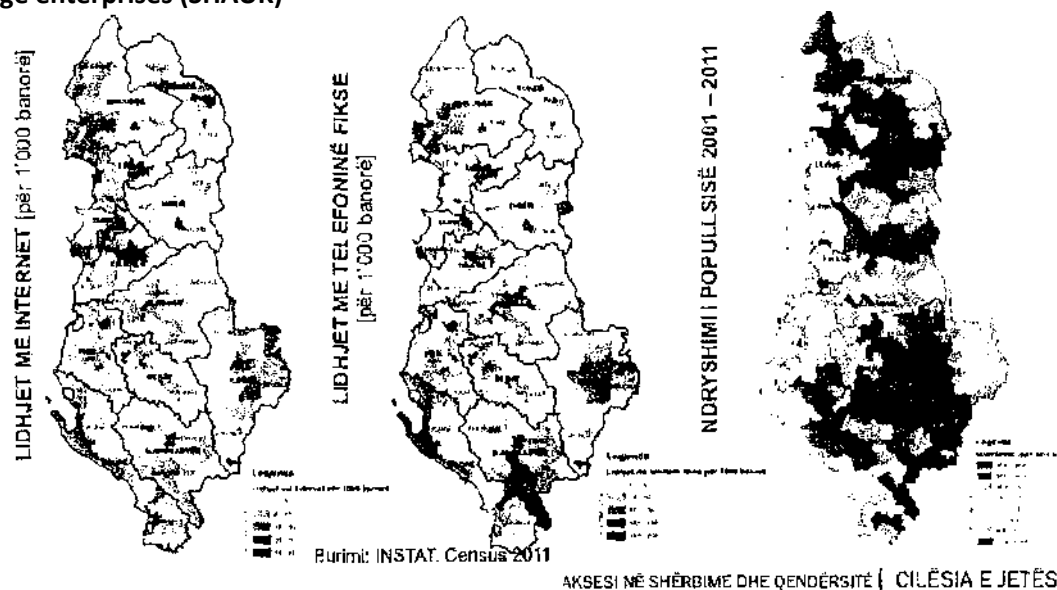
Source: INSTAT, Census 2011; Interpretation and chart display of the authors

The functional areas with Elbasan as their centre, Librazhd, Gramsh, Peqin are again confirmed, but we may at the same time identify the tendency of other smaller functional areas being established, with centres such as Papri, Cërrik and Përrenjas.

Access to services and quality of life in Elbasan region

Another element we assess in order to determine the functional areas in Elbasan region is the services and infrastructure density. The following charts indicate the main centres with the highest level of services provided to urban and rural suburbs, thus creating another layer in the definition/identification of functional areas.

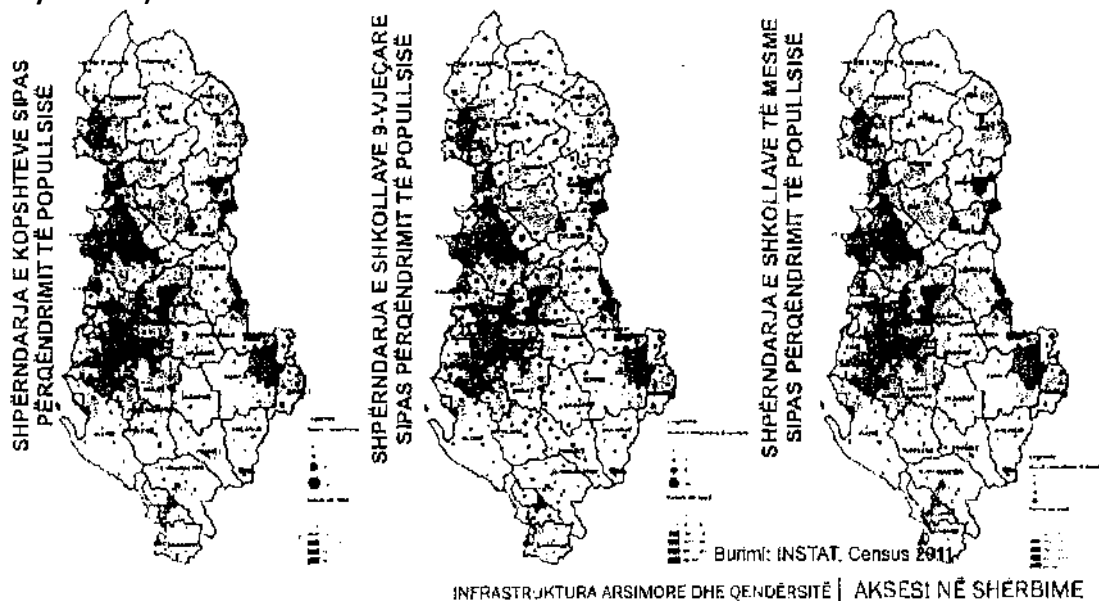
Figure 7. Access to services (water supply and sewerage) and distribution of water supply and sewerage enterprises (SHAUK)



Source: INSTAT, Census 2011; Interpretation and chart display of the authors

Hence, referring to the maps that indicate the Internet and landline connections, we may notice the recurring trend of the centres with the areas shown in green in the population migration map during 2001 - 2011. This way, we use different data and information to identify the functional areas in Albania in general, and in this specific case in Elbasan region.

Figure 6. Distribution of educational institutions by population density (kindergartens, primary and secondary schools)

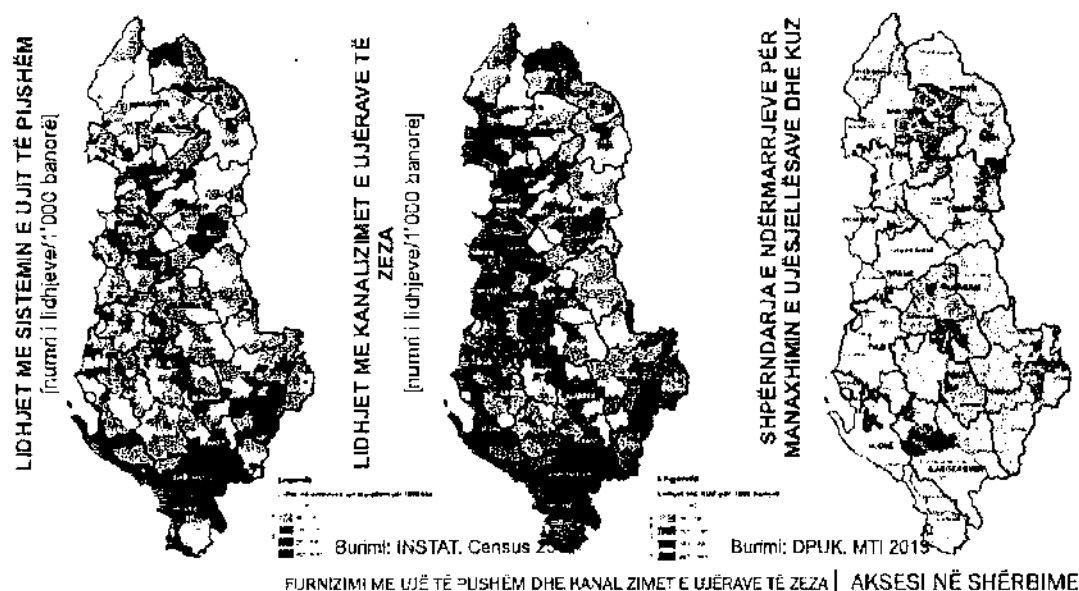


Source: INSTAT, Census 2011; Interpretation and chart display of the authors

Information on access to services is complemented by the information presented in the above maps on the distribution of educational institutions (pre-school and primary and secondary education) and health

care institutions.

Figure 7. Access to services (water supply and sewerage) and distribution of water supply and sewerage enterprises (SHAUK)



Source: INSTAT, Census 2011; DPUK, MTI 2013; Interpretation and chart display of the authors

Another important piece of information used to identify the functional areas is also the water supply and sewerage service.

All these analyses put together reconfirm the identification of four very clear functional areas in Elbasan region: FA Elbasan; FA Librazhd; FA Gramsh; FA Peqin and the tendency for the establishment of two other functional areas such as Cërrik and Përrenjas.

Analysis at functional area level

In analysing the functional areas below, we must consider that:

- In the case of the functional area of Elbasan, the analysis considers the following existing LGUs as part of this functional area: Elbasan; Labinot Fushë; Labinot Mal; Funar; Gracen; Bradashesh; Shushicë; Papër; Shirgjan; Tregan; Gjergjan; Gjinar; Zavalinë.
- The following existing LGUs are part of Cërrik functional area: Cërrik; Shalës; Belsh; Gostimë; Klos; Grekan; Fierzë; Kajan; Rrasë; Mollas.
- The following existing LGUs are part of Peqin functional area: Pajovë, Përparim; Karinë; Peqin; Gjocaj; Shezë.
- The functional area of Gramsh considers the existing LGUs of: Gramsh; Poroçan; Pishaj; Sult; Tunjë; Kukur; Kodovjat; Kushovë; Skënderbegas; Lënie.
- The functional area of Librazhd considers the existing LGUs of: Orenjë; Lunik; Stëblevë; Polis; Qendër; Librazhd; Hotolisht; Qukës; Përrenjas; Rajcë; Stravaj.
- The functional area of Belsh considers the existing LGUs of: Belsh; Grekan; Kajan; Fierzë; Rrasë.

- The functional area of Përrenjas considers the existing LGUs of: Përrenjas; Qukës; Rajcë and Stravaj.

ii. Functional area, Municipality of Elbasan

The functional area of Elbasan extends along and includes 13 existing local government units: Elbasan; Labinot Fushë; Labinot Mal; Funar; Gracen; Bradashesh; Shushicë; Papër; Shirqjan; Tregan; Gjergjan; Gjinar; Zavalinë.

Figure 8. Elbasan functional area

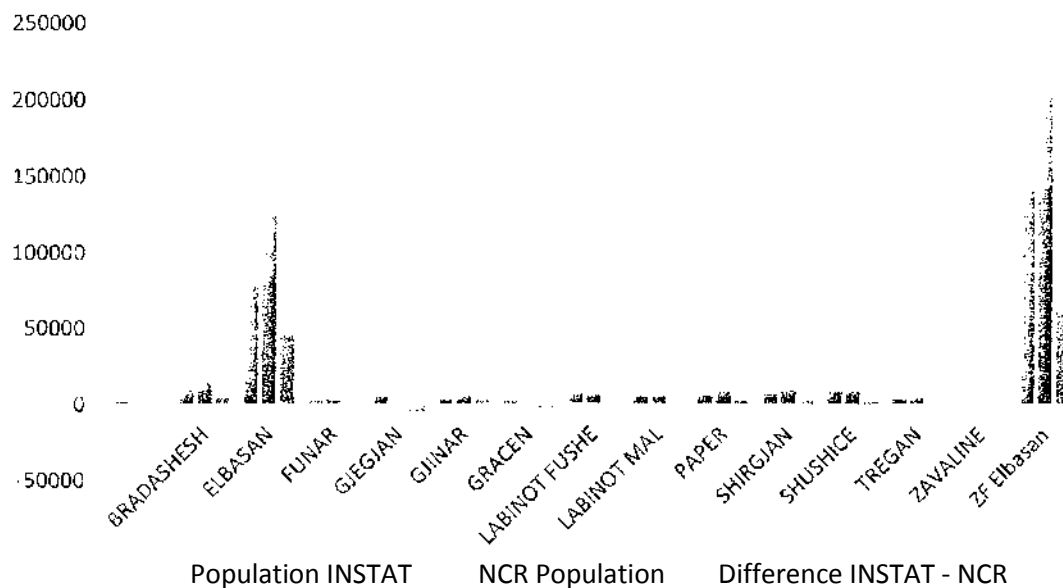


Below we will see the demographic, economic and financial effects in the provision of services, distances and access with reference to the functional area proposed.

Demographic effects

According to the Census 2011 data, the population of the functional area of Elbasan results to be about 141,714 inhabitants. The surface area of the FA Elbasan is 872 km² and the population density in this functional area is 162 inhabitants/km². If we refer to the data of the National Civil Registry, there are reported to be 202,948 inhabitants.

Figure 9. Demographic changes for FA Elbasan and the existing LGUs included



Source: INSTAT, Census 2011 & NCR 2012

This is the largest functional area proposed in Elbasan region, as regards the number and density of population. This is justified with the high density of institutions and economic activities in the area.

Economic and financial effects

Let's have a look at the interaction and the economic and financial effects in the proposed functional area with its centre Elbasan.

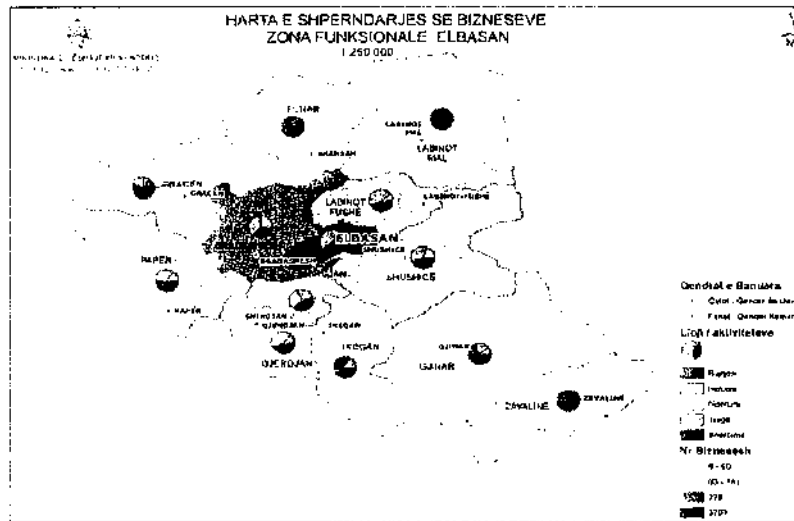
Table VII. Active enterprises by existing LGUs in the FA Elbasan and the economic activity

Commune / Municipality	Enterprises Total	Population INSTAT 2011	Enterprises /1000 inhabitants	Agriculture and Fisheries	Industry	Construction	Trade	Services
Bradashesh	278	10 700	26	*	67	5	97	106
Elbasan	3707	78 703	47	8	347	90	1788	1474
Funar	18	2122	8	4			*	12
Gjergjan	55	5126	11	*	7	*	21	22
Gjinar	32	3478	9	*	3		6	22
Gracen	48	2192	22	7	4	*	8	28
Labinot Fushë	109	7058	15	*	11	*	48	47
Labinot Mal	20	5291	4	*	*			16
Papër	93	6348	15	*	13	*	31	46
Shirgjan	161	7307	22	7	30	10	53	61
Shushicë	102	8731	12	*	17	*	36	44
Trëgan	60	3036	20	*	*		9	47
Zavalinë	6	1622	4					6
FA ELBASAN	4689	141 714	33	45	503	115	2097	1931

Source: INSTAT 2012

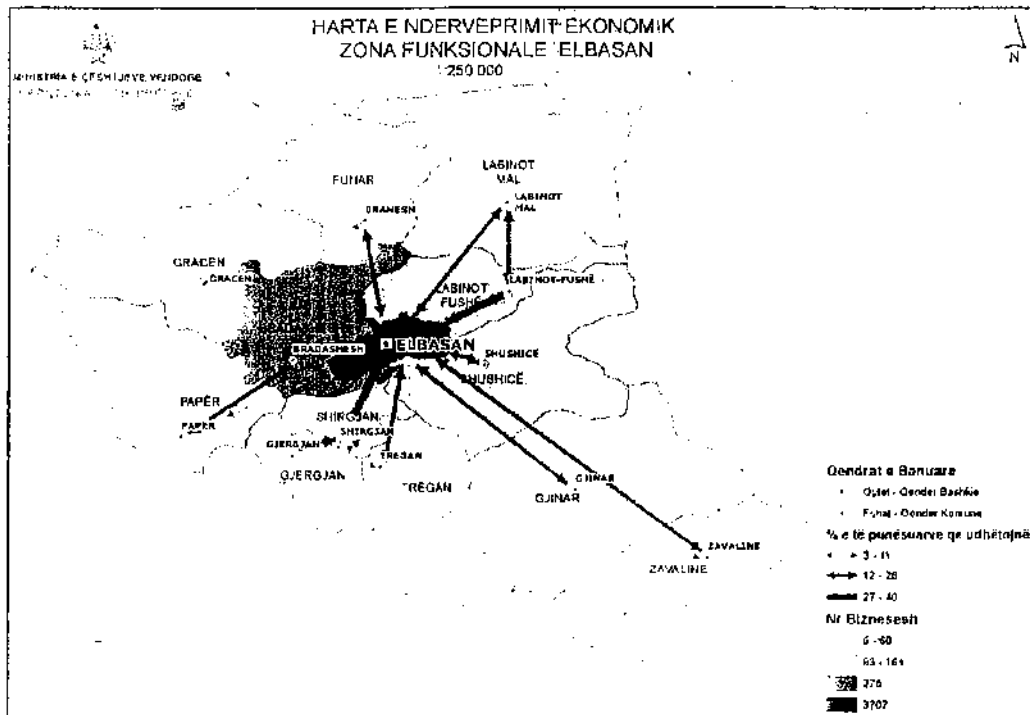
Elbasan and, to some extent Bradashesh and Shirgjan also have a considerable number of enterprises operating in industrial activities, but also in construction.

Figure 10. The map of the distribution and type of enterprises in FA Elbasan



As we have mentioned above, it may be noticed that the types of activities in the centre of the functional area are various, and as we move away from this centre, and in the absence of a high level of services, the activities become uniform by focusing on services only.

Figure 11. The map of economic interaction in the FA Elbasan: Density of enterprises and direction of commuting



This trend is confirmed by the above map (Figure II), which shows the main flows of employees' movement. Thus, the functional area and the exchange level as to employment and services is presented as above.

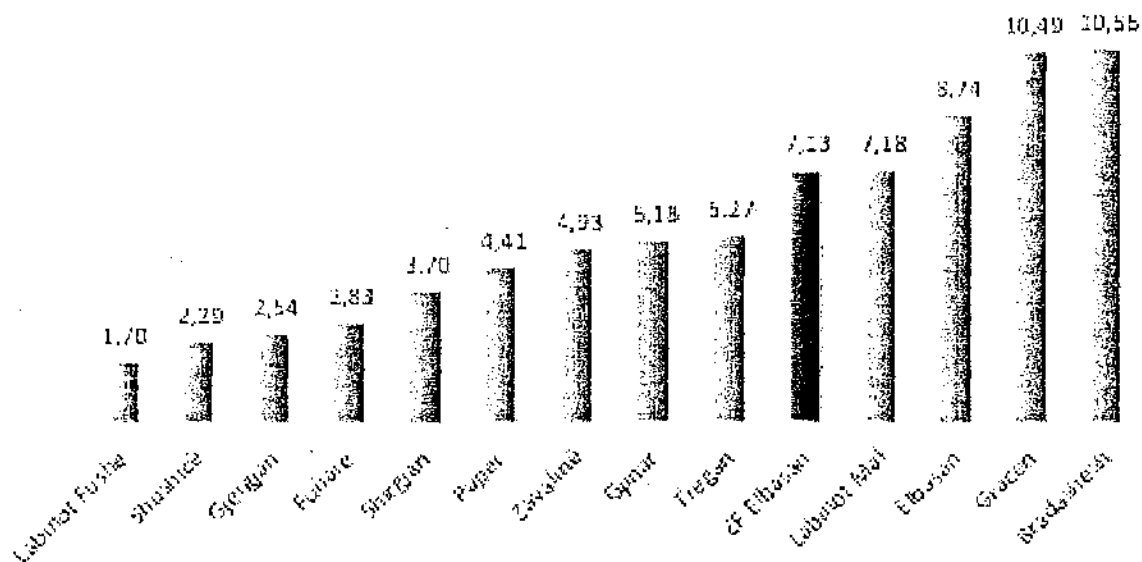
Urban areas within this functional area become providers of infrastructure, services and employment, whereas the rural centres around them become suppliers of agricultural products and mainly of work force.

Let's see the impact that the establishment of a new local unit would have, with regards to the proposed functional area boundaries and taking into consideration all the factors affecting the existing local units budget and revenues.

As aforementioned, the main purpose and benefit of the local units reorganisation by functional areas would be a better reallocation of local expenses and the efficiency in service provision.

Accordingly, if we refer to the level of expenses per inhabitant made by the LGUs within the FA of Elbasan, it may be noticed that they vary from ALL 1,700 per inhabitant in Labinot Fushë to ALL 10,560 per inhabitant in Bradashesh. In the context of the functional area of Elbasan, under the same conditions for the allocation of the budget (own transfers and revenues of the unit), the budget per inhabitant would be ALL 7,130, i.e. about four times higher than the budget of the poorest LGU within the functional area, and 30% higher than the average budget per inhabitant of the existing units of the functional area.

Figure 12. Total budget per inhabitant in the existing LGUs and the FA of Elbasan (in thousand ALL)

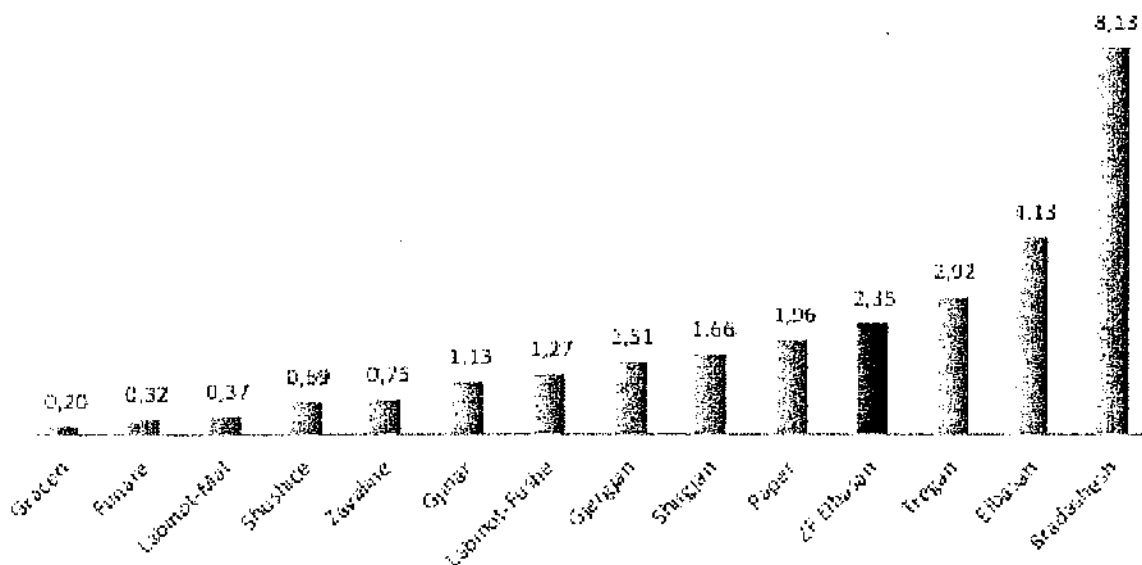


Source: MF 2012. Interpretation and chart display of the experts

Almost the same trend is found regarding the local revenues generated in the existing LGUs and foreseen in the FA of Elbasan, proposed as follows.

As of today, the local revenues in Gracen commune are ALL 200 per inhabitant - lower than among LGUs included in the FA of Elbasan, whereas the local revenues of Bradashesh commune are ALL 8,130 per inhabitant - 40 times higher compared with Gracen commune.

Figure 13. Own revenues per inhabitant in the existing LGUs and the FA of Elbasan



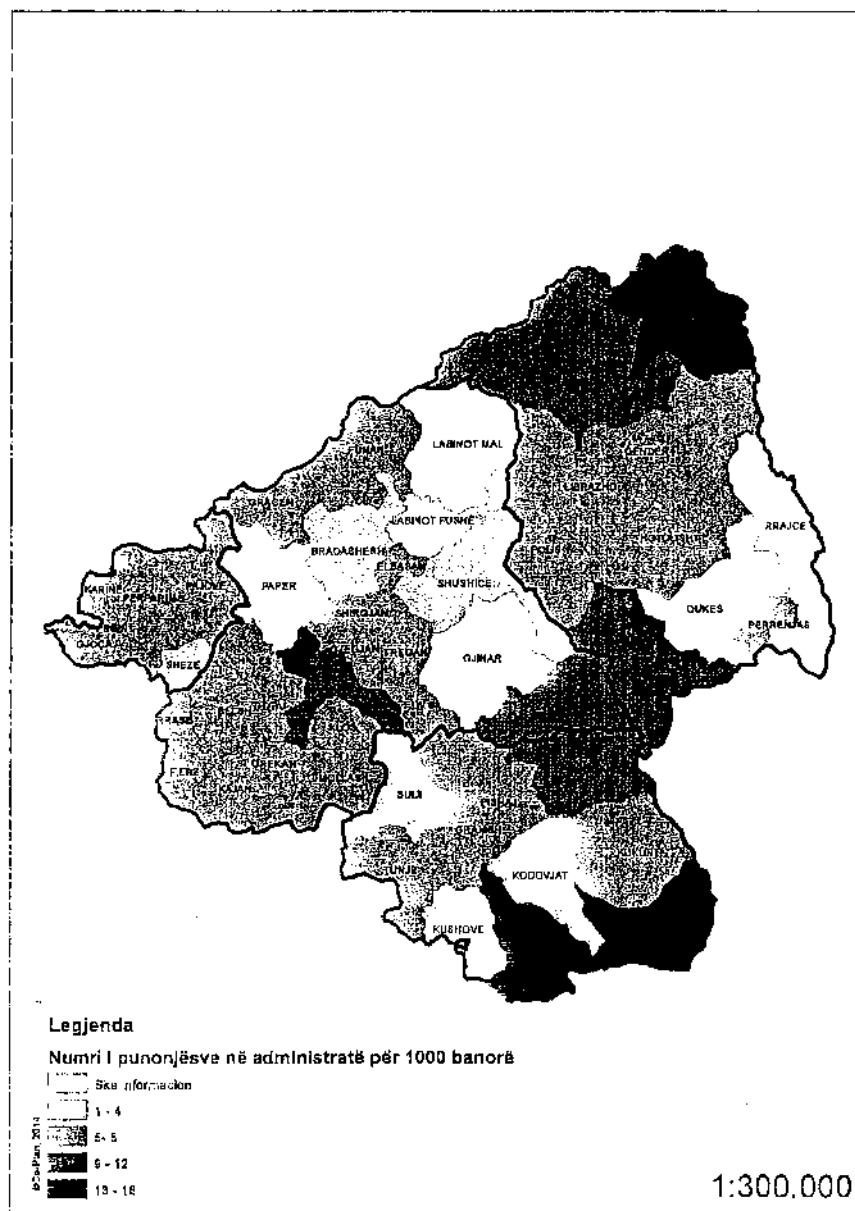
Source: MF 2012. Our interpretation and chart display

Under the same conditions, the average revenues per inhabitant foreseen in the FA of Elbasan will be ALL 2,350 per inhabitant, or about 12 times higher than the local revenues of Gracen commune.

Another important element directly related to the efficiency in the provision of services and the well

management of public funds at local level is the number of employees engaged in the local administration.

Figure 14. Number of employees in the LGUs administration in Elbasan region



Source: LGUs and MSLG. Interpretation and chart display of the authors

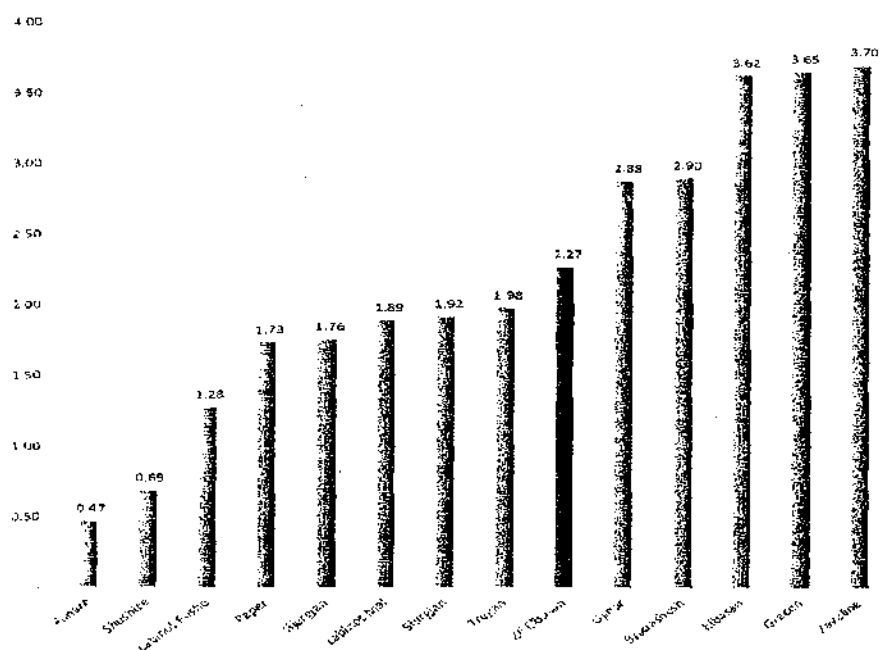
Referring to the current situation in the existing LGUs in the FA of Elbasan, it may be noticed that in different LGUs, the local administration weight in the LGU budget varies a lot. Although in some cases this is directly linked to the choice that different units make on the manner how services are to be provided, in some cases the reported number of local employees per inhabitant is very high compared to the other LGUs.

Figure 14 reports exactly this distribution in Elbasan region. In some LGUs such as Cërrik, Stëblevë, Lënie, Skënderbegas, etc., the number of local employees per inhabitant is about 15, compared with the average of the regional LGUs where this number is between 5 and 8 employees per inhabitant.

Let's consider this element from the point of view of costs to the LGU and the citizens. Always keeping in mind the same economic and financial conditions, but at the same time the responsibilities and functions, the following chart (Figure 15) displays the personnel expenses per inhabitant in the existing LGUs of Elbasan functional area.

Considering that the establishment of the new local unit, as regards the functional area boundaries, will concentrate part of the services which today are provided by all LGUs in one single centre (such as the finance office, human resources offices, environment directorates, urban planning directorates, urban cadastres, etc.), we have calculated that the expenses of the new LGU regarding only the personnel shall be reduced by at least 70% in the existing LGUs in the FA of Elbasan. Consequently, the cost of personnel per inhabitant will be reduced from an existing average of about ALL 2,800 per inhabitant to less than ALL 1,270 per inhabitant.

Figure 15. Personnel expenses per inhabitant in the existing LGUs and in the FA of Elbasan (ALL 000)

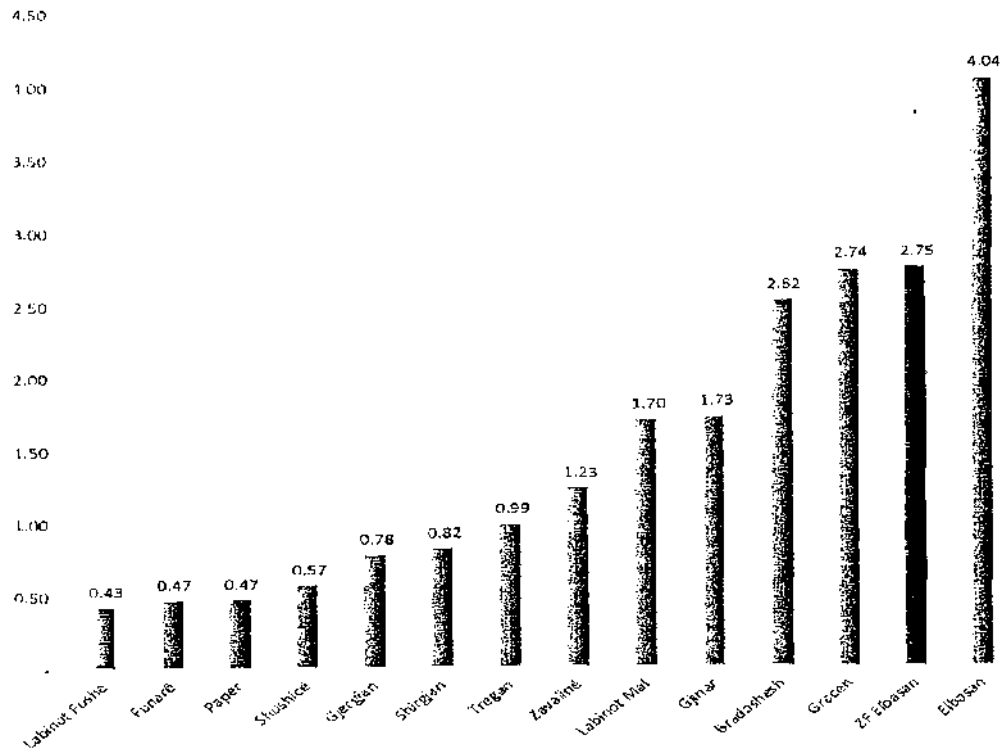


Source: MF 2012. (Interpretation and chart display of the authors)

The same logic applies to the analysis of the costs for operating expenses of existing LGUs and the LGU proposed as per the boundaries of the FA of Elbasan.

This analysis must consider that the operating expenses include all the LGUs expenses on their own routine of maintenance or even the provision of services, but at the same time the costs of rental and maintenance of the existing LGUs buildings. Based on a preliminary general calculation, we estimate that the operating costs will be reduced by about 5% - 10% as a result of efficient use of premises and the staff after the proposed organisation. The following chart shows exactly this idea, expressed in the reduction of operating costs per inhabitant in the FA of Elbasan compared with the average of the LGUs constituent of the FA.

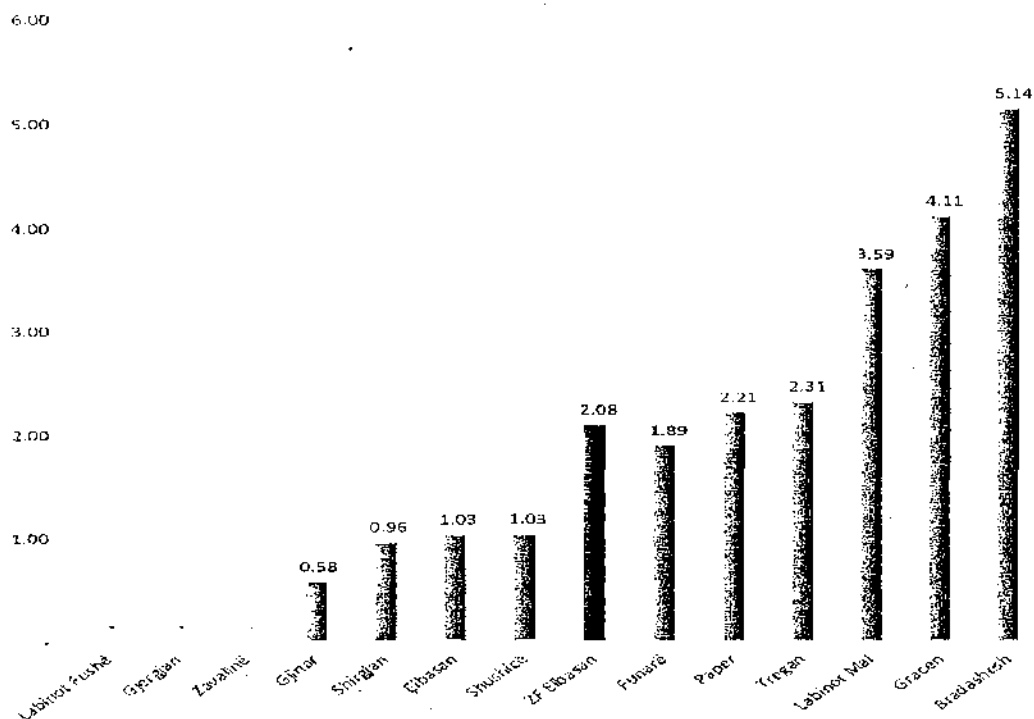
Figure 16. Operating expenses per inhabitant in the existing LGUs and in the FA of Elbasan (ALL 000)



Source: MF 2012. Interpretation and chart display of the authors

Under the same logic - i.e. considering the economic and financial conditions as unchangeable, but at the same time the entirety of LGUs responsibilities and functions, and supposing the funds saved from the operating and personnel expenses shall be used to the extent of 100% for increasing the capital investment, we are hereby analysing the expected investment level per inhabitant in the functional area proposed.

Figure 17. Investments per inhabitant in the existing LGUs and in the FA of Elbasan



Source: MF 2012. Interpretation and chart display of the authors

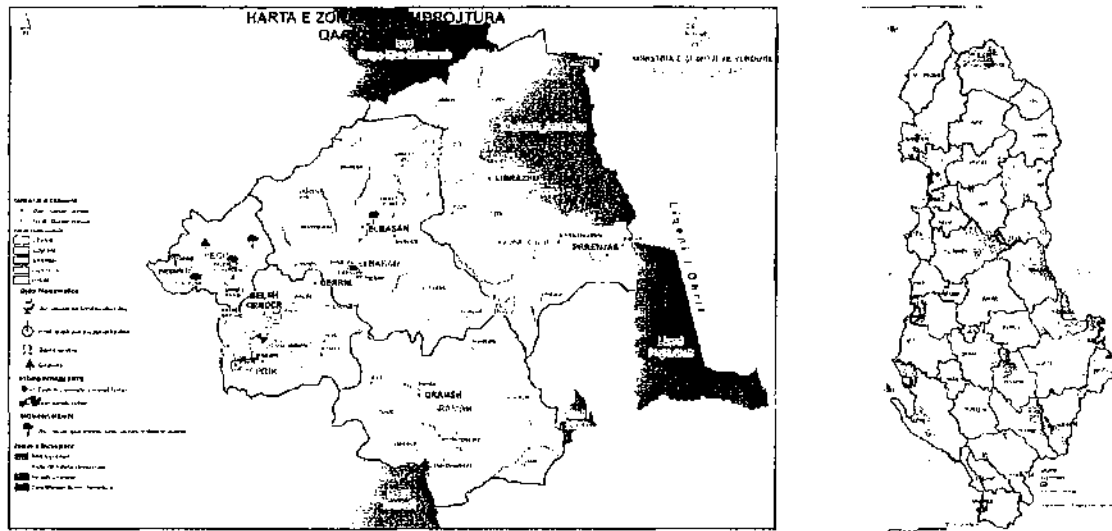
Figure 17 shows the level of investments per inhabitant living in the existing LGUs, and the level of expected investments in the proposed LGU. As it may be noticed from the chart, the level of investment in the FA of Elbasan is about ALL 2,080 per inhabitant - 40% higher compared with the average level of current investments in all the existing LGUs, which is about ALL 1,460 per inhabitant.

Effects on service provision

Apart from the economic and financial efficiency, the organisation of the proposed LGUs according to the functional areas is expected to generate a number of positive impacts and externalities as regards the level and quality of service provision.

Based on a quick analysis of some of the important services provided by the local government in Albania, the organisation in functional areas will create the possibility for a better harmonisation of policies that need a broader territory and economic development opportunities. The large fragmentation of the territory according to the existing LGUs boundaries has been among the main reasons for discussion as regards the bad management of the territory and the environment. Reorganisation according to the concept of functional areas, if not eradicate, will mitigate the problem by enabling the preparation of development and management policies for larger geographical territories with higher potential of efficiently managing the resources.

Figure 18. Map of protected areas in Albania and in the FA of Elbasan



Source: Ministry of Environment, Interpretation and chart display of the authors

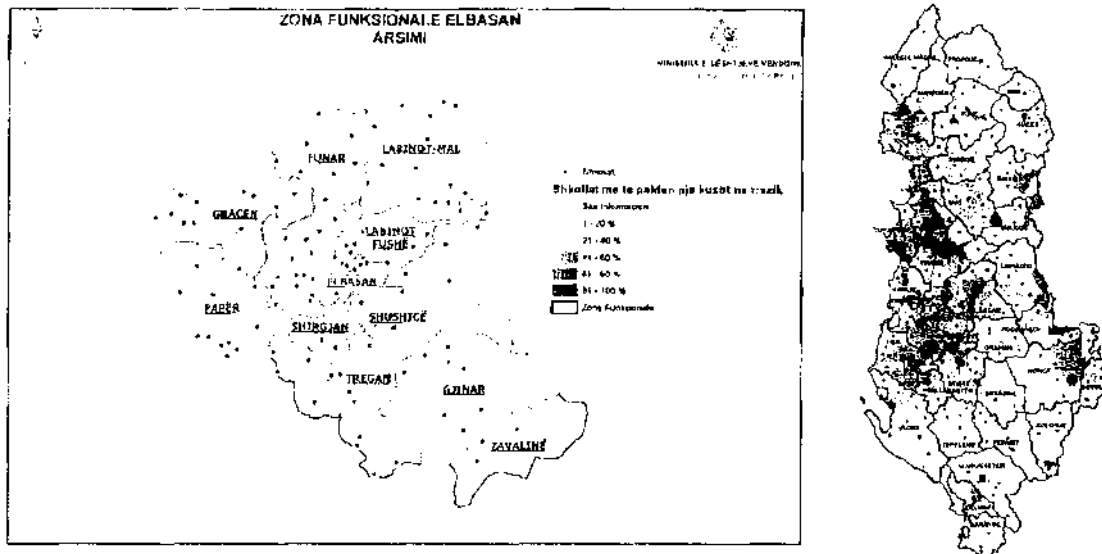
The above figure displays the protected areas in Albania and in the Elbasan region. To date, in a situation of large fragmentation between many LGUs, if not misused, these areas have not made use of and managed their natural potential. Upon reorganisation, the majority of the protected areas will be managed by one or maximum two local units, which will have the opportunity to build upon the potential of these areas.

The same discussion goes for issues of territory planning, land management or control over the territory.

Another important category of services provided partly at local and partly at central level is education. Currently, LGUs are responsible for maintaining the educational infrastructure. The following figure shows exactly the distribution and quality of these structures. What attracts the attention in this analysis is the fact that the poor quality of educational infrastructure is directly linked to the low generation of income by LGUs (the low level of transfers as well). Reorganisation into a larger LGU - according to the proposed functional area - would result in higher efficiency and better allocation of available funds.

If we go even further and use the principle of subsidiarity as the main argument, other parts of the function (such as the appointment of the staff and managers, etc.) would logically be the responsibility of the local government.

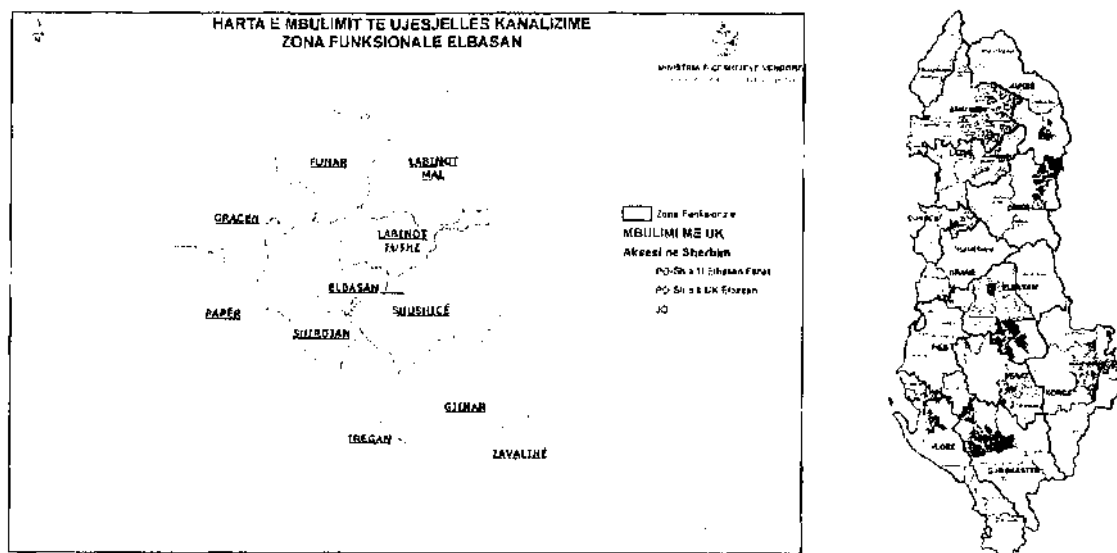
Figure 19. The map of the distribution of secondary education infrastructure in Albania and the quality of educational infrastructure in the FA of Elbasan



Source: Ministry of Education and Sports, Interpretation and chart display of the authors

Similarly, the water supply and sewerage service seems to be more likely to operate better and more efficiently. The following figure shows the organisation of water supply and sewerage enterprises today. As it may be noticed from the following figure, the water supply and sewerage enterprises are managed by boards (in most cases) elected by a large number of LGUs, making it difficult in many cases to make decisions and manage the enterprise. Apparently, the reorganisation by functional areas creates better conditions for the good management and organisation of this service also.

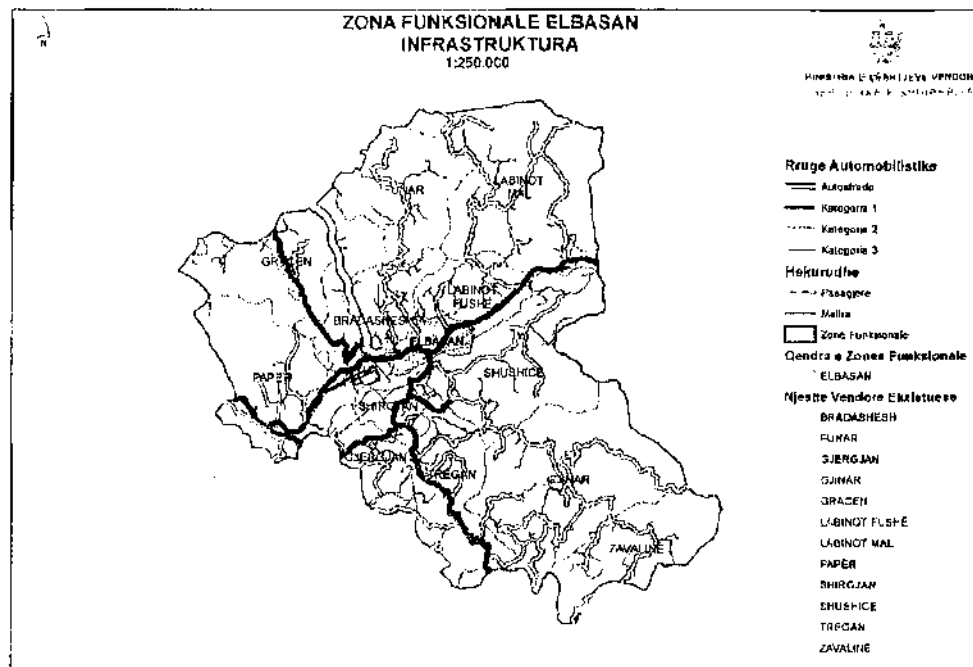
Figure 20. Map of coverage with water supply service in Albania and the FA of Elbasan.



Last, one of the most frequently discussed issues regarding the LGUs reorganisation according to the functional areas is access to and distance in the service provision. Two important elements that try to address this issue are provided below. The first is access to the centre of the functional area through the

road infrastructure (Figure 21), and the second as compared to the first is the time of travel needed to each resident in the area to reach the centre (Figure 22).

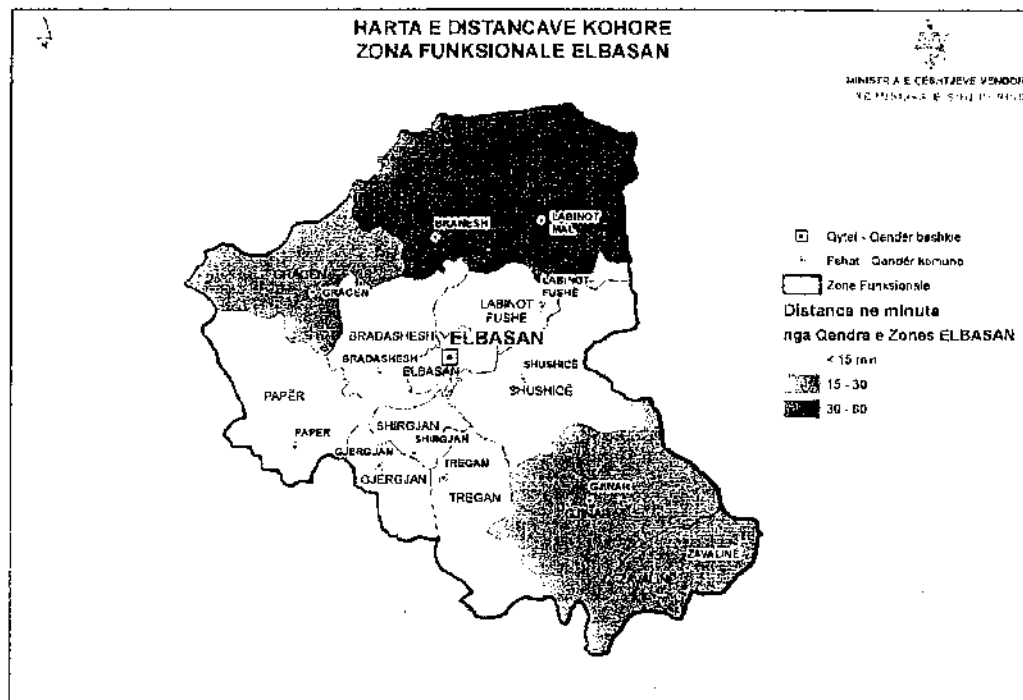
Figure 21. Road infrastructure and access to FA of Elbasan



Source: GDR/Ministry of Transport and Infrastructure, Interpretation and chart display of the authors

Due to the generally good access to road infrastructure, about 85% of the population of the functional area is able to reach the centre in less than 30 minutes by car. Access for the inhabitants of two local units - Labinot Mal and Funarë, is rather difficult (over 50 minutes).

Figure 22. Time distance from the centre in FA of Elbasan

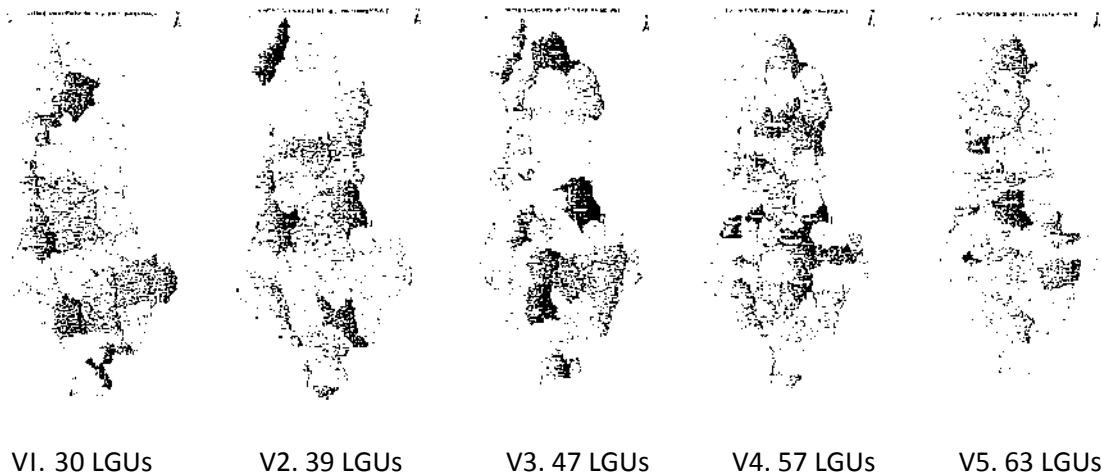


There are several ways to address this problem. One of them relates to the need of inhabitant to reach the centre of the FA during their daily life. If the basic services that inhabitants most frequently need are located close to their home, commuting to the centre will be avoided. Another manner would be to increase investment and focusing priorities in investing in the physical infrastructure and transport that facilitate this access.

Conclusions from the merger in one functional area of Elbasan

- FA Elbasan with a population of 141,714 inhabitants, with approximately 10,901 inhabitants per local unit.
- Reduction of administrative expenses (salaries and other operating expenses) by about ALL 92.2 million (or 8% of the total expenses incurred by all existing LGUs).
- Reduction of salaries expenses from ALL 406 million to ALL 321.3 million per year. Expenses for salaries per inhabitant are reduced from ALL 2,865 to ALL 2,267 in the new unit.
- Increase of the annual investment budget by 40% a year, from ALL 207 million to ALL 299.2 million e year.
- Increase of investment per capita from ALL 1,461 to 2,111 in the new unit.

iii. The proposed divisions according to the 5 versions on the territorial reform



The data acquired from the analysis of the interaction vectors and the other criteria, as in the example of the functional area of Elbasan, allowed for the identification of functional areas within every region.

While the analysis of the institutional and economic interaction data determined a territorial division with local units to the district boundaries (the version with 30 and 39 functional areas), the other criteria of distance and service provision determine a division with boundaries narrower than district borders (the versions with 47, 57 and 63). After combining these criteria, the team of experts proposed a division map with 5 versions, which varied from the division with 30, 39, 47, 57 and 63 functional areas.

Therefore, the identification of several functional areas per region, which varied within the regions depending on the predominance of one criterion or another, resulted in the proposal of the new administrative and territorial division with 5 different versions with 30, 39, 47, 57 and 63 local units, as shown in the above maps.

The combined assessment of the weight of each criterion against the 5 versions proposed, showed that all the versions fulfil the criteria approved, but the weight of the relevant criteria changes from one version to another. For example, in the version with 30 and 39 functional areas, the institutional and economic functionality has the highest weight, whereas in the versions with 47, 57 and 63 functional areas, this criterion becomes less prominent and the criterion of distance in the service provision and traditional and historical bonds gains weight.

Based on the report submitted by the team of experts on functional areas, on 16 May 2014, the Minister of State for Local Government, based on the approved criteria submitted the proposal with 5 versions of the map of the new administrative and territorial division, with 30, 39, 47, 57 and 63 functional areas respectively.

The analysis of the 5 versions reveals that not all the LGUs change their configuration from one version to the other, for example, the functional area of Kukës, Tropojë, Kolonjë or Lezhë does not change, thus confirming that the criteria of functional area has been strictly observed. If changes beyond the

proposed configuration were to result in the abovementioned units, this would imply a breach of the approved criteria.

Identification of the functional areas according to the 5 versions proposed as above was followed by a detailed short-term and long-term cost/benefit analysis for each functional area (detailed analysis is attached to this report as Annex).

Results from the report on functional areas were compared with similar reports prepared by civil society organisations. This comparison reveals that:

- The application of the functional areas methodology in the version (57 and 63) complies with the proposal on the administrative-territorial division proposed by the Swiss project DLDP, which applied the same methodology for the regions of Durrës, Lezhë, Dibër, Kukës and Shkodër.
- Additionally, the 5 versions were compared with the proposal on the administrative-territorial division submitted by NGO Shtetiweb project, where points in common were found in some cases such as in the case of the municipality of Belsh or Prrenjas.

The 5 versions were also subjected to an independent evaluation by the Swiss professors engaged by the Swiss Cooperation Office (SCO), who analysed the 5 versions with the Census 2011 data. This analysis confirmed that, among the 5 versions submitted, the version with 39 and 47 functional areas better fulfil the concept of functionality⁵.

All the 5 aforementioned versions were submitted to the ad-hoc Parliamentary Committee on Administrative and Territorial Reform by the Minister of State for Local Government.

Upon Decision Nr. 4, dated 22 May 2014, the Committee approved the version 39/47. This version went through an extensive public consultation process for about 2 months (see the Chapter on public consultation and information).

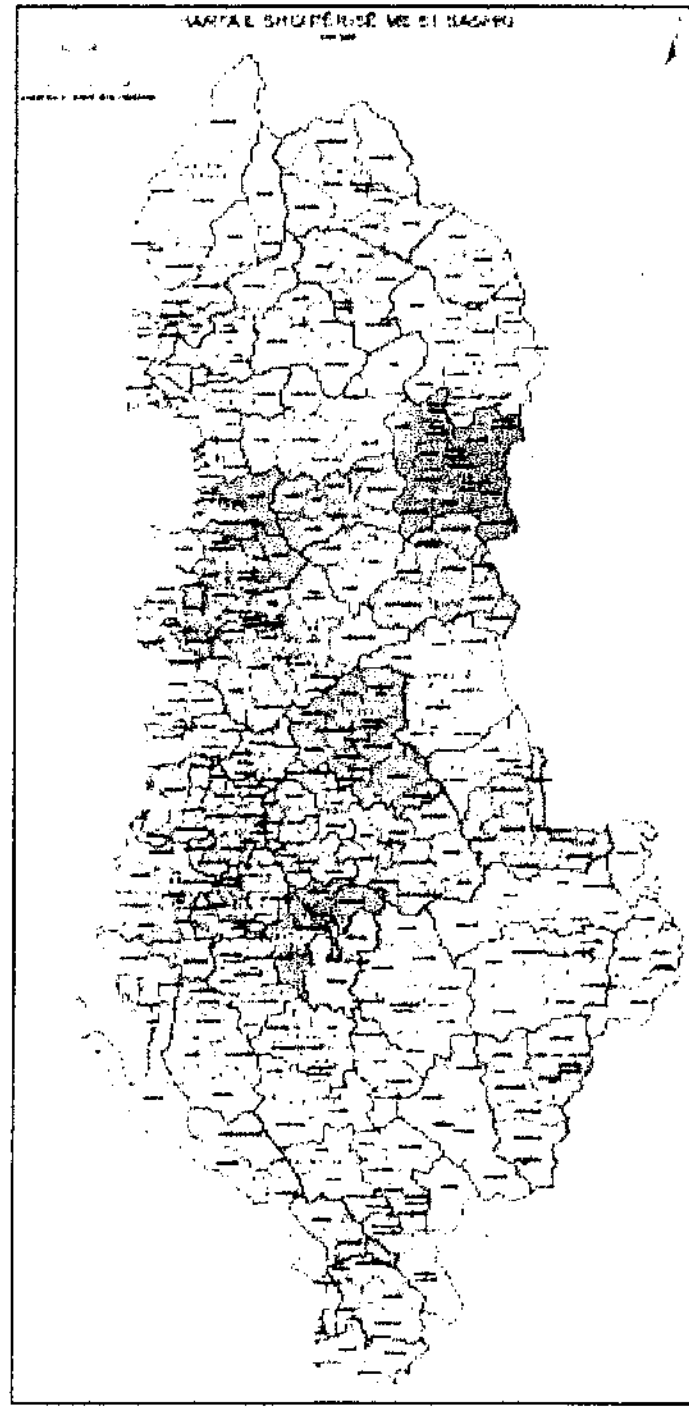
On conclusion of the public consultation process, on 17 July 2014, the Committee approved by Decision Nr. 5, dated 17/07/2014 the final version of the map with 61 Municipalities, after accepting the arguments and proposals submitted by LGUs and PDIU party.

The Committee Decision Nr. 5, dated 17/07/2014 on the approval of the final version with 61 Municipalities was forwarded to the Council of Ministers for consideration, pursuant to paragraph 2 of Article 68 of the Law No. 8652, dated 31/07/200 "On the organisation and functioning of local government", as amended.

The Council of Ministers, in the meeting of 22 July 2014, expressed the opinion "in favour" of the version with 61 Municipalities, accompanied by the relevant arguments and suggestions.

The administrative and territorial map with 61 Municipalities is presented below.

⁵Schuler.M.Jarne.A., "Use of Census 2011 Results in View of Ongoing Reforms", 23/05/2014, Tirana



iv. Advantages of the administrative and territorial reform with the methodology of functional areas

Merger of local government units into one functional area will particularly serve to optimize administrative and operating expenses.

At the level of managerial/political positions in the abolished units, the following positions will cease to exist: Mayor and deputy Mayor Municipality/ Chair and deputy Chair of Commune, Secretary of the LGU Chair, Secretary of the municipal/commune Council for LGUs.

At administrative functions level, the aim is to centralize the supporting positions (finance, lawyer, surveyor, engineer, etc.) in the central unit of the new local unit, enabling the provision of the same service at the central unit, but with a much lower number of employees than the total employees in every existing local unit, through the principle of economy of scale.

Centralisation of functions may be covered by the current offices of the units that are to be empowered, by maximising the efficiency of the existing staff or by adding personnel (one or two employees per unit) depending on the new work load. Furthermore, a reduction of one category of supporting positions such as the driver, janitor, etc., may be foreseen.

An increase in administrative efficiency is also expected in urban planning and territory management offices. By centralising this function at the new functional area centre, the best experience will be used and staff overlapping in these positions will be avoided.

The new municipalities will be bound by law to provide, in the territory of the existing municipalities/communes absorbed, some of the services that may not be provided centrally, such as registry offices, economic aid distribution, tax collection, inspection of the territory, maintenance, collection of the water supply and sewerage tariff were there are no SHAKU offices, etc. These services will be provided at the current premises of existing commune or municipality buildings. We have estimated that the administration remaining in these offices will be about 30 - 40% of the current local administration.

The analysis suggests that the estimated impact on the administrative efficiency, resulting from the merger of local government units may reach about 80% - 90% of the personnel cost and about 20% - 30% of other operating costs in the units to be abolished, according to an analysis of both pilot regions, Kukës and Elbasan.

Nevertheless, the calculations included in the report on functional areas have retained a more conservative scenario than the suggestion made by the above analysis, by projecting an estimate of 60 - 70% of the efficiency from the good administration of personnel costs, and up to 10% of other operating costs in the units to be abolished, expecting that the landscape peculiarities and the country's needs may vary in different units.

The above calculations also go hand in hand with the counterpart cases observed in the international literature and practice, which confirms that the optimum size for achieving efficiency in public services is on local units with a population from 25,000 inhabitants to 250,000 inhabitants (McKinlay Douglas Limited, 2006; Holzer et al., 2009).

However, it must be pointed out that the administrative efficiency is an estimated projection to be verified in practice, through concrete implementation following the territorial reform which is expected to bring about other positive effects in the integrated administration of resources, access to more qualified human resources, fair distribution of revenues generated from taxes and orientation of state funding where there is higher impact.

In particular, the organisation according to functional areas is expected to bring positive effects in several aspects for the local government.

Benefits are classified into general benefits whose results are long-term, and direct benefits enjoyed

immediately as a result of optimizing administrative and operating costs as follows:

- Rationalization of human and financial resources, with the aim of increasing the quality of governance at local level and reducing the misuse of resources or assets.
- Increase of public supply, both in terms of increasing the quality of very important services such as water supply and sewerage, road infrastructure, public transport, integrated waste management but also of local investment capacity as an absolute investment value, and enhancing the efficiency of local public investment.
- Increase efficiency in the use of public money as a result of the possibility to plan new areas of development where there is potential and to limit the development in areas where the cost is too high for the state as compared to the preservation of that area's historical values or tradition.
- The necessary space to prepare economic development schemes for small and medium enterprises and a business-friendly climate, by harmonising the demand for consumption and employment with the local public sector-oriented trade supply.
- Opportunity for local economic planning in larger territories, by offering specific economic areas with the necessary infrastructure to attract investments.
- The new administrative and territorial division will create the opportunity to reallocate the local public offer, by reducing inequalities between rural areas and the developed urban areas.
- Increase the planning capacity for economic and social development, not only by strengthening human capacities but also by enhancing the potential to integrate the accommodation and employment needs in a larger territory by maximizing the territorial potential according to the areas characteristics.
- Synergy of the need for agricultural development in rural areas, by responding to the demand for consumption in urban areas, through the establishment of local development instruments like local markets, agricultural and livestock products collections points, etc.
- Fiscal and financial predictability and sustainability of local budgets, which contributes to the reduction of financial risk in public budget.
- The increase of administrative capacities will result in an increase of local revenues from 5% to 10%.
- Increase by 10% to 20% of local expenses as a result of cost rationalization and good administration of the budget.
- Upgrade and decrease of utility service costs for water supply, waste management, road and school premises maintenance.
- Possibility to better absorb funding from foreign projects funds and IPA funds.
- Lower fiscal burden and easier procedures for businesses, contributing to a business-friendly climate.

- Lower public procurement costs for the business.
- Lower costs for public works resulting from integrated procurement at local level (larger contracts).
- Application of the above measures and the optimization of administrative and operating costs is expected to have an overall positive financial effect in the mid-term, amounting from ALL 3 to 6 billion per year in the local government budget.

VIII. PUBLIC CONSULTATION AND INFORMATION PROCESS

The legal framework in force in the Republic of Albania imposes specific obligations for the public consultation process and for collecting the opinion of the local communities, stakeholders and local government units on issues related to the administrative and territorial reform, as follows:

- Article 108, paragraph 2 of the Constitution of the Republic of Albania stipulates that "The administrative-territorial division of local government units shall be established by law on the basis of mutual economic needs and historical tradition. Their borders may not be changed without first hearing the opinion of their inhabitants";
- Article 5 of the European Charter on Local Self-Government states that "Changes in local authorities boundaries shall not be made without prior consultation of the local communities concerned, possibly by means of a referendum where this is permitted by statute", pursuant to the provisions of Articles 67-68 of the Law "On the organisation and functioning of local government".

Obligations stipulated in the Constitution and the European Charter of Local Self-Government are specified in detail in the Law No. 8652, dated 31/07/2000 "On the organisation and functioning of local government".

This Law also details the category of entities that must give their opinion and be consulted on the administrative-territorial reform and the manners and instruments for obtaining their opinion, as follows:

Article 67, letter b), c) and ç)

"The proposal for reorganization of one or more units of local government for each specific case shall be submitted to the Parliament accompanied by the following facts and justifications:

- b) The methods, materials or documents used to inform the public on the reorganisation and the issues related to it.
- c) The opinion of the community living in the local government units affected by the reorganisation, and the opinion "in favour of" and "against" this reorganisation, as the case may be, expressed by parties or groups directly or indirectly interested in this reorganisation.
- ç) The methods used to collect the opinions of the community such as open meetings, public consultations, public hearings, opinion polls duly certified by competent authorities, or an opinion expressed through local referendum or any other adequate and reliable method.

Whereas Article 68 sanctions the obligation of the local government units to provide their written opinion within 60 days, as follows:

Article 68

1. The communal, municipal and regional Councils, directly involved in the reorganisation, and their chairmen shall give their official opinion on the reorganisation, and if any, the opposing opinion of part of the councillors of the respective council.
2. The Council of Ministers, when it has not made the proposal, and other central government institutions which are not subordinate to the Council of Ministers, but are interested in the respective reorganization, shall also express their justified opinion " in favour of" , "against", or "abstain" on the reorganization.
3. The above mentioned bodies shall give their opinion no later than 60 days from receipt of the request for an expression of opinion by the proposer.

The ad-hoc Parliamentary Committee on the Administrative and Territorial Reform and the Minister of State for Local Government, with the support of STAR project and UNDP, have used a number of instruments for the public information process and an extensive public consultation campaign and opinion polls.

i. Public information tools

- As of October 2013, an information web portal on the administrative and territorial reform has been created www.reformaterritoriale.al until 14/07/2014 an average number of 126 persons/day and a total of 34,833 persons have visited this web portal.
- Starting from January 2014, the social media (Twitter and Facebook) have been used, and they have been visited by a total of 2,471 persons.
- All the open meetings for public consultation purposes have been displayed and registered in the official channel of the administrative and territorial reform on YouTube, with a total of 537 visitors.
- During the period March-July 2014, 10,000 information leaflets have been distributed for both consultation rounds.
- During the period May-July 2014, 3 information TV spots were broadcasted 240 times on 10 important TV channels, and 60 times on the radio. 91.3% of the population have seen one of the TV spots at least once, and 73.4% have seen one at least three times.
- During the period June-July 2014, the informative poster on the ATR has been published 32 times on the main newspapers and magazines. The information contained in this poster could be conveyed to 49% of the population.
- As of September 2013, about 3,100 newspaper articles have been published on the administrative and territorial reform, including also interviews and public appearances of the Minister of State for Local Government, and articles and reports by journalists, opinionists, politicians, etc., published in the daily press (newspapers and magazines).

ii. Public consultation

In order to obtain the opinion of the population, the civil society and the stakeholders as per letter c) and ç) of Article 67 of the Law "On the organisation and functioning of local government", all the methods defined in the law were used, such as open meetings, consultation sessions, public hearings and 1 national opinion poll.

Consultations with the civil society

In order to obtain the opinion of the population, civil society and stakeholders in accordance with Article 67, letter c) and ç):

- In the period March-April 2014, the first round of public consultation was conducted with open consultative meetings on the technical criteria of the new administrative and territorial division. These meetings were organised by the Minister of State for Local Government, with the support of STAR project under the UNDP management, and a total of 13 meetings were held with the participation of 1,218 persons altogether. All the meetings have been broadcasted live on the web portal of the administrative and territorial reform and they have had a wide media coverage (attached herewith may be found the complete documentation on each meeting, including the full minutes of these meetings).
- In the period April-May 2014, the ad-hoc Parliamentary Committee for the Administrative and Territorial Reform conducted 8 public hearings with representatives of the local government and associations of local elected officials, the civil society, international organisations and independent constitutional institutions. 75 participants took part in these hearings altogether. All the meetings have been broadcasted live on TV and the minutes have been published online (attached herein are the full documents of each meeting, including the full minutes of the meetings).
- In the period May-July 2014, the second round of consultation meetings was conducted on the division versions approved by the Committee with 39/47 local units. A total of 42 meetings were held with 1,785 participants. During these meetings the reform process and the methodology used were explained, including the proposal for the division with 39/47 local units and the specific benefits for each of the new local units.

Consultation meetings have been organised, through STAR project, with 4 national non-profit organisations, selected through a competition process by UNDP for performing the second round of independent consultations with the stakeholders, the civil society and the business. The organisations are: Urban Research Institute (URI) that has conducted the consultation meetings for the regions of Tirana, Durrës, Elbasan and Korçë; Partners Albania (PA) that has conducted the consultation meetings for the regions of Berat, Fier, Vlorë and Gjirokastrë, and the Institute for Public-Private Partnership (IP3) that has conducted the consultation meetings for the regions of Shkodër, Kukës, Lezhë and Dibër. These organisations have performed a total of 37 consultation meetings (attached herein are the complete materials evidencing each meeting).

The fourth organisation engaged in the consultation process was Konfindustria, which organized 5 meetings with the business as a specific stakeholder and a survey involving 145 businesses, whose data and findings may be found attached herewith.

Conclusions of the meetings with the civil society and stakeholders in the 12 regions are as follows:

- The majority of the civil society, over 90%, support the administrative and territorial reform as being indispensable;
- The proposed division with 39/47 local units has been generally accepted, but in certain regions there have been suggestions to enlarge this map with more local units than the number in the proposed 39/47 version.
- The Administrative and Territorial Reform must be accompanied by the redistribution of functions

and competencies for the local government, thus deepening the decentralisation.

Conclusions of the 5 meetings and survey with the business are as follows:

- ATR is considered as indispensable by 92% of businesses;
- Public-private partnership cooperation in public services of local government units is estimated by 75% of businesses to increase in larger local units, from the space and population point of view. Necessity of transition to the economy of scale for local public services;
- Version 1 of the maps project received 36.5% of the votes from businesses. Version 2 received 30.5% of the support. Versions 4, 5 did not receive any votes;
- 72% of businesses considered that ATR must be accompanied by the redistribution of central power-local power responsibilities;
- 89% of businesses consider the quality of services they receive from the local government today as very poor, 11% consider it as good and 0%, i.e. no business, considers the provision of these services as very good.

All the meetings have been broadcasted live via the web portal of the administrative and territorial reform and they have had a wide media coverage (attached herewith may be found the complete documentation on each meeting).

Hearing the opinion of the community

In order to collect the community opinion, the national opinion poll was used, with a sample of 16,000 people interviewed. This opinion poll is the largest national poll ever performed in Albania.

The results of the national opinion poll report that more than 50% of the respondents support the administrative-territorial reform. Most of the respondents answered IN FAVOUR to the question on the concrete proposal for the version 39/47 local units, supporting the version with 39 functional areas.

The executive summary on the poll and its results shall be published next week.

Opinion of LGUs on the reform

The LGU bodies, pursuant to Article 68, paragraph 1 and 3 of the Law no. 8652, dated 31/07/2000, shall submit their official opinion in writing on the proposal for the administrative and territorial reorganisation, within 60 days from receipt of the request.

The ad-hoc Parliamentary Committee, after the approval of the administrative and territorial division version with 39/47 local government units on 22 May 2014, charged the Minister of State for Local Government to request the official opinion of all the mayors and chairs of communes, and the municipal and commune councils on this version.

The Minister of State for Local Government, by the accompanying letter with Prot. No. 2068, dated 23 May 2014, submitted the specific proposal on the reorganisation of each local government unit

according to the version 39/47, to all the mayors and municipal councils, and to the chairs of the communes and commune councils, i.e. to a total of 746 local government bodies of first level, municipality/commune.

By 22/07/2014, 286 LGUs or 76% of the total number of 373 municipalities and communes have replied. The head of the local unit or the council, or both these bodies have replied on behalf of the above municipalities and communes.

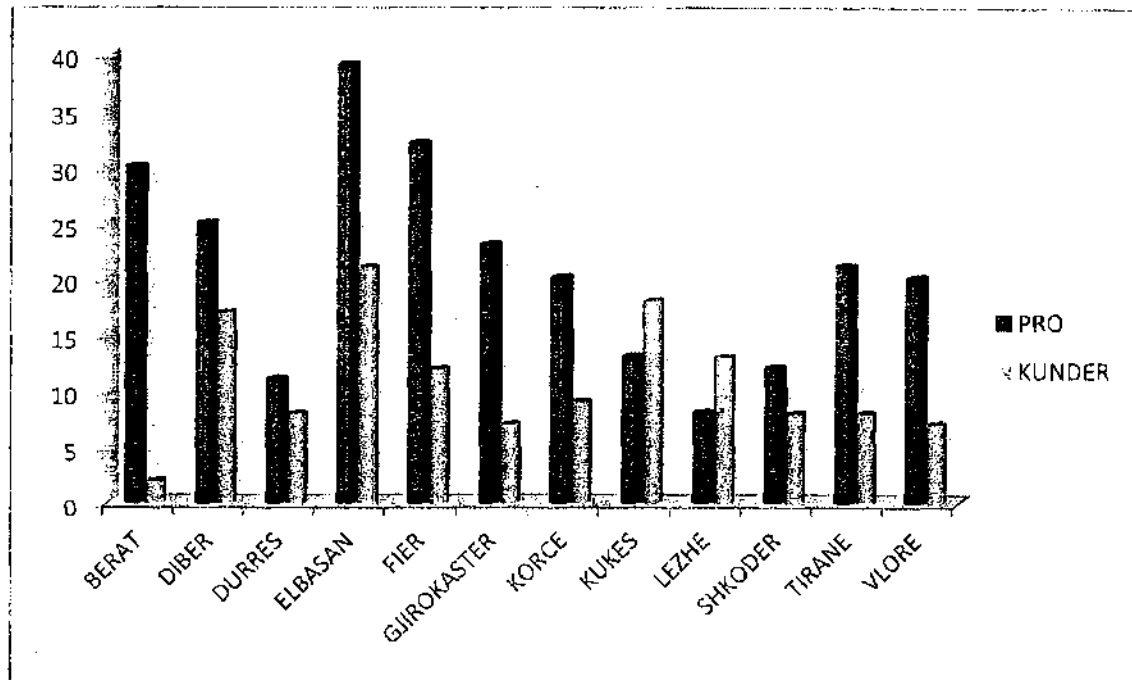
A total of 393 official replies were received from 263 mayors and chairs of communes and from 130 municipal and commune councils. Thus, 52.5% of the total municipality and communes representative and executive bodies have expressed their opinion. After a careful examination of the replies received, and after the Committee took into consideration the opinions received, it results that:

- **160** Mayors and chairs of communes and municipal and commune councils have replied positively (IN FAVOUR) to the proposed 39/47 version.
- **56** Mayors and chairs of communes and municipal and commune councils have expressed their opinion for a version different from the one proposed with 39/47 units, by submitting concrete proposals on the reorganisation of their local units. After reviewing these proposals and arguments, the Committee decided to accept them and on that basis it approved the version with 61 municipalities.
- **41** Mayors and chairs of communes and municipal and commune councils have expressed their opinion for a version different from the one proposed with 39/47 units, supporting in principle the version of the administrative and territorial reform with over 60 local units.
- **58** Mayors and chairs of communes and municipal and commune councils have expressed their opinion against the proposed version, submitting also the relevant arguments in support of their objection. After reviewing the replies, the Committee deemed that the arguments provided are not based on the approved criteria or are too generalising and not specific, and decided not to take them into consideration.
- **78** Mayors and chairs of communes and municipal and commune councils have expressed their opinion against the proposed version with 39/47 units, submitting no arguments for doing so.

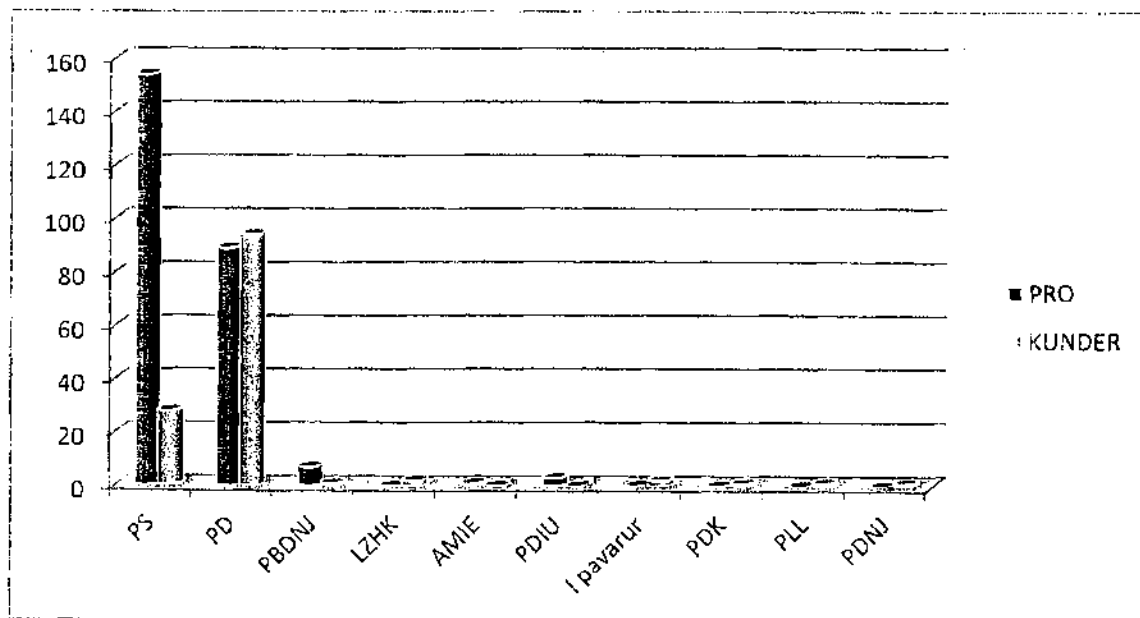
In the final evaluation as per the above classification of the opinions received, the summarized statistics of these opinions received by the local government authorities are classified as follows:

- 257 replies from mayors and chairs of communes and municipal and commune councils (or 66.5% of the total replies received) are considered as opinions IN FAVOUR. (Of which 160 are IN FAVOUR from the beginning, 56 are considered IN FAVOUR after taking their arguments into consideration, and 41 are considered IN FAVOUR, supporting the reform);
- 136 replies from mayors and chairs of communes and municipal and commune councils (or 33.5% of the total replies received) are considered as opinions AGAINST. (Of which 57 replies include grounded arguments. Whereas 78 of them include no arguments at all).

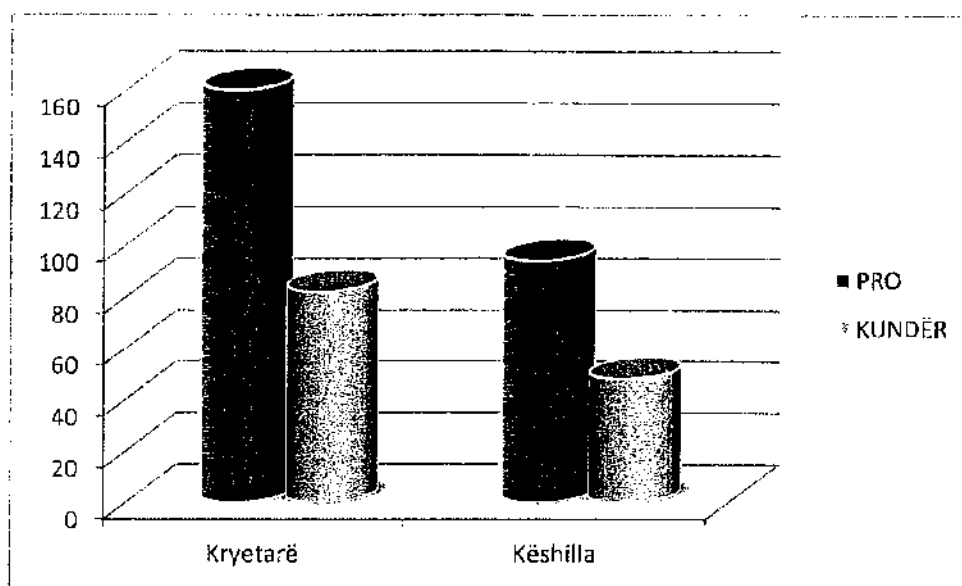
The above data have been categorised in more detail, according to the authorities that have replied, the regions and the political subject.



Opinion of LGUs IN FAVOUR/ AGAINST, by regions.



Opinion of LGUs IN FAVOUR/ AGAINST, by political affiliation



Opinions IN FAVOUR/ AGAINST, as per the division municipality/commune chair and municipal/commune council

IX. REGULATION OF FINANCIAL, PROPERTY AND LIABILITY ISSUES

Law no. 8652, dated 31/07/2000 "On the organisation and functioning of local government" as amended, in Article 67, letter e) stipulates the obligation for determining the methods for regulating financial and property issues and issues of obligations of local government units affected by the reorganisation, in the framework of the new administrative and territorial division.

Whereas Article 70 of the same law specifies the obligation of the new local government units and other state bodies to take all the measures for a normal functioning of the local government units after the administrative and territorial reorganisation, and to guarantee the provision of basic services to the population during the transitional period.

In this context, pursuant to the requirements of Article 69, letter e) and Article 70 of the Law no. 8652, dated 31/07/2000 "On the organisation and functioning of local government" as amended, appropriate measures have been planned during the transitional period. The entry into force of the bill "On administrative and territorial division", will be immediately followed by the evaluation and inventory of assets and liabilities of current LGUs, according to the following process:

Evaluation/inventory of resources and assets of existing LGUs

Out of 373 existing LGUs, the new division is foreseen to have 61 municipalities. Such an administrative consolidation represents the average merger of 6-7 current LGUs into one new unit. Despite the fact that the new LGUs shall preserve the geographic presence of former smaller LGUs, by appointing local administrators and establishing and maintaining offices for the performance of services in these areas, the new LGUs shall have full responsibility for the management of human, capital and financial resources within their territories.

To this end, a comprehensive evaluation/inventory of the current status of works in each existing LGU shall be carried out as soon as possible, in order to have a clear view of the local units to be merged and the issues to be addressed in general, and to determine some specific elements pertaining to each of the new units. Evaluation/inventory activity shall include the following aspects:

- Financial situation of the LGUs affected;
- Value and condition of assets;
- Level of development of the work system (such as the IT condition and policy, archive and data, warehouses, waste management systems, etc.);
- List of legal proceedings under review and any other possible legal action;
- Extent of contract execution, lease agreement, agreements in force;
- Staff, their qualifications and contractual arrangements;
- Existing development policies and plans and their potential development; and
- Any other important or disputable issues.

All these and other elements as well shall be integrated into a specific plan for the actual implementation of the LGUs merger, which will be established according to clear, administrative, functional and legal procedures and guidelines by the central government authorities, and specifically by the Minister of State for Local Government.

Regulation of issues related to financial systems

Property and capital inventory shall also be carried out and consolidated into single systems. It is possible for each local government unit to have a different approach to property categories and use different methods which will have to be standardized.

Some of the local government units about to be merged may have warehouses, storages for raw material or used equipment, as part of their physical assets, used for the provision of various public services. Part of the merger process planning will involve the definition of the needs of the new local units regarding their current assets and their base.

Another element to be considered includes the physical premises of all the former LGUs to be merged, and the updated requests for premises for the performance of different functions, old and new, required for the functioning of new LGUs. After the new organisation structure has been determined, the new LGUs will be in a better position to define their requirements for physical premises.

Integration of financial systems will be a key priority and will require careful addressing along a specific timeframe, determined under the supervision of the Ministry of Finance as the ministry responsible for the management of financial systems.

During the preparation for the integration of different financial systems into a single one, special care will be paid to reviewing and addressing the following potential and non-exclusive issues:

- Approval of a standard and unified account statement;
- Consolidation of applicable local taxes;
- Harmonisation of the source of income;
- Harmonisation of applicable service charges and fees;
- Consolidation of potential local debt and borrowing.

This aspect of financial management will have to observe the national accounting practices and the relevant procedures and rules issued by the Ministry of Finance. STAR project will provide technical assistance on this matter.

Addressing legal issues

The process of LGU merger will also require a thorough assessment of legal aspects and measures in force in each LGU under merger process, in order to identify the additional transferable responsibilities and obligations and the related costs incurred by the new LGUs.

A thorough analysis of contracts of LGUs under merger, including contracts for works, goods, services and employment, shall be carried out in the framework of the legal assessment. Actually, assessment is one of the main tasks of the evaluation/inventory phase described above, and it will require further updating when the merger actually takes place. The detailed reconsideration of the situation regarding contracts ensures that the new LGU has identified its legal obligations and other important issues included in the contracts' contents, which may impact future activities.

On conclusion, this process is considered as a massive, costly and comprehensive one, and the Minister of State for Local Government will be the leading institution, as the ministry responsible for ensuring the readiness and cooperation of existing LGUs and transforming this initiative into an obligation as regards

the preparatory measures for the implementation of the reform. Whereas STAR project shall ensure qualified financial and technical assistance, for the support of a structured approach to this action in all the 373 LGUs.

X. CONCLUSIONS

The administrative and territorial reform is identified as one of the key priorities of the Government program 2013-2017, aiming to improve the quality of local public services by increasing their efficiency and also the access of citizens to local public services, and by empowering local government units, which are largely fragmented and inefficient in providing services.

The need for and advantages of the new administrative and territorial division, as justified in detail in the report prepared by the technical experts, has been widely recognised by the internal political factor, and strongly recommended by the most important international partners of Albania and the international organisations, including the EU Commission and the Council of Europe.

The international partners, specifically the Government of the United States, the Swedish Government, the Swiss Government, the Italian Government and UNDP supported the implementation of the administrative and territorial reform through the STAR project (technical and financial assistance). Furthermore, the reform was supported by the OSCE and the Council of Europe.

The necessity for the administrative and territorial reform, and the 2015 local elections imposed a dynamic reform agenda, which thanks to the support of the governing majority and international partners was materialized into a specific legal initiative within the foreseen time limits.

This legal initiative was materialized based on the best local and foreign expertise, through a transparent, comprehensive and open cooperation process with all the political actors and factors, the local government, the stakeholders and the community. On conclusion of the process for collecting the opinion and consulting the community, 76% of LGUs officially replied to the request for opinion on the new administrative and territorial division, thus setting a new standard in the involvement of local government units in such an important process. Over 66.4% of the representatives of LGUs that replied, have expressed their opinion in favour of the reform and the Committee proposals.

Pursuant to the provisions of the Constitution and the organic Law On Local Government, with the support of STAR project, the biggest national opinion poll was conducted, with a representative sample of 16,000 persons interviewed, with the aim of obtaining the opinion of the communities on the administrative-territorial reform. On conclusion, over 67% of interviewees expressed their opinion in favour of the administrative and territorial reform.

The long-term benefits of the administrative and territorial reform will bring about great advantages to the local communities, in terms of the increase of local public services quality and their modernisation. Furthermore, it has been estimated that, in the mid-term, the good administration and rationalisation of administrative and operating costs will result in a profit of ALL 3 to 6 billion in local budgets.

LGUs empowerment with the new administrative and territorial division, will create the basic premise to deepen and extend the further decentralisation of governance and increase the fiscal autonomy of local government units.

All the arguments listed in this report, and the annexes attached herein, constitute the basis of the bill "On administrative and territorial division of local government units in the Republic of Albania" which must meet the support and approval of the Members of the Albanian Parliament.

INITIATORS

1. Bashkim Fino
2. Armando Subashi
3. Petrit Vasili
4. Spartak Braho
5. Namit Kopliku
6. Musa Ulqini
7. Andrea Marti
8. Bledi Klosi
9. Blerina Gjijnuri
10. Shpëtim Idrizi

XI. ANNEXES

Annexes listed below may be found in hardcopy, attached to this report.

Annex 1 - Analysis of local government units

Annex 1/1 - Report on functional areas

Annex 2 - Public consultation and information process

Annex 3 - LGUs opinions

Annex 4 - Report on the national opinion poll

THE PARLIAMENT

NO.2572/1 DATED 23/07/14

**REPUBLIC OF ALBANIA
THE PARLIAMENT**

Ad-hoc Parliamentary Committee for the Administrative and Territorial Reform in the Republic of Albania

Document of the Committee

DECISION

No. 6, dated 23/07/2014

**"On the approval of the legal initiative to submit the bill "
On the administrative and territorial division of local government units
in the Republic of Albania".**

Pursuant to Articles 24 and 32-41 of the Rules of Procedure of the Assembly and the Decision no. 1/2014, dated 23/01/2014 of the Parliament of Albania "On the establishment of an ad-hoc Committee on the Administrative-Territorial Reform in the Republic of Albania", amended by Decision no. 24/2014, dated 24/04/2014, the ad-hoc Committee, after reviewing the official reply of the Council of Ministers,

D E C I D E D :

1. The approval of the legal initiative to submit the bill "On the administrative and territorial division of local government units in the Republic of Albania", according to the text and accompanying report attached to this Decision.
2. The bill "On the administrative and territorial division of local government units in the Republic of Albania", pursuant to Article 81 of the Constitution and Article 68 of the Rules of Procedure of the Assembly, shall be submitted to the secretary and handed over to the Speaker of the Parliament, to proceed with further parliamentary procedures.
3. This Decision shall enter into force immediately.

CHAIRMAN

Bashkim FINO