FISCAL DECENTRALIZATION AND ITS IMPACT ON THE LOCAL BUDGET: THE CASE OF ALBANIA

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Abstract

Decentralization requires the redistribution of financial resources to enable the exercise of functions and powers transferred to local government. This study analyzes fiscal decentralization in Albania, focusing on local autonomy in the collection and administration of local taxes. This paper analyzes fiscal decentralization over various periods, including both pre- and post-administrative-territorial reform, with a primary focus on developments in recent years. It highlights the commencement of a major reform affecting local budgets, such as the implementation of property tax. This analysis aims to evaluate the impact of fiscal decentralization on local budgets and its varying effects across municipalities with different fiscal capacities. It also reviews the decentralization reforms in Albania, especially post-administrative-territorial reform, and analyzes the evolving dynamics between central and local governments since the 2014 implementation of the reform. The analysis, conducted using statistical and comparative methods, reveals that while the own-source revenues of local governments have increased, there has also been a parallel rise in transfers and grants provided by the central government. The growth in own revenues has been most present in the Municipality of Tirana and other large municipalities located in regional centers, whereas smaller and medium-sized municipalities, which have a typically weaker fiscal capacity, have experienced less increases. Based on these findings, it is recommended that future policy reviews focus on potential adjustments to the local tax system, with specific emphasis on deepening and consolidating the property tax reform, as well as enhancing the efficiency of local tax and fee collection and administration. Moreover, improvements to the intergovernmental transfer system are recommended. Particularly, the fiscal equalization component within the unconditional transfer formula should be increased to provide greater financial support to local government units with limited fiscal capacities. This would help ensure that all municipalities are able to fulfill the functions assigned to them under the Law on Local Self-Government.

Keywords: *Fiscal Decentralization, Local Tax, Property Tax, Local Own Source Revenue, Unconditional Transfers, Local Budget, Local Expenditures, etc.*

1. INTRODUCTION

Fiscal decentralization is defined as the process of transferring powers, responsibilities and financial resources from the central government to local self-government units. In essence, it is considered one of the most effective instruments for enhancing efficiency in the provision of public services, increasing local accountability and promoting broader citizen participation in decision-making processes [1]. In Albania, the decentralization of functions and fiscal decentralization have undergone several important historical phases. This process can be structured into three main periods. The first period (1992–2000) marked the beginning of the formal separation of local and central government, with the adoption of Law No. 7572/1992,"On the organization and functioning of local government", but without accompanying this division with real fiscal autonomy or appropriate local capacities [2]. The second period (2000–2014) brought an effort for institutional and legal consolidation, including the adoption of Law No. 8652/2000, "On the organization and functioning of local government" and the ratification of the European Charter of Local Self-Government. This period was characterized by the beginning of unconditional transfers and a clearer division of competences between levels of government [3], but fiscal autonomy remained limited in practice due to the high dependence on central government funding.

In 2000, under Law No. 8653, Albania was divided into 12 regions, 36 districts, 65 municipalities and 309 communes [4]. Additionally, during this period, Law No. 9632/2006 "On the local tax system" was adopted, aiming to establish a more coherent framework for local tax revenues for local self-government units, improving the tax base and strengthening their fiscal capacity. The third period (2014 onwards) represents the most intensive phase of the reform, cantered on the 2014 Administrative-Territorial Reform and the adoption of Law No. 139/2015 "On Local Self-Government" and Law No. 68/2017 "On Local Self-Government Finances". This reform significantly reduced the number of local units and aimed to enhance their efficiency and fiscal empowerment. Steps were also taken to consolidate local revenues through the property tax reform, which, for the first time, aimed at a fairer assessment and increased local fiscal capacity [5]. However, recent analyses and studies emphasize that decentralization in Albania still remains "unconsolidated", largely due to continued reliance on central government transfers, regional disparities and the lack of administrative capacities in many municipalities [6], [7].

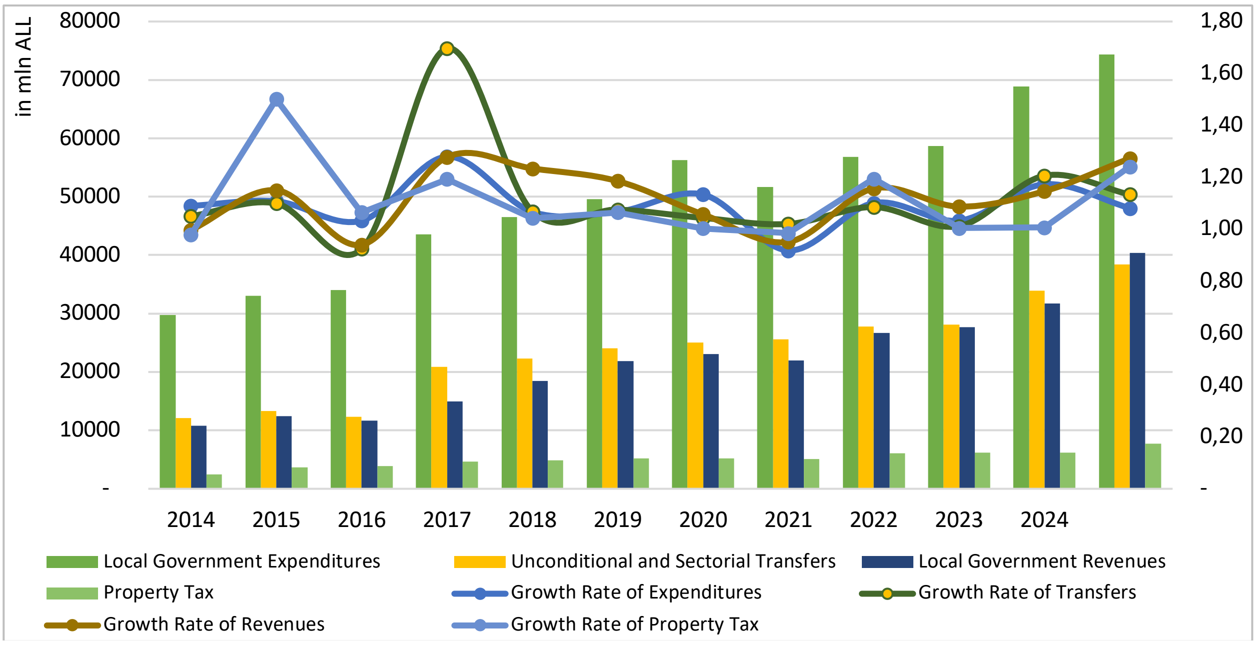

Fig. 1. Local Financial Data

Source: Ministry of Finance (2025).

Despite the reforms, Albania continues to face significant problems in terms of financing local self-government units. Local entities remain dependent on central governmental transfers, the percentage of which in relation to public spending has remained limited and relatively stable, indicating a persistent dependence of local finances on central funds. A more noticeable increase in this indicator would actually signal a strengthening of the financial autonomy of municipalities, while the percentage of local expenditure in relation to public expenditure shows that fiscal decentralization has gradually advanced in Albania, particularly following the institutional reforms of 2015, which have facilitated an increase in the share of local expenditure of the overall state budget. However, despite this progress, the level still remains low compared to the average of countries in the region and the EU, indicating the need for further strengthening of the fiscal powers and financial capacities of local self-government units. The indicator of own-source revenues relative to total public revenues shows that fiscal decentralization has led to improvements in the share of local revenues in the overall public revenue structure. However, this weight still remains modest and significantly below the levels of countries in the region or international recommendations for sustainable fiscal autonomy. Own revenues have increased mainly in the Municipality of Tirana and other large municipalities that serve as district centres, while such revenues have increased to a lesser extent in small and medium-sized municipalities, which are also poorer from a fiscal point of view. This gradual increase reflects the effects of the reforms, but at the same time emphasizes the need for further strengthening of local capacities and diversification of own revenue sources. The property tax, which is considered among the most stable and significant taxes of local finances in developed countries, remains a limited source of revenue in most Albanian municipalities. While the property tax experienced an initial increase after the reform, it has since not managed to maintain a stable weight in local revenues. This challenge may be related to problems in administration, difficulties in property registration and valuation, or faster growth rates in other local resources, which have relatively reduced the burden of the property tax

In this context, the purpose of this study is to analyze the level of fiscal decentralization of local government in Albania, assessing the impact of municipal fiscal autonomy, property tax revenues, and major institutional reforms, namely the 2015 Territorial Reform and the 2017 Property Tax Reform. For this purpose, an econometric model was built based on data from local self-government units in Albania for the period 2010–2024, on the basis of which hypotheses were raised and conclusions were generated.

The study also includes an assessment between units within the country and a comparison of the Albanian situation with a group of selected Central and South-eastern European countries such as Austria, the Czech Republic, Denmark, Greece, Hungary, Slovakia and Slovenia, where indicators such as: the share of local government own revenues to overall public revenues, the share of local government expenditures to overall public expenditures, as well as the Fiscal Decentralization Index, are compared, in order to assess Albania's relative position in relation to international standards and practices. The selection of these countries was made taking into account different levels of decentralization, diverse models of local finance and experiences of administrative and fiscal reforms similar to Albania. In conclusion, the study aims to generate conclusions on the current level of fiscal decentralization in Albania and the effects on the local budget and to provide recommendations aimed at enhancing the fiscal autonomy of local self-government units and improving the local finance system in line with international best practices.

2. LITERATURE REVIEW

Fiscal decentralization represents a key component of public administration reform and the functional division of powers in a democratic state. In classical economic and governance literature, it is viewed as a mechanism that improves the allocative efficiency of resources and increases the accountability of local institutions to citizens [8], [9]. The provision of public services at lower levels of government is more appropriate when local needs and preferences differ across regions, reinforcing the principle of subsidiarity as a foundation for the division of competences and resources. This approach underlines the importance of sufficient financial resources and institutional capacities to ensure effective decentralization. Various researchers have comparatively analysed the impact of fiscal decentralization on economic performance and governance quality, confirming that the outcomes vary depending on the level of institutional and economic development of countries [10]. These studies highlight that decentralization is not an automatically positive process, but requires developed administrative capacities and a well-functioning system of financial oversight.

The international literature also emphasizes that property tax is one of the most important sources of local government revenue. In many European countries, this tax constitutes a key component of sustainable local revenues, due to its stable base and difficulty in evasion [11], [12]. International experience indicates that the significance of this tax increases significantly in decentralized fiscal systems, providing greater financial independence for local governments. In European Union countries, the share of this tax in local budgets is significantly higher than in the Western Balkan countries, due to more effective administration, greater transparency, and a more consolidated property valuation system [12].

In general, existing literature suggests that fiscal decentralization is more effective when accompanied by clear functional responsibilities, autonomy in managing financial resources, and a well-designed local tax system [13]. Conversely, decentralization efforts that lack adequate capacities or fail to establish a sustainable balance between responsibilities and revenues can result in fiscal stress and deepen regional disparities. This is particularly relevant for transition countries, where decentralization reform requires time and a gradual consolidation of the local government system. According to the international literature, models for measuring fiscal decentralization focus on indicators that reflect the capacity of local units to collect their own revenues and manage expenditures independently of the central government [12], [14]. One of the most widely used indicators for measuring the level of decentralization is Fiscal Autonomy, defined as the ratio of own-source revenues from local taxes to overall local revenues [1], [15].

According to the existing literature, institutional and structural influences have also been considered as key factors for enhancing administrative efficiency, consolidating local capacities and increasing the financial independence of local self-government units. Territorial consolidation also enhances the potential for effective decentralization by strengthening the administrative and fiscal resources of municipalities [16].

Structural reforms that promote territorial consolidation and other decentralization reforms are essential for reducing institutional fragmentation, enhancing the management of financial resources, and creating real opportunities to increase local revenues through sustainable mechanisms such as property taxes [7], [5]. Beyond the Albanian context, studies show that fiscal decentralization works best when it is closely linked to clearly defined responsibilities, freedom in resource management, and a well-designed local fiscal system. Decentralization that lacks a sustainable balance between responsibilities and revenues can lead to fiscal stress and imbalances in the governance system [13]. In this sense, Albania remains in a transitional process where fiscal decentralization is more of a strategic objective than a consolidated reality.

3. FISCAL DECENTRALIZATION WITHIN THE COUNTRY AND ALBANIA IN COMPARISON TO OTHER COUNTRIES

3.1 Fiscal decentralization and inequalities among local government units within the country

Fiscal decentralization and its constituent elements have had different impacts across local self-government units within the country, depending largely on their fiscal capacity. Units with higher fiscal capacity are those that generate a greater share of their revenues from own-source income, resulting in a higher level of fiscal autonomy. This is measured by the ratio between own revenues and the total revenues of the local unit. Figure 2 illustrates the trend in the fiscal autonomy indicator, showing the proportion of own-source revenues relative to total local budgets. This data indicates that the share of own-source revenues in local units' total budgets has remained relatively stable over the years, but with a decline in the middle of the period and an increase after 2020. In contrast, the indicator measuring dependence on central government transfers, which results as the ratio of revenues from unconditional and specific transfers to the total local budget, fluctuates from 44% in 2015 to 52% in 2019. There is a noticeable increase in 2016–2019, which indicates greater dependence of local government on the central government during these years. After 2020, the level drops again and stabilizes around 47–48%. If we were to do a brief analysis by municipality, we note that the Municipality of Tirana, being both the largest and most fiscally capable local unit, accounts for approximately 60% of all local tax and fee revenues of all municipalities nationwide. In this municipality, the ratio of own revenues to total revenues reaches 70%, indicating a high level of fiscal autonomy [17]. The second group includes municipalities with populations over 100 thousand inhabitants, such as Durrës, Shkodra, Fier and Korça, where the share of own revenues to total revenues is lower than in Tirana, but is still considerable with about 20% of revenues from local taxes and fees of all municipalities nationwide [17]. The ratio of own revenues to total revenues of the municipality in this group ranges between 50% and 60%, indicating a relatively strong level of fiscal autonomy [17]. Another group of municipalities faces very limited fiscal capacity to generate revenue from their own sources. This group includes smaller municipalities that rely heavily on central government transfers, with a very low ratio of own-source revenues to total revenues. In this group of 21 small municipalities with fewer than 20 thousand inhabitants, the ratio of own revenues to total revenues is on average 3% to 5%. In municipalities with 20 - 50 thousand inhabitants, which includes 26 municipalities, the ratio of own revenues to total municipal revenues is on average 12% [17]. Given this internal disparity in fiscal capacities, there is a clear need to strengthen the fiscal equalization mechanism through unconditional transfers. While a fiscal equalization formula is currently in place, the funds allocated remain insufficient, and the formula itself relies on a limited set of fiscal variables. Therefore, there is an urgent need not only to increase the size of the unconditional transfer fund but also to broaden the scope of fiscal indicators to ensure a more equitable and effective allocation of financial resources across municipalities.

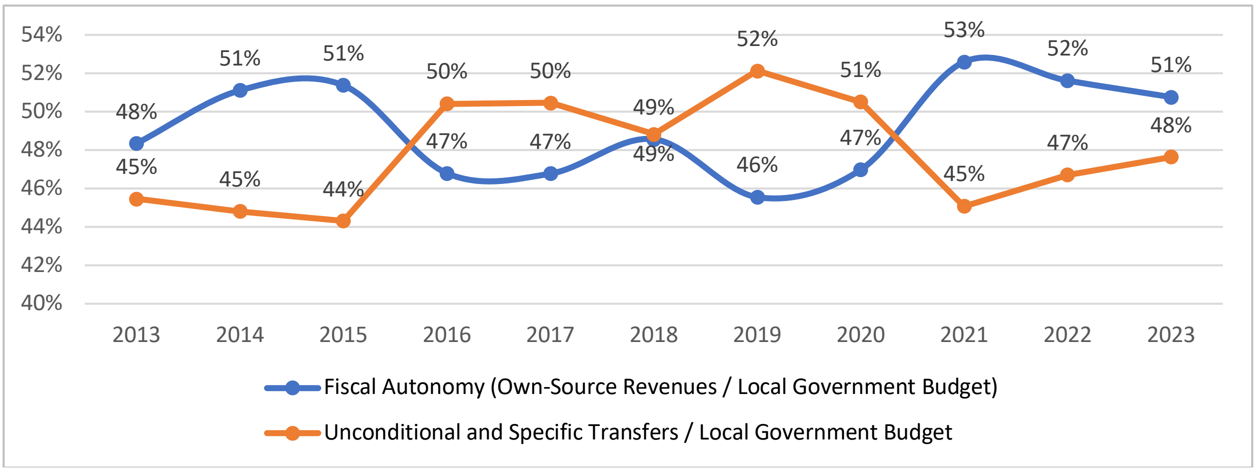

Fig. 2. Fiscal Autonomy and Dependence on Central Government Transfers
Source: Ministry of Finance (2025).

3.2 Albania Compared to Other Countries

To contextualize the level of fiscal decentralization in Albania and to better interpret the results of our model, this section presents an international comparison of key fiscal decentralization indicators with several Central and South-eastern European countries, each representing different levels of fiscal decentralization.

The selection of countries for comparison and the indicators of fiscal decentralization in this study was made based on the purpose of the analysis and the proposed model. The selected countries, Denmark, the Czech Republic, Austria, Hungary, Slovakia, Slovenia and Greece, represent a range of fiscal decentralization levels and administrative experiences relevant to Albania's context. Their selection aims to provide a balanced overview by including countries with very high decentralization (such as Denmark and the Czech Republic), moderate decentralization (such as Austria, Hungary, Slovakia, and Slovenia), and limited decentralization (such as Greece). This allows for a comprehensive analysis of Albania's position relative to diverse models of local government across Europe. In view of the topic addressed for Albania, our focus in this part of the paper will be the selection of some basic indicators of fiscal decentralization: the share of local own revenues to total public revenues, the share of local expenditures to total public expenditures, and the graphical representation of the fiscal decentralization index. These indicators represent the essential aspects of fiscal capacity, financial independence, and local government efficiency, widely identified in the international literature as among the most reliable indicators for measuring and comparing fiscal decentralization across countries [18], [19], [14]. By incorporating these indicators alongside the selected countries, the study gains a crucial comparative perspective that enhances understanding of Albania's position and helps identify opportunities to advance fiscal decentralization reforms.

3.2.1 The Share of Local Own-Source Revenues in Total Public Revenues

Based on the analysis of the indicator of local own revenues as a percentage of total public revenues for the period 2013–2023, it is concluded that Albania remains at an unsatisfactory level of local fiscal autonomy. With a percentage of around 3%–5%, Albania ranks among the least fiscally decentralized countries in this regard, alongside Greece and Slovakia, although it maintains slightly higher levels compared to the latter. This shows that local units in these countries have limited sources of their own revenues, relying mostly on transfers from the central government budget. In contrast, Denmark stands out as the most advanced model, with a level of local own revenues that ranges between 26%–28% of total public revenues – a clear indicator of high self-financing capacity and local fiscal responsibility. Hungary holds a higher position compared to the other countries in the region, with over 8%–10% throughout the period, despite some fluctuations. Austria and the Czech Republic show stable and moderate levels, approximately 6–8%, while Slovenia and Slovakia maintain a constant but lower level, around 4–5%. These figures illustrate that, although Albania fares somewhat better than comparable countries like Greece, Slovakia, and Slovenia at times, it still has a long way ahead to guarantee a real level of fiscal decentralization. Strengthening municipalities' own revenue sources remains one of the key challenges to ensuring sustainability and functional independence at the local level.

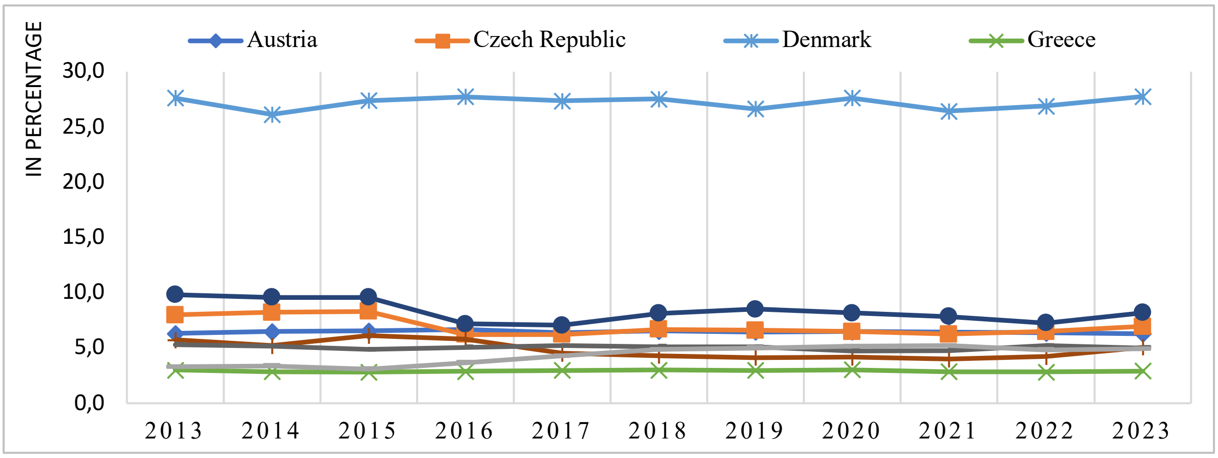

Fig. 3. Local Own-Source Revenues as a Share of Public Revenues, 2013–2023

Source: OECD [20].

3.2.2 The Share of Local Expenditures in Total Public Expenditures

The analysis of the indicator of local expenditure in relation to total public expenditure shows that Albania remains among the countries with low fiscal decentralization compared to the countries analysed, though it performs slightly better than Greece. Between 2013 and 2023, Albania's local expenditures averaged around 8–10% of total public expenditure, ranking alongside Greece, which also recorded a very low level of decentralization (around 6–8%). In contrast, countries such as Denmark stand out with the highest level, with over 60% of public expenditure managed at the local level, indicating a highly advanced model of fiscal decentralization. The Czech Republic, with an average of around 26–28%, stands at the highest level among the Central European countries included in the analysis, while Slovenia and Slovakia follow with levels of around 18–19%, respectively. Austria, despite being a federal state, presents a more moderate level of decentralization (around 15–17%), while Hungary, unlike the regional trends, has shown a significant decrease in fiscal decentralization after 2015, falling below 12%. Despite the positive impact of the 2015 territorial reform, the increase in expenditure decentralization in Albania has not fully yielded the expected effect, even though the situation appears more positive than before 2015. This highlights the need that in addition to administrative reforms, a review of municipal financing mechanisms and the strengthening of local fiscal powers are necessary to achieve standards comparable to those of the countries in the region and to meet the objectives of effective decentralization.

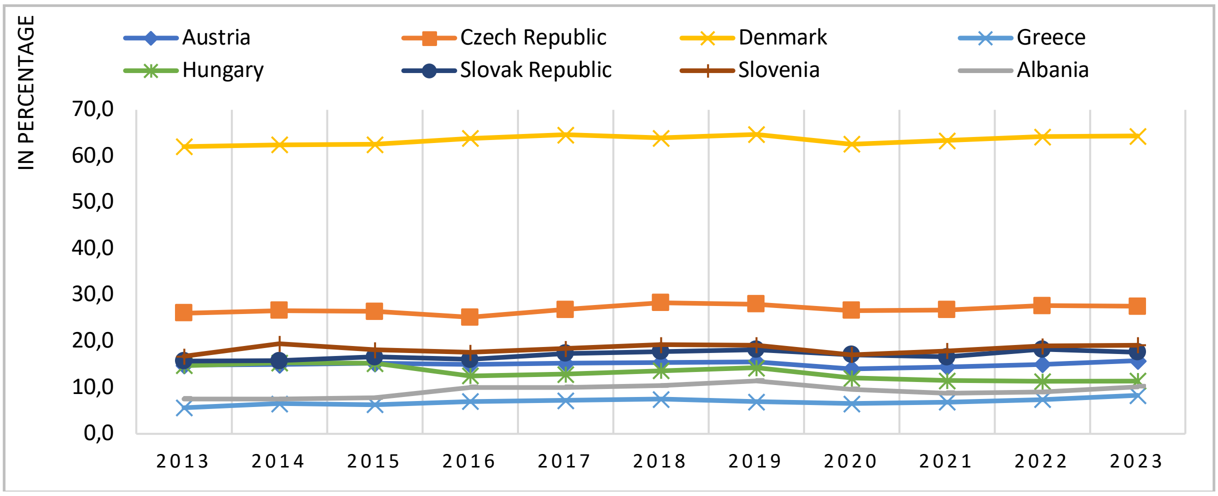

Fig. 4. Local Expenditures as a Share of Public Expenditures, 2013–2023

Source: OECD [20].

3.2.3 Fiscal Decentralization Index

To measure the level of fiscal decentralization in Albania and to compare it with other selected countries, this study constructs a composite decentralization index, calculated as $\sqrt[2]{FA * FI}$. This index includes the two main components of fiscal decentralization: fiscal autonomy (FA) and the fiscal importance of local government (FI) [21]. The use of this composite indicator is supported by existing literature [22], [19], as it enables an integrated assessment of the capacity of local government to generate its own revenues and to manage public expenditures. This index aims to provide a synthesized and comparable overview of fiscal decentralization among selected countries and across years. It combines two key dimensions: the ability of local units to generate own-source revenues, and the share of local expenditures in total public expenditures, producing a single indicator that reflects both autonomy and the real role of local government in the country's public financial system. Based on the Figure of the fiscal decentralization index for the period 2013–2023, for Albania, a gradual improvement is observed starting from 2015, when the index rises above the 20% level, and after 2016, it follows almost the same trend as Hungary, with a slight increase compared to the latter after 2020. Meanwhile, countries like Denmark consistently maintain the highest level of fiscal decentralization at over 49–51%, reflecting a clear division of competences and resources between central and local levels of government. The Czech Republic also remains at a high and stable level of around 30–31%, while Austria, Slovenia, and Slovakia average around 25–27%. Greece remains at the lower end of the spectrum, even compared to Albania and Hungary, with an index not exceeding 20%. These data highlight the fact that Albania, despite some reforms in the field of local governance, continues to remain in a relatively unfavorable position in terms of decentralization and that progress towards greater decentralization still has a long way to go. Improving this index requires consistent interventions in fiscal policy and increased local independence in decision-making and finance.

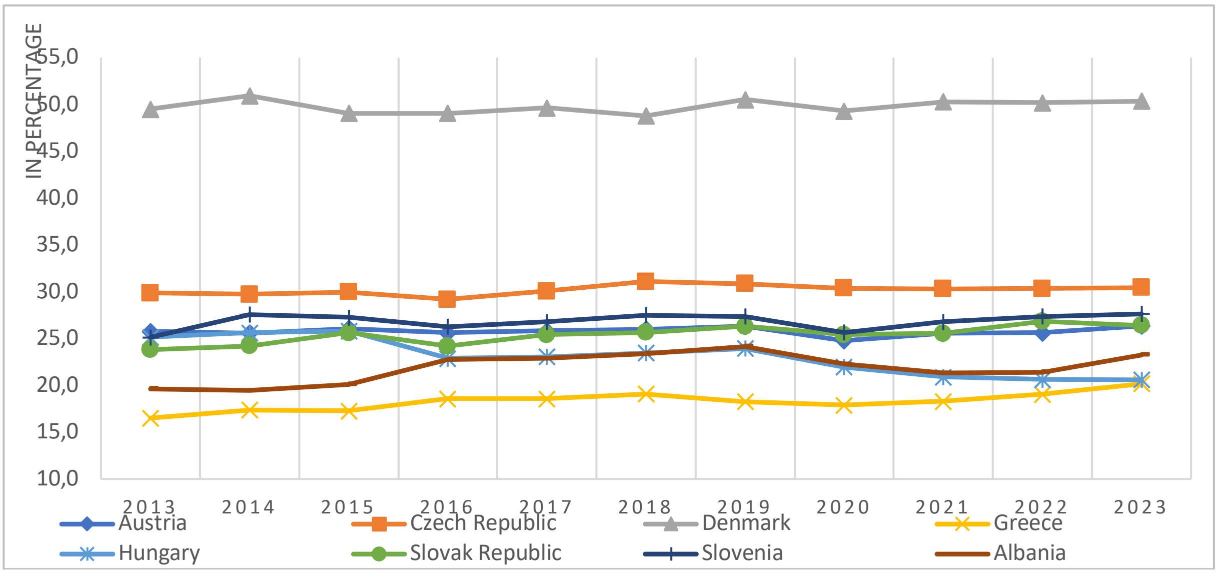

Fig. 5. Fiscal Decentralization Index, 2013–2023

Source: OECD [20].

4. LOCAL GOVERNMENT REVENUES AND FISCAL DECENTRALIZATION

4.1 Fiscal Decentralization

Fiscal decentralization has been widely addressed in international literature as one of the most important components of local governance reforms and regional economic development. Fiscal decentralization improves the efficiency of service delivery and enables local units to better respond to the needs of the local community [14]. In this context, academic literature identifies several key factors that influence the level of fiscal decentralization, which are examined in this paper. Fiscal decentralization in Albania involves the transfer of authority and responsibilities for the collection and administration of certain local taxes and fees, as well as the management of both unconditional and conditional transfers from the state budget. Fiscal decentralization after 2015, marking the first year of the implementation of the administrative-territorial reform, has made significant progress, positively impacting the increase of local revenues.

4.2 Fiscal Autonomy

Fiscal autonomy is considered one of the fundamental elements of fiscal decentralization. The level of fiscal autonomy is measured by the share of own revenues from local taxes in relation to the total revenues of the municipality [18], [19]. The higher this share, the greater the level of fiscal decentralization is considered. This financial independence enables local units to effectively exercise their functions, reducing their dependence on central budget funds. In Albania, fiscal autonomy has gradually increased, especially after the approval of Law No. 9632/2006 "On the Local Tax System," and with the changes that followed the territorial reform. Fiscal autonomy has increased mainly in large urban municipalities such as Tirana, Durrës, and Shkodra, while small municipalities still remain highly dependent on transfers from the central budget

4.3 Property Tax Revenues

Another important source of local finances is the property tax, which is considered in the literature as one of the most stable taxes and the hardest to evade, as it is directly tied to the territory [11], [15]. In countries with well-developed decentralized systems, revenues from property tax make up a significant share of local revenues [19]. The property tax reform initiated in 2017 was one of the most important initiatives aimed at strengthening fiscal decentralization in Albania. The goal was to modernize the property taxation system, moving from a fixed area-based tax to a tax based on the property's value.

However, the results so far have been limited, due to issues with property registration, the administrative capacities of municipalities, and public acceptance. Data show that revenues from this tax have increased significantly only in Tirana and some urban municipalities, while in the rest of the country the impact has been lower.

4.4 Territorial Reform (2015) and Property Tax Reform (2017)

The literature on the Balkan countries and Eastern Europe argues that territorial consolidation improves fiscal and administrative capacities, increasing the potential for effective decentralization [16], [23]. In Albania, the administrative-territorial reform aimed to reduce institutional fragmentation and strengthen self-governance through larger and more capable municipalities. Regarding the Property Tax Reform, it is worth emphasizing that through this reform, Albania shifted from taxation based on surface area to taxation based on property value, following the recommendations of the OECD and IMF to improve the local revenue system. The modernization of the property tax increases fiscal independence and capacity for local investments [15], [19].

4.5 Empirical Evaluation of the Model

The following variables have been identified in the literature as important explanatory factors for the level of fiscal decentralization. They represent:

1) Fiscal autonomy (own-source revenues from local taxes)
2) The main sustainable source of local revenues (property tax)
3) Institutional and structural impacts (the two main legal and administrative reforms in Albania)

The model built on these factors is strongly supported both theoretically and practically in the international literature. Through this theoretical framework, the study aims to evaluate the impact of each factor separately and in combination. The table below presents the formulas for calculating the indicators for the variables used in our model:

No.	Indicator	Formula	Reference	Source
1	**Fiscal Decentralization (FD)**	(Own revenues of local government / Total revenues of local government) × 100	OECD (2019); Council of Europe (2021); UNDP (2015)	Budget Directorate, Ministry of Finance
2	**Fiscal Autonomy (FA)**	(Revenues from local taxes / Total revenues of local government) × 100	Martinez-Vazquez & McNab (2003); OECD (2019)	Budget Directorate, Ministry of Finance
3	**Property Tax Revenues (PTR)**	(Revenues from property tax / Total revenues of local government) × 100	OECD (2019); Decentralization Strategy 2023–2030	Budget Directorate, Ministry of Finance

Table 1. Formulas for Calculating the Indicators

Source: Authors' own work (2025).

From the data generated by the database for the period 2010–2024, and after the authors' calculations according to the formulas derived from the literature in Fig. 6, the outputs are presented. This figure shows the trend of the three main indicators of local finance in Albania: i) fiscal decentralization, ii) fiscal autonomy, and iii) revenues from property tax for the period 2010–2024. Alongside these, the graph also marks two key reform moments: 1) the Territorial Reform of 2015 and 2) the Property Tax Reform of 2017.

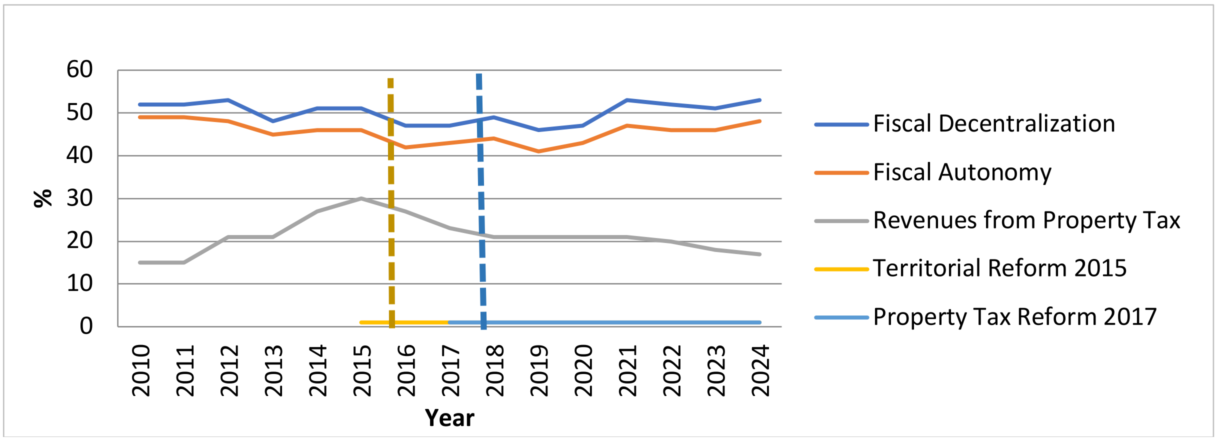

Fig. 6. Trends of Local Financial Indicators 2010–2024

Source: Ministry of Finance 2025, (authors' own calculations).

The analysis shows that fiscal decentralization has followed a relatively stable trajectory over the years, with a slight increase after 2020. Fiscal autonomy exhibits moderate fluctuations, with low levels during 2015–2019 and improvement after 2020. The trend of revenues from property tax shows a rapid increase up to 2015, when the consolidation of local units took place, followed by a more uniform and gradual continuation of the share of revenues collected from this tax, particularly after the initiation of the 2017 reform.

These trends demonstrate the direct and indirect impact of structural reforms on local financial indicators, justifying their inclusion in the econometric model of the study as explanatory variables of fiscal decentralization.

To examine the impact that these economic indicators and highly determining factors have on the Fiscal Decentralization of local governance, a statistical analysis has been conducted and an econometric model has been built to test the hypotheses generated by the literature, evaluated and tested in the case of Albania. The analysis raises several questions that will be answered through calculations and testing. In the SPSS program, the hypotheses were tested in their function, through which conclusions will be drawn. The research questions for this paper are:

- *To what extent does fiscal autonomy affect fiscal decentralization?*
- *To what extent does the property tax contribute to local finances?*
- *To what extent have the two reforms affected at the national level?*

The hypotheses formulated to answer the above questions are:

H1: An increase in fiscal autonomy (FA) positively affects the level of fiscal decentralization of municipalities in Albania.

H2: An increase in revenues from property tax (PTR) positively affects the level of fiscal decentralization.

H3: The Territorial Reform of 2015 has had a positive impact on the level of fiscal decentralization.

H4: The Property Tax Reform of 2017 has had a positive impact on the level of fiscal decentralization.

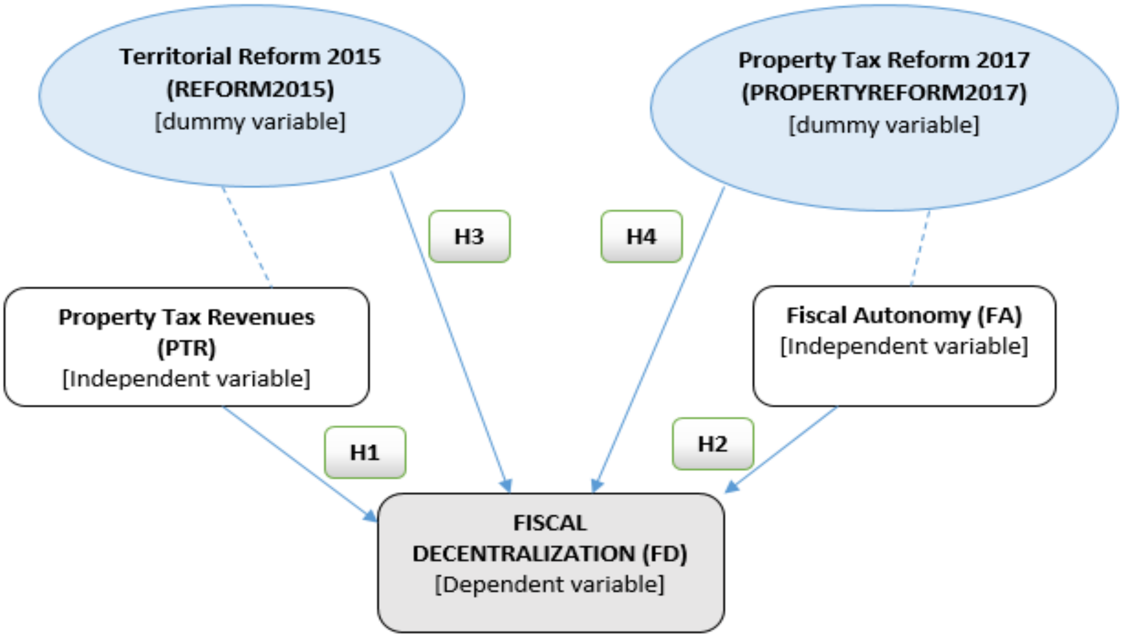

Fig. 7. Conceptual Model of the Study

Source: Authors' own work (2025).

Model equation:

$$\mathbf{FD_i = \beta 0 + \beta 1 \cdot FA_i + \beta 2 \cdot PTR_i + \gamma 1 \cdot Reform2015 + \gamma 2 \cdot PropertyReform2017 + \varepsilon}$$

Where:

FDi = Level of fiscal decentralization in year i

FAi = Level of fiscal autonomy in year i

PTRi = Revenues from property tax in year i

Reform2015i = Dummy variable that takes the value 1 after 2015 and 0 before

PropertyReform2017i = Dummy variable that takes the value 1 after 2017 and 0 before

ε = Error term

Coefficients expectations:

- β1>0➔Increased fiscal autonomy is expected to have a positive effect on fiscal decentralization.
- β2>0➔Property tax revenues are expected to increase fiscal decentralization
- γ1>0➔The 2015 territorial reform is expected to have a positive impact
- γ2>0➔The 2017 property tax reform is expected to have a positive effect

In the econometric model constructed with fiscal decentralization as the dependent variable and independent variables, quantitative data generated by the Government Financial Information System (GFIS) [24] were used for 61 municipalities. These data were subsequently processed by the authors according to the needs of inclusion and use in the study. The available data were specifically used to test the validity of the hypotheses developed in this paper.

The collected data were analyzed using the SPSS program, from which conclusions were generated. A regression analysis was conducted to test the hypotheses. In this analysis, the aim is to examine the extent to which the independent variables influence the dependent variable. For each variable, it is tested whether it has a statistically significant impact and whether the effect on the dependent variable is positive or negative, which confirms or disproves the hypothesized relationships (expected signs of the coefficients) and answers the questions raised above. **The higher the level of fiscal decentralization, the greater the effect on the local budget and the autonomy of financial decision-making**.

To address these questions, an empirical analysis was conducted, with outputs generated using SPSS, which will be interpreted in the following sections of the paper

Model Summary					
Model	R	Durbin-Watson	Adjusted R Square	Std. Error of the Estimate	F
1	.992a	2.485	.978	.00379620	159.873

Table 2. Summary Table of the Model

Source: Authors' own work (2025), SPSS.

From the outputs of Table 2, we find that the multiple correlation coefficient R = 0.992 and the adjusted model fit coefficient (Adjusted R^2) = 0.978 indicate a very good fit of the model to the data, showing that the model with the selected variables explains about 97.8% of the variation in fiscal decentralization. This also indicates that the model explains almost the entire variation and has very high stability. The standard error of the estimate is very low at 0.00380, confirming the accuracy of the model in predicting the dependent variable.

The Durbin-Watson test, which checks for autocorrelation of variables in linear regressions with time series as in our case, from the above table shows a value of 2.485, indicating a lack of autocorrelation since it is within the critical value <2.5. This demonstrates a stable model without serious autocorrelation between variables and with good stability.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.050	.030		-1.699	.120
	FA	1.135	.053	1.153	21.584	.000
	PTR	.130	.036	.212	3.609	.005
	Reform2015	.018	.008	.151	2.116	.060
	PropertyReform2017	.015	.019	.159	.760	.065

a. Dependent Variable: FD

Table 3. Model Output

Source: Authors' work (2025), SPSS.

After evaluating the model in SPSS, Table 3 above presents the data for the estimation of variables and hypothesis testing. The model assessed based on the data in the above table is presented as follows:

$$FD = -.050 + 1.135\,\mathbf{FA} + .130\,\mathbf{PTR} + .018\,\mathbf{Reform2015} + .015\,\mathbf{PropertyReform2017}$$

4.6 Interpretation of Variables and Testing of Research Questions (Hypotheses)

Regarding the interpretation of variables based on the results generated in SPSS, we observe that $\beta_1 = 1.135$, with significance for FA = 0.000 (statistically significant at the 5% critical level), indicating that fiscal autonomy (FA) has the strongest effect among the variables in the model. An increase of 1 point in fiscal autonomy leads to an increase of 1.135 points in fiscal decentralization. Therefore, Hypothesis **H1**: "An increase in fiscal autonomy (FA) positively affects the level of fiscal decentralization of municipalities in Albania" holds true and is accepted.

For $\beta_2 = 0.130$, with significance for PTR = 0.005 (also significant at the 5% critical level), every 1-point increase in revenues from the property tax results in an increase of 0.130 points in fiscal decentralization. Hence, Hypothesis **H2**: "An increase in revenues from property tax (PTR) positively affects the level of fiscal decentralization" is also accepted.

Regarding the two Dummy variables, interactions between the economic variables and the reform dummy variables were included in this model to test whether the impact of fiscal autonomy and revenues from property tax on fiscal decentralization changed after the Territorial Reform of 2015 and the Property Tax Reform of 2017. The inclusion of dummy variable interactions allows the identification of differentiated effects of these factors over different periods.

For the first dummy variable $\gamma 1 = 0.018$, $p = 0.060$ we state that at this significance level it is marginally significant at the 10% critical level. It shows that after the 2015 territorial reform, the impact of fiscal autonomy on decentralization increased by 0.018 points for every one-point increase in fiscal autonomy, but in marginal significance.

Regarding the second dummy variable $\gamma 2 = 0.015$, $p = 0.065$ we also say that at this significance level it is marginally significant at the 10% critical level. It indicates that after the 2017 Property Tax Reform, the impact of property tax revenues on decentralization increased by 0.015 points for every additional point in property tax revenues, which is also marginally significant.

Thus, for both hypotheses H3: "The 2015 Territorial Reform had a positive impact on the level of fiscal decentralization" and H4: "The 2017 Property Tax Reform positively affected the level of fiscal decentralization," we conclude they are marginally significant, and acceptance is made suggesting a possible influence of institutional reforms in strengthening the effect of these two variables on fiscal decentralization, confirming also the positive impact that these two reforms may have had on fiscal decentralization.

Therefore, in the case of the dummy variables, we accepted the significance threshold at the 10% critical level rather than 5%, which is more tolerant and is used to evaluate interactions and potentially important effects in the institutional and administrative context, in our specific case of Albania, taking into account data limitations and the progressive nature of the reforms.

The interactions resulted in marginal statistical significance at the more tolerant 10% level, which can be explained by the partial and gradual nature of the implementation of administrative and fiscal reforms in Albania, as well as by limitations in the data due to the short time series. These results suggest that the reforms have had a positive impact in strengthening the effect of fiscal autonomy and revenues from property tax, and their total effect on fiscal decentralization, but this impact is not statistically fully significant at the traditional 5% significance level; instead, the 10% significance level has been tolerated.

As we see, the two hypotheses, H1 and H2, hold and are statistically significant. Regarding the impact, it is worth emphasizing that all variables, including the dummy variables, have a positive effect on fiscal decentralization, with the most significant effect attributed to the Fiscal Autonomy variable, which, according to the values generated by SPSS, is the strongest and most significant variable in the model. It has the largest absolute and statistically highly significant impact on fiscal decentralization, while the other variable, Revenues from Property Tax, has a positive and significant effect, but noticeably lower than that of Fiscal Autonomy. Regarding the dummy variables, we see that the 2015 Reform variable has a possibly marginally significant effect, as does the 2017 Property Reform variable, but with a relatively stronger effect than the other interaction. The marginal significance can be justified by the fact that the effects of the 2015 Territorial Reform and the 2017 Property Reform have not been immediate in practice, and another accompanying issue may have been delays in implementation, administrative problems, and differing capacities of municipalities to enforce them. From the results of the model constructed in this study, it is observed that an increase in the level of fiscal decentralization has a positive and considerable impact on the growth of revenues and the budget of local government. As emphasized above, we can also conclude that the higher the level of fiscal decentralization, the greater the effect will be on the local budget and on the autonomy of financial decision-making.

This conclusion is consistent with the international literature, which argues that fiscal decentralization improves the capacity of local units to generate their own revenues and to manage local resources more effectively [18], [14]. In particular, greater fiscal autonomy and the increase in revenues from property tax create opportunities for strengthening local funds, reducing dependence on central transfers, and enabling local units to increase investments and the provision of public services according to the needs of their communities. In this way, fiscal decentralization proves to be a key factor for the financial empowerment and sustainable development of local self-governance in Albania.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Fiscal decentralization improves the capacity of local government units to generate their own revenues and to manage local resources more effectively**.**

The higher the level of fiscal decentralization, the greater the effect on the local budget and on the autonomy of financial decision-making.

The 2015 territorial reform and the 2017 property tax reform have had a positive impact on strengthening local finances, but the effect is not very strong due to varying administrative capacities and inequalities among municipalities.

Property tax remains the main potential source of local revenues, although its administration and collection capacity face considerable challenges.

In particular, greater fiscal autonomy and the increase in property tax revenues create opportunities to enhance local funds, reducing dependence on central transfers and enabling local units to increase investments and provide public services according to the needs of their communities. Fiscal decentralization thus proves to be a key factor for the financial empowerment and sustainable development of local self-governance in Albania.

From the results of the model built in this study, it is observed that an increase in the level of fiscal decentralization has a positive and significant impact on the increase of revenues and the budget of local government.

Fiscal autonomy is the most important factor in improving fiscal decentralization, with a strong and significant positive impact on the local budget. Municipalities with higher own revenues, mainly the Municipality of Tirana and other major district-center municipalities, have greater opportunities to exercise effective financial competencies.

5.2 Recommendations

It is recommended that in the future, opportunities for necessary adjustments in the local tax system be reviewed, focusing on the deepening and consolidation of the property tax reform, as well as improving the collection and administration of local taxes and fees.

Strengthening the administrative capacities of municipalities, especially those with weak fiscal capacity, to better manage and collect local revenues.

Establishing a property registry and a property valuation system as fundamental tools to improve transparency, the tax base, and revenues from property tax.

Continuing and consolidating territorial reforms to optimize the functionality and efficiency of municipalities in managing local finances and delivering public services.

Reviewing and improving central government transfer mechanisms to ensure fiscal equalization and greater financial autonomy for local government units.

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