

# LOCAL PUBLIC FINANCES IN ALBANIA

Status Report 2019

Funded by:



A project of Swiss Agency for  
Development and Cooperation SDC



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

**Swiss Agency for Development  
and Cooperation SDC**

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# METHODOLOGY NOTE

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The data source for first tier local government units (municipalities) is the Government Financial Information System (the Treasury System, GFIS) at the Ministry of Finance and Economy, which have been processed then published on [www.financatvendere.al](http://www.financatvendere.al).<sup>1</sup> The data are cumulative (or as a stock at the end of the period), expressed in the domestic currency (ALL) and only refer to the 61 municipalities (the 12 regions are not included in the analysis). To enable historic comparisons with the period prior to the implementation of the territorial and administrative reform (TAR), data for the 2010-2015 period for the 373 local government units have been reclassified to coincide with the current 61 new municipalities established post the TAR.

For the purposes of this analysis, the raw data obtained from the GFIS have been classified by the authors, broadly following the provisions of Law No. 68/2017 "On local self-government finance", Law No. 9632/2006 "On the local taxes system" as amended, Law No. 139/2015 "On local self-government" and the relevant international practice.<sup>2</sup> Data on revenues are categorized, in line with the above, into:

- own source revenues, including revenue from local taxes, fees, loans, and other sources;
- shared taxes pursuant to the provisions of Law No. 68/2017 "On local self-government finances";
- unconditional and specific transfers; and
- conditional transfers from line ministries for delegated functions.

The first three categories have been classified under the common header of disposable financial resources, over the use of which municipalities have relative decision making discretion. On the other hand, municipalities have no decision making discretion on amount or way of using funds from the conditional transfers category; these funds are spent pursuant to the provisions of the line ministries (in other words, the destination of these funds is predetermined).

In order to mirror the revenue by source organization structure, expenditures are also organized into the two following main categories:

- expenditures financed through own funds (including revenue from own source revenues, shared taxes, unconditional and specific transfers), and
- expenditures financed through conditional funds (including expenditures categories covered by the funds allocated through conditional transfers from line ministries, which also include investment funds allocated by the Regional Development Fund (RDF)).

For both the categories, of own and conditional funds, expenditures will be presented according to their economic classification (current and capital) and functional classification (Classification of Functions of Local Government (COFOG)).

This report is part of quarterly and annual report series on local finances developed by Co-PLAN, the Institute for Habitat Development. Previous reports may be accessed at: <http://www.financatvendore.al/pub/raporte>.

For a general overview of each of the 61 municipalities, please consult the Municipality Profiles at: <http://www.financatvendore.al/analiza/profilet>.

# 1. INTRODUCTION

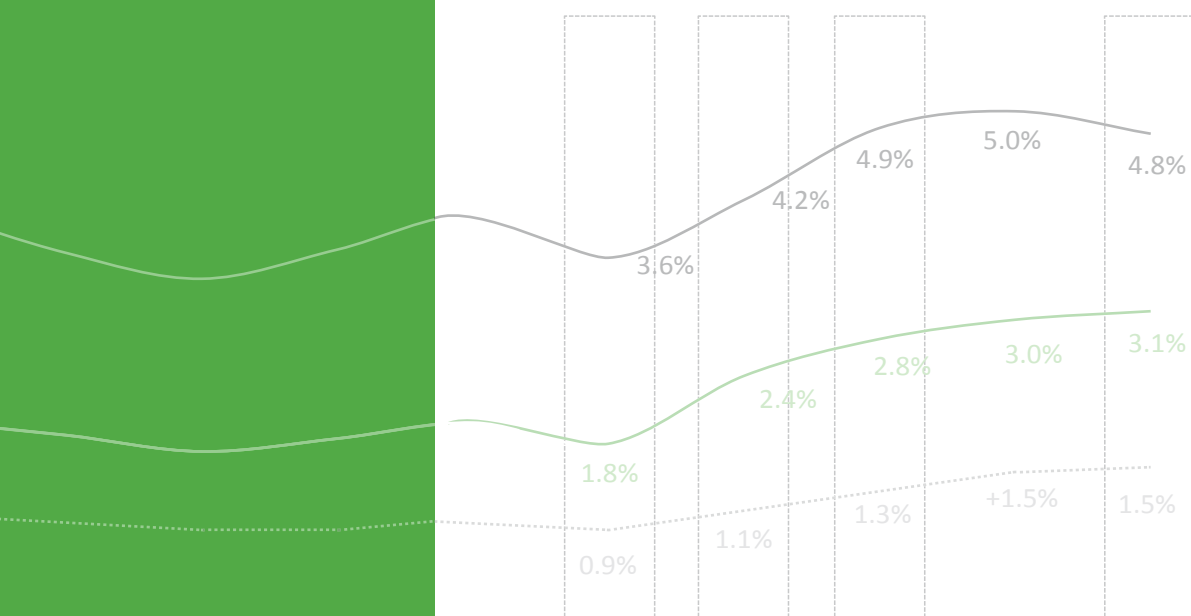
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Continuous local public finances monitoring is an important step in assessing local government financial capacities functional to the exercising of functions and competence provided for in Law No. 139/2015 "On local self-government". In addition, a better understanding of the relation between competences and available financial resources, informs the development of effective and efficient local government policy, facilitates dialog between government tiers, informs borrowing capacities, improves accountability, transparency and community trust in local representatives.

The local finances status report aims at providing a general local public finances overview in all 61 municipalities at the end of 2019. The financial performance of the municipalities with regard to revenue and its allocation for public services provision in an important element in the aftermath of decentralization reforms over the last four years (TAR,<sup>3</sup> NCSDLG 2015-2020, etc.), the local elections held in June 2019 and the added pressure on the municipalities after the natural disasters, like the earthquakes of September and November 26<sup>th</sup>, 2019. Furthermore, local public finances situation has been analyzed alongside information from other sources (INSTAT, Ministry of Finance and Economy, etc.) to assess for factors that may have contributed to the local revenue and expenditures indicators.

In the second chapter, the 2019 Local Public Finances Status Report analyzes local finances resources dynamics by category in detail, while the third chapter addresses own funds and conditional funds expenditures made by local government, combining the analysis with the economic and functional nature of the expenses. In conclusion some conclusions for the future have been provided.

## 2. TOTAL FINANCIAL RESOURCES FOR THE EXERCISING OF FUNCTIONS AND COMPETENCES



Municipalities are the government tier closest to citizens and as such are potentially able to address the needs of their communities better than the central government. Considering the information advantage of the municipalities over the central government, they can potentially better tailor the offer of public goods and services to the citizens needs and preferences. Decentralization reforms undertaken in Albania between 2015 and 2018 aimed at strengthening local government, through the development of conditions and capacities to provide quality and efficient local services.<sup>4</sup> In quantitative terms, the importance of local government versus general government increased, as shown from the indicators of disposable and total financial resources to nominal GDP, for the period 2015-2018. The year 2019 marked two important moments, the local elections held in June and the natural disasters in September and December. The latter had severe consequences on the lives of the communities, in people's life, and caused considerable damage to structures. The consequences of these events are expected to further impact 2020 local budgets more.

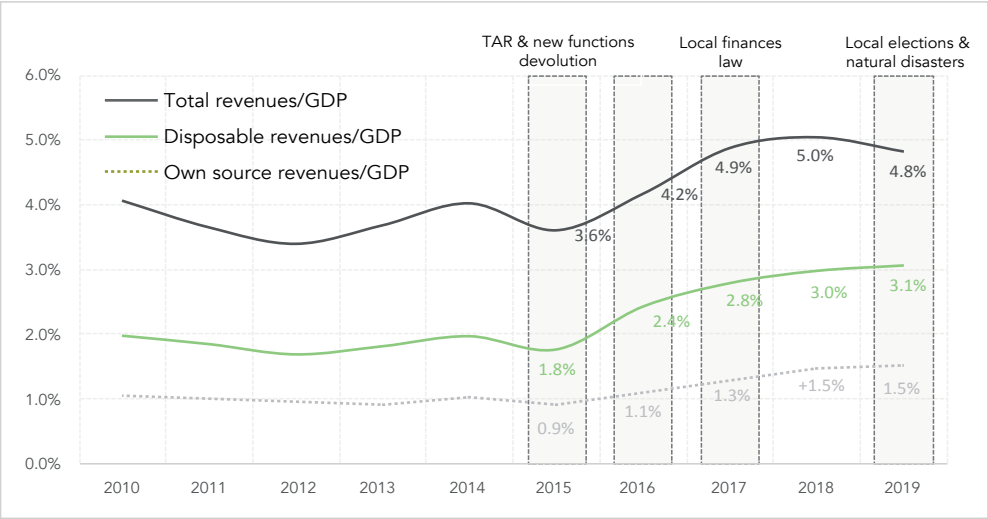
Data show that after a somehow linear progression during the 2010-2015 period, local government revenue indicators (from own source, disposable and total revenues) to nominal GDP increased during the next three years (up to 2018) on the back of various factors such as the addition of new functions and spending responsibilities,<sup>5</sup> the use of Water Utilities Companies as tax agents to collect revenue from local taxes and fees, and the changes to municipality fiscal policy (increase of local taxes and fees in some municipalities).

The indicator of own source revenues to nominal GDP increased from 0.9% in 2015 to approximately 1.5% at the end of 2019. This improvement is assessed to be due to increased revenues from the infrastructure impact tax from new buildings (IIT), which is largely generated in the Municipality of Tirana.

The indicator of disposable revenues to nominal GDP has also improved year to year reaching a level of 3.1% at the end of 2019 from approximately 1.8% in 2015. The improvement of this indicator is believed to be largely a result of the stabilization and increase of the unconditional transfer (general and specific) levels.

Nominal improvement of indicators including own source revenues and unconditional transfers seem to have been counterbalanced by developments in conditional transfers (registering a decrease at the end of 2019). Thus, the indicator of total financial resources to nominal GDP, settled to approximately 4.8% at the end of 2019, after improving and reaching the highest historical value in 2018.

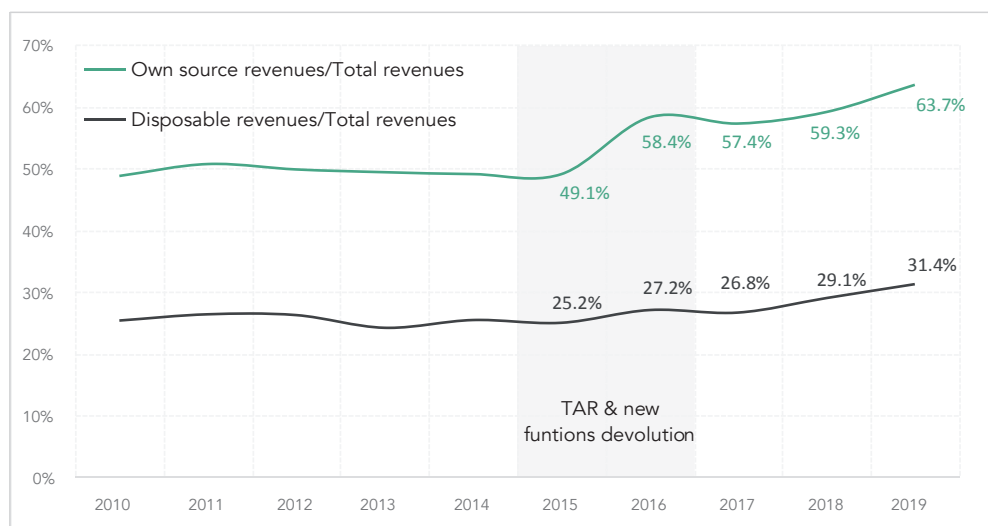
Chart 1. Revenue indicators as a percentage of GDP



Source: Local Finances Portal [www.financatvendre.al](http://www.financatvendre.al)

Local fiscal autonomy indicators (measured as a ratio of the own source revenues to total financial resources, and as a ratio of the disposable resources to total financial resources) improved annually and as compared to the long-term average during 2019, following the same trend as the abovementioned other indicators. The ratio of own source revenue to the total financial resources recorded a level of 31.4% at the end of 2019, marking a 2.2 percentage points increase compared to the previous year. Similarly, the ratio of disposable financial resources to total financial resources increased by approximately 4.4 percentage points in annual terms, reaching a level of approximately 63.7% in 2019. Increased revenues from own sources and higher unconditional transfers (general and sectoral) are assessed to have affected improvement of fiscal autonomy indicators.

Chart 2. Indirect local fiscal autonomy indicators



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

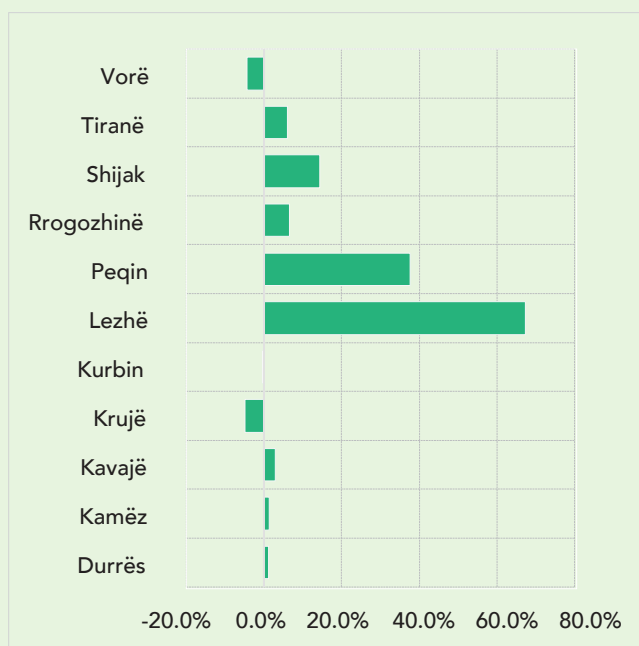
### Box 1.

#### How were municipalities affected by the natural disasters of the end of 2019?

Two events in 2019 had great relevance for municipalities: the local elections held in June and the natural disasters of September and November, which affected 11 municipalities including: Tirana, Durrës, Lezha, Kurbin, Kruja, Kavaja, Kamza, Peqin, Rogozhina, Shijak and Vora. In particular, the natural disasters of the second half of 2019, are assessed to have contributed to a general slowdown of the overall economy and a slowdown in own source revenues growth rate. However, the preliminary assessment of their effects on the finances of the affected municipalities (own source revenues) does not appear to have been fully materialized yet. Own source revenues are assessed to be the category directly affected by these events in some of its items such as hotel accommodation tax, taxes on immovable property, local fees (for occupation and use of public spaces, service fees) etc. In 2019, own source revenues have shown an increase in the following municipalities: Lezha (+67.3%), Peqin (+37.7%) and Shijak (+14.4%). The following municipalities have achieved a moderated revenue increase: Rogozhina (+6.6%), Tirana (+6.1%), Kavaja (+3%), Kamza (+1.4%) and Durrës (+1.2%). On the other hand, own sources revenue decreased in the municipalities of Kruja (-4.8%), Vora (-4.4%) and Kurbin (-0.4%).



Chart 3. Own sources revenue growth rates in 2019



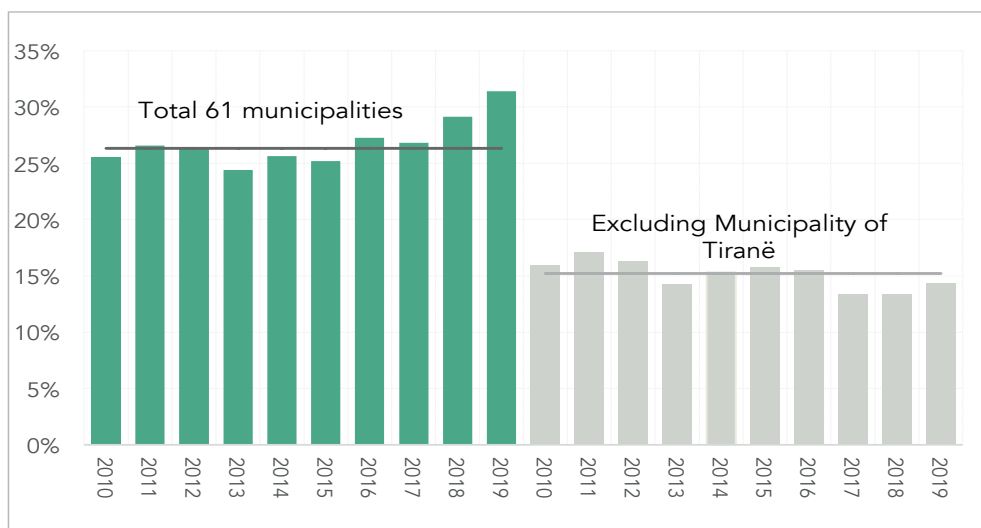
Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

Developments that took place in 2019 for the considered municipalities do not seem to have significantly impacted own source revenues as compared to the previous year. However, significant effects on the level of own source revenues are expected for year 2020.

## 2.1 | THE PERFORMANCE OF REVENUES FROM OWN SOURCES

Own source revenues are vital to a good and independent local governance. This revenue category made up approximately 31.4% of the total financial resources in 2019. Compared to the previous year, this ratio improved slightly by approximately 2.2 percentage points and is approximately 5.0 percentage points higher than the long-term average.<sup>6</sup> A series of factors are estimated to have impacted this improvement, such as the increase of the local taxes and fees in some municipalities and the potential increase in the revenue collection rate (using water and sewage companies as tax agents).

Chart 4. Relevance of own source revenues in local budgets



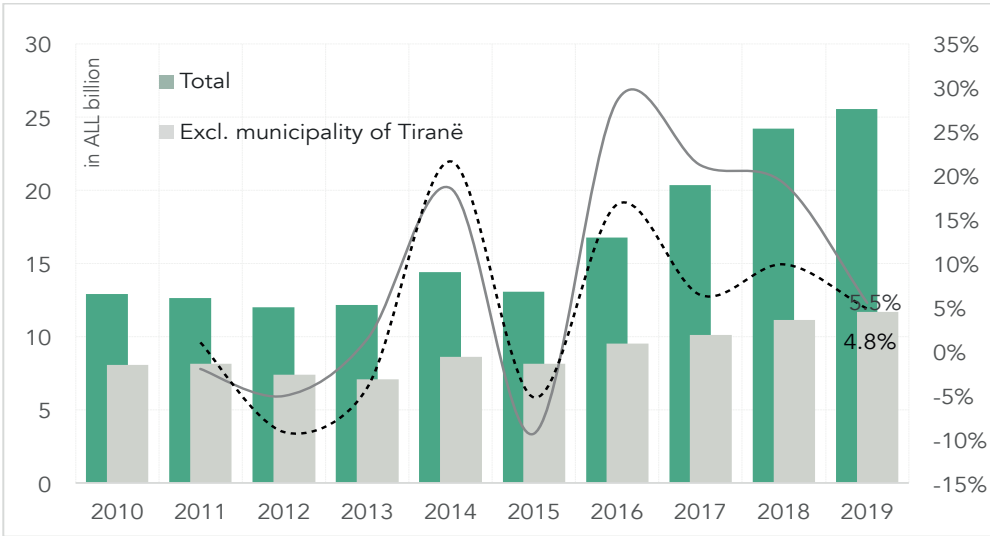
Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

In nominal terms, at the end of 2019, own source revenues (local taxes and fees, asset activities and other) reached a level of approximately ALL 25.6 billion, which is a 5.5% increase in annual terms, or some ALL 1.4 billion more than the previous year. The own source revenues growth rate has been considerably more moderate in 2019, compared to the growth rates over the previous three years. The observed moderate growth rate is broadly affected by own source revenues developments in the municipality of Tirana, as the municipality with the largest share in the total of this revenue category.<sup>7</sup> Excluding the municipality of Tirana, the annual own source revenues growth rate moderated to approximately 4.8% at the end of 2019.

A historic look of the own source revenues performance over the 2010-2019 period excluding the municipality of Tirana, shows for a smoothly increasing trend over time. When the municipality of Tirana is included in the data, revenues in this

category show accelerated two-digit growth rates. Thus, it is assessed that the own source revenues performance over time has been and is largely determined by the municipality of Tiranë.

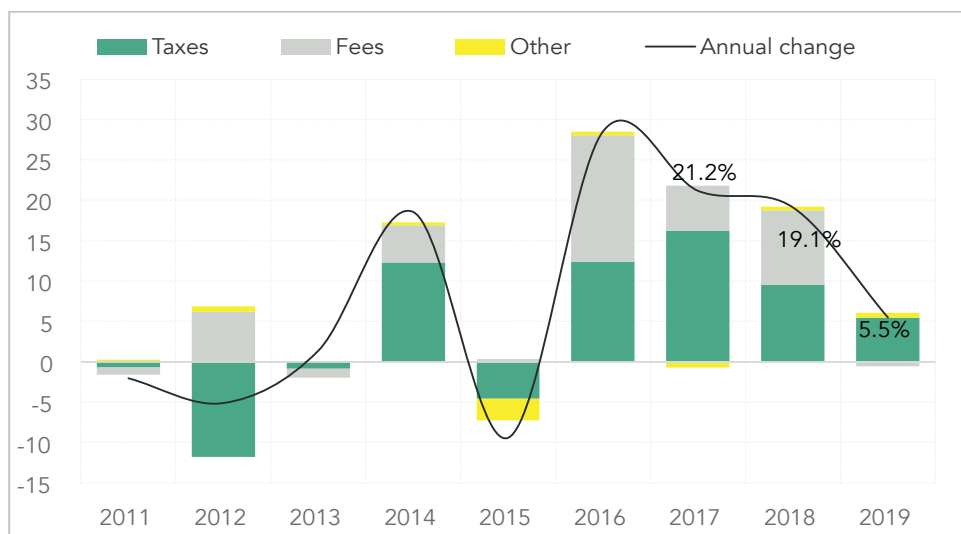
Chart 5. Own source revenues performance (in ALL and annual changes)



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

During 2019, the performance of revenues from own sources was largely determined by the contribution of local tax revenues by about 5.5 percentage points. Revenues from local taxes continue to positively contribute to the overall performance of local revenues for the fourth consecutive year, despite the contribution shrinking from about 16.2 percentage points in 2017 and 9.6 percentage points in 2018, to about 5.5 percentage points at the end of 2019. Revenues from local fees contributed negatively by about -0.5% percentage points to the overall performance of revenues from own sources for 2019.

Chart 6. Own source revenues: contributions (in p.p.) and annual change (in %)



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

The own source revenues fluctuation in terms of contribution over time has been impacted by frequent interventions in the legal framework changing the local taxes and fees tax levels and thresholds (such as the case of the small business tax/simplified small business profit tax, changes to the tax on immovable property, increase or decrease of local fees, etc.) or changes to other tax administration elements (such as using Water Utilities as tax agents for the collection of local taxes and fees).

## Box 2.

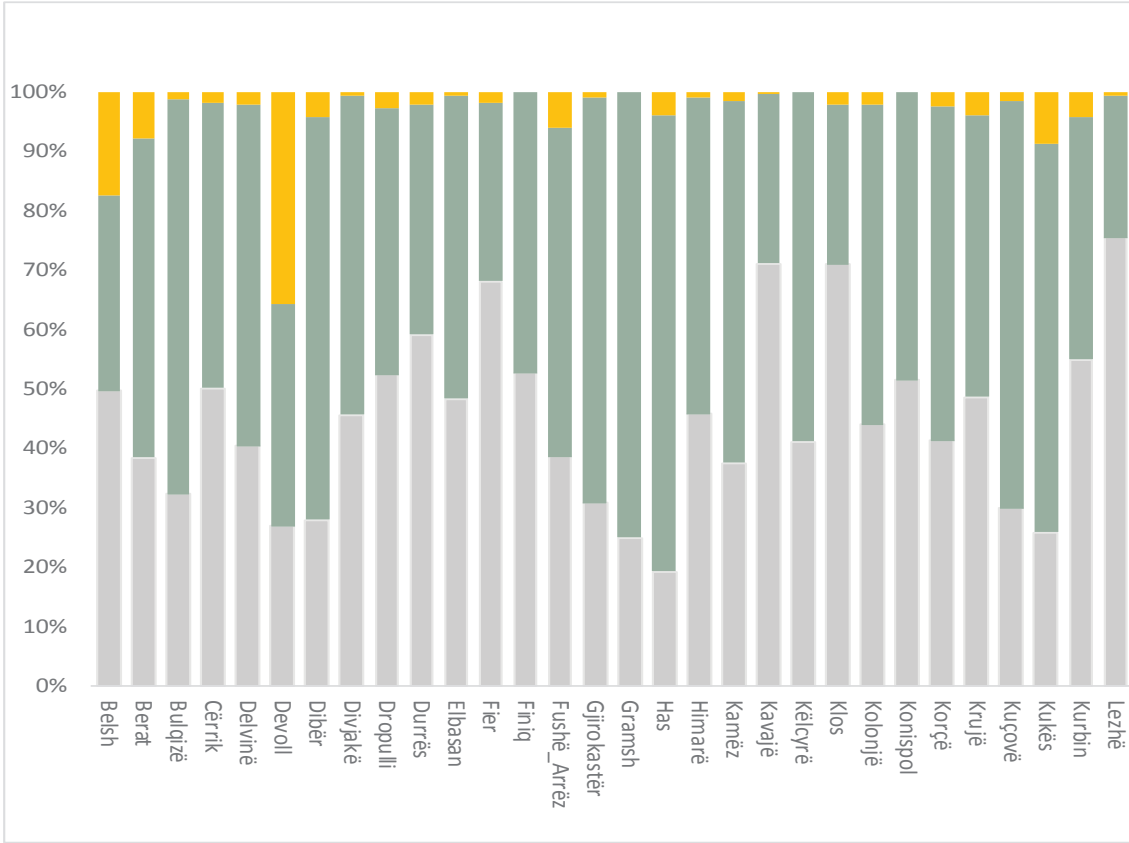
### Developments in own source revenues for the 61 municipalities

The role of revenues from local taxes, fees and other resources in the local budget changes considerably among the 61 municipalities in the country, suggesting a different taxpayer structure in each of the municipalities and differences in tax burden among them, whether households or businesses. For about 41% of the municipalities (25 of 61 municipalities) revenues from taxes makes up over 50% of revenue from own sources. Revenue from local taxes collected in the municipalities of Vora, Pustec, Tirana, Shijak, Roskovec, Peqin, Lezha, Klos, Kavaja and Fier is above the national average of approximately 61.8%. In the municipality of Vora, revenue from local taxes makes up some 81.9% of the total own sources revenue, mainly as a result

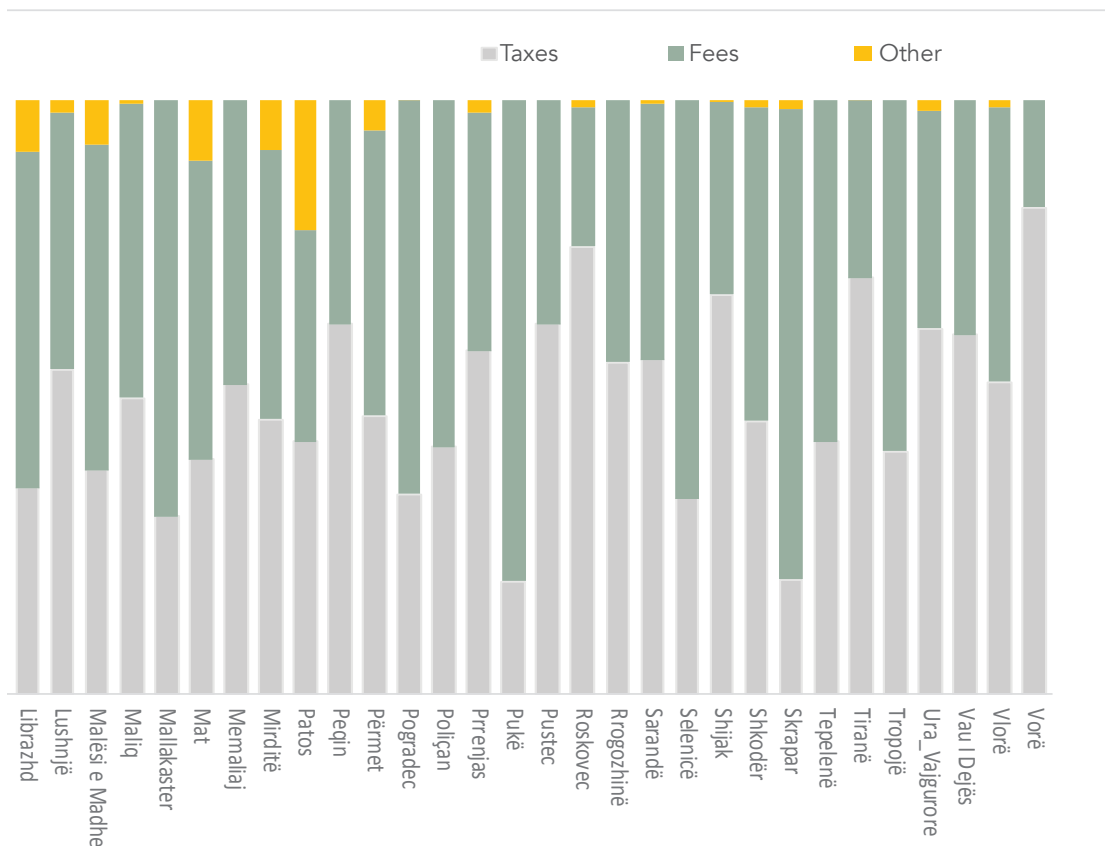
of the presence of a large number of businesses in its territory. On the other hand, revenue from local taxes has the smallest share in the municipality of Puka, at about 18.8% of the total local sources revenue. In the meantime, for about 47.5% of the municipalities (29 of 61 municipalities) revenue from fees makes up over 50% of revenue from own sources. In the municipalities of Gramsh, Has, Mallakstra, Kamza, Puka and Skrapar local fees contribute more than 70% to the municipality's revenue from own sources.

Municipality ability to generate revenue from local taxes and fees differs sharply between municipalities (based on population residing and businesses operating in their territories): about 61.7% of the total revenues from local taxes is collected in Tirana, followed by the municipality of Durrës with approximately 4.6%. The same view holds also for revenues from local fees. The municipality of Tirana collects approximately 43.6% of the total, followed by the municipality of Kamza and of Durrës with 5.1% and 5% respectively. Evidently, the share of the municipalities in relation to the total revenue from both local taxes and fees, suggests for a wide gap in terms of fiscal capacities between the municipality of Tirana and the other 60 municipalities. With the exception of the Municipality of Tirana, differences between the other municipalities are significantly reduced and present at a moderate level between 12 region-center municipalities as compared to the other 49 municipalities. The pronounced differences between the municipalities in terms of fiscal capacities highlight the need for compensating and mitigating instrument in order to allow these municipalities to exercise their functions or provide public services at the adequate level and quality.

Chart 7. Composition of revenues from own sources by municipality



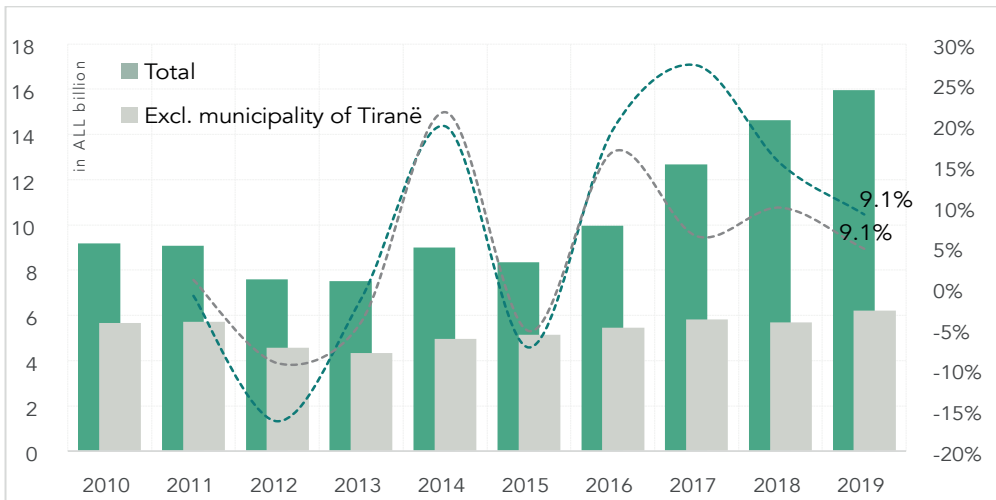
Source: Local Finance Portal [www.financatvendore.al](http://www.financatvendore.al)



## 2.1.1 | REVENUES FROM LOCAL TAXES

Tax revenues represent an important stream of financial resources in the structure of own source revenues for the 61 municipalities. In nominal terms, revenue from local taxes contributed with about ALL 15.9 billion to the local budget, with an increase of 9.1% compared to the previous year. The revenues growth rate from local taxes is unchanged, even if the revenue collected in the municipality of Tirana were to be subtracted from the total. The share revenues from local taxes to total revenues from own sources was approximately 62.4%, a ratio which is about 2.2 percentage points below the long-term average (of approximately 64.1%).

Chart 8. Performance of revenues from local taxes

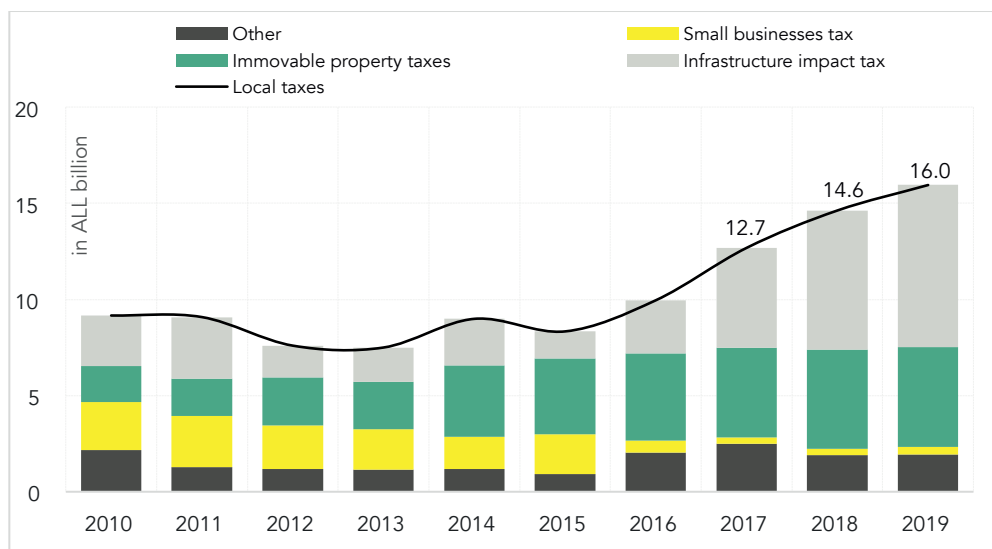


Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

Although in general terms revenues from local taxes turn out to have marked positive developments, a detailed look at the constituent elements reveals long-term weaknesses or dependence on a limited number of taxes. In the last three years, the performance of revenue from local taxes has been determined by two elements, namely the infrastructure impact tax on new construction and taxes on immovable property (buildings, agricultural land, urban land). While the share of the latter shrunk, the share of the revenues from the infrastructure impact tax from new construction has increased at an accelerated pace. In 2019, revenues from these two taxes made up 85.5% of the total revenue from local taxes. On the other hand, the share and contribution of the simplified small business profit tax and other taxes continued to shrink in 2019. In addition, the data series of local taxes, excluding the municipality of Tirana, indicates a moderate upward trend for revenue from local taxes for the other 60 municipalities during the 2010-2019 period.



Chart 9. Revenues from local taxes, by main items

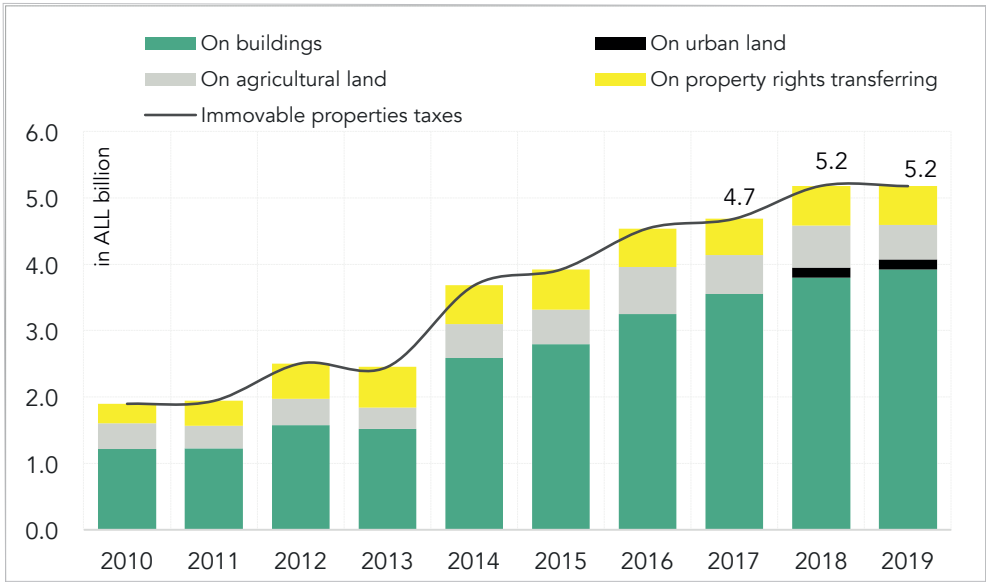


Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

*The tax on immovable properties and transactions on them* is a considerable and sustained source of revenue for the local budget. In the last three years, revenues from this tax are assessed at approximately 0.3% of the nominal GDP, a ratio which is considerably lower compared to the EU average of approximately 1.6% of the GDP in 2017 (NALAS 2019). Even though revenue collected over the years from the tax on immovable properties has generally had a growing trend, issues related to property rights and the lack of a fiscal cadaster, among other things, do not allow the potential of this tax to be fully achieved. Following the full reforming of this tax as by Law No. 106/2017 "On some changes and additions to Law No. 9632, dated 30.10.2006 "On the local taxes system", as amended, based on the media communications of the Ministry of Finance and Economy, all municipalities were expected to apply the tax on immovable properties based on the new methodology in 2019. Currently, not every municipality has undertaken this step, because of issues with the collection of the required data to apply this methodology.

Revenues from the tax on immovable properties recorded a value of about ALL 5.2 billion<sup>8</sup>, which is a slight decrease compared to the previous year. Revenue from the agricultural land tax, form urban land, and from ownership rights transfers fell, contributing negatively to the overall revenues from taxes on immovable properties. However, revenues from the building tax marked an annual increase of approximately 3.4%, but failed to counterbalance the negative effects of the other categories. In about 47.5% of the municipalities (29/61 municipalities), revenue from taxes on immovable property has decreased.

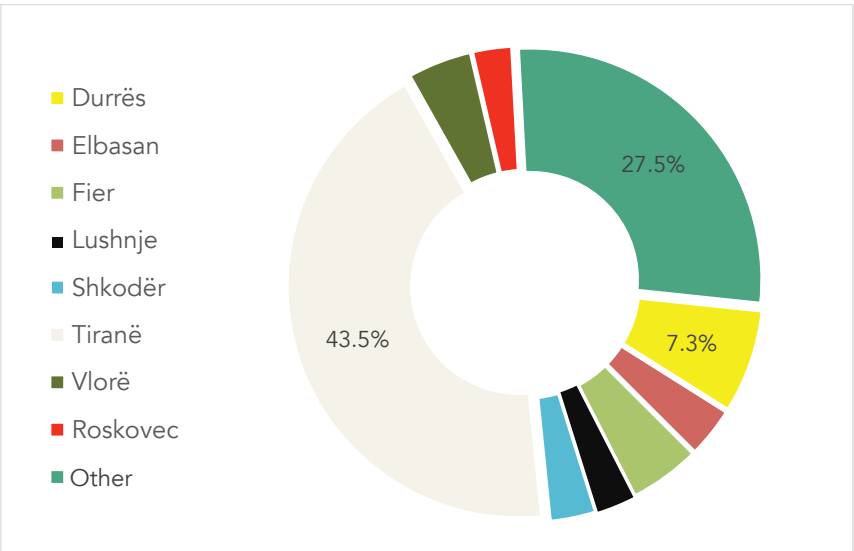
Chart 10. Revenues from taxes on immovable properties



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

At the municipality level, approximately 43.5% of the revenue from taxes on immovable properties is collected in the municipality of Tirana, as a result of the high density of residential and commercial buildings in its territory. The municipality of Durrës ranks second for revenues from the tax on immovable properties with about 6.4% of the total collected during the period under consideration.

Chart 11. Revenue from taxes on immovable properties (by municipality)

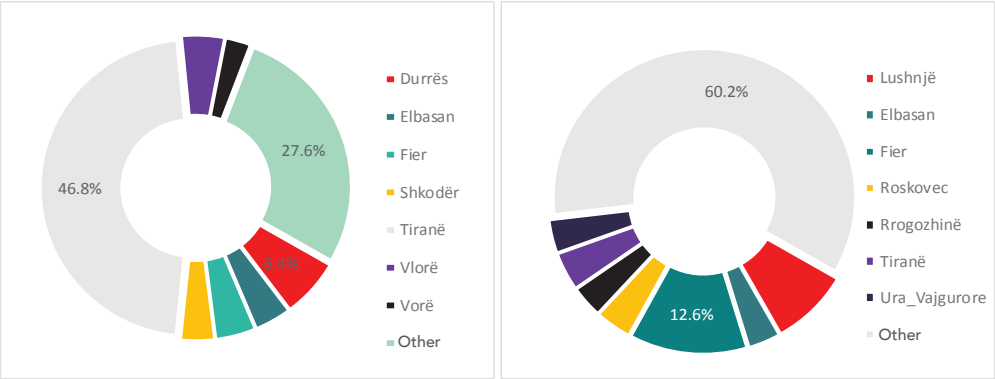


Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

In structural terms, revenue from the building tax makes up the largest share of the total revenue from taxes on immovable properties (on average 75% during the last three years). In 2019, revenue from this tax recorded a level of ALL 3.9 billion, an annual increase of approximately 3.4%. Approximately 46.8% of revenues from the building tax were collected in the municipality of Tiranë followed by the municipalities of Durrës (6.4% of the total) and Vlorë (4.6% of the total). However, the current revenues level collected from this tax shows that the results of the new reform and methodology have yet to be materialized.

Considering the lack of detailed information, current performance of revenues from the building tax can be interpreted in a few ways: (i) the new methodology which led to an increase of the fiscal burden may have also led to the inability of taxpayers to pay this tax and may have also resulted in higher levels of non-payment; (ii) the new methodology may have lowered - increased the fiscal burden from one taxpayer category to the other, resulting in them compensating each other and in an insignificant overall effect; (iii) with the application of the new methodology municipalities have not been able to increase the taxable base, especially where Water Utilities are being used as tax agents (and there may still be illegal/unregistered connections) or where the population is not completely covered; (iv) the events of the second half of 2019 (local elections, the rapid succession earthquakes) may have negatively impacted the payment of this tax. With regard to the latter, data for 2019 do not show a considerable fall in the collection level, especially in the municipalities hit hardest by the 26 November earthquake: municipality of Durrës (-9.9%); Tirana (+1%); Kruja (-5%), Lezha (-2.2%), etc.

Chart 12. Revenue from the building and agricultural land tax



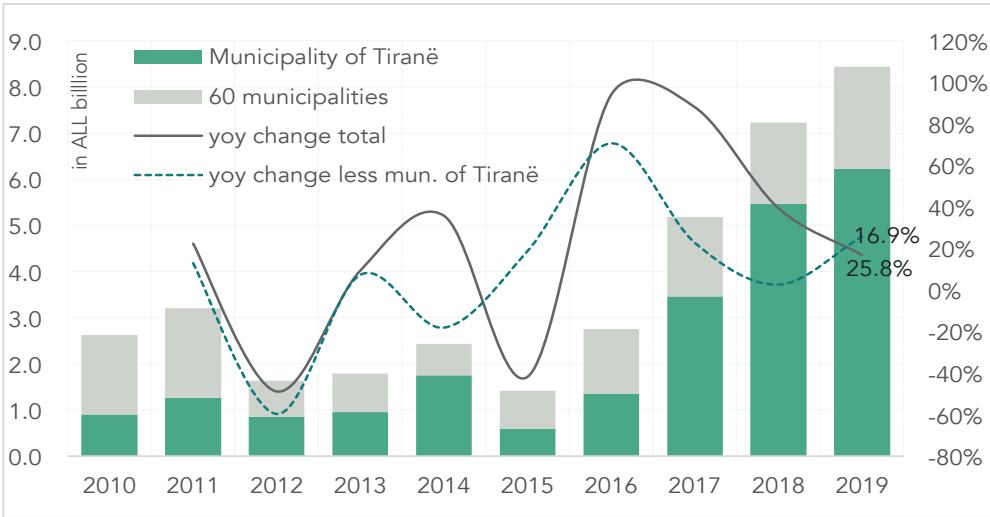
Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

Revenues from *the agricultural land tax*, even though moderate in relevance, contributed by about ALL 517.4 million (down by approximately 17.7% in annual terms) in the category of immovable property taxes. In contrast from the concentration of the revenues from the building tax, which was limited to a small number of municipalities, the revenues from the agricultural land tax turned out to be distributed among municipalities. The largest share of this tax was collected in the municipality of Fier (about 12.6% of the total), followed by the municipalities of Lushnje (8.5%), Divjakë (4.7%), and Roskovec (4.0%), which is also a reflection of the agricultural character of the economies in these municipalities. Revenues from the *urban land tax* has a smaller share in the total revenue from taxes on immovable properties (approximately 2.9%) and marked a decline of about 5.5% in annual terms. The same trend was also observed for revenues from the *ownership rights transfer tax*, which marked a decline of approximately 2.0% in annual terms.

The second important element in revenue from local taxes is the inflow pf revenues from the *tax on the infrastructure impact of new buildings*. Inflows from this tax continue to represent an important and considerable resource for the local budget. In 2019, revenue from infrastructure impact tax made up approximately 52.9% of the total revenue from local taxes and approximately 33% of the total revenue from own source revenues.

**These two indicators signal that the local budget is highly dependent on this tax and for the presence of additional risks because of its cyclical nature. It may also happen that in the presence of financial constraints, municipalities shift their liquidity preferences to short-term ones, at the expense of sustainable long-term development.**

Chart 13. Performance of revenues from infrastructure impact tax

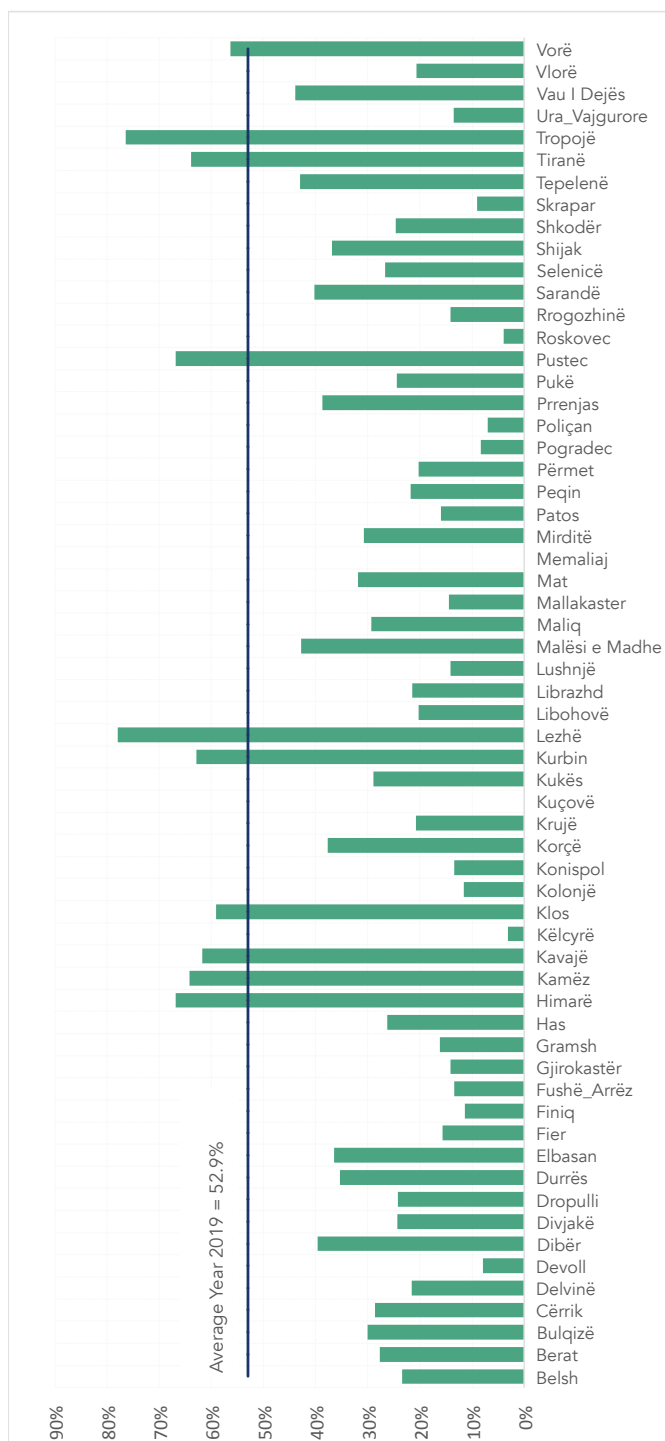


Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

Revenues from the infrastructure impact of new construction tax continued to increase at an accelerated pace for the third year in a row, especially in the municipality of Tirana. In 2019, revenues from this tax recorded a level of ALL 8.4 billion, an annual increase of approximately 16.9%, or approximately ALL 1.2 billion more than the previous year. Excluding revenues collected by the municipality of Tiranë, the 60 other municipalities collected about ALL 2.1 billion from the IIT, an annual growth of approximately 25.8%. The performance of revenues from the IIT show for a continued development pressure (higher number of construction permits issued by municipalities after the adoption of general local plans, with approximately 1,194 new permits being issued in 2018 and about 848 new permits being issued in the first nine months of 2019),<sup>9</sup> even though this pressure is mainly concentrated in the municipality of Tiranë. The implementation of General Local Plans (GLP) through new construction permits does have a positive impact on municipality revenues from IIT on the one hand, but on the other, it puts municipalities in a challenging position to provide for the necessary public infrastructure, which requires initial development capital and continuous maintenance.<sup>10</sup>

On average, revenue from IIT (from new constructions and revenue from legalizations) made up approximately 52.9% of the revenue from local taxes in 2019, an increase of approximately 3% compared to the amount collected the previous year. For approximately 18% of the municipalities, or 11 out of 61 municipalities, revenues from this tax are above the national average of the ratio of the IIT to the revenue from local taxes. On the other hand, in approximately 13.1% of the municipalities, or 8 out of 61, revenues from this tax make up less than 10% of the revenue from local taxes, reflecting somewhat smaller development pressure, or lack of demand for new developments.

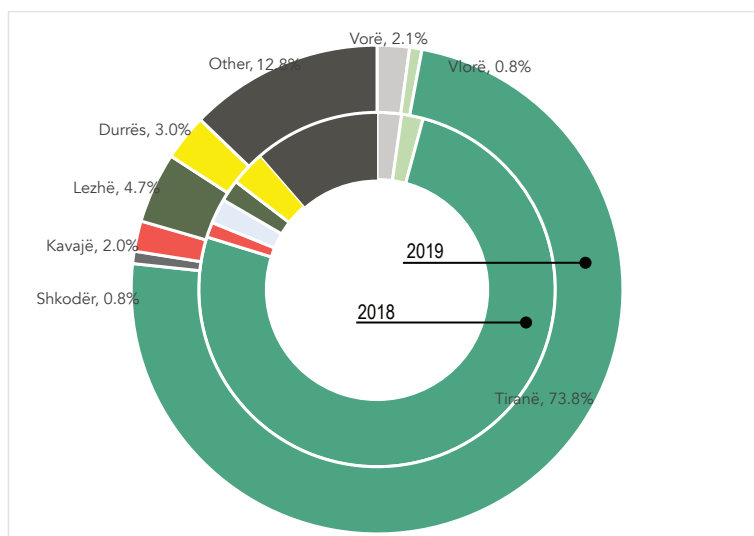
Chart 14. Infrastructure impact tax, municipalities compared to national 2019 average



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

Despite the considerable share in the revenues from local taxes, revenues from IIT is not collected uniformly in all municipalities. Approximately 73.8% of revenues from this tax was collected in the municipality of Tiranë, while the other 60 municipalities collected the difference. In 2019, the municipality of Tiranë collected approximately ALL 6.2 billion, up by about 14% compared to the previous year. The double-digit growth rates registered in revenues from this tax, are consistent with the data on the number of building permits issued (in 2018, the municipality of Tiranë has issued about 179 building permits, while during the first nine months of 2019 there have been issued about 255 building permits, 46 more than the previous year).<sup>11</sup> Practically, based on the information in the construction permits, in the first nine months of 2019, the municipality of Tirana added 1.2 million square meters of construction, approximately 57.8% more when compared to the total square meters in the construction permits for 2018. The data once again confirm the specific character of this municipality and the wide gap that is in place between the municipality of Tiranë and the other 60 municipalities in the country. At a distant second place from the municipality of Tirana, the municipality of Lezhë collected about 4.7% of the total revenue from IIT, followed by the municipalities of Durrës (3%), Kamzë (2.3%), Vorë (2.1%), and Kavajë (2%). In the municipality of Lezhë, revenues from the tax on the infrastructure impact of new buildings recorded a level of approximately ALL 394.2 million increasing from ALL 143.5 million of the previous year (in the first nine months of 2019, the municipality of Lezhë has issued 30 new building permits which account for about 63.2 thousand square meters of construction). The same trend is noted in the municipality of Durrës where from approximately ALL 234 million collected in 2018, during 2019 there were collected about ALL 257.2 million in 2019. On the other hand, the municipalities of Memaliaj and Kuçovë<sup>12</sup> did not generate any revenue from the tax on the infrastructure impact in 2019.

Chart 15. Infrastructure impact from new construction tax (total = 100%)

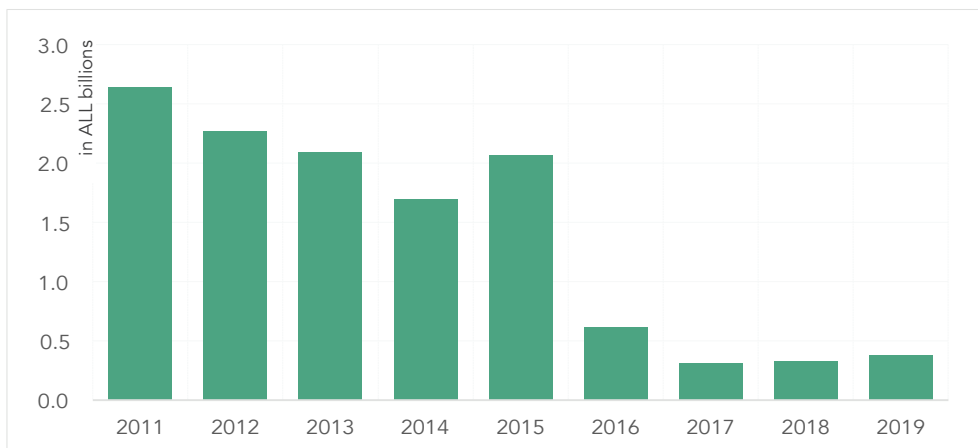


Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

The infrastructure impact tax has become of considerable source of revenue for local budgets, especially in large municipalities like Tiranë, Durrës, Lezha, etc. The increased contribution of this tax to the local budget, would require both mid to long term projections and commitments in regard to the provision of local public services for new developments. In the first nine months of 2019, a total of 1.6 million square meters of new constructions have been added, which should be followed by the relevant public infrastructure. In addition, being a finite and not sustainable revenue source, the municipalities should identify solutions and develop capacities to meet current and future financial obligations, considering the limited budget, which would create favorable conditions and would be in line with the inter-generation equality concept. Practically, the revenue generated today from this tax would need to be invested to ensure required public infrastructure and for their operation in the future, without burdening the budgets of future generations.

Revenue from the *simplified small business profit tax*, which once was an important financial source for local budgets (in 2015 revenues from this tax accounted for approximately 24.7% of the total revenues from local taxes and accounted for only 2.4% of the total in 2019), continues to contribute progressively less. ësuar rreth 2.4% të tyre), vijojnë të tkurrin kontributin e tyre në mënyrë progresive.

Chart 16. Revenue from the simplified small business profit tax situation



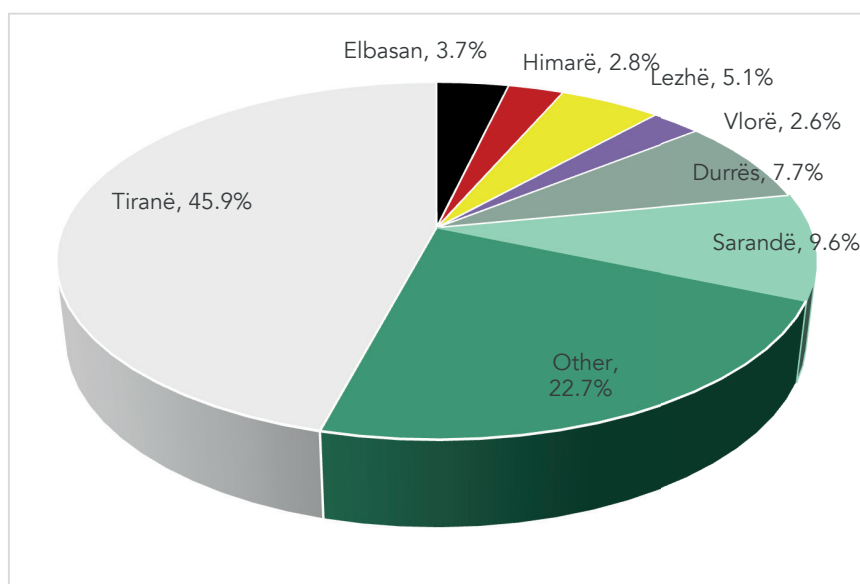
Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)



The legislative changes<sup>13</sup> adopted in 2016, led to the local government losing one of its tools to attract and drive the establishment of new enterprises in their territories. In nominal terms, revenue from this tax reached a level of ALL 376.3 million in 2019, an increase of 14.2% compared to 2018. In the long term, revenue from this tax are expected to progressively decrease their contribution to the revenues from own sources.

Even though at a lower rate, revenue from *local hotel accommodation tax* contributed positively to the general growth of revenues from local taxes. In 2019, revenue from this tax recorded a level of ALL 250 million, an annual increase of approximately 16.8%.

Chart 17. Revenues from hotel tax



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

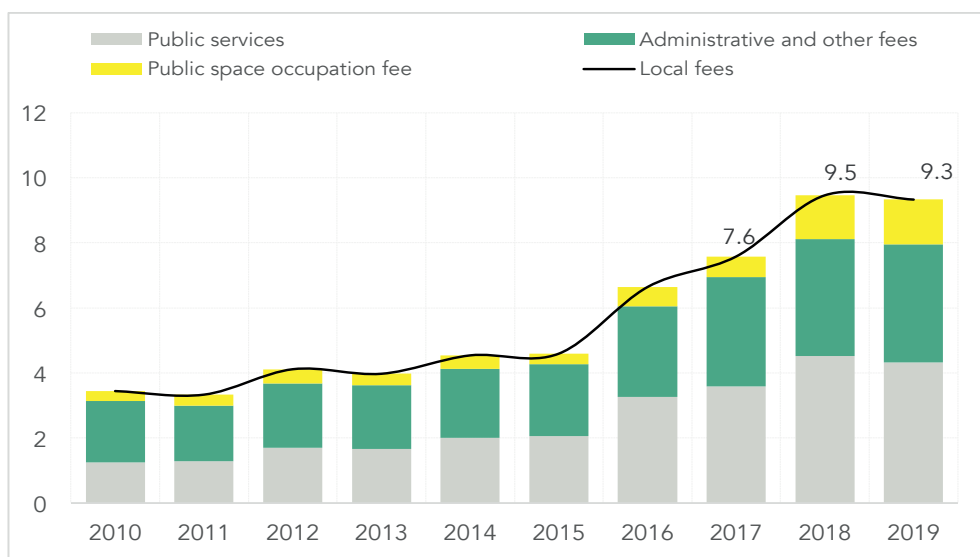
In 2019, approximately 45.9% of revenue from hotel accommodation tax were collected in the municipality of Tiranë, followed by the municipality of Sarandë with about 9.6% of the total revenue. In the meantime, the revenue collected by other municipalities with tourism potential remains relatively low, impacted by the seasonality of the tourism sector in the country, but this could also point to structural issues related to the registration of accommodation facilities and reporting of guest numbers.

## 2.1.2 | REVENUE FROM FEES

Local fees are payable in exchange for goods, services or rights provided. They represent a category of revenues in local budgets over which municipalities have full authority in determining the level and other constituent elements and how to use them. Revenue from local fees represent an important source of revenues for municipal budgets making up approximately 36.5% of the total revenues from own sources. In general, revenues from local fees show an increasing trend from year to year, dictated to some extent by the performance of a group of municipalities which have applied an increase in the level of local fees as well as the use of Water Utilities as tax agents.

Over a five-year period, revenues from local fees have marked double digit growth rates. However, in 2019, revenues from fees recorded a level of approximately ALL 9.3 billion ALL, down by about 2.4% compared to the previous year. Among the factors that may have contributed negatively to the performance of revenues from local fees, are assessed to be the earthquakes of September 22 and November 26, which affected a significant number of municipalities.

Chart 18. Performance of the main local fees (in ALL billion)



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

Among the categories of revenues from local fees, revenues from public services fees (waste management, lighting and greeting, water supply and sewage services, irrigation and drainage) recorded a level of ALL 4.3 billion, down by 4.4% in annual terms. Approximately 88.1% of the revenues from public services fees were collected from waste management fees (with about 50% of the total being collected in the municipality of Tiranë). Revenue from public lighting fees reached of level of ALL

282.5 million, making up approximately 6.5% of the total revenues from public services fees.

Table 1. Revenue from local fees by category (in ALL)

	Nominal value (ALL)	Weight to total
Waste management fee	3,807,798,998	88.1%
Public lighting fee	282,553,047	6.5%
Greening fee	224,297,566	5.2%
Water supply and sewerage fee	58,442	0.001%
Irrigation and drainage fee	6,668,726	0.2%
Total revenue from services fees	4,321,376,779	100.0%

Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

Revenue from irrigation and drainage service fees recorded relatively modest figures and were collected in the municipalities of Elbasan, Lezhë, Roskovec, Divjakë and Lushnjë. On a preliminary basis, it is estimated that there is room for improvement in the collection of this fee, especially in the municipalities where agricultural land under administration requires irrigation and drainage services.

The fee for obtaining and using public spaces and façades has also marked an increase in value during the period under review, recording a level of ALL 1.4 billion in 2019, from ALL 1.3 billion collected in 2018. When considering the performance of specific categories, it is clear that revenue from *fees for obtaining and using public spaces for business purposes (bars and restaurants)* makes up the largest share of the total with some 52.0%, followed by revenue from parking fees with some 40.8% of the total. As regards revenue from parking fees, it is of note that just the municipality of Tirana generates some 83.5% of the total revenue from this fee. In this respect, other large municipalities that are region centers, have not performed the same, even though they have the potential to do so (considering their population and number of vehicles).

## 2.1.3 | LOCAL BORROWING AND ARREARS

Pursuant to the applicable legislation, when completely lacking or when having insufficient financial resources, municipalities may take out short-term loans to cover their short or long term liquidity needs, to finance capital expenses or to refinance an existing loan. Terms and conditions for local government in Albania to access loans are specifically provided for in Law No. 9869/2008 “On local government borrowing”. Based on the data published in the debt records at the end of 2019,<sup>14</sup> the municipalities of Korça, Pogradec, Vlora, Elbasan, Lezha and the former commune of Petrela have taken out loans in the domestic banking system. The abovementioned loans have been taken out in 2010 and 2014, for the purposes of financing infrastructure projects. After 2014, no municipality has taken out loans.

Table 2. Borrowing at local level

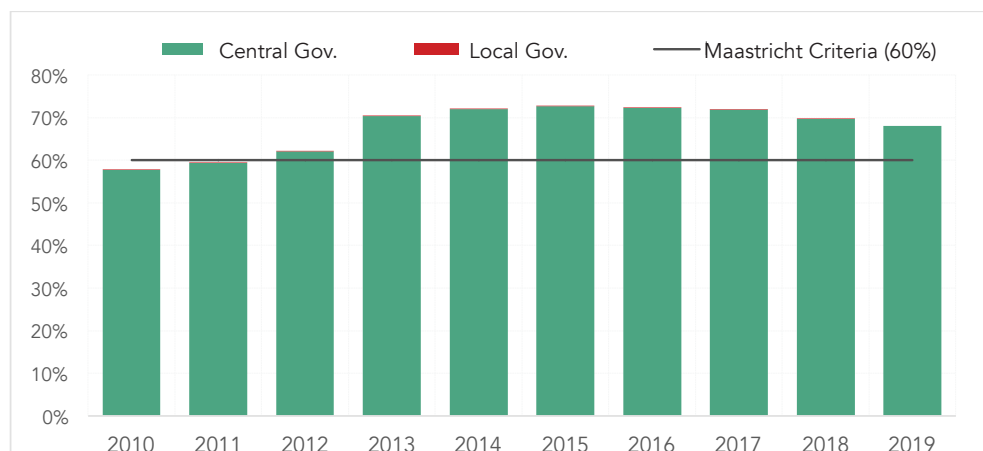
Borrower	Lender	Amount (in ALL million)	Subscribed at:	Maturity date:	Stock at the end of 2019:
Municipality of Korçë	Pro Credit	100	2010	2020	16.27
Municipality of Korçë	ISBA	200	2014	2024	121.43
Municipality of Pogradec	Pro Credit	113	2010	2020	5.74
Municipality of Vlorë	BKT	420	2010	2020	35.25
Commune of Petrelë	BKT	15	2010	2019	0.00
Municipality of Elbasan	BKT	800	2010	2020	364.22
Municipality of Lezhë	ISBA	107	2014	2023	38.80

Source: Ministry of Finance and Economy (Debt Register 2019T4)

The total local government debt stock at the end of 2019 stands at approximately ALL 582 million or approximately 0.034% of the GDP,<sup>15</sup> marginally contributing to the general public debt figure. Compared to 2018 data, municipalities have reduced their exposure to banks by approximately ALL 134 million, while the debt of the former commune of Petrela has been completely paid off.

After 2014, no municipality has taken out new loans, despite considerable needs for investment, which the large municipalities seem to have addressed using PPP schemes. The fiscal consolidation trajectory undertaken by the MFE, seems to have restricted new borrowing opportunities for municipalities, since local debt would increase the general public debt.

Chart 19. Public debt vis-a-vis Maastricht criteria on public debt



Source: INSTAT, Ministry of Finance and Economy & author's processing

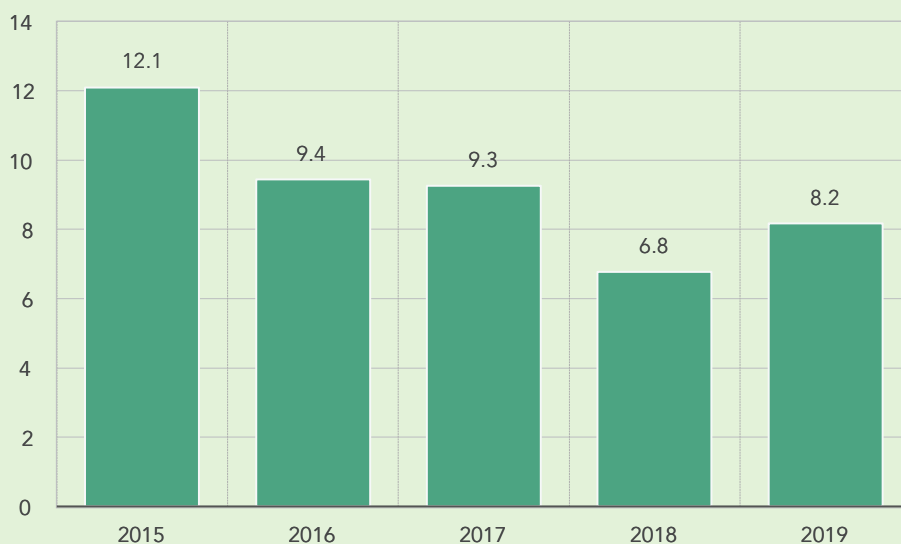
Meanwhile, in addition to debt indicators, municipalities carry over arrears stock, which at the end of 2019 were estimated at ALL 8.2 billion, 14 times higher than the local government debt stock. As a ratio to nominal GDP, arrears made up 0.48%, up from approximately 0.41% of the previous year. On average, municipality arrears at the end of 2019 placed a burden of ALL 2,918 on each citizen, up from ALL 2,418 per capital at the end of 2018.<sup>16</sup> At the municipality level, arrears per capita are highest in the municipality of Kavaja at approximately ALL 19,111 and lowest in the Municipality of Patos, which does not have any arrears at the end of 2019.

### Box 3.

#### Arrears: how much do they burden municipality budgets?

Municipalities arrears were systematically identified starting in 2015 following the adoption of DCM No. 50/2014 “On the adoption of the strategy and action plan for the prevention and payment arrears” and the instruction of the Minister of Finance No. 5/2014 “On paying off arrears”. Based on the data of the Ministry of Finance and Economy, at the end of 2015, the arrears stock stood at approximately ALL 12.1 billion, which was a concerning figure both at the local and the central level. Paying off these dues, accrued in part by the former communes that were amalgamated to the new municipalities in the framework of the administrative and territorial reform, places a considerable burden on local budgets.

Chart 20. Arrears stock (in billion ALL)

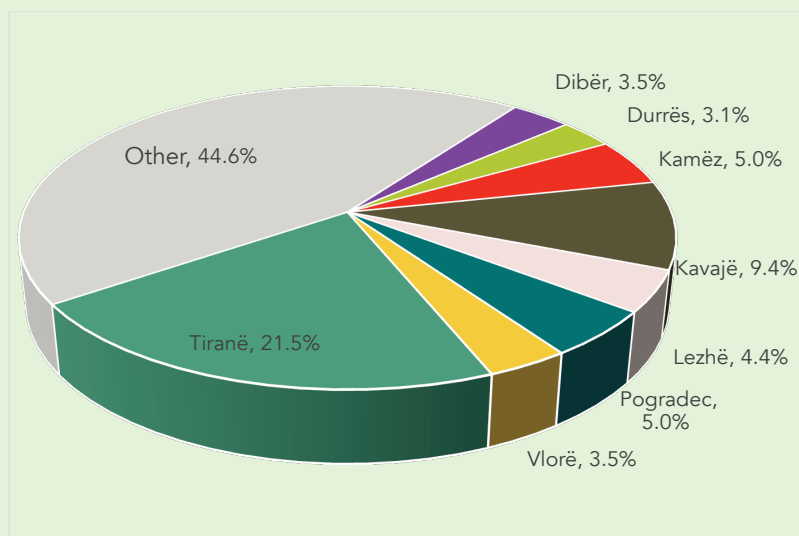


Source: Ministry of Finance and Economy

In this context, the central government undertakes to only “pay off arrears for works completed, but unpaid in the framework of financing by the Regional Development Fund, and transfers for disability benefits. All other local government unit’s financial arrears, that are not included in the above, should be foreseen in the local government units budgets.” Starting in 2015, the arrears stock has progressively shrunk, reaching a level of approximately ALL 6.8 billion at the end of 2018. However, the arrears stock at the end of 2019 reached a level of about ALL 8.2 billion, up by about 1.4 billion, or 20.7%. Arrears that will be paid off in the midterm period have increased in 66% of the municipalities (or 40/61 municipalities) and especially in the municipalities

of: Kavaja, Kukes, Berat, Roskovec, Kamza, etc. On the other hand, about 34.4% of the municipalities (or some 21 municipalities) have contributed to decreasing of arrears stock at the end of 2019, compared to its level at the end of 2018. Considerable shrinking in arrears stock have been noted in the municipalities of Tiranë, Vlorë and Durrës.

Chart 21. Arrears stock by municipalities



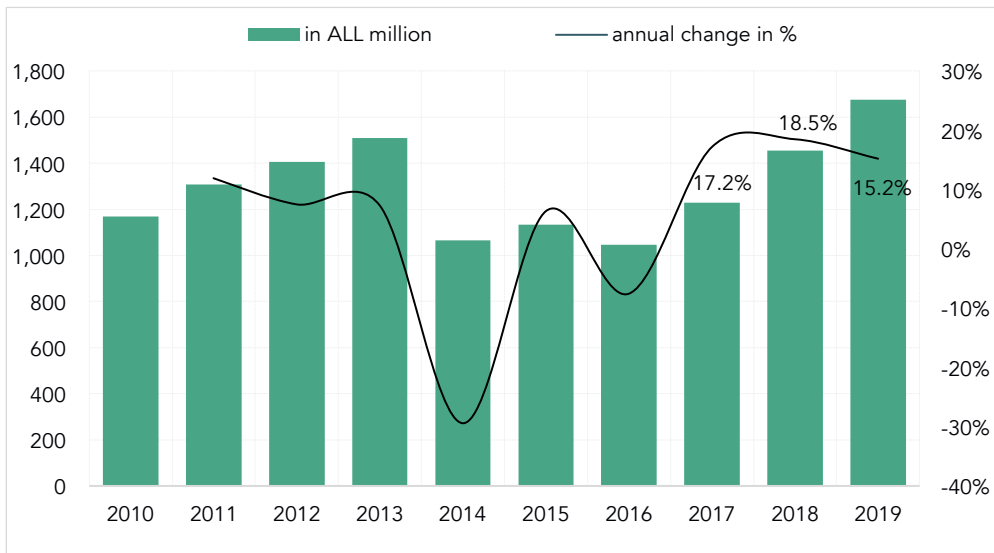
Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

At the municipality level, about 55.4% of arrears is carried by 8 municipalities. The highest level of arrears was recorded in the municipality of Tiranë at about ALL 1.7 billion, or 21.5% of the total stock at the end of 2019. Compared to the previous year, arrears stock in the municipality of Tirana shrunk by approximately 12.0% at the end of 2019. The municipality of Kavajë ranks second regarding arrears with about ALL 766.2 million or 9.4% of the total stock. In 2019, the municipality of Kavaja recorded an increase of arrears stock at about ALL 377.3 million, which is an annual increase of 97%. In addition, the arrears stock of the municipalities of Kamëz, Kukës, Roskovec, etc. has also increased.

## 2.2 | REVENUE FROM SHARED TAXES

With the adoption of Law No. 68/2017 “On local self-government finances”, the categories shared taxes between local and central government were reviewed and added. Thus, municipalities benefit: (i) 97% of the property ownership transfer tax imposed on individuals, physical and juridical persons;<sup>16</sup> (ii) 25% of the revenue from the annual used vehicle circulation tax; (iii) 5% of the revenue from mining royalties; and (iv) 2% of the revenue from the personal income tax. Revenue from personal income tax have not been allocated to municipalities for 2019. Simple estimations show that this materializes in a lack of revenue for local budgets in the amount of approximately ALL 922.5 million<sup>17</sup>, which should have been allocated to the municipalities based on their origin, pursuant to Law No. 68/2017 “On local self-government finances”.

Chart 22. Revenues from shared taxes



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

The performance of shared taxes over time has been volatile and the share of this category to own source revenues registered a level of about 6.6% in 2019. Overall, revenue from shared taxes contributed by about ALL 1.7 billion to the local budget at the end of 2019, marking an increase of about 15.2% in annual terms.



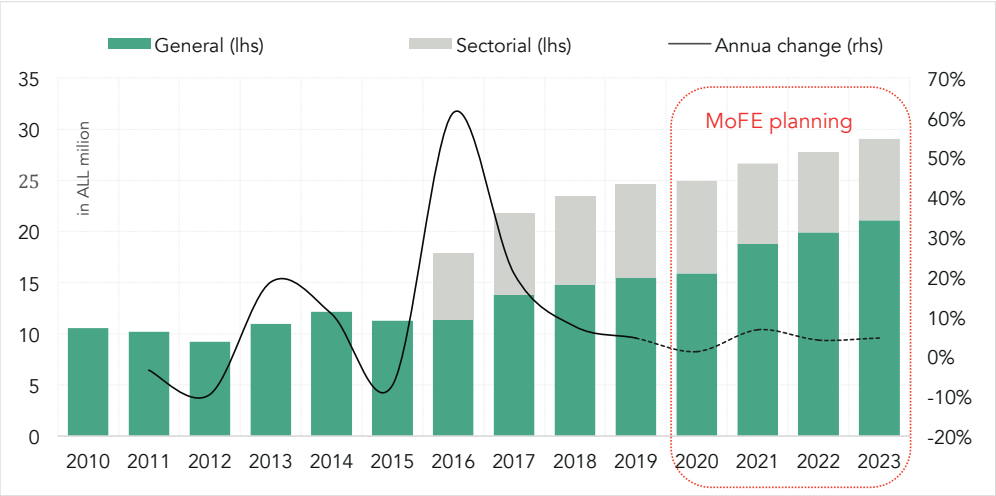
## 2.3 | REVENUE FROM GENERAL AND SECTORIAL UNCONDITIONAL TRANSFERS

The continuous improvement of local good governance and the provision of efficient and effective local public services, are essential elements to boost and drive economic growth in the territory under municipal administration. In this regard, inflows from unconditional transfers represent a vital resource to fulfill the functions and competences provided for municipalities in law no. 139/2015 "On local self-government", aimed at bridging the negative gap between needs for expenditures and fiscal capacities (the capacity to generate revenue). In addition, the conditions created by the natural disasters of 2019 and the COVID-19 pandemic in the beginning of 2020, made the relevance and sustainability of this financial resource even more critical for municipalities. Based on the information published by MoFE and the relevant instructions for the development of the 2021-2023 MTBP, unconditional transfers are projected to increase until 2023 (mainly the general part of the unconditional transfer). Since 2019 was closed with a considerable balance of damages, the first half year 2020 was hardly hit by the COVID-19 pandemic, international assessment of economic growth remains pessimistic, it remains to be assessed whether the unconditional transfer level budgeted will materialize during year 2020.

Following the symmetrical devolution of a series of functions at exclusive title in 2016, their exercising was carried out through funds transferred by the central government to the local one, through specific transfers. At the end of the transition phase for the transfer of these functions, or starting from 2019, these functions are funded through the unconditional sectoral transfer, the funds of which will be used in autonomy.<sup>18</sup> Law No. 68/2017 "On local self-government finances" provided for the amount and method of the unconditional transfer allocation: for each budget year, it shall be no less than 1% of the GDP based on the macroeconomic projections and estimations approved by the Council of Ministers and in any case, it may be no less than the total amount allocated for the previous year; its allocation shall be done based on a formula approved by the Ministry of Finance and Economy.

In 2019, municipalities were allocated approximately ALL 24.7 billion as unconditional transfers (including the sectoral transfer), an increase of approximately 4.6% compared to the previous year. The growth rate of the general and sectoral unconditional transfer seems to be progressively moderated from 2016 to 2019 (base effect extinction of the sectoral transfer). In local budgets, about ALL 15.9 billion were allocated as general unconditional transfer, and about ALL 9.0 billion were allocated as sectoral unconditional transfer (for new functions delegated in 2016).<sup>19</sup>

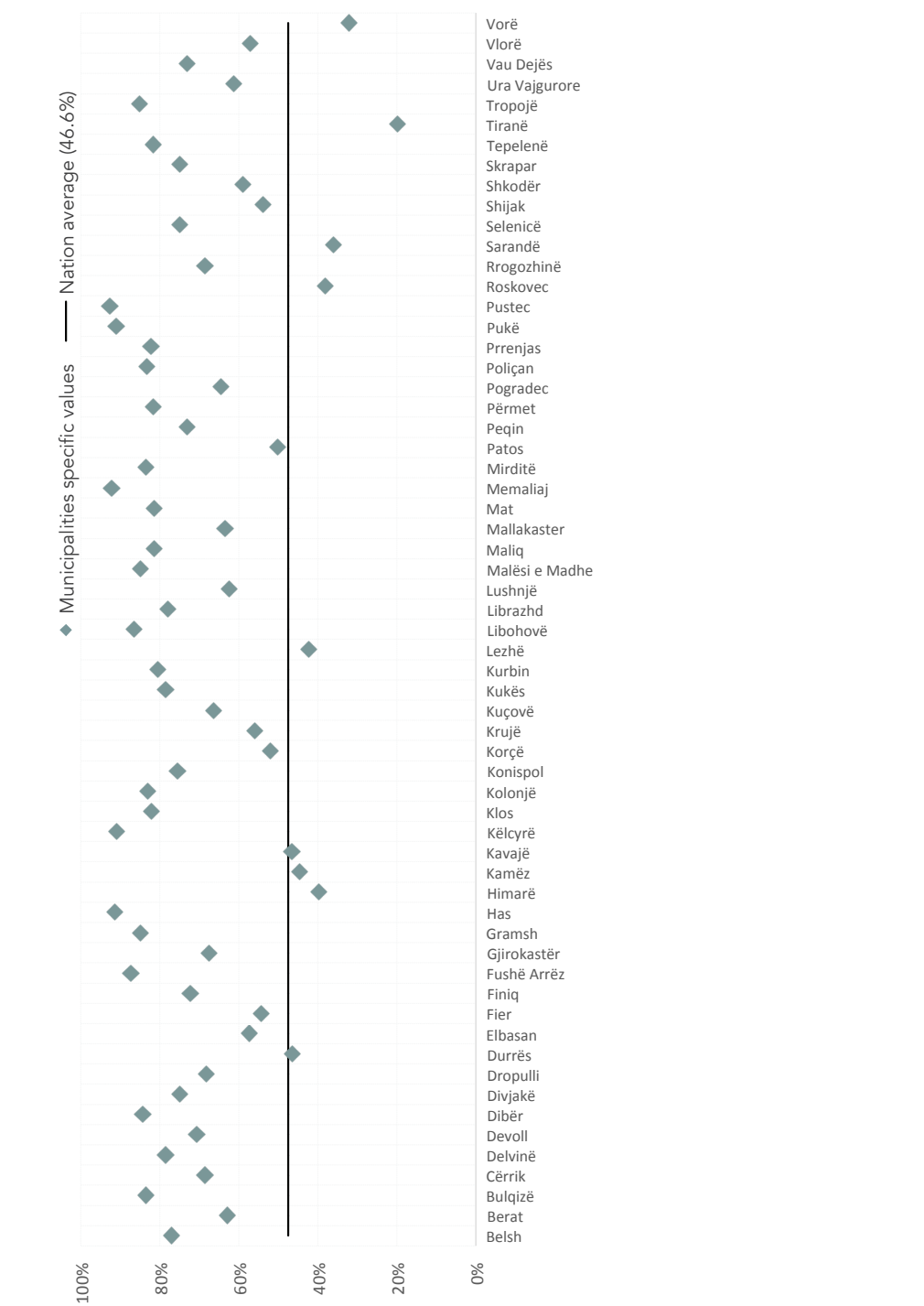
Chart 23. Unconditional transfers during 2015-2019



Source: Local Finance Portal [www.financatvendore.al](http://www.financatvendore.al) \* Source: Ministry of Finance and Economy

The unconditional and sectoral transfers represent the main financial resource for municipalities, making up on average 47.5% of available financial resources. The importance of this resource becomes more evident at the municipality level, where for 85.2% of the municipalities (or 52 of them) the share of revenue from the unconditional and sectoral transfers was above the national average for 2019. In the municipality of Pustec, 92.7% of the disposable revenues is made up of the unconditional and sectoral transfer. On the other hand, the least relevance to disposable financial resources was recorded in the municipality of Tiranë, at about 19.7% of the total.

Chart 24. Dependence on the unconditional and sectoral transfer, 2019

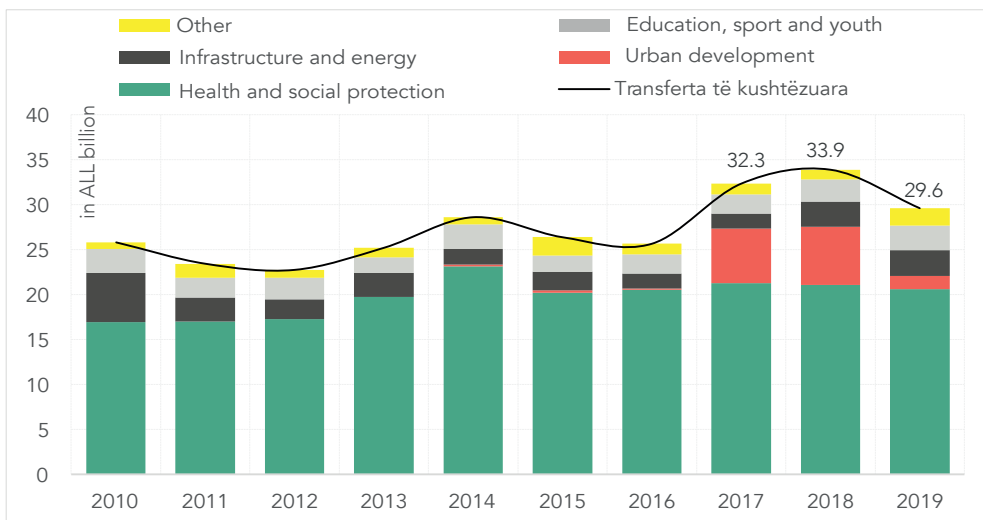


Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

## 2.4 | REVENUE FROM CONDITIONAL TRANSFERS

Based on article 27 of Law No. 68/2017 “On local self-government finances” conditional transfers are provided for the exercise of delegated functions and for special projects (considered to be of local, regional or national interest) requiring cooperation of local units. Considering the provisions of the law, conditional funds transferred to municipalities include not only funds for the exercise of delegated functions, but also funds channeled for investments (including here the RDF). Even though they do not exercise any control of their destination, revenue from conditional transfers represented *approximately 36.3% of the total municipality financial resources* in 2019. The share of these transfers in relation to the total financial resources has shrunk during the period under review, from an average level of about 50% during the 2010-2014 period to an average level of about 39.9% during the last three years. In 2019, the central government allocated approximately ALL 29.6 billion in conditional transfers to municipalities, about 12.6% less than the previous year.

Chart 25. Revenue from conditional transfers



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

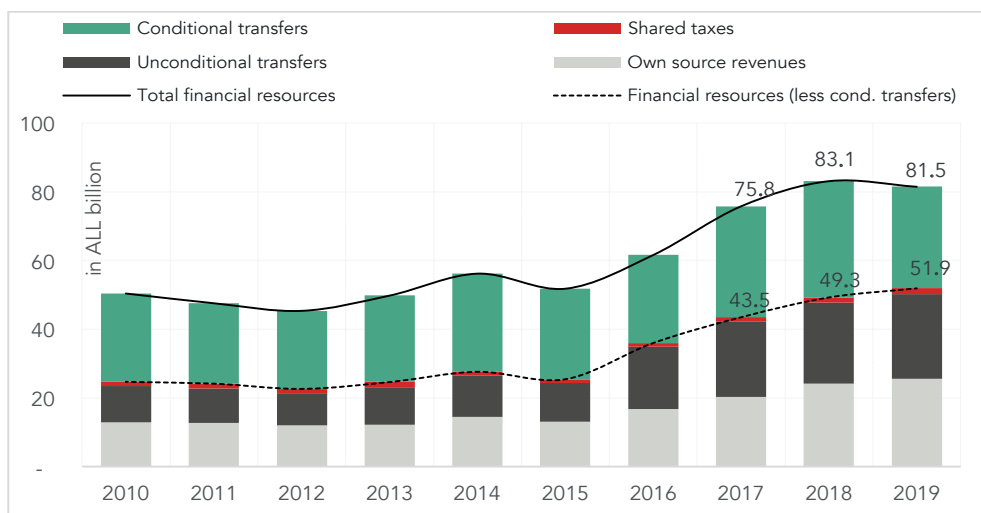
During 2019, funds transferred by the ministry responsible for health and social protection<sup>20</sup> marked a level of about ALL 20.6 billion, slightly down by about 3.2% compared to the previous year. These funds are transferred to the municipalities in the form of a conditional transfer for economic assistance and disability payment, and further the municipalities make their distribution to the final beneficiaries. This year, there was a slight increase in funds channeled to the local government through the ministry responsible for transport and infrastructure, which transferred about ALL 2.8 billion, up by 0.5% in annual terms. Central entities responsible for urban

development transferred about ALL 1.5 billion to municipalities (-76.5% compared to the previous year), which are mostly used for water supply infrastructure improvements and community development (RDF). The ministry responsible for education, sport and youth spent about ALL 2.7 billion at the local level in 2019, out of which about ALL 2.5 billion were allocated for investments to improve school infrastructure.

## 2.5 | FINANCIAL RESOURCES: HOW MUCH MONEY WAS AVAILABLE TO MUNICIPALITIES IN 2019?

This section aims at reflecting sources of funds that municipalities use to exercise their functions and competences, provide services to the respective community, and their performance at the end of 2019. Total financial resources for local government recorded an amount of about ALL 81.5 billion at the end of 2019, registering a decrease of about 2% compared to the same period of the previous year.<sup>21</sup> If categories with a predefined destination (conditional transfers) were to be excluded from the total financial resources, revenues over which municipalities have discretion and decision making rights amounted to about ALL 51.9 billion, up by about 5.4% in annual terms.

Chart 26. Municipal total financial resources overview



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

Financial resources over which municipalities have relative freedom regarding use made up approximately 63.7% of the total financial resources at the end of 2019, and they include: revenue from own sources (31.4%), revenue from the unconditional and sectoral transfers<sup>22</sup> (30.3%), and revenue from shared taxes (2.1%). On the other hand, conditional financial resources made up approximately 36.3% of the total, about 10.1 percentage points under the long-term average (calculated as an average of the share of this category in relation to the total of the periods referred to).

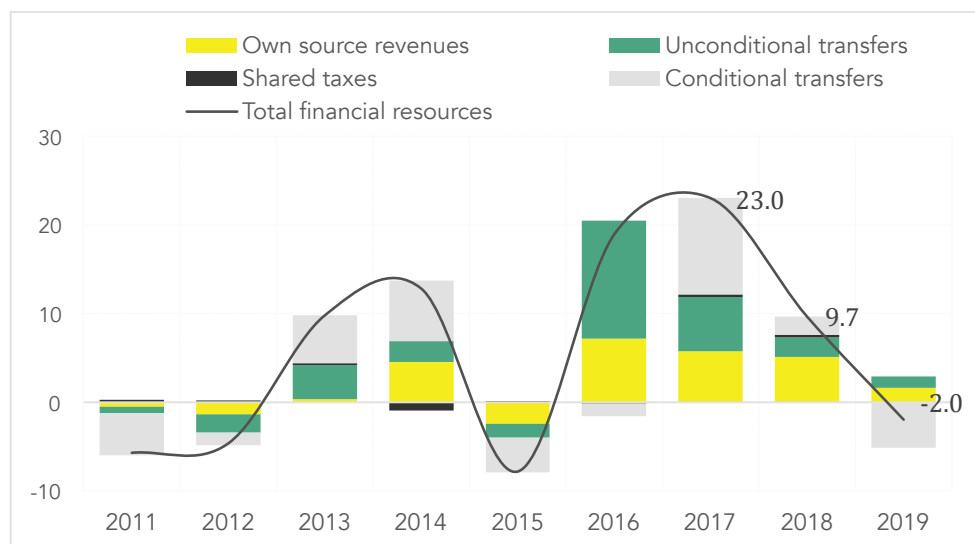
Table 3. Financial resources by category (in ALL)

	Own source revenues	Unconditional transfers	Shared taxes	Conditional transfers	Carryovers from previous years	Total financial resources (less carryovers)
2010	12.9	10.6	1.2	25.8	5.2	50.4
2011	12.6	10.2	1.3	23.4	3.6	47.6
2012	12.0	9.2	1.4	22.7	3.8	45.4
2013	12.2	11.0	1.5	25.2	4.2	49.8
2014	14.4	12.1	1.1	28.6	4.6	56.2
2015	13.1	11.3	1.1	26.4	8.3	51.8
2016	16.8	18.1	1.0	25.6	7.8	61.6
2017	20.3	21.9	1.2	32.3	5.1	75.8
2018	24.2	23.6	1.5	33.9	1.5	83.1
2019	25.6	24.7	1.7	29.6	4.3	81.5

Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

The performance of total financial resources at the end of 2019 was determined by the positive developments in own source revenues, which contributed by about 1.6 percentage points to the annual growth of financial resources. The contribution of the inflows from the unconditional and sectoral transfers followed the same trend, even though at lesser extent (1.3 percentage points).

Chart 27. Category contribution (in percentage points) to the annual financial resources changes (in percentage)



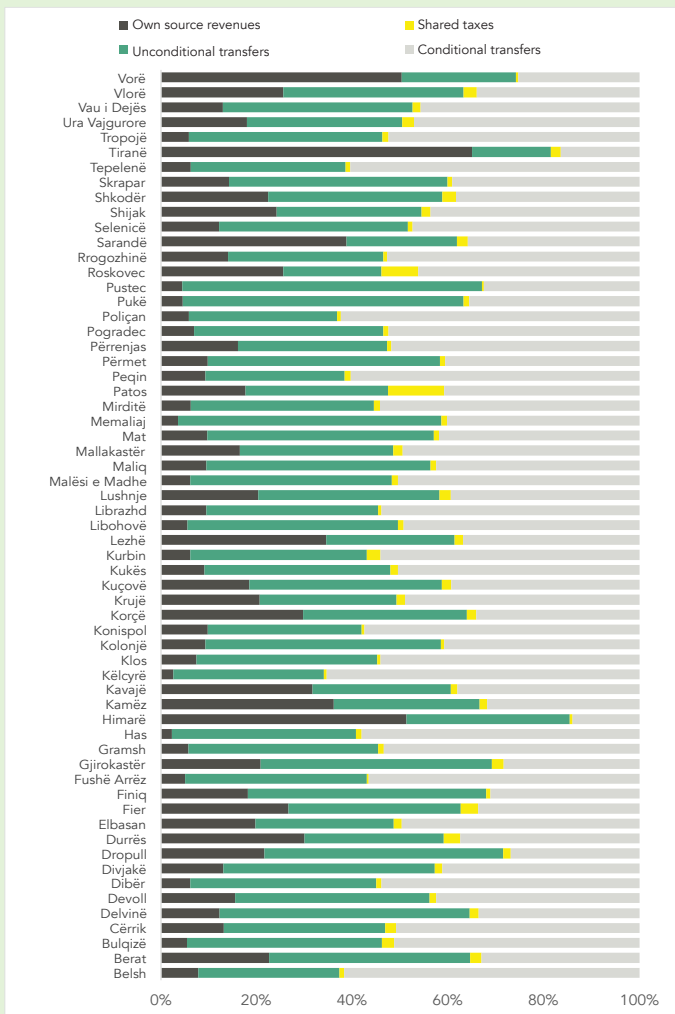
Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

## Box 4.

### Local financial autonomy indicators

The municipality financial resources structure can be used as an indirect indicator to assess their financial capacities, the ability to undertake investments independently and to meet the requirements of the community for public services. On average, own source revenues for the 61 municipalities in the country, made up about 31.4% of the total resources, revenue from the unconditional and specific transfers made up about 30.3%, and revenue from shared taxes made up about 2.2% of the total financial resources at the end of 2019.

Chart 28. Financial resources by municipalities 2019

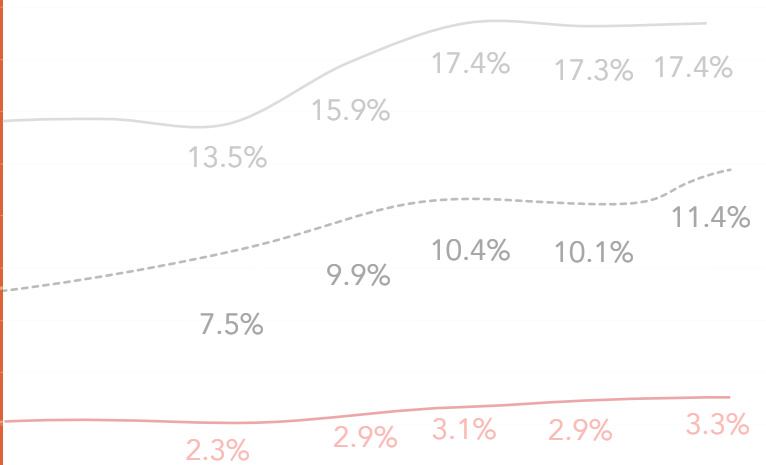


Source: Local Finance Portal [www.financatvendore.al](http://www.financatvendore.al)



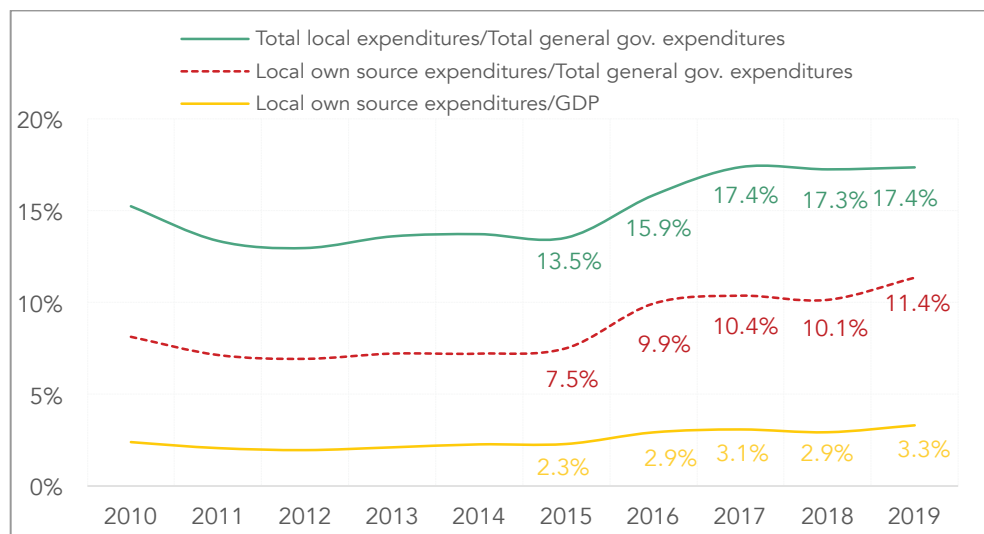
At the municipality level, the share of own resources (taxes, fees and others) to total financial resources varies over a wide range of values: the lowest figure was recorded in the municipality of Has with 2.3%, while the highest was recorded in the municipality of Tirana with approximately 65%. Consequently, wherever own sources revenue is low, revenue from the unconditional and specific transfers make up a large share of the municipality budget. Historically, conditional transfers have represented the highest level of inflows in local budgets, but at the end of 2019 they show a decline compared to 2018 (40.7% of the total), making up approximately 36.3% of the total financial resources. A general overview of municipal funding sources continues to highlight significant differences between them based on annual 2019 data.

### 3. LOCAL EXPENDITURES: HOW DID MUNICIPALITIES USE AVAILABLE FUNDS?



The use of available financial resources is the other important aspect for local public finances management. The relevance of the local government in terms of expenditures has increased starting from 2015. The own funds expenditures indicator increased from approximately 2.3% to 3.3% of the GDP at the end of 2019.

Chart 29. Local expenditures indicators

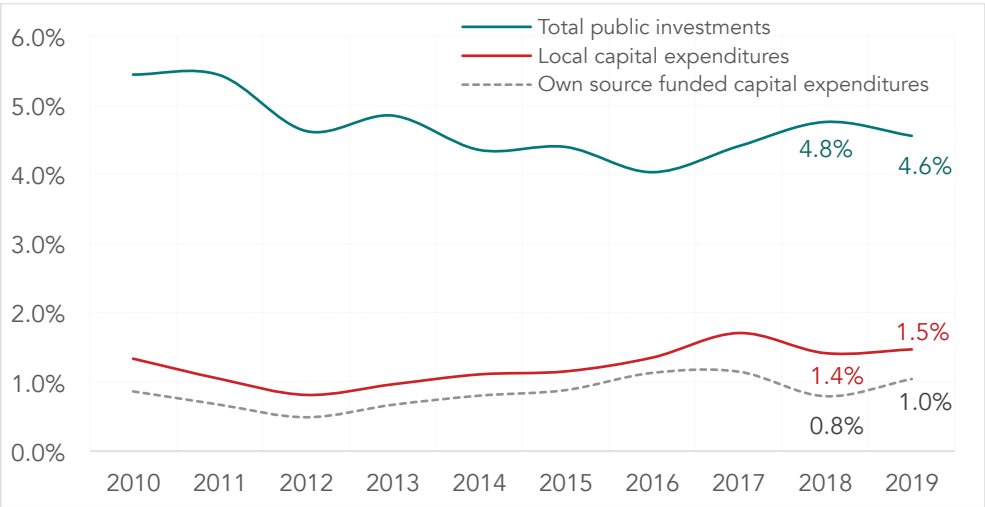


Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al); Ministry of Finance and Economy; INSTAT

The indicators of own funds expenditures to the general government expenses also improved in 2019, recording a level of 11.4%, up by 1.3 percentage points compared to the previous year. Until 2015, this ratio did not change considerably, and was stable at an average level of 7.4%. The extension of municipal functions, and with the higher inter-government unconditional transfers, this ratio grew to 11.4% at the end of 2019.

In Albania, the local government channels over 72.3% of the total financial resources to cover current expenditures and about 27.7% to cover capital expenditures needs. Capital expenditures by local government represented about 1.5% of the nominal GDP in 2019, up by about 0.1 percentage points compared to the previous year. Capital expenditures carried out with own funds were assessed at about 1.0% of the nominal GDP.

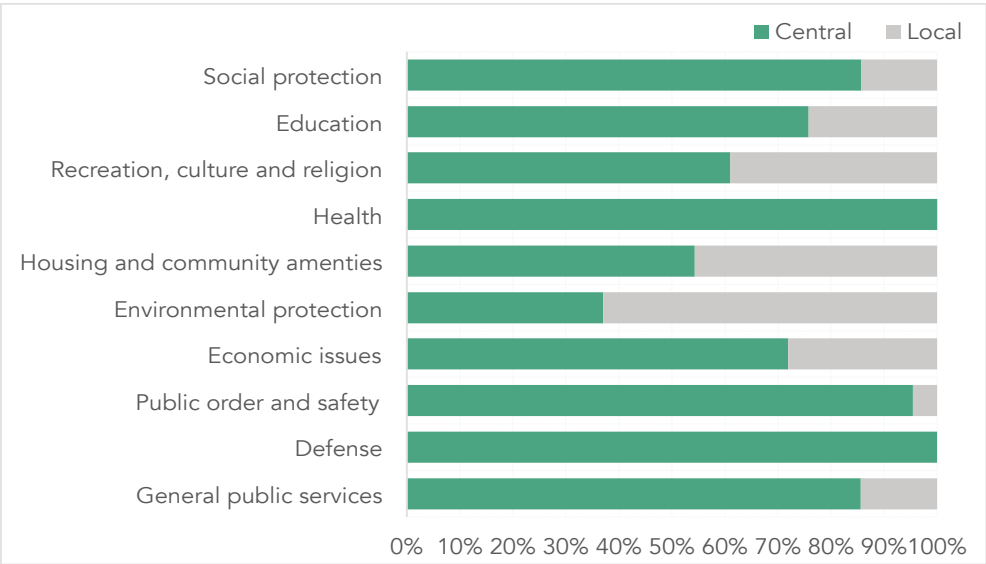
Chart 30. Investments as a ratio of the nominal GDP



Source: Local Finances Portal [www.financatvendre.al](http://www.financatvendre.al)

The distribution of expenditures by function exercised by the (local or central) government shows how local government and central government share the exercise of functions and competences (measured from the percentage of expenditures made by each government tier by function according to the COFOG classification). Excluding defense, which is a function exclusively exercised at the central level, the share of the local government in the exercise of the other functions is considerably smaller than that of the central government. Municipalities exercise broader competences in the *community housing and amenities* function (approximately 45.7% of the expenditures are from the local government) and in *recreation, culture and religion* function (approximately 39.0% of the expenditures are from the local government). In addition, in 2019, approximately 63% of the expenditures for the environmental protection function were made by the local government.

Chart 31. Expenditures distribution by function (year 2019)



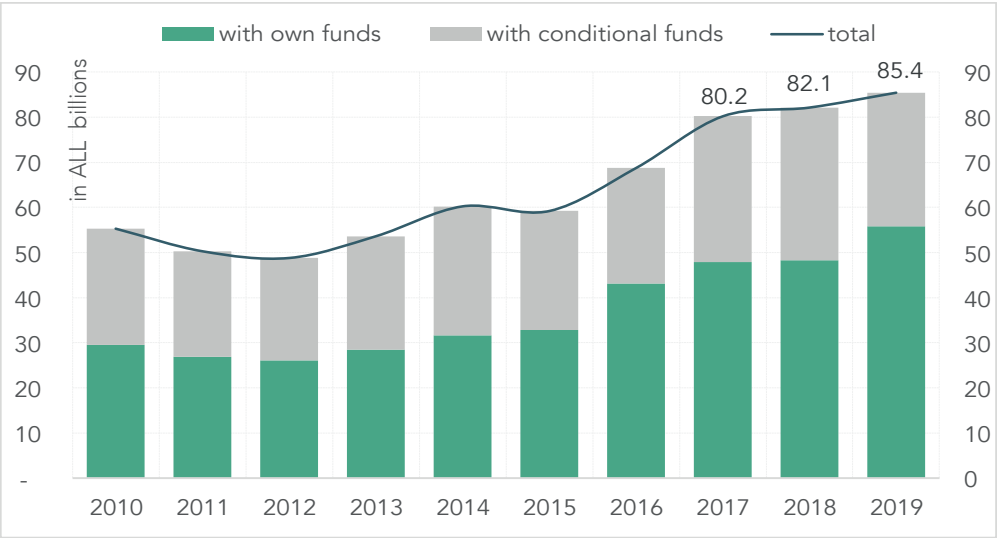
Source: Local Financed Portal [www.financatvendore.al](http://www.financatvendore.al)

### 3.1 | ALLOCATION OF EXPENDITURES BY SOURCE OF FUNDING

This section provides a general overview of how funds available to the municipalities has been spent in 2019: according to the source of funding and broken down by economic category (wages, and social insurance contributions, operational expenditures and investments) and by government function (education, health environmental protection, etc.).

The positive performance recorded in the revenues side was materialized in higher expenditures by the municipalities in 2019. At the end of 2019, financial means channeled by the 61 municipalities in the country, reached an amount of ALL 85.1 billion, which is 4% higher than the amount recorded in the previous year. Excluding expenditures with funds carried over from the previous year (carryovers), municipalities have spent approximately ALL 81.1 billion in 2019, an increase of approximately 0.6% compared to the previous year. Own funds expenditures reached a level of approximately ALL 55.9 billion at the end of 2019, marking an increase of about 15.7% compared to the previous year. Expenditures carried out with conditional funds registered a level of about ALL 29.6 billion, down by about 4.2 billion, or about 12.6%, in annual terms. In structural terms, about 65.4% of expenditures were carried out with own funds, while 34.6% of them with conditional funds.

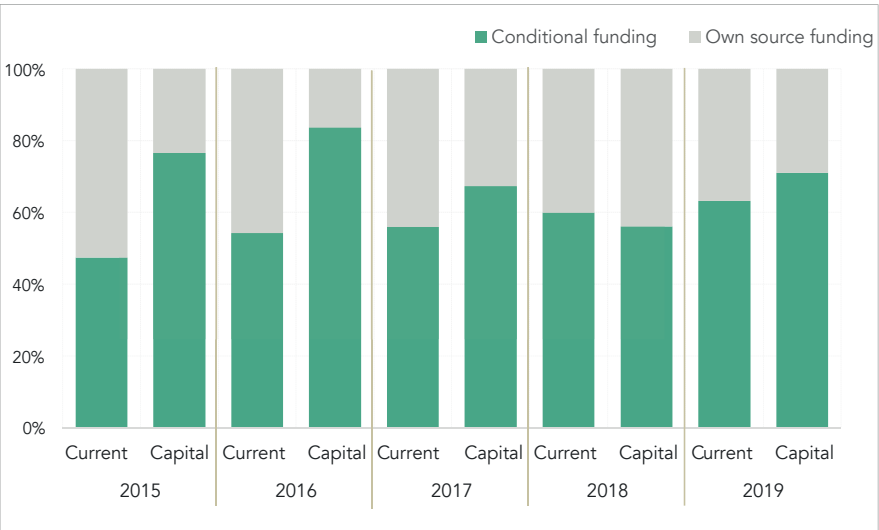
Chart 32. Local expenditures by funding source



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

On average, during the last three years, current expenditures have been covered for about 59.6% with own funds and about 40.4% with conditional financial resources. Meanwhile, capital expenditures were covered on average at the level of 64.7% by own funds and at the level of 35.3% by conditional resources. At the end of 2019, about 71% of capital expenditures were covered by own funds and 29% by conditional ones (including funds from the RDF).

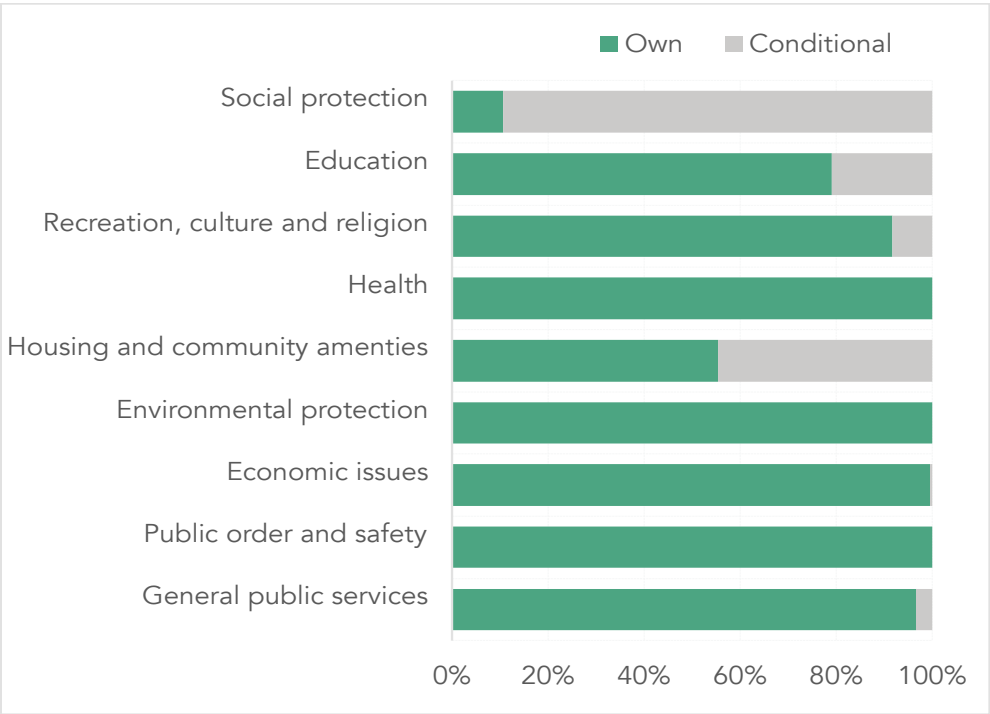
Chart 33. Coverage of current and capital expenditures by source of funding



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

The analysis of the data on own funds expenditures by functional classifications shows that the *social protection* function is largely covered with conditional funds (conditional transfer by the ministry responsible for social protection). In the period under review, approximately 90.7% of social protection was funded by conditional funds (transfers to family budgets for unemployment and disability payments). On the contrary, municipalities cover approximately 94.4% of expenditures for the *economic affairs* function with their own funds. In the *housing and community amenities sector*, approximately 71.7% of the expenditures were financed with own funds of the municipalities. *Public order and safety, environmental protection and recreation, culture and religion* are functions, the cost of which is largely covered by own funds of the municipalities (albeit at low nominal values).

Chart 34. Expenditures by functional classification and financing source

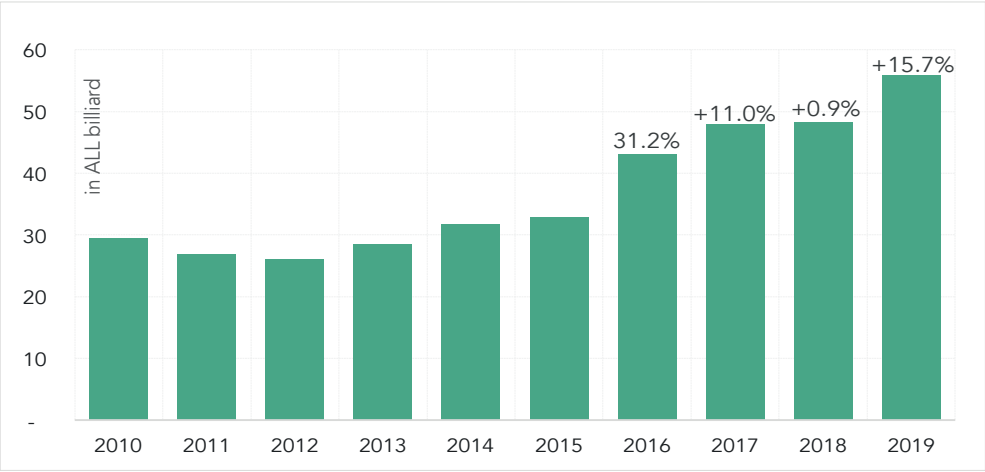


Source: Local Finance Portal [www.financatvendore.al](http://www.financatvendore.al)

### 3.2 | OWN SOURCE FUNDED EXPENDITURES

Expenditures with own funds of the municipalities reached a level of approximately ALL 55.9 billion in 2019, marking an increase of about 15.7% compared to the previous year.<sup>26</sup> In part or about ALL 4.3 billion represent expenditures carried out with savings from the previous year (carryovers). In the following, information related to expenditures made with their own funds will be analyzed by economic and functional classification.

Chart 35. Own source funded expenditures



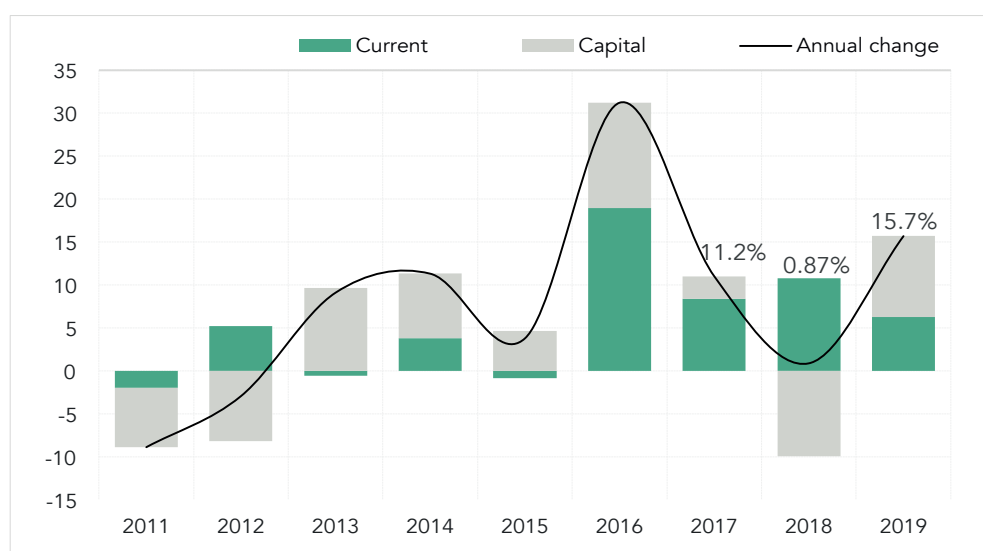
Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)



### 3.2.1 | OWN SOURCE FUNDED EXPENDITURES BY ECONOMIC CLASSIFICATION

Based on the classification by economic nature, municipalities used approximately 68.5% of their own funds to cover recurrent expenses (approximately ALL 38.2 billion) and approximately 31.5% to cover capital expenses (approximately ALL 17.6 billion). The situation of expenditures from their own funds during the last three years have been mainly determined by the situation of recurrent expenses. In contrast with the trend of the last three years, in 2019 the developments of expenditures with their own funds were determined by capital expenses.

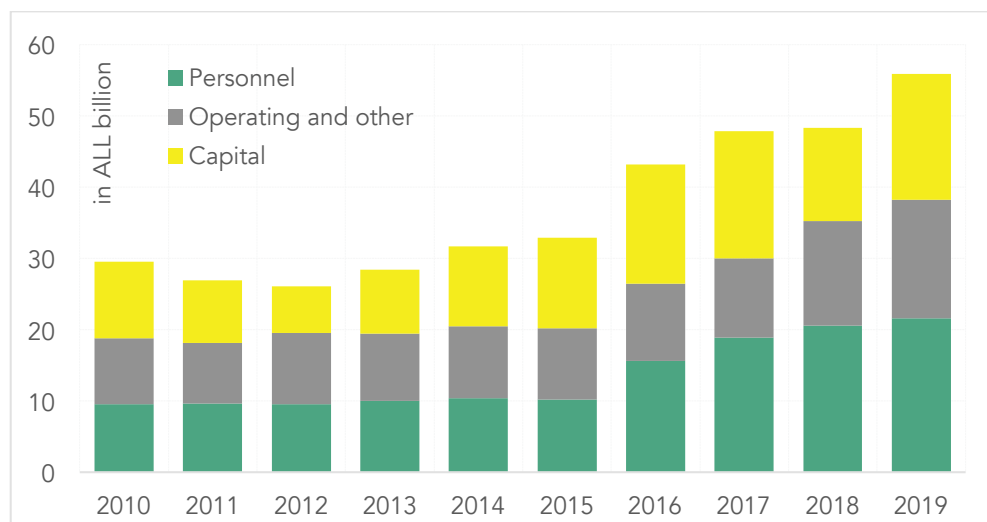
Chart 36. Contribution of categories to own source funded expenditures



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

Among the categories of current expenditures, personnel expenditures (wages and contributions) amounted to about ALL 21.6 billion during the period under review, increasing by 5.4% compared to 2018. Personnel expenditures continue to follow an upward annual trend, but at a moderate pace due to the extinction of the effect of increasing number of employees following the devolution of new functions.<sup>27</sup> Thus, after the increase by 53.4% in 2016 (following the devolution of new functions), the growth rate moderated at about 8.5% in 2018 and about 5.4% during 2019.

Chart 37. Own source funded expenditures by economic nature



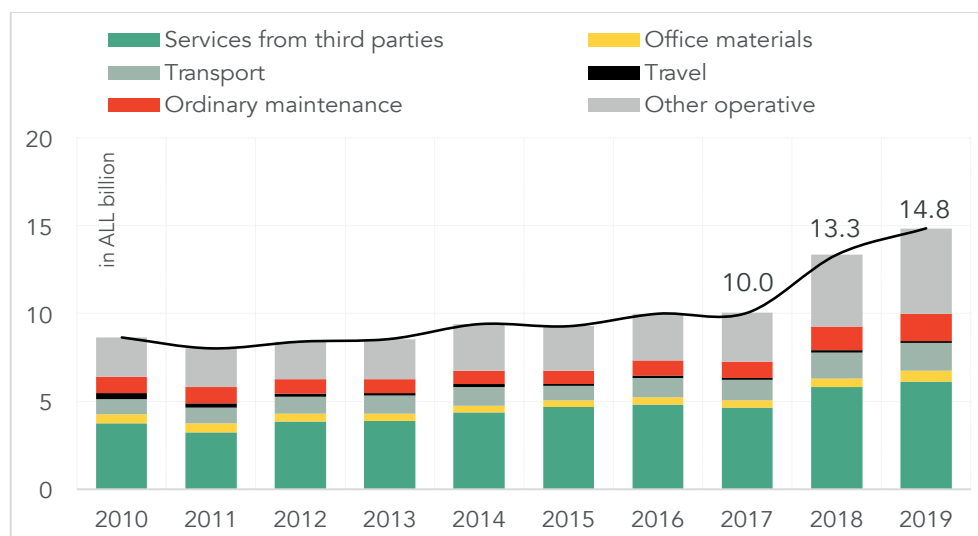
Source: Local Finance Portal [www.financatvendore.al](http://www.financatvendore.al)

*Operating and other expenses*<sup>28</sup> recorded a level of approximately ALL 16.6 billion at the end of 2019, with an annual increase of 13.1%. In more detail, operating expenditures with own source funding for this period amounted to about ALL 14.8 billion, up by about 11.2% annually. Almost all operating expenditures categories have increased in 2019: office supplies expenditures (+23%); third party services (+5.5%); transport expenditures (+7.8%); other operational expenditures (+19.5%); and ordinary maintenance (+13.2%). On the other hand, travel expenses decreased by approximately 15.8% in annual terms.

Starting in 2015, developments in operating expenditures suggest for a clear increasing trend, with the end of 2019 marking the highest level of these expenses. Even though the increase of the expenditures in this category is spread over all sub-items, their performance in the mid-long term should be carefully monitored, because they could create financial sustainability problems for municipalities.

Expenditures on transfers for family budgets and individuals are also an important line in the total expenditures with own funds of municipalities. In 2019, this expenditure category amounted to ALL 1.4 billion, recording an annual increase of approximately 35.9%.

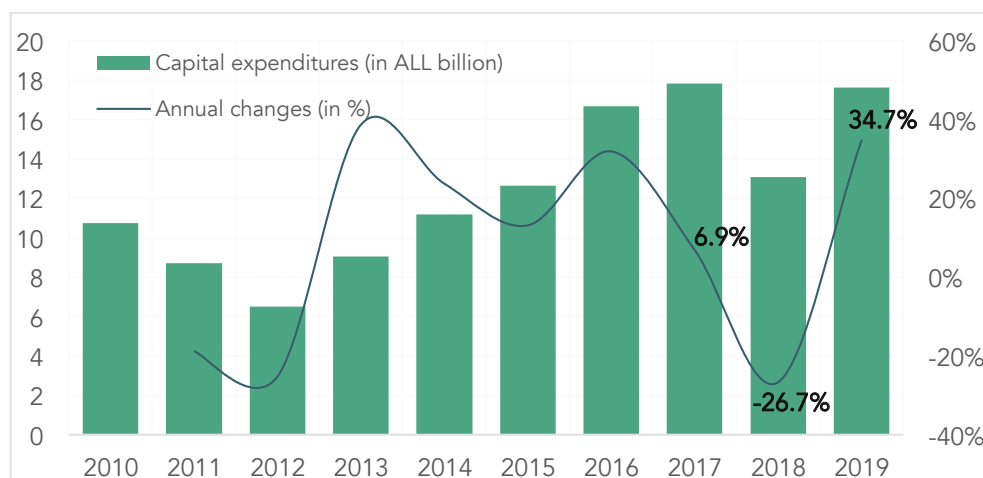
Chart 38. Operational expenses by expenditure line



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

*Capital expenditures or investments* constitute an important item of local budgets and a precondition for long-term economic development. Over the years, the level of capital expenditures has fluctuated and shows a positive correlation with municipalities own sources financial resources, especially with revenues from the tax on the infrastructure impact of new buildings. After the considerable drop recorded in 2018 (-26.7% in annual terms), investment expenditures picked up and registered an annual increase of about 34.7% in 2019 recording a level of about ALL 17.6 billion. In government function terms, capital expenditures for *economic affairs* (including transportation infrastructure) and *housing and community amenities* (including expenditures for housing and urban development, local water supply and sewage, public lighting) account for the largest share of capital expenses in all periods reviewed (52.1% and 23.5% respectively in 2019). Investments in the *housing and community amenities* function have increased considerably during 2019, registering an increase of about 23% in annual terms.

Chart 39. Own source funded capital expenditures



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

After the delegation of new competences related to pre-school and pre-university education, municipalities have increased investments in education infrastructure. In 2019, investments in education reached a level of approximately ALL 2.4 billion, marking an annual increase of approximately 82.6%. In the function of social protection municipalities invested about ALL 94.5 million, down by about 55.8% in annual terms.

### Box 5.

#### How did the 61 municipalities spend in 2019?

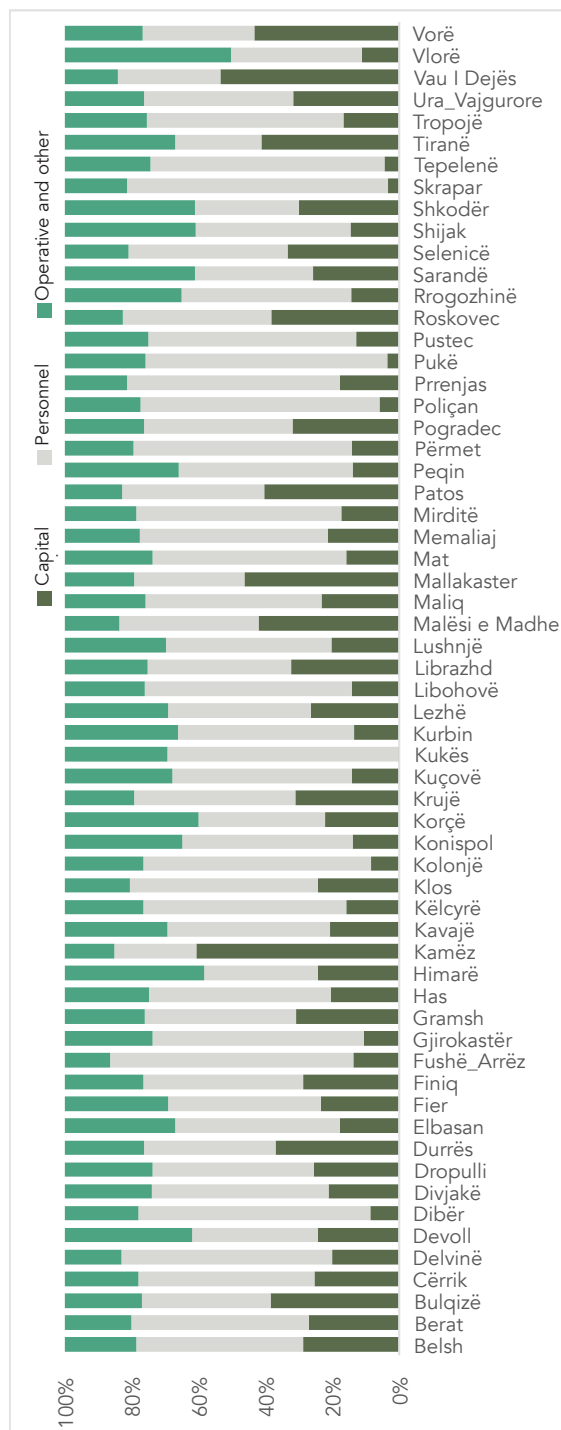
The structure of expenditures carried out by municipalities, although it presents significant differences between them, shows for a general trend where the coverage of current expenditures (personnel, operating and others) prevails, followed by the category of capital expenditures.

In average for year 2019, own funds expenditures were allocated at 38.7% for personnel expenditures, about 31.5% for capital expenditures and about 29.7% for operational and other expenses. Both categories of current expenditures, personnel and operating and other expenditures, made up about 68.5% of total own source funded expenditures.

The share of personnel to total own source funded expenditures varies greatly among municipalities with the highest share being recorded in the municipality of Skrapar for about 78% of the total, followed by the municipalities of Fushë - Arrëz, (72.7%), Pukë (72.3%), Poliçan (71.6%) and Tepelenë (70.1%). On

the other hand, this category of expenditures recorded the smallest share municipality of Kamëz registering about 24.5%, followed by the municipality of Tiranë with about 25.8%. On the contrary, own source funded capital expenditures marked their highest level of about 60.8% in the municipality of Kamëz, followed by the municipalities of Vau i Dejës (53.5%), Mallakastër (46.3%), Vorë (43.3%), and Tiranë (41.3%). In presence of budget constraints, weak financial capacities and other factors, the percentage of funds spent for investments is less than 10% of total own funded expenditures in the municipalities of Kukës, Poliçan, Dibër, Kolonjë, Pukë and Skrapar.

Chart 40. Expenditures by economic classification for 61 municipalities (total = 100%), year 2019



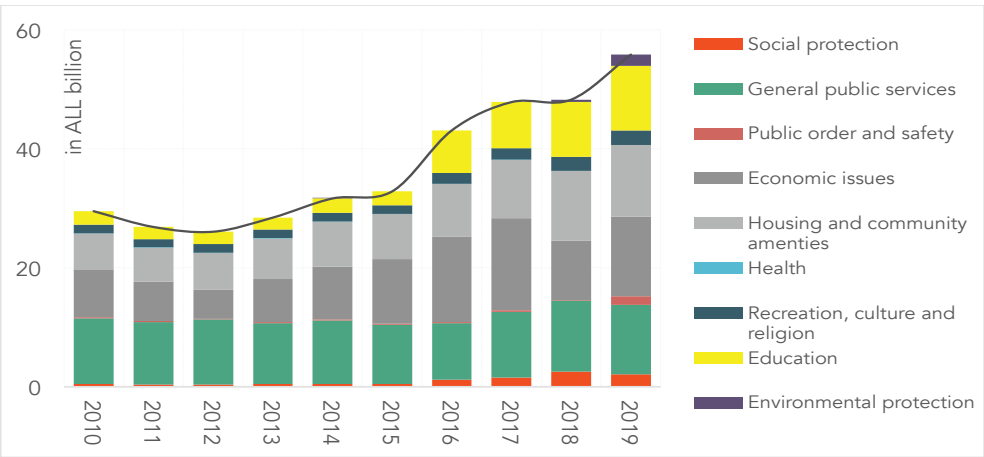
Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

### 3.2.2 | OWN SOURCE FUNDED EXPENDITURES BY FUNCTIONAL CLASSIFICATION

With regard to own source funded expenditures by government functions (COFOG classification), in 2019, expenditures for the *economic affairs* function, which includes among others, expenditures for transport, agriculture, forestry, fisheries and hunting, have increased considerably reaching an amount of ALL 13.4 billion in the period under review, compared to approximately ALL 9.9 billion in 2018 (an increase of approximately 33.9% in annual terms). Within this function, about ALL 11.3 billion (+47.2%) were spent for the *transport* sub-function, which includes expenditures in the road construction, rehabilitation and maintenance (including road signs) and public transport.

During 2019, about 21.5% own source funded expenditures or approximately ALL 12 billion, were spent on the *housing and community amenities* function (+2.1% in annual terms). Over the years, there has been a concentration of municipal spending on this function and a progressive increase, as it is closely linked to local infrastructures which have a significant impact on community life. Within this function, about ALL 10.3 billion were spent on the community development sub-function (+2% compared to the previous year), which includes activities aimed at improving living conditions, such as recreational activities, improvement of public and recreational spaces for the community, improvement of green areas, sidewalks, parks, public gardens maintenance, etc. The difference of approximately ALL 1.7 billion was spent for the sub-functions of local urban development, water supply and street lighting.

Chart 41. Own source expenditures by functions



Source: Local Finance Portal [www.financatvendore.al](http://www.financatvendore.al)

Expenditures for the education function rose to an amount of approximately ALL 10.8 billion, an annual increase of approximately 17.6% and made up approximately 19.3% of the total expenditures for 2019. The progressive increase of expenditures in this function is a consequence of the new functions delegated by the central government to the local government (for teaching and support staff wages in kindergartens and nurseries, and support staff wages in the elementary and high school education; maintenance staff for pre-university education infrastructure). Starting in 2016, expenditures for this function have grown considerably and progressively year on year, and have been mainly covered by the sectoral transfer for the functions delegated in 2016. In 2019, approximately ALL 8.5 billion or approximately 78.7% of the expenditures in the education function was spent to cover the costs of pre-school and elementary education. Approximately ALL 2.3 billion were spent for the high school education sub-function, registering an increase of 39.7% in annual terms.

The social protection function absorbed about 3.8% of the expenditures with the own funds, amounting to approximately ALL 2.1 billion (the function includes expenditures for social housing, unemployment, family and children, the elderly, illnesses and disability). In annual terms, expenditures for social protection have shrunk by approximately 15.7%.

In 2019, about ALL 1.4 billion were spent for *the public order and safety function*, from just ALL 54.6 million spent by the end of 2018. This function includes expenses related to police services necessary for keeping order, peace and ensuring the progress of public works, and for discovering and preventing informality in the municipality territory; fire protection and civil protection services; and services to strengthen community relations.



### **Box 6.**

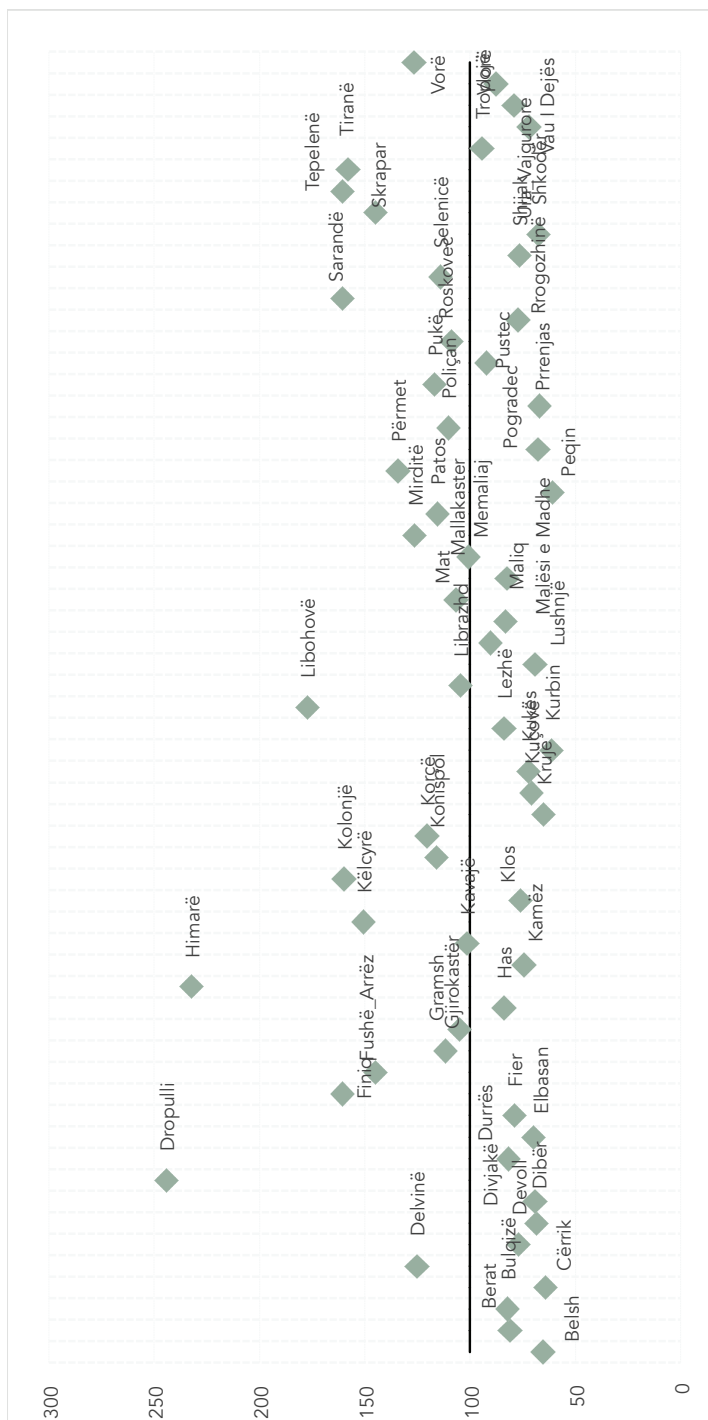
#### **Own source funded expenditures: where do municipalities stand?**

The municipalities established following the implementation of the administrative and territorial reform, show wide differences in terms of expenditures carried out with their own funds, conditioned by: (i) the number of the population residing in the territory, and (ii) their fiscal capacity. To clean the data of the “size” effect we have analyzed expenditures made by municipalities with their own funds per capita (see annex 1).<sup>29</sup> The transformation in 100-based-indexes allows for quicker and direct interpretation and identifies differences between municipalities with regard to their capacity to carry out expenditures independently.

Per capita data on own funds expenditures indicate wide differences between the possibilities of municipalities to make expenditures with their own funds for the period under review. On average, municipalities spent approximately ALL 19,949 per capita in 2019 (index = 100). The highest index level for expenditures per capita with their own funds was recorded in the municipality of Dropull (index = 244 or about ALL 44,190 per capita), followed by the municipality of Himarë (index = 232.1 or about ALL 42,009 per capita). At the other end, the municipality of Peqin recorded the lowest level of expenditures per capita with their own funds (index = 60.9 or about ALL 11,023 per capita), followed by the municipalities of Kurbin (index = 61.1 or about ALL 11,027 per capita), Kruja (index = 65 or about ALL 11,759 per capita), Cerrik (index = 64.1 or about ALL 11,603 per capita) and Belsh (index = 65.4 or about ALL 11,835 per capita). Compared to the national average, approximately 45.9% of the municipalities (or 28/61 municipalities) stand above the national average. The rest of municipalities are below the national average as regards the indicator under analysis.

The wide difference between the minimum and maximum level of expenditures per capital with their own funds (approximately 1.8 times higher than the national average or approximately ALL 33,167) signals the existence of deep differences in the fiscal capacity of municipalities and the need to mitigate them. Addressing an estimation of potential fiscal capacities in the municipalities could be an initial step in this direction, followed by an appraisal of their performance against their potential. Furthermore, the performance indicator related to the revenue collection rate may be factored into the unconditional transfer allocation formula, as an element to neutralize differences for municipalities that are in unfavorable fiscal position.

Chart 42. Own funds expenditures index (municipalities compared to long-term average)



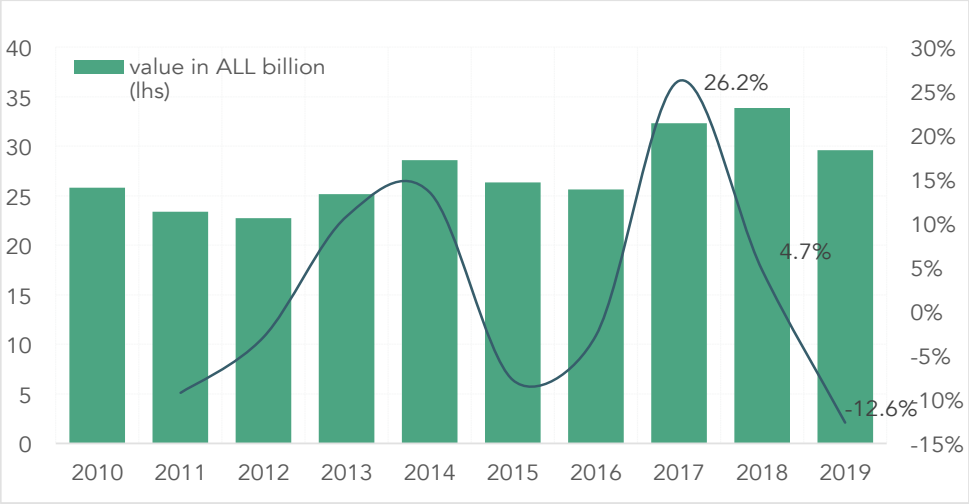
Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

### 3.3 | EXPENDITURES MADE WITH FUNDS FROM CONDITIONAL TRANSFERS

In addition to the expenditures with their own funds, municipalities also make expenditures with conditional funds (funds transferred by national institutions, such as line ministries, and which can be used only in accordance with the defined purpose). With regard to these inflows in the local budget, municipalities have no discretion over the amount and use of these funds. They are spent pursuant to the instruction of the line ministries (in other words they have a predetermined destination). These funds are transferred from line ministry budgets in the form of conditional transfers to fund delegated functions and/or specific projects considered of local, regional or national interest, and which require cooperation with the municipalities. They are planned in annual and mid-term budget plans of the respective ministries. The annual budget execution report of the line ministry includes a dedicated annex for conditional transfers, the purpose of their use, the beneficiaries, the total amount, the amount disbursed and the amount to be funded in upcoming years to the local government units. Even though projected in and carried over from central government unit's budgets (such as line ministries), they are reflected in the total expenditures made by municipalities.

For the 2016-2018 period, expenditures with conditional funds have followed an upward trend, mainly following the changes implemented in the economic assistance benefit scheme for households in need. After a slowdown in the growing rate of the expenditures with conditional funds in 2018, expenditures of this category recorded about ALL 29.6 billion in 2019, down by about 12.6% in annual terms. This result is in complete contrast with the double-digit increase recorded in 2017 (+26.2% in annual terms).

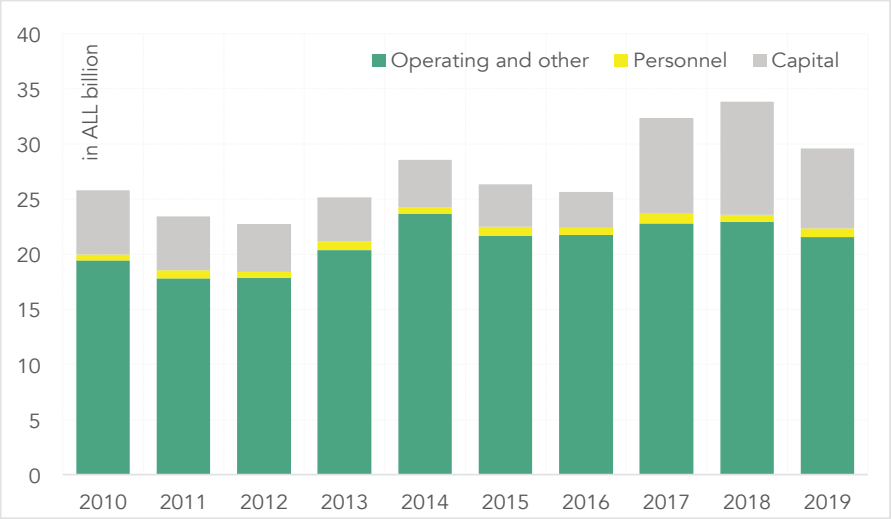
Chart 43. Expenditures with conditional funds



Source: Local Finances Portal [www.financatvendre.al](http://www.financatvendre.al)

Based on the economic classification, about 75.6% of the expenditures with conditional funds were focused on covering current expenditures (which are mainly focused on transfers for family budgets - economic assistance, disability payments, etc.) and about 24.4% on the coverage of capital expenditures (investments including funds provided by the RDF). Funds allocated by the ministry responsible for social protection makeup approximately 69.6% of the total conditional transfers, amounting to about ALL 20.6 billion at the end of 2019 (a slight decline of about 2.8% in annual terms). Along the same lines, expenditures with conditional funds for investments amounted to about ALL 7.2 billion, registering a sharp decline of about 29.6% in annual terms. In 2019, investments with conditional funds were mainly focused on the functions of *housing and community amenities* (about ALL 3.8 billion) and *education* (about ALL 2.4 billion).

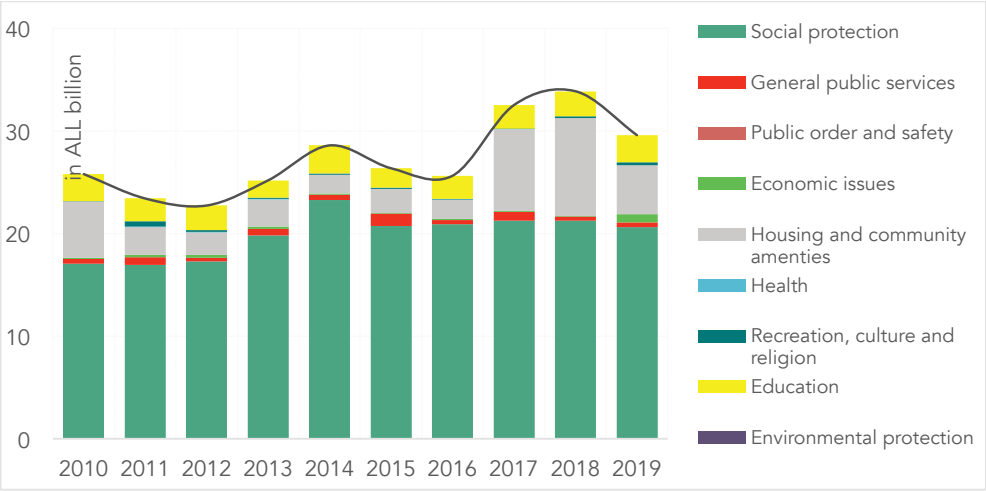
Chart 44. Expenditures with conditional funds by economic classification



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

At the municipality level, 7.1% of the conditional funds for investment were allocated to the municipality of Tiranë, followed by the municipalities of Durrës, (5.7%), Krujë (4.8%) and Elbasan (4.3%). On the other hand, the municipality of Finiq has not recorded any investments undertaken with conditional funds. Practically, 22.9% of municipalities benefited over 2% of the conditional funds for investments, while 27.8% of them benefited less than 1% of such funds.

Chart 45. Expenditures with conditional funds by government function



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

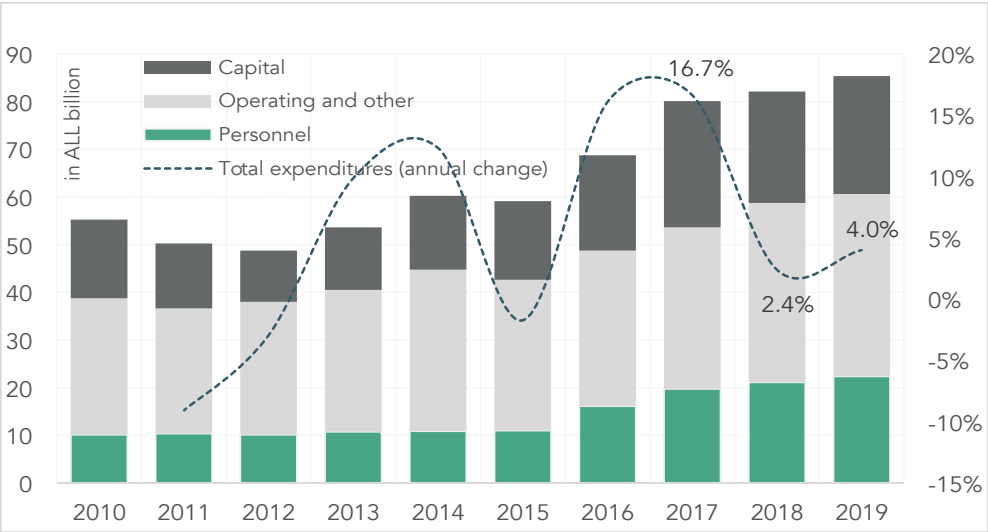
Approximately 69.6% of the expenditures with conditional funds were spent on the *social protection* function and approximately 16.1% were spent on the *housing and community amenities* function. Approximately 9% of conditional funds were spent on the education function (the largest share of which was spent to cover pre-school and primary education services).

### 3.4 | LOCAL GOVERNMENT COST AT THE END OF 2019

In total, the 61 municipalities of the country spent on average ALL 30,514 per capita in 2019, in fulfilling their functions and competences provided by law. Based on funding source, expenditures with their own funds amounted to approximately ALL 19,949 per capita (+ 15.7% in annual terms) and with conditional funds about ALL 10,564 per capita (-12.6% in annual terms).

Despite of the funding source, approximately ALL 85.4 billion were spent for local government in 2019, registering an increase of about 4.0% in annual terms. Higher expenditures were mainly driven by those financed with own funds. In nominal terms, about ALL 55.8 billion were expenditures with own funds (+ 15.7%) and about ALL 29.6 billion were expenditures with conditional funds (-12.6%). In both categories of expenditures, with their own funds and with conditional funds, current expenditures for personnel, operational and other have the main weight and are determinants of the direction of developments in local expenditures. Throughout the period under consideration, current expenditures have been predominant and increasing year by year. In 2019, current expenditures represented about 70.9% and capital expenditures about 29.1% of total expenditures made in 2019.

Chart 46. Use of financial resources during 2019



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al)

In 2019, total current expenditures amounted to about ALL 60.6 billion, increasing by about 3.1% annually. The widening of current expenditures was largely dictated by the increase in personnel expenditures: in 2019 municipalities spent about ALL 22.4 billion on staff, increasing by about 5.8% in annual terms. The operating and other expenditures (a large share of this category is made up of expenditures for transfers to household budgets, economic assistance and disability payments) also increased, even though at a slower pace. Investment expenditures amounted to about ALL 24.8 billion, resulting in an increase of about 6.4% in annual terms.

### Box 7.

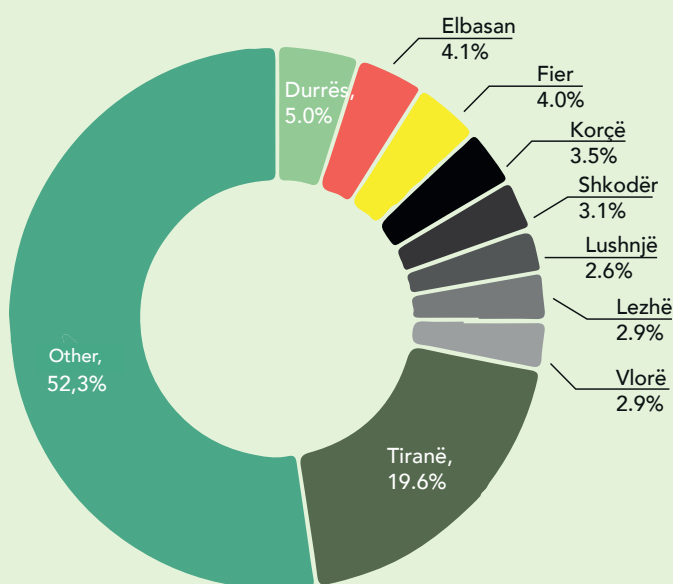
#### Personnel expenditures and number of employees in the 61 municipalities <sup>31</sup>

Improving human resources efficiency in the context of providing public services remains a challenge that should be addressed in all contexts. This challenge becomes even more important in developing countries with limited financial resources, which consequently do not meet all need for public services whether at the central or local level. The decentralization process progressed at an accelerated pace during the last five years, with the implementation of a territorial reorganization from 373 municipalities and communes to 61 new municipalities, among other things. Similarly, with the territorial reorganization, municipalities also restructured their human resources and organizational structures. The analysis of personnel costs and

municipality employees number is directly related to one of the TAR and other decentralization reforms objectives on improving available resources administration efficiency.<sup>32</sup>

In 2019, the total number of employees in the 61 municipalities of the country some 32,213 employees. The municipality of Tiranë has the highest number of employees, with about 19.6% of the total employees, followed by the municipality of Durrës with about 5% of the employees. The municipalities of Elbasan and Fier have employed respectively 4.1% and 4% of the total staff in municipalities. Employees in the 61 municipalities made up approximately 18.6% of the total average number of employees in the state sector.<sup>33</sup> However, as a ratio to the total number of employees in the central government in 2019,<sup>34</sup> employees at local level (61 municipalities) made up approximately 39.1%.

Chart 47. Employee distribution by municipality (number of employees)



Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al) & Official websites of municipalities

On average, for 1 central government employee was spent about 77,027 ALL per month, while for 1 municipal employee was spent 58,023 ALL per month, about 19,007 ALL or about 32.8% less.<sup>35</sup> The average employment cost varies widely among the 61 municipalities, with the lowest cost being recorded in the municipality of Kelcyre amounting to ALL 40,646, while the highest was recorded in the municipality of Selenicë amounting to ALL 100,080. In about 36% of the municipalities (or 22/61 municipalities) the average cost is





continuously grown, from approximately 18.5% of the total expenditures in 2015 to about 26.2% in 2019.<sup>39</sup> Data show a negative correlation between the average cost per employee and the number of employees per 1,000 inhabitants. This result suggests a “flat” personnel cost structure, using low wages for a high number of employees. In addition, wage level discrimination based on the population number, is believed to hamper the selection and engagement of quality human resources at the municipality level. This problem seems to be more pronounced in municipalities with a population of less than 100,000 inhabitants, where the differences in wage intervals are wider. The provisions of DCM No. 177/2017 are considered discriminatory and cause qualified human resources to move towards larger and better paying municipalities, and/or make smaller municipalities less “attractive” to qualified personnel. This could result in the lack and/or low quality of public services provided by municipalities.

*There are about 32,213 employees in 61 municipalities in the country or about 12 employees per 1,000 inhabitants. Differences between municipalities are significant both as regards the average cost per employee and the service provision level, assessed by the employees per 1,000 inhabitants’ indicator. These two indicators raise questions on the level and quality of service provision by local government (municipalities in the country). The latter, intertwined with the lack of in-depth studies on the costs of providing local public services and relevant standards, create uncertainty and do not allow for efficient solutions in terms of the quantity of human resources.*

# CONCLUSIONS

Municipalities are the government tier closest to citizens and they have a direct impact on their life through the local public services they provide. Their role in governance has continuously increased following the decentralization reforms undertaken in the last 5 years, which aimed at strengthening local government.

- Own source revenues as a ratio to nominal GDP were estimated at 1.5% and disposable resources as a ratio of total general government revenues represented about 3.1% in 2019: both these indicators suggest an increased role of the local government versus central government, when compared to the previous year.
- Specifically, performance improvements on revenues side has been determined by the increased inflows from the unconditional, general and sectoral transfers and by revenue from their own local sources.
- However, even though at first sight, local government may seem strengthened, as aimed by the reforms taken in recent years, a detailed analysis by budget line and by municipality indicates pronounced weaknesses and inequalities among the 61 municipalities of the country.
- The performance of revenues from own sources continues to be determined by a limited number of tax categories, such as the tax on the infrastructure impact of new buildings and revenue from building taxes; and by the performance of the municipality of Tirana in these lines.
- The cyclical nature IIT combined with the concentration of revenue in the municipality of Tirana, could lead to long-term issues. In addition, faced with financial limitations, municipalities may switch to short term liquidity preferences, at the detriment of long-term sustainable development.
- Differences and inequalities in the municipalities fiscal capacities continue to be considerable, impacting the provision of (quality) local public services and the recovery from the natural disaster (the earthquakes of September and November 2019) consequences.
- Two important events impacted 2019, the local elections held in June and the natural disasters in September and December. The latter had severe consequences on the lives of the communities, peoples' life, and caused considerable damage to structures. The consequences of these events are expected to further impact 2020 local budgets.

The use of available financial resources is the other important aspect for local public finance management. The importance of the local government in terms of expenditures has increased since 2015.

- The indicator of expenditures made with its own funds to GDP increased by about 2.3% to 3.3% at the end of 2019. However, it is worth noting that:
- The increase in expenditures is mostly channeled in the coverage of current expenditures (personnel, operational and other) which continued the upward trend during 2019;

- Capital expenditures also increased in 2019, but their share in total expenditures remains low and represented about 1.5% of nominal GDP;
- On average, the 61 municipalities spent approximately ALL 30,514 per capital in 2019, of which some ALL 21,645.2 were used to cover personnel, operating and other expenses, while approximately 8,868.5 were used on investments.

## APPENDICES

Table 4. Own funds expenditures per capita, in ALL

	2015	2016	2017	2018	2019	Average 2017- 2019	Index
Belsh	5,287	13,329	14,945	9,894	11,835	Average=100	68
Berat	12,836	18,645	14,448	14,550	15,067	14,688	81
Bulqizë	11,644	12,906	12,455	13,648	18,454	14,852	82
Cërrik	6,404	11,846	11,689	10,334	12,786	11,603	64
Delvinë	10,207	25,512	22,789	23,690	21,526	22,668	125
Devoll	5,821	10,856	12,410	12,657	16,677	13,914	77
Dibër	6,358	11,112	14,275	11,150	11,682	12,369	68
Divjakë	10,962	20,791	12,848	11,850	12,879	12,526	69
Dropulli	24,077	40,249	38,513	48,928	45,128	44,190	244
Durrës	13,998	13,816	14,950	12,982	16,520	14,817	82
Elbasan	10,470	13,738	11,832	12,257	13,703	12,597	70
Fier	11,174	16,089	15,157	13,271	14,404	14,277	79
Finiq	12,362	13,555	26,428	31,901	28,847	29,059	161
Fushë Arrëz	11,839	17,424	22,335	33,404	22,950	26,230	145
Gjirokastër	18,138	22,939	21,297	18,689	20,644	20,210	112
Gramsh	9,327	13,378	20,562	17,107	19,329	18,999	105
Has	11,725	15,598	15,105	14,782	15,681	15,189	84
Himarë	39,886	66,237	36,899	45,256	43,874	42,009	232
Kamëz	6,905	8,003	10,797	13,924	15,723	13,481	74
Kavajë	21,925	23,714	16,837	18,235	20,015	18,362	101
Këlcyrë	10,319	25,989	34,787	23,871	23,007	27,221	150
Klos	6,971	9,670	11,845	13,623	15,897	13,788	76
Kolonjë	14,993	24,455	33,893	30,056	22,818	28,922	160
Konispol	8,054	18,013	29,406	16,612	16,818	20,945	116
Korçë	19,344	21,890	25,916	18,812	20,665	21,797	120
Krujë	8,776	10,905	11,615	11,053	12,608	11,759	65
Kuçovë	14,254	10,803	11,786	13,072	13,612	12,824	71
Kukës	7,731	10,313	14,142	12,338	12,753	13,078	72

Lezhë	14,897	11,058	13,411	13,326	18,798	15,178	84
Libohovë	13,391	23,981	38,108	34,579	23,614	32,100	177
Librazhd	10,193	15,491	19,251	19,257	18,264	18,924	105
Lushnjë	11,482	12,674	12,372	12,016	13,116	12,501	69
Malësi e Madhe	5,216	12,993	16,725	14,903	17,506	16,378	91
Maliq	5,282	11,252	16,788	14,163	14,173	15,041	83
Mallakastër	9,205	12,821	15,585	16,620	25,662	19,289	107
Mat	12,080	13,665	15,318	13,122	16,343	14,928	82
Memaliaj	13,497	12,014	17,506	17,801	19,341	18,216	101
Mirditë	14,218	18,348	30,729	19,363	18,396	22,829	126
Patos	10,711	14,058	19,826	22,109	20,744	20,893	115
Peqin	5,316	8,515	12,604	9,814	10,650	11,023	61
Përmet	12,971	26,240	28,717	22,132	22,039	24,296	134
Pogradec	7,452	9,050	10,787	12,591	13,475	12,284	68
Poliçan	10,095	19,283	22,352	20,898	16,599	19,950	110
Prrenjas	5,265	7,494	12,894	12,720	10,775	12,129	67
Pukë	17,493	21,698	22,126	21,425	19,878	21,143	117
Pustec	11,180	11,954	17,585	13,749	18,671	16,668	92
Roskovec	8,746	21,442	17,467	22,441	19,137	19,682	109
Rrogozhinë	7,794	15,126	14,383	13,635	13,950	13,989	77
Sarandë	31,087	24,088	25,463	27,915	33,808	29,062	161
Selenicë	11,227	12,929	19,402	23,058	19,520	20,660	114
Shijak	11,990	11,670	13,048	16,046	12,472	13,855	77
Shkodër	7,474	8,309	10,315	11,790	14,590	12,232	68
Skrapar	24,228	36,164	30,662	26,454	21,617	26,244	145
Tepelenë	23,427	26,440	35,912	28,913	22,233	29,019	160
Tiranë	14,820	20,853	23,728	26,987	34,995	28,570	158
Tropojë	11,355	19,122	17,034	17,883	16,253	17,057	94
Ura Vajgurore	6,761	12,133	11,430	15,006	12,572	13,002	72
Vau i Dejës	7,864	10,510	11,432	10,302	21,254	14,329	79
Vlorë	9,258	11,077	16,617	14,683	16,242	15,847	88
Vorë	15,563	23,617	17,937	26,559	24,220	22,905	127
Total	11,736	15,400	17,097	17,245	19,949	18,097	100

Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al) & INSTAT

Table 5. Own funds capital expenditures per capita, in ALL

	2015	2016	2017	2018	2019	Average 2017- 2019	Index
Belsh	1,462	7,262	6,721	1,253	3,400	Average=100	66
Berat	5,315	8,801	3,363	2,729	4,087	3,393	59
Bulqizë	6,071	4,625	3,242	3,059	7,100	4,467	77
Cërrik	1,187	4,447	3,374	1,692	3,237	2,768	48
Delvinë	1,167	10,742	6,336	5,766	4,329	5,477	95
Devoll	1,248	3,300	2,848	1,813	4,041	2,901	50
Dibër	1,437	3,863	4,411	2,192	998	2,534	44
Divjakë	6,231	14,256	4,692	2,246	2,707	3,215	56
Dropulli	4,807	14,255	9,318	12,191	11,569	11,026	191
Durrës	7,333	5,757	6,616	3,693	6,102	5,470	95
Elbasan	3,935	5,473	2,273	1,425	2,424	2,041	35
Fier	4,703	7,078	5,216	2,603	3,369	3,729	65
Finiq	1,960	2,087	9,428	10,690	8,313	9,477	164
Fushë Arrëz	2,820	3,300	7,022	11,587	3,153	7,254	126
Gjirokastër	8,688	9,142	6,597	2,145	2,159	3,634	63
Gramsh	1,680	3,198	8,008	4,315	5,976	6,100	106
Has	6,124	6,735	5,018	2,890	3,214	3,707	64
Himarë	20,305	44,825	13,948	14,089	10,683	12,907	223
Kamëz	3,317	3,355	5,741	8,054	9,555	7,783	135
Kavajë	14,030	12,854	3,610	2,807	4,121	3,513	61
Këlcyrë	1,170	16,704	21,431	7,705	3,639	10,925	189
Klos	1,796	2,318	3,111	2,986	3,875	3,324	58
Kolonjë	3,750	9,047	14,785	8,855	1,935	8,525	148
Konispol	448	8,670	17,000	3,495	2,330	7,608	132
Korçë	10,053	9,323	12,236	3,685	4,574	6,832	118
Krujë	3,381	4,343	4,137	2,550	3,916	3,534	61
Kuçovë	7,121	2,524	1,271	1,347	1,936	1,518	26
Kukës	578	1,115	2,705	572	43	1,107	19
Kurbin	1,265	652	5,377	1,266	1,303	2,649	46



Lezhë	7,065	1,756	2,513	451	4,972	2,645	46
Libohovë	2,062	11,614	24,592	18,088	3,330	15,337	266
Librazhd	4,817	7,970	9,853	7,779	5,909	7,847	136
Lushnjë	5,226	4,373	3,061	2,230	2,671	2,654	46
Malësi e Madhe	485	6,720	9,438	6,146	7,375	7,653	133
Maliq	1,218	4,797	8,181	4,771	3,302	5,418	94
Mallakastër	2,545	2,867	6,171	5,437	11,889	7,832	136
Mat	5,592	4,290	3,543	999	2,596	2,379	41
Memaliaj	5,965	2,587	6,784	4,402	4,133	5,107	88
Mirditë	5,516	6,751	17,298	5,337	3,166	8,600	149
Patos	3,326	4,668	8,802	6,117	8,354	7,758	134
Peqin	648	3,012	5,087	1,403	1,477	2,656	46
Përmet	1,987	12,465	13,091	3,436	3,099	6,542	113
Pogradec	1,476	1,254	2,331	3,060	4,292	3,228	56
Poliçan	1,576	7,524	6,829	3,019	967	3,605	62
Prrenjas	484	886	5,018	3,127	1,916	3,353	58
Pukë	7,643	8,404	5,377	4,634	727	3,579	62
Pustec	4,185	2,260	6,425	1,446	2,396	3,423	59
Roskovec	2,591	13,432	8,370	11,190	7,334	8,965	155
Rrogozhinë	947	6,452	3,814	1,827	2,016	2,552	44
Sarandë	14,334	3,652	5,533	6,560	8,710	6,934	120
Selenicë	4,790	4,347	9,732	10,310	6,515	8,852	153
Shijak	7,398	3,481	3,832	5,678	1,809	3,773	65
Shkodër	1,588	696	2,184	2,045	4,373	2,867	50
Skrapar	10,904	18,044	9,294	4,997	725	5,005	87
Tepelenë	13,453	11,887	17,343	9,543	979	9,288	161
Tiranë	5,348	8,499	10,065	9,372	14,437	11,291	195
Tropojë	4,684	9,100	6,085	5,177	2,710	4,657	81
Ura Vajgurore	799	6,441	5,033	7,042	3,987	5,354	93
Vau i Dejës	2,860	5,330	4,969	2,639	11,378	6,328	110
Vlorë	744	1,350	5,176	875	1,818	2,623	45
Vorë	7,598	13,408	7,762	11,207	10,493	9,821	170

Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al) & INSTAT

Table 6. Own source revenues per capita

	2015	2016	2017	2018	2019	Average 2017- 2019	Index
Belsh	969	4,012	2,158	1,880	2,367	Average=100	26
Berat	4,449	4,296	5,742	5,128	4,868	5,246	63
Bulqizë	1,192	1,382	1,765	1,371	1,626	1,587	19
Cërrik	2,055	3,611	2,699	2,687	3,137	2,841	34
Delvinë	2,738	6,103	5,808	3,363	3,808	4,326	52
Devoll	1,771	2,406	2,298	2,749	3,978	3,008	36
Dibër	993	1,065	1,103	1,034	1,605	1,247	15
Divjakë	2,105	2,712	2,261	2,847	2,871	2,660	32
Dropulli	10,739	13,810	13,897	12,487	13,742	13,375	160
Durrës	6,712	6,739	7,451	6,948	7,032	7,144	86
Elbasan	3,579	3,849	4,449	4,556	5,270	4,759	57
Fier	3,983	3,638	4,340	5,116	5,556	5,004	60
Finiq	3,107	4,879	5,574	5,782	5,465	5,607	67
Fushë-Arrëz	1,727	2,631	2,627	2,625	2,696	2,649	32
Gjirokastër	4,769	4,854	4,707	5,244	5,696	5,216	62
Gramsh	2,502	1,709	2,239	2,540	2,162	2,314	28
Has	718	716	841	774	757	791	9
Himarë	14,007	20,763	19,770	23,204	31,497	24,824	297
Kamëz	3,921	4,794	5,529	7,509	7,612	6,883	82
Kavajë	5,830	6,926	8,256	9,357	9,633	9,082	109
Këlcyrë	1,803	1,553	1,734	1,903	1,405	1,680	20
Klos	1,038	1,712	1,426	1,672	2,346	1,815	22
Kolonjë	3,363	3,190	3,883	4,417	3,704	4,001	48
Konispol	3,359	5,216	5,142	3,917	3,536	4,198	50
Korçë	5,556	7,221	7,166	7,951	8,512	7,876	94
Krujë	3,118	4,493	3,687	5,353	5,095	4,712	56
Kuçovë	3,210	3,052	4,074	3,776	3,956	3,935	47
Kukës	1,613	1,918	1,695	1,561	2,587	1,948	23
Kurbin	1,232	1,306	1,543	1,337	1,332	1,404	17

Lezhë	4,375	4,281	5,012	6,098	10,204	7,105	85
Libohovë	2,096	3,087	3,210	2,966	2,488	2,888	35
Librazhd	1,896	2,418	2,917	3,345	3,442	3,235	39
Lushnjë	3,372	4,026	3,863	4,020	4,245	4,042	48
Malësi Madhe	1,324	4,180	1,177	1,973	1,847	1,666	20
Maliq	1,323	1,967	2,138	2,922	2,124	2,395	29
Mallakaster	3,915	7,245	7,902	11,564	5,101	8,189	98
Mat	1,803	1,800	2,381	1,924	2,447	2,251	27
Memaliaj	1,292	1,590	1,335	1,020	995	1,117	13
Mirditë	1,222	2,178	1,594	2,424	2,567	2,195	26
Patos	4,454	4,791	4,277	9,257	5,685	6,406	77
Peqin	1,547	1,845	1,482	1,742	2,398	1,874	22
Përmet	3,242	3,841	2,883	3,699	3,623	3,402	41
Pogradec	2,431	3,086	3,677	3,908	4,464	4,016	48
Poličan	3,287	3,844	3,858	2,916	2,451	3,075	37
Prrenjas	1,566	1,934	1,921	1,975	1,945	1,947	23
Pukë	1,920	2,361	1,670	2,020	1,431	1,707	20
Pustec	975	1,174	1,101	350	1,123	858	10
Roskovec	7,056	8,245	9,265	6,875	9,298	8,479	102
Rrogozhinë	2,996	3,164	3,510	3,906	4,165	3,860	46
Sarandë	11,331	13,223	14,754	15,690	18,882	16,442	197
Selenicë	2,359	3,072	4,072	3,391	4,356	3,940	47
Shijak	5,193	6,111	5,335	4,824	5,518	5,226	63
Shkodër	3,280	3,421	4,156	4,703	4,489	4,449	53
Skrapar	5,421	7,209	6,200	5,320	5,631	5,717	68
Tepelenë	1,997	2,353	4,056	4,091	3,458	3,868	46
Tiranë	8,786	13,023	18,307	23,487	24,915	22,236	266
Tropojë	1,734	4,196	2,055	2,381	2,040	2,159	26
Ura-Vajgurore	2,991	2,794	3,414	4,257	4,361	4,010	48
Vau I Dejës	3,130	3,220	2,426	3,734	3,383	3,181	38
Vlorë	4,128	4,942	5,498	6,359	6,020	5,959	71
Vorë	10,580	13,727	14,766	15,932	15,236	15,311	183

Source: Local Finances Portal [www.financatvendore.al](http://www.financatvendore.al) & INSTAT

## NOTES

1. This platform allows anyone to develop their own report to monitor the source of local revenue and how your municipality spends these funds.
2. See: [http://www.seecities.eu/seecities.eu/Portals/0/Images/Stories/Publications/MFSA%20Brochure\\_Final\\_Web\\_PA.pdf?ver=2018-09-10-071023-543U](http://www.seecities.eu/seecities.eu/Portals/0/Images/Stories/Publications/MFSA%20Brochure_Final_Web_PA.pdf?ver=2018-09-10-071023-543U)<https://www.oecd.org/regional/regional-policy/Subnational-Governments-Around-the-World-%20Part-I.pdf>
3. Law No. 115/2014 "On the local government units administrative and territorial division in the Republic of Albania".
4. Important steps were taken under this common denominator, which were materialized in: administrative and territorial reorganization into 61 municipalities (and 12 regions); the adoption of the National Crosscutting Strategy on Decentralization and Local Government 2015-2020 (NCSDLG 2015-2020); the development and adoption of the law on local government organization and functioning, which among other things transferred a series of new functions exclusively to LGUs; the adoption of the first law regulating local finances; and a number of other secondary legislation acts. The common objective of the abovementioned interventions *was to strengthen local governance and to create conditions for the development of local capacities to provide quality services and to improve available resources management efficiency*. The larger territory under administration, the increase in the population number and the symmetrical addition of functions among the 61 municipalities, led to considerable challenges for the latter in terms of providing local public services with their budgetary limitations.
5. The adoption of Law No. 139/2015 "On local self-government and the delegation of new functions in 2016, came with the relevant financial cost, or in other words, the specific transfer to cover these costs. Law No. 68/2017 "On local self-government finances" was adopted the following year, which among other things defined and stabilized the size of unconditional transfers to local government.
6. Calculated as a simple average of the own sources revenue over the total financial resources for the 2010-2018 period.
7. During the 2016-2018 period, own sources revenue in the municipality of Tirana increased by double digits (+39% on average), while the increase was approximately 6.1% in 2019.
8. Law No. 68/2018 "On local self-government finances", provides in article 11, paragraph 2 that taxes on immovable property shall include "the building tax, the agricultural land tax, and the urban land tax, and taxes and fees related to transactions with these properties". Pursuant to legal provisions, revenue from taxes on ownership rights transfers for real estate properties for individuals, natural persons and legal persons.
9. Source: [www.instat.gov.al](http://www.instat.gov.al)

10. The program for the reconstruction - repair - restoration of the structures designated for residential purposes following the damages caused by natural disasters (the earthquakes), are exempted from the tax on the infrastructure impact.
11. Source: <http://www.instat.gov.al/al/temat/statistikat-e-p%C3%ABrgjithshme-dhe-rajonale/tregues-sipas-bashkive/#tab2>
12. According to INSTAT data, the municipality of Kuçova has issued 4 construction permits for the January to September 2019 period. However, the construction permits issued may be for categories exempted from the IIT, or the payment of the tax may have been postponed or not yet executed.
13. The progressive revenue decline from this tax is a result of the changes to Law No. 9632/2006 "On the local taxes system", as amended, according to which starting in 2016, all small businesses with an annual turnover under ALL 5 million are exempted from tax liabilities, while for small businesses with an annual turnover between ALL 5 and 8 million, the dues were cut in half.
14. Source: Ministry of Finance and Economy
15. Nominal GDP according to the Ministry of Finance and Economy (Fiscal Indicators).
16. Data from the 2011 Census.
17. In this analysis, this line was included in the revenue from the tax on immovable property, and will not be addressed as a separate tax.
18. Based on the government fiscal data, approximately ALL 46.1 billion was collected in 2019 as revenue from personal income tax and 2% of this amount, or ALL 922.5 million should be the share of the municipalities.
19. Law No. 68/2017 "On local self-government finances", article 23: "the total amount of the unconditional transfer after the end of the transitory period for the transfer of new functions to the local level, shall be increased in the amount of the specific transfers that are to be included in the unconditional transfer" and Annex 1, Unconditional Transfer Formula (MoFE).
20. Source: Ministry of Finance and Economy
21. In September 2017, the Ministry of Social Wellbeing and Youth was abolished and the social protection programs portfolio was transferred to the Ministry of Health and Social Protection.
22. Total financial resources of the local government units include: (i) own local sources revenue (taxes, fees, other, and borrowing), (ii) revenue from inter-government transfers, which include revenue from the unconditional and specific transfers, (iii) revenue from shared taxes, and (iv) revenue from conditional transfers. Funds carried over from the previous year have not been included in the total resources to identify developments in the current year.
23. This figure includes revenue from conditional transfers, in accordance with the provisions of Law No. 68/2017 "On local self-government finances", which includes this category, but not carried over funds in the municipality funding resources.

24. Until now the specific transfer has been treated as a transfer with a determined destination, but in the 2019 budget it is provided as part of the unconditional transfer, though dedicated to the sectors it aims to finance.
25. This figure includes all expenditure made by municipalities with their own funds and conditional funds. This also includes expenditures made with funds carried over from the previous year.
26. Also includes expenditures with funds carried over. In accordance with the applicable regulatory framework, expenditure "savings" in the current year are reflected in the upcoming year budget in the form of carried over funds.
27. Staff expenditures for new functions are covered with funds from the sectoral transfer. If municipalities want to perform better and improve the quality of their services, the costs should be covered by other financial resources (such as own municipality revenue).
28. Includes operational expenses, subsidies, transfers and interest.
29. Based on the 2011 Census population data.
30. This figure includes all expenditures made by the municipalities with their own and conditional funds (including expenditures with carried over funds).
31. This information space provides an update of the quantitative and personnel cost-based analysis published on [www.financatvendore.al](http://www.financatvendore.al) based on the 2019 data.
32. Information on the number of employees in municipalities provided in the 2019-2021 MTBPs; organizational structures published in the municipality official websites, financial data from [www.financatvendore.al](http://www.financatvendore.al) and data from the Ministry of Finance and Economy (MoFE) were used to undertake this analysis.
33. According to INSTAT, the state sector employed approximately 172.745 people in 2019.
34. Resource: <http://www.financa.gov.al/buxheti-2019-fillestar/>
35. Average cost (wages + contributions), 2019 data. This estimation considers the total amount without categorization into class/category, seniority allowances or qualifications additions.
36. Considering the existing differences between average costs to employ 1 person in a municipality, it should be noted that the wage variation interval at the local level is defined in DCM No. 177/2017 "On some changes and additions to decision No. 165, dated 2.3.2016, of the Council of Ministers "On grouping local government units by wages, and setting wage levels for elected and appointed officials, civil servants and administration employees in local government units". According to this DCM, municipalities are grouped by size (number of population) for the purposes of setting wages for civil servants. There are 6 groups: (i) The Municipality of Tirana; (ii) municipalities with 200,001 to 400,000 inhabitants and above 400,000 inhabitants; (iii) municipalities with 100,001 to 200,000 inhabitants; (iv) municipalities with

50,001 to 100,000 inhabitants; (v) municipalities with 20,001 to 50,000 employees; (vi) municipalities with up to 20,000 inhabitants. For these groups reference wage intervals have been provided for hierarchy positions starting with the “Mayor” and ending with the “Specialist” of the lowest category. In general, a higher wage level is seen in Group 1 represented by the Municipality of Tirana, decreasing gradually through to reach Group 6, which includes municipalities with populations up to 20,000, such as the municipality of Kelcyra with 6,113 inhabitants. For comparison, we could consider for reference the “Specialist” level with wages falling in the Class III, Category B, which includes the highest number of employees. Based on legal provisions, at the municipality of Tirana the wage level varies from ALL 27,000 to ALL 61,000 per month (gross income), while in the Municipality of Kelcyra the wage level for the same positions (but classified as chief of sector) varies from ALL 22,500 to ALL 35,900 per month (gross income). It is clear that the wage interval based on class/category provided for the municipality of Tirana is considerably higher than the one in the municipality of Kelcyra. Compared to the municipality of Tirana, this difference starts to deepen with the decrease in the population number for all municipalities under 100,000 inhabitants. Thus, an environmental specialist, would be paid a maximum of ALL approximately 61,000 in the municipality of Tirana and a maximum of approximately 35,900 in the municipality of Kelcyra. If all other conditions and elements were the same, anyone would choose to compete for employment in the local administration with the higher wages. Thus, smaller municipalities where the level of wages is set lower, also by the provisions of DCM No. 177/2017, are exposed to the risk of not being able to attract adequate and qualified human resources to fulfill the functions and competences provided for in Law No. 139/2015 “On local self-governance”.

37. According to the World Bank, this indicator should be below 25 employees per 1,000 inhabitants. See: Urban Partnership Program (UPP), Improving Local Government Capacity – The experience of Municipal Finances Self-Assessment (MFSA) in South – East Europe, The World Bank, January 2018

38. In this analysis, population data have been taken from the 2011 Census

39. In 2016, municipalities were transferred a series of new functions, such as pre-university dormitories; social services centers; fire protection and rescue services; pre-school teaching and non-teaching staff and pre-university non-teaching staff; rural roads; forest administration; irrigation and drainage. For more see annex 4 of law no. 130/2016 “On the 2017 budget”, on functions transferred to the local level and funded through specific (sectoral) transfers.







