LOCAL GOVERNMENT FINANCING AND SUSTAINABLE DEVELOPMENT: THE CASE OF ALBANIA

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Abstract Local government is one of the most important pillars of good governance of a society, an important indicator to express the essential role it has in the sustainable development (SD) of a country. The reforms undertaken in Albania in terms of increasing the fiscal and functional capacity of local government, connect it more and more with all components of SD. The use and maximization of the capacities of the local government in order to improve the basic goals of SD, is supported not only by the theoretical connection of functions but also by the experience of developed countries with a deep decentralization. In Albania, the local government receives revenues in the form of central government transfers and its own. These revenues are used by the local government to finance public services that have a direct impact on the lives of citizens but also to improve the quality of life. Both forms of local government revenue are at full discretion to be used by local self-government units and to improve measurable indicators of increasing the quality of public services and financing sustainable development.

Keywords:
local government, public economics, public finance, sustainable development, fiscal decentralization

JEL:
H71, H72, H77

University of Maribor Press

DOI https://doi.org/10.18690/um.epf.3.2023.60
ISBN 978-961-286-736-2

1 Introduction

After the 1990s in Albania, important reforms were undertaken to modernize local government, which aimed to bring governance as close as possible to the citizens. Over the course of three decades, important reforms and steps have been taken dedicated to local government such as: i) the adoption of the Constitution of the country in 1998, which sanctioned the organization and functioning of local government; ii) approval by parliament of the European Charter of Local Self-Government, in 1999; iii) territorial administrative reforms, as well as iv) laws and bylaws on fiscal decentralization and local public finances (Albania, 2016-2020). Decentralization in general and fiscal decentralization in particular, are an issue under constant discussion in almost all countries of the world (Dabla-Norris, 2006). Strengthening the financing scheme and increasing the role of local government in the implementation of many functions, is an important premise to promote the country's economic growth and sustainable development in all components of sustainable development.

In addition to more effectively managing local service provision related with goals of sustainable development, the local government units should be better placed to design and implement regional development programming (Imami et al., 2018). The stronger monitoring and evaluation capacity that might be expected from these units could likewise help with the "SDG localization", via the expanded use of SDG targets and indicators in local development planning (UN, 2021).

The territorial administration reform introduced large changes in the local governance landscapes in Albania, including providing broader competencies for local economic development, service provision, territorial planning, environmental management, land management, transportation, welfare, social care, and civil protection, and local information management (Toska & Bejko, 2019). In this respect, support for local government accountability in the following areas seems particularly important:

– Local public finance management. After the implementation of the Law on Local Self-Government Finances, local financing has start to fully implement the decentralized competences and expectations associated with the administrative-territorial and decentralization reforms.

- Streamlining local government structures to better reflect their distinct functions, performance targets, and human resources.
- Introduce local government performance standards to that can be applied across territorial administrations in the country, to guide and inform practices, norms and values and further enhance local governance approaches.
- Review the roles of local government in regional development, particularly in providing technical, planning, and coordination functions to support more effective territorial administration.

All the steps taken for local government in Albania in the framework of horizontal and vertical decentralization have created advantages in increasing the quality of implementation of SDGs by local government.

2 Literature Review

In public finance decisions, political risk is often the primary risk when assessing developing world opportunities (World Bank, 2002). At the local level, financial management faces the challenges of many risks which have a direct impact on the sustainable development of public policies. Many studies have been conducted with the pillars of sustainable public policy development, but the link between local government funding and sustainable development is an area not covered by analytical studies that help policymakers (UN, 2021).

Various studies have emphasized that real fiscal decentralization is very important for local government. By foreign and domestic authors, as well as by international institutions such as; The World Bank, OECD and the International Monetary Fund mention that Albania has made progress in fiscal decentralization (OECD, 2021), but there is still much to do. Increasing fiscal autonomy remains a challenge for the future as it is an important aspect of sustainable local development.

All studies determine that at the local government level, measures to further de-politicize public finance management are needed to strengthen public-sector accountability (UN, 2019). Measures in the following areas are recommended in support of this objective:

- Strengthening the cultures, ethics, and values on using the public founds, that characterize modern public institutions—particularly as concerns Economy-Efficiency-Effectivity public money using, transparency, and avoidance of even the appearance of conflicts of interest need significant attention.
- Acceleration the use of harmonized, results-oriented public finance management monitoring systems at local levels. Monitoring systems of public finance generally needs to focus on activity-, budget- and/ or output-based reporting, characterized by differing forms and procedures, and in some cases requiring multiple reporting of the same information.
- Introduce comprehensive public finance management in local level approaches within the civil service, which is professional and helps political decision to make better decisions with effects in live of citizens.
- Streamline and consolidate mechanisms for coordination, planning and reporting on public finance management.

3 Methodology

This study is based on primary and secondary data collected by author in official sources of the Ministry of Finance and Economy for 61 Municipalities in the Government Financial Information System (GFIS Treasury System), official information on fiscal indicators of local units provided by local self-government units and by INSTAT for the period 2016-2020. The data are processed by the author of the paper in order to be placed in the necessary format of the analysis of the relationship between funding sources and expenditures for the purposes of sustainable development.

As part of the study, in the paper is analyzed the importance that the elements of the financing scheme (of revenues) will take towards sustainable development (some of the SDGs at the local level). In this paper is examine the impact of factors such as: i) General Unconditional Transfer (GUT), ii) Unconditional Sectorial Transfer (UST) and iii) Own Revenue (OWR) (from local taxes and fees) to several components of sustainable local development (some SDGs at the local level). The SDGs that will be the subject of the study are: i) Quality of Education (E), ii) Sustainable Communities and Cities (CC), and iii) Climate Change (CLCH).

Through the multiple linear regression model, the aim will be to determine the strength of the relationship between local government financing variables and expenditures for financing the components of sustainable local government development.

3.1 Model specification

The main goal of Sustainable Development Goal (SDG) is to influence with public policies in Quality of Education, Sustainable Cities and Communities and Climate change. To study the relation between public finance policies in local level with SDG-se is created a model of multiple linear regression in SPSS Statistics.

This relation is a good indicator for measuring sustainable development as a results of public finance management in local level. A high level of correlation signifies a better level of development as a result of a well public finance management of local units, whereas low correlation implies weak level of development of SDG-s and local government unfunded. Financial inclusion is measured by the value of General Unconditional Transfer (GUT), Unconditional Sectorial Transfer (UST) and Own Revenue (OR). Based on the discussion the following model was developed. The model to be used is expressed mathematically as thus:

$$SDE + SDCC + SDCLCH = f\ (GUT + UST + OR) \tag{1.1}$$

The econometrics model is written as:

$$SDE + SDCC + SDCLCH = \alpha + \beta 1GUTit + \beta 2\ USTt + \beta 3\ ORit + eit \tag{1.2}$$

To adjust for disparity in unit and measurement so that it can conform to the homoscedastic assumption as clearly stated in the multiple linear regression linear regression model. Where is constant, $\beta 1$, $\beta 2$ and $\beta 3$ are the coefficient of the independent variable in our case the 3 sources of revenues, while other variables remain as defined earlier. In determining the level of relationship in both variables, the study used different econometric techniques. The study used both Error Correction Model and Fully Modified Ordinary Least Square (FMOLS) to ascertain both the short-run and long-run relationship respectively among the variables. The math- empirical expression is represented as; $\beta 1 > 0$, $\beta 2 > 0$ and $\beta 3 > 0$ implying that a unit increase in the independent variables will lead to increase in SDG-s by the value of the coefficient of the respective independent variable.

4 Research Results

In order to determine the level of connection between the indicators of local government financing and expenditures at the program level according to the goals of sustainable development, the authors have compiled some statistical data of the multiple linear regressive relation. The result will summaries four estimated models, which are the REM standard model, three generalizes least square (GLS) in estimating coefficient covariance. In this study we are focus on the three main tables you need to understand your multiple regression results, assuming that your data has already met the eight assumptions required for multiple regression to give you a valid result.

This study confirms a strong and direct link between the sources of local government financing in Albania and the three important pillars of sustainable development through ANOVA statistical indicators greater than the standard statistical level. It has also been shown that an increase in local government funding sources will have a direct impact on the increase in expenditures that go directly to achieving the objectives of sustainable development.

4.1 Statistic test of variables

By using the SPSS Statistics, we have generated quite a few tables of output for a multiple regression analysis. In this section, we show only the three main tables to understand the results from the multiple regression procedure, assuming that no assumptions have been violated.

The Table 1, of the econometric model is the Model Summary table, where is reported the strength of the relationship between the model and the dependent variable. With this table we provide the R, R2, adjusted R2, and the standard error of the estimate, which can be used to determine how well a regression model fits the data:

Table 1: Model Summary[1] table

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.993[a]	.986	.986	9223.37203	.986	3389.759	3	57	<.001

Source: Author's calculation in SPSS Statistics, 2021;

Based on the analysis of the above indicators we understand that the indicator "R" or otherwise multiple correlation which measure the quality of the prediction of the dependent variable; our case the sustainable development Goals. As it mentions in the table, a value of 0.993, in this example, indicates a good level of prediction. This indicator clearly expresses the level of forecast that the link of these indicators will give on the impact of financial management at the local level on the acquisition of important indicators of sustainable development. On the other side, R2 value which is the proportion of variance in the dependent variable that can be explained by the independent variables (technically, it is the proportion of variation accounted for by the regression model above and beyond the mean model). You can see from in our study the value of 0.986 that our independent variables explain 98% of the variability of our dependent variables which are the expenditures of 61 local government units for every goal.

The F-ratio in the ANOVA Table 2 tests whether the overall regression model is a good fit for the data. The Table 2 shows that the independent variables statistically significantly predict the dependent variable, $F(4,95) = 3389.759$, $p < .001$ (i.e., the regression model is a good fit of the data).

Table 2: ANOVA[a2]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10741917017039.210	3	3580639005679.737	3389.759	<.001[b]
	Residual	60209713977.997	57	1056310771.544		
	Total	10802126731017.207	60			

Source: Author's calculation. in SPSS Statistics, 2021;

[1] Predictors: (Constant), OWR, UST, GUT

[2] Dependent Variable: SDE, SDCC, SDCLCH
Predictors: (Constant), OWR, UST, GUT

The Table 2 with ANOVA results shows that our study confirms on this study the strong link of forecasting that local government expenditures have for the purposes of sustainable development to the main sources of local government funding.

5 Discussion and Conclusion

Based on the Literature Review on this issue, it results that theoretically there is a strong connection between local government financing and sustainable development. From the research of literature and cases of different countries it results that, mainly in developed countries there is a strong connection between local government financing and sustainable development. This connection is mainly found in western countries with stable democracies and sustainable economic development and potential. Within this group of countries that focus on environmental development, the link between local and regional funding and sustainable development is stronger.

The study shows that in Albania currently there has a low level of fiscal decentralization related to the objectives of sustainable development, despite the fact that the relationship between them financial management and SDG-s in the econometric study is strong. An increase in the future level of local government revenues not only from central government transfers but also its own resources would progressively increase the impact of local government on the quality of implementation of sustainable development goals.

The study highlights the need for policymakers in Albania to design and develop real and complete decentralization processes associated with financial needs and investment in human resources in order to increase the absorption power of competencies from local communities and good local governance in favour of increasing local community's welfare.

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