Full Length Article

The blatant phenomenon of 'election-driven legalization of informality'

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A B S T R A C T

Informal construction has been rife in Albanian cities since the fall of communism in 1990. This study investigates the fluctuations in the housing legalization process in conjunction with national and local elections in Albania from 2008 to 2021. Government revenues from legalization fees are used as a proxy for the pace of the legalization process. The key finding is that the legalization of informal buildings intensifies prior to an election and drops afterwards, suggesting that the process is politically driven. This phenomenon is termed Election-Driven Legalization of Informality (EDLI) and is part and parcel of the shadow economy in urban Albania. In combination with another phenomenon known as Election-Driven Informality (EDI), EDLI produces a vicious circle. First, informal construction is enabled or tolerated before an election to curry favor with voters; that is EDI at work. Then, EDLI comes into play: before the next election, the informal buildings are legalized in a rush, again for the purpose of garnering voter support. These practices, which are perpetrated by both sides of the political spectrum, are both unethical and unsustainable.

1. Introduction

Housing informality is a permanent fixture of the global urban experience. According to the United Nations, one billion people worldwide live in (typically informally) self-built homes, which vary in quality from dilapidated shacks to solid brick structures. Therefore, we need a thorough understanding of the socio-political contexts that produce informality. Prior studies have provided in-depth analyses from a legal, political, anthropological, sociological, and economic perspective. Many researchers – perhaps most – have been sympathetic to squatters, who have been cast as victims of both harsh neoliberal housing markets and authoritarian and uncaring governments, ready to demolish informally built homes at a whim (see Rocco & van Ballegooijen, 2018; Roy & Alsayyad, 2004).

Accordingly, these authors have advocated for legalization reforms that grant informal dwellers security of tenure. In theory, this is a desirable outcome. However, in practice, legalization reforms are often employed as a type of electoral exchange (see Ark-Yildirim, 2020). Informal settlements come to "play a central role in electoral politics by serving as 'vote banks' for both local and national politicians" (Zhang, 2018:877). These phenomena remain under-researched despite their

critical role in political geography and development planning.

Past research (unrelated to informal housing) has firmly established that government-created "rights" increase in the runup to elections. Incumbent governments build infrastructure, lower taxes, offer employment, increase subsidies – and generally become more lenient and magnanimous in order to garner voter support (Ehrhart, 2013; Revelli, 2002; Rogoff & Sibert, 1988; Vergne, 2009). This happens everywhere but is more common in places with immature democratic systems. Here governments are extra pressured to deliver tangible results before elections because voters do not trust the promises of politicians, and political parties have shorter lifespans. Moreover, weaker institutions and dysfunctional 'check and balance' systems allow incumbent governments to exercise more power and discretion in (mis) using economic instruments in the runup to elections (Lami and Imami, 2019).

In these contexts, tax amnesties may be declared and even fiscal evasion may be tolerated as elections approach (Le Borgne, 2005; Bayer et al., 2015; Luitel & Tosun, 2014; Khemani, 2004; Lami et al., 2021; Mayburov & Kireenko, 2018; Bozdoğan & Şimşek, 2018). While these strategies are riskier in mature democratic contexts with more sophisticated voters, they work in places such as Eastern and Southern Europe

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(as well as much of the Global South) where voters are incorporated in patron-client networks (Collier & Hoeffler, 2009; Tornell and Lane, 1999; Uberti, 2016) and there is less moral value attached to law abidance (Imami et al., 2022). Clientelism here involves private funding of electoral campaigns, among other practices (Kera & Hysa, 2020).

In Albania, which is the focus of this paper, informal construction has been rife since the fall of communism in 1990. Entire districts of self-built housing have appeared in urban peripheries. Unpermitted extensions of existing apartment buildings in inner cities have also been common. A legalization process has been ongoing for nearly twenty years, but one commentator notes that "legalization reforms [are] primarily … a tool employed by populist politicians to manipulate poor squatters and buy votes" (Pojani, 2018, p. 37). However, no existing research has provided statistical evidence of this phenomenon, which we term Election-Driven Legalization of Informality (EDLI). EDLI means that incumbent political leaders strategically time the legalization of informal settlements during election cycles to gain support. The process may involve various approaches, including fully legalizing informal settlements but also granting fiscal amnesties prior to elections.

EDLI operates in conjunction with a similar but distinct phenomenon known as Election-Driven Informality (EDI). EDI implies that a higher level of housing informality is allowed or enabled by the incumbent government before elections. Law enforcement agencies suddenly become more "tolerant": court records indicate that the number of new proceedings involving informal construction is lower in the months preceding elections (Imami et al., 2022). The individuals and households that benefit from this "tolerance" are expected to provide political support by voting for the incumbent. The material result of EDI is a mass of informal buildings, which then need to be legalized or eventually demolished. This provides an opportunity for the EDLI phenomenon to play out.

Unlike EDI, which relies on a tacit understanding among politicians, bureaucrats, and the population at large, EDLI involves the legal and institutional system. Government authorities wield their power to (a) reward their supporters by legalizing their informally built houses and (b) punish their opponents by demolishing their informally built houses. Evidence suggests that demolitions have, to some extent, been selective, often targeting those who are politically and/or economically associated with the opposition (Triantis and Vatavali, 2016).

In this study, we investigate the fluctuations in the legalization process in conjunction with national and local elections in Albania.[1] It is reasonable to connect these two variables in the context of Albania because previous empirical research here has documented higher informal construction (Imami et al., 2022) and higher fiscal evasion (Lami et al., 2021) prior to elections. Our hypothesis is that the legalization of informal construction intensifies prior to an election and drops soon afterwards, suggesting that the process is (mainly) driven by the intention to win elections rather than assist the needy. To test this hypothesis, we employ as a proxy the amount of fees paid by beneficiaries to the government to have informal housing units legalized. These fees cover the administrative cost of the legalization process, as well as the financial compensation of the landowner (where houses have been built on private rather than public land).

Albania provides an interesting case study context in which at least three conditions make EDLI feasible. First, voting irregularities are common here. Given the country's small size and tight kin relationships, voter surveillance is easier; political candidates are usually able to find out which individuals have voted for or against them – and reward or penalize them accordingly (see Caselli & Falco, 2022). Second, as most households have been engaged in informal building one way or another, legalization promises or processes do not risk antagonizing many voters.

Finally, the legalization of informal buildings has been a key political promise which politicians have dangled in front of people for decades, and research shows that voters tend to retaliate against politicians who break electoral promises (Aimone et al., 2018).

Before proceeding to the empirical portion of the article, we outline below the context of informality and legalizations in Albania. Conceptually, this study spans several fields: political budget cycles, development planning, urban studies, and political geography, whereas our methodology relies on two econometrics tools: Intervention Analysis and Interrupted Time Series. While the evidence in this study is limited to one country, the concepts and methods can be transferred to other settings as well – particularly in the broader Balkan region and farther afield in the Global South.

2. The legalization process in Albania and EDLI at work

After the fall of communism in 1990, people left villages *en masse* in search of a better life in cities (Pojani, 2009). While 75% of the Albanian population of approximately three million lived in the countryside during the communist era, today more than 60% lives in cities. Many of the migrants had the financial means to purchase regular urban housing – either through personal savings, remittances from relatives abroad, or the sales of rural housing. But in the absence of affordable housing, many were forced to settle in large squatter zones at the urban fringes (Shutina and Kelling, 2003). Now, informal housing is rife throughout Albania.

In sharp contrast with Global South settings, Albanian squatters usually built comfortable, permanent houses made of quality materials. These were practically indistinguishable from "formal" single-family housing. In addition, unscrupulous wealthy individuals - including high-level politicians – took advantage of the institutional chaos to build unpermitted private villas or even small apartment buildings. Along with new housing, many urbanites seeking to improve and expand communist-era apartments added lateral sections or whole new stories to existing buildings, and enclosed balconies and porches. Flat owners felt that they were entitled to improve their homes without hindrance, ignoring both planning controls and the building permit system. (For more background on housing informality in Albania see Pojani, 2010, 2013, 2018; 2021.)

Overall, the pace of residential construction has been phenomenal during the post-communist transition. A substantial portion of housing in Albania was built after 1990 (Pojani, 2009), and nearly half a million housing units were built informally (Imami et al., 2022). Informal construction continues, although it is not as pervasive as in the first transition decade. Prior studies have shown that informal construction accelerates substantially before elections; people are aware that during those times, the government is more likely to turn a blind eye so as not to displease potential voters (Imami et al., 2022).

Relative to other countries, informality in the residential sector has been perceived as legitimate in Albania. Media narratives have been largely positive – possibly owing to the communist legacy of egalitarianism (Pojani and Baar, 2020). Consequently, a legalization law was adopted in 2006 and a special legalization agency operating at the national level under the direct control of the government (ALUIZNI) was formed soon after. The Prime Minister at the time, Sali Berisha - representing the political right wing - was fully supportive of legalization. His party (the Democratic Party) has historically been more connected to citizens from Northern Albania, the provenience of most squatters, and Berisha felt a strong allegiance to the region of his origins (Pojani, 2013). Legalization fees were, for the most part, reasonable.

Efforts are ongoing to legalize most of the remaining informal housing. Legalization is taking place within the framework of existing planning regulations. The process has been sluggish due to complex procedures, a myriad of required documents, and residents' reluctance to self-declare informal construction - although they have been promised that no fines will apply (Pojani, 2018). There is a large and complex

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[1] Albania is a parliamentary republic in which the parliament appoints both the government and the president. Consequently, national (parliamentary) elections are by far the most important.

body of legislation related to legalization. This includes laws approved by the parliament, Decisions of the Council of Ministers (DCMs), and decisions by other relevant bodies. In some cases, laws and DCMs have been adopted and made public in a hurry in the runup to elections.

Where people have built informal houses on private rather than public land, legalization requires compensation of the landowner. In principle, payment should occur in parallel to the legalization process. There is specific legislation about this, including DCMs, some of which have been approved right before elections.[2] Actual implementation is another story. The Albanian Supreme Audit (KLSH, 2014) has reported many cases of failure to comply with compensation laws and regulations. For example, informal buildings, which do not meet the legal criteria for legalization, were considered eligible. Underpayment of financial obligations/fees has often been observed as well.

Given these complications, between 2006 and 2021, just over 200,000 units were legalized (*Euronews*, 2021). At this stage, it is clear that spot legalization (i.e., unit-by-unit) is not very efficient, but less complex processes (e.g., area-based legalizations) have not been attempted or even proposed. While the legalization process has mainly benefited single-family homeowners, in some cases condominium owners have been included as well. This has happened where multi-family developers did not, or could not, properly register new buildings in the cadaster because they had failed to comply with all the construction permit rules. While the condominium owners had paid the developer the agreed purchase amount, their unit was technically "informal". In these cases, units could be registered in the cadaster based on "special legal acts" and the owners did not have to pay extra fees. In 2017, the press reported that one such "special legal act" – a type of DCM - was adopted just a few months before the national elections (*Monitor* January 17, 2017).

The incumbent government has two tools as its disposal which it can use to control the speed of the legalization process. First, it can mandate the institutions in charge of the legalization process to intensify their work prior to elections. ALUIZNI,[3] the agency in charge of legalization, has been entirely dependent on the government, whereas opposition parties, local governments, and other stakeholders have little power to affect the process. Second, the government can control how much compensation funding to release at any given time. While legalization fees are used to compensate private landowners, whose land was taken over by informal housing, those fees are often insufficient. Therefore, the government needs to make up the difference by releasing significant funds from the state budget, through a series of legal acts (e.g., DCMs) and procedures.

Owing to these tools, the government can speed up the legalization process before elections and delay it the rest of the time. Legalization delays are not simply due to institutional inertia. We argue that, from the perspective of the incumbent government, a drawn-out process is actually preferred because the prospect of legalization provides leverage with a mass of informal builders during electoral campaigns. A cursory look at the history of legalization supports this view. Legalization has taken place in waves (rather than continuously), often based on new legislation adopted just before an election. Nearly a quarter of all

legalizations took place in the year prior to the national elections of 2017. The Prime Minister, Edi Rama (representing the political left wing), made legalizations a centerpiece of his campaign at the time. Later, between January and March 2021, just before the most recent national elections in April 2021, 6315 units were legalized (*Euronews,* 2021). This figure was much higher than the quarterly average since 2006.

These anomalies have not gone unnoticed by international observers. A report issued in 2015 by the Organization for Security and Co-operation in Europe (OSCE) expressed the following concerns:

> Senior figures from the largest governing parties used state events and resources for campaign purposes, including handing out property legalization certificates. This blurred the separation between the state and party and is at odds with OSCE commitments. … Senior figures from the SP (Socialist Party) and SMI (Socialist Movement for Integration) handed out property legalization certificates at campaign events.

This concern was reiterated in the OSCE (2021) report issued after the most recent national elections. This report came on the heels of an investigation and secret taping of the ALUIZNI director by an Albanian reporter. The director was recorded saying that 100,000 applications were ineligible for legalization[4] but the agency he led would not notify the applicants before the elections out of fear that they would then retaliate by voting for the opposing party. He also insinuated that the opposing party had engaged in a similar tactic when it held power (*BalkanWeb* April 20, 2021).

Given mounting public pressure, new provisions were introduced in the Electoral Code at the end of 2020, immediately before the launch of the electoral campaign (AKPT, 2020). These provisions limited government activities and expenditures in the four months preceding an election:

> Some "**prohibited public activities**", defined in the Electoral Code and the rule book approved by the Regulatory Commission, include the following: … the distribution during public activities of legalization certificates, agricultural land registration acts or any other property titles;" (KQZ, 2020, pp. 3–4, translated by authors, bold in the original).

The amended Electoral Code introduced fines ranging from 3000 to 90,000 Lek (25–750 Euro) in cases of violations (KQZ, 2020). Because the fines are nominal, these new provisions have failed to prevent politicians from using legalization certificates as political pawns during national election campaigns (*Top Channel* January 14, 2021).

In the case of local elections, the process is somewhat different but similarly problematic. The national government pays close attention to local elections because, historically, these have served as a testbed for its popularity. In a political context ridden with conflicts and powerplays, an incumbent's poor performance in local elections often leads the opposition to call for early national elections. Overall, a vicious circle is at play: first, informal construction is enabled or tolerated before an election in order to curry favor with voters (EDI); then, before the next election, the informal buildings are legalized in a rush for the same reason (EDLI).

3. Data and methods

As noted, the study hypothesis is that government revenues from legalization fees/payments significantly increase before national and local elections. In other words, the legalization process accelerates

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[2] For example, DCM No. 395, date 03.05.2017, "Për kalimin e së drejtës së pronësisë për parcelat e objekteve të legalizuara dhe kompensimin financiar të pronarëve të pasurive të paluajtshme që preken prej tyre (For the transfer of the right of ownership for the parcels of legalized objects and the financial compensation of the owners of real estate affected by them)". This DCM was approved in May 2017, just a month before elections.

[3] ALUIZNI stands for Agency for Legalization, Urbanization, and Integration of Informal Areas and Buildings (Albanian: Agjencia e Legalizimit, Urbanizimit dhe Integrimit të Zonave dhe Ndërtimve Informale). This is the governmental body tasked with overseeing the legalization process in Albania. It is entitled to interpret and validate decisions regarding legalization permits and to facilitate inter-institutional collaboration concerning all informal construction activities within the nation.

[4] Informally built properties may be ineligible for a variety of reasons. For example, they may be located in parks, natural reserves, hazardous areas, and tourist or heritage zones. In these cases, their future status is unclear and residents are in limbo (Pojani, 2018).

before elections only to slow down again afterwards. Lacking monthly data about the number of legalization decisions, we used monthly time-series data on legalization fees as a proxy measure. As a rule, fee payments occur within a specific timeframe (e.g. one month from the receipt of a written notice from ALUIZNI). Also, the fee schedule has been stable during the study timeframe. Therefore, legalization fees are a good indicator of the legalization process (or decisions). However, we also control for seasonality of the data as this may affect our proxy variable.

These data were obtained from the national government fiscal statistics databases (available at the Ministry of Finance). The available data covered the period from December 2008 to December 2021 and are denominated in million of Albanian Lek (ALL).[5] Monthly data are preferable to annual data because a higher frequency of observations allows researchers to account for intra-year election effects (Lami et al., 2021). During this period seven elections have occurred, including four national elections and three local elections. We analyze both national and local elections. While the former are more important, the latter do receive attention as well because (as highlighted in the previous section) they signal how popular the incumbent government is. Therefore, we expect the government to adopt a similar behavior in both types of elections.

To conduct the analysis, we employed two main analytical tools, which complement one another.

First, we employ Interrupted Time Series (ITS) to analyze the impact of every single election (national and local) held from December 2008 to December 2021 on the amount of legalization revenues. ITS is considered as one of the strongest quasi-experimental methods typically used to evaluate the effectiveness of policy interventions (Bernal et al., 2017; Cook and Campbell, 1979; Hudson et al., 2019; Imami et al., 2023; Linden, 2015, 2017; Merkaj and Santolini, 2022-a). This method enables a deep understanding of the mechanisms at play during electoral cycles.

For a more robust analysis, we use a second econometric tool: Intervention Analysis (IA), developed by Box and Tiao (1975). IA is useful in investigating the influence of a well-defined event (such as an election) on a social or natural phenomenon that extends in time (such as the legalization process, in this case). IA has an inherent capability to facilitate robust econometric modeling even in the absence of additional explanatory variables because the temporal process can be aptly represented by its autoregressive and moving average components (ARMA). IA has been effectively applied in similar studies concerning the political economy (i.e., the political business cycles), as well as other in other fields including healthcare, economics, sociology, and public policy (see, for example, Alesina & Roubini, 1992; Alesina & Sachs, 1988; Gilmour et al., 2006; Hibbs, 1977; McCallum, 1978; Mills, 1991; Sarfo et al., 2017; Yoo, 1998).

The two methods complement each other. ITS allows for the assessment of both short- and long-term post-election effects whereas IA help us understand the fluctuations of legalization revenues before an election, capturing average levels leading up to the event. While ITS examines the impact of each election individually, IA considers all elections collectively. By employing both ITS and IA, we can have a much more solid understanding of the dynamics surrounding election events and their implications in terms of legalization revenues. Below we provide more detail on these two methods and their application in this study.

3.1. Interrupted Time Series

ITS aims to determine whether a change in the observed outcome is linked to the introduction of a particular intervention. In our current study, we utilize ITS to explore the influence of elections (the intervention) on government revenues derived from legalization fees (the outcome variable) in Albania. Our analysis covers the period from December 2008 to December 2021, spanning seven local or national elections held in June 2009, May 2011, June 2013, June 2015, 2017, June 2019, and April 2021. Interrupted Time Series (ITS) analysis is a method frequently used in research to examine how interventions, policies, or events impact a specific outcome over time. Its efficacy is attributed to its robust internal and external validity.

ITS divides the time series of legalization fees into pre-election and post-election segments, with each election serving as the intervention point. By comparing trends and levels of legalization fees before and after each election, we can discern whether any observed changes are directly attributable to a specific election or would have occurred naturally over time. If the legalization process were independent of election timing, we would not anticipate observing any significant differences in the level or trend of legalization fees before and after an election. However, we assume that electoral outcomes may impact the policy environment, leading to changes in the implementation or enforcement of legalization processes, thereby affecting revenue generation from legalization fees. As a result, we expect that legalization revenues will exhibit a decrease immediately following an election.

In our analysis, segmented regressions were estimated using ordinary least squares regression (OLS) with Newey-West standard errors. This approach was chosen to address potential issues such as autocorrelation and heteroscedasticity in the data. Additionally, we controlled for seasonality to ensure that any observed effects of elections on legalization fees were not confounded by seasonal variations.

The regression model (Linden, 2015) is below:

$$LR_t = \beta_0 + \beta_1 T_t + \beta_{2i} \sum_{i=1}^{7} Election_{it} + \beta_{3i} \sum_{i=1}^{7} \left(Election_{it} * T_{it} \right) + \delta_t + \varepsilon_t$$

where.

LR_t: legalization revenues from fees expressed in Albanian Lek (outcome variable) in month t.
$Election_{it}$: intervention variable, is a dummy that equals 1 in the post intervention period and 0 in the pre-intervention period.
i: election number.
β_0: intercept, starting level of the variable of interest.
β_1: trend of the dependent variable before any intervention.
T_t: number of months elapsed since the start of the study.
β_{2i}: change in level of the outcome variable in the period immediately following the intervention of the ith election. It ranges from β_{21} which measures the change in level after the first election to β_{27} which characterizes the change in level after the 7th (last) election. A significant value of β_{2i} indicates a relevant shift in the level of the outcome variable immediately following the ith election compared to the period before the same election. This captures an immediate treatment effect, suggesting that the election event has a significant and immediate impact on the outcome variable.
β_{3i}: coefficient associated with the interaction of the *Election* Dummy with T_{it}, measuring the trend change between pre-intervention and post-intervention. It ranges from β_{31}, which measures the change in trend after the first election, to β_{37}, which characterizes the trend change of the 7th (last) election. A significant β_{3i} value indicates a change in the trend of the outcome variable after the ith election compared to the period before the same election. This points to a treatment effect over time, suggesting that the election event has a lasting impact on the trajectory of the outcome variable beyond the immediate post-election period.
δ_t: monthly and year dummies used to control for seasonality of the data.
ε_t : error term

The ITS method possesses another significant feature: it not only analyzes short and long-term changes in legalization fees between

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[5] ALL 100 are approximately equivalent of USD 1.

elections but also provides a visual representation of these electoral cycles. This visual representation offers a clear insight into the patterns and trends associated with the electoral cycle of legalization fees and, therefore, the EDLI phenomenon.

3.2. Intervention Analysis

We complement the ITS with Intervention Analysis (IA), which serves to validate the obtained results. IA provides additional confirmation and insight into the effectiveness of the intervention. It involves modelling the variable of interest (in this case, legalization revenues) through an appropriate autoregressive moving-average model (ARMA) and one or more intervention terms.[6] The intervention terms model the time distance to each election day and capture the potential effect of elections on legalization revenues, in addition to the "natural" pattern of this revenue stream. The "natural" pattern is modelled by an ARMA(p, q), where p refers to the order (number of lags) of the autoregressive component(s), and q refers to the order of the moving-average component(s). In this case, we employed intervention terms in the form of two dummy variables modelling symmetrical periods of three months before and after elections. We called these variables 'Electoral Dummies' (ED). The study hypothesis is accepted if the estimated parameter of EDs are both statistically significant and have the anticipated sign. EDs are formally defined as follows:

$$ED_{\pm 3} = \begin{cases} 1 : for\ three\ \ months\ before\ (-3)\ or\ after\ (+3)\ \ elections \\ 0 : otherwise \end{cases},$$

The study timeline is the same as in the ITS analysis (December 2008 to December 2021). The formal representation of IA is the following:

$$y_t = a_0 + \sum_{i=1}^{p} a_i y_{t-i} + \sum_{i=0}^{q} \beta_i \varepsilon_{t-i} + \omega_{\pm j} ED_{\pm j,t}$$

where.

y_t: monthly revenues from legalizations

t: monthly index

α_0: constant term

α_i: i autoregressive (AR) parameter of the p AR lags (y_{t-i}) terms in the ARMA(p,q)

β_i: i moving average (MA) parameter of the q MA lags (ε_{t-i}) terms in the ARMA(p,q)

$\omega_{\pm j}$: parameters that capture any opportunistic effects of the event (election day) on the variable of interest (legalization revenues)

j: months before ($-$) and after ($+$) the elections (in our case j $= \pm 3$)

The parameters $\omega_{\pm j}$, ($\omega_{\pm 3}$ in our case) as well as the corresponding confidence intervals, are estimated along with the ARMA components. The probabilistic distribution of each estimator $\omega_{\pm 3}$ is a t-distribution, which allows for a straightforward testing of our hypothesis. We follow the Box-Jenkins methodology (Box & Jenkins, 1976) to identify and estimate the most appropriate ARMA(p,q) model. The methodology consists of an iterative three-stage process of: (i) model identification; (ii) parameter estimation; and (iii) assessment of the model's diagnostics employing several conventional criteria and diagnostic tests.

For this approach to work, the time series data being modelled needs to be "stationary", with no seasonal variations. To check whether the "natural" stream of revenues from legalizations was stationary we employed the Augmented Dickey-Fulles test, the Phillips and Perron test, and the Kwiatkowski test. To check for seasonality in the data, we employed F-tests, a nonparametric Kruskal-Wallis test, a moving seasonality test, and a combined test. These tests confirmed that the data

was stationary and without any patterns of seasonality, as required (see the Appendix).

Tentatively, we identified an ARMA(1,1) specification, including one first lag (i.e. one month lag in our case of monthly time series) auto regression term *(AR1)* and one first lag moving average term *(MA1),* as the most appropriate ARMA(p,q) model in this case. We based this selection on three formal criteria: the Akaike Information Criterion (AIC), the Bayesian Information Criterion (BIC), and the Hannan-Quinn Information Criterion (HQC). We did not encounter any case of conflicting selection guidance among these criteria.

Several formal diagnostic tests and means of judgment were used throughout the Box-Jenkins iterative process to determine the "best" ARMA model and diagnose its residual properties: the Durbin-Watson test; the Jarque-Bera test; the Q-statistics; the Breusch-Godfrey test; and the Harvey test. In addition, we took into account the patterns of autocorrelation functions (ACF), the partial autocorrelation functions (PACF) and residual plots. Although the null of homoscedastic SEs was not rejected by any of the tests employed, we ran the regressions with robust SEs and obtained similar results. We checked the robustness of the empirical results by running an 'second best' model, an ARMA(2,0) specification including two autoregressive terms (*AR1* and *AR2*) and no moving average term. The estimated results remained virtually the same.

4. Findings

The research findings indicate that there is a pattern in the revenues obtained from legalization fees, which is linked to electoral cycles. Fig. 1 illustrates rather clearly the cyclic nature of the fee collection process, which matches the timing of elections. Almost every election is accompanied by revenue spikes. The revenues tend to increase in the year leading to an election and sharply drop in the aftermath of that election. All national elections are followed by an immediate decrease of revenues in the short run, which ranges from 52 million Lek in 2017 (β_{25}) to 113 million Lek in 2009 (β_{21}) (Table 1). The same pattern is seen during the national elections of 2009, 2017 and 2021.[7]

The effect in level is similarly strong for local elections. Legalizations fees spike a few months before the 2011, 2015 and 2019 local elections, experiencing a drop a few months afterwards. This highlights the fact
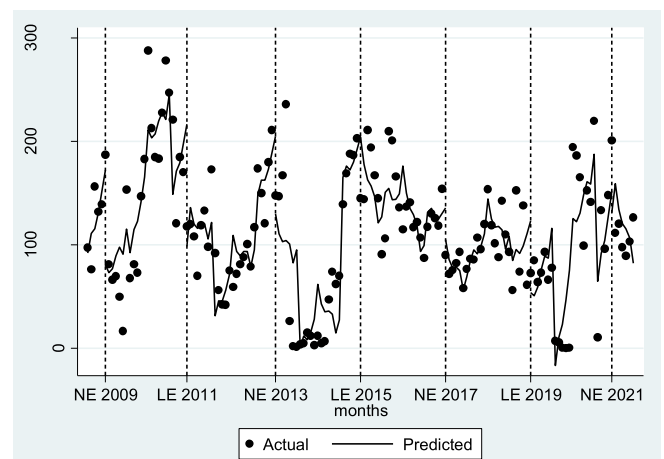

Fig. 1. Monthly revenues from legalization fees (2008–2022). Note: The 'treatments' are the national elections (NE) and the local elections (LE). ALL stands for Albanian Lek.

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[6] A comprehensive discussion of Intervention Analysis is provided by Enders (2015).

[7] Due to data availability, we could only observe 5 months after the 2021 election.

Table 1

Interrupted Time Series results: effect of elections on the revenues from legalization fees (2008–2022).

Coefficients				
Meaning	*Symbol*	*Value*	*Newey-West Std. Err.*	*P>|t|*
Starting level pre intervention	β_0	91.931***	11.394	0.000
Trend pre intervention	β_1	7.771	4.882	0.114
Change in level post NE of 2009	β_{21}	−112.705***	36.025	0.002
Change in trend post NE of 2009	β_{31}	3.373	5.684	0.554
Change in level post LE of 2011	β_{22}	−123.170***	24.104	0.000
Change in trend post LE of 2011	β_{32}	−8.110**	4.027	0.046
Change in level post NE of 2013	β_{23}	−96.379***	35.496	0.008
Change in trend post NE of 2013	β_{33}	−3.396	5.353	0.527
Change in level post LE of 2015	β_{24}	−22.116	23.962	0.358
Change in trend post LE of 2015	β_{34}	−7.073	5.635	0.212
Change in level post NE of 2017	β_{25}	−52.147***	16.405	0.002
Change in trend post NE of 2017	β_{35}	6.857	2.691	0.012
Change in level post LE of 2019	β_{26}	−91.088***	22.200	0.000
Change in trend post LE of 2019	β_{36}	16.391***	2.544	0.000
Change in level post NE of 2021	β_{27}	−25.259	29.675	0.396
Change in trend post NE of 2021	β_{37}	−22.074***	8.182	0.008

Notes: The dependent variable is 'legalization revenues'. The 'treatments' are seven elections: four national elections (NE) and three local elections (LE). There are 155 monthly observations from December 2008 to December 2021. Months and years fixed effects are included. ***, **, and * are significant at 1%, 5%, and 10% respectively.

that the incumbent government uses the promise of legalizations as leverage to earn votes in both national elections and local election campaigns.

While almost all elections exhibit an immediate effect (β_{2i}) in the short run over the legalization process, post-election trend coefficients (β_{3i}), which measure long-term effects over a two-year period (from one election to the next), are not statistically significant for most elections. This can be attributed to the fact that this two-year period overlaps with subsequent elections. Consequently, the analysis may inadvertently capture the effects of subsequent electoral events, leading to non-significant trend coefficients for the post-election period.

While immediate effects may be discernible and significant, capturing sustained trends over an extended period becomes challenging due to the dynamic nature of electoral cycles. That is why visual representations of these cycles, as in Fig. 1, are crucial. An example that highlights the importance of visualizations is the 2015 local ballot. This appears to have had little influence on the legalization process, with statistically not significant values for both β_{24} and β_{34}. However, Fig. 1 clearly shows a change in trend - from positive to negative - following the 2015 election compared to the period before. Meanwhile, a different election trend pattern is observed for the 2019 local elections. This is unsurprising: 2019 elections were boycotted by the opposition (Democratic Party), and consequently all the elected mayors were affiliated with the Socialist Party (which was in power at the national level).

We reiterated all estimations employing a generalized least-squares model that deals with the autocorrelation of the errors. The results did not change, confirming the robustness of the baseline model.

Table 2

Intervention Analysis results: Effect of elections on the revenues from legalization fees (2008–2022).

Dependent variable: Legalization fees revenues (million Lek)					
Independent variable	*Coefficient*	*Std. Error*	*t-Statistic*	*Prob.*	*Signif.*
$ED_{(-3)}$	44.47	19.13	2.32	0.021	**
Intercept	109.31	14.15	7.72	0.000	***
AR(1)	0.79	0.071	11.16	0.000	***
MA(1)	−0.23	0.115	−2.01	0.046	**
Main diagnostic tests					
Adj. R^2 0.47					
F-stat 33.37					
AIC 10.51					
DW stat. 1.98					

Notes.

The model includes a post-election dummy.

***, **, and * significant at 1%, 5%, and 10% respectively.

The results obtained from the IA corroborate the empirical findings from ITS. As a reminder, ITS assesses changes in revenues immediately following each individual election whereas IA calculates the average changes in legalization revenues prior to all elections. The IA results reveal that the revenues from legalization fees are cyclic and the cycles are related to elections (Table 2). The estimated parameter capturing pre-election effects (ED_{-3}) shows an increase of about 45 million Lek per month in the three months preceding parliamentary elections. This increase is 38% higher than the monthly average during the entire study period (the mean of the time series).[8] Therefore, we conclude that there is a substantial surge in legalization fees just prior to elections.

5. Conclusion

The phenomenon coined in this article - Election-Driven Legalization of Informality (EDLI) – is part and parcel of the shadow economy of Albanian cities and regions. The findings clearly indicate that the revenues from legalization fees (which were used as a proxy for the pace of the legalization process) spike around election and drop immediately afterwards. In combination with a related phenomenon known as Election-Driven Informality (EDI) (Imami et al., 2022), EDLI produces a vicious circle. On the one hand, informal construction intensifies before elections. On the other hand, the informal buildings are legalized in a rush before elections, again for the purpose of garnering voter support. These practices are both unethical and unsustainable. Moreover, legalization alone cannot address the underlying issues of poverty and inequality faced by residents of informal settlements. The sustainability of legalization efforts may be questionable if they are not accompanied by comprehensive urban planning and development strategies.

While this study has investigated the case of Albania, these findings are relevant to other places, particularly in the Global South, which have weak institutions and a large informal economy. Corruption, clientelism, cronyism, and bribery are so entrenched in Albania – and other Balkan or Eastern European countries - that they have come to be considered as part of the socio-cultural fabric (Giannakopoulos et al., 2011; Varese, 2000). The following observations about Romania, Bulgaria, and Croatia apply to the Albanian polity as well:

a 'mafia ensemble': a complex mechanism that aggregates multiple interests forging a 'thick fabric' of interdependencies, mutual liabilities and law-deviating networks spreading across all social fields. Involved can be almost everybody: politicians, policemen public administration servants, magistrates, judges, lawyers, private

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[8] Inflation in Albania has been constantly low during study timeframe (only 2% on average) (World Bank, 2024). This is virtually irrelevant when compared to a 38% monthly increase in legalization revenues during the three months preceding the elections.

businessmen, NGOs. … the mechanisms of property transfer were determined by corrupt politics, the privatisation of big companies serving the financial interests of political parties. This kind of marketisation of politics has also contributed to the whole public sphere perceived in the grips of corruption. … the problem of corruption is often exploited by politicians as just another means of party competition …

What is the way forward? International organizations have repeatedly advised Albanian authorities to develop a set of preventive and repressive measures that eliminate or at least reduce corruption in its various guises (UNODC, 2011). But what can be done when the perpetrator is the government elite itself? Appointing international – and presumably impartial – bodies to monitor and fight corruption in Albanian cities would be tantamount to neo-colonialism. It is obvious that the solutions need to emerge from within the country. In the short term, the key will be to strengthen non-governmental control structures such as the judiciary, the press, and the civil society, which are concentrated in urban areas. Enforcing rules such as those legislated in the Albanian Electoral Code in 2020 (discussed earlier) can limit an incumbent government's capacity to manipulate elections. In the longer run, education on the evils of corruption – starting from childhood – may be effective too (Banuri & Eckel, 2012).

In perusing our findings, readers should consider certain caveats. Employing a proxy (the revenue from legalization fees) instead of the actual count of legalized houses or units raises two concerns. First, the proxy fails to capture any changes in the fees over time, although it is worth noting that the fee schedule has been largely stable over the past decade. Second, the proxy overlooks any instances of fee underpayment, potentially leading to an underestimation of the electoral pattern of the legalization process.

Econometric tools alone cannot cast light on the political maneuvering that leads to EDLI or other types of pork-barrel politics. What drives the incumbent government's decisions? Is EDLI primarily motivated by a desire to cater to special interest groups or sway the broader electorate? Are extortion and bribery significant factors? While these motivations may overlap, it is crucial to identify the predominant motive. Additionally, what are the specific channels, such as clandestine negotiations and machinations, through which EDLI is facilitated? Lastly, what is the electoral fallout of EDLI? Future research, possibly employing qualitative methods, can begin to address these complex questions.

CRediT authorship contribution statement

Elvina Merkaj: Conceptualization, Investigation, Software, Writing original draft, Writing- review & editing. **Drini Imami:** Conceptualization, Investigation, Methodology, Project administration. **Dorina Pojani:** Conceptualization, Resources, Writing – original draft, Writing – review & editing. **Endrit Lami:** Data curation, Formal analysis, Investigation, Methodology, Software.

Declaration of competing interest

The authors declare not conflict of interest.

Data availability

The authors do not have permission to share data.

Appendix A. Supplementary data

Supplementary data to this article can be found online at https://doi.org/10.1016/j.polgeo.2024.103155.

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