

PROJECT TITLE

Regional Development Fund transfers to local governments and state clientelism in Albania

THEMATIC AREA: The Reform Process including Public Finance, Fiscal Burden, and Taxation

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Acknowledgments: This research was supported by a grant CERGE-EI Foundation under a program of the Global Development Network. All opinions expressed are those of the authors and have not been endorsed by CERGE-IE or the GDN.

ABSTRACT

In developing countries the decentralization process has been quite different compared to the path followed in developed countries. In post socialist countries, including Albania, regional development has been a fast process accompanied by strong deregulation and significant institutional changes. The level of funds being allocated to local government units (LGU) is based on schemes which often do not follow the equity and efficiency criteria of decentralization.

Political economy scholars, in fact, explain the allocation of intergovernmental grants based on an opportunistic approach of the central government to maximize the ability of reelection rather than the social welfare. On the other hand, besides political influence from the ruling party a successful accumulation of the grants requires strong leadership capabilities and influence tactics expressed through networking relations.

The focus of this study is the Regional Development Fund (RDF), a competitive scoring investment fund, during the period 2011-2013. Qualitative methods are used to analyze the factors influencing the probability of an LGU to be financed by RDF.

The findings indicate that the tactics of using networks are successful if combined with support from LGU leaders that are influential within a political party – and preferably a party in the governing coalition. The political and networking factors are strongly linked to the ability of the LGU leader to enhance the importance of the LGU in terms of income and votes by first meeting the quality criteria of the project proposal.

Keywords: Local government funds, political manipulation, network, leadership, Albania

JEL classification: H77, P48, P26

1. INTRODUCTION

Fiscal decentralization represents an essential issue for most Western Balkan (WB) countries, which went through an intensive phase of decentralization in the early 2000s. In these countries, local governments still cannot properly fulfil their public and social functions and are still highly dependent on central government funds. The level of funds being allocated to the local government units is based on schemes which risk being non-transparent and unfair, thus influencing negatively the equity and efficiency criteria of decentralization. Similar to other WB countries, in Albania local government units encounter several issues in implementing their services and maintain accountability towards their citizens. The grants distribution scheme of intergovernmental transfers in Albania is constantly subject to revisions and has been criticised for a lack of transparency and accountability, while leaving room for further changes on subjective terms e.g. informal networking and lobbying, corruption and politically motivated biased allocation.

In this study we analyse the most contested grants scheme in Albania: the competitive grant scheme, in 2010 reorganized under the umbrella of the Regional Development Fund (RDF). As emphasized by previous studies (see Levitas, 2011; Nalas, 2013; SDC, 2014; Coplan, 2012), before 2009 the competitive grants were judged to have been particularly inefficient. During this period, line ministries allocated investment grants directly to LGUs based on simple letters of interest, without a rigid procedure. The above-mentioned studies identified political bias and high variations in the per capita allocation of funds. The system was clearly lacking objectivity, predictability and transparency.

Experts express doubt over the fairness and transparency of the criteria employed for the competition. Another important and severe critique to this scheme concerns the fact that the committee is composed mostly from the government which may have the incentive to bias the competition towards LGUs with electoral support for the central government.

This study aims to analyse the factors impacting the competitive funds distribution from the central government to the local government units, with a special focus on the personal political influence and power of the mayor. Fifty three structured interviews with mayors of communes and municipalities (14% of all communes/municipalities) are conducted in order to analyze their relations with the central power holders, and their authority and role in orienting competitive grants.

The study provides a new contribution on the personal power and informal networking for accessing grants in Local Governments and open new hints for further research in this topic in the Albanian governance system and elsewhere.

2. COUNTRY BACKGROUND

The Republic of Albania was characterized by a centralized economy during the communist system established after WWII that lasted until the early 1990s. The first democratic elections in the country, which established a multi-party democracy, took place in 1992, the same year in which the first attempt towards decentralization of powers was initiated.

Decentralization reforms had a slow start in Albania compared with other reforms, such as financial and fiscal reforms, privatization of large plants and land reforms. Intergovernmental transfers were first allocated in 2002.

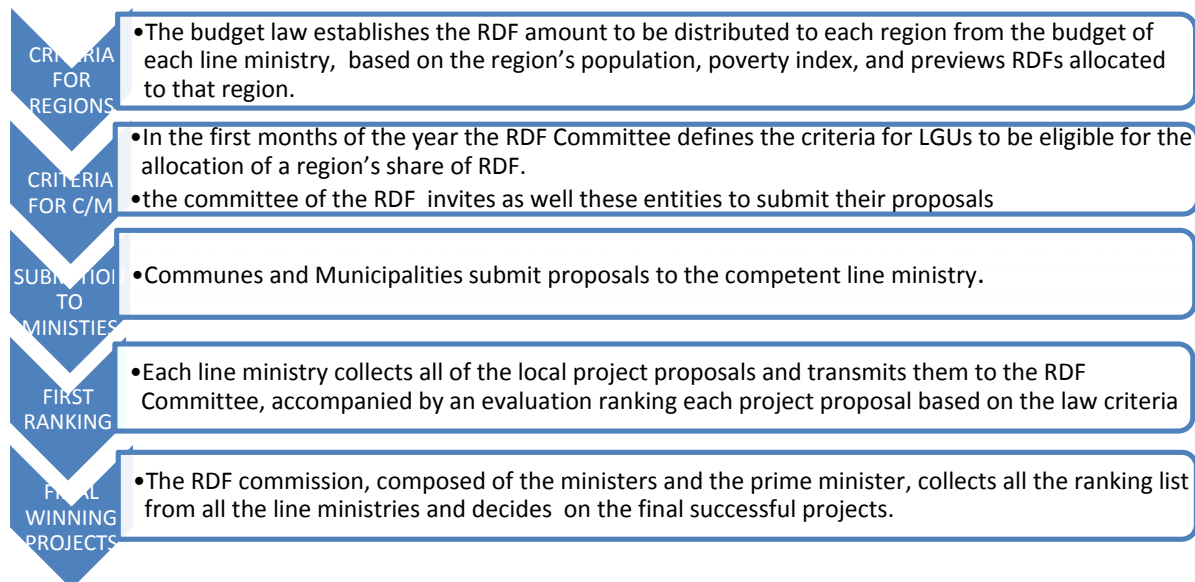
The study will focus on the conditional transfers, especially the competitive grants which have experienced continuing changes during the period 2006-2010. As emphasized by previous studies (see Levitas, 2011; Nalas,

2013; SDC, 2014; Coplan, 2013). The above-mentioned studies identified political bias and high variations in the per capita allocation of funds. The system was clearly lacking objectivity, predictability and transparency.

Since 2009 the competing grant has been centrally managed by the Council of Ministers, and is referred to as Regional Development Fund (RDF)¹. The RDF covers various sectors, such as: local infrastructure (e.g. roads and sewage systems), education, public health, infrastructure, water supply, culture and forestation. It is the only fund for investment allocated from the central government to local governments. To be eligible for this fund LGUs compete based on different criteria made public in the budget law. The criteria and the scores changed slightly each year during the period 2011-2013. The criteria for 2013 were: (a) The degree of compliance with the national and regional development strategies; (b) The degree of impact on reducing poverty and improving access to basic services; (c) Number of beneficiaries affected directly and/or indirectly by the project; (d) Level of collecting local taxes and fees;(e) Technical quality of projects proposed;(f) The project must benefit more than one local unit.

A Committee, headed by the Prime Minister and composed of the line ministers, deputy ministers and representatives of local associations, is responsible for selecting the projects proposed by LGUs on a competitive basis.

Figure 1: RDF allocation procedures



Source: Author's own elaboration

The RDF amount to be distributed to each region, according to each ministry's budget, is stipulated in the annual budget law. RDFs are allocated based on a two-tier, top-down approach. First, the amount is calculated for each region based on the region's population, regional poverty, and the previous RDF amounts dedicated to each region². Then, within the first quarter of the year the RDF Committee defines the criteria for LGUs to be eligible to receive funds allocated to their region (granted upon submission of successful proposals). Figure 3 depicts the main steps for allocating the competing grants to the successful LGUs.

The hypothesis of this research is based on the potential influence of the central government on Albanian voting behavior. Thus RDF, rather than following competitive or equity principles in the distribution of competitive funds,

¹Law nr. 10190 date. 26.11. 2009, "On the state budget of the year 2010".

² See: Decision nr. 3 of 19.3.2012 Regional Development Fund Committee

are biased toward granting funds to projects proposed by those LGUs where votes can be extended. Albanian voting behaviours are a proper laboratory to observe for tactical distributive theories because the political system in Albania is bipartisan and voting since the establishment of the pluralist system has been mainly shared between the two large parties: the Socialist Party (SP) and the Democratic Party (DP). These two parties forge coalitions with smaller parties to obtain a majority. In the period 2000-2011, approximately 30% of the LGUs voted 4 times for the same party and 60% of them have voted DP. The last local elections in 2011 witnessed a change of political preferences of voters where 70% of them resulted in a shift in voting allegiances from the SP to the DP.

Analysis is hence made of the period 2011-2013, taking into consideration as a starting point the recent local elections up until the last central elections (May 8, 2011- June 23, 2013). Moreover, in order to have a fixed reference period, a cut-off date was required for the interviews so that the dates of the interviews did not influence the opinions of the respective LGU leaders. It should be noted that local elections in Albania serve to elect mayors of municipalities, and heads of communes and councils of the 373 LGUs, which are directly elected. The constituencies for the local elections are the geographical areas of the municipalities or communes³. Mayors and heads of communes are elected under a first-past-the-post system⁴, while members of the councils are elected from closed candidate lists under a proportional system. The Law on Local Government⁵ determines the number of councilors per each LGU according to its population size, ranging from 13 members in the smallest communes to 45 members in cities between 100,000 and 200,000 inhabitants.

3. THEORETICAL BACKGROUND

In developing countries such as Albania, the local government cannot fulfill its public and social functions and is still highly dependent on the central government grant-aid funds. The level of funds being allocated to the local government units is based on a fiscal equalization scheme which risks being non-transparent and unfair, thus influencing negatively the equity criteria of decentralization (UNDP, 2005, Dafflon, 2006). Authors of positive theories of Public Finance assert that the equity and efficiency criterion should be the basis for determining the intergovernmental transfers' effect on the regional disparities (Musgrave, 1983; Kessler and Lessmann, 2009) disregarding political inclinations and focusing instead on the economic rationale for the use of transfers (Sato, 2007).

However, empirical evidence, in both developed and developing countries shows that the distribution of grants to LGUs have not been in line with the equity and efficiency criteria of decentralisation, but are often influenced by political affiliation (Khemani, 2008; Sato, 2007) and personal networking. Based on such evidences, empirical scholars of political economy (Inman and Rubinfeld, 1996; Sato, 2007) show that transfers are allocated by the central government following an "opportunistic" pattern.

In this study the distribution of grants, differently from other studies will be complemented with observations at the local level using as theoretical basis the recent development of the leadership and clientelistic theories (see Babajanian, 2008, Muno, 2010; Larreguy, 2012). Leadership theory in regional development provides evidence that "intrinsic" characteristics of the leaders are crucial in regional development and accessing funds, such as the leadership and organizational ability of the leader. According to these scholars' concept of leadership provides a

³ Tirana is a special case, in that there are two levels of local government: the city forms one constituency and the 11 boroughs form their own consistency.

⁴ First-pass-the-post-system is an electoral system where the candidate that receives most votes wins the election.

⁵ Law nr 7572, 1992, "On Organization and Functioning of LGU"

promising way to better understand endogenous processes of institutional change in regional development. (Scott, 2001)

In order to better reflect the possible channels of the influence of clientelism a multitier/hierarchic approach will be used based on various scholars' works (see Samuels 2003; Sotarauta, 2005; Sotarauta, 2009; Harmaakorpi and Niukkanen, 2007). In these structures the relation between the patron (the party) and the client (the voter) is intermediated through a strong or a weak role of LGU leadership which is positioned as a broker. The difference between a patron and a broker is that the broker has no control over resources; but may transfers some resources from the patron in order to later distribute it to the clients for its own and patrons benefit. The broker, in this case the LGU leader, aims to maximize the conditional grants derived from the central government in order to be reelected by the voters. This is similar to the principal agent relation scrutinized by Kitschelt and Wilkinson (2007) and complex hierarchical systems presented by Munro (2010). The broker (in this case the LGU leader) fears the selective local elections which are the only institutional mechanisms that citizens can use to control their representatives.

In this environment LGU leaders do position themselves as brokers based also on their leadership capabilities. Being subject of many constrains, such as insufficient resources and political lock-ins from the party in power and other lock-ins makes the role of leadership in a network-based operating environment particularly important (Samuels, 2003; Harmaakorpi and Niukkanen, 2007). Thus except the political influences and extensiveness of these influences from the party in power (see Kitschelt and Kselman, 2011) a successful accumulation of the conditional grants requires strong leadership capabilities and influence tactics expressed through networking and rent seeking relations.

The selected theories are compatible with the Albanian social and political environment. Gërzhani and Schram (2009) find that Albania stands for a particular case of clientelistic behavior which is deeply related with the regional and cultural polarization. CoPlan (2012) finds that for influencing political decision-making in their favour, mayors and heads of communes still apply direct and personal links to central power holders (CESPI, 2011), which is more likely to take place if they belong to the same political network/coalition as that of the central government. Co-Plan (2011) also finds a statistical influence of the political affiliation factor in the distribution of competitive grants in Albania. This study is the only one, to the author's knowledge, to study the RDF process in Albania. This study, however, was implemented only in 2010 just when the RDF process has started and lacks a rigorous selection of the sample.

In this study we argue that LGU leaders' abilities and incentives to deploy clientelistic strategies will vary depending on two factors: i) on the political affiliation of the LGU leader, thus if the leader of the LGU is affiliated with the party in power -then it may be the case that he/she is more successful in gaining conditional funds -and ii) according to their abilities in reaching the grant sources through the use of political or personal ties. In this case leaders of LGUs apply features described in the clientelistic relations such as their political power in the local party branch, face-to-face contacts with high representatives of the central government (used also by Hilgers, 2011).

4. METHODOLOGY

This study is based on primary data collected through interviews, which gathered the opinions of the heads of communes and municipalities with respect to their relations with the central government and their authority and role in orienting Regional Development Funds, in order to assess the factors influencing the distribution of the RDF to local governments.

The questionnaire was drafted based on an extensive literature review. Interviews were conducted with experts to explore specific Albanian dynamics in defining non-official factors that influence grant distribution, as well as the abilities and powers that leaders use to influence the allocation of transfers.

The questionnaire was designed to investigate the following issues:

- 1- Level and characteristics of the leader
- 2-Type of leadership
- 3- LGU resources
- 4-Personal (political) power of the mayor
- 5- Perceptions and personal experience of the leader with regard to the RDF allocation process

A special box for remarks and comments was left at the end of the questionnaire in order to give space to respondents expressing opinions not being asked along the questionnaire. In order to have a comprehensive, efficient and less biased questionnaire it was tested with two high-level representatives of communes and an expert in survey design

4.1. DATA COLLECTION

Fifty three semi-structured face-to-face interviews were carried out with 53 LGU representatives (14.2% of all LGUs in Albania). Interviews were used to better understand the LGU leaders' experience and opinions with respect to accessing competitive funds. All of the interviews, except one, were conducted face-to-face with the LGU leaders. One mayor answered the questionnaire via e-mail.

The survey was carried out in 9 regions during year 2014: Berat, Dibër, Durrës, Elbasan, Gjirokastër, Korçë, Kukës, Lezhë and Shkodër. The sample of LGUs for the interviews was designed based on four criteria: the region where the LGU is situated, the type of LGU (rural or urban), population and the LGU leaders' political affiliation.

The first criterion used to select the sample is *the region* since RDF funds are allocated to communes and municipalities after a first allocation to the 12 regions⁶. In fact, the yearly budget specifies the amount of funds to be distributed to communes and municipalities, divided by specific regions.

The RDF process requires specific skills including technical expertise, project proposal writing experience, administrative and managerial skills. Moreover, one of the criteria required for successful applications is project co-financing. Accordingly, larger local units are more likely to participate in the RDF process. The second criterion used to select the leaders for the survey is the *population* of the LGU. An LGU with a large population has more human and financial resources to participate in the RDF process. The LGUs with the largest populations were the ones selected in all of the regions.

To have a representative sample of both *urban and rural areas*, the selection of the LGUs was made taking into consideration the distinction between communes and municipalities. Municipalities have a larger urban area compared to communes that are composed of a modest urban center and surrounded by villages.

⁶ In the Albanian local government structure, the region is the first tier while communes and municipalities are the second tier. Communes are situated in rural areas while municipalities are in urban areas. The region is composed of several communes and municipalities. There are 12 regions, 65 municipalities and 308 communes in Albania.

Finally, the last criterion used to design the sample was the *political affiliation of the leader* of the commune or municipality. An equal number of LGUs represented by leaders affiliated with the governing coalition and the opposition coalition were selected.

In summary, to create our sample municipalities and communes in each region were ranked based on the population and the political affiliation of their leader. The fact that municipalities are much fewer in number than communes was reflected in our sample. We selected 2 municipalities and 4 communes in each region. Representatives affiliated with the governing political party and others affiliated with the opposition were equally targeted. Following these criteria the following interviews were conducted in each of the 9 regions: representatives of the 2 largest municipalities with different political affiliations and representatives of 4 communes, half of which had the same political affiliation as the central government and the other half with different political affiliations (non-governing at the central state level). In cases where it was not possible to interview a municipality leader, (such as in Shkodra region, where there are no non-governing municipality leaders, and in Lezha region, where we could not get an interview from a governing LGU leader), the next commune on the list was chosen in order to have the same composition of governing and non-governing LGUs within a region.

One of the questionnaires conducted in Berat region was excluded from the study because, under the mayor's request, the interview was carried out in the presence of other people from his office. This resulted in numerous interruptions that undermined the concentration and understanding of the questionnaire on the part of the mayor. Please refer to the table below for a detailed structure of the sample.

Table 1: Sample size according to the subgroups

REGION	Nr of communes governing	Nr of communes non-governing	Nr of municipalities governing	Nr of municipalities non-governing
Berat	2	2	0	1
Diber	2	2	1	1
Durres	2	2	1	1
Elbasan	2	2	1	1
Gjirokaster	2	2	1	1
Korce	2	2	1	1
Kukes	2	2	1	1
Lezhe	3	2	0	1
Shkoder	2	3	1	0
Total	19	19	7	8

Source: Author's own elaboration

4.2. METHODS OF DATA ANALYSIS

Qualitative methods such as descriptive statistics and case studies are used to analyze the questionnaire data to thoroughly investigate the influence of formal and informal factors on the distribution of RDF funds.

4.2.1. Descriptive statistics

Descriptive statistics are used to explore the general characteristics of the sample and to give a thorough overview of the perception of the RDF process on the part of the LGU leaders. To present the political influence, networking and leadership influence in RDF allocation we look first at two important indicators: the success rate and the probability of winning a project. The success rate measures the rate of success for an application made by an LGU.

It is calculated as ratio of the number of winning projects over the total number of projects applied for by each LGU in the last mandate of the leader.

$$successrate = \frac{NumberofsuccessfulRDFprojectapplications}{NumberofsubmittedRDFprojectapplications}$$

The second indicator used in descriptive statistics is the probability for the LGU to win k projects given n project applications, calculated using a binomial probability function for each LGU in our sample.

$$P_i(\text{win } k_i \text{ projects in } n_i \text{ project applications}) = \binom{n_i}{k_i} p^{k_i} (1 - p)^{n_i - k_i}$$

Where k_i is the number of successful projects of a specific LGU, n_i is the number of total project proposals the LGU has submitted for RDF in 2011-2012 and p is the probability of winning a project, calculated as the share of total projects won by all LGUs over the total applications made by all of the LGUs in our sample during the period of study.

4.2.2. Case studies

To better highlight the influence of political factors and leadership in the absorption of RDF funds by the local government units we carried out 3 case studies. The LGUs chosen for analysis were those fulfilling two criteria: the success rate and the binomial probability⁷. LGUs were ranked using both indicators. The two rankings identified the same LGUs in the upper part and the bottom part of each list. We selected the first 2 LGUs, which had the highest success rate and probability to win, for the case study descriptions and the last LGU with the lowest success rate and the lowest probability to win. Digging deeper in each of the cases we sought to illustrate and crosscheck the findings of the results with the reality of the selected LGUs. The analyses of case studies help to identify various facts behind the stories, with regard to the allocation of investment funds in Albania.

5. RESULTS

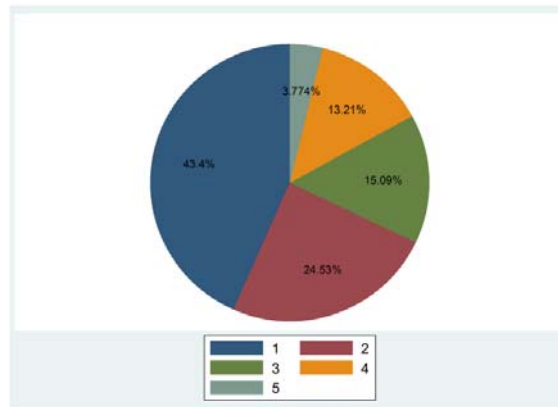
5.1. DESCRIPTIVE RESULTS

The first part of the questionnaire gathered some main characteristics of the respondents. A key factor of their experiences is related to their number of mandates leading the LGUs. Most of the LGU leaders interviewed had served for more than one term. Approximately 15% of the leaders in the sample interviewed were in their third term in office. This share is represented in the total population of the LGU leaders as also identified by Open Data Albania⁸. Over the past two years a proposal has been debated in the Albanian Parliament that would introduce legislative limits impeding candidate lists composed of local leaders having served for two terms or more from running again. For the purpose of this study, LGU leaders' prolonged dominance is taken as an indication of political power.

Figure 2: **Number of terms in power of the LGU leaders interviewed**

⁷ Please refer to the definitions in the Methodology section.

⁸ For further information, see: <http://open.data.al/sq/lajme/lajm/lang/sq/id/454/Kryetare-Komune--me-mandat-te-riperseritur-2000---2015>



Source: Author's survey results

The majority of LGUs in our sample (95%) have applied for RDF funds. Only 3 governing LGUs⁹ out of 26 have not submitted RDF applications for community investment funding, while all of the 27 non-governing LGUs have sent at least one application. The situation is much improved compared to the situation perceived when the RDF was first implemented (in 2010). A survey of CoPlan, (2012) done in 2011 with approximately 20% of the country LGUs found that a quarter of the sample have not applied for a project at all.

The governing LGUs during the period of study (from 2011 to 2013) are much more successful in being granted a project. The number of governing LGUs with at least one successful project during the same exceeds the number of non-governing ones. Ninety-one percent (91%) of governing LGUs that applied won at least one RDF project during 2011-2013 period, compared to only 59% of non-governing LGUs.

Table 2: Number of governing and non-governing LGUs participating in the RDF process

	Governing LGUs	Non-Governing LGUs
Number of LGUs having submitted at least one project	23	27
Number of LGUs having won at least one project	21	16
Percentage of LGUs with at least one successful project	91%	59%

Source: Author's survey results

The superiority of governing LGUs is witnessed also by the rate of their granted RDF project applications¹⁷; governing LGUs are twice as successful as non-governing LGUs. Although there does not seem, at first glance, to be a great difference in the efforts of LGUs of different affiliations to access RDF funds in the last mandate (9.5 projects of governing LGUs versus 9.7 projects per non-governing LGUs), it should be noted that non-governing

⁹ The three LGUs in our sample that did not apply for RFD funds in the period 2011 to 2013 are all governing LGUs; one is located in the Durrës region and two in Kukës. The leader of the Durrës LGU did not apply because he had become mayor only a few months before the date of the interview, after the former mayor had left his position to become MP in the newly elected government in July 2013. On the other hand, both leaders from Kukës, when asked why they had not applied for RDF funds during 2011-2013, answered that the regional MPs had discouraged them to apply because of their poor network in the RDF process. Their perception was that the chances of having projects funded without a good network would have been very low considering the time and money they would have had to invest in project applications.

LGUs experienced a higher rejection rate. Thirteen percent (13%) of all applications submitted by non-governing LGUs have obtained funds from the RDF compared to a rate three times as high for governing LGU applications.

In addition to a higher success rate, governing LGUs also experience a higher probability to win¹⁰ a RDF project. In fact, governing LGUs have, on average, an 80.3% probability of getting a project funded by the RDF compared to 43.2% for non-governing LGUs, taking into consideration the total number of applications submitted by the LGUs.

Table 3: RDF project proposals and success rate for governing and non-governing LGUs (2011-2013)

	Governing LGUs		Non-Governing LGUs	
	Total	Per LGU	Total	Per LGU
Number of Applications	219	9.5	262	9.7
Number of granted projects	86	3.7	34	1.3
Success rate	39.2%		12.9%	
The average probability for a LGU to win a RDF project given the number of applications submitted.	80.3%		43.2%	

Source: Author's survey results

Political factors seem to be important in the allocation of RDF funds. Most experts believe this situation deteriorated due to the fact that the process is intentionally kept non-transparent. The RDF process is a “black box” not only for the public, but also for those LGUs that apply. Almost 80% of the leaders declare having never received official motivations for the rejection of their project proposals. The mayors admit that informal channels, such as phone calls or meetings with MPs, ministers and high-level representatives of the central government are frequently used in order to get information regarding the reasons for rejection. The networking through direct contacts is also used as a lobbying influence in other cases.

Table 4: Frequency of receiving an official motivation for the rejection of project proposals

Frequency	Governing LGUs	Non-governing LGUs
Never	78%	81%
Rarely	4%	4%
Often	4%	0%
Always	9%	4%
Don't remember	4%	11%

Source: Author's survey results

The lack of transparency in the RDF allocation process not only makes it difficult for LGUs to improve the projects that are not funded in order to have a better chance in subsequent RDF rounds, but also results in increased perceptions of manipulation and clientelism.

Asked about the main perceived reasons for failing to access RDF funds, the LGU leaders state opposing views based on their political affiliation. The respondents affiliated with the party in power rationalize their failure based on the technical criteria as well as the limited budget allocated to the RDF, thus justifying and reasserting the positive role of the government under harsh economic constraints. Some of the governing LGUs (16%) do also recognize that having a weak network is a bottleneck for their RDF applications. Political affiliation is not important

¹⁰ Please refer to the methodology section for the calculation of the success rate and probability to win.

at all according to the direct answers made by the aligned LGUs, however as will be seen later in this study a large part of them do not deny the use of party channels of influence for increasing the propensity of being financed. Even within the same party some LGU leaders feel that there is dearth of powerful MPs in the region able to advocate and lobby for their rights. Some of them also mention the lack of indirect contacts with central administration bureaucrats running the RDF as a disadvantage.

The majority of the non-governing LGU leaders, for their part, believe that the main justification for their failure for being financed by RDF is their unfavorable political position. In their view, political membership is very important for influencing RDF commission decisions, as the members of the committee are Ministers, Vice Ministers and the Prime Minister (who leads the committee and is leader of the party in power). Other reasons for not being successful in applying for RDFs are related to the limited budget, weak networking and unmet criteria.

Table 5: Reasons perceived for not winning the projects submitted in this term?

Reasons¹¹	Governing LGUs	Non Governing LGUs
Problems in meeting the criteria	4%	3%
Limited budget	76%	10%
Do not have powerful network	16%	18%
My political affiliation	0%	65%
Other	4%	3%

Source: Author's survey results

Networking remains important given the fact that both groups of LGU leaders, beyond their party affiliation, do perceive as very important the personal preferences of the members of the commission. Such preferences are also closely related to party affiliation since preferences and contacts are developed through the party membership and power position in the party regional offices. The non-governing LGUs deem the objectivity of the RDF commission to be more resilient to influence since they rank the personal preferences of its members as very important.

Table 6: The importance of the personal preferences of the RDF commission members in the final decisions

Level of importance	Governing	Non-governing
Not important	4%	11%
More or less important	27%	15%
Very important	42%	70%
Don't know	27%	4%

Source: Author's survey results

As also described in the methodological part of this chapter a free space for general comments and remarks regarding the RDF was left available in the questionnaire. The intention was to collect information which was not gathered through the structured questions. This part of the interview rendered interesting results.

The majority of the remarks was related to the criteria and the procedure related to the evaluation of the project. LGUs leaders expressed concern about three crucial aspects of intergovernmental transfers.

¹¹ In order not to influence the answers, interviewees were not given options for this question. The alternatives presented in the table were grouped by the author based on the most frequent answers.

There is an unclear understanding of the LGU leaders on the extent to which the criteria for selecting winning projects are respected. Many of the LGU leaders doubted the objectivity of the committee in evaluating the criteria. Some of them also criticized the importance given to some of the criteria, for example to the quality of the project, which according to them cover a minor share in the overall evaluation. The opinion of the LGU leaders is based on a solid base of information since the majority of them expressed familiarity related to the criteria of the RDF. Another issue is the level of transparency in the manner in which applicants are informed of results. These criteria are defined by Decisions of the Council of Ministers (DCM) each year, but their yearly records after collecting applications and selecting the winners are not made public, either on a cumulative or disaggregated level. The final publication of the RDF committee decisions shows only the budgetary figures for the winning projects for each LGU. Moreover, the RDF commission amends and often changes the decisions over the course of the year. For instance, in 2013 the Commission changed the list of successfully funded LGU projects ten times. The total lack of transparency in the ranking of criteria, as well as the low success rate of some of the LGUs has raised the concern of experts. Indeed, a lack of transparency raises the risk of the political allocation of grants and increases the incentive for LGU leaders to make use of informal tactics to influence the distribution of funds.

Descriptive studies carried out recently have criticized the timing of the announcement and financing of the project and the average size of the project (DLDP, 2014). Timing is not properly placed during the year, which does not favor the implementation of the project phases. An earlier descriptive study (CoPlan, 2012) argues about the high discrepancy between the number of projects and the number of projects being disbursed. Between the years 2008-2009, disbursed projects are less than half of the total number of projects. DLDP (2014) reveals that this situation has not changed for the year 2013 which is recognized by the small values of disbursement made to the LGUs.

The declarations and perceptions of mayors show that the process in its entire stages is far from being transparent and uninfluenced. Official procedures are not oriented to create transparency from the publication of the criteria up to the publication of the successful projects. LGU leaders do not completely understand the use of criteria and do not perceive it as being applied in an objective manner. Almost all the LGUs are not reported for a motivation in case of a rejection. Some of them neither learn to be rejected officially but get informed through the Official Newspaper. The Political influence and patronage signs are evident and ranked as primary factor for the unaligned LGUs. Other claims such as definition of technical criteria, timing and budget size of projects are of second importance compared to the fairness and transparency issues.

These results are similarly raised by other reports and studies, showing that the situation has not improved after the restructuring of the competing grants under the RDF committee structure. The study of CoPlan (2012) found that during the period 2008-2009, 65% of the respondents declare to have never received an official feedback in case of a project proposal rejected. Majority of the respondents are not satisfied with the RDF criteria and ask for revisions of this scheme. Moreover the survey of CoPlan identifies the fact that a vast majority of the LGUs are deeply convinced for political influences. In that time $\frac{1}{4}$ of them reported cases of political favors and slightly less than 50% of them have attempted direct influences by meeting MPs, ministers or other officials for the purpose of benefiting higher transfers.

5.2. FACTORS INDICATING THE ACTIVITY OF LGUS IN ACCESSING RDF PROJECTS

The success rate, calculated based on the share of projects granted over those submitted, is positively correlated with the affiliation of the LGU leader to the party in power, the frequency of visits in the LGU of the leader of the ruling party and other high level officials of the central government, as well as negatively correlated with the number of visits the opposing party leader paid to the LGU. The coefficients are highly significant, hence emphasizing the importance of informal factors such as visits or meetings with representatives from the central

government or the RDF commission on the success rate. One interesting result reveals that the success rate is negatively correlated with the number of visits of the opposition leader, meaning that the RDF system may not only have rewarded partisan LGUs, but may also have been negatively influenced in the case of specific non-governing LGUs strongly supported by their party leader.

Moreover, the LGU leaders' perceptions of, and experiences with, the RDF process seem to be highly correlated with their RDF success rate. Leaders with the perception of being discriminated generally have lower success rates.

Table 7: **Factors related to the success rate of RDF projects**

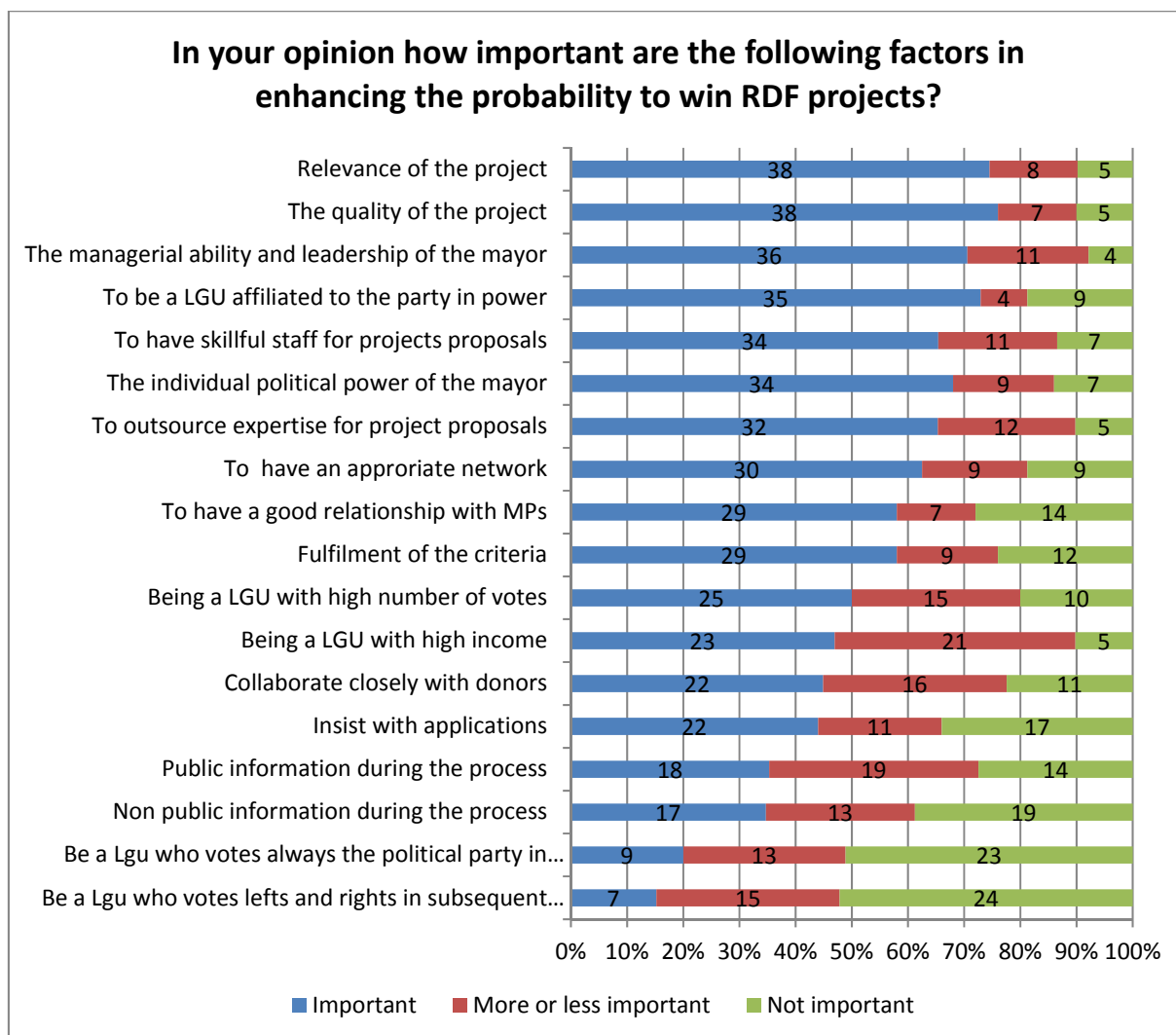
Success rate = Nr of granted projects/Nr of submitted projects	Correlation coefficients
Mayors affiliated with the governing coalition	0.812***
Difference in votes ¹²	0.297**
Number of mandates in power	0.299***
Number of meetings with region's MP	0.427***
Number of times someone from central government has inaugurated a finalized RDF project output	0.461***
Number of RDF commission members that have visited the LGU	0.255**
Number of times the leader of the Democratic Party (party in power) has visited the LGU	0.340**
Number of times the leader of the Socialist Party (party in opposition) has visited the LGU	-0.157*
Feeling discriminated against in the RDF allocation process	-0.587***
Feeling favored in the RDF allocation process	0.486***

*** 1% significance, **5% significance, *10% significance

Source: Author's survey results

Results are confirmed by the mayors when asked about the factors that they perceive to be important in accessing RDFs. The relevance and the quality of the project proposals are perceived by most of them to be the most important factor toward a successful project. The managerial and leadership capabilities of the mayor are perceived to be also relevant in the allocation process followed by political factors such as the affiliation and the individual power of the mayor. The results of the interviews show that the past voting pattern of the LGU and the information access during the process are perceived to matter less in accessing funds. Other important factors that enhance the probability to win RDF projects are perceived to be extrinsic characteristics of the LGUs such as the number of voters.

¹²It is constructed as the absolute value of the difference in vote's share between the incumbent party and its main opponent during the last local election in each LGU. This variable is used as proxy for swing LGUs (Case, 2001; Dahlberg and Johansson, 2002; Johansson, 2003; Veiga and Pinho, 2007; Caldeira, 2013). The rationale behind it is that if the share of votes for the incumbent party in an LGU is close to the share of votes of the second candidate belonging to the opposition party means that majority of voters in that specific LGU have different party preferences, making that LGU a potential swing LGU. DIFFERENCE IN VOTES captures the inclination of a more risk taker central government who might use transfers to persuade voters belonging in LGUs with weak party preferences and attempt to change their preferences toward the party in power.



5.3. ILLUSTRATIVE CASE STUDIES

Three case studies were selected in order to reflect groups of factors influencing the rate of success in accessing the RDF: the political impact in distributing RDF grants, as well as the influence of the leaders' networking abilities and political power, which is perceived to be highly facilitated in the case of governing LGUs and much less influential in the case of non-governing LGUs.

5.3.1. Case study 1: Commune A. The case of a powerful leader

General characteristics and project proposal activity: Commune A is located in northwest Albania. It is an agriculturally oriented LGU with a fast expanding urbanized area and a high population (22 thousand inhabitants). LGU A has good access to basic services and intensive coverage of public investments carried out by state and

donor financing. It is endowed with paved roads, completed water and sewage systems and a landfill for the management of solid waste.

There has been significant activity with respect to applying for projects and entering into relations with multi-donor projects. The donor project presence is felt in the fields of agriculture, environment and natural resources as well as civil society engagement. In year 2012-2013 there were 5 projects still ongoing. An IPA Adriatika¹³ project is included in this project portfolio, which demonstrates the capacity of the project absorption of this LGU.

Projects financed by the government are also present, particular those involving infrastructure. In the last term, the commune has absorbed most of the projects in the region. During the period 2011-2013, the Commune applied for 9 Projects and won 8. This is a very high success rate for RDF projects compared with other LGUs in the region. In fact, other LGU leaders from the same region argued during the interviews that this constituted biased and subjective decision-making on the part of the RDF in favor of this LGU.

Managerial skills: The leader has made significant efforts to hire a large number of service personnel (comparable to that of a large municipality), with a high education level (85% holding university degrees) and of a moderately young age (65% under 35 years). The commune possesses a solid Project Coordination Department, composed of 8 persons, highly equipped with facilities for designing infrastructure, and economic and social projects. The LGU's premises are much more modern than those of most Municipalities in Albania and are equipped with conference rooms, surrounded by green areas and large public spaces. When asked about his strategy with respect to obtaining funds from the RDF, the leader of LGU A stated that he places significant importance on the technical skills of the staff and his own managerial skills. In his view, the increased capacity to apply for projects and subcontract special capacities for project design, along with solid financial resources for self-financing and strong cooperation with MPs are the key factors for success. The leader does not place importance in political influence or direct personal influence on the institutions managing the RDF.

Political skills: During his 20 years of governance the leader has followed two transitory, yet successful movements. In the first two mandates, he was a representative of the SP, the party in power in the early 1990s and the period was characterized by a high number of community projects. In his third term (years 2003-2007) he represented the DP and in 2007-2011 he ran as an independent candidate (and won with an indirect support of the DP). During the last mandate he supported the DP, the governing party, and ran the elections as a DP candidate.

Another key advantage of this leader is not only his strong relations with the centrally ruling party, but also the voting importance of his LGU. The commune is an important voting area in every election, due to the high number of voters. The LGU leader seems to be very influential in controlling the voting choices of the community and this despite his changes in political allegiance over the years. Electoral periods in this LGU, based on media records, are characterized by a very high number of disputes and clashes among political party opponents and individuals. Therefore, high-level DP representatives are regularly present for public activities and infrastructure inaugurations in order to show strong support to the A LGU leader. The leader of the A commune has won four mandates in two different LGUs, all of them, with a strong majority of votes indicating remarkable political skills.

Networking skills: The political management and networking abilities of the LGU leader are remarkable. The leader seems to possess a very wide network. Large numbers of high representatives of the central government are invited to inaugurate or participate in LGU events. A year before the elections, the LGU was visited by three ministers and the Prime Minister, 6 MPs and a large number of other high-level representatives. He has also significant media presence since a great number of articles and internet blog discussions are written on him and

¹³IPA Adriatika projects are funded by the EU based on multilateral partnerships. These projects are challenging for local governments because of rigid management and reporting rules.

his LGU. To attract media attention, this commune is particularly active in organizing activities such as cultural events and fairs for the promotion of the culinary resources of the area. The LGU leader declares to have a strong personal orientation regarding the relation with the community.

Relations with the donors are also very positive as in the past 6 years, as noted by the LGU leader during the interviews, three Ambassadors and 4 new donor organizations have visited the LGU. The popularity of the leader has grown even higher since the recent floods as the President of the Republic bestowed him with a special civil merits award. However, the leader denies the presence of any political influence in the intergovernmental funding system. According to him, good relations with donors are a key factor in his investment project achievements over the course of his recent mandates.

5.3.2. Case study 2: Commune B. The case of a personal relationship with a Party leader

General characteristics: The case of LGU B involves a governing LGU leader who has close ties to a leader of the governing party and who, as a result, receives more funds than non-governing LGUs. Commune B is a large agriculturally oriented LGU with a modest road infrastructure. It is composed of 7 villages mostly located in hilly areas. The LGU is a governing one. The mayor interviewed has been a candidate for local elections three times and governed two non-consecutive mandates. During his last mandate the mayor declared to have experienced a very high rate of projects being granted. During the period 2011-2013 the LGU was granted by the RDF with 5 projects of a total 6 project proposals presented to the RDF (three projects on road reconstruction, schools and sewage systems).

Managerial skills: The LGU possesses very modest capacities for project preparation. There is only one member of staff dedicated to project design (with a staff of 20 in total) who is perceived by the mayor to not be sufficiently prepared to write projects. The mayor seems also not to possess high knowledge of the application procedures. He declared not to be very involved on the project application procedure. He is not very keen on public relations with donors or media. His media presence is very weak and his relations with donors are not developed. He stated during the interview that he never relies on their support and does not make any attempt to prepare project proposals for donor financed funds.

Political skills: During the last mandate, he told to be called on duty by a high level member of the ruling party who promised his personal support in case of accepting to run for the position of LGU leader. In the aftermath of the local election, during the period 2011-2013, during the election campaign the mayor relations with the high level politician in question remained highly personal and the mayor felt no need of convincing the party for its support. In his view, informal relations with the party leader granted him special treatment at the RDF. Surprisingly, the technical commission evaluating the projects was the same helping to formulate the project proposals through recommended project design companies which are officially required to prepare the project before endorsement. Than the same persons handling this preparation were notifying the LGU as being successfully selected. The “tailored” support service granted to the LGU, according to the LGU leader, is due to close collaboration with the high level politician. The LGU leader stated during the interview that he was convinced that the trust created with this politician was the best donation possible for his community. His engagement in the party, however, remains modest.

Networking skills: The mayor claims to have been a member of the DP since the early years of its creation but during the last decade his contribution in the party has been weak. On the other hand, the mayor expressed high dominance to his LGU through family network and clan relations. The interview was in the aftermath of the central elections of 2013, where SP took power of the central government. The mayor was pessimist for the future of his LGU as being now a “non-governing”. He was convinced that the community shared his view that the change in

government had worsened conditions and weakened the development of the LGU. In this opinion, very strong links with party leaders can be a damaging factor in case you experience a change from a governing to a non-governing LGU.

5.3.3. Case study 3: Municipality C. The worst combination: A weak network in a non-governing LGU

General characteristics: LGU C is located in Southern Albania and has a very old urban city center with rich tourism resources. Following the legal and institutional criteria the LGU applied for 22 projects in the period 2011-2013 and only three of these were funded. This is a very low success rate taking into consideration the importance of the city as an economic center of the entire region, as well as a potential area for the country's tourism industry. According to the LGU leader, the low investments are a general trend in the entire region. That said, the governing LGUs in the surrounding LGUs, such as LGUs D and E, have benefitted highly from project funding. Moreover, investments implemented to pave the roads linking the LGU with these communes were started from the side of LGUs D and E, the opposite direction from that specified in the project proposal. It could be assumed that this is a rural territorial approach for the regions yet figures demonstrate that governing LGUs (led by the DP), rather than non-governing LGUs (led by the SP), are the main winners of the RDF during this term.

Managerial skills: The municipality is well equipped with young and educated staff. The LGU leader ranks the capacities of the staff as highly satisfactory. According to the LGU leader, this LGU faces many governance-related challenges. During the DP government, local government activity was weakened significantly since project investments decreased in number and amounts and yearly budgets were reduced. The LGU leader declared that since 2009, the LGU performed under tight financial resources and shrinking financing (for both unconditional and conditional types). The central government has justified the reduction in transfers on the shrinking population recorded by the census. Investment figures after the central elections of the year 2013 (led by the SP coalition) show that LGU C recovered in terms of infrastructure funding.

Political skills: Historically known for its left-leaning voting, Municipality C has suffered from a general lack of investments over the last two mandates of DP governance (2005-2009 and 2009-2013). According to the LGU leader, with regard to accessing RDF grants, not being politically aligned with the central government is the first constraint and weak lobbying is the second. Therefore, in order to overcome the lack of investments, the LGU leader has focused more on donors.

Networking skills: During the DP government period the LGU leader was not able to interact with central government officials. The MPs were weak and his voice in the media was not able to influence decision-making whatsoever. Even now, under the SP government (after the elections of 2013), the lack of influence of some PS MPs elected in the region is, in his view, a major impediment to accessing the RDF. The LGU leader's network of influence, despite his long experience in the party, is not supported by the MPs. He declares to not possess a convincing network to influence the RDF Committee.

6. CONCLUSIONS

Albania is a peculiar example of the regional development reforms carried out in the transition and post-socialist economies. The support instruments for achieving an adequate level of infrastructure and services are still under continual transformation and require not only a strengthening of local capacities and resources but also correct institutionalization of the way these instruments are implemented. One important instrument of support for the

development of the regions is the Regional Development Fund. The study seeks to identify and analyze the factors determining the propensity of LGUs to successfully access RDF funds with a special focus on the personal political influence, power and networking of LGU leaders.

The descriptive statistics suggest that the number of governing LGUs with at least one successful project exceeds the number of non-governing ones. The superiority of governing LGUs is witnessed also in their success rate where governing LGUs are two times more successful compared to non-governing LGUs. The transparency of the RDF application process is very low and communication is informal. Governing LGUs emphasize that the main factors for not accessing RDF funds are their failure to meet the technical criteria as well as the limited budget allocated to the RDF. A third factor is weak networks and lack of informal methods of influencing the process.

The non-governing LGU leaders mostly argue that their lower rate of success in having projects funded relates to their unfavorable political position. Other reasons pertain to the limited budget available, weak networking and unmet application criteria. Networking remains important and is also closely related to party affiliation since contacts are developed through party membership and power positions in the party regional offices. This is the reason why the most common tactic used to enhance chances to access RDFs, is to influence the commission members' preferences through MPs or common friends in the central administration.

The monitoring of RDFs involves a variety of indicators that are not made public. RDF distribution system may be prone to influences including here the political influences. Additional efforts are required to increase the fairness of the system by making more transparent, less dependent and more objective. Therefore the Government of Albania would give up to the current structure of the RDF by de-attaching the decision making from the Council of Ministers, creating a special Agency with an apolitical leadership, supported by a Board of Trustees (a Central Bank board like) which reports only to the Parliament. Decisions for redistribution of funds have to be regulated based on a planned schedule and transparency will increase if meeting minutes become public to media and civil society.

Transparency is strongly related to the fairness of the system. SMART (Specific, Measurable, Achievable, Relevant and Time bound) indicators has to be established and made public every 6 months. Criteria are necessary to anchor to the regional development action plan targets. Monitoring procedure should be less reluctant to the public if delegated to external evaluators. Anticorruption measures have to be taken in order to allow for whistle blowing from both sides (LGU leaders and RDF commission members). However the fear to be penalized from any attempt to influence the process is linked also with the overall rule of law situation in Albania.

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