UNIVERSITÀ POLITECNICA DELLE MARCHE
Dipartimento di Scienze Economiche e Sociali

WINNING COMPETITIVE GRANTS FOR REGIONAL DEVELOPMENT IN ALBANIA: THE ROLE OF LOCAL LEADERS

Elvina Merkaj, Riccardo Lucchetti, Fabio Fiorillo

QUADERNI DI RICERCA n. 422[*]

July 2017

Abstract

In post-socialist countries, regional development and decentralization has been a fast process accompanied by strong deregulation and significant institutional changes. Despite the reforms in Albania, local government units (LGUs) are often significantly underfunded, understaffed and depend heavily on grants from the central government. The focus of this study is the Regional Development Fund (RDF), a competitive investment fund which finances LGUs investments. We aim to analyze the factors influencing the LGU access to RDF funds, based on a survey with LGU leaders.

Political affiliation of the LGU leader, networking and the knowledge the LGU leader about the RDF procedure are important factors affecting access to RDF funds. Interestingly, however, the factors that correlate with the number of applications are different from those that explain the success rate of those applications.

Our findings call for a further institutionalization of the process in order to reduce the (informal) personal and political affiliation based influences in the RDF competition.

Winning Competitive Grants For Regional Development in Albania: The Role of Local Leaders[‡]

Elvina Merkaj, Riccardo Lucchetti, Fabio Fiorillo

1   Introduction

The evolution of regional development policies in developed countries has been gradual (Ertugal, 2002). In the case of the EU, the regional development policies of EU Member States have been adopted under EU regional and cohesion policies. These policies consist of a balanced territorial development achieved by mobilizing an endogenous growth process based on local resources (Conzelmann, 2009). A bottom-up approach was promoted under this framework by strengthening and involving a wider network of actors at the local level. Nowadays these policies are implemented under the Europe 2020 strategy for promoting growth and employment[1], by fostering economic convergence, regional competitiveness and cooperation between regions requiring long term planning and improved local capacities to absorb and efficiently implement available funds.

In developing and transition countries a very different trend has been experienced, especially in post socialist-countries such as Western Balkans countries (WBCs), where regional development has been a fast process accompanied by strong deregulation and drastic institutional changes (Levitas et al., 2012). Fund absorption has been weak at the local level, mainly due to weak local resources and rigid central governmental control of investment capital (Levitas et al., 2011, 2012). Thereby local government have been highly dependent on central government funding, while there have been concerns about lack of transparency characterizing transfers from central government to local governments units (LGUs) in Albania, similar to other

[1]http://ec.europa.eu/regional_policy/what/index_en.cfm

WBCs (UNDP, 2005; Dafflon, 2007; Levitas et al., 2011). There are claims that political factors such as political affiliation of the LGU leader, play an informal, yet crucial role in access to funding from central government (Merkaj et al., forthcoming; Co-Plan, 2011).

Despite the above-mentioned concerns, there has been limited research on fiscal decentralization in Albania, particularly regarding allocation of funds from central government to LGUs. Therefore, it is important to analyze the main factors that influence the distribution of investment grants for regional development. The focus of this study is the Regional Development Fund (RDF) distributed to local government units (LGU) in Albania during the period 2011-2013. Intergovernmental transfers, including the competitive grants, were developed lately in Albania. Before 2006 this grant was part of the conditional grants and during the period 2006-2009[2] it was gradually transformed from a centrally based scheme into a competitive one. The competitive grant mechanism aimed at providing financing for mid- to large-size investment projects, through an objective and merit-based evaluation approach.

This paper analyzes the factors influencing the LGU access to RDF funds[3]. The ability to successfully access an RDF project is an essential component of the LGUs' task of improving livelihoods, as well as developing political capital for the future of the LGU leader. This study aims to analyze the factors determining the frequency of application and the rate of successful applications for RDF funds, with a special focus on the (informal) personal and political influence of LGU leaders in relation to the central government (patron).

The main research question in this article is if LGU leaders with a stronger personal, relational and political network are more successful in their applications for RDF projects. As a sub-question, we are interested in investigating the relative importance of those three channels, particularly political affiliation with the party currently in power at the central level. In doing so, we will also control for the quality and quantity of resources available to the local leaders.

Various types of intergovernmental transfer grants have been analyzed in previous studies (Gërxhani and Schram, 2009; Case, 2001; Co-Plan, 2011). However, to the best of our knowledge, there have been no scientific studies focused on the politics of RDF grants distribution to LGUs in Albania. All previous literature does not take the role of local politicians and their (personal and political) connections with the central government into account. RDF grants are one of the most contested grant schemes in Albania (Merkaj et al, 2017). Although the competitive process characterizing the

---

[2]Law nr 9464, date 28.12.2005, "On the state budget of year 2006"

[3]Note that in this study a granted RDF project means that the RDF Committee has given an official consent to finance the project but there is no accessible information on the time of the start or/and finalization of the funds disbursement.

distribution of the RDF is based on a scoring system, the transparency and accountability of the project selection process is reported as very low (see also Co-Plan (2011)), hence leaving a great deal of discretionality in the evaluation of proposed projects by LGUs. Under such circumstances, the incentive for informal influence in the selection process is high. This study contributes to the existing, yet scarce, literature on the political economy of intergovernmental transfers in Albania and sheds light on the role of LGU leaders in this context. Furthermore, it assesses the previously neglected role of the personal power of local government leaders in maximizing access to these funds.

The research is based on a semi-structured survey carried with 104 LGU leaders (out of 371 LGUs), conducted mainly during 2014. The study focuses on the RDF competition during since early stage (2011 – 2013). The research findings provide evidence for a wide spectrum of theories. Unlike previous studies, which were mostly focused on tactical distributive theories, this study enables crosscutting links with leadership and network theories as well as clientelistic theories. An innovative method is applied through the analysis of a large basket of indicators describing political characteristics (secondary data), LGU characteristics (secondary and primary) and LGU leader characteristics (primary data) and has made it possible to develop robust evidence on how local politicians react to changes in the politics of the central government.

The paper contains five sections. The following section contains a review of the theoretical background and the associated literature. Section 3 describes the methods of the study and our analytical approach. Section 4 elaborates the results, and is followed by the conclusions.

2   Literature review

An original contribution of this study is the use of complementary theories to address the array of factors potentially influencing the distribution of funds from central to local governments. Our conceptual framework combines theories and concepts related to clientelism, leadership, networks and tactical distributive theories.

Normative public economics: Normative theories of regional development emphasize the need for central governments to provide funding for the provision of essential public infrastructure and services to citizens. As many scholars have emphasized, a power shift from central to local government strengthens the relationship between citizens and government, hence enabling a more balanced growth process through the proper use of intergovernmental funds (Ertugal, 2002). A shift of power to the local level gives local institutions the authority to pursue their own regional development strategies, where local resources are of central importance for achieving

Figure 1: Theoretical framework
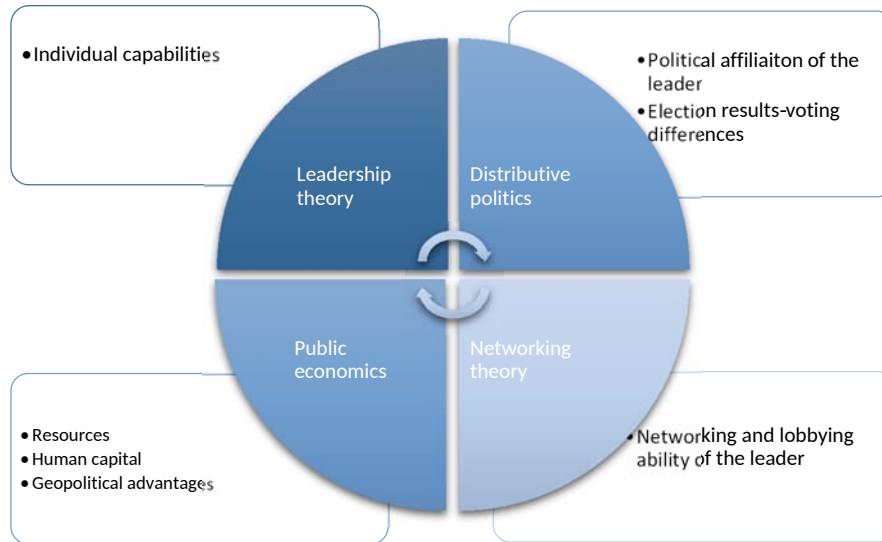
sustainable development (Conzelmann, 2009). Javidan (1998) and Barney (1995) have defined resources as physical (number of businesses and other tax sources) human (age, educational level and experience) and organizational (i.e. organizational culture and reputation).

Distributive politics: Governments may pursue objectives other than that of balanced growth and the provision of essential services and goods at the local level. The provision of investment grants by the central government (due to political objectives) may be oriented toward partisan and/or so-called "swing" regions. A broad body of literature exists on partisan intergovernmental fund distribution. In the "core voter model" (Cox and McCubbins, 1986), vote-maximizing parties will allocate distributive benefits primarily to their core voters. Another view, put forward by Lindbeck and Weibull (1987) and Dixit and Londregan (1996), is the "swing voter model", in which core voters cannot credibly threaten the position of the favored party even if it withholds grants, therefore the party should focus on the particular groups which may change their voting pattern in case of grant support.

Leadership and network theory: In a transition country such as Albania, with highly fragmented local government, insufficient financial and human resources and an informal network-based environment, the leader role is essential for the successful performance of LGUs.

A growing body of literature hints at the crucial role of leadership in fostering and promoting regional growth and development: regions with strong

4

and effective local leadership have more chances to grow and be economically successful than regions with ineffective leadership, because of the better use of resource endowment that increases regional competitiveness. In order to to have an impact on the development of their own region, leaders need to proactively interact with institutions and entrepreneur, harmonize requests from many different interest groups and organizations and using their expertise in managing the resources (Sotarauta et al., 2012; Beer and Clower, 2014; Stimson et al., 2005).

Sotarauta et al. (2012) finds that local leaders serve the community by using the formal and informal power and influence that their position brings. One of the most essential source of influence of local leadership to promote regional development is networking power. Here, we use the concept of network leadership developed by Harmaakorpi and Niukkanen (2007), defined as "an action which drives all operations and resources of the network in the desired direction".

Policy network is crucial in explaining policy decision making processes. Formal politico-institutional arrangement are not sufficient to understand modern political decision making. Policy processes also pass through informal political infrastructure/network (Kenis et al., 1991).

According to several authors, local leadership is accompanied by political power and lobbying. Actually, during transition periods with economic uncertainty and social instability hidden form of leadership, that are often undemocratic and unaccountable, can have powerful effects on regional development (Sotarauta et al., 2012; Liddle et al., 2016). However, Babajanian (2008) suggests that in transition countries, where formal institutions are weak, informal governance may act in different directions: on the one hand, improving welfare and, on the other hand, reinforcing a system of clientelistic accountability.

Interest group influence and lobbying has attracted the interest of various scholars studying intergovernmental grants. Grossman (1994) shows that interest groups supported by union memberships were more powerful in getting funds from the central government. The most outstanding paper on lobbying effect in tactical distribution of grants is by Borck and Owings (2003). The authors put forward a model where local government representatives lobby the central government who, in turn, distributes grants based on the local governments' lobbying efforts[4]. Lowry and Potoski (2004) find that in the USA organized interests are significant determinants of the allocation of federal discretionary grants. Feld and Schaltegger (2005) note that, in a direct democracy regime, a central government allocates more

---

[4]The authors explain that lobbying power depends on the marginal costs of lobbying, which increases with the geographical and 'political' distance from the central government capital. Moreover, the incumbent is more likely to provide funds where lobbying costs are low, spillover effects of lobbying are high and income per capita is low. Lobbying costs are a sum of monetary and opportunity costs incurred by the LGU official.

grants to interest groups with strong lobbying power that may influence fiscal referendum campaigns or outcomes. Boex and Martinez-Vazquez (2004) after carefully analyzing a wide literature show that LGU size is negatively related to per capita grants due to the higher lobbying power of small LGUs. In this paper, we consider lobbying as linked to networking environment and not as a separate factor.

The study contributes to the literature by including in the definition of leadership capabilities the political power of the LGU leaders, their ability to enter into relationships with the political apparatus controlling the central government, their efforts to engage in lobbying and clientelistic relations and the tactics they pursue based on their political positions, whether in a conformant[5] or non-conformant LGU. We argue that LGU leaders' ability and incentives to deploy clientelistic strategies will vary depending on two factors:

1. political affiliation; if the leader is affiliated with the party in power than it may be that he/she is more successful in obtaining conditional funds; and

2. Ability to access and liaise with the sources of grants through the use of political or personal ties.

In this case, LGU leaders make use of various tactics that are typical of clientelistic relations, such as applying political power in the local party branch, the organization of face-to-face meetings with superiors within the party and with other personal contacts within central political apparatus thus enhancing his/her social power (also used by Hilgers, 2011)). The selected theories are compatible with the Albanian social and political environment. Gërxhani and Schram (2009) find that a particular kind of clientelistic behavior is prevalent in Albania and is deeply rooted in both regional and cultural polarization. Moreover, being a bipartisan political system, there is a strong basis to suspect biased distribution of competitive grants towards those LGUs that support the party in power.

3 Methodology

3.1 Survey design

Since the establishment of a multi-party system, votes in Albania have been mainly shared between two large parties: the Socialist Party (SP) and the Democratic Party (DP). To obtain a parliamentary majority, these two parties have then forged coalitions with smaller parties.

---

[5]We use this word in a very specific sense; see next section,

In order to control for political influences, we classify LGUs into two categories:[6] *conformant* LGUs versus *non-conformant*: the former are run by leaders who belong to the same party or coalition as the one currently in power at the central level; the latter, by anyone else. Other data on population, physical structure, financial resources, poverty and other economic and social proxies were collected from secondary sources at the LGU level in order to assess the capacities of the LGUs.

Semi-structured face-to-face interviews were carried out with 104 LGU representatives (28% of all LGUs in Albania) in order to assess the factors influencing the distribution of RDF to local governments. Interviews were carried out during 2013 and collected the views 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 during the period of their last mandate in power (2011-2013).

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). It should be noted that, in the Albanian system, mayors of municipalities and heads of communes and councils of the 373 LGUs are directly elected in local polls.[7] The constituencies for the local elections are the geographical areas of the municipalities or communes.[8]

Secondary data is used mainly to determine the sample, classify the LGUs and crosscheck figures declared by the LGU leaders in the questionnaire such as: funding, staff size, number of businesses, number of projects absorbed during the last mandate, tax collection rate, own source revenues as a share of total budget, as well as demographic, poverty and geographical figures which were not collected by direct interviews.

The questionnaire was designed in order to capture information deemed necessary for the construction of the model. The questionnaire was drafted by grouping questions in four components such as

   i Level and characteristics of the leader

   ii Experience on RDF grant competition process as grouped by the type of criteria used by the RDF Commission

   iii LGU resources and institutional capacities including technical expertise, project proposal writing experience, administrative and manage-

---

[6]This is a standard approach in the literature: see for example (Johansson, 2003; Case, 2001).

[7]Mayors and heads of communes are elected under a first-past-the-post system, while members of the councils are elected from closed candidate lists under a proportional system. The Law on Local Government 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.

[8]The city of Tirana is a special case, as there are two levels of local government: the city forms one constituency and the 11 boroughs form their own consistency.

rial skills

iv Personal perceptions and opinions of the leader with regard to the RDF allocation process.

Most variables are based on the primary data collected in the questionnaire. Scale and binary variables, as well as continuous variables, were created after thorough data cleaning and crosschecking (see Table 7 in the appendix for a summary of the variables).

3.2 Survey Sample

A stepwise sampling approach was taken. 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 regions[9]. In fact, the yearly budget specifies the amount of funds to be distributed to communes and municipalities, divided by specific regions.

The second criterion used to select the leaders for the survey is the population of the LGU. LGU with a large population has more human and financial resources to devote to participation in the RDF process. Therefore, the sample includes large and small LGUs for the sake of representativeness.

The third criterion related to type of LGU. 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.

Finally, the last criterion used to design the sample was the political affiliation of the leader of the LGU. An equal number of LGUs represented by leaders affiliated with the governing coalition and the opposition coalition were selected. Moreover, in each coalition we chose leaders affiliated with different political parties in order to have a reasonably balanced sample (see Table 6 in the appendix).

When interviewing a leader proved impossible[10] the next commune or municipality on the list was approached.

In order to construct population-weighted figures, we used the classic Horvitz and Thompson estimator, where the inclusion probabilities (inverse

---

[9]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.

[10]For example, in the Shkodra region, where there are no non-conformant municipality leaders, and in Lezha region, where we could not get an interview from a conformant LGU leader, etc

weights) were calculated as the predicted values of a probit model, using the population, the regional dummies, rural/urban dummy, the mountainous variable, and poverty headcount as explanatory variables (Horvitz and Thompson, 1952).

Most of the LGU leaders interviewed had served for more than one term. Approximately 14% of the leaders in the sample interviewed were in their third term in office. This share is strongly represented in the total population of the LGU leaders (more than 30% of the total population).

Figure 2: Number of terms in power of the LGU leaders interviewed
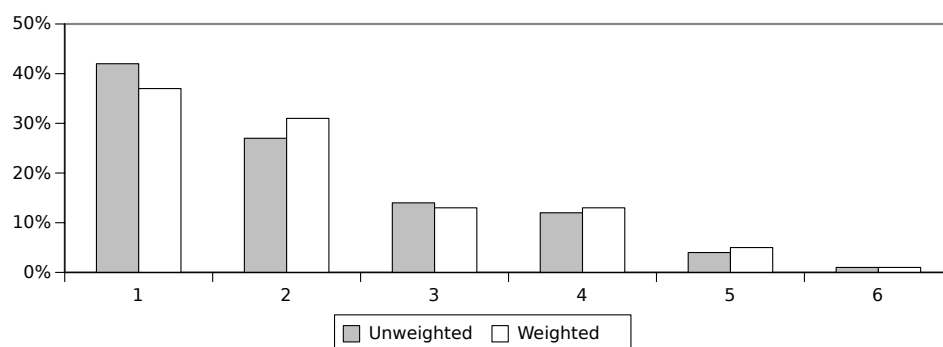
In light of their performance and treatment of RDF grants, the LGUs are much more active and eager to apply for RDF financing. In our sample, only 2 conformant and 2 non-conformant LGUs out of 104 have not submitted RDF applications for community investment funding, while all of the 27 non-conformant LGUs have sent at least one application. The most quoted reason for not applying is the perceived failure of succeeding due to the fact of not enjoying sufficient political and relational support. 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. These answers were motivated by the low legitimacy of the RDF grant competing process, as perceived by the respondents.

The conformant LGUs in the last mandate are much more successful in being granted a project. The number of conformant LGUs with at least one successful project during the period 2011-013 exceeds the number of non-conformant ones. Ninety percent (90%) of conformant LGUs that applied won at least one RDF project during 2011-2013 period, compared to only 56% of non-conformant LGUs.

The superiority of conformant LGUs is also evident by comparing the success rate of the applications: conformant LGUs are twice as successful as non-conformant LGUs. Fourteen percent (14%) of all applications submitted

Table 1: Number of conformant and non-conformant LGUs participating in the RDF process

	Conformant LGUs	Non-Conformant LGUs
Number of LGUs having submitted at least one project	48	52
Number of LGUs having won at least one project	43	29
Percentage of LGUs with at least one successful project	90%	56%

Table 2: RDF project proposals and success rate for conformant and non-conformant LGUs (2011-2013)

	Conformant LGUs		Non-Conformant LGUs	
	Sample	Population	Sample	Population
Applications	462	1650	480	1598
Granted projects	143	497	66	237
Success rate	31%	30%	14%	15%

by non-conformant LGUs have obtained funds from the RDF compared to a rate twice as high for conformant LGU applications.

However suggestive these figures may be, it is necessary to control for other factors that may explain those differences; in order to do so, we set up a two-equation econometric model, which is described in the next subsection.

3.3 Econometric model specification and analysis

In order to build a statistical model for the funding of projects submitted by the local authorities, we start from a trivial observation: the number of projects that is approved for the i-th municipality (k_i) has to be between 0 and the number of submitted projects (n_i). A model for k_i, therefore, has to take into account that the number of approvals depends on the number of submissions n_i and cannot exceed it.

We therefore build an empirical model for each of these variables, and we proceed to estimate their conditional distribution, taking as explanatory variables an appropriate number of quantitative descriptor of the submitter ($\boldsymbol{x}_i$). We make the following assumptions:

1 Conditionally on $\boldsymbol{x}_i$, observations on each LGU are independent and identically distributed.

2 The number of submitted projects n_i can be modelled by means of a negative binomial distribution:

$$P(n_i|\boldsymbol{x}_i) = \frac{\Gamma\left(\alpha^{-1} + n_i\right)}{\Gamma\left(\alpha^{-1}\right)\Gamma\left(n_i + 1\right)} \left(\frac{\alpha^{-1}}{\alpha^{-1} + \mu_i}\right)^{\alpha^{-1}} \left(\frac{\mu_i}{\mu_i + \alpha^{-1}}\right)^{n_i}$$

where $\mu_i = \exp\left(\boldsymbol{x}_i'\beta\right)$ and α is a constant.

3 Conditional on $\boldsymbol{x}_i$, the success rate $\pi_i = k_i/n_i$ is independent of the number of submissions; therefore:

$$p(n_i, \pi_i|\boldsymbol{x}_i) = p(n_i|\boldsymbol{x}_i) \cdot p(\pi_i|\boldsymbol{x}_i);$$

as a consequence, when considering the distribution of the number of financed projects one can condition on n_i and treat it as fixed.

4 We assume that, conditional on $\boldsymbol{x}_i$, each submitted project has a constant approval probability π_i, and the approval of each project is independent of the outcome of all other projects submitted by the same LGU. Therefore, the distribution of k_i follows a binomial distribution:

$$P(k_i|\boldsymbol{x}_i) = \binom{n_i}{k_i}\pi_i^{k_i}(1 - \pi_i)^{n_i - k_i}$$

where π_i follows a Probit specification: $\pi_i = \Phi(\boldsymbol{x}_i'\gamma)$, where $\Phi(\cdot)$ is the cumulative Gaussian distribution function.

We now review the motivations as well the implications of the above assumptions. Assumption number 1 is standard, since it simply amounts to saying that we are using what we believe is a sufficiently large set of explanatory variables.

As for assumption number 2, the negative binomial distribution is perhaps the most standard generalizations of the traditional Poisson model that has been used in the econometric literature for modelling count data, as it allows for the frequently encountered phenomenon known as *overdispersion*.[11] The parameter α can be interpreted as a measure of unobserved heterogeneity between LGUs, being equal to 1 in case of homogeneity.

Assumption number 3 is perhaps more debatable, as it implies that LGU do not behave strategically when deciding the number of projects to submit; in other words, that the number of submission is neither limited nor boosted by factors other than the explanatory variables.

One may suggest that LGUs possibly revise their decision on whether to submit a project depending on their expectations that the project would be treated more or less favorably. We argue that this is not the case, based on

---

[11]See *eg* Cameron and Trivedi (2005), section 20.2.4.

three observations: first, there is some anecdotal evidence that the evaluation process contains some elements of unpredictable randomness – in the course of the interviews, several leaders insisted on the necessity to send as many applications as possible in order to maximize the chances of having at least one approved; second, and more importantly, this point would be valid if those expectations were formed for reasons outside those described or proxied by the explanatory variables; since we control for a large number of factors that include proxies for the project quality and the degree of political vicinity with the prospective evaluators, the scope for this potential objection is considerably narrowed. Third, once the project has been prepared, the opportunity cost of submitting an application is relatively low, and a choice by an LGU to refrain from submitting an already prepared project can only be explained by virtual certainty of rejection (which seems unlikely, especially when other projects are simultaneously being submitted by that same LGU).

Finally, assumption number 4 contains, in our opinion, only two points that may be viewed as potentially contentious. The first is tied to the choice of a logit specification for the probability, which is of course arbitrary. The other, and possibly more substantial one, is the hypothesis of independence of the probability of success between projects submitted by the same LGU, without which the binomial specification would be mis-specified. In a similar vein as our previous argument, we believe that this is not a problem in a conditional model, in which probabilities for each LGU are specified as a function of a suitable set of control variable, as we do. Moreover, we will also check for possible misspecification of the binomial model via a suitably constructed Information Matrix test.[12]

4 Results

4.1 Number of projects submitted

Following the logic explained in section 3.3, a negative binomial regression model was used to analyze the factors influencing the numbers of projects submitted by the interviewed LGUs during the period 2011-2013. Table 3 describes the model according to the list of variables determined in the methodology section.

According to the results derived by the model, the number of projects submitted by the interviewed LGUs to the RDF commission depends mostly on the social and geographic characteristics of the local unit and his leadership. The influence of these variables is very related to the main criteria required by the RDF competitive process.

---

[12]The IM test is a *portmanteau* misspecification test. Its asymptotic version is computed by means of an auxiliary regression (see Davidson and MacKinnon, 2001, for details): under the null hypothesis, the test statistic has an asymptotic χ^2 distribution.

Table 3: Negative binomial model: number of submitted projects

	coefficient	s. e.	z	p-value	
const	0.8536	0.6317	1.351	0.1767	
poverty	0.0375	0.0147	2.548	0.0108	**
poverty^2	-0.0386	0.0171	-2.263	0.0236	**
pop	0.0214	0.0126	1.700	0.0891	*
pop^2	-0.0034	0.0171	-0.199	0.8426	
businesses per capita	0.0037	0.0030	1.264	0.2063	
mountain	0.1321	0.0811	1.629	0.1033	
lntaxpc	-0.0457	0.0745	-0.613	0.5400	
knowledge of legal criteria	0.1388	0.0351	3.959	0.0001	***
tax share	0.0080	0.0029	2.786	0.0053	***
consultants	-0.0169	0.0333	-0.508	0.6114	
party switch	0.3728	0.1717	2.171	0.0299	**
conformant	0.1510	0.1163	1.298	0.1944	
diffvote	0.6354	0.4388	1.448	0.1476	
no rdf visiting	-0.0712	0.0233	-3.056	0.0022	***
α	0.1148	0.0370	3.106	0.0019	***

Log-likelihood: -249.9812; number of observations: 91. Regional dummies: yes. QML standard errors.

LGUs with characteristics more prone to RDF competitive selection have higher number of submissions. Thus, local government units with high population and a high index of poverty are more prone to submit projects, although the poverty variable has a non-linear, concave impact. The number of beneficiaries in a proposed project is strongly related with the size of the local units. Therefore local government units with higher population have frequent needs for infrastructure interventions for being provided to their citizens.

Moreover, regional differences are significant vis-à-vis the size and poverty indicators. For instance, LGUs from Regions of Berat and Shkoder have made fewer submissions while LGUs from Region of Korce are more prone to send higher number of submissions. In the interviews made was found that the Berat have been frequently quoted for having less lobbying power in absorbing RDF funds. The Municipalities of this region during the interviews has been reluctant to follow the competitive procedure of the RDF grant due to low credibility in the selection process. The leader's personal abilities are very important factor for the submission rate: the LGUs leaded by mayors who are knowledgeable about the RDF competing grants process and are able to collect more taxes also tend to submit more RDF project proposals. On the contrary, specialized expertise in designing projects does not seem to exert any significant effect.

The most important finding, however, is that there are no significant differences on the political affiliation of the leader. Indeed, left-wing leaders have submitted roughly as many projects as right-wing ones, given all the other characteristics. Being from a swing LGU also does not influence the frequency of proposals. However, LGU leaders having in the past the experience of switching political affiliation are more prone to sent higher number of submissions compared to others.

Surprisingly, network is functioning as a disincentive for project submissions. For instance, having a good network seems to disincentive leaders from submitting frequent RDF applications. Higher is the number of the members of the RDF commission paying a visit to the local unit (taken as a proxy to measure the personal connection of the leader with the members of the commission), lower is the number of projects the leader of the local unit tend to submit. This is in line with the interviewers opinion, as the network effect seems to work not on the number of project proposed but rather in the probability to win. In fact, one of the leaders pointed out that

> ... powerful LGU leaders with influential networks do not waste energy submitting numerous applications; they submit just the right number of applications.

Possessing a stronger network, makes the LGU leaders tactically smart, since they reduce the costs for submitting a proposal such as preparation costs and then submission costs. This may show that LGU leaders with political

power do not devote their energy to preparing applications, but rather focus on maintaining their networks and relations and preparing only a few but successful applications.

Finally, it should be noted that the estimated value for the parameter α is very small, and the hypothesis $\alpha = 0$ can be strongly rejected. This result can be taken as evidence of strong heterogeneity between units, possibly because of their unobserved characteristics; this finding suggests that a simple Poisson count model would have been very inadequate and if a longitudinal dataset had been available, it would probably have provided a much richer insight.

4.2 Success rate

Table 4: Binomial model: probability of approval

	coefficient	s. e.	z	p-value	
const	-0.8115	0.8454	-0.9598	0.3371	
poverty	-0.0298	0.0193	-1.5430	0.1229	
poverty^2	0.0642	0.0248	2.5890	0.0096	***
pop	-0.0523	0.0165	-3.1660	0.0015	***
pop^2	0.0459	0.0188	2.4470	0.0144	**
businesses per capita	0.0034	0.0035	0.9823	0.3259	
mountain	-0.2092	0.0847	-2.4700	0.0135	**
lntaxpc	-0.0348	0.0912	-0.3811	0.7031	
knowledge of legal criteria	0.0460	0.0462	0.9949	0.3198	
tax share	0.0030	0.0039	0.7703	0.4411	
consultants	0.0835	0.0492	1.6970	0.0896	*
party switch	-0.1523	0.1767	-0.8617	0.3888	
conformant	0.4069	0.1237	3.2900	0.0010	***
diffvote	0.5561	0.4879	1.1400	0.2544	
no rdf visiting	0.1382	0.0359	3.8530	0.0001	***

Link function: probit; Log-likelihood: -125.909; number of observations: 91. Regional dummies: yes. QML standard errors. Conditional moment test for misspecification: 0.123727 (pvalue = 0.725026)

A binomial regression was used to estimate the probability of the LGUs to win a project. Since RDF is based on a competitive procedures, we may assume that this relaxes the fulfillment of the RDF as a grant for equalization purposes: the focus was on improving infrastructure and services by considering the poverty and remoteness of each region. One key component of our analysis is therefore related to the indicators which capture the physical and sociodemographic characteristics of the LGUs, so the model takes

into account those features, which may affect the probability of the LGUs to win a RDF project.

The impact of the population and poverty variables on the probability is positive, but significantly nonlinear: in both cases, the impact is negligible for most LGUs, but is rather strong for those few units that exhibit extreme large values (that is, are very large and/or very poor). The characteristics of the leadership do not influence the winning probability of a project; instead, using contracted resources for designating a project does positively contribute to the probability to win, although with low level of significance.

Again, the most crucial finding we obtain is that, contrary to what we observed for the number of submissions, the conformant variable is strongly significant: we take this as an indication that the success rate is very sensitive to the political affiliation of the LGU. Applying from a LGU leaded by the party being part of the governing coalition enhances the probability to gain a project from RDF. These results suggest that it is more often the case that risk adverse politicians in the central government use grants as a reward for electoral success of the local politicians and to consolidate their local constituencies.

Networking appears again enhances the probability of a LGU to win a project. For instance, the higher the number of contacted RDF commission members the higher the probability to win. This reflects the fact that the capacities of a leader to proceed with high success are related to the incentives created to RDF members to visit the LGU, thus enabling a lobbying environment.

5   Discussion on main findings and conclusions

Albania has applying the competitive grants system for a decade, with a view to achieving an adequate level of infrastructure and services at local level. LGUs have been under continuous transformation and require not only a strengthening of local capacities and resources but also transparent allocation of the Regional Development Fund in order to improve the funding absorption.

The number of projects financed can be thought of as the result of two components: the number of projects submitted and the probability of success. Considering these two components we may argue that the combination of factors influencing each component would create the best conditions of an LGU for obtaining the RDF grants.

We may split the factors into two groups. One group is related to the characteristics of the LGU and one group is related to the characteristics of the LGU leader. The social and geographical characteristics of the LGU increase the number of projects submitted but decrease the probability to win, and therefore the overall result depends on magnitude of each influence.

There are better circumstances for getting a project in those areas with lower population but higher poverty. This finding is plausible also with lobbying model studies (Porto and Sanguinetti, 2001; Boex and Martinez-Vazquez, 2004) which find small size LGUs as better endowed with lobbying power compared to the large size ones. Highly remote areas do not enjoy an advantage, as should be mandated by the RDF criteria. Instead, a higher share of tax collection to overall LGU revenues improves the conditions for accessing RDF grants; we believe that this variable is a proxy for the effectiveness of local government. Therefore, the model reflects regional differences which significantly affect the chances to win a project.

A major factor in obtaining a RDF funding rests on the characteristics of the leader; the political and network vested attributes of the LGU leader are among the most important factors. The number of projects that do get financed depends positively on the level of knowledge of the leader, the political affiliation of the leader and her/his networking capabilities. Leaders affiliated with the coalition in power at the national level has higher chances to get their projects financed. Conformant LGUs benefit from strong political favoritism in the intergovernmental transfer allocation process, which confirms earlier results for Albania (Levitas et al., 2011, 2012; Ymeri, 2014; Case, 2001) and elsewhere (Khemani, 2007; Sato, 2007; Kitschelt and Kselman, 2011).

LGU leaders who switched political allegiance in the past might create more stimuli for the LGU to submit more proposals. Moreover, an LGU leader who is capable to welcome more RDF members to visit her/his LGU creates strong networking capital, reduces the efforts for sending frequent number of submissions and influence positively in obtaining RDF grants. This may show that LGU leaders with political power do not devote their energy to prepare applications, but rather focus on maintaining their networks and relations and preparing only a few but successful applications. These components contribute better if the LGU leader is knowledgeable on the criteria required to apply for the grant and stands upon subcontracting services for designing the proposal. Whatever the result and feedback from the RDF commission, they rarely use official communication, which we take as a sign of low expectations on transparency and accountability from the central government. Similar to earlier studies and reports their relations with the center illustrate the political influence and the informal networks of relations that exist between the central elite and the local elite.

These findings confirm the importance of using networks and exploiting information through the social and political ties. As expected from the networking literature (see Kostiainen and Sotarauta, 2003; Harmaakorpi and Niukkanen, 2007), networking factors are of significant importance in the regression analysis. However, unlike Harmaakorpi and Niukkanen (2007), who focus mostly on institutional abilities, this study mixes the technical abilities of the leader and his institutions with the political power that he

and his LGU represent (reasserting the work of Rozevitch and Weiss (1993), Nye and Vasilyeva (2015) and Wan et al. (2015)) as well as the clientelistic channels created through their affiliation, in the same vein as the patters identified by Babajanian (2008). This makes sense for a transition country where political influence is unattached from the institutional constituency of the local government.

Future research on this issue and on other types of intergovernmental financing for investments would be of considerable value in the development of better policies for balanced regional growth in Albania. Regional variances were very significant for some regions, especially for Shkoder, both in terms of number of proposals sent to the RDF committee and probability to obtain a RDF grant. Considering the regional reform happening on the recent two years, converting the 274 LGUs into 61 LGUs, the RDF grant competition show that only 6% of the projects were given to the opposing LGUs in 2016. Moreover, comparative studies with similar funding schemes in neighboring countries would increase the robustness of the results and broaden the scope for our work.

References

Babajanian BV. 2008. Local governance in post-Soviet Armenia: Leadership, local development and accountability. *Communist and Post-Communist Studies* **41**: 375–396.

Barney JB. 1995. Looking inside for competitive advantage. *The Academy of Management Executive* **9**: 49–61.

Beer A, Clower T. 2014. Mobilizing leadership in cities and regions. *Regional Studies, Regional Science* **1**: 5–20.

Boex J, Martinez-Vazquez J. 2004. The determinants of the incidence of intergovernmental grants: A survey of the international experience. *Public Finance & Management* **4**.

Borck R, Owings S. 2003. The political economy of intergovernmental grants. *Regional Science and Urban Economics* **33**: 139–156.

Cameron AC, Trivedi PK. 2005. *Microeconometrics: methods and applications*. Cambridge university press.

Case A. 2001. Election goals and income redistribution: Recent evidence from Albania. *European Economic Review* **45**: 405–423.

Co-Plan. 2011. Intergovernmental Transfers in Albania: A reflection on how local revenues are derived from national sources. Technical report, Co-Plan.
URL https://issuu.com/co-plan/docs/co-plan_gazette_1_english

18

Conzelmann T. 2009. Towards a new concept of multi-level governance? *Committee of the Regions* : 31–40.

Cox GW, McCubbins MD. 1986. Electoral politics as a redistributive game. *The Journal of Politics* **48**: 370–389.

Dafflon B. 2007. Fiscal capacity equalization in horizontal fiscal equalization programs. *Intergovernmental fiscal transfers* : 361–396.

Davidson R, MacKinnon JG. 2001. Artificial regressions. In Baltagi B (ed.) *A Companion to Theoretical Econometrics*. Blackwell, 16–37.

Dixit A, Londregan J. 1996. The determinants of success of special interests in redistributive politics. *the Journal of Politics* **58**: 1132–1155.

Ertugal E. 2002. Strategies for regional development: challenges facing turkey on the road to eu membership. *Studies* **40**: 921–52.

Feld LP, Schaltegger CA. 2005. Voters as a hard budget constraint: on the determination of intergovernmental grants. *Public Choice* **123**: 147–169.

Gërxhani K, Schram A. 2009. Clientelism and polarized voting: empirical evidence. *Public Choice* **141**: 305.

Grossman PJ. 1994. A political theory of intergovernmental grants. *Public Choice* **78**: 295–303.

Harmaakorpi V, Niukkanen H. 2007. Leadership in different kinds of regional development networks. *Baltic Journal of Management* **2**: 80–96.

Hilgers T. 2011. Clientelism and conceptual stretching: differentiating among concepts and among analytical levels. *Theory and society* **40**: 567–588.

Horvitz DG, Thompson DJ. 1952. A generalization of sampling without replacement from a finite universe. *Journal of the American statistical Association* **47**: 663–685.

Javidan M. 1998. Core competence: what does it mean in practice? *Long range planning* **31**: 60–71.

Johansson E. 2003. Intergovernmental grants as a tactical instrument: empirical evidence from swedish municipalities. *Journal of Public Economics* **87**: 883–915.

Kenis P, Schneider V, et al. 1991. Policy networks and policy analysis: scrutinizing a new analytical toolbox. *Policy networks: Empirical evidence and theoretical considerations* : 25–59.

Khemani S. 2007. The political economy of equalization transfers. *Fiscal Equalization* : 463–484.

Kitschelt H, Kselman DM. 2011. Organizational extensiveness and political clientelism, the formal and informal "ties that bind". In *presentation at the Workshop on Democratic Accountability Strategies, Duke University, May.* 18–19.

Kostiainen J, Sotarauta M. 2003. Great leap or long march to knowledge economy: institutions, actors and resources in the development of tampere, finland. *European Planning Studies* **11**: 415–438.

Levitas A, et al. 2011. Too Much of a Good Thing? Own Revenues and the Political Economy of Intergovernmental Finance Reform: The Albanian Case.

Levitas A, et al. 2012. Fiscal Decentralization Indicators for South-East Europe. Technical report, Network of Associations of Local Authorities of South East Europe.
URL http://www.nalas.eu/Home/Download/NALAS-FDIndicators

Liddle J, Gibney J, Sotarauta M, Beer A. 2016. Exploring varieties of leadership in urban and regional development. *Regions Magazine* **302**: 12–13.

Lindbeck A, Weibull JW. 1987. Balanced-budget redistribution as the outcome of political competition. *Public choice* **52**: 273–297.

Lowry RC, Potoski M. 2004. Organized interests and the politics of federal discretionary grants. *Journal of Politics* **66**: 513–533.

Merkaj E, Zhllima E, Imami D. forthcoming. Fiscal Decentralization in Albania – Trends and Challenges at the Dawn of Territorial Reform. *Journal of Balkan and Near Eastern Studies* .

Nye JV, Vasilyeva O. 2015. When does local political competition lead to more public goods?: Evidence from russian regions. *Journal of Comparative Economics* **43**: 650–676.

Porto A, Sanguinetti P. 2001. Political determinants of intergovernmental grants: Evidence from argentina. *Economics & Politics* **13**: 237–256.

Rozevitch S, Weiss A. 1993. Beneficiaries from federal transfers to municipalities: The case of israel. *Public Choice* **76**: 335–346.

Sato M. 2007. The political economy of interregional grants. *Broadway and Shah (2007, Eds.)* : 173–202.

Sotarauta M, Horlings L, Liddle J, Sotarauta M, Horlings L, Liddle J. 2012. Leadership and sustainable regional development. *Leadership and change in sustainable regional development* : 1–19.

Stimson RJ, Stough RR, Salazar M. 2005. Leadership and institutional factors in endogenous regional economic development/liderazgo e instituciones factores endógenos del desarrollo de la economía regional. *Investigaciones regionales* : 23.

UNDP. 2005. Fiscal Decentralization in Transition Economies: Case Studies from the Balkans and Caucasus. Technical report, United Nations Development Programme.
URL http://www.cea.org.mk/documents/studii/FiscalDecentralization2005%20UNDP.pdf

Wan X, Ma Y, Zhang K. 2015. Political determinants of intergovernmental transfers in a regionally decentralized authoritarian regime: evidence from china. *Applied Economics* **47**: 2803–2820.

Ymeri S. 2014. Revenue Predictability and Sustainability of Local Governments in Albania. Technical report, SDC.
URL http://www.km.dldp.al/wp-multimedia/pfm/Policy_Papers/Eng/-Revenue%20Predictability%20and%20Sustainability%20of%20Local%20Governments%20in%20Albania.docx

6 Appendix

Table 5: RDF allocation procedures

Criteria for regions The budget law establishes the RDF amount to be distributed to each region from the budget of each line ministry, based on the region's population, poverty index, and previews RDFs allocated to that region.

Criteria for Communes/Municipalities In the first months of the year, the RDF Committee defines the criteria for LGUs to be eligible for the allocation of a region's share of RDF. the committee of the RDF invites as well these entities to submit their proposals

Submission to Ministries Communes and Municipalities submit proposals to the competent line ministry.

First ranking Each line ministry collects all of the local project proposals and transmits them to the RDF Committee, accompanied by an evaluation ranking each project proposal based on the law criteria

Final ranking The RDF commission, composed of the ministers and the prime minister, collects all the ranking lists from all the line ministries and decides on the final successful projects.

Figure 3: Comparative view of LGU leaders by political party affiliation
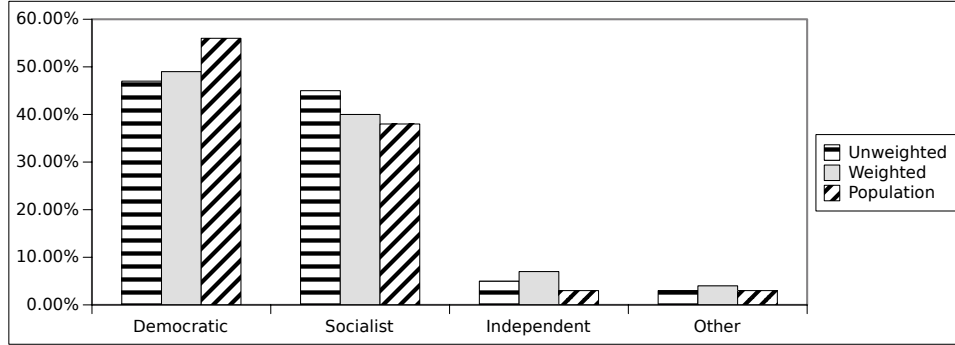
Unweighted: survey unweighted shares.
Weighted: survey weighted shares.
Population: actual population shares.

Table 6: Sample size by region and subgroup

	Non Conformant			Conformant		
	Rural LGUs	Urban LGUs	Total	Rural LGUs	Urban LGUs	Total
Region						
Berat	2	2	4	3	1	4
Diber	3	1	4	2	2	4
Durres	3	2	5	2	2	4
Elbasan	3	2	5	2	2	4
Fier	2	3	5	4	1	5
Gjirokaster	3	2	5	2	2	4
Korce	2	2	4	2	2	4
Kukes	3	1	4	3	2	5
Lezhe	2	2	4	4		4
Shkoder	5		5	3	2	5
Tirane	5		5	5	1	6
Vlore	3	1	4		1	1
Total	36	18	54	32	18	50

23

Table 7: Main variables used in the statistical analysis

Variable name	Description	Source	Variable Type
Economic variables (Fulfillment of the legal criteria)			
Outsource technical consultancy	Propensity to outsource technical consultancy for applications in RDF in the last mandate	Questionnaire	Categorical, Likert scale
Poverty	Poverty headcount index, percentage of population living under the poverty line on each LGU in 2002 and in 2008	World Bank	continuous
Mountain	Mountainous communes with 600m level of altitude and 20 of steepness	Ministry of Agriculture, Rural Development and Water Administration[13]	binary
Population	Log of LGU population	INSTAT, Census 2011	continuous
Nr of businesses	Number of businesses per capita registered in the LGU	INSTAT	continuous
Tax revenues per capita	Per capita local revenues derived from taxes	Ministry of Finance	continuous
Leadership Theory Variables			
Knowledge of legal criteria	Number of criteria the mayor was aware being legal criteria; measures the level of awareness toward the RDF evaluation criteria	Questionnaire	count
Taxes collected	Percentage of taxes collected over those budgeted for year 2012.	Questionnaire	continuous
Group 3: Political power of the leader			
Change in party membership	Leaders who have changed party membership during their political career	Questionnaire	binary
Conformant LGUs	Leader affiliated with the party in power	CEC	binary
Parties' vote differences	Difference in vote share of the two biggest political wings in Albania in the 2011 local election (Democratic and Socialist coalition)	CEC	continuous
Group 4: Network power of the leader			
Members of commission visited the LGU	Number of RDF commission members who have visited the LGU in the last mandate	Questionnaire	count

Note: CEC: Albanian Central Election Commission[14]