

Rethinking Innovation: Context and Gender

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Abstract

In one decade few main cities of Albania experienced a doubling of their population density, creating a number of serious constraints to sustainable development. With the new territorial division no bright future is ahead for the inhabitants of those cities. New local administration will orient its focus and efforts to the existing urban settlements as the legal framework is clearer for offering such services to urban population. This study intends to make a depiction of local government challenges and efforts for accomplishing its tasks of serving the citizens and on the other hand create the right foundations/infrastructure for the development of the city. Therefore the major concern of the study is to investigate the effective use by the Local government units of the Infrastructure Impact Tax as an instrument for regulating the infrastructural planning and development in a city.

Keywords: *Infrastructure Impact Tax; Land Value Capture; Fiscal Decentralization; Territorial And Administrative Reform; LGU (Local Government Unit);*

1. Introduction

Albania is one of the smallest countries in Europe, with a population of about 3 million as per 2011 Census. It has been under a communist dictatorship from the end of WWII until the fall of the Eastern Communist Block (1945-1991). The communist system collapsed in early 1990's and the country is still undergoing the social and economic transition.

Another fundamental change the towns and villages of Albania experienced were administrative, territorial and economic organizations of Local Governments which were held responsible to mitigate the majority of urban development problems raised from the system's change as the main services expected to be performed by this government tier in Albania relate to the maintenance of local infrastructure; water supply and sewerage networks; public urban transport, solid waste management and urban planning. Tirana is the most affected city from a demographic perspective as it grew rapidly at rates higher than every other locality in the country. It attracted the majority of the population of Albania, growing from 250,000 (1990) to 750,000 (2011) where people could dream of improving their life and gain access to new opportunities for education and employment.

During the years the municipality of Tirana, which was established and grew along with the city, has struggled in accomplishing all tasks of a local government while fighting with the central government for power and funding.

Lezha Region has had a reduction in population of almost 37% or more than 78,000 inhabitants according to the data from The Civil Registry from 2011. Mirdita has the lowest population average in the region. The smallest units are Selita, Kacinari and Oroshi in Mirditë and Ungraj in Lezhë (less than 2,000 inhabitants each), where only 3.9% of the population of the entire qark is located.

The graph below clearly displays the massive population displacement during the period of 2001-2008, where the only regions with an increase in number of inhabitants are Tirana, Durrës, and Vlora, whereas the rest of the country, especially Dibër and Kukës, have experienced a great reduction in population numbers.

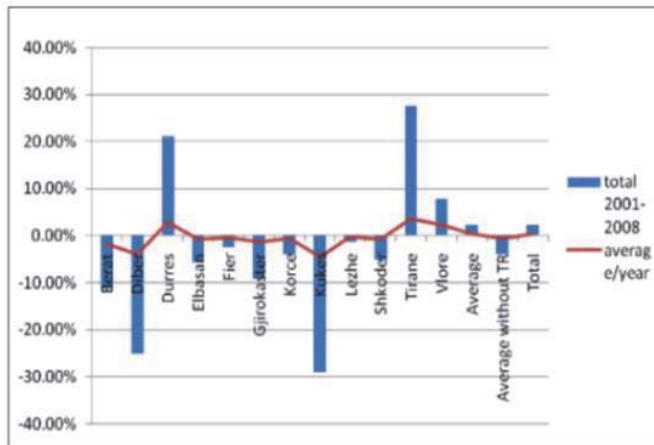


Figure 1. Alterations in Population of Regions

Foreign assistance and advice was offered to central and local government for revenue channels and a full fiscal package was introduced to both levels of governance. It was by that time that the Infrastructure Impact Tax (IIT) was introduced (1996).

Although the tax was introduced in 1996, the law regulating its calculation and collection method, was amended in 2000, 2008 and the final amendment is expected to be approved shortly in June 2015 reflecting the new administrative and territorial reform implemented in Albania.

This fiscal instrument is new for feeding the local budgets as the other taxes introduced in Albania and it has been differently applied during the last decades. Before the law was altered in 2006, the tax could have been paid in cash or in kind. The tax that the developer had to pay to the municipality could be converted into works on the infrastructure that was impacted from the new development in the building vicinities without considering a wider plan of impact. This fact explains the lack of a Master plan for the whole city or the neighborhood development plans that would have guided the developers and the Municipality in implementing this instrument.

1.1 Significance of the Study

This paper is significant because it seeks to treat the IIT as a land value capture instrument, as stated by Smolka & Amborski (2000): value capture refers to the process by which a portion of or all land value increments attributed to the 'community effort' are recouped by the public sector either through their conversion into public revenues through taxes, fees, exactions and other fiscal means, or more directly in on-site land improvements for the benefit of the community. This concept is still unknown in Albania and its introduction might result in positive outcomes.

In addition, this paper tries to identify any negative outcomes this instrument might have (not implying that it does), for example as argued by Smolka and Amborski (2000), value capture tools may reduce the chance of collecting property taxes (...) This may occur where the tool creates an additional financial burden on the developer or industry such that it acts as a deterrent to locate in a specific jurisdiction (...) The result is that long-term property taxes are lost to the municipality. This paper will also try to identify what can be done to make this tax as effective as possible in the Albanian context.

The research paper expands on the current body of knowledge regarding the direct impact the IIT has as a developer exaction, as stated by Jennifer Evans-Cowley (2006) an exaction requires a land developer or builder to contribute a share of a local government's cost of providing on- and off-site infrastructure and public facilities to serve the developing property.

The international literature review and comparative elements may provide a better understanding of IIT tax as a "scheduled charge applied to new development to generate revenue for the construction or expansion of capital facilities located outside the boundaries of the new development (off-site) that benefit the contributing development" (Jennifer Evans-Cowley, 2006), and whether the current legal and institutional framework is appropriate for these charges to have

a significant impact in infrastructure improvement.

1.2 Scope and Limitations

LGUs are undergoing a fundamental transformation as the territory, functions, size and funding sources are amended as per Law No. 115/2014, "On Administrative-Territorial Division of Local Governance in the Republic of Albania", which stipulates an administrative division in 12 regions (qarks) and 61 municipalities compared to 373 municipalities and communes that will exist till June 21st 2015.

While the research is targeted for two cities Tirana and Lezha, it will be difficult to provide a comprehensive overview of the IIT impact as the baseline and data provision vary significantly. Digitalization of such information was enabled from foreign donors through different grant projects and Tirana has always been their focus whereas other regions, including Lezha may present some obstacles in ensuring detailed information.

2. Impact Fees

Development fees (part of which are impact fees) tax the market value of new private investment. The basis for determining the tax or fee in a development is the cost of overseeing new development or mitigating the impact of developments on public infrastructure. The tax or fee is collected only once; at the time permission to proceed with the development is granted (Walters, 2011).

Impact fees are fair and realistic instrument used by governments to create revenues for investments in infrastructure surrounding new developments. This instrument is a direct method used by governments to gather the necessary funds to provide infrastructure. According to Peterson (2009), impact fees are designed to charge developers the market cost of the infrastructure expansion their development projects will necessitate.

As most of the development is happening in cities the responsibility to control by inciting or restricting this development stays with local authorities. Since the Council of Europe adopted the European Charter for Local Self-Government, EU leaders understood that "the future of Europe lies more so than ever in the hands of local and regional authorities. These units of self-government have the capacity to support development projects directly in our territories and on the ground, and to establish a full cooperation with national governments and European institutions in order to create optimal conditions for sustainable and inclusive growth (Local and Regional Government in Europe – Council of Europe, 2013).

Local authority financing is currently at the heart of political debate. All the Council of Europe's member states are faced with the challenge of reconciling the need to control and reduce public spending with greater financial autonomy in local government. One of the suggested instruments by CE is the betterment levy although some economist might argue, "It's an arbitrary revenue collection measure" (Shreekant Gupta, Delhi School of Economics, 2007).

Local authorities are often responsible for improving infrastructure, for example by building roads to newly industrializing zones. Such improvement clearly benefits business in the zones concerned and there seems a case for charging them for these improvements by means of a one-off charge such as a betterment levy.

But perhaps some cautions needs mentioning with such levies. One problem is that they may deter new development or perhaps divert it to the areas where levies are lower. Another problem is that if the local authority concerned raises a business tax such as a property tax of a profits tax then it should gain from the business through higher future tax yields assuming that the infrastructure improvements create more valuable properties or result in greater profits. In these circumstances, operating a betterment levy might almost seem like double charging.

An impact or development fee system that charges developers the market cost of the incremental infrastructure needed to support new development has been shown to be more economically efficient than a system that finances growth in infrastructure from general revenues (Peterson, 2009).

2.1 Impact Fee (Tax) in Albania

Terminology differs in different countries of the world. In Albania we refer to impact fees as a tax, thus for it is called the Infrastructure Impact Tax (IIT). This tax was introduced in the early 90's as part of the "block" of taxes introduced by international financial institutions like IMF and WB into the Albanian legislation.

It was only until 2006 that this tax gained "meaning" when the law was drafted for local government revenues.

This tax is quite controversial as it is calculated and proposed by central government agencies, but the local

government collects it.

The legal background on which it operates could be reviewed, and local governments and central government need to cooperate and distribute responsibilities more properly.

Article 27 of the law explains the Infrastructure Impact Tax (IIT):

- a. This tax is calculated based upon the new project investment value (in Albanian Leke - ALL)
- b. Tax level is expressed in % over the new project investment value and can vary from 1-3% in all local entities in Albania, except Tirana, where the tax can vary from 2-4% of the new project investment value.
- c. This tax that applies on big infrastructure projects like national roads, ports, airports, tunnels, dams, energy infrastructure is only 0.1% of the project investment value
- d. For informal buildings that are in the process of formalization (legalization) this tax is 0.5 % of the investment value
- e. Municipal/communal council has the right to approve categories or subcategories for investment ranking, thus forming the base for deciding between 2% - 4%
- f. The Income from this particular tax is collected from the entity that issues the building permit, municipality or commune.
- g. If the new investment project (building) develops in more than one LGU (Local Government Unit) or develops in one LGU but its impact reaches the infrastructure of the neighboring LGU, income tax is divided proportionally

2.2 Fiscal Autonomy as a Prerequisite for Adequate Use of Various Betterment Levies

One of the main challenges for local governments is to meet the expectations for better services and governance. Decentralization - as an administrative structural reform - was initiated to support the urbanization that on the other side resulted in growing pressure on local governments that were held responsible for providing or at least ensuring public services and facilitating economic development. We know that public services can only be delivered if adequate resources are available at the state level (including first and second tier of the government), which are responsible for the execution of these functions. Therefore, the level of funding for local governments is closely related to the functions they are mandated to perform. Ideally, norms should be set for each service provided by local governments and costs should be calculated for each specified norm. In practice this sound an impossible mission. Local governments in Albania are financed through a combination of general-purpose transfers (formula based equalization grant), conditional grants as well as local taxes and fees. As several studies note, the design of the system of transfers seems to be adequate for the current conditions in the country and achieve to a good extent the purpose of horizontal equalization¹. In terms of vertical equalization, the levels of spending of local governments in Albania remain significantly low, at less than 3% of the GDP². However, it needs to be established whether the current levels of spending (i.e. revenue adequacy) are adequate for the levels of services assigned to local governments. The main services performed by local governments in Albania relate to: a) the maintenance of local infrastructure; b) water supply and sewerage networks; c) public urban transport; d) solid waste management and urban planning.

In principle, the system allows for local governments to raise revenues to fund the majority of these services through the setting of service charges. Other services, including those in the area of social protection and education are partially or entirely financed through the state budget through earmarked grants and/or general-purpose transfers. The system of transfers and fiscal authority granted to local governments are generally in line with the general principles as highlighted above. However, it is worth noting that the current amount of funding does not seem to respond adequately to the huge needs for infrastructure improvements, especially in the sector of road and water systems where the physical infrastructure is missing and/or obsolete due to deferred maintenance. To date these needs have been addressed through a combination of conditional and/or competitive grants from the state budget. While it is understandable that the amount of such grants does not necessarily meet the overall demand due to budget scarcity, it is important to note that increased transparency and clearer allocation criteria would improve performance of such grants. Frequent changes in the financing framework of local governments such as the reduction of the total unconditional grant pool; or the reduction of local authorities' discretion over indicative local tax rates, have undermined consolidation of local government finance

¹ Albania Local Finance Policy Note, The World Bank, 2008

² White Paper on Fiscal Decentralization in Albania, PLGP – USAID, 2012

and operations.

2.3 Guiding Principles for Intergovernmental Transfers Implemented in LGUs

The design of the intergovernmental transfer system should be based on the principles of efficiency and equity of local service provision. Boadway and Shah argue that some of the guiding principles in the design of fiscal transfers are³:

1. Clarity in grant objectives. Grant objectives should be clearly and precisely specified to guide grant design.
2. Autonomy. Subnational governments should have complete independence and flexibility in setting priorities. Tax-base sharing—allowing subnational governments to introduce their own tax rates on central bases, formula-based revenue sharing, or block grants—is consistent with this objective.
3. Revenue adequacy. Subnational governments should have adequate revenues to discharge designated responsibilities.
4. Equity (fairness). Allocated funds should vary directly with fiscal need factors and inversely with the tax capacity of each jurisdiction.
5. Predictability. The grant mechanism should ensure predictability of subnational governments' shares by publishing five-year projections of funding availability. The grant formula should specify ceilings and floors for yearly fluctuations.
6. Transparency. Both the formula and the allocations should be disseminated widely, in order to achieve as broad a consensus as possible on the objectives and operation of the program.
7. Efficiency. The grant design should be neutral with respect to subnational governments' choices of resource allocation to different sectors or types of activity.

2.4 Progress of Own Revenues

Local tax and fee collections⁴ at the local level in 2012 amount fluctuated during the period 2008 – 2012, with the lowest result recorded in 2010, the first year when 2009 changes in the local tax system came into effect. Collections in 2012 amount to 9.3 billion ALL, a level that is comparable to collections in 2008. Account for the economic growth and inflation throughout this period, we may conclude that growth in locally derived revenues has been negative. The Small Business Tax is the revenue that has the highest yield in the local budget, amounting to 20% of overall local tax revenues; followed by property taxes (Building as per m² used surface and agricultural land tax) at about 11% and the Infrastructure Impact Tax, which made up for about 10% of local taxes in 2012, with a steep fall from over 20% in previous years. The cleaning fee is the second most important single revenue source in local budgets, yielding about 14% of the total tax budget in 2012.

Table 1. Main Local Revenues for the selected sample in period 2008-2012 (Berat, Sarandë, Kavajë, Pogradec, Gjirokastër, Kucovë, Lac, Lezhë, Bushat, Kashar, Kukës, Peshkopi, Xhafzotaj, Bucimas, Burrel, Krujë, Divjakë, Himarë, Ballsh, Librazhd)

Year	2008	2009	2010	2011	2012
Small business tax	2,067,359	2,102,799	2,409,418	2,146,272	1,806,312
Property taxes	807,858	847,747	1,090,472	1,126,330	1,067,736
Infrastructure impact tax	1,761,554	2,271,817	1,815,821	2,266,475	926,965
Public space tax	389,531	175,882	310,049	250,624	338,602
Cleaning fee	900,395	1,049,903	1,005,476	1,058,264	1,324,188
Other local revenues	3,216,628	4,146,167	942,497	3,277,612	3,846,604
Total local tax revenue	9,145,334	10,596,325	7,575,743	10,127,587	9,312,418

Data Source: Ministry of Finance, Department for Budget Monitoring; All Values are in thousand ALL

³ Selected from *Intergovernmental Fiscal Transfers*, edited by Boadway, Shah; *The World Bank*

⁴ When speaking about overall own source (or locally derived) revenue performance at the local level, the term tax has been used for both taxes and fees (service charges). This is the term that is generally used in the budget classification for both types of revenue, in contrast with "non-tax revenues" that are one-time proceeds from sale of assets, lease or similar activities.

Taxes on property (agricultural land and building tax) take up only a modest share of total local fiscal revenues. Performance in collection has however grown steadily and today they represent about 11% of total tax revenues at the local level. The tax base for the property tax is the surface area of the property (agricultural land and building in rural and urban areas respectively). The tax rate is defined by law as a flat amount per m², depending on the location, type of use and quality/age of property, in an attempt to approximate market values. The indicative tax rates were revised for the first time since 2002 in late 2013. The proposal to significantly increase tax rates for property was rejected by Parliament and tax rates have remained very modest. The low indicative tax rates may serve as a disincentive for own tax collection efforts, given that administrative costs are high. Positive improvements were introduced such as the provisions of imposing the double of the indicative tax rates for second + properties. However, revisions to the tax base and rate scheme were insufficient and incomplete and may create distortions in terms of taxpayer equity⁵. This situation is unusual as property taxes have for long been hailed as one of the most appropriate general tax sources for local governments, given that they do not create conditions for tax competition between local governments. From the administrative point of view, the tax base is visible and changes at a very slow pace, hence it should not be difficult to administer. However, property taxes have proven difficult and costly to administer well. This stems in particular from the fact that although the tax base is visible, tax subjects are often difficult to identify, especially in a country, which has had a booming construction sector for over one decade, a considerable part of which has been informal. Tax registers are not up to date and local governments encounter difficulties in obtaining information from the Immovable Property Registration Office (IPRO).

Underperformance in collection of property taxes may be attributable to a series of factors; of each the lack of accurate taxpayer databases is the most evident. However, it may be the case that in times of buoyant tax base and proceeds local governments have been inclined to rely on "easier" targets such as business taxes and intergovernmental taxes. It may not be a coincidence that there has been an almost 25% increase in property tax proceeds from 2009 to 2010, the first year when the "traditional" sources such as taxes and other service fees were drastically reduced by Parliament.

For years, the infrastructure impact tax was one of the most important taxes for local budgets, accounting for up to 30-35% of total tax proceeds at the local level. It has lost its relative importance in the local budget in the recent years, following the economic downturn and shrinkage of the construction sector; and it now represents about 10% of total local government tax revenues. The tax base is the value of investment for construction/development, at a rate ranging from 1-3% of the value of investment (2-4% in Tirana). Administration is relatively easy for the infrastructure impact tax, given that payment is a precondition for the issuance of building and other development permits. However, problems have been identified with the definition of the tax base and rate (does not make a distinction for different types of development that create different needs for new infrastructure) and there is large room for interpretation of the term "value of investment". Proceeds for the infrastructure impact tax are treated as a general tax and have been used to finance general operations of local governments, including subsidizing services and other current costs.

According to a paper developed by USAID (2012, US AID Planning and Local Governance Project in Albania, p 61) on fiscal decentralization, Albania has provided less funding to local governments on a comparable basis of expenditures and revenues, in comparison with other countries of the region. Furthermore the paper suggests that some of the changes would be realized by providing more revenue authority to the local governments by allowing them more flexibility in setting of the tax rate and base on some taxes. Also, providing for shared taxes for assuming the existing shared functions would rebalance the expenditure and revenue levels.

Also the paper recommends that the improvement in the collection of the property tax should be one of the main areas for further development. One of the key requirements for this improvement is a more coordinated sharing of information between the central and local authorities.

⁵ For instance, properties in downtown Tirana that have the maximum yield are taxed at a rate that is about 15 times lower than the tax rate in the so called "tourist village" designated areas on the seaside. A property that is located in the seaside outside of these designated areas is taxed at a rate that can be 40 times or more lower than the tax rate of a property inside the tourist village, even though the distance between the two (hence the market value) may be less than one meter. Furthermore arguments to introduce a tax on urban land (undeveloped land) were not taken into consideration

2.5 Land: Market & Policies

2.5.1 Land Policies and Reforms in Albania

Land reform, security of land rights and development of the land market are key aspects for economic growth and investment, as well as social and political stability.

While Albania made rapid progress in post-1991 land reform and privatization programs, unresolved issues such as restitution/compensation and legalization remain impediments to investment, social stability, and European Union accession discussions. In Albania the land reforms began in 1991 when the newly elected parliament reintroduced private ownership. The privatization process had 4 main components:

1. Land, divided agricultural lands amongst the workers and their families, effectively granting private ownership rights to 2/3 of the population (.Law 7501, dated 19.07.1991)
2. Sanctioning and Protection of Private Immovable property, Free Initiative and Independent Private Activities, which facilitated the sale of business sites and have subsequently been devolved to municipalities/regions that have the right to privatize certain categories of land. (Law 7512, dated 10.08.1991)
3. Privatization of State Owned Housing, resulted in the privatization of around 440,000 apartments and houses.in urban areas. (Law 7652, dated 23.12.1992)
4. Restitution and Compensation of Properties to Former Owners and 7699, On Compensation of Former Owners of Agricultural land. (Laws 7698, dated 15.04.1993)

Additionally the legal framework was meant to create a good welcoming climate for foreign investment and accommodate the migratory population in main cities because the property rights uncertainties are the main cause of economic concerns and unstable social situation.

2.5.2 Land Market

Albania's formal land markets are most active in urban, peri-urban, and coastal areas. The urban land market has been driven by dual demands for higher quality and newer properties - the first by investors and new businesses and the second by tourists and buyers of second homes. Land for urban development is limited; most vacant land surrounding cities is either encumbered by disputes or is state land. In order to develop state land, investors must navigate a lengthy and expensive permission process that often ends with receipt of ambiguous rights. Prices for properties in desirable areas surged more than 300% from 1996 to 2006, but overall rates remain among the lowest in Europe.

Despite its growth, the development of the formal urban land market is constrained by:

Unresolved rights of pre-1945 (year) landowners;

Complexity of ownership patterns in urban areas; lack of awareness of the value of land registration;

Complexity and corruption in the land development and registration process (Gaynor and Bledsoe 2000; World Bank 2006c; World Bank 2007c).

Such constrain and uncontrolled migratory movements towards main cities promoted the illegal constructions, which in some cases resulted in illegal settlements crowning the big cities like Tirana and Durrës. The illegally constructed buildings, yet not-legalized, and undocumented or unregistered as immovable properties not only remain out from the formal property market because of their unclear legal status but are somehow excluded from several taxes, IIT among them.

From one side the informal building owners cannot benefit by such asset as they cannot use these properties as collateral to access financing, nor to sell them at the real market value, thus limiting the contribution of the property market to investment and economic growth.

From the other side, being exempted from the local taxes lower their chances to benefit from infrastructure improvements thus for risking to reduce the market value of their buildings.

Additionally the transactions with these properties may take place informally complicating and making more difficult the work of state authorities. Furthermore transaction costs and uncertainties as well as property conflicts concerning ownership, discourage investments in these immovable properties. As shown in the results of 2008 Business Environment and Enterprise Performance Survey (BEEPS), access to land is increasingly affecting the business environment, with some 43% of respondent firms noting it as a problem as compared to 26% in 2005 (BEEPS At-A-Glance 2008*Albania report, The World Bank Group, January 2010.)

As the crisis was not enough for the Albanian economy the slow progress in facilitating procedures for property registration and the austerity of issuance of construction permits are further damaging Albania's business environment. As shown in Doing Business 2013 report, Albania's ranking dropped between the 2012 and 2013, and on the same path were also other countries in the region. The Report of 2013 shows that property registration encompasses six procedures, which take 33 days to complete, and that the registration cost is 11.4% of the property value.

Obtaining a construction permit has become a major constraint for investors...

Obtaining a construction permit has become a major constraint for investors interested in immovable properties. In absence of an effective territorial planning at the national level the issuance of construction permits is very complicated, but many of implementation problems occur at the municipal level. In difference with other countries of the region, according to DB 2013 Albania is the only country in SEE that doesn't have a clear practice on getting a construction permit. Lack of clear urban development strategies pose considerable difficulties for property developers in obtaining construction permits legally but also reduces significantly the revenue collected from the IIT tax as it is applied and paid at the moment of construction permit issuing.

2.5.3 Challenges of the IIT in the Market

Table 2. Revenues from the IIT collected by ALUIZNI, transferred to the municipality of Tirana

Year	Collected Amount in ALL
2009	410,680,780
2010	44,331,595
2011	232,582,499
2012	43,543,292
2013	158,983,680

*All values are in thousand ALL

Source: Municipality of Tirana, General Directory of Budget

Due to various agencies that are entitled to collect the IIT, it is very difficult to judge from figures in ALL compared to actual constructions. This is because, the number of informal constructions surpasses the formal one. Urbanists in Tirana support the hypothesis that the absence of an urban masterplan creates ground for an undefined boundary of the municipality's administrative territory and jurisdiction over property development and formal and informal constructions. For this reason, agencies like ALUIZNI have exercised the task of IIT collection in territories under the administration of the municipality for informal buildings, with the difference that ALUIZNI's tax collection has happened when the building was already there. I find this as an interesting case to be studied further as the pre-collection (through construction permits) not only ensures its application, but also is exercised according to the urban development plan. Whereas the post-collection from ALUIZNI does raise some income for the budget line of the IIT. In this case the IIT cannot always be an earmarked expenditure due to the circumstances (very high cost of developing infrastructure projects in informal areas), thus allowing the institutions to change its purpose and include it in the "big pot" of municipality expenditures.

Following the above logic, the property value in areas enclosed by the urban development plan has risen, due to the IIT application and scarcity of space⁶, whereas within a distance of 2 km from the center the property value is much lower. This is a market issue because during the past two decades development has been concentrated around the center of Tirana, also due to the ability and ease of the municipality to control development inside this border, IIT included.

2.5.4 Revisiting the Taxation Principle

Albania is struggling with many questions about planning such as the one raised by Dierwerchter and Thornley: "Should

⁶ In an interview with the secretary of Albanian Constructor Association, conducted in 2015, resulted that the construction companies were going bankrupt because of the very high intensity & concentration of the market around the center of the city, which led to a rapid occupation of all the free space, and in this chain of events although there is no space left around the center, the market demand is still concentrated in the center due to relatively better infrastructure services, while the offer has been displaced in the periphery.

the state simply provide basic regulatory frameworks and information for private actors in order to ensure smoother capital accumulation (..) ; or in contrast, should the state deploy public regulations and investments to realize more positive societal values?" (Dierwerchter & Thornley, 2012, p. 47). The dilemma sets the home works for all levels of the governments and the entire taxation system developed over the regulatory framework.

As this paper tackles one specific element of the betterment levies I will narrow the discussion on its impact over urban and spatial developments.

The recently adopted law for spatial planning, Law on Territorial Planning No. 10 119, date 23.4.2009 is a step forward, but the actual impacts and power of spatial planning will highly depend on the actual power and position of the state.

This law required all LGUs to develop their territorial plan in order to guide spatial development and to implement the concept of sustainable development and spatial or territorial planning by considering all the components of the territory. The law also provides several land management instruments to support its implementation, such as: the Transfer of Development Rights (TDR), construction intensity program, Local Detailed Plan (LDP) and program of parcel reorganization. (Ruijsink, S, Duka, I, Toto, R, 2013. The recent history of urban planning and development. Albania)

Additionally, it was supposed to facilitate the decentralization of the decision-making by transferring the decisions on drafting and approving of the local planning instruments from central to local governments. Under this new law local governments (second tier) can give development (construction) permission if they have the planning instruments in place that are stipulated in and in line with the territorial planning law. Without such planning instruments LGUs can't approve any urban development initiative formally which in financial terms mean not able to collect the IIT and in urban planning term not capable of controlling all constructions. The result may be appalling as the construction will happen regardless as natural growth of the families and the necessity for improving dwelling conditions as well business development will be overmatching the actual offer of the constructed buildings.

The implementation of the new planning law marks a new era in Albania. As Nientied explained 15 years ago: "In the experience of other post-communist countries, planning has been seen as an obstacle rather than as an instrument for market development. The general resistance against planning owing to frustration with the old style planning system, and the insufficient change of planning during the post-communist period, are two explanatory factors. This lesson supports the point that it does not make sense to strengthen the present town and country planning, especially not in a country so full of anti-state feelings. If planning in Albania is to be meaningful, delegation of planning responsibilities to the lowest possible level (of government) is imperative. For this to happen, the new government and the planners have to face the realities and change their attitude towards planning and towards "unplanned" development. This is unlikely to happen without substantial international assistance (Nientied, 1998, p. 47)."

Spatial planning implemented properly through the legal framework and local development plans can mitigate the misbalance of various stakeholders' interest, reduce the deepening of the gap among various population strata and it can allow for more efficient use of urban land. This short and long-term objective can be achieved only with the following premises completed:

- Better legislative system on private property and territorial planning as well as legal clarity (and enforcement) in terms of property rights

Improved capacities of civil servants of all government tiers on understanding and applying the legal framework, principles of sustainable urban development, land economics, finance and land management, transparency and decision making

3. Conclusions and Recommendations

This section will cover some recommendation made by the author with the intention of increasing revenues from the IIT and equality in terms of distribution of responsibilities between formal and informal areas, as well as revenue usage.

One recommendation would be the creation of another fee, which would be a periodical fee (instead of a one-time upfront payment, such as the IIT) applied to formal and informal areas on the impact that those buildings will have on the surrounding infrastructure through the years. As the readers may have encountered before, taxes are created based on the ability to pay of the targeted residents and there should be a strong logical justification for adding another burden to the citizens. The proposed fee could be a substitution of the actual IIT. This fee could be a periodical payment for maintaining the infrastructure surrounding residential, industrial, and commercial buildings. The level of the fee should be set according to the impact and degradation of the infrastructure. Taking into account the ability to pay and the current economic situation, the fee should not be high enough to directly impact the livelihood of citizens, but it should not be low

enough to become an insignificant revenue generating instrument. The reasons for substituting the IIT with another fee are:

1. According to the trend of the construction market, the latest developments (Administrative Territorial Reform), and the increase in legalizations of informal buildings, this tax could substitute the IIT and generate revenues not only from new buildings, but also from existing ones.
2. Supposing the number of new developments in the most dense areas of the city will continue declining (mainly because of the lack of space), the revenues generated from the IIT in these areas will soon become insignificant and will have little to no impact on the municipalities budget.
3. The increasing number of legalized informal buildings has been progressively increasing since the creation of ALUIZNI. This suggests that in the not so distant future, informal buildings will decrease significantly and become part of the formalized areas of the city. Moreover, the revenues collected by ALUIZNI from the IIT will decrease until they reach very low levels. This decrease would make the revenues from the IIT for informal buildings insignificant and inapplicable for any major investment.
4. Since the IIT will slowly become inefficient, a considerable portion of income in the municipality's budget will vanish.
5. All residents, the daily activities of which impact and degrade infrastructure should pay for its maintenance. The payment should be for investments which are not made by privately contracted companies, such as water distribution, electric grid, etc.

Relating to the issues mentioned above, the revenues from this payment should go to an earmarked fund, and should be spent for the provision of new infrastructure, and maintenance of existing ones. A suggestion would be for the revenues from this fee to be spent on the location where it is collected, transferring spill overs to neighborhoods with not enough revenues to maintain or provide new infrastructure investments.

An additional suggestion would be the increase of the level of the IIT for informal buildings. The justification is that the cost of providing infrastructure or maintaining it is relatively the same in both formal and informal areas. Assuming this statement is true, it would be unfair for formal private developers to pay more than informal developers for the same service. Since these currently informal buildings will one day be legalized and formalized, they will be considered regular constructions and integrated in medium/high economic activity areas, with the same rights and obligations as normal buildings, assuming the city will continue growing and expanding. Thus the increase of the IIT for informal buildings is justified. A way to calculate this tax would be by using the following formula:

$$\text{IIT (new)} = \text{volume of the building} * \text{age of the building}$$

By taking into account the age and volume of the building, it would be possible to assign a coefficient of degradation, or impact on surrounding infrastructure over time. This coefficient should be the basis of the IIT level. However, further research and professional thinking is needed to evaluate the introduction and implementation of this tax.

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