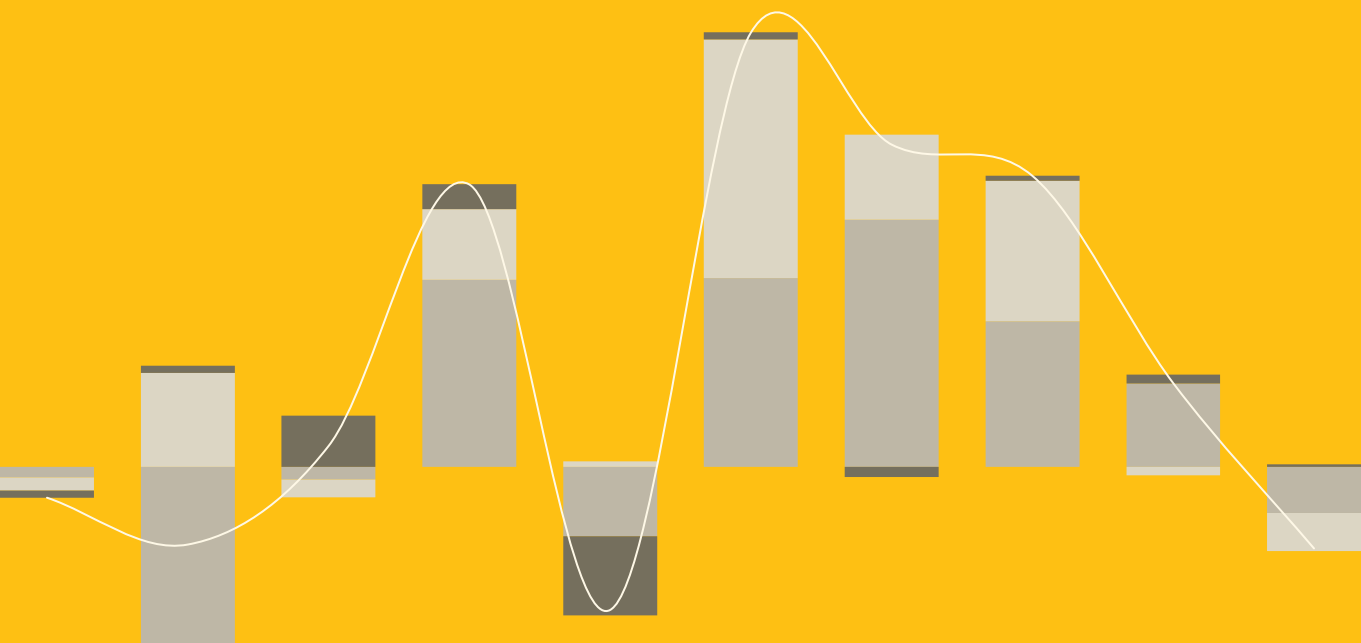


STATUS REPORT 2020

LOCAL PUBLIC FINANCES



LOCAL PUBLIC FINANCES IN ALBANIA STATUS REPORT 2020

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EXECUTIVE SUMMARY

The Local Public Finances 2020 provides a detailed overview of the public financial management at the local level, under the pressures of a series of natural disasters like the earthquake by the end of 2019 and the COVID-19 pandemic. Earthquake adverse effects coupled with the COVID-19 pandemic situation threw all governments into difficulties and amidst significant unknown challenges. As a response to the crisis, the central government took multiple measures to curb the spread of the virus into the population, thus resorting to a series of restrictive measures that lead the GDP to shrink by 6.4%.¹ In addition, the central government and the municipalities all over the country adopted some other support measures to care for families and businesses.²

In 2020, municipalities were caught off guard by this large-scale emergency, which eventually impacted their finances significantly. In general, all 61 municipalities in the country have had more financial resources at their disposal to exercise mandated functions and competences. However, the financial handling of the pandemic's adverse effects seems to have been covered by funds transferred from the central government in the form of intergovernmental transfers (conditional and unconditional transfers). Among the factors that may have led to a decline in revenues from own sources can be listed: the deterioration of the financial situation of businesses and households that may have determined non-payment, the introduction of mitigating fiscal measures for categories in need, relocation to time of payments for local obligations etc. Needs for expenditure in 2020 intensified significantly in three directions: service provision needed adjustment under the restrictions imposed by COVID-19, immediate support with basic services and goods for groups in need, and adaption of human resources at the municipal level to a new working method. As a result, the current expenses increased in annual terms and investments were cut off.

The second section of this report presents a detailed analysis of funding resources for all the 61 municipalities in the country, both in total and by municipalities. The use of available financial resources will be further elaborated on in the third section. Local public finances analysis for 2020 ends with a series of conclusions brought forward in the fourth section.

1 MUNICIPAL FUNDING RESOURCES

Municipalities may potentially address the needs of the communities they represent better than the central government, being closer to citizens. Based on the information advantages that municipalities enjoy over the central government, the offer of public goods and services can potentially be better tailored to the needs - preferences of citizens. In 2015-2018, the local self-government experienced a multi-dimensional transformational process, termed decentralization, aiming at empowering the local self-government by enhancing the conditions and the capacities for the provision of qualitative and efficient local public services.³ Therefore, municipalities collect revenues directly from taxpayers (households, businesses and institutions) and benefit financial resources from other government tiers (such as central government) to cover up the needs for expenditures in delivering local public services. The timely analysis and monitoring of local finances management (where the money comes from and how the 61 municipalities use them in the country) is another critical step to enhance municipal transparency, accountability, and responsibility when spending the public money available.

The year 2020 was unusual because the extensive damages caused by the earthquake that hit the country by the end of 2019 (September 2019 and

26 November 2019) overlapped with the immediate adverse effects of the COVID-19 health crisis. Battling the way out, on the one hand, underlined the importance of municipalities in the life of the communities they represent; on the other hand, it highlighted their structural weaknesses: 61 municipalities in Albania are very different from each other, do not have financial autonomy or are dependent financially from intergovernmental transfers, do not have a functioning financial mechanism for dealing with emergencies and the recovery capacity (resilience) is assessed as low.⁴

In quantitative terms, the importance of local self-government increased based on the indicators of local financial resources (total, available and own sources) to the nominal GDP for the last five years. This upward trend (chart 1) was mainly due to the changes made to the legislation governing the local self-government functions (such as devolution of new functions in 2016) and finances⁵ and use of tax agents such as Water Supply and Sewerage Utilities (WSSU) in collecting revenues from local taxes and charges, changes to the fiscal policy of municipalities (an increase of local taxes and charges in some municipalities), and lastly transfer of additional funds from the central government to cope with the adverse effects of COVID-19 pandemic.

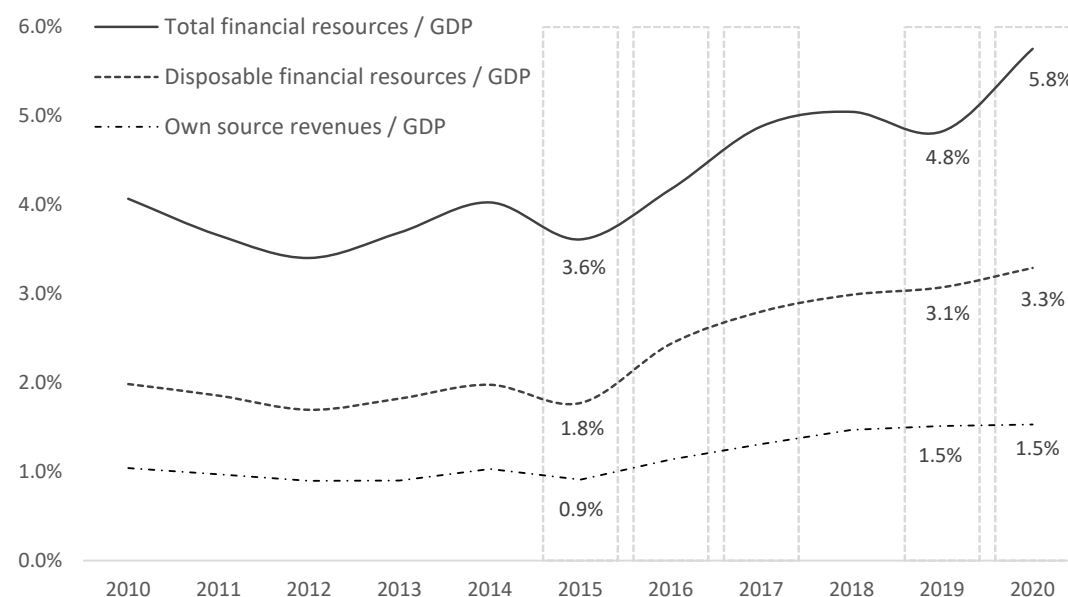


The indicator of own-source revenues to the nominal GDP increased by 0.6 percentage points, i.e. from 0.9% in 2015 to 1.5% by the end of 2019. Own source revenues to GDP ratio remained unchanged in 2020. The upward trend observed over the years has been influenced by two main factors: local tax increase (especially the infrastructure impact tax for new construction (IIT) and building tax)⁶, and local fees increase and improvement in collection rates, particularly in urban areas (using the WSSU as tax agents). It's also worth highlighting that this

improvement does not apply to all municipalities in the country but is somewhat guided by the collection rates recorded in the municipality of Tirana and, more specifically, revenues from infrastructure impact tax.

The indicator of available resources to nominal GDP has seen year-on-year growth, thus standing at 3.3% by the end of 2020, compared to 1.8% in 2015. Improvements of this indicator have been widely influenced by the stabilization and increase of the general and sectoral unconditional transfer.

Chart 1. Indicators of revenues to nominal GDP



Source of data: Local Finances Portal www.financatvendore.al & Ministry of Finance and Economy

Under the pressure of higher expenditures due to COVID-19, the indicators of total financial resources to nominal GDP increased from 4.8% by the end of 2019 to 5.8% in 2020. Such increase is triggered by the rise of conditional transfers from the Ministry of Health and Social Welfare

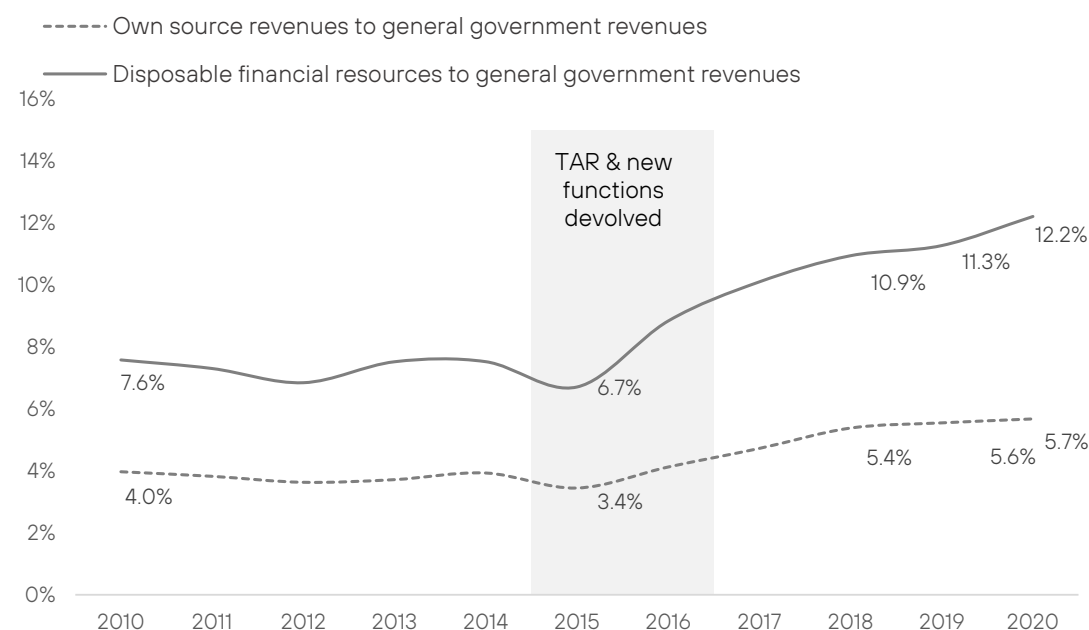
for the economic assistance and disabilities payment provided during the pandemic.⁷

Local self-government importance in the general government has been growing in significance, as measured by the indicators for own source and

disposable revenues to total revenues of the general government (chart 2). In the last three years, the weight of local government in general government has progressed at a moderate pace. In 2020, this indicator marked a level of about 5.7%, slightly increasing by about 0.1 percentage points compared to a year ago. A similar trend is observed in the performance of the disposable income indicator relative to general government revenues.

However, the growth rate has been more accelerated due to interventions in local legislation (transfer of new functions, the law on local finances which increased unconditional transfer size etc.). Nevertheless, there's still room for improvement compared to the indicators recorded in other WB countries (roughly 16.3%), SEE countries (about 17.3%), EU countries (nearly 23.5%) and OECD countries (approximately 42.4%).⁸

Chart 2. Indicators of revenues to general government revenues



Source of data: Local Finances Portal www.financatvendore.al & Ministry of Finance and Economy

Generally speaking, the wave of decentralization reforms seems to have worked at first sight, as deduced from the level and trend of reviewed indicators (chart 1 and 2). However, looking beyond the numbers, decentralization seems to have worked in nominal terms

(improving aggregate indicators) but not in real terms. The latter because municipalities faced a costly test, which once again highlighted their structural weaknesses, dependence on the central government, and rigidity in management.

Box 1

Financial autonomy: to what extent are municipalities independent?

Financial autonomy is a concept that finds many definitions in the literature. The European Charter of Local Self-governance (1985) lays down in its article 9, paragraph 2, that “the financial resources of local authorities shall be commensurate with their responsibilities”. The proportionality relationship shall apply mainly to the functions that are specifically assigned to the local body”. According to this provision, a satisfactory financial/fiscal autonomy implies a proportional relationship between the local self-government’s financial resources and duties/functions/competencies. To assess the financial autonomy of municipalities in the country, we may resort to indicators building on revenues and expenditures. In this box, we will use three autonomy indicators building on revenues, considering the structure of financial resources of municipalities in Albania and their decision-making authority over such resources.

Indicator A is the ratio between own-source revenues (taxes, charges and others) to total financial resources, also known as the narrow concept of municipal financial autonomy. A high value of indicator A signals a high municipal financial autonomy (these revenues can be used in complete autonomy, but in the case of taxes, the situation is more complicated as the level and taxable base is set by the central government).

Indicator B is the ratio between own source revenues and shared taxes to total financial resources. The high value of this indicator signals the high financial autonomy of municipalities, although municipalities do not have autonomy in determining their base and rates (but have autonomy in use).

Indicator C is the ratio between revenues from own sources, shared taxes and unconditional transfers (general and specific) to total financial resources, termed the broader concept of municipal financial autonomy. Municipalities autonomously use unconditional transfers (this does not apply to the sectoral transfer that behaves like a pre-determined destination).

Table 1 presents the financial autonomy indicators (average for 61 municipalities in the country) for 2015 (as the year in which the second wave of decentralization reforms begins) and the 2018-2020 period. Despite the concept of financial autonomy considered, on average, the level of financial autonomy is assessed to be low at the end of 2020 and insufficient to ensure the financial autonomy of municipalities in the country.

Table 1. Financial autonomy indicators

	(A)	(B)	(C)
2020			
Minimum	2.4%	3.7%	28.4%
Maximum	62.3%	64.8%	80.8%
Average	26.6%	29.1%	57.2%
2019			
Minimum	2.3%	3.1%	34.6%
Maximum	65.0%	67.1%	86.0%
Average	31.4%	33.4%	63.7%
2018			
Minimum	1.8%	2.4%	30.0%
Maximum	60.6%	62.5%	79.8%
Average	29.1%	30.9%	59.3%
2015			
Minimum	2.9%	2.4%	30.0%
Maximum	52.0%	62.5%	79.8%
Average	25.2%	30.9%	59.3%

Source of data: Local Finances Portal www.financatvendore.al

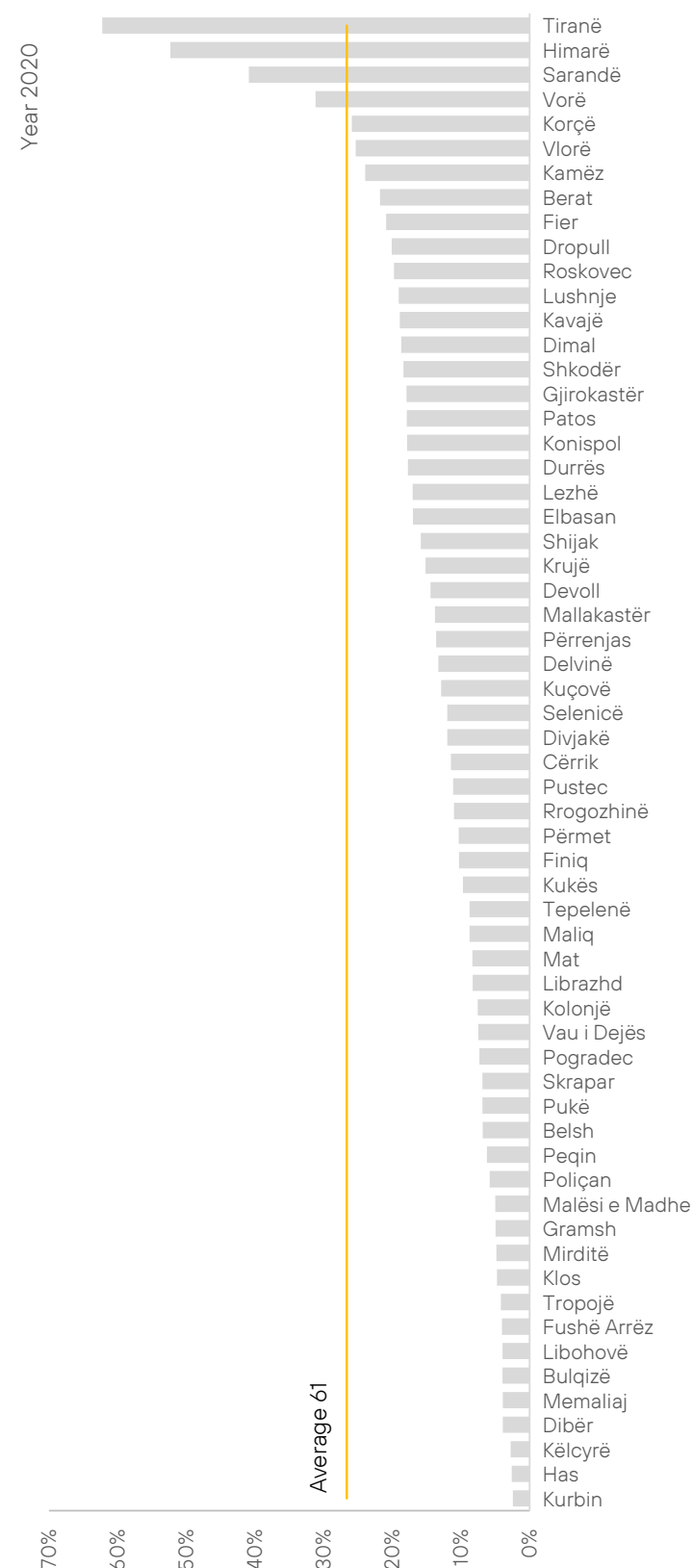
Indicator A (the narrow concept of financial autonomy in terms of revenues) scored an average of 26.6% by the end of 2020, a sharp decrease compared to 31.4% in 2019. The minimum level of Indicator A was about 2.4%, a level lower than the one recorded in 2015 of about 2.9%. On the contrary, the maximum level for Indicator A was 62.3% registered in 2020, lower than 2019 but higher than 2015.

In other words, the performance over the years of the autonomy indicator in the narrow concept (i.e. considering the share of own-source to total revenues) shows that the steps taken during these 5 years to strengthen municipalities financially have not produced the intended results of policy-making. Also, the increase in local taxes and fees (especially infrastructure impact tax, building tax and utility fees) does not seem to have materialized in a

substantial increase in their revenues and, consequently, municipalities’ financial autonomy (as measured by indicator A).

At the municipal level for 2020, indicator A marks the highest value in the municipality of Tirana with about 62.3%, followed by the municipalities of Himara (about 52.3%), Saranda (about 40.9%) and Vora (about 31.2%). These four are the only municipalities where the financial autonomy indicator scored higher than the national average. On the contrary, Indicator A was lowest in the municipality of Kurbin with 2.4%, followed by the municipalities of Has (about 2.6%) and Këlcyrë (about 2.7%). About 93% of municipalities (57/61) mark a level of indicator A of local autonomy below the national average, regardless of population size and number of businesses in the territory (see Chart 3).

Chart 3. Financial autonomy (Indicator A)

Source of data: Local Finances Portal www.financatvendore.al

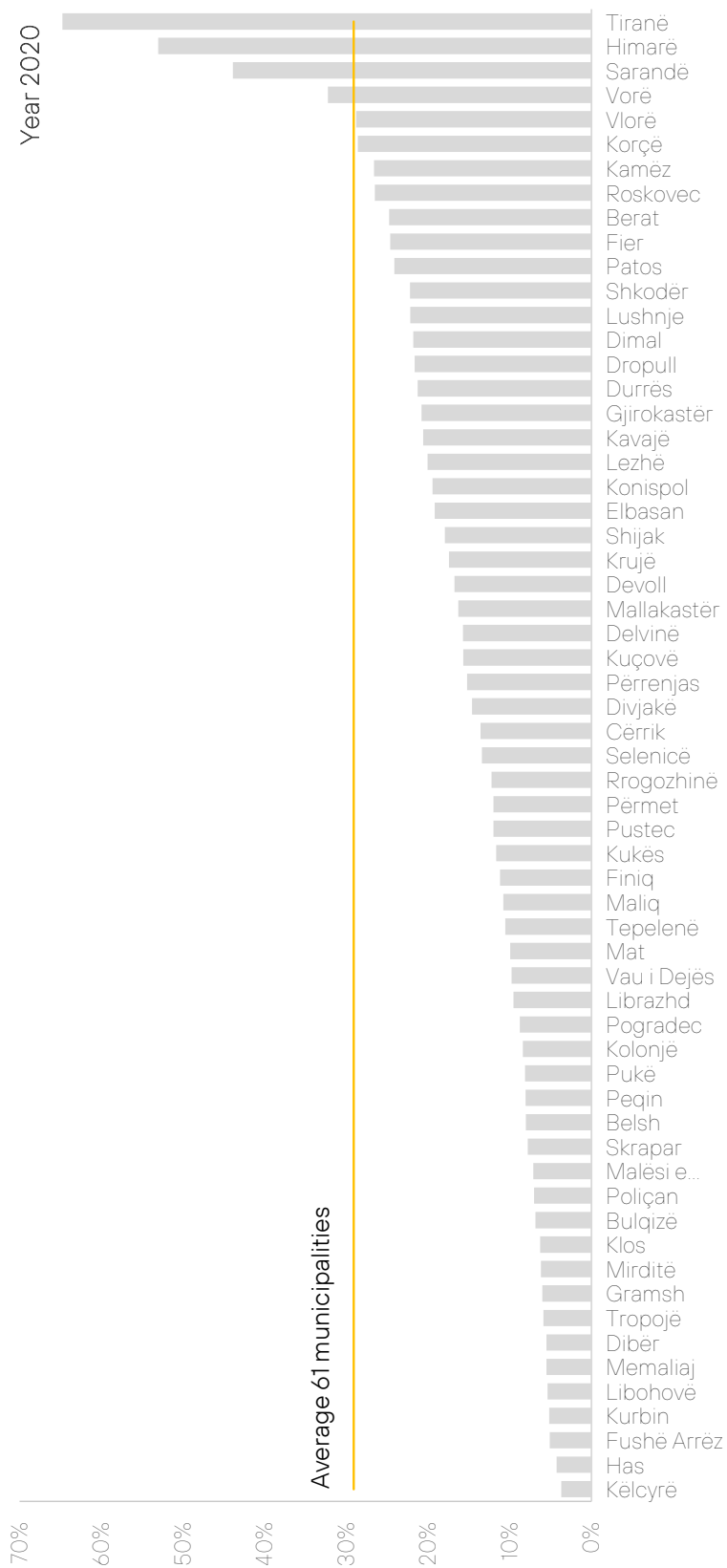
Adding shared taxes to Indicator A, we get the financial autonomy Indicator B. In 2020, indicator B marked an average value of about 29.1%, down by about 4.3 percentage points compared to the level recorded by this indicator a year ago and down by about 1.8 percentage points compared to the level recorded in 2015. At the municipal level for the year 2020, Indicator B recorded the highest value in the municipality of Tirana with 64.8%, followed by the municipalities of Himara (about 53%), Saranda (about 43.9%) and Vlora (about 32.3%). The autonomy indicator B for these four municipalities stands above the average level of 29.1%. The lowest level of indicator B was recorded in the municipalities of Këlcyrë with about 3.7%, followed by the municipalities of Has (about 4.3%) and Fushë - Arrëz (about 5.1%). About 93% of municipalities (57/61) score a level of indicator B of financial autonomy below the national average (see Chart 4).

Indicator (C) or the broader financial autonomy indicator (excluding from the calculation only conditional transfers) scored in 2020 an average of 57.2%, decreasing by 6.5 percentage points compared to 2019 and 2.1 percentage points compared to 2015. The minimum level of this indicator was about 28.4% at the end of 2020, a level lower than that recorded in 2019 (of approximately 34.6%) and lower than that recorded in 2015 (of about 30%). At the municipal level, indicator C marks the highest value for 2020 in the municipalities of Tirana and Himara with about 80.8% respectively, followed by the municipalities of Saranda (about 67.4%), Konispol (about 66.2%), Korça (about 65.5%), Delvinë (about 65.4%), Gjirokastra (about 65.2%) etc. In 2020, about 17% or 17/61 municipalities

marked a level of indicator C of financial autonomy above the national average (about 57.2%). On the contrary, the lowest level of indicator C was recorded in the municipalities of Kurbin with about 28.4% and the municipality of Belsh with about 28.9%. About 72.1% of municipalities (44/61) mark a level C of local autonomy indicator below the national average (see Chart 5).

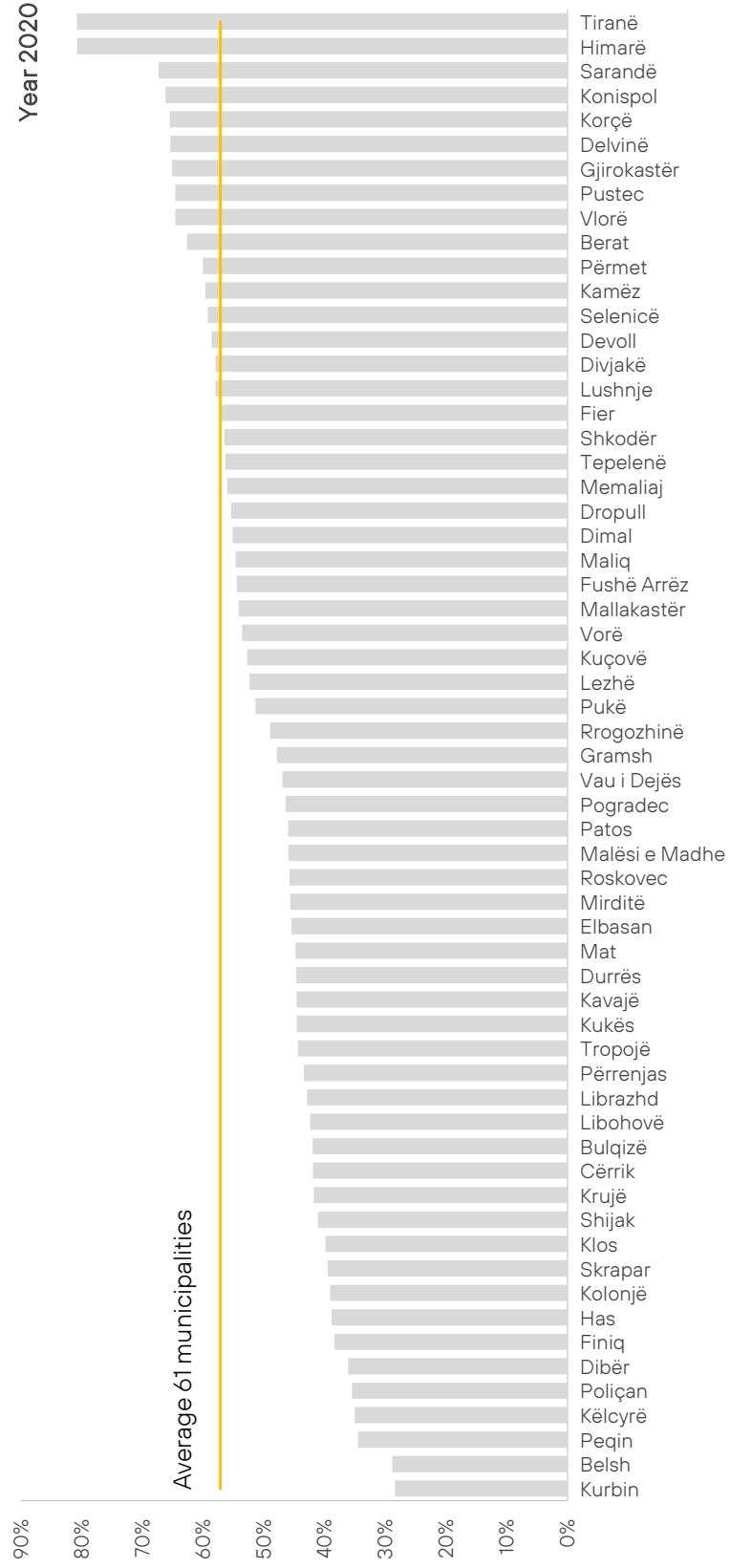
The variation degree (difference between the maximum and minimum) for all the three indicators under consideration is high and constantly increasing over time, thus recording levels once or twice higher than the average for indicator A and B. The variation degree is relatively lower for Indicator C - the broader financial autonomy concept - but constantly increasing for the period under analysis. This means that municipalities in the country are pretty diverse in terms of financial autonomy, with sharp differences among them being noted. The increase in unconditional intergovernmental transfers (general and specific) has somehow mitigated the variation degree for Indicators B and C, somewhat mitigating the impact on the financial resources of shock municipalities (earthquakes and the COVID pandemic - 19).

Chart 4. Financial autonomy (Indicator B)



Source of data: Local Finances Portal www.financatvendore.al

Chart 5. Financial autonomy (Indicator C)



Source of data: Local Finances Portal www.financatvendore.al

Despite the upward trend observed in total financial resources since 2015, the performance of financial autonomy indicators (A, B and C) suggests for continuation and persistence of high dependence on central government or a low level of local autonomy. Based on international standards (applicable in Western Europe and the USA), municipalities enjoy fiscal autonomy when Indicator C or the broader local autonomy concept stands above 80% (Farvacque-Vitkovic & Kopanyi, 2014). All indicators under consideration are highest in Tirana and Himara Municipalities - they mark the highest autonomy levels standing considerably above the national average. In terms of Indicator C, these two municipalities score slightly above 80%, i.e. they may be considered to enjoy financial autonomy. In contrast, over 70% of municipalities are assessed to have high financial dependence or low autonomy in the period under consideration, regardless of their size in terms of population. Earthquakes that hit the country by the end of 2019 and the COVID-19 pandemic negatively impacted the performance of local autonomy indicators, which marked a sharp decline at the end of 2020.

These developments signal the high exposure of municipalities in financial terms to internal and / or external shocks, which materialize very quickly in the finances of municipalities. The significant difference between the minimum and maximum level of indicators is as much of a concern as the high-level dependence on the central government - the difference has seen an upward trend for all indicators under consideration in 2020 compared to 2015.

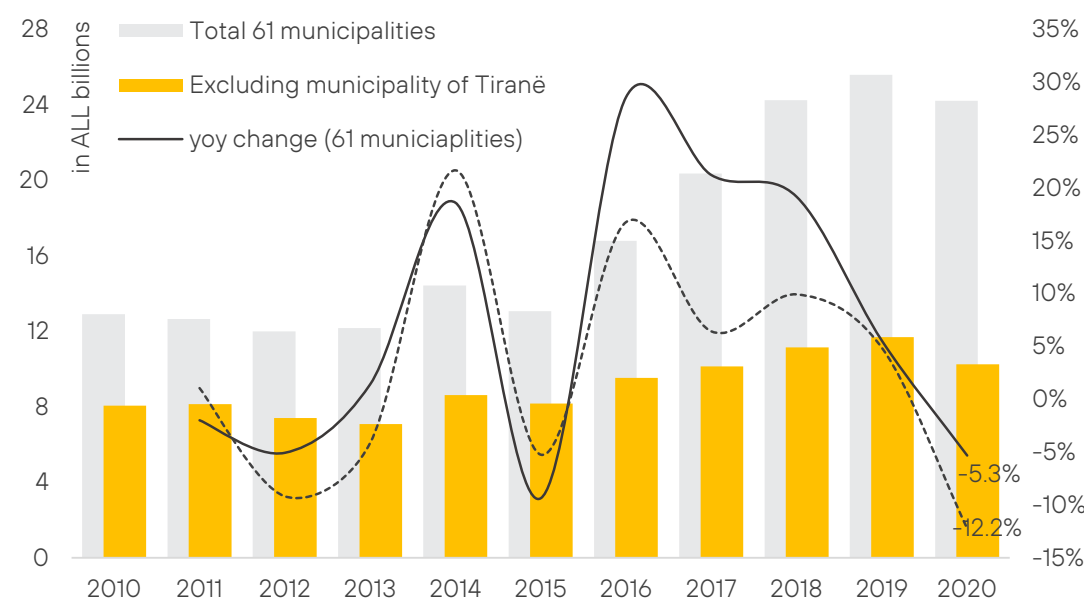
1.1 Revenues from own sources

In the light of all the restrictive measures brought forward to curb the COVID-19 spread, the health emergency took in the shape of an economic and social crisis, whose adverse effects are being materialized and mirrored day by day in macroeconomic indicators (fiscal indicators, debt, economic shrink, unemployment rate etc.).⁹ Local finances, revenues, and expenditures are no exception in this regard.

This section presents a detailed analysis of revenues from own sources, under the pressures and consequences of the natural disasters that concerned our country in 2019-2020. Among the categories of revenues, those from own sources (including revenues from local taxes and fees, activities with assets etc.) are essential in guaranteeing a good independent municipal governance. On average, this category of revenues represented about 26.8% of municipal financial resources for the 2010-2020 period. At the end of 2020, revenues from own sources represented approximately 26.6% out of the total financial resources, a value slightly below the long-term average (of about 26.8%).

In nominal terms, the 61 municipalities in the country collected ALL 24.2 billion in 2020, down by 5.3% compared to 2019. In historical terms, this is the first decline of revenues from own sources ever since 2016. Except for the municipality of Tiranë (accounting for about 57.7% of total own-source revenues in 2020), the decline in revenues from own sources for the other 60 municipalities further deepens to about 12.2% in annual terms (see Chart 6).

Chart 6. Developments in own source revenues



Source of data: Local Finances Portal www.financatvendore.al

The narrowing of revenues from own sources has been noted in 51% of municipalities (or 31/61 municipalities), ranging from -2% to -57.3%. Among them, in about 77.4% of municipalities (24/31 municipalities), the decrease in revenues turns out to be over 10% in annual terms and specifically:

- Vora, Mallakstra, Klos, Durrës, Skrapar, Kuçova, Mirdita, Peqin, Kavaja and Tropoja municipalities recorded an annual decrease of revenues from own sources ranging from 20% to 29%;
- Korça, Dibra, Bulqiza, Roskovec, Libohova, Kruja, Selenica, Shkodra and Shijak municipalities reported an annual decrease of revenues from own sources ranging from 10% to 18%;
- The municipality of Lezhë recorded the sharpest decrease of revenues from its own sources by 57.3% in annual terms;
- Kamëz, Fushë Arrëz, Vau i Dejës and Kurbin municipalities marked an annual decrease of revenues from own sources ranging from 36% to 38%;

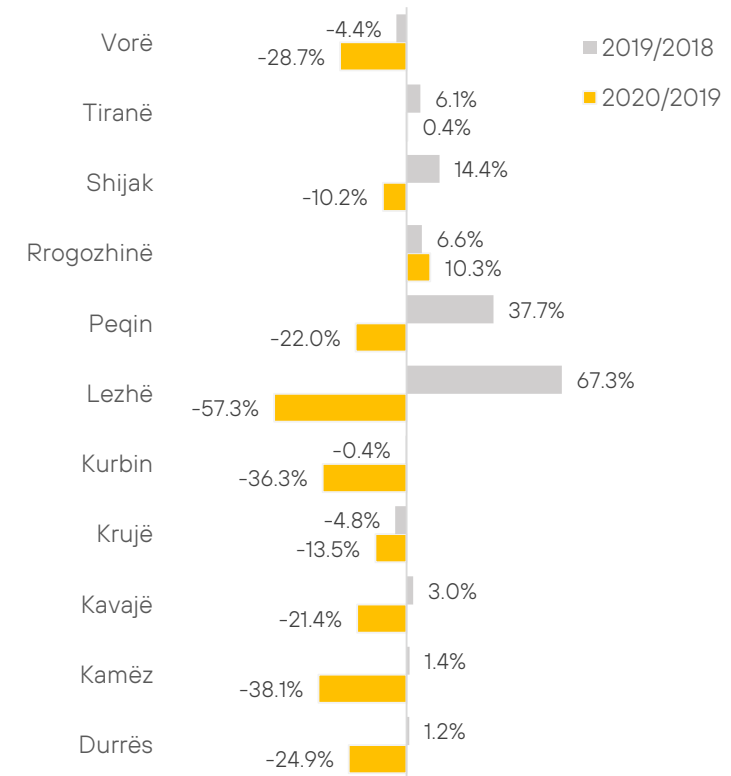
Chart 7. Own source revenues by municipalities (year on year changes in %)

Source of data: Local Finances Portal www.financatvendore.al

Although the negative developments in terms of revenues characterized a high number of municipalities during 2020, the direction of developments was largely determined by the performance of revenues from its own local resources realized in the municipality of Lezha, followed by the municipalities of Kamza and Durres. On the contrary, own-source revenues marked some positive developments for 30/61 municipalities. Puka and Pustec municipalities marked the sharpest upward trend, with the revenues from own sources (mainly from local charges and others) being 2.2 and 3.5 times higher compared to 2019. Revenues from own sources also increased for Dropull (+ 39.5%), Patos (+33.2%), Konispol (+32%), Has (+31.7%), Kolonja (+31.4%) municipalities etc.

The performance of revenues from own sources presents particular interest in the 11 municipalities affected by the earthquakes that hit the country in September and November 2019 (chart 8). Revenues from own sources in these municipalities decreased, apart from Tirana and Rrogozhina municipalities. In the municipality of Tirana, revenues from own sources increased by 0.4% in annual terms, while the annual revenue increase rate for the municipality of Rrogozhina was 10.3%. In 2020, revenues from own sources underwent a sharp decline in the municipalities of: Lezha (-57.3%), Kurbin (-36.3%), Kamëz (-38.1%), Kavaja (-21.4%), Vora (-28.7%) and Durrës (-24.9%).

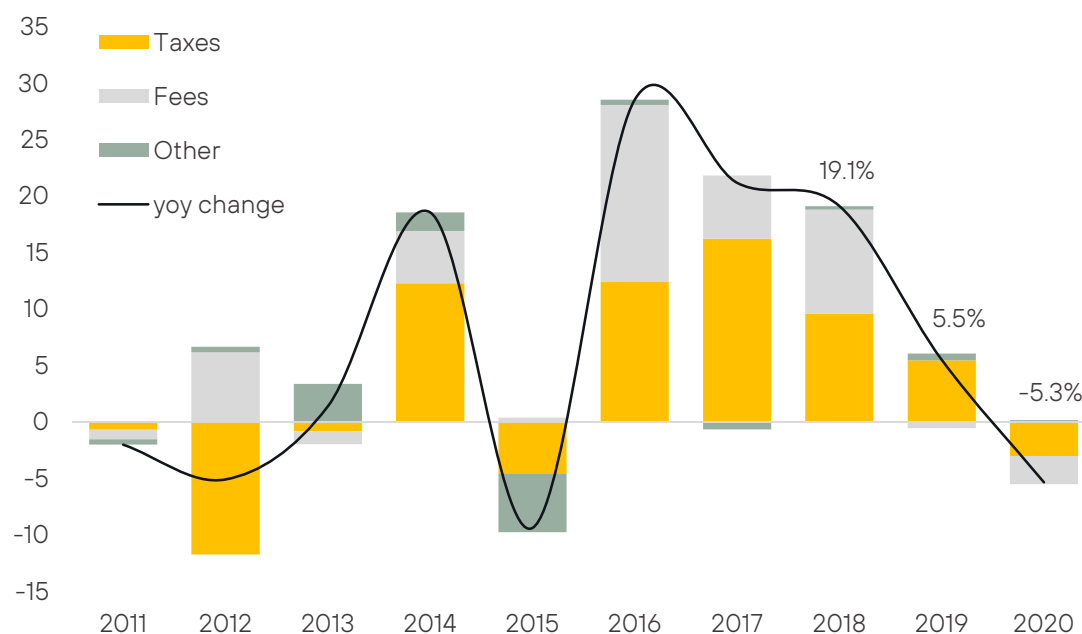
Chart 8. Own source revenues in 11 municipalities hit by the earthquakes of 2019

Source of data: Local Finances Portal www.financatvendore.al

The analysis according to constituent sub-categories indicates some sensitive developments concerning the collection of revenues from own sources in 2020. The narrowing of revenues from own sources by about 5.3% was significantly determined by decreasing revenues from local taxes and charges. Revenues for both categories have reduced by 4.8% and 6.9%, respectively, in annual terms. The contraction in own-source revenues is assessed to be the results of a combination of factors, including the slowdown in economic activity during the lockdown period (March-May 2020) and the

difficulties businesses are currently facing (dismissals, cut-off in business hours etc.). Both the abovementioned factors might have contributed to a deterioration of the financial situation of businesses and households. Under these circumstances, solvency for both categories of taxpayers has been negatively impacted by the COVID-19 pandemic. Contrariwise, revenues from own other sources (such as proceeds from asset management, fines etc.) increased by 15.6% and positively contributed to revenues from own sources (chart 9).

Chart 9. Contribution by categories (in p.p.) in yoy change of own source revenue (in %)



Source of data: Local Finances Portal www.financatvendore.al

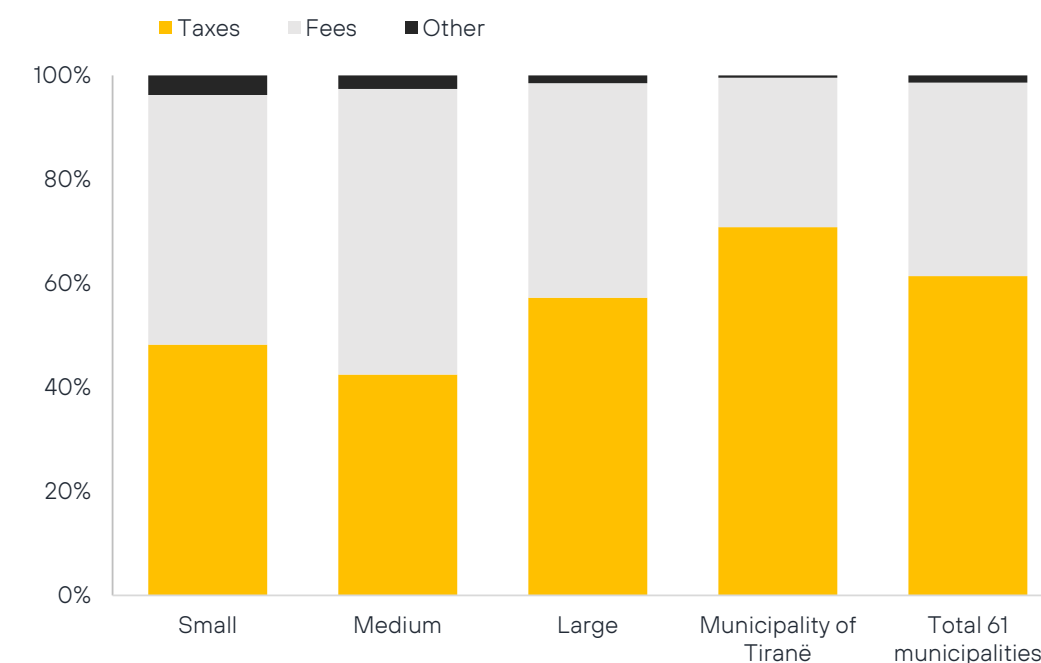
Historically, developments in own-source revenues have been primarily determined by the performance of local tax revenues. The share that this category of revenues occupies in the

local budget seems to have fluctuated over the last five-year period, thus leaning in favour of the sub-category of revenues from local charges. The overall economic developments hit

this category of revenues and in 2020 seems to have struggled the most with the consequences of the earthquakes and COVID-19 pandemic. A series of businesses shutting down in municipalities affected by the earthquake and COVID-19, buildings collapsing from earthquake damages, economy slow-down and shrinking turnover of businesses, postponement of payment deadlines or easing fiscal measures brought forward by the central and local government for specific groups, translated into revenues from local taxes dropping by 4.8% in all the 61 municipalities. Similarly, and under the influence of the above-referenced factors, revenues from local fees fell by 6.9%. Revenues from other local sources seem to have made a weak positive contribution to the overall progress of revenues from own sources.

The structure of revenues from own sources by sub-category seems to differ among the 61 municipalities in the country (chart 10). To highlight such differences, municipalities will be classified according to the number of residents (Census 2011), thus dividing them into (i) small-size municipalities with a maximum of 40,000 residents (43/61 small-size municipalities); (ii) medium-size municipalities with 40,001 up to 100,000 residents (11/61 medium-size municipalities) and (iii) large-size municipalities with more than 100,000 residents (7/61 large-size municipalities). The municipality of Tirana outnumbers other municipalities with over 100,000 residents. Therefore, it has been given a particular spot apart from large-size municipalities (Annex 4).

Chart 10. Structure of revenues by size of the municipality



Source of data: Local Finances Portal www.financatvendore.al

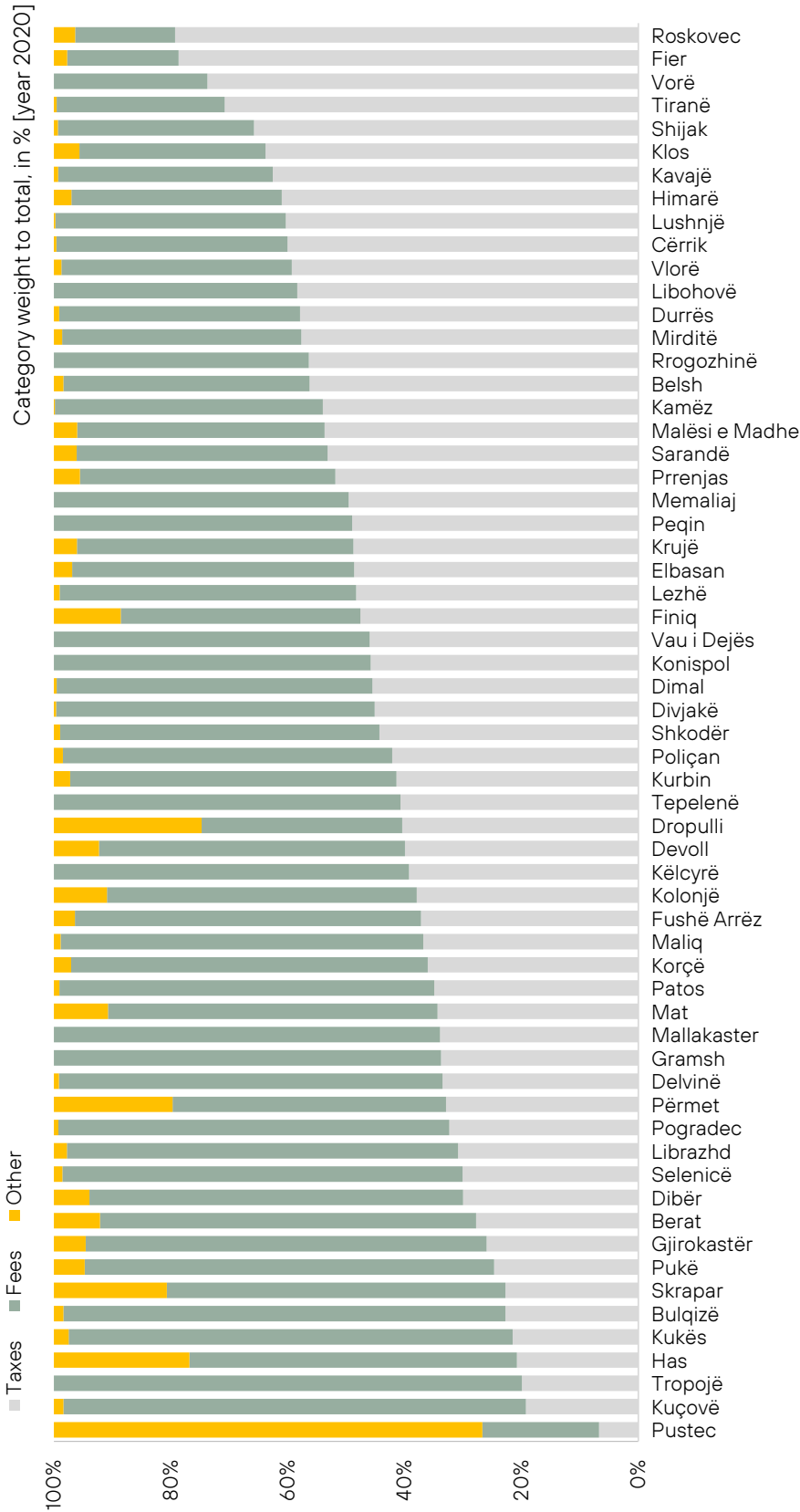
According to the structure of revenues in small-size municipalities, local taxes seem to weigh the same with local fees (48.2% and 48% respectively) towards revenues from own sources. Local fees seem to outweigh local taxes to revenues from own sources in medium-size municipalities, making up 55%. Contrariwise, in large-size municipalities, revenues from local taxes seem to outweigh revenues from local charges, making up 57.3% of the revenue structure from own sources. Similarly, in the municipality of Tiranë, revenues from local taxes stood for 70.8% of revenues from own sources. This alternation of weights that categories occupy in revenues from own sources indicates a sharp difference between fiscal capacities of municipalities, which are still not being fully used.

At the municipal level, differences in the structure of revenues from own sources are even sharper (chart 11). In Tirana, Roskovec, Vora, Fier, Vlora, Klos, Shijak, Cërrik, and Lushnje municipalities, local taxes stand for more than 50% of total revenues in the category of revenues

from own sources. Quite dissimilarly, in Kuçova, Tropoja, Has, Kukës, Bulqiza, Skrapar, and Puka municipalities, local charges occupy more than 50% of revenues from their own sources.

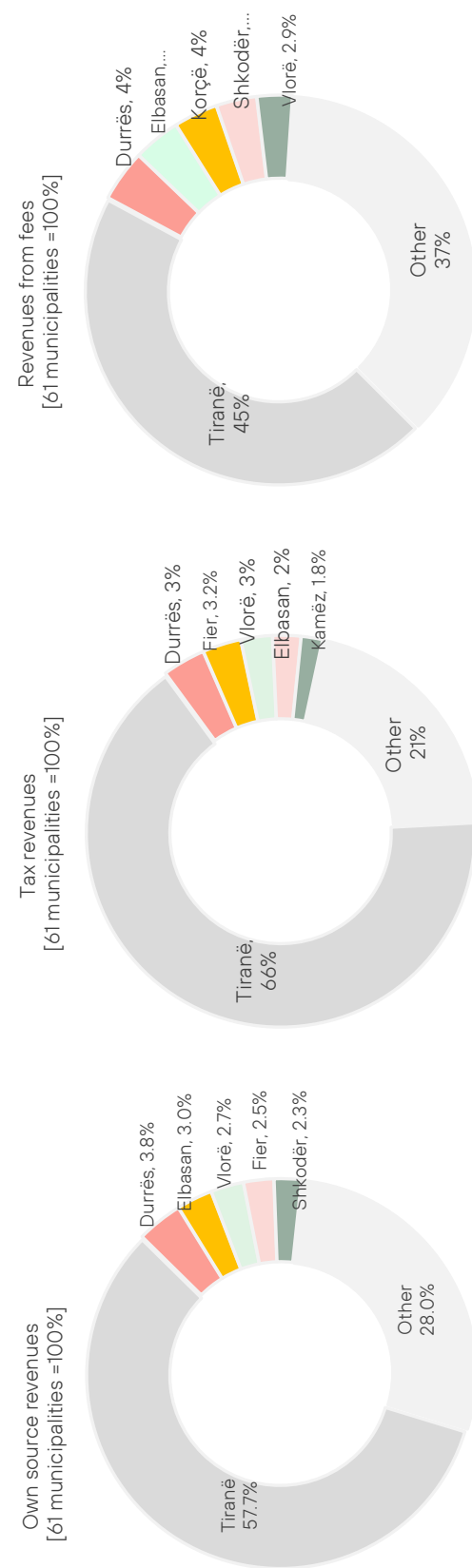
The municipality's analysis in 2020 indicates that 80% of revenues from own sources are collected by 10 municipalities (chart 12). About 57.7% of revenues from own sources were collected in the municipality of Tiranë, followed by Durrës (3.8%), Elbasan (3%), Vlora (2.7%), Fier (2.5%), Shkodra (2.3%), Korça (2.2%) and Kamëz (2%) municipalities. The same trend has been noted in terms of the weight that municipalities occupy in local taxes and charges. Tirana, i.e. the largest municipality in the country, accounting for the most significant number of businesses and resident population, collects 65.8% of local taxes, followed by Durrës (3.6%) and Fier (3.2%) municipalities. The municipality of Tiranë generates 45.3% of revenues from local fees, followed by Durrës (4.3%), Elbasan (3.9%), Korça (3.6%) municipalities etc.

Chart 11. Structure of own source revenues by municipalities



Source of data: Local Finances Portal www.financatvendore.al

Chart 12. Municipalities share in own source revenues, year 2020

Source of data: Local Finances Portal www.financatvendore.al

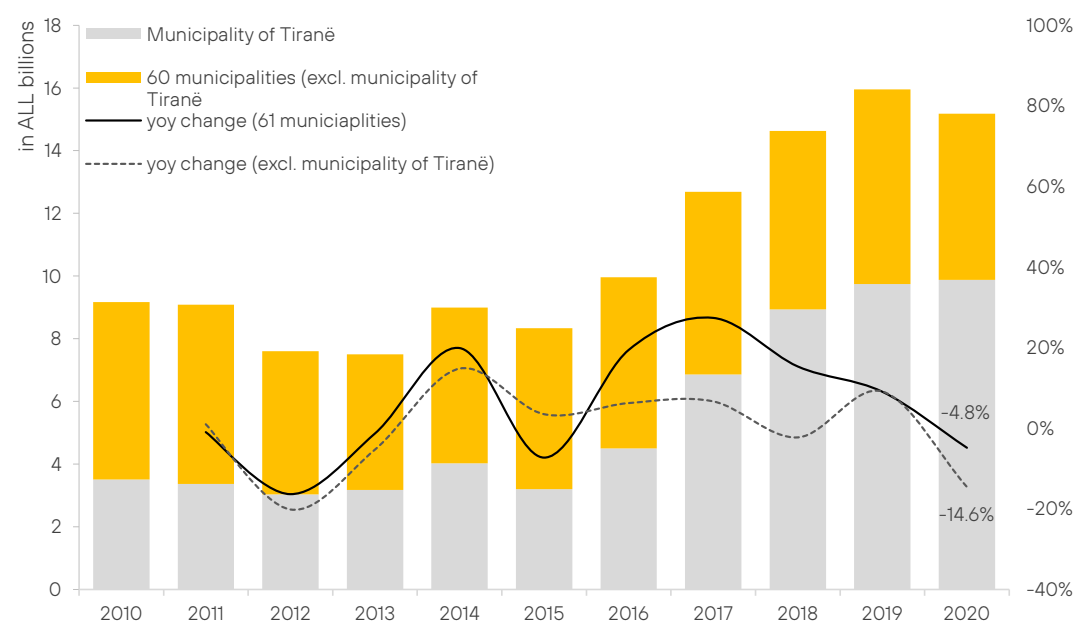
While responsible for the same functions and competencies (symmetric decentralisation model), municipalities in the country have different financial capacities, as highlighted by the detailed analysis of the revenue structure from own sources (taxes, charges and others) at the municipal level. Results show that several groups of municipalities have naturally emerged, as follows: (i) the municipality of Tiranë, operating differently and displaying sharp differences from the other 60 municipalities; (ii) large-size municipalities having some similarities among each other but very different from the municipality of Tiranë; (iii) medium-size municipalities presenting similarities among each other, but displaying sharp differences with the municipality of Tiranë and other large-size municipalities; and (iv) small-size municipalities sharing similarities among each other, but displaying significant diversities from all other categories of municipalities. Financial capacity differences (mirroring the concentration of population and businesses) condition and impact the municipal's ability to deliver local public services they are legally responsible for. Moreover, this broadly affects their response and resilience ability in the aftermath of natural disasters such as earthquakes and the COVID-19 pandemic.

1.1.1 Revenues from local taxes

Revenues from taxes are an important category in the structure of revenues from own sources of municipalities. In 2020, revenues from taxes accounted for about 62.7% of own-source revenues, standing about 1.2 percentage points under the long-term average (63.9%) and accounting for about 1% of the nominal GDP. Revenues from local taxes contributed by about ALL 15.2 billion into the local budget, down by about 4.8% compared to the previous year. Excluding revenues from tax collected in the municipality of Tiranë, revenues from local taxes registered a decrease of approximately 14.6% in 2020.

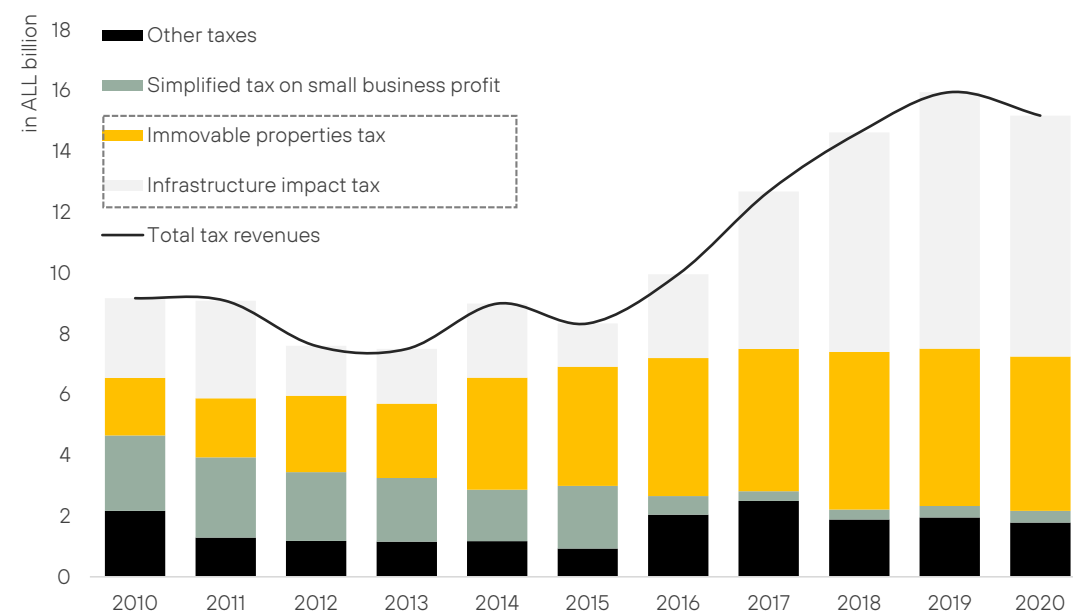
Although generally speaking, revenues from local taxes have displayed some positive trends, a more detailed outlook on constituents highlights the long-term weaknesses or the dependence on a limited number of taxes (chart 14). Over the last three years, revenue collected from local taxes has been largely defined by two types of taxes: infrastructure impact tax for new construction and immovable property tax (building, agricultural land, urban land etc.). While the latter's weight has shrunk, the share of infrastructure impact tax revenues from new construction has grown at an accelerated pace. In 2020, these two types of taxes represented 85.7% of total local tax revenues. In contrast, the weight and contribution of the simplified small business profit tax and other taxes continued to shrink throughout 2020.

Chart 13. Developments in tax revenues



Source of data: Local Finances Portal www.financatvendore.al

Chart 14. Tax revenues by main items

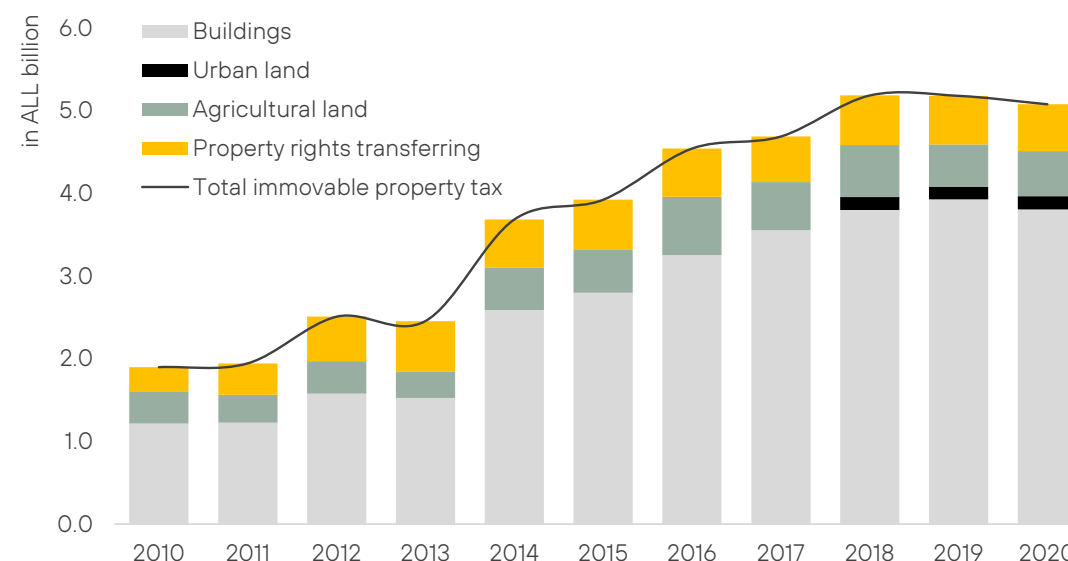


Source of data: Local Finances Portal www.financatvendore.al

Tax on immovable properties and related transactions is an essential and sustainable revenue stream in the local budget. Over the past three years, revenues from this tax equalled 0.3% of the nominal GDP, with the number being significantly lower than the SEE average of 0.6% of the nominal GDP in 2019 (NALAS, 2020). In 2020,

about ALL 5.1 billion were collected from immovable property tax, down by 2% in annual terms, accounting for about 33.4% of revenues from local taxes and 21% of revenues from own sources. Proceeds from the building tax represent the highest share in total revenues from immovable property taxes. Chart 15.

Chart 15. Immovable properties tax revenues



Source of data: Local Finances Portal www.financatvendore.al

Even though the revenues collected over the years from immovable property tax (especially building tax) have seen an upward trend, ownership-related issues and lack of cadaster registers have hindered, among others, the potential of this tax to be fully unlocked. Following the radical reformation of this tax through Law No. 106/2017 "On Some Addenda and Amendments to Law No. 9632, dated 30.10.2006, "On Local Tax System", as

amended", 2019 was projected as the baseline year when all municipalities in the country would apply the property tax based on the new methodology, according to the Ministry of Finance and Economy press releases. Currently speaking, this step has not been taken by all municipalities, given the difficulties encountered in collecting the necessary data to apply such a methodology.

Chart 16. Immovable property tax revenues by municipalities

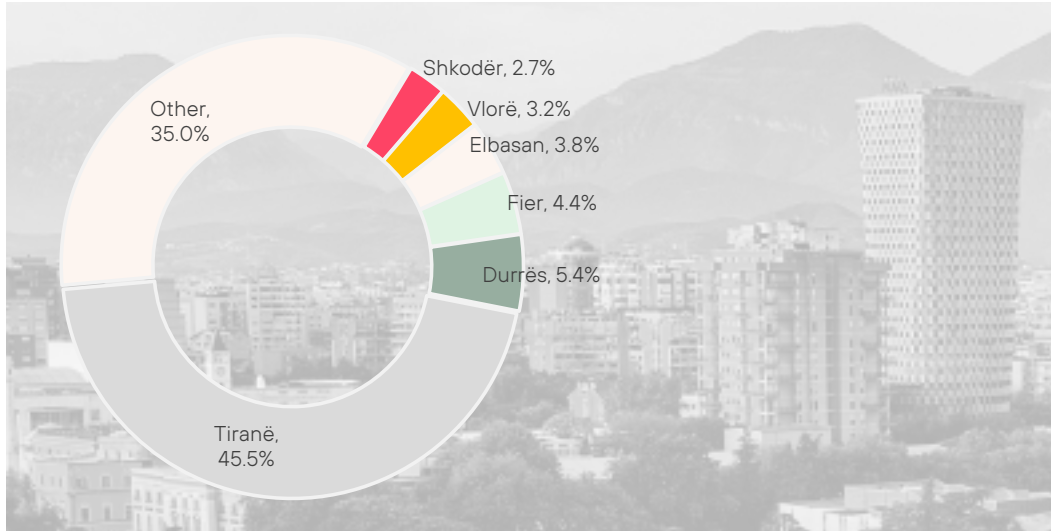


Source of data: Local Finances Portal www.financatvendore.al

Revenues from immovable property taxes present positive developments in 33/61 municipalities in the country (chart 16). The highest revenue increase from this tax was recorded in Belsh (+32.7%), Puka (+43.9%), Mirdita (+40.9%), Kolonja (+29.2%) municipalities etc. On the contrary, revenues from immovable property tax seem to have decreased in 23/61 municipalities such as Vlora (-29.6%), Peqin (-26.4%), Patos (-26.1%), Durrës (-26%), Divjaka (-25.8%), Vau i Dejës (-24.3%) municipalities etc.

Revenues from immovable property taxes display a high-level concentration in a limited group of municipalities (chart 17). The municipality of Tiranë collects nearly 45.5% of revenues from property taxes, given the high - level concentration of buildings and facilities in this territory. The municipality of Durrës ranks second with 5.4% out of the total for the period under consideration, followed by Fier, Elbasan, Vlora and Shkodra.

Chart 17. Share by municipalities in immovable property tax revenues



Source of data: Local Finances Portal www.financatvendore.al

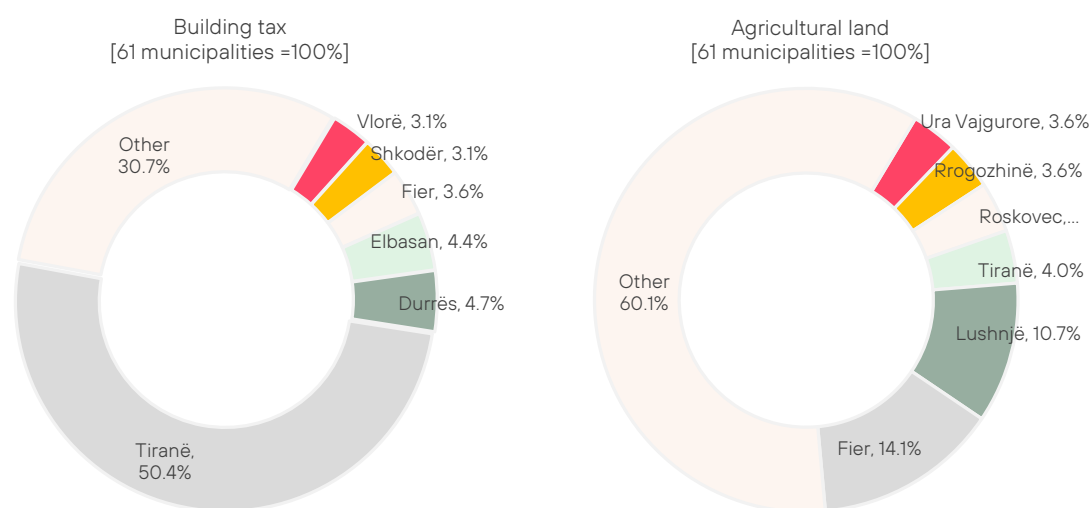
Revenues from building tax outweigh other items in terms of revenues collected from immovable property tax (75% on average over the last three years, chart 18 on the left). About 50.4% of total building tax revenues were collected in the municipality of Tirana, followed by the municipalities of Durrës (4.7% of the total) and Elbasan (4.4% of the total).

In 2020, revenues from the building tax amounted to ALL 3.8 billion, down by 3.1% in annual terms. In 2020, revenues from building tax decreased in 35/61 municipalities in the country, especially in Devoll (-79.4%), Memaliaj (-61.8%), Mallakastër (-52.4%), Divjaka (-52%) municipalities etc. Among the municipalities mostly hit by the earthquakes by the end of 2019, Durrës, Kurbin and Peqin municipalities

recorded a decline in revenues from building tax. In contrast, Kruja, Kamza, Tirana, and Rogozhina municipalities recorded moderate - but positive - growth rates compared to one year ago. However, this tax's current level of revenues indicates that the new reform and methodology has not been materialized just yet. In the absence of detailed information, the current progress of revenues from building tax may be interpreted in several ways: (i) the new methodology, which increased the financial burden for taxpayers, may have made it impossible for the taxpayers to pay this tax and may have increased the non-payment rate; (ii)

the new methodology has reduced the financial burden for some categories of taxpayers and increased it for others, thus compensating for each other, i.e. with insignificant effects over the total; (iii) the application of the new methodology failed to expand the tax basis, especially in those municipalities using the WSSU as a tax agent (and there may still be illegal/unregistered connections), or the entire population has not been covered with service; (iv) events that marked the end of 2019 (consecutive earthquakes), and COVID-19 pandemic may have negatively influenced the payment of this particular tax from taxpayers.

Chart 18. Revenues from the building and agricultural land taxes, year 2020



Source of data: Local Finances Portal www.financatvendore.al

Revenues from agricultural land tax, although weighing significantly less than the revenues from building tax, contributed by ALL 543.7 billion (up by 5.1% in annual terms) in the category of revenues from immovable property tax. Dissimilar from the revenues from the building tax being concentrated in a limited number of municipalities,

the agricultural land tax revenues are scattered among municipalities. The highest level of this tax was collected in the municipalities of Fier (about 14.1% of the total), Lushnja (about 10.7% of the total) and Divjaka (about 4.7% of the total), related to the agricultural character of the economies of these municipalities.

Revenues from urban land tax account for a low share of total revenues from property taxes (about 3.1% in 2020) but registered an increase of about 8.2%. Revenues from ownership rights transfer tax decreased by 3.2% at the end of 2020.

The second most important item of revenues from local taxes is the infrastructure impact tax from new construction. Revenues from this tax represent an important and significant source for the local budget (higher than revenues from property tax).

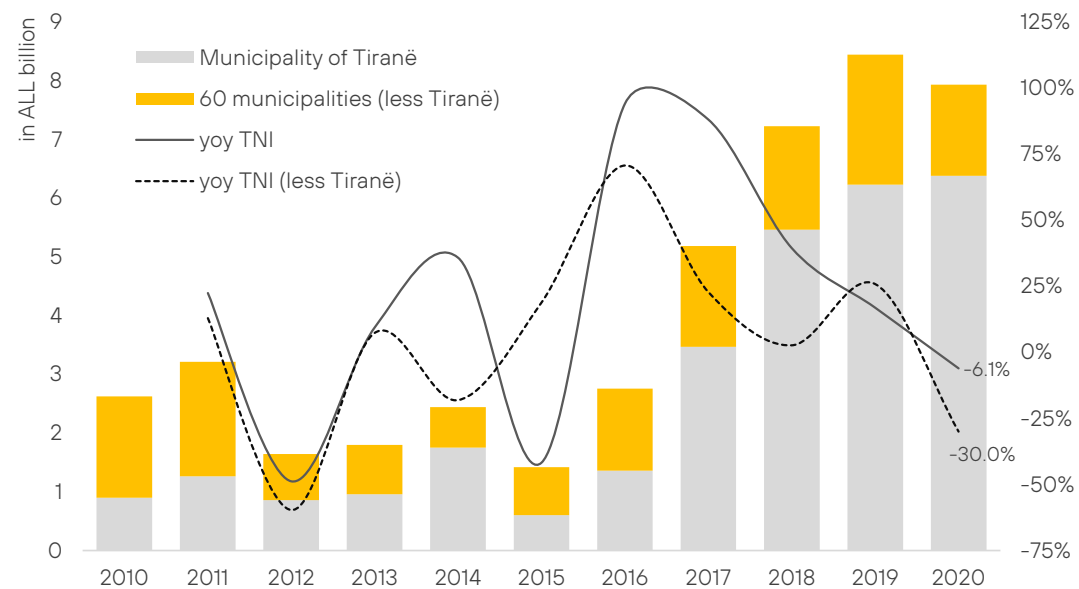
In 2020, this tax revenue represented about 52.2% of local taxes, about 32.8% of own-source revenues and represented 0.5% of the nominal GDP.

The increased importance of this item in the local budget has been affected by the implementation of General Local Plans (GLPs) through construction permits for new buildings, particularly over the last three years: about 1,194 permits were granted in 2018; 1,094 permits in 2019; and 393 permits for the first six months of 2020.¹⁰ The General Local Plans (GLP) implementation through new building permits has positively impacted revenues from IIT for municipalities on the one hand and places such municipalities in a challenging position on the other hand to provide the necessary public infrastructure, which requires funding for its initial development and continuous maintenance.¹¹

About ALL 7.9 billion were collected from the infrastructure impact tax for new construction following a two-digit growth, down by 6.1% in annual terms or about ALL 514 million less compared to the previous year. Excluding revenues collected from the municipality of Tirana, the other 60 municipalities in the country collected about ALL 1.5 billion from the IIT, with a significant decrease in annual terms by about 30%.

The performance in revenues from this tax suggests the continuation of development pressures measured by the number of construction permits issued. However, this pressure is mainly concentrated in the municipality of Tirana (about 24.2% of the total permits issued in the first half of 2020). The situation is portrayed as dynamic and fast-paced in terms of revenues generated and construction permits issued. Nevertheless, businesses operating in the construction sector perceive the situation as profoundly negative, as approximated by the Construction Confidence Indicator (CCI) shown in Chart 20.¹² During the period under consideration, the CCI remained broadly negative, suggesting a pessimistic situation in the construction sector.

Chart 19. Developments in infrastructure impact tax revenues



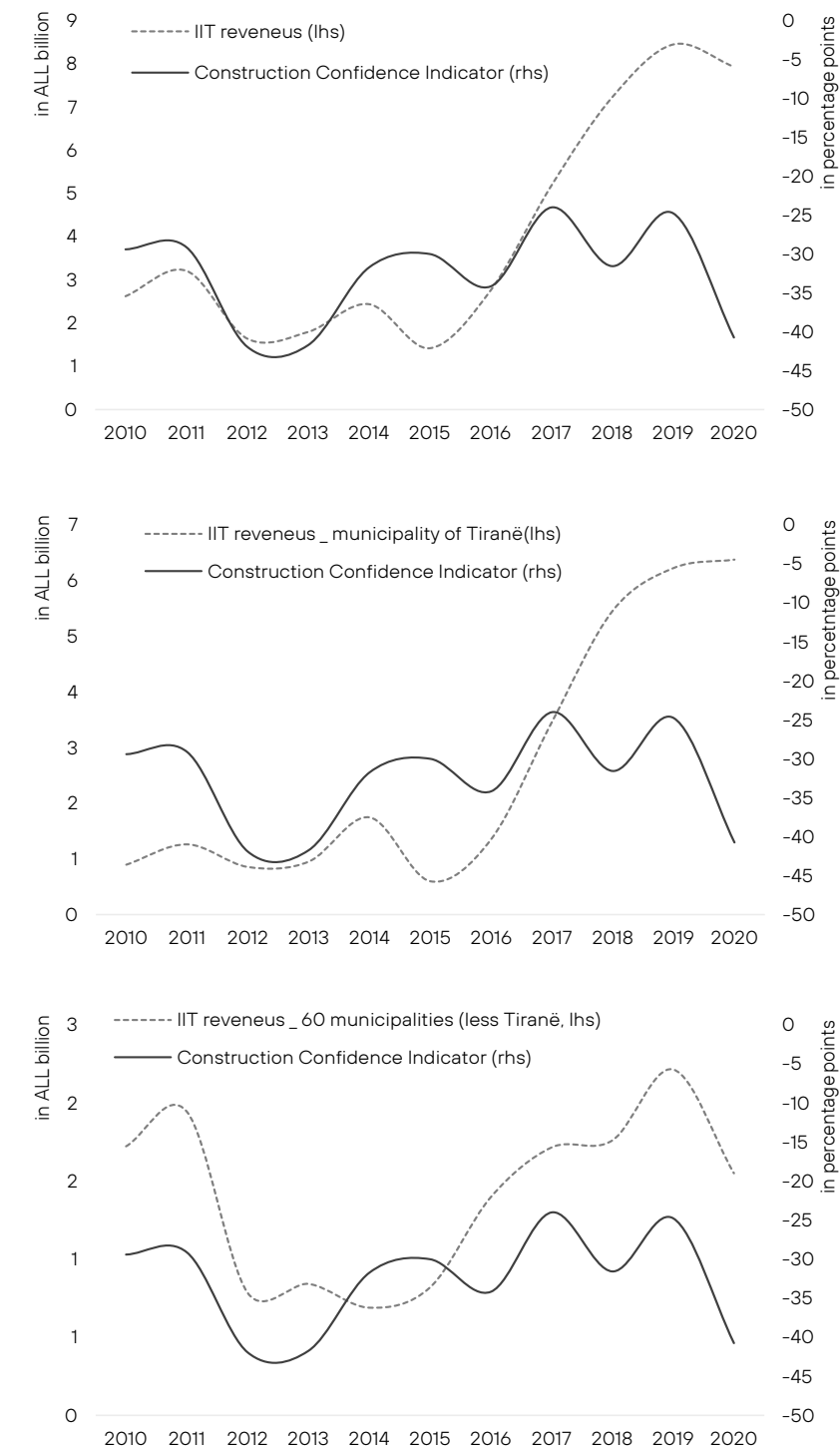
Source of data: Local Finances Portal www.financatvendore.al

However, although until 2017, the indicator of CCI and revenues from IIT in total represent a good correlation between them, in the following years, the two series present a significant gap between them. This difference is determined by the performance of revenues from IIT in the municipality of Tirana, especially after 2017. On the contrary, revenues from the IIT for the other 60 municipalities and the CCI are positively correlated over time.

On average, revenues from the IIT (for new construction and revenues from legalization) have progressively made bigger contributions to local budgets (chart 21). In the 2010-2015 period, revenues from IIT accounted for about 25.6% of revenues from local taxes, while in 2016-2020, their share of revenues

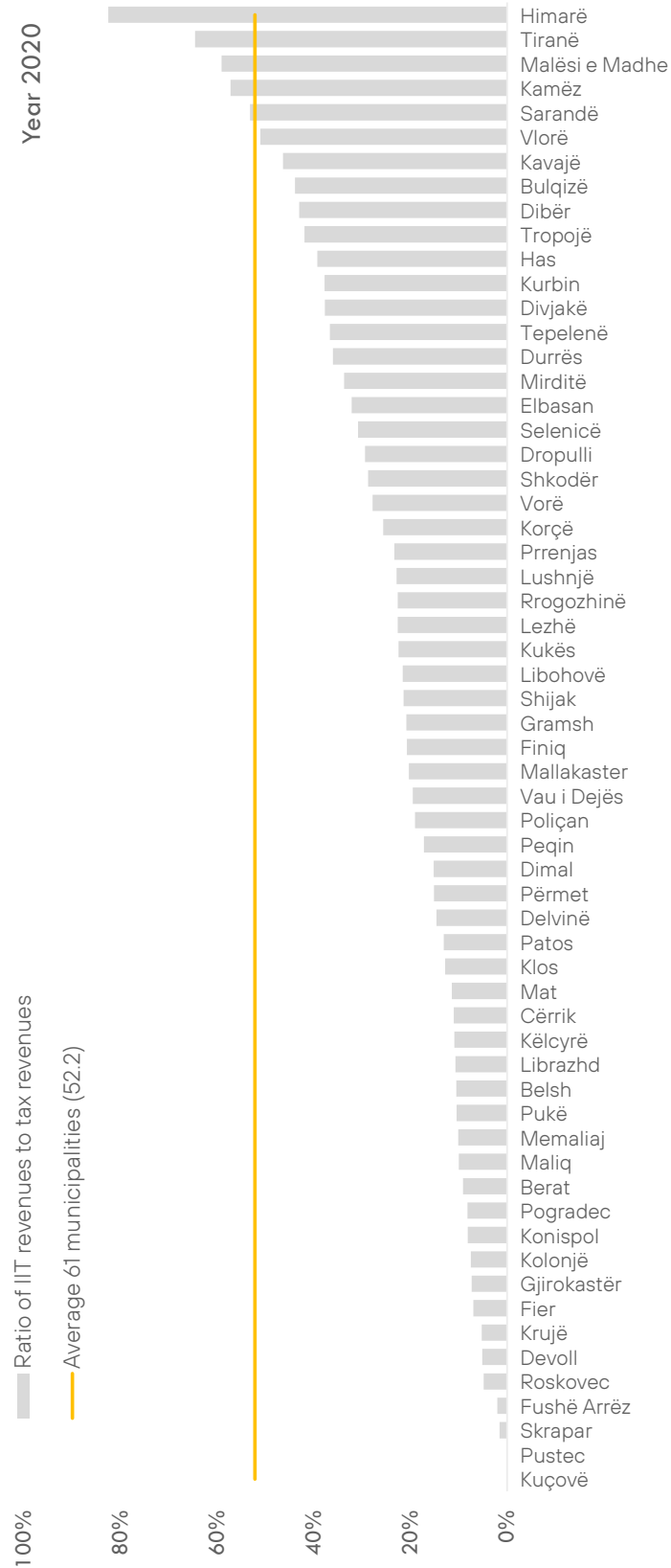
from local taxes jumped to 44.6%. By the end of 2020, total revenues from IIT in all 61 municipalities represented 52.2% of local taxes. For about 8% of municipalities or 5/61 municipalities, revenues from IIT stand above the national average of the indicator of IIT to local tax revenues: Himara (82.6%), Tirana (64.6%), Malësi e Madhe (59.1%), Kamëz (57.2%) and Saranda (53.2%) municipalities. In the municipality of Vlorë, the ratio of revenues from IIT to revenues from local taxes stands close to the national average. Meanwhile, in about 21% of municipalities or 13/61 municipalities, the revenues from this tax represent less than 10% of the revenues from local taxes, reflecting some extent, lower development pressures or lack of demand for new developments.

Chart 20. Indicators of developments in the construction sector



Source of data: Local Finances Portal www.financatvendore.al & Banka e Shqipërisë

Chart 21. Importance of IIT revenues in local budgets

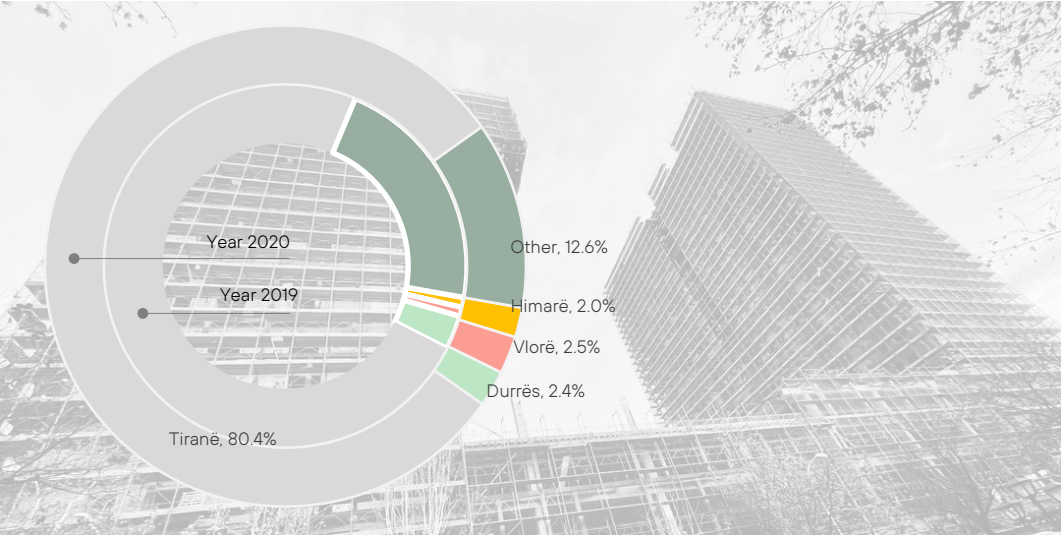


Source of data: Local Finances Portal www.financatvendore.al

Despite its considerable weight in local tax revenues, revenues from IIT are not collected uniformly in all municipalities (chart 22). About 80.4% of revenues from this tax were collected in the municipality of Tirana and the rest in the other 60 municipalities in the country. In 2020, the municipality of Tiranë collected about ALL 6.4 billion, up by 2.4% in annual terms. With a significant difference from the municipality of Tirana, the municipality of Vlora collected about 2.5% of revenues from IIT for 2020, followed

by the municipalities of Durrës (about 2.4%) and Himara (about 2.0%). Based on the information on building permits granted in the first six months of 2020, in the municipality of Tirana, there are about 520 thousand square meters of new construction area added or about 79% of the total new construction area in Albania. These data confirm the specificity of this municipality and the sharp difference between Tirana municipality and the other 60 municipalities in the country.

Chart 22. IIT revenue (total = 100%)



Source of data: Local Finances Portal www.financatvendore.al

Infrastructure impact tax has turned into a significant revenue source feeding the local budget, especially in large-scale municipalities like Tirana, Durrës, Himara, Lezha etc. This tax making more contribution to the local budget would require medium-term up to long-term projections and commitments to local public services for new developments. In total, 656 thousand square meters of new

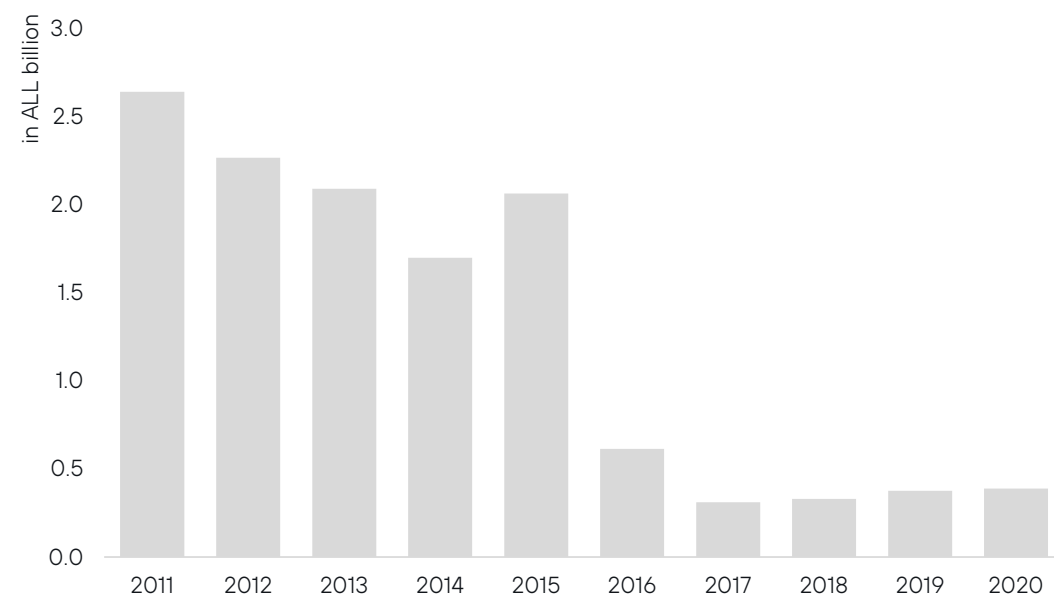
construction have been added in the first six months of 2020, which need to be serviced with public infrastructure. Additionally, since it is not a current – continuous revenue source, municipalities need to find the right solutions and capacitate themselves to cope with their current and future obligations. Practically speaking, revenues collected nowadays from this tax need to be invested in the necessary

public infrastructure construction and operation in the future, for them not to burden the budgets of next generations.

Revenues from simplified profit tax for small businesses - once an essential

stream of revenues in the local budget (in 2015, revenues from this tax stood at 24.7% of the total revenues from local taxes, while in 2020, the number decreased to 2.6%) - continue to make up a progressively smaller contribution (chart 23).

Chart 23. Simplified small business tax revenues



Source of data: Local Finances Portal www.financatvendore.al

In nominal terms, revenues from this tax recorded a value of about ALL 387 million in 2020, with an increase of 3.1% compared to 2020. In the long-term, revenues from this tax are expected to lose weight in revenues from own sources.¹³ Given the difficulties posed by the COVID-19 pandemic and to stimulate small business, part of the fiscal policy proposals is abolishing this tax by 2029.¹⁴ Meanwhile, according to Law No. 68/2017 "On Local Self-government finance", article 4, paragraph 6 provides that:

"should local taxes or charges be removed from the local self-government, the local self-government units shall be completely compensated by increasing the unconditional transfer, shared taxes, transferring at the local level of another national tax, or a combination of the above".

Likewise, Law No. 139/2015 "On Local Self-governance" provides in its article 34 on fundamental local self-governance finances, paragraph 5 that:

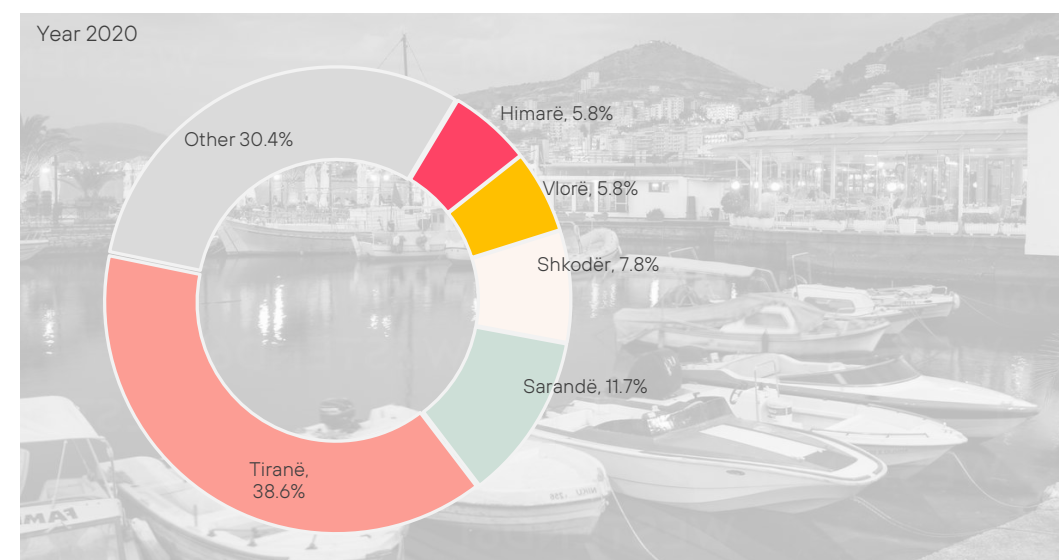
that "should change in the fiscal policy be associated with a decline in local tax rates, tax base, or the part of the local self-government units revenues from shared taxes, the Ministry of Finance shall be obligated to take measures to compensate such cut-off by increasing local financial transfers, providing more opportunities for local borrowing, and/or resorting to other means".

Although legally, the central government must compensate municipalities for missing revenues, since 2016, this does not seem to have happened. It also remains to be seen whether and how the unconditional transfer sharing formula will be revised, as this tax has been used to ensure

effective horizontal equalization between 61 municipalities (to consider existing differences in municipal fiscal capacity).

Although to a lesser extent (0.6% of local tax revenues), local tax revenues on hotel service activity contributed negatively to the overall performance of local tax revenues. For 2020, revenues from this tax marked a level of about ALL 94.7 million, down sharply by about 62.1% in annual terms. Such decline is reported to have been caused by the restrictive measures brought forward by the central government to curb the COVID-19 spread in the country. Restricted movement and border shutdowns were a cut-off to the revenues generated from this tax in the local budgets.

Chart 24. Hotel tax revenues



Source of data: Local Finances Portal www.financatvendore.al

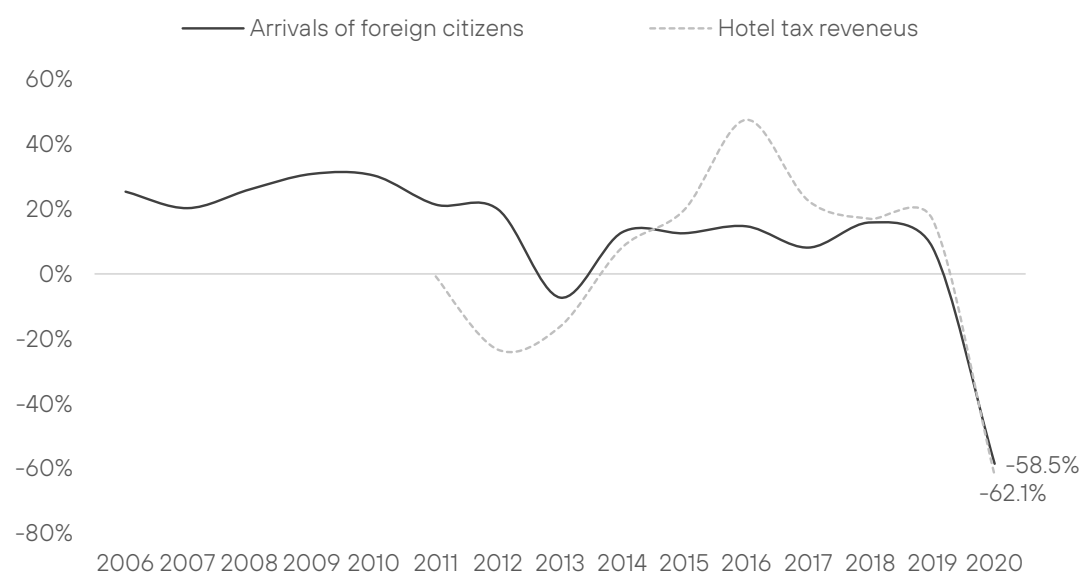
For 2020, about 38.6% of hotel tax revenues were collected in the municipality of Tirana, followed by

Saranda municipality, with about 11.7% of the total revenues collected from this tax (see Chart 24). The level

of revenue collected from the tax on hotel service activities is significantly below the potential of this tax, especially during the period before the COVID-19 pandemic outbreak and in municipalities with high touristic potential. In our country, the number of tourists has increased at an accelerated pace, which does not seem to have translated into increased revenues for local budgets from the hotel tax (see Chart 25). According to the legislation in force, the tax base is the number of nights a person stays in the hotel (calculated as ALL

per night per person). Depending on the typology of the accommodation structure and the category of the municipality, the hotel tax is about ALL 140 and ALL 350 in first category municipalities (Tirana and Durrës), about ALL 70 and ALL 175 in second category municipalities (Vlora, Fier, Saranda, Pogradec, Korça, Elbasan, Berat, Lushnja, Gjirokastra, Shkodra, Kavaja and Lezha) and ALL 35 and ALL 105 for third category municipalities (all the other municipalities, excluding first and second category municipalities).

Chart 25. Tourism and hotel tax revenue (yoy changes).



Source of data: Local Finances Portal www.financatvendore.al

Informality has been distressing the tourism sector for quite a while now, unfolding in many forms such as non-registration of accommodation facilities or real capacities, non-declaration of net stays or declaration of fictitious numbers etc. According to Kristo (2013) and ADF (2018), there is a considerable gap in the number

of accommodation facilities declared and the number of accommodation facilities operating in the field.

In the absence of sector formalization, municipalities lose revenues every year from their budgets, which could have been used to upgrade the tourist facilities and infrastructures.

Box 2

Taxing power of municipalities

Box 1 introduced the three main indicators used to assess municipalities' fiscal and financial autonomy in the country. The progress made in fiscal decentralization has also been assessed by relying on other revenue indicators to GDP and revenues from the central government. Based on these indicators, it was assessed for a low level of financial autonomy of the municipalities in the country and for a fiscal decentralization that does not yet seem to have materialized. For a better autonomy assessment of municipalities in terms of revenues, it's important to consider a series of other elements such as autonomy in determining tax rates, tax base, applicable facilities etc. For this purpose, we will apply the methodology developed by the OECD (OECD, 2020) to assess the autonomy of municipalities in taxation or the taxing power of municipalities in Albania.

According to the OECD, one of the economic and political advantages of decentralizing public finances comes precisely from the ability of local self-government units to make tax decisions. The more space the local self-government unit has in determining the level of the tax, the taxable base and other characteristics of the tax, the higher its autonomy or taxing power. To this end, the OECD has established a coding system to assess how much autonomy LGUs have in taxation, in descending order from highest to lowest, i.e. from highest to lowest.

Tax revenues perceived by municipalities in Albania are broadly regulated in two essential laws: Law No. 68/2017 "On Local Self-government Finances", and Law No. 31.10/ 2006 "On Local Tax System", as amended. These two laws entitle municipalities to generate revenues from local taxes, as summarized in Table 2. From a comparative perspective, however,

there is a need to fine-tune and unify them in terms of terminology and content. This applies to the immovable property tax, for which, in addition to the building tax, agricultural land tax, and urban land tax, Law No. 68/2017 "On Local Self-governance Finances" foresees related transactions" as well. Likewise, Law No. 9632/2006 "On Local Tax System", as amended, lists "immovable property ownership transfer tax" among the local taxes, with the law 68/2017 "On Local Self-government Finances" omitting to do so. The second law lists among the local taxes "the local tax on personal income, tax on revenues generated from gifts, inheritances, wills or local lotteries", while "the immovable property ownership transfer tax applicable to natural and legal persons" classifies as a shared tax. To clarify any ambiguity, it would be best to unify the terminology and classifications under the local taxes and shared taxes.

Table 2. Local taxes in Albania

Law 9632/2006 "On local tax system", amended	Law no. 68/2017 "On local self-government finances"
Simplified profit tax for small business	Local tax on small business economic activity
Immovable properties taxes which include building tax, agricultural land tax and urban land tax	Tax on immovable property, which includes a tax on buildings, a tax on agricultural land and tax on
Hotel tax	Hotel accommodation tax
Tax on the infrastructure impact of new buildings	Tax on the infrastructure impact of new buildings
Property transfer tax	
Billboard tax	Billboard tax
Temporary taxes	Temporary taxes
	Taxes on personal income, taxes on revenues derived from donations; inheritances, testaments, and from local lotteries;
	Other taxes

Since revenues from local taxes and shared taxes are used autonomously by municipalities, the municipal tax power/autonomy assessment matrix will also include shared taxes:

- Immovable property ownership transfer tax applicable to natural and legal persons (with municipalities receiving 97% of revenues collected);
- Annual used vehicle circulation tax (with municipalities receiving 25% of revenues collected);
- Mineral rent (with municipalities receiving 5% of revenues collected);

■ Personal income tax (with municipalities receiving 2% of revenues collected).

Revenues from local taxes and shared taxes are autonomously used by municipalities (Article 4 of Law 68/2017 "On Local self-government finances"). Meanwhile, the law on national taxes lays down that revenues from mineral rent should be used for investments. The same law stipulates in its article 12, paragraph 4 that revenues from infrastructure impact tax "...should be mainly used to fund public investments".

Based on the assessments introduced in table 3, it can be concluded that Albanian municipalities enjoy low tax powers. Municipalities are entitled to determine the tax base (using as a reference the tax base of immovable property tax), the tax level (no more than 35% of the tax base), and other features for temporary taxes only (in line with the provisions and the regulatory framework in force). Thus the taxing power falls under the B2 category. Tax power related to the simplified profit tax for small businesses and hotel tax is entirely centralized and classified under category E. About the infrastructure impact tax, the tax level and tax basis are determined by the central government, and municipalities may only determine the tax level by relying on categories or sub-categories (tax power under category C). The central government determines the property tax, the tax base and tax level, and other items. Municipalities (Municipal Council) are entitled to set the tax level with a margin of +/-30% from the indicative tax level, according to categories; therefore, it may be classified under category C. When assessing the tax power concerning shared taxes, the assessment suggests that municipalities have no control over rates and tax base; therefore, they are classified under category D4.

Based on assessments of municipal tax power in Albania, it can be deduced that the local taxes are determined at a centralized level. Simply put, municipalities have a silent voice in determining the tax base and level. The best scenario depicts municipalities deciding on categorizations or sub-categorizations or other facilities concerning deadlines, exemptions, or payment modalities. Similarly, shared taxes are subject to the central government decision-making, with municipalities having no voice in the process. Moreover, when the central government makes fiscal changes related to such taxes, municipalities are not compensated for the difference with other financial resources.

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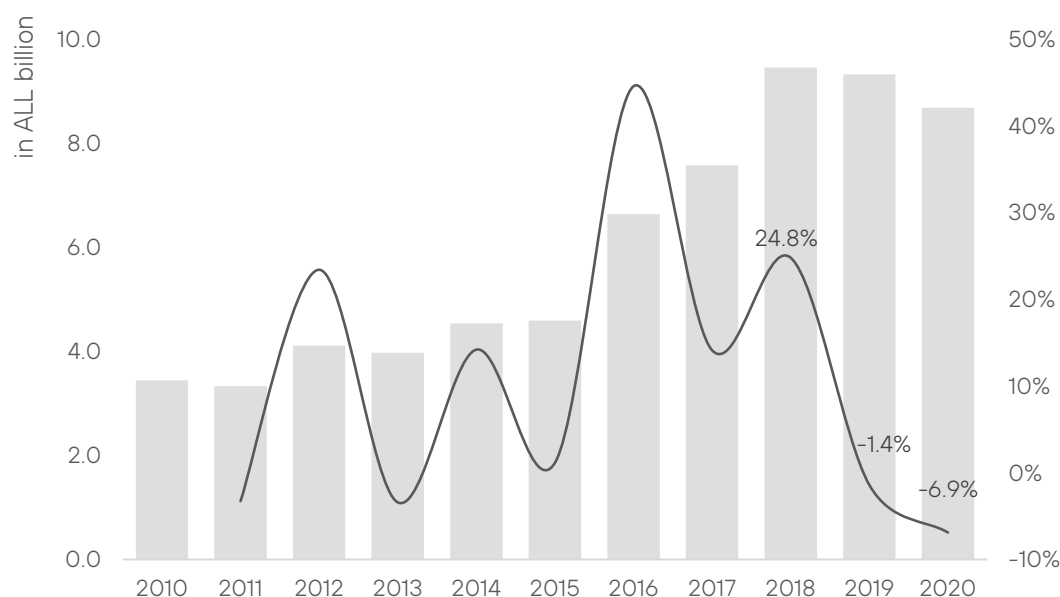
Source of data: Adapted from OECD (2020)

1.1.2 Revenues from local charges

Revenues from fees make up a significant revenue source in the local budget, for which the municipalities have full decision-making autonomy (in determining the base, the rate and other facilities). However, this funding source presents high volatility to internal and / or external shocks (such as earthquakes and the COVID-19 pandemic). Under the pressures of the COVID-19 pandemic, municipalities had to adjust their working methods in the light of restrictions imposed and their obligation to keep on delivering essential local public services and services dictated by the health crisis. Findings from the municipal survey suggest that some services were provided online (e.g. territory planning

and management, education etc.); civil registry services, cultural activities, one-stop shops, sports, tourism, public transport etc. were suspended; while civil protection services, waste management, water supply, social protection services etc. were delivered on-site despite the multiple difficulties (Toto, Toska, Shutina, Farrici, & Limaj, 2020). In this context, over 80% of the municipalities presented negative expectations regarding collecting revenues from their sources, specifically cleaning, greenery, occupying public spaces, etc. (Toto et al., 2020: p.30). Data on the performance of local fees revenues during 2020 are in line with their expectations.

Chart 26. Developments in revenues from local fees



Source of data: Local Finances Portal www.financatvendore.al

Revenues from local fees in 2020 totalled ALL 8.7 billion, down by 6.9% in annual terms, mainly due to the shrink of revenues from public spaces occupation and other administrative charges. Excluding revenues generated by the municipality of Tirana (about 46% in 2020), the annual rate of decline in revenues from local tariffs for the other 60 municipalities in the country deepens further to about 10% in yearly terms. The contraction registered in revenues from local fees is assessed to affect the sustainability of public service delivery (at least the most essential ones).

At the municipal level, revenues from local fees decreased in 32 out of 61 municipalities (chart 27), with the highest decrease rates being noted in Kamëz (-53.5%), Tirana (-2.9%), Durrës (-20.2%) and other municipalities. Contrariwise, revenues from local charges in Patos, Pusteci, Puka, Belsh, Ura Vajgurore municipalities etc., saw a positive upward trend.

According to the main items, revenues from service fees equalled 50% of total revenues from fees; revenues from administrative and other charges represented 36.7%, while revenues from public spaces occupation fees accounted for about 13.3%. Revenues from public service fees (waste management, lighting and greenery, water supply and sewerage, irrigation and drainage) amounted to ALL 4.3

billion, with the number going slightly up by 0.4% in annual terms. About 88.4% of revenues from public service fees were collected from the cleaning and hygiene fee.

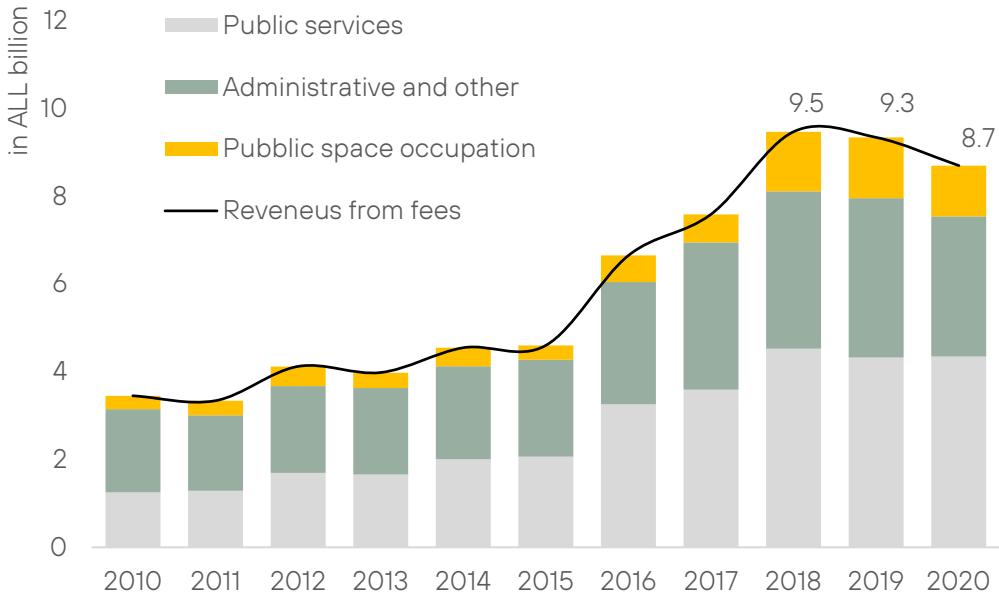
Over the last three years, revenues from the cleaning and hygiene fee have been slightly fluctuating, thus preserving an average level of ALL 3.8 billion per year and suggesting an amortization of the effect of increasing this fee by some municipalities. In many municipalities, this fee is collected by using WSSU companies as tax agents (mainly in urban areas and where there is a water supply network established). Meanwhile, revenues from local tariffs do not yet appear to reflect the additional costs of landfill disposal (where a specific fee is applied per ton of waste deposited) and / or their transfer to incinerators for incineration. Revenues from public lighting fee amounted to ALL 285.6 million, representing about 6.6% of revenues from services fees. In contrast, revenues from the irrigation and drainage service fee, although weighing less in the total of revenues from local charges, significantly increased compared to the previous year. Revenues from this fee in 2020 amounted to ALL 21.8 million from ALL 5.8 in 2019. This fee is collected more widely in Elbasan, Berat, Korca, Lushnje and Ura Vajgurore, etc., according to their agricultural economic character.

Chart 27. Revenues from local fees by municipalities (year 2020)



Source of data: Local Finances Portal www.financatvendore.al

Chart 28. Revenues from fees by items



Source of data: Local Finances Portal www.financatvendore.al

Table 4. Revenues from fees by categories

	Value in ALL	Share to total
Cleaning and hygiene fee	3,833,184,250	88.4%
Public lighting fee	285,609,935	6.6%
Greening fee	197,479,253	4.6%
Water supply and sewerage fee	413,654	0.0%
Irrigtaion and drainage fee	21,813,934	0.5%
Total services fee	3,833,184,250	100%

Source of data: Local Finances Portal www.financatvendore.al

Revenues from the public spaces occupation and use fee decreased by 16.2% annually, recording about ALL 1.2 billion in 2020. Let's look at the performance of specific items. It turns out that revenues from the fee for occupying public space for business purposes (bars and restaurants) occupy the highest share with about 49.2% of the total, followed by revenues from parking with 41.5 %. Regarding

1.1.3 Local borrowing and arrears¹⁵

In the absence and / or insufficiency of financial resources, municipalities may take short-term loans to cover short-term, or long-term liquidity needs to finance capital expenditures or refinance an existing loan. Terms and conditions the local self-government should comply with to access such loans are laid down under Law No. 9869/2008 "On Local Self-government Borrowing". OECD considers access to external financial resources as a revenue-related autonomy indicator (be it a short-term and/or long-term loan, and/or a PPP).

Data published in the debt register by the end of 2020 revealed that Korça, Pogradec, Vlora, Elbasan, Lezha municipalities have active loans in the local banking systems.¹⁶ All the above-referenced loans were borrowed in 2010 (Korça, Pogradec, Vlora and Elbasan municipalities) and 2014 (Korça and Lezha municipalities) to fund infrastructural projects. After 2014, no

the revenues from the parking fee, it is worth mentioning that only the municipality of Tirana collects about 83.5% of the total revenues from this fee, followed by the municipality of Durrës with about 3.9%. In this regard, the other large municipalities, the county centers, have not had the same performance, although they have potential (considering the number of population and vehicles).

municipality seems to have borrowed, although the needs for investments are enormous and the municipal capital budget is insufficient.

In total, the local self-government debt stock by the end of 2020 amounted to ALL 432 million or 0.026% of the GDP¹⁷, thus making a small contribution to the overall public debt number. Compared to 2019 data, municipalities have lowered their exposure to banks by ALL 150 million, depending on relevant plans to settle loans.

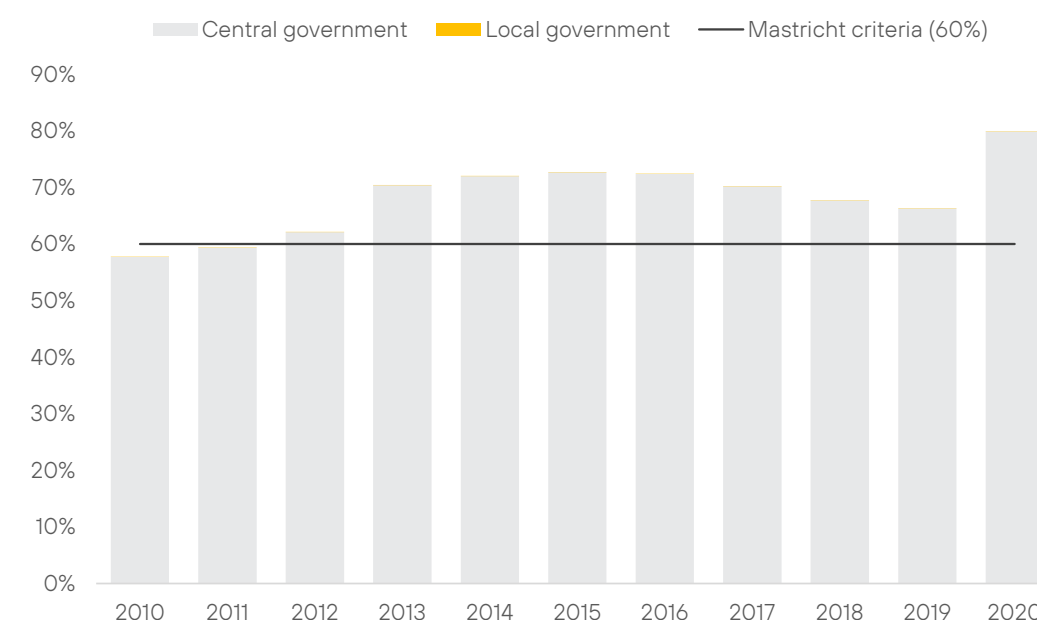
Although municipal exposure to loans is low and plays a modest role in the country's overall debt, no municipality seems to have borrowed after 2014. This relates to the conditions that should be met and the fiscal consolidation path undertaken by the MoFE. The latter appears to have limited the borrowing space made available to municipalities, as long as it increases the overall public debt (chart 29).

Table 5. Local Borrowing.

Borrower	Lender	Amount (in ALL millions)	Signed at:	Maturity:	Outstanding stock at the end of 2019: (in ALL millions)	Outstanding stock at the end of 2020: (in ALL millions)
Korçë Municipality	Pro Credit	100	2010	2020	16.3	6.0
Korçë Municipality	ISBA	200	2014	2024	121.4	99.0
Pogradec Municipality	Pro Credit	113	2010	2020	5.7	0.6
Vlorë Municipality	BKT	420	2010	2020	35.3	20.3
Petrelë Municipality	BKT	15	2010	2019	-	-
Elbasan Municipality	BKT	800	2010	2020	364.2	277.4
Lezhë Municipality	ISBA	107	2014	2023	38.8	28.9

Source of data: Ministry of Finance and Economy 2021

Chart 29. Public debt to GDP and Maastricht criteria



Source of data: Ministry of Finance and Economy & authors calculations

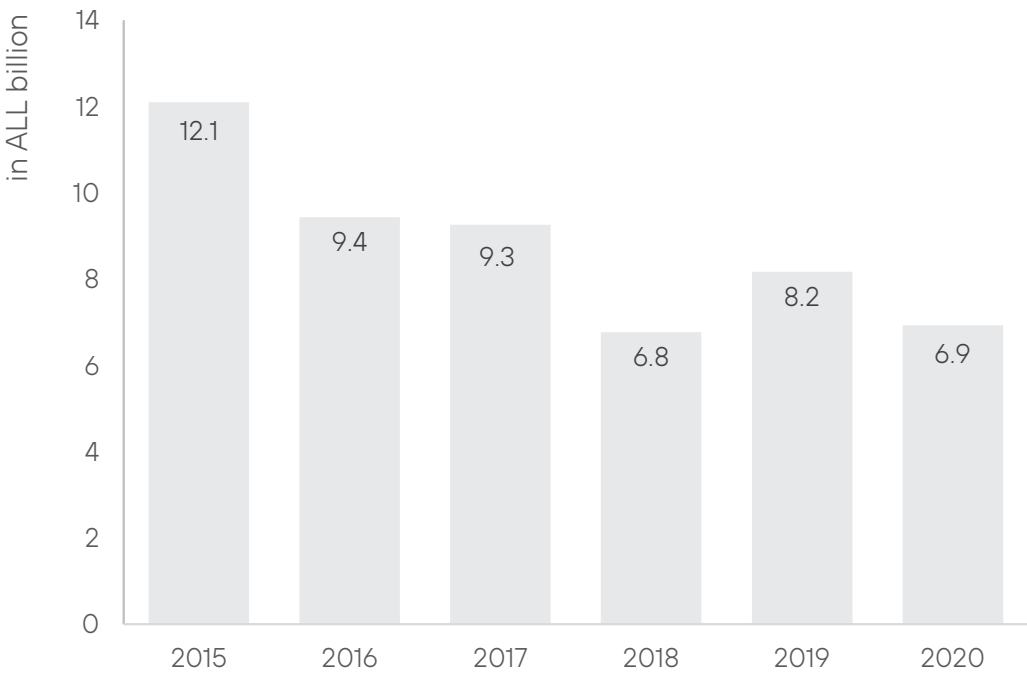
Meanwhile, despite the debt indicators, municipalities in the country have their stock of outstanding liabilities, which by the end of 2020 amounted to ALL 6.9 billion, 16 times higher than the local self-government debt stock. As a share of nominal GDP, arrears stock accounted for about 0.42% by the end of 2020, compared to 0.5% one year ago.

Outstanding liabilities of municipalities have been systematically identified, starting from 2015, according to DCM No. 50/2014 "On approval of the strategy to prevent and settle outstanding liabilities in the action plan" and Ministry of Finance Instruction No. 5/2014 "On settling outstanding liabilities". Although incurred by former communes attached to new

municipalities following the territorial administrative reform, these arrears are an inherent burden to local budgets. Additionally, municipalities keep on creating new obligations, which also add to the local budget pressures. In this framework, the central government undertakes to:

"settle the outstanding obligations related to works executed, in the framework of funding from Regional Development Fund, as well the transfers for insolvency benefits. All other financial obligations caused by the local self-government units not mentioned above, should be covered by the local self-government own budget".

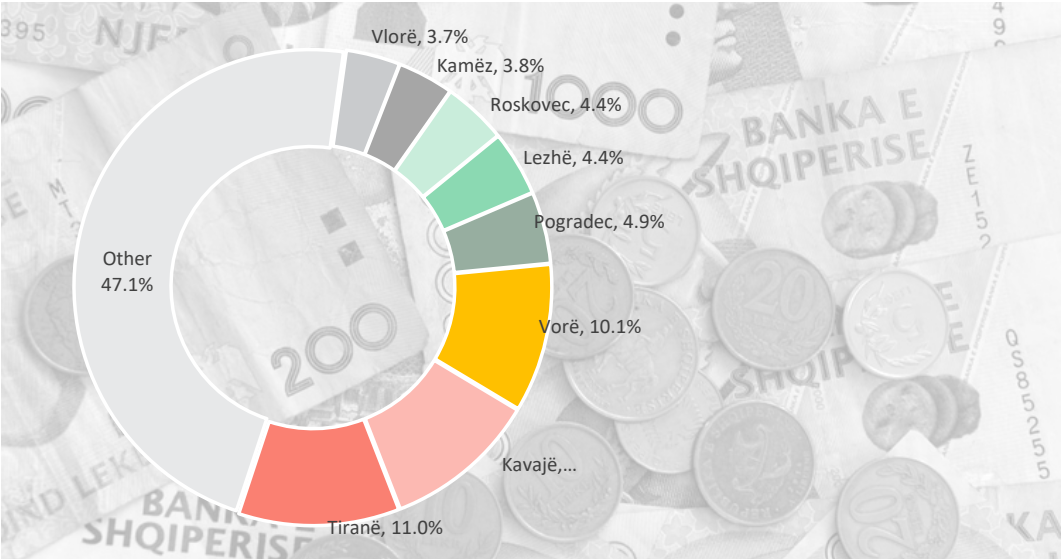
Chart 30. Stock of arrears



Source of data: Ministry of Finance and Economy & authors calculations

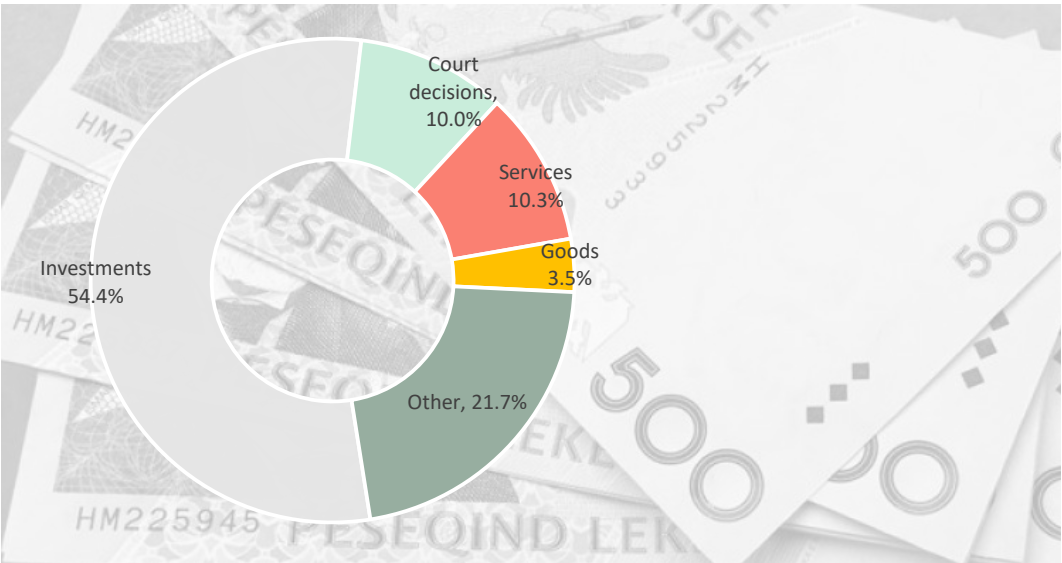
According to the Ministry of Finance and Economic data, by the end of 2015, the arrears stock amounted to ALL 12.1 billion, which was quite distressing at both local and central level. Ever since 2015, the arrears stock followed a downward trend and in 2020 amounted to ALL 6.9 billion, thus decreasing by 15.2% in annual terms, or ALL 1.2 billion compared to 2019.

Chart 31. Municipalities share in the stock of arrears



Source of data: Ministry of Finance and Economy & authors calculations

Chart 32. Stock of arrears by categories



Source of data: Ministry of Finance and Economy & authors calculations

The stock of arrears was reduced in 70.5% of municipalities (or 43/61) with the following municipalities recording significant reduction rates: Tirana (- ALL 996 million), Kukës (ALL -206 million), Kamëz (- ALL 143 million), Bulqiza (- ALL122 million), Dibra (- ALL 111 million) etc. In contrast, about 26.2% of municipalities (or about 16/61 municipalities) turn out to have contributed to the growing stock of arrears at the end of 2020 compared to its level at the end of 2019. Considerable growth of arrears has been noted in the municipalities of Vora (+ ALL 688 million), Malësi e Madhe (+ ALL 204 million) and Roskovec (+ ALL 157 million).

On average, the municipal arrears burden citizens for ALL 2,475 per capita by the end of 2020, compared to ALL 2,918 by the end of 2019.¹⁸ At the municipal level, arrears per capita mark the maximum value in the municipality of Vora with about 27,542 ALL per capita and the minimum level of about 24 ALL per capita in the municipality of Shkodra. The municipalities of Dropull, Patos, and Këlcyrë do not have arrears at the end of 2020 (see Chart 33).

To assess to what extent municipalities are exposed to financial difficulties based on the stock of debt and arrears, we will refer to provisions under Law No.68/2017 “On Local Self-government Finances”. Article 57, paragraph 1 therein stipulates that:

“A local self-government unit shall be considered in serious financial distress when, in the subsequent budget year, long term debt and outstanding liabilities towards third parties constitute more than 80% of approved annual expenditures”.

Moreover, article 59, paragraph 1 therein provides that:

“the local self-government unit is considered insolvent if it fails to implement the financial rehabilitation plan and / or the ratio of long-term debt and outstanding liabilities to the total of approved annual expenditures is higher than 1.3”.

Based on the provisions made under the regulatory framework, we will use the data on long-term municipal debts, arrears, and actual expenditures for 2020 to assess municipalities’ financial distress and insolvency (Chart 34). The data show that the municipality of Vorë ranks under financial insolvency situation since the ratio of long-term debts and arrears to effective expenditures by the end of the year (actual municipal spending in 2020) was 2, that is 0.7 units above the reference level. In these conditions, the municipality of Vora should go through the procedure for overcoming the insolvency situation, which means that based on the MFE and the PM pass this municipality under administration and with a clear plan for the settlement of these obligations.

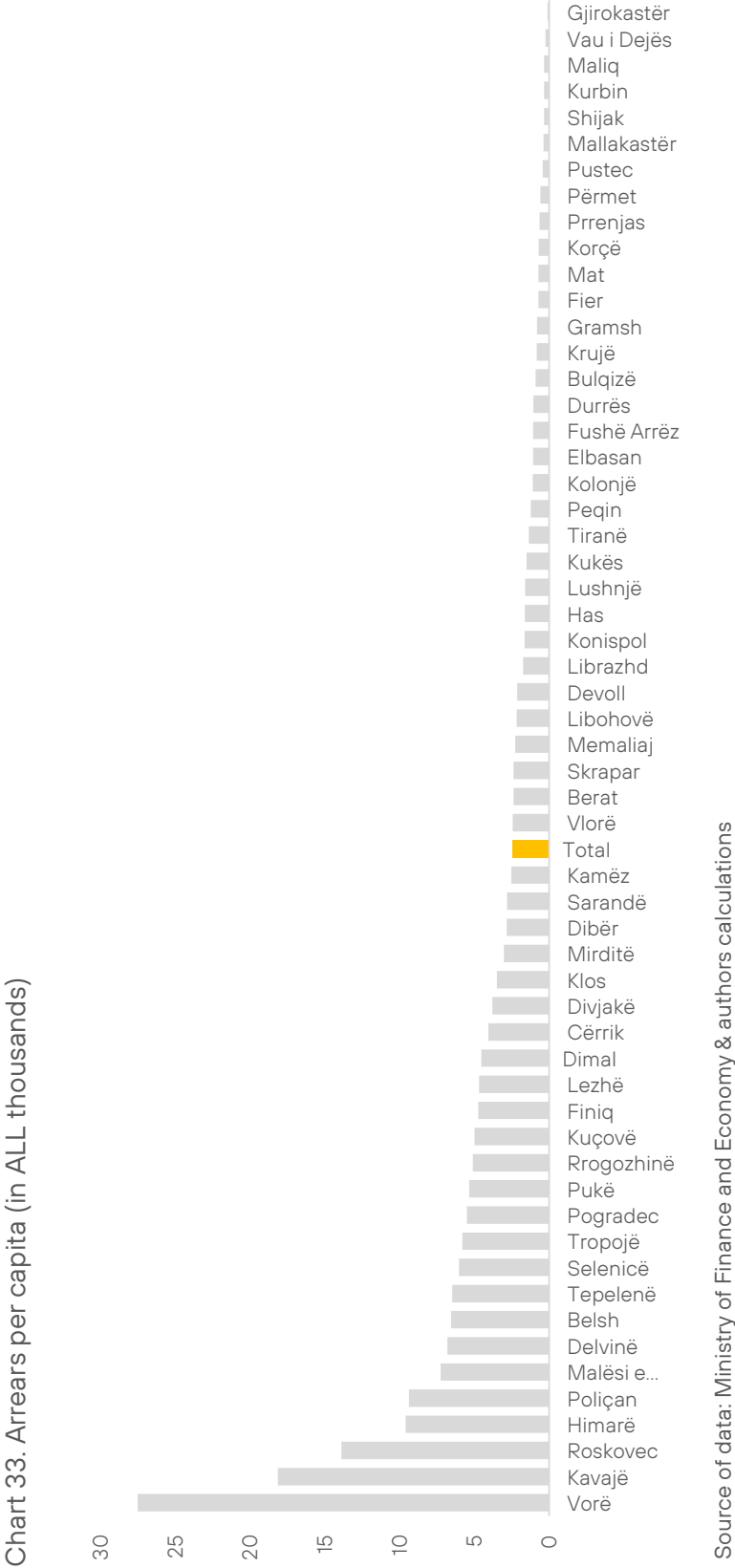
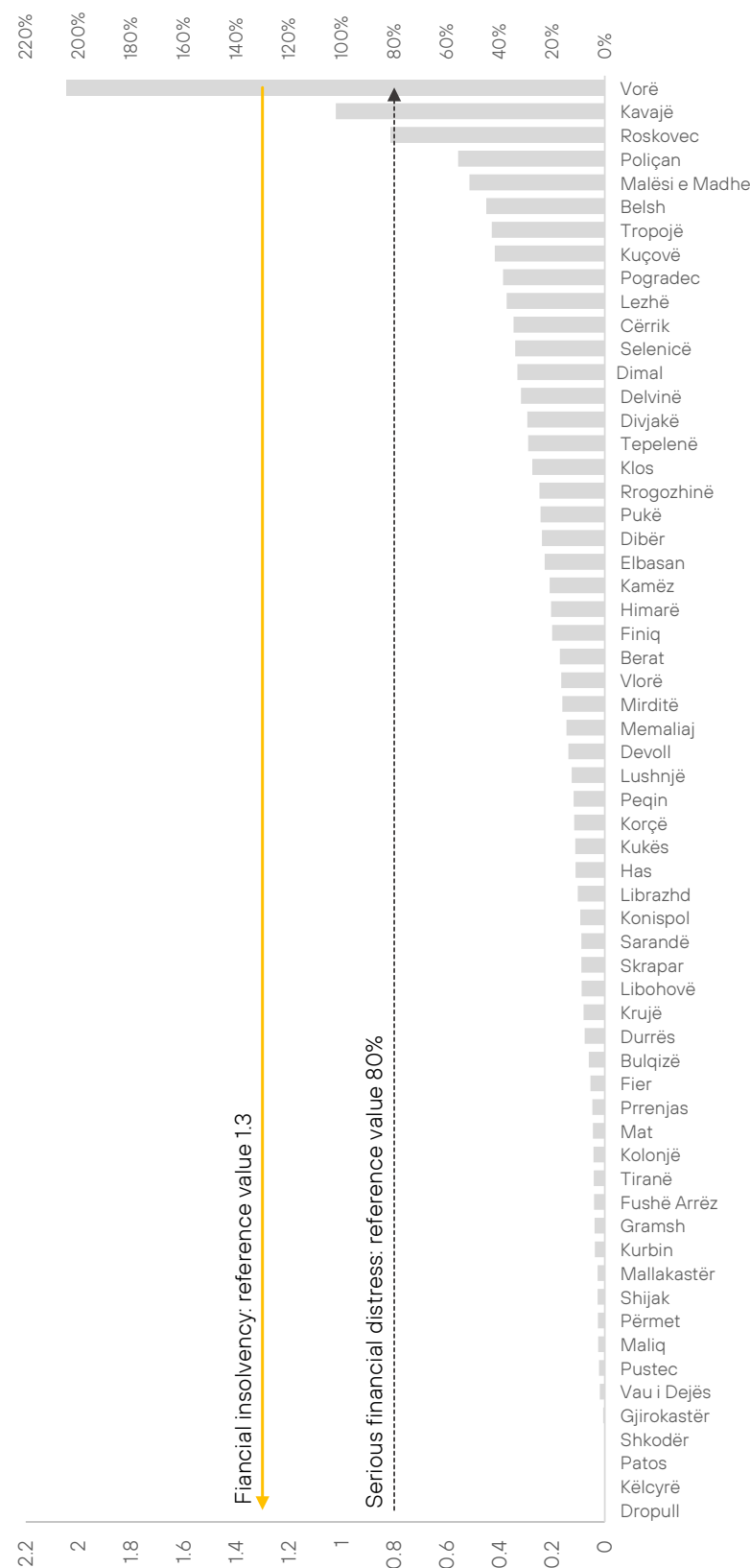


Chart 34. Assessment of financial problems of municipalities



Source of data: Ministry of Finance and Economy & authors calculations

The Municipality of Kavaja is in serious financial difficulties as the ratio of long-term debts, and outstanding liabilities to actual expenditures of 2020 exceeds the reference level of 80% and marks 102.4%. The second municipality under serious financial distress is Roskovec municipality, with outstanding liabilities standing at 81.5% of the actual expenditures for 2020. Both MoFE and PM should

take the necessary measures to prevent the financial distress from deepening further. Meanwhile, although under the threshold provided for by the law, Poliçan and Malësi e Madhe municipalities should show an increased level of diligence in terms of financial management because the ratio of outstanding liabilities towards actual expenditures for 2020 is higher than 50%.

1.2 Revenues from shared taxes

Shared taxes between local and central government have been subject to much debate lately. Upon approval of Law No. 68/2017, "On Local Self-government Finances", the categories of shared taxes between the local and central government were reviewed and added. Thus, municipalities perceive under shared taxes: (i) 97% of revenues from immovable property ownership transfer tax for natural and legal persons¹⁹; (ii) 25% of revenues from used annual vehicle circulation tax; (iii) 5% of revenues from mineral rent; and (iv) 2% of revenues from personal income tax. The performance of revenues from shared taxes has been fluctuating over the years, depending on the total revenues collected at the central level. In 2020, revenues from shared taxes represented about 9.4% of revenues from own sources and represented approximately 2.5% of the total financial resources. Overall, revenues from shared taxes contributed with ALL 2.3 billion into the local budget by the end of 2020, increasing by 35.1% in annual terms (chart 35).

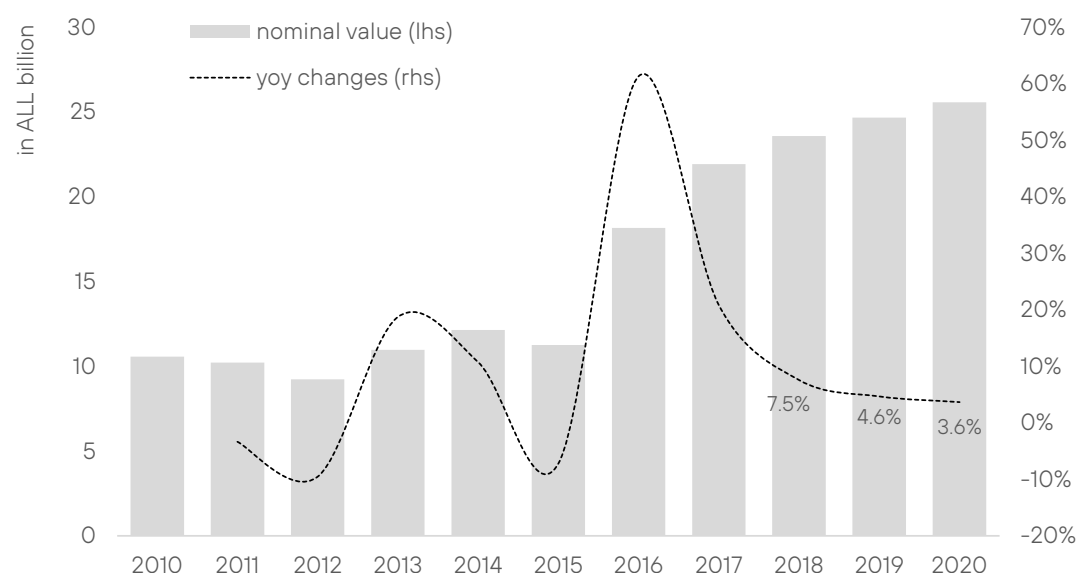
The last legal changes made to Law No. 68/2017 "On National Taxes" amended, the mineral rent obligation was suspended until 2023 and lowered to 1/3 of the rate for 2024.²⁰ The change made by the central government directly reduces municipal revenues, meaning that municipalities have to be compensated with another source of revenues (as was the case with lost revenues from simplified profit tax for small businesses). Moreover, the relevant legislation should be aligned because Law No. 68/2017 "On Local Self-government Finances" provides Article 4, paragraph 4 that shared taxes are autonomously used by municipalities, while law no. 9975/2008 "On National taxes" stipulates that municipalities should use the revenues from the mineral rent for investments.

Meanwhile, the allocation of revenues from personal income tax (PIT) is still unclear for 2020,

including previous years arrears. In simple math, this leads to a lack of revenues for local budgets, which in cumulative terms amounts to about ALL 2 billion for the entire period

under consideration that was to be divided among municipalities²¹, based on the provisions under law no. 68/2017 "On Local Self-government Finances".

Chart 35. Revenues from shared taxes



Source of data: Local Finances Portal www.financatvendore.al

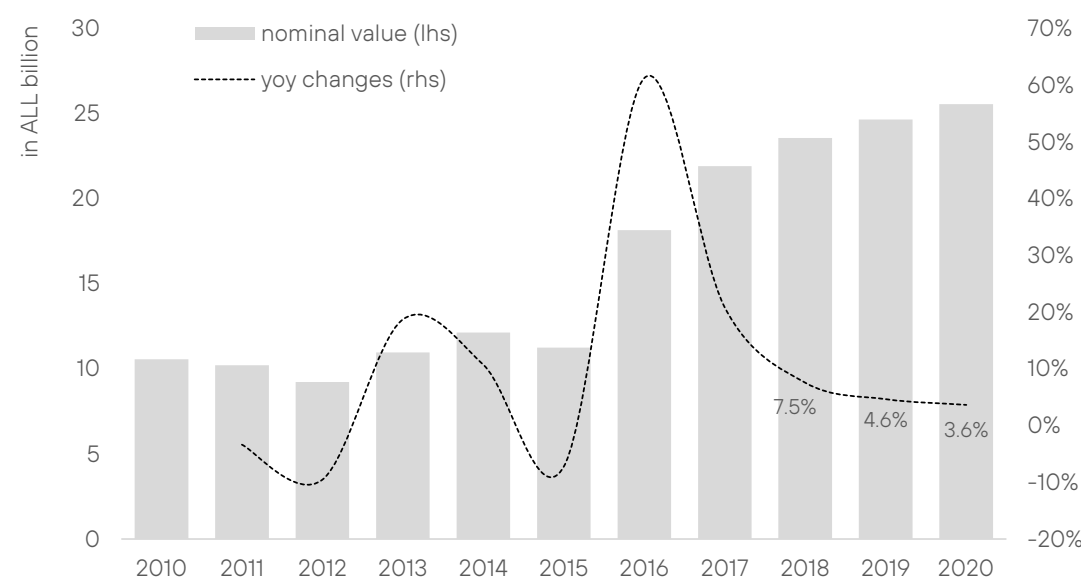
1.3 Unconditional transfers

Unconditional transfer (general and sectoral) is an essential financial resource in fulfilling the exclusive functions of municipalities, aiming to close the negative gap between the need for expenditure and fiscal capacity.²² This financial resource is especially important to ensure financial sustainability for municipalities in the aftermath of natural disasters like the earthquakes that hit the country by the end of 2019 and the COVID-19 pandemic. Despite the year 2020 exposed the local and central budget to added distresses, the unconditional transfer level was not reviewed and

remained unchanged to the level predicted in the initial governmental budget²³

In the period under review, financial resources under the unconditional transfer (general and sectoral) amounted to ALL 25.6, up by 3.6% in annual terms (Chart 36). In terms of relative importance, the size of the unconditional (general and sectoral) transfer is higher than own-source revenues, thus representing 49.1% of financial resources available in the period under analysis and is assessed at about 1.6% of the nominal GDP.

Chart 36. Unconditional transfer



Source of data: Local Finances Portal www.financatvendore.al

The unconditional transfer consists of two parts: (i) general unconditional transfer used autonomously by municipalities and allocated based on the criteria of the formula approved by law no. 68/2017 "On Local Self-government Finances"²⁴ and (ii) sectoral unconditional transfer, behaving like a transfer with pre-determined destination for the new functions transferred in 2006.

Starting from 2017, the unconditional transfer level for municipalities has seen positive upward trends, which will be the case until 2024. However, in the last MoFE round of projections

in the framework of the Medium-term Budget Program (MTBP) 2022-2024, predictions have been revised on the downward side. Based on the forecasts under the MTBP 2021-2023, the unconditional transfer was projected to increase by about 5% in 2021 and by about 6% in annual terms in 2022 and 2023. Following the situation created by the earthquakes at the end of the year 2019 and the COVID-19 pandemic, forecasts for unconditional transfer growth for municipalities have been somewhat reduced by forecasting an increase of about 1% in 2021, an unchanged level for 2022 and an increase of about 7% in 2023 and 2024.

Chart 37. Importance of unconditional transfer in municipal financial resources

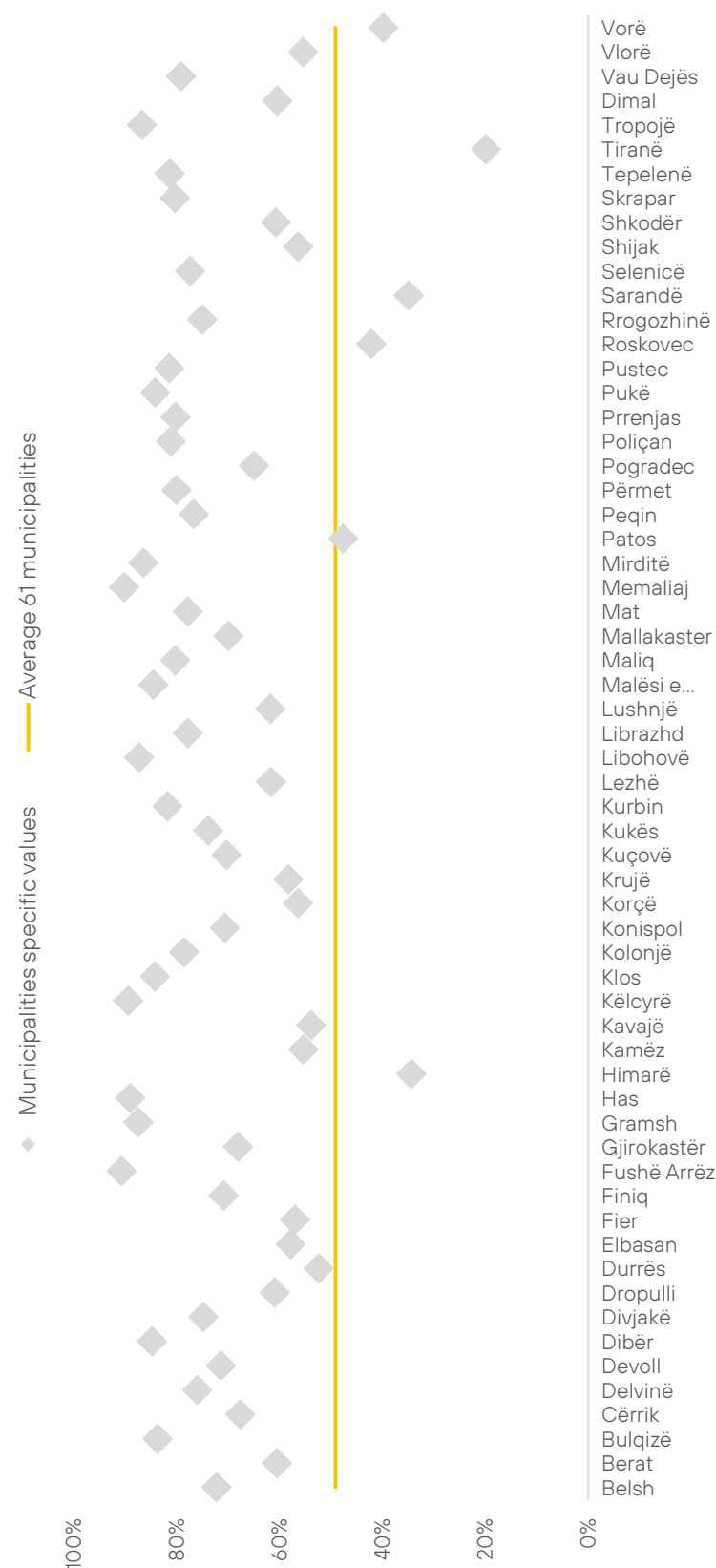
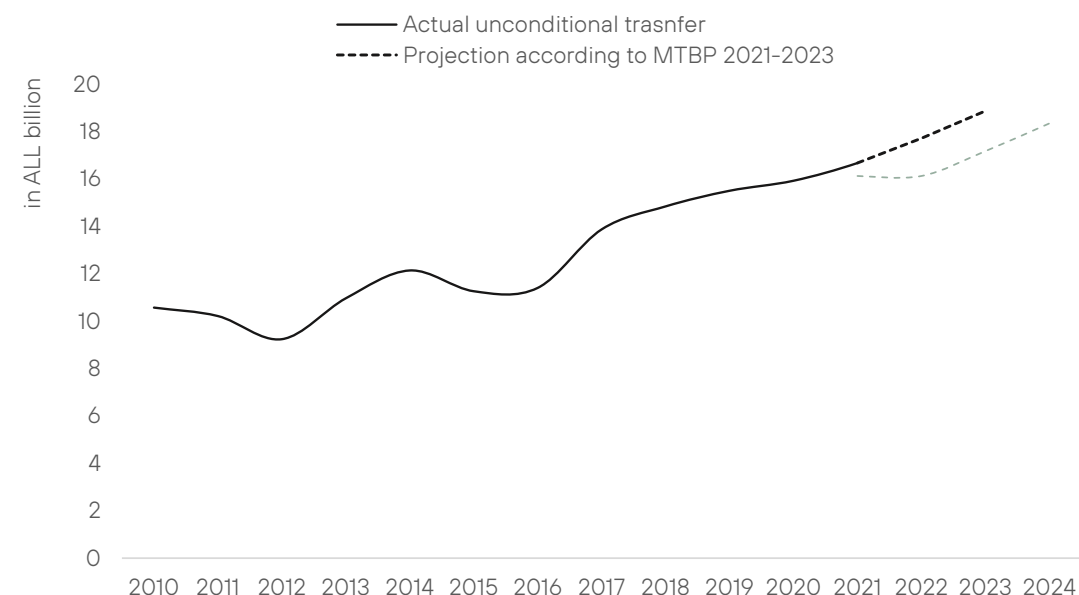
Source of data: Local Finances Portal www.financatvendore.al

Chart 38. Projection of unconditional transfer (general part)

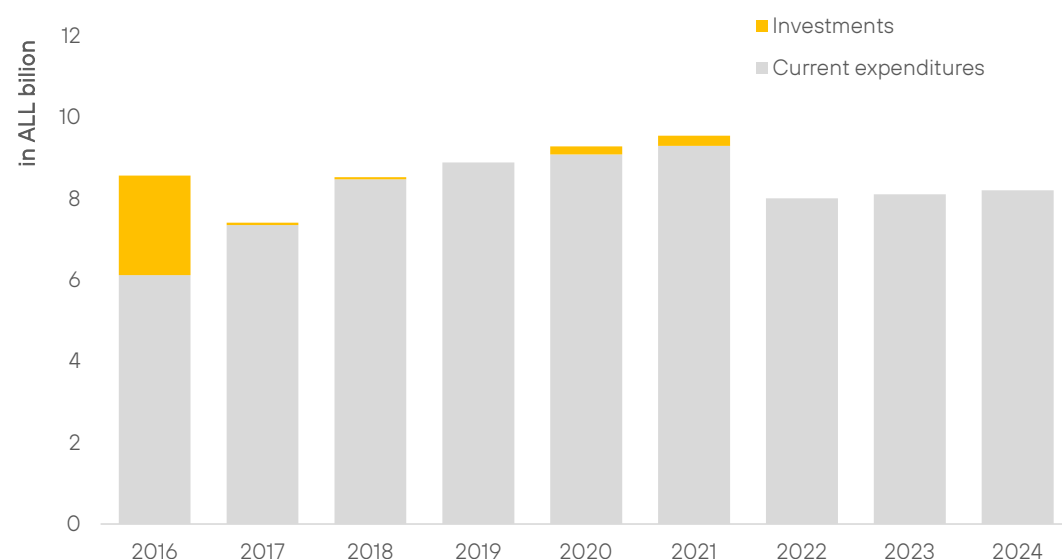
Source of data: Local Finances Portal www.financatvendore.al & Ministry of Finance and Economy

The second unconditional transfer component is the sectoral unconditional transfer, covering the expenditures for the competencies transferred from the central government to municipalities in 2016.²⁵ In the assessment of the municipalities, the sector transfers fail to cover the costs required for the provision of qualitative services (for the devolved ones), as at the time of their transfer, their general condition was poor.

In 2019-2021, an item was added to sectoral unconditional transfers concerning "Partizani" and "Student" multi-sports club, amounting to ALL 31 million per year. In addition to funds foreseen by the MoFE, municipalities

may add funds to their sources to provide a better quality of transferred functions.²⁶ Ever since transferred to the municipality, the sectoral transfer has seen a slight upward trend, where in addition to funds for covering current expenditures related to the function, other funds for investments have been transferred: an ALL 2.6 billion in 2016 for irrigation and drainage investments; an ALL 57 million fund in 2017 for dam safety; an ALL 50 million fund in 2018 for investment in the fire protection function; an ALL 200 million fund in 2020 for road investments in Gramsh and Rrogozhina municipalities; and an ALL 250 million fund for road investments in Finiq, Gramsh and Pogradec municipalities.²⁷

Chart 39. Unconditional transfer, sectoral part



Source of data: Local Finances Portal www.financatvendore.al & Ministry of Finance and Economy

The sectoral transfer for pre-university education dormitories saw a slight upward trend during 2016-2020 and is expected to remain unchanged in 2020 and 2021. 27 municipalities benefit from this transfer, with 17.3% of total funds being transferred to the municipality of Tirana and 11.1% to the municipality of Shkodra.

The sectoral transfer for pre-school education seems to have progressively increased for the period under consideration. This transfer covers the expenditures for the teaching and non-teaching staff in pre-school education. From 2019, the sectoral transfer used to cover the expenditures for the teaching staff in pre-school education has been allocated based on a pre-determined formula. After an increase of about 12.1% recorded in 2018, the annual growth rate of funds in the sectoral transfer for this function has moderated significantly to about 2.4% in 2020. By

2021, the sectoral transfer is projected to increase by about 0.8% in annual terms (chart 40).

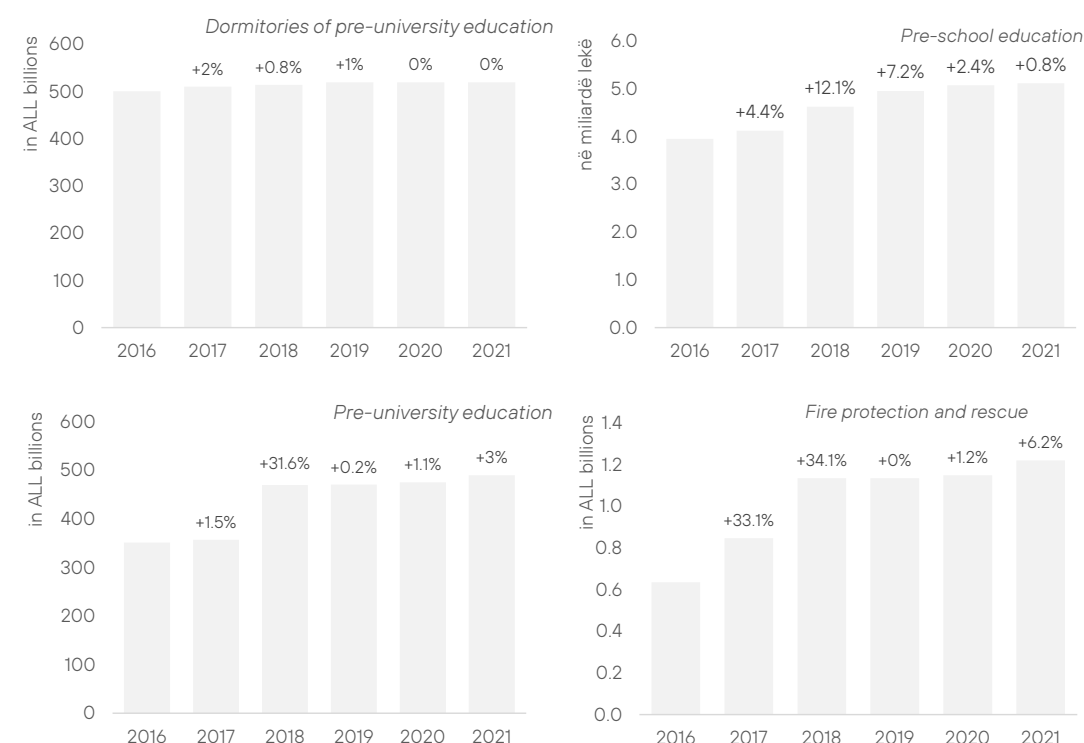
About 57 municipalities benefit from the sectoral transfer in the pre-university education function, and the funds are used to cover non-teaching staff expenditures. Pustec, Konispol, Bulqiza and Finiq municipalities do not benefit from any fund for this function. Sectoral transfer for pre-university education marked a significant increase of about 31.6% in annual terms in 2018. Further, the yearly growth rate turns out to have moderated significantly at about 1.1% in 2020. In 2021, the sectoral transfer for pre-university education competencies is foreseen to increase by 3% in annual terms (Chart 40).

The sectoral transfer for fire protection and rescue function recorded a sharp two-digit increase in 2017 and 2018. In 2018, despite the sectoral transfer funds

for current expenses of this function, some additional ALL 50 million has been allocated for investments upon the Albanian Parliament's request. In the following years, the funds

transferred for fire protection and rescue have not undergone significant changes. In 2021, the sectoral transfer for this function is expected to increase by 6.2% in annual terms (Chart 40).

Chart 40. Sectoral unconditional transfer by functions (1)



Source of data: Local Finances Portal www.financatvendore.al & Ministry of Finance and Economy

The unconditional sectoral transfer for social services covers the expenditures for social service centers in Kukës, Vau i Dejës, Fier, Kuçovë, Shkodër, Elbasan, Berat municipalities.²⁸ Following an annual increase of 48% in 2020, the sectoral transfer for this service is foreseen to remain unchanged during 2021 (chart 41).

The sectoral transfer for the forest management or forestry service function recorded considerable growth in 2017-2018, given the extension of the

function transfer and inter-institutional arrangement. Starting from 2019, the annual sectoral transfer increase rate for this function has been relatively moderate, and in 2021 the rate is foreseen to increase by 10% in annual terms (chart 41). On average, the sectoral transfer for forest management covered ALL 166.7 per forest hectare (or ALL 163,144/ forest km²) in 2020.²⁹

The transfer of competencies in the function of rural roads from the region to the municipality was accompanied

by financial means for the exercise of this function. The sectoral transfer for rural roads has not undergone significant changes in 2016-2020. In 2020, this transfer was foreseen to be ALL 521 million, thus remaining unchanged compared to the previous year. Kamëz, Rrogozhina and Saranda do not benefit from this transfer. On average, the sectoral transfer for rural roads management covers ALL 44,952 per linear kilometre of a rural road in 2020 (chart 41).³⁰

Irrigation and drainage are other functions that have been effectively transferred in 2017 (there has been no financial bill in 2016 for this function). Over the years, the funds transferred for this function have not undergone significant changes and for 2021 is projected to increase by about 5.9% compared to a year ago. On average, sectoral transfers for irrigation and drainage cover about ALL 23,339 per km of linear canals per year (or about ALL 1,945 per km of linear canals per month in 2020).³¹

Chart 41. Sectoral unconditional transfer by functions (2)



Source of data: Local Finances Portal www.financatvendore.al & Ministry of Finance and Economy

Under pressure created by the earthquakes of 2019, the pandemic of COVID-19, and continuous floods in the winter period, the MFE will allocate for municipalities a fund of about 500

million ALL for 2021. This fund comes as a specific transfer for "Civil Protection" and should be used only in cases of civil emergencies and to be carried over the next year (for the same destination for

the upcoming year).³² The allocation of this fund among municipalities is suggested to be done using as a driver

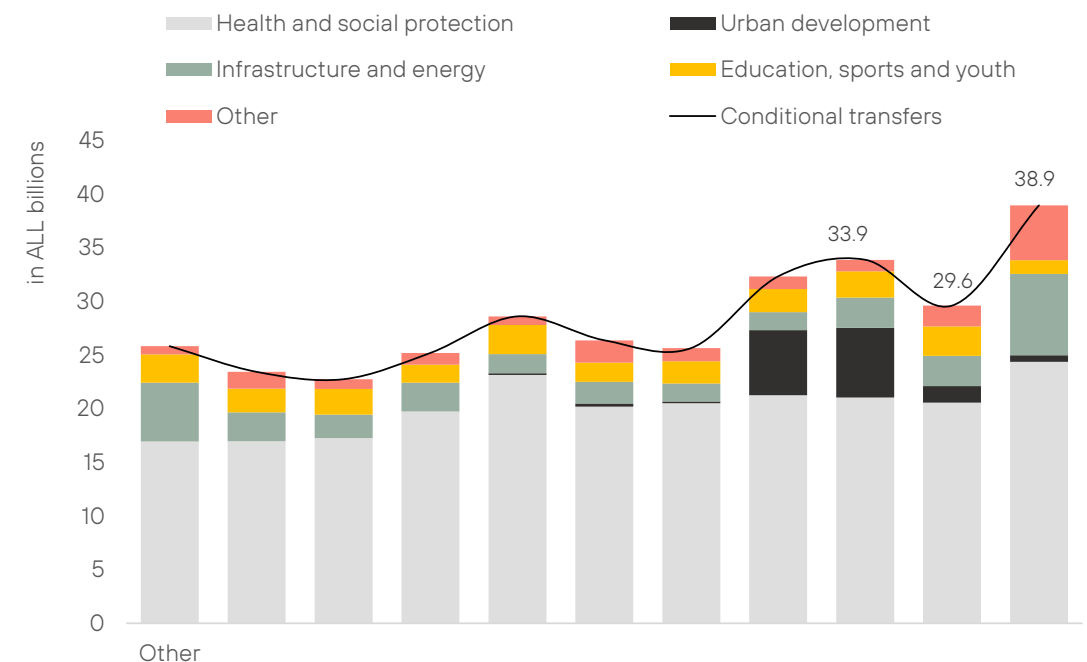
the relative weight of municipalities in the total budget for 61 municipalities.

1.4 Conditional transfers

Conditional transfers represent a financial source that enables the exercise of the delegated functions and implementation of special projects (of local, regional or national interest), thus requiring cooperation among local self-government units, pursuant to Article 27 under the Law No. 68/2017 "On Local Self-government Finances". Based on legal provisions, although the conditional fund transferred to the municipality includes funds to exercise the delegated functions, investment funds may also be channelled (including RDF).

The share of conditional transfers over the years has been volatile and represented 50% of total financial resources during the period 2010-2015. In the following period, 2016 - 2020, on average, revenues from conditional transfer shrank and represented about 40% of the total financial resources of municipalities. Although they do not exercise control over their destination, the revenues from conditional transfers represented approximately 42.8% of the total financial resources of the municipalities in 2020, a value that

Chart 42. Conditional transfers by line ministries



Burimi: Portali i Financave Vendore www.financatvendore.al

is about 6 percentage points higher than a year ago. In 2020, the central government allocated ALL 38.9 million to municipalities through conditional transfers, about 31.6% more than a year ago.

In 2020, funds transferred from the ministry responsible for *social welfare*³³ amounted to ALL 24.4 billion, registering an increase of about 17.5% compared to the previous year. Such an upward trend has been triggered by the doubling of economic assistance payments and disability allowances, a decision that is expected to extend its effects until mid-2021.³⁴ These funds are transferred to municipalities through conditional transfers, and municipalities provide their allocation to end beneficiaries.

In 2020, a considerable growth of channelled funds at the local level had been noted, with the ministry responsible for transport and *infrastructure* transferring ALL 7.6 billion compared to ALL 2.8 billion a year ago. Central entities responsible for *urban development* transferred ALL 609 million to the municipal level (--60% compared to a year ago), mainly used to upgrade the water supply infrastructure and community development. The ministry responsible for *education, sports and youth* spent ALL 1.3 billion at the local level in 2020, with the number decreasing by 53.7% compared to a year ago.

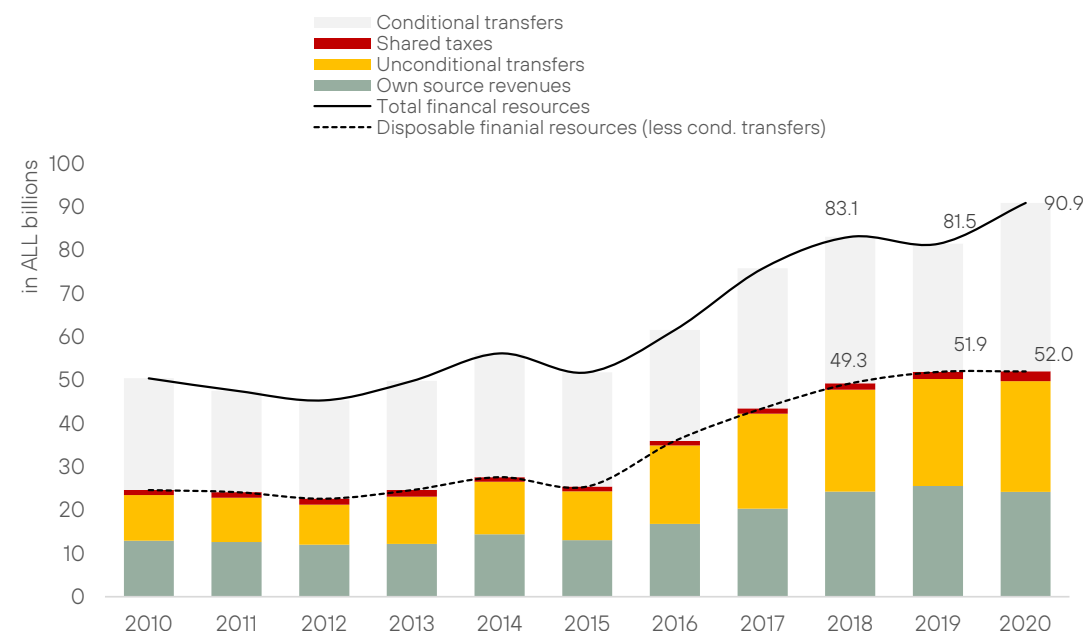
1.5 Total financial resources: how much and where did the money made available to municipalities in 2020 come from?

This section aims to reflect the sources of funds or money with which municipalities exercise their functions and responsibilities, provide services to the community and their developments at the end of 2020.³⁵ Total financial resources available to municipalities in 2020 amounted to ALL 90.9 billion, increasing by 11.6% compared to the previous year.³⁶ If we exclude from total financial resources those categories with a destination (conditional transfers), revenues under the municipal authority and decision-making amounted to ALL 52 billion, up by 0.2% in annual terms.

Disposable financial resources represented about 57.2% of total financial resources by the end of 2020: revenues from own sources (26.6%), revenues from the general and sectoral unconditional transfer³⁷ (28.1%), and revenues from shared taxes (2.5%). Conditional transfers increased their share in total financial resources by 6.5 percentage points at the end of 2020.

In 2020, the direction of developments in the performance of municipal financial resources was broadly determined by the marked increase in revenues from conditional transfers, which contributed 11.5 percentage points to the annual growth of financial resources. This item is expected to positively impact the total financial resources of municipalities during the first half of 2021 (increase in the payment of economic assistance and disability).

Chart 43. Developments in total financial resources



Source of data: Local Finances Portal www.financatvendore.al

The inflow of financial resources from the unconditional transfer (general and sectoral) contributed positively to the increase of total financial resources in 2020 (about 1.1 percentage points). Based on projections included in the MTBP 2021-2023, revenues from the unconditional transfers are expected to contribute positively to total financial resources during 2021. On the contrary, own-source revenues contributed negatively to overall revenue performance over 2020. For the upcoming year, For 2021, this category of revenues presents higher uncertainties than other categories (intergovernmental transfers), given the facilities that some municipalities have undertaken in response to the COVID-19 pandemic, extended deadlines for payment or exemptions introduced. The pre-election situation (for the general elections of April 25) makes it difficult to assess the possible

developments in the local finances of the municipalities, especially during the first half of 2021.

Regardless of the funding source, municipalities had available ALL 32,477 per capita in 2020, about 11.6% more than the previous year (annex 6). Using the index of per capita revenues of municipalities for the year 2020, municipalities can be compared to the national average (61 municipalities average = 100). The lowest level of per capita income of about 19,684 ALL was recorded in the municipality of Kamza (among the municipalities with the highest population density) and the maximum level of financial resources per capita was recorded in the municipality of Dropull (which ranks among the municipalities with the lowest population). About 46% of municipalities (or 28/61) mark an index level below the national average.

Table 6. Total financial resources

	Own source revenues	Unconditional transfers	Shared taxes	Conditional transfers	Carryovers	Total financial resources	Total financial resources (incl. carryovers)
në miliardë lekë							
2010	12.9	10.6	1.2	25.8	5.2	50.4	55.7
2011	12.6	10.2	1.3	23.4	3.6	47.6	51.1
2012	12.0	9.2	1.4	22.7	3.8	45.4	49.1
2013	12.2	11.0	1.5	25.2	4.2	49.8	54.0
2014	14.4	12.1	1.1	28.6	4.6	56.2	60.8
2015	13.1	11.3	1.1	26.4	8.3	51.8	60.1
2016	16.8	18.1	1.0	25.6	7.8	61.6	69.4
2017	20.3	21.9	1.2	32.3	5.1	75.8	80.8
2018	24.2	23.6	1.5	33.9	1.5	83.1	84.6
2019	25.6	24.7	1.7	29.6	4.3	81.5	85.8
2020	24.2	25.6	2.3	38.9	0.5	90.9	91.5

Source of data: Local Finances Portal www.financatvendore.al

On average terms, according to the origin of funding sources, about ALL 8,640 are generated by municipalities from their own sources; about ALL 9,936 from unconditional transfers (general, sectoral and shared taxes); and ALL 13,900 are generated from conditional transfers (see annexe 4 and 5 for more information).



The symmetric decentralization model applied in Albania makes the 61 municipalities in the country equally responsible for exercising more than 41 functions and competencies in areas such as infrastructure and public services; social services; cultural, sports and entertainment services; agriculture, rural development, forestry and public pastures, nature and biodiversity; local economic development; public safety (see annex 2 for more details). Moreover, the 61 municipalities in the country exercise other delegated functions delegated to them by the central government to be implemented locally, such as civil registry service, economic assistance, and disability allowance. To meet these functions, the central government transfers to municipalities conditional transfers-money that should be used for the service they have been transferred (otherwise known as funds with pre-determined destination). Based on the subsidiarity principle, all these functions are equally entrusted to municipalities, i.e. each of the 61 municipalities in the country is legally bound to provide them to its community. In the framework of local governance decentralization, among the 41 functions exercised by municipalities, 7 of them were delegated from the

central government to municipalities in 2016.³⁸ According to the municipal judgment and reaction, the financial bill of such delegations was insufficient to cover their exercise, thus putting added pressures on the local budget.

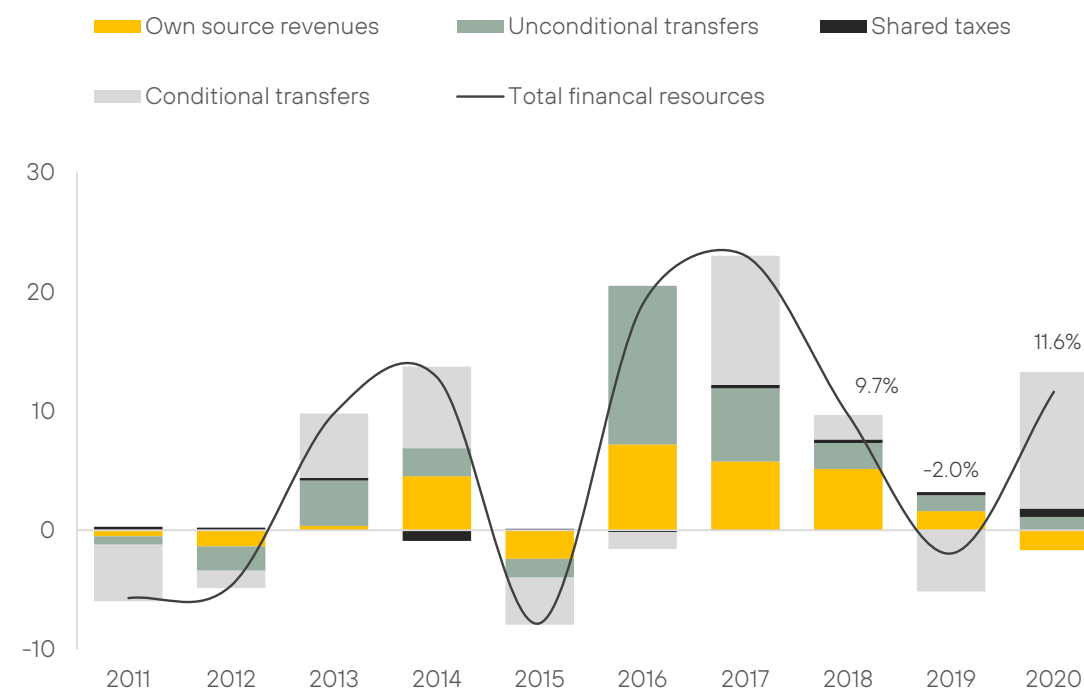
The importance of local self-government in terms of expenditures has been growing in significance from 2015, as measured by the indicator of expenditures (total and with own funds) towards nominal GDP and general government expenditures. The indicator of expenditures from own funds to GDP has increased from 2.3% in 2015 to 3.3% by the end of 2019 (Chart 45). In 2020, the indicator reached about 3.2%, representing a slight decrease of 0.1 percentage points compared to the previous year (Chart 45). The indicator of expenditures with own funds to nominal GDP is considerably under the average of WB countries (average of 5.5%), SEE countries (average of 6%), EU28 countries (average of 10.6%) and OECD countries (average of 15.5%).³⁹

The total expenditures made by municipalities (including expenses made with own and conditional funds) to nominal GDP have increased from 4.1% in 2015 to 5.1% in 2019. In 2020, the indicator increased by 0.6 percentage

points following the intensification of expenditures with conditional funds for economic assistance and disability

allowances (funds transferred from the central government and doubled due to the COVID-19 pandemic).

Chart 44. Contribution of categories (in p.p.) in yearly change of total financial resources (in %)



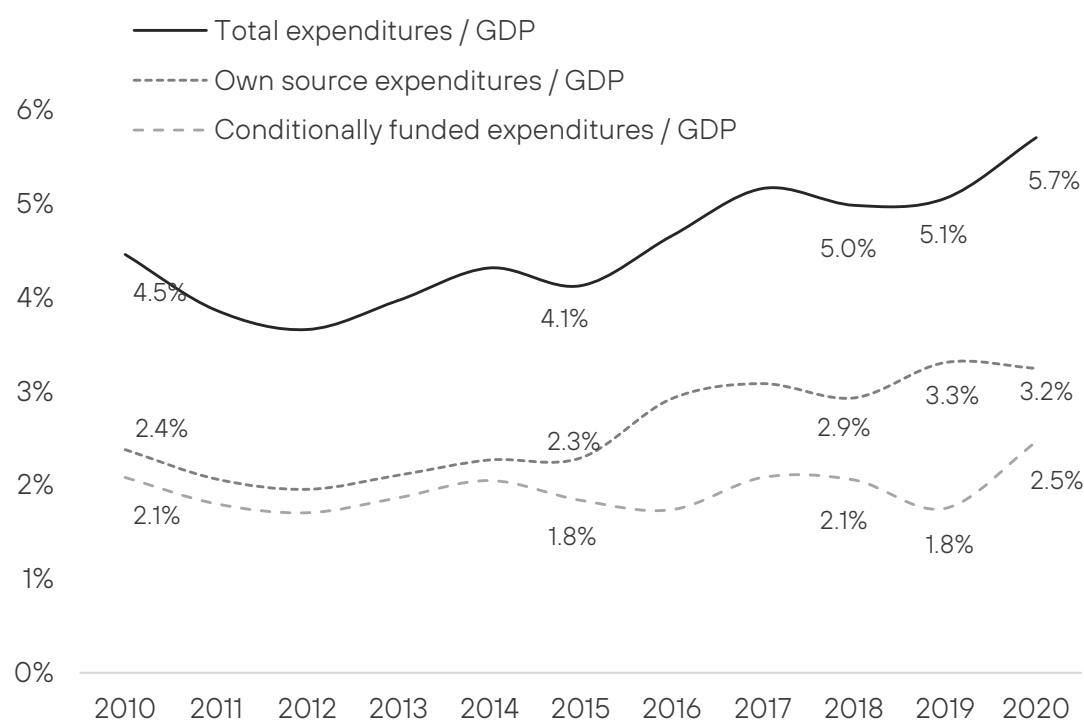
Source of data: Local Finances Portal www.financatvendore.al

Indicators of expenditures (own funds and total) to the general government expenditures have seen an upward trend compared to 2015 (Chart 46). With municipalities acquiring new functions and the unconditional intergovernmental transfers increasing, the indicator of expenditures with own funds to the general government expenditures rose to 11.4% by the end of 2019 compared to 7.5% in 2015. On the contrary, in 2020, the indicator reached about 9.6%, representing a slight decrease of about 1.8 percentage points compared

to 2019. The indicator of expenditures with own funds to general government expenditures is considerably under the average of WB countries (average of 15.5%), SEE countries (average of 16.6%), EU28 countries (average of 23.3%) and OECD countries (average of 40.4%).⁴⁰

Similar trends are noted considering total expenditures to the general government expenditures indicator. This indicator registered a level of 16.8% in 2018, down by 0.5 percentage points compared to a year ago.

Chart 45. Indicators of expenditures to nominal GDP



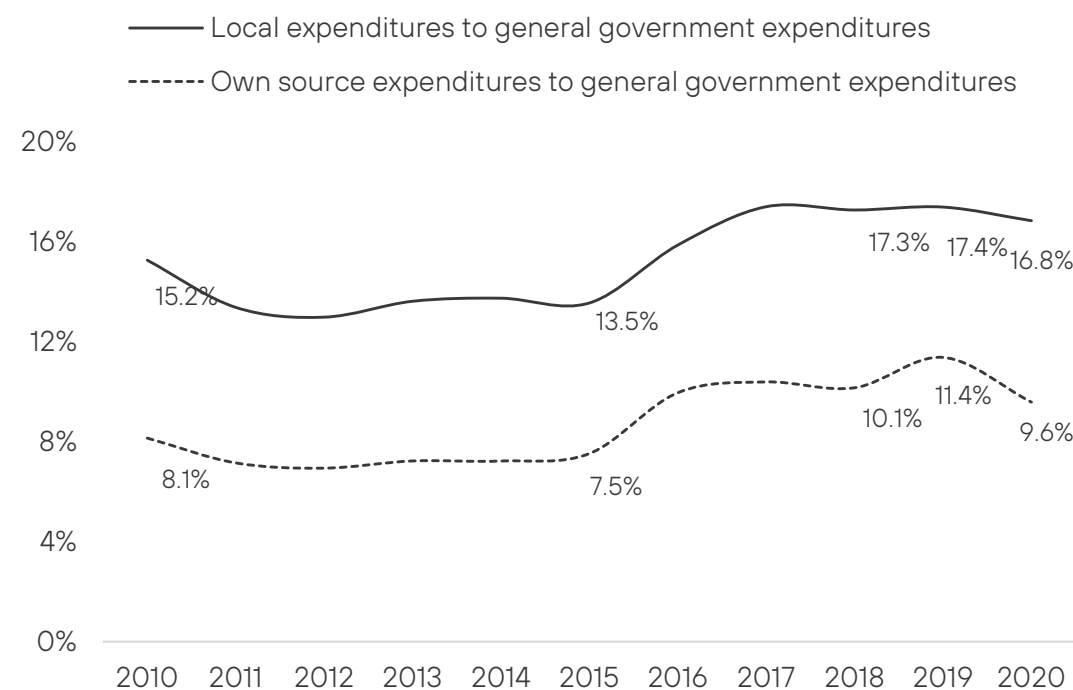
Source of data: Local Finances Portal www.financatvendore.al & Ministry of Finance and Economy

The indicators of local expenditures to nominal GDP and general government expenditures show an upward trend over the years. However, the increasing intergovernmental transfers have widely dictated such an increase. In addition to the dependence created by this category of funds, an element of weakness is presented by the volatility and sensitivity of the indicators considered to shocks, as last year showed.

The use of the money available to municipalities is essential to long-term development in general and local development. The long-term development vision, strategic objectives, and primary investments

have been defined in the General Local Plans (LGPs, Strategy on Territory Development and Capital Investment Plan); they are theoretically implemented by including them in medium-term budgetary plans (MTBPs) and annual budgets. Given the high number of public services to be administered, it seems like the municipal attention has shifted to cover current expenses related to their provision. Although over the last five years, funds for investments from the central government (conditional funds, including RDF funds) have covered to a certain extent the need for investments in the territories of municipalities, their level remains low.

Chart 46. Indicators of expenditures to general government expenditures

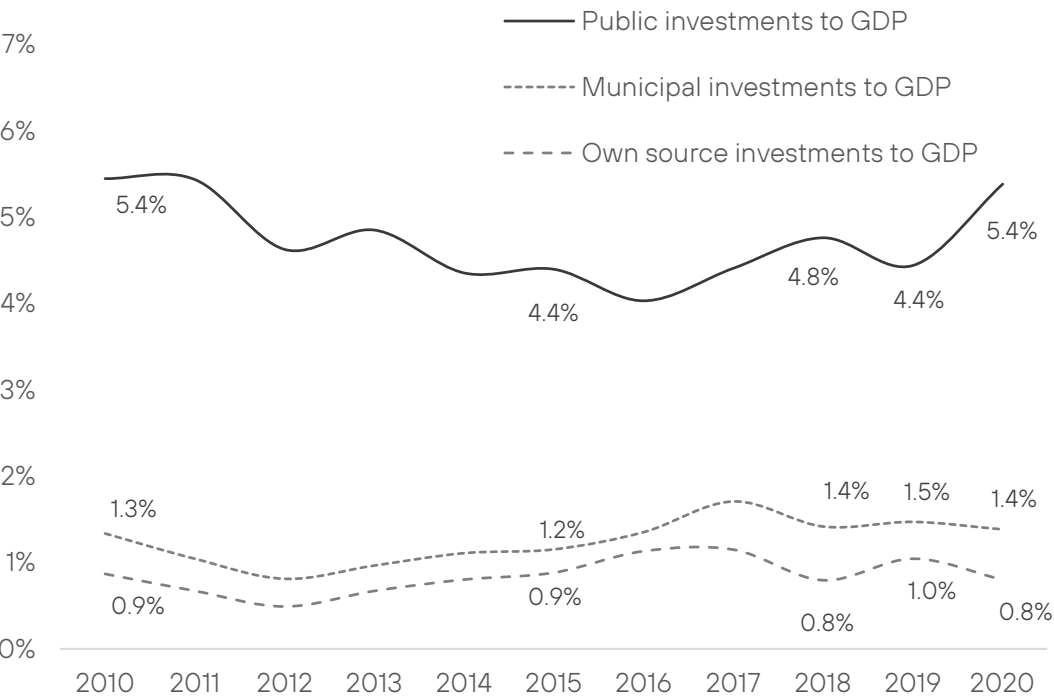


Source of data: Local Finances Portal www.financatvendore.al & Ministry of Finance and Economy

Total capital expenditures made by the general government represented 5.4% of the GDP in 2020, about 1.0 percentage point higher than a year ago, given the added expenditures for the reconstruction after the earthquakes (Chart 47). At the municipal level, capital expenditures with own funds represented 0.8% of the nominal GDP in 2020. The ratio decreased by 0.2 percentage points compared to a year ago (lower than the ratio in 2010). Let's consider the investments made with conditional funds (funds transferred from the central government for investment projects). The investment-to-GDP ratio for 2020 is assessed at about 1.4%, down by about 0.1 percentage points compared to a year ago.

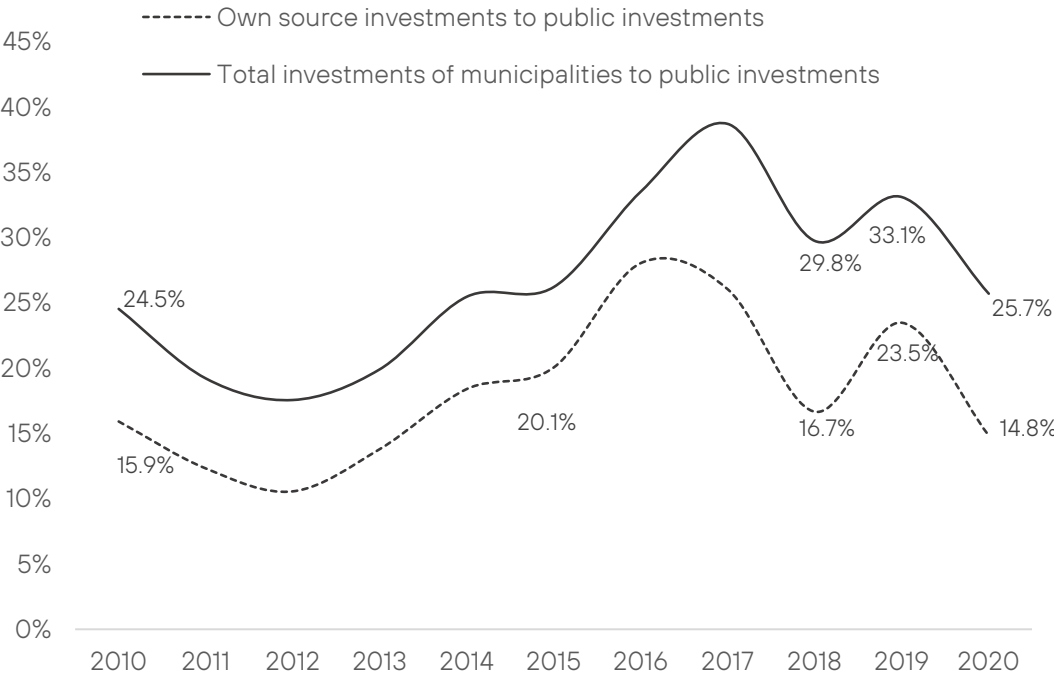
Increased pressures on local budgets during 2020 seem to have shifted the scissor on own funds investments, representing about 14.8% of public investment in 2020, down by about 8.6 percentage points compared to 2019 (see Chart 48). Similarly, the ratio of total investments made by municipalities to public investments for 2020 marked the level of 25.7%, down by about 7.4 percentage points compared to a year ago. This indicator stands below the average of WB countries (28.4%), SEE countries (39.8%), EU countries (45%) and OECD countries (56.9%).⁴¹

Chart 47. Indicators of investments to GDP



Source of data: Local Finances Portal www.financatvendore.al & Ministry of Finance and Economy

Chart 48. Indicators of local investments to public investments



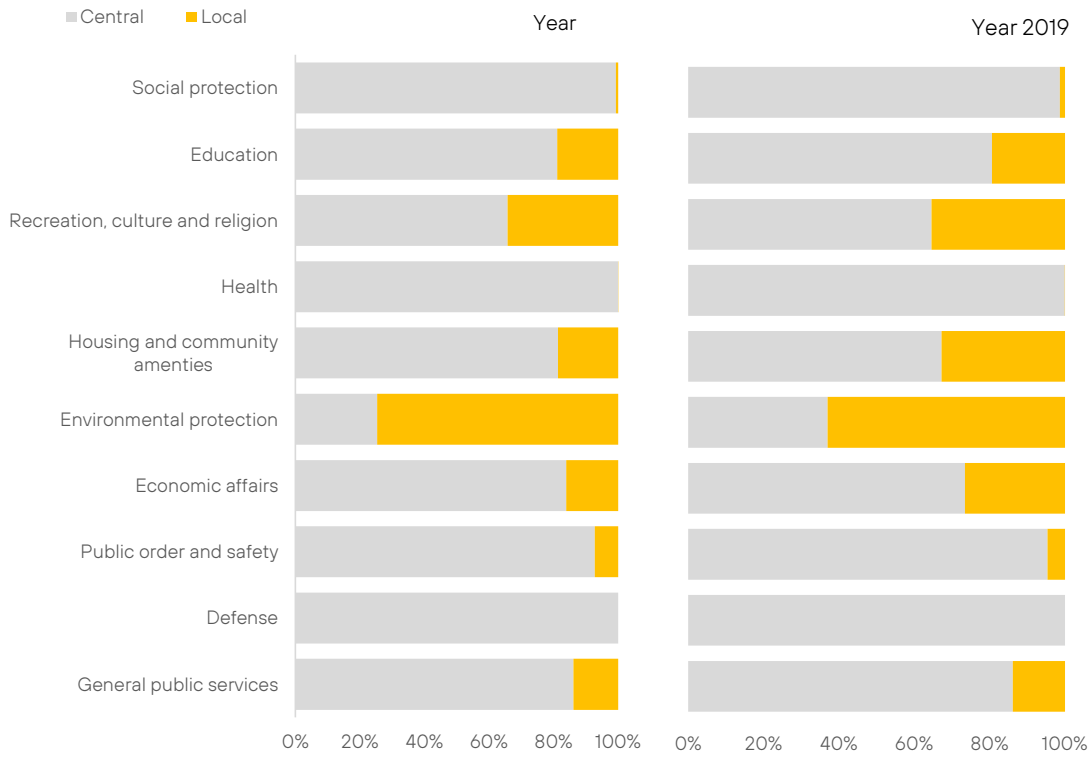
Source of data: Local Finances Portal www.financatvendore.al & Ministry of Finance and Economy

The allocation of expenditures made by the central and local government by function shows how the central and local government divide among them functions and competencies (as measured by the percentage of expenditures made by each government tier, according to COFOG classification).

In 2020, expenditures incurred by 61 municipalities in the country represented about 9.6% of total expenditures incurred by the general government, about 1.8 percentage points less compared to a year earlier. The general government bore the difference of about 90.4% of total expenditures. This indicator, along with the other indicators abovementioned, reinforced the finding that local self-governance (municipalities) account

for a small share in general governance and volatile available financial resources, depending on central government decisions. Graph 49 shows the relative weight of local and central government in total expenditures by function (COFOG classification). Excluding defence, as a function exercised exclusively at the central level, municipalities seem to spend more than the central government for the "environmental protection" function, with expenditures accounting for about 74.7% of total expenditures made by the general government for this function 2020. The second function where municipalities have a considerable share in expenditures is "recreation, culture and religion", representing about 34.3% of total expenditures made by the general government.

Chart 49. Central and local government expenditures by functions



Source of data: Local Finances Portal www.financatvendore.al & Ministry of Finance and Economy

On the contrary, municipalities play minor roles. They have little weight in two essential social functions: health and social protection, with respectively 0.1% and 0.8% of the total expenditures made by the general government. In this regard, the marginal role of municipalities was evident following the two consecutive natural disasters that hit the country by the end of 2019 and the COVID-19 pandemic

2.1 Expenditures by the source of funding

This section provides a general overview of how the money available to the municipalities was spent in 2020: by the source of funding, by economic classification (personnel, operating and other, and investments) and by government function (education, economic issues, environmental protection, etc.).

At the end of 2020, financial resources channelled by the 61 municipalities in the country recorded a value of ALL 90.2 billion, up by 5.6% compared to the previous year. Excluding expenditures with carryovers of the prior year (with predefined destination or not), municipalities spent approximately ALL 89.7 billion in 2020, about 10.5% more than the previous year.

Expenditures with municipalities' own funds recorded a level of about ALL 51.3 billion at the end of 2020, marking a decrease of about 8.1% compared to the previous year. Expenditures with conditional funds reached approximately ALL 38.9 billion, a sharp increase of roughly 9.3 billion, or some

In both cases, irrespective of the efforts to support the community and groups in need to the highest extent possible, the situation was managed centrally by the central government with the superficial involvement of the municipalities.

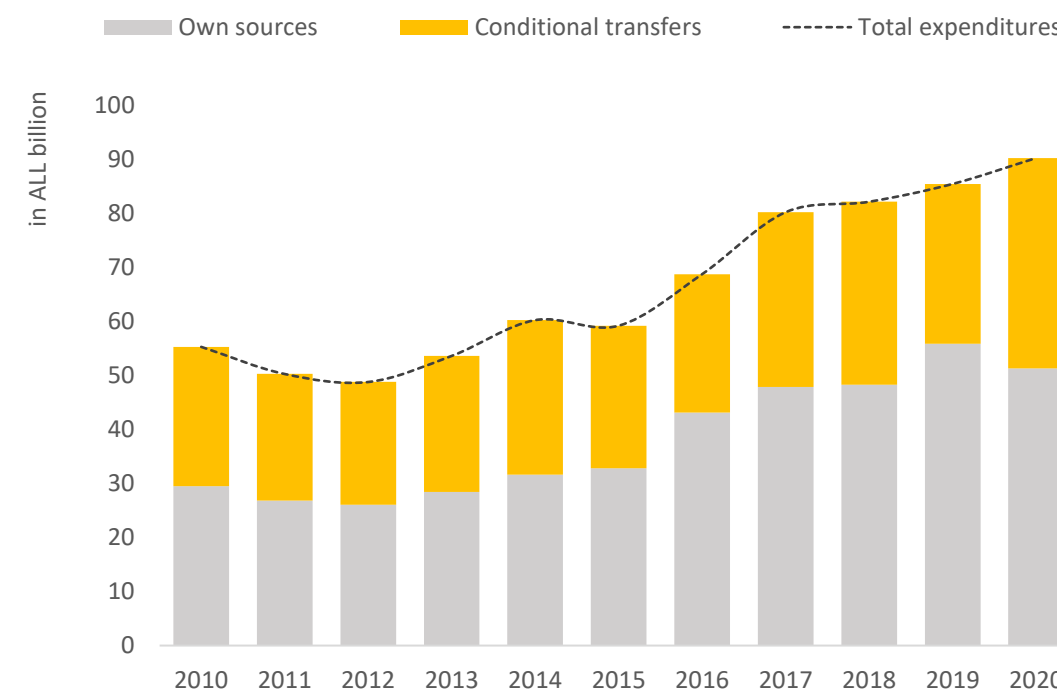
31.6% in annual terms. Own funded expenditures represented about 56.9% of total expenditures, while expenditures with conditional funds represented approximately 43.1% of total expenditures. This shift in favour of conditionally funded expenditures points to an artificial "cushion" created by the central government to meet the need for municipal expenditures in front of natural disasters or pressures following internal or external shocks. This type of support draws attention to the importance of strengthening municipalities in financial terms (their autonomy) and the clarification of competencies between the two levels of government (for the functions exercised).

On average, in the last three years, current expenditures have been covered to the extent of 60% with funds from its own local sources and about 40% from conditional financial sources (see Chart 51). By the end of 2020, current expenditures were covered at 56.6% by own sources and 43.4% by conditional resources (including

RDF funds). On average, over the past three years, capital expenditures were covered at the level of 62% by own local sources and the level of 38% by conditional resources. By the end of

2020, capital expenses were covered at 57.7% by local financial resources and 42.3% by conditional resources (including RDF funds).

Chart 50. Municipal expenditures by source of funding



Burimi: Portali i Financave Vendore www.financatvendore.al

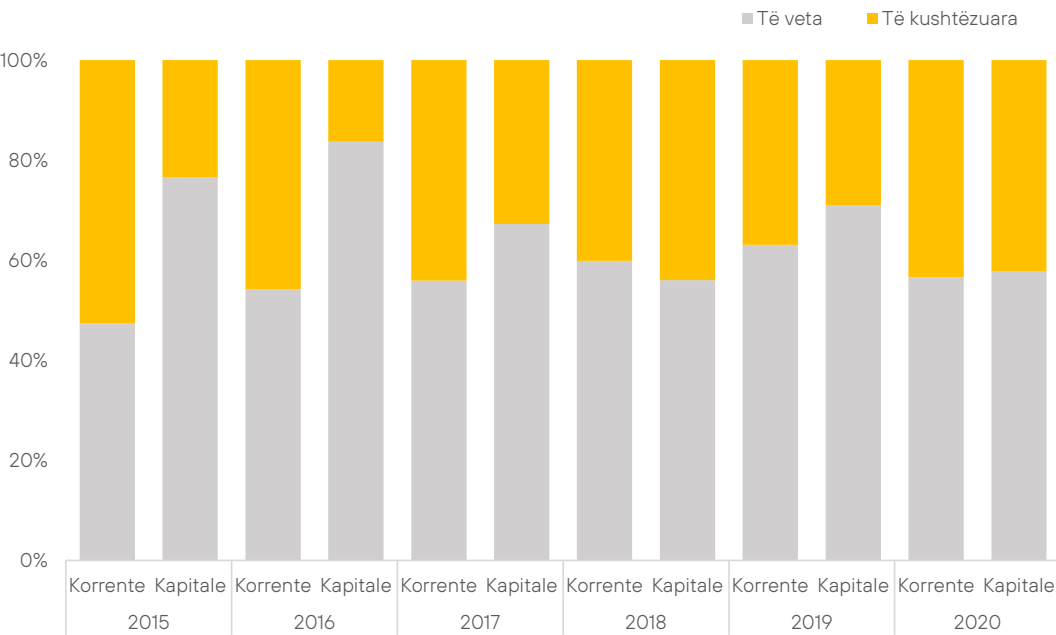
Cross-tabulation of expenditure data by source of funding and functional classification indicates that the "social protection" function is primarily covered with conditional funds (conditional transfer by the ministry responsible for social protection). In 2020, approximately 95% of the social protection function expenditures were funded with conditional transfers (economic assistance and disabilities payments), this being the highest level since 2016. In contrast, municipalities cover with their own funds the expenses incurred in the "public

order and safety," "environmental protection," "recreation, culture and religion," and "health" functions, the expenses of which constitute less than 10% of total expenditures incurred by municipalities.

Cross-tabulation of expenditure data by source of funding and functional classification indicates that the "social protection" function is primarily covered with conditional funds (conditional transfer by the ministry responsible for social protection). In 2020, approximately 95% of the social

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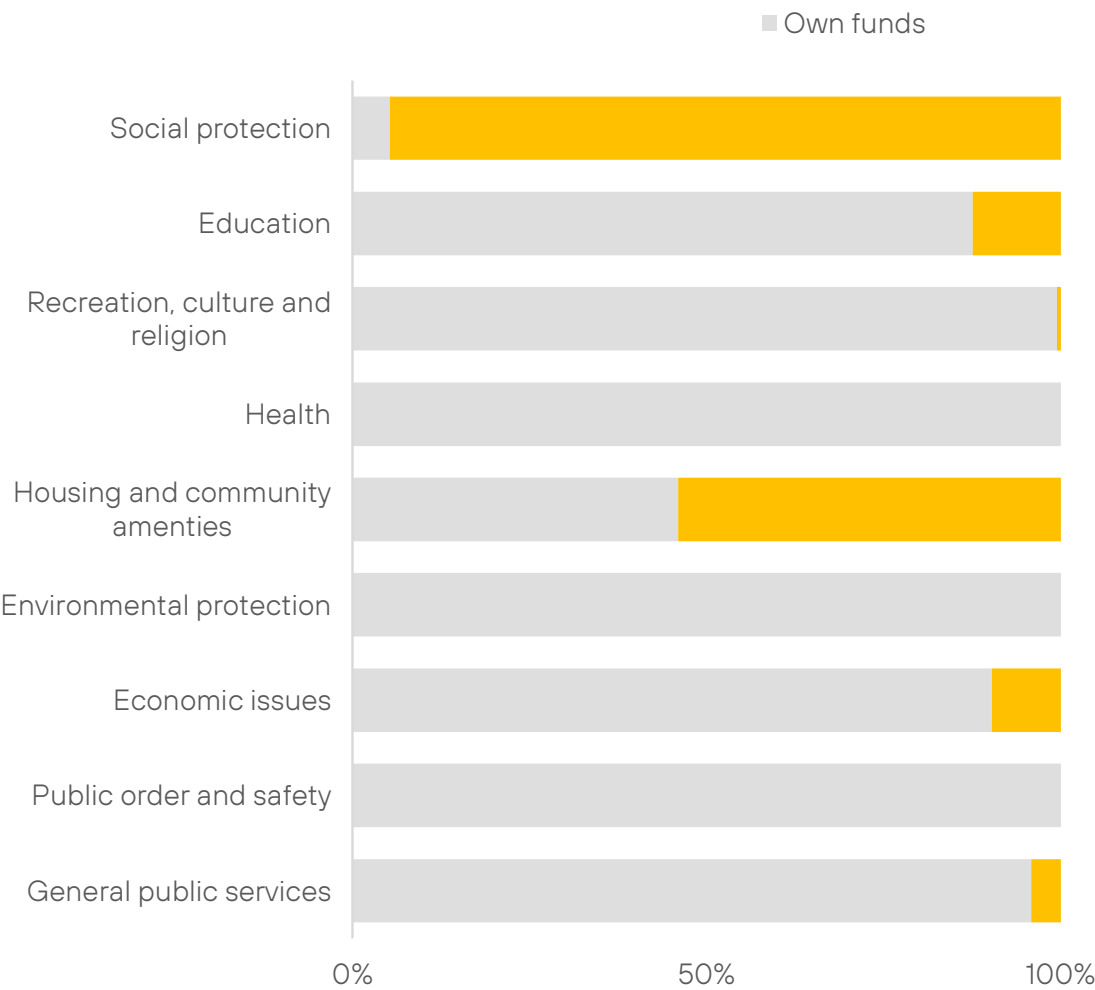
Chart 51. Coverage of expenditures by own and conditional funds



Source of data: Local Finances Portal www.financatvendore.al

expenses incurred in the “public order and safety,” “environmental protection,” “recreation, culture and religion,” and “health” functions, the expenses of which constitute less than 10% of total expenditures incurred by municipalities. In the “general public services” function, municipalities cover approximately 96% of spending with their own funds. In the “economic issues” function, in 2020, about 90% of expenditures were covered with their own funds and 10% with conditional funds. In the “housing and community amenities” function, the two levels of government have almost the same role in terms of expenditures, a ratio that fluctuates yearly. In 2020, nearly 46% of expenditures in this function were covered by own municipal funds and 54% by conditional funds from the central government (mainly investment funds). The education function expenditures point out an increase in the role of municipalities’ own financing. For 2020, about 74% of expenditures in this function were covered by municipalities’ own funds, and the difference was covered with conditional funds (Chart 52).

Chart 52. Expenditures by functional classification and source of funding



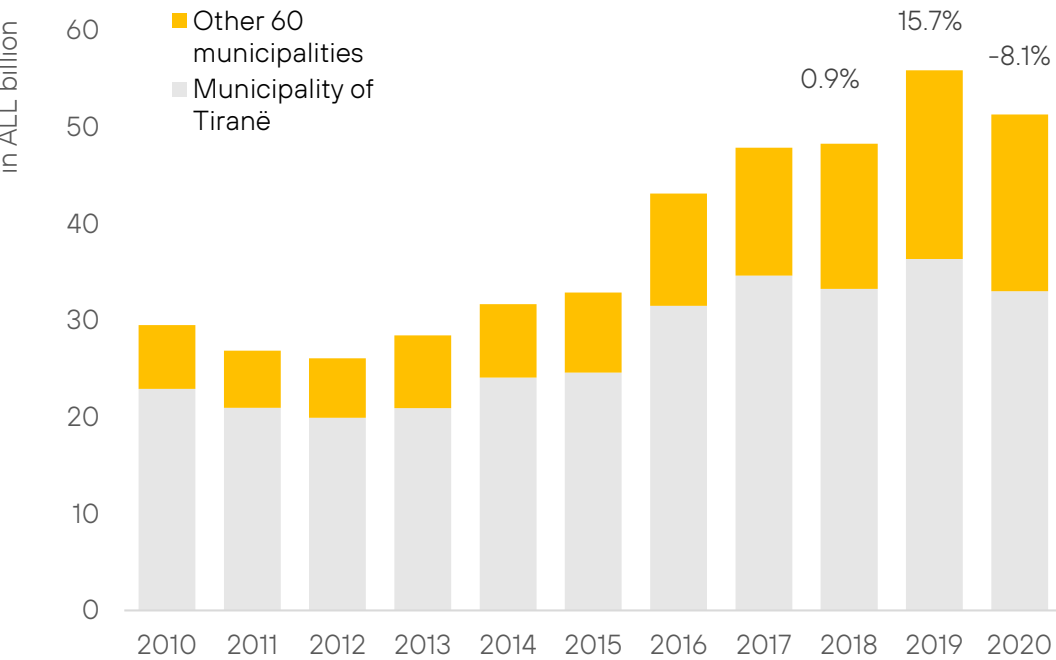
Source of data: Local Finances Portal www.financatvendore.al

2.2 Owns source funded expenditures

Following a double-digit increase in 2019, expenditures with own funds of the 61 municipalities amounted to approximately ALL 51.3 billion in 2020⁴², down by about 8.1% compared to the previous year.⁴³ Over the past 10 years, expenditures with own funds followed an upward trend, but 2020 marked their first curb since 2012.

Excluding expenditures incurred by the municipality of Tiranë (about 35.7% of total own-source expenditures), expenditures with own funds marked a contraction of about 9.2% in annual terms. Among them, about ALL 525.6 million constitute expenditures made with funds carried over from the previous year.

Chart 53. Developments in own source expenditures

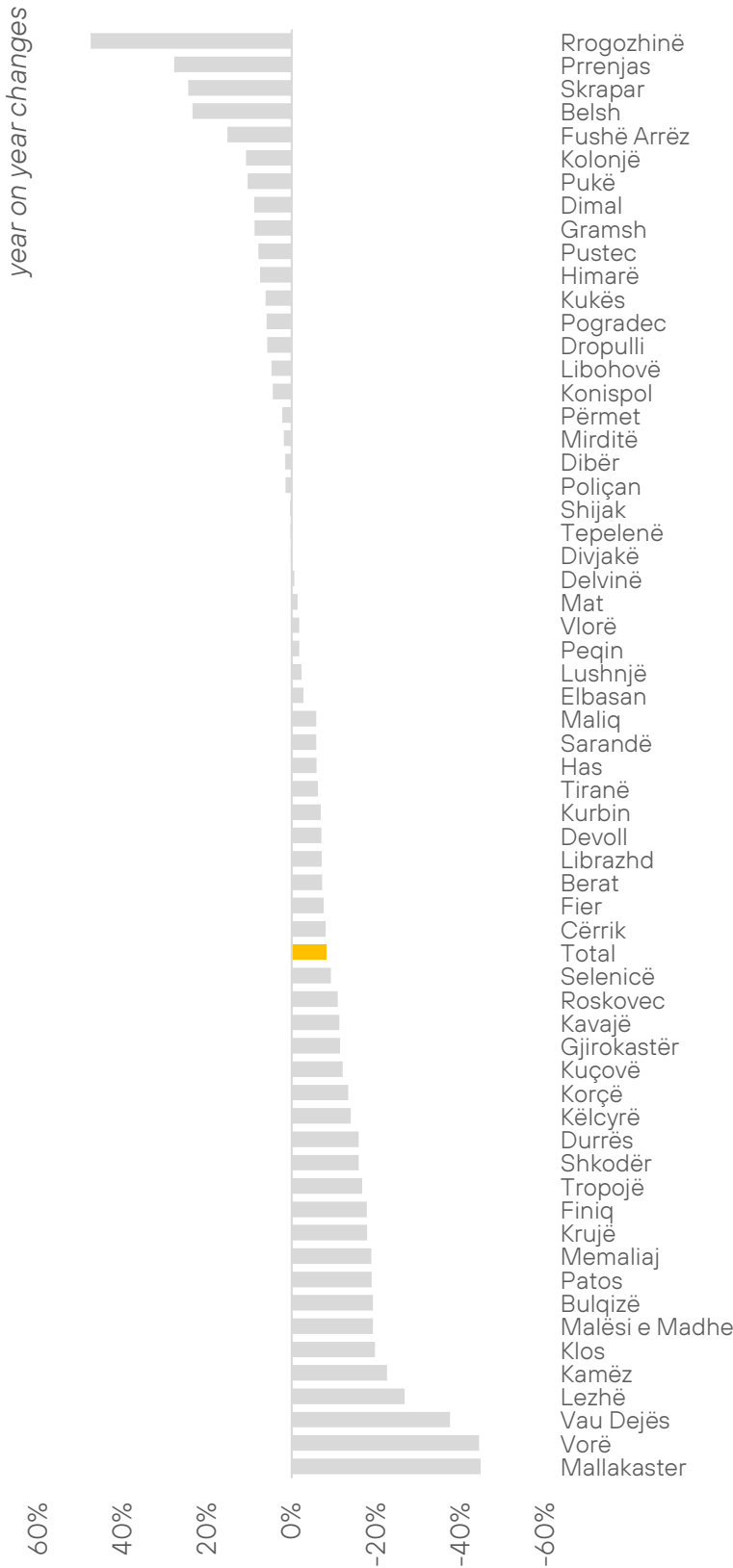


Source of data: Local Finances Portal www.financatvendore.al

Own funds expenditures contracted in 62% or 38/61 of municipalities (Chart 54). The decrease in expenditures with own funds is assessed to have occurred in all categories of municipalities, both small and large. The contraction of expenditures marked the maximum level in the municipality of Mallakastër

with about 44.7% in annual terms, followed by the municipalities of Vora (with about -44.4%), Vau i Dejës (with about -37.5%), Lezha (with about -26.8%), Kamza (with about -22.6%), Shkodër and Durrës (with about -15.8% respectively), Tirana (with about -6.2%) etc.

Chart 54. Own source expenditures by municipalities



Source of data: Local Finances Portal www.financatvendore.al

On the contrary, expenditures with own funds increased annually in 38% or 23/61 municipalities during 2020. The highest growth rate in own funded expenditures was registered in the municipality of Rogozhinë (47.6%), followed by the municipalities of Prrenjas (+ 27.8%), Skrapar (+ 27.8%),

Belsh (+ 23.5%), Fushë Arrëz (+ 15.2%), etc.

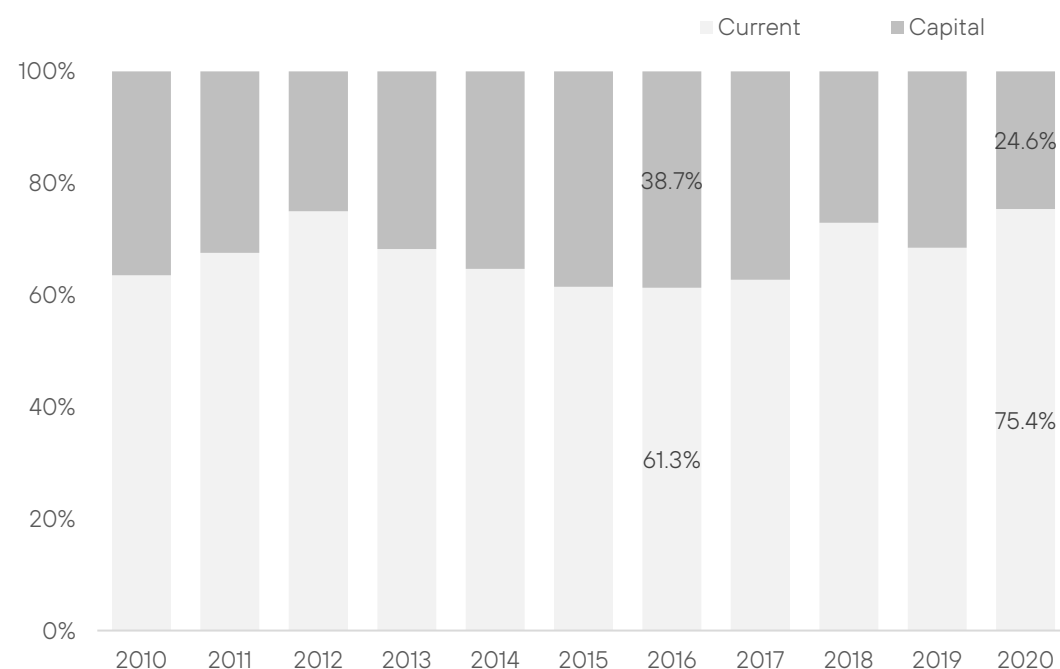
Their economic and functional classification will further analyze information regarding expenditures made with own funds.

2.2.1 Expenditures with own funds by economic classification

Based on the economic classification of expenditures with own funds for 2020, municipalities used approximately 75.4% of their funds to cover current expenditures (about ALL 38.7 billion) and approximately 24.6% to cover

capital expenditures (about ALL 12.6 billion). The direction of developments in expenditures with own funds in 2020 was determined by the performance of capital expenditures, which marked a significant annual decline.

Chart 55. Structure of own source funded expenditures

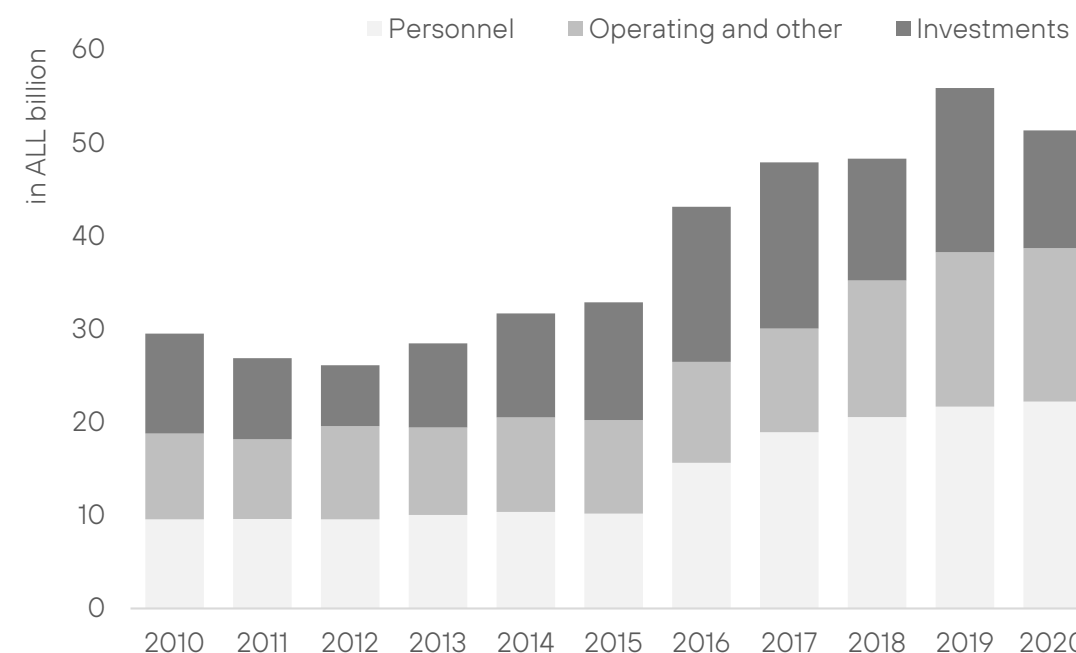


Source of data: Local Finances Portal www.financatvendore.al

Among the categories of current expenditures, personnel expenditures (salaries and insurance contributions) amounted to approximately ALL 22.2 billion during the period under review, increasing by about 2.6% compared to 2019. Personnel expenditures follow an upward trend, albeit at a more moderate pace (extinguished

base effect of increasing the number of employees due to the transfer of new functions in 2016)⁴⁴ After the increase of 53.4% in 2016 (following the transfer of new functions), the personnel expenditures growth rate moderated to about 5.4% in 2019 and approximately 2.6% for the year under review.

Chart 56. Own source expenditures by economic classification



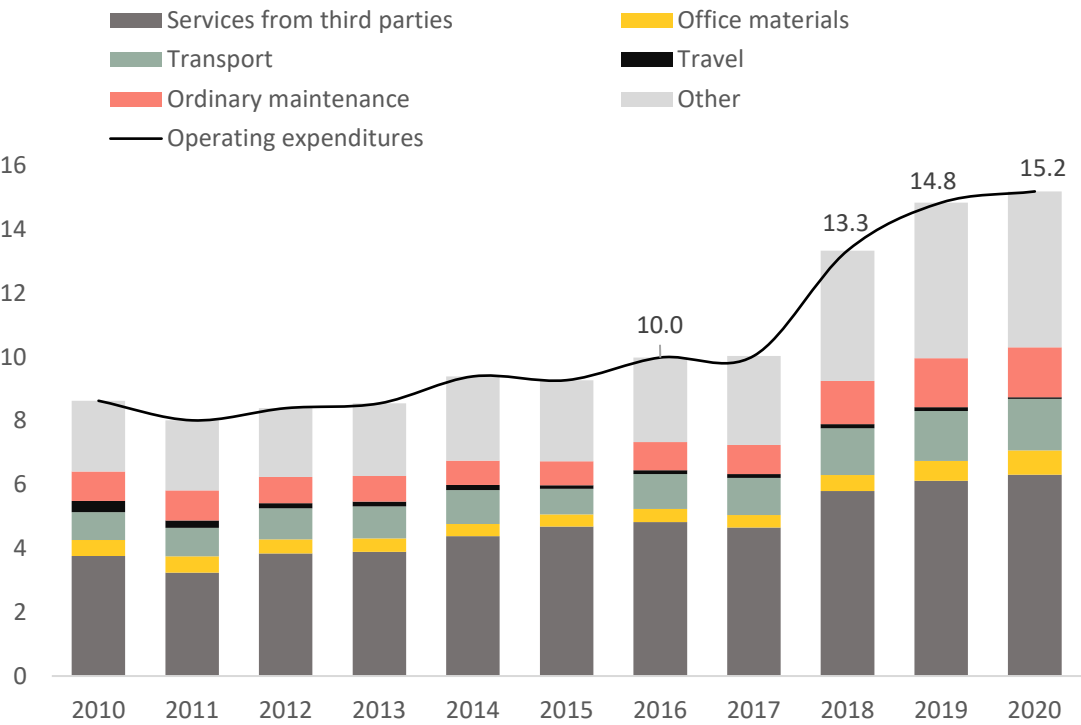
Source of data: Local Finances Portal www.financatvendore.al

*Operating and other*⁴⁵ expenditures reached a level of approximately ALL 16.5 billion at the end of 2020, marking a decrease of approximately 0.8% compared to the previous year. At the detailed level, operating expenditures for this period marked a value of about ALL 15.2 billion, increasing by about 2.4% in annual terms. Almost all operational expenditures items increased in 2020: expenditures for office supplies (+22%); third party services (+3.2%); transport

expenses (+3%); other operational expenses (+0.2%); and ordinary maintenance expenses (+1.5%). On the other hand, travel expenses decreased by approximately 52% in annual terms due to travel restrictions due to the COVID-19 pandemic. Since 2015, the operational expenditures trajectory is following an upward trend, marking the highest level by 2020. Although the increase in expenditures in this category turns out to be distributed in

almost all constituent sub-items and municipalities, their performance in the medium and long term should be carefully monitored as it may create financial sustainability problems for municipalities.

Chart 57. Operating expenditures by items (in ALL billions)



Source of data: Local Finances Portal www.financatvendore.al

Transfer expenditures for household budgets and individuals are also important in the total expenditures with municipalities' own funds. In 2020, this expenditure category amounted to ALL 933.2 million, a decrease of approximately 33.1% in annual terms.

Despite a challenging year, especially for persons in need, a large number of municipalities have reduced their support for this category of the population (relying on funds transferred from the central government for this purpose).

In the municipality of Tiranë, transfers registered about ALL 468.1 million, a sharp decrease of about 73% compared to 2019. Similarly, transfers contracted in 35/61 municipalities, and especially in the municipalities of Vora (ALL -30.3 million or -68% in annual terms), Vlora (ALL -7.9 million or -58% in annual terms), Mat (ALL -6.6 million or -26% in annual terms), Peqin (ALL -5.6 million or -49% in annual terms), etc. In contrast, expenditures for transfers with own funds have increased in the municipalities of Pogradec (ALL +22.2 million), Dibra (ALL +11.6 million), Bulqiza (ALL +11.6 million), Fier (ALL +8.6 million), Përmet (ALL +6.4 million), etc.

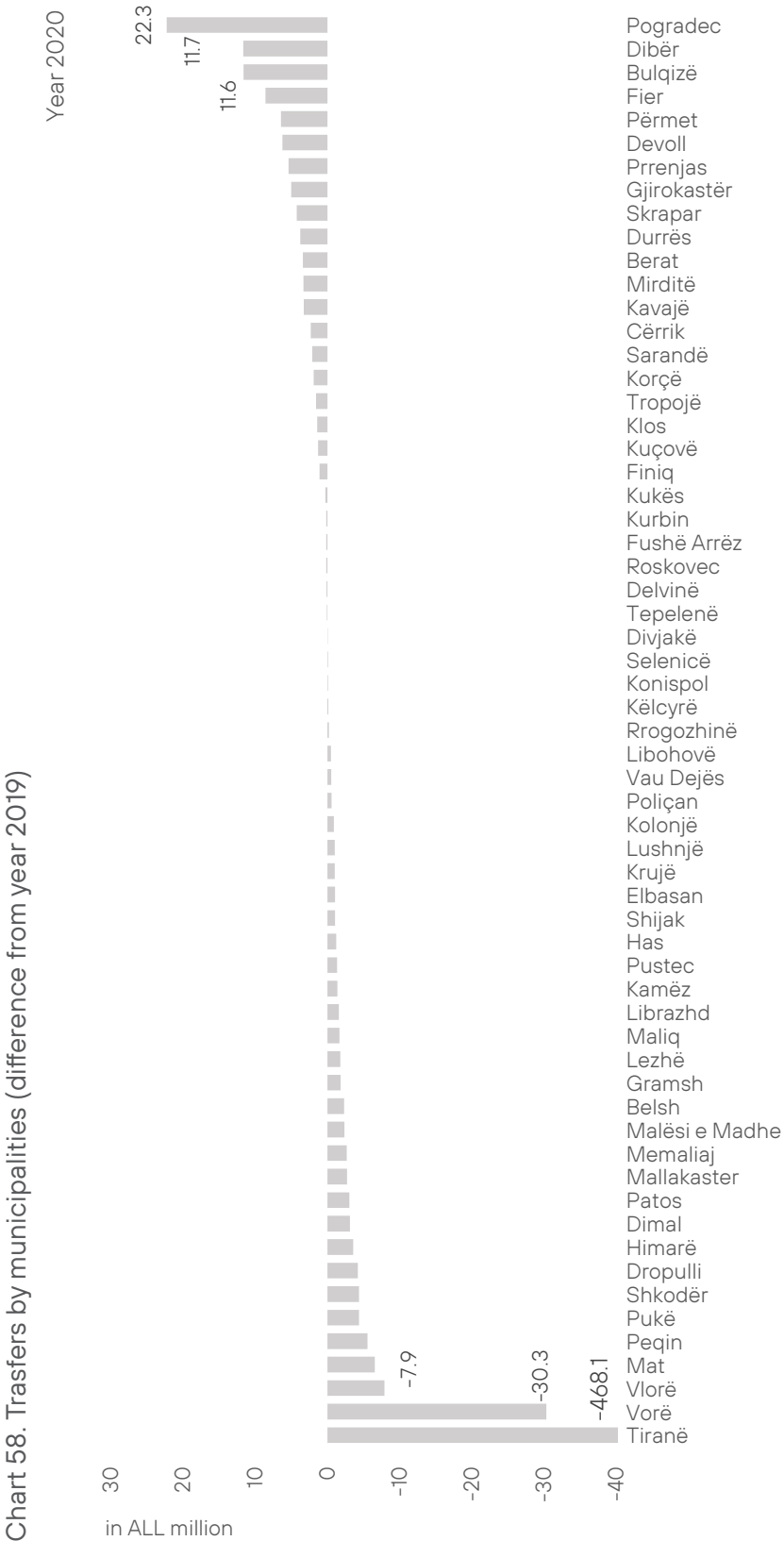


Chart 58. Trasfers by municipalities (difference from year 2019)

Source of data: Local Finances Portal www.financatvendore.al

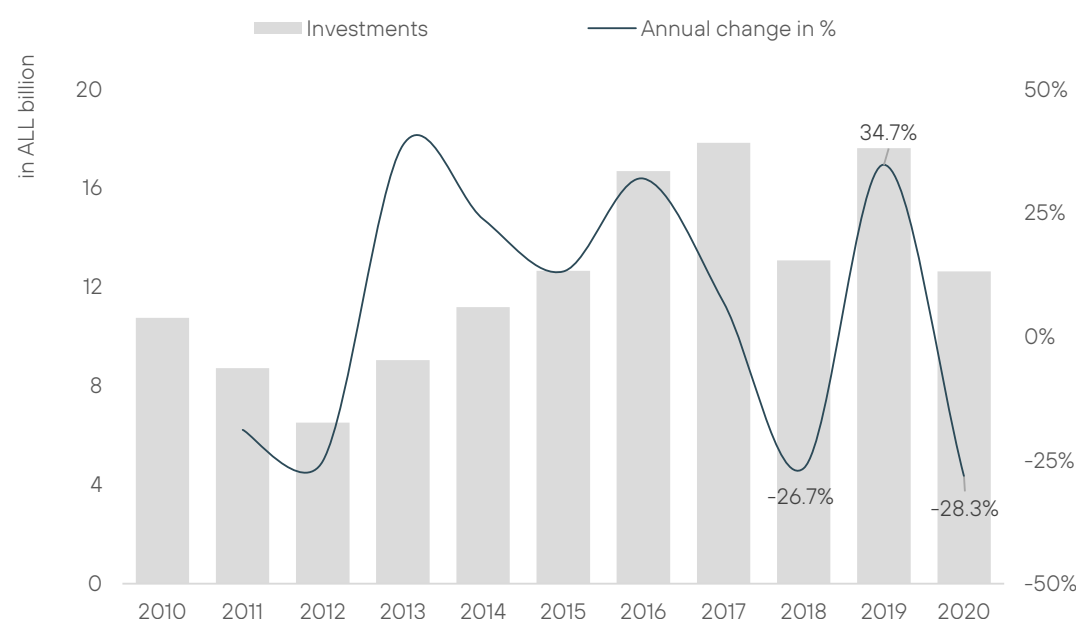
Interest payments amounted to approximately ALL 201.7 million in 2020, increasing by nearly 5.9% in annual terms and representing about 0.4% of own funded expenditures. Interest payments are made by municipalities with active loans in the local banking system, such as Elbasan, Korça, Lezha, Vlora municipalities (for more, see section 2.1.3 on local borrowing and arrears).

Capital expenditures, or investments, constitute an important item of local budgets and a prerequisite for long-term economic development. Over the years, the level of capital expenditures has been volatile. It represents a good correlation with the performance of the

municipality's own financial resources, especially with revenues from the infrastructure impact tax from new constructions.

After the considerable increase recorded in 2019 (+34.7% in annual terms), investment expenditures amounted to approximately ALL 12.6 billion in 2020, down by about 28.3% compared to the previous year. The investment level at the end of 2020 marks the lowest value recorded since the TAR (administrative-territorial Reform), representing about 24.6% of total expenditures from own funds and almost equal to the level recorded in 2015.

Chart 59. Own source capital expenditures



Source of data: Local Finances Portal www.financatvendore.al

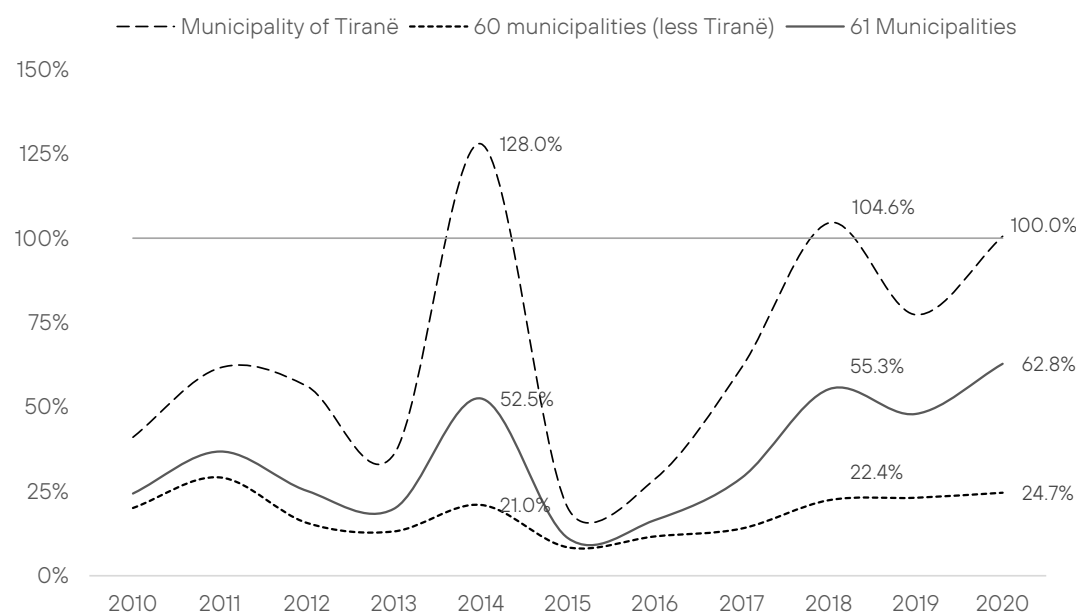
According to provisions of Law No. 68/2017, "On local self-government finances", revenues from IIT should be used "mainly" for investment

financing. Nevertheless, currently, it is not possible to track revenues from the source to its use. However, the available data enables to analyse of

the level of coverage of own source capital expenditures incurred by municipalities' from revenues generated from the infrastructure impact tax. On average, for the 61 municipalities in the country, revenues from IIT covered about 62.8% of capital expenditures with own funds, up by 14.9 percentage points compared to the level recorded in 2019 (nearly 47.9%). Excluding the municipality of Tiranë, on average in the other 60 municipalities, revenues

from IIT covered only 24.7% of own-source funded capital expenditures from 2020. The municipality of Tiranë holds an advantageous position for this indicator, where IIT fully finances own source capital expenditures. Indirectly, this indicator once again underlines the concentration of development pressures in the municipality of Tirana and the inability of other municipalities to finance investment projects (especially high-value ones).

Chart 60. Financing of capital expenditures by IIT

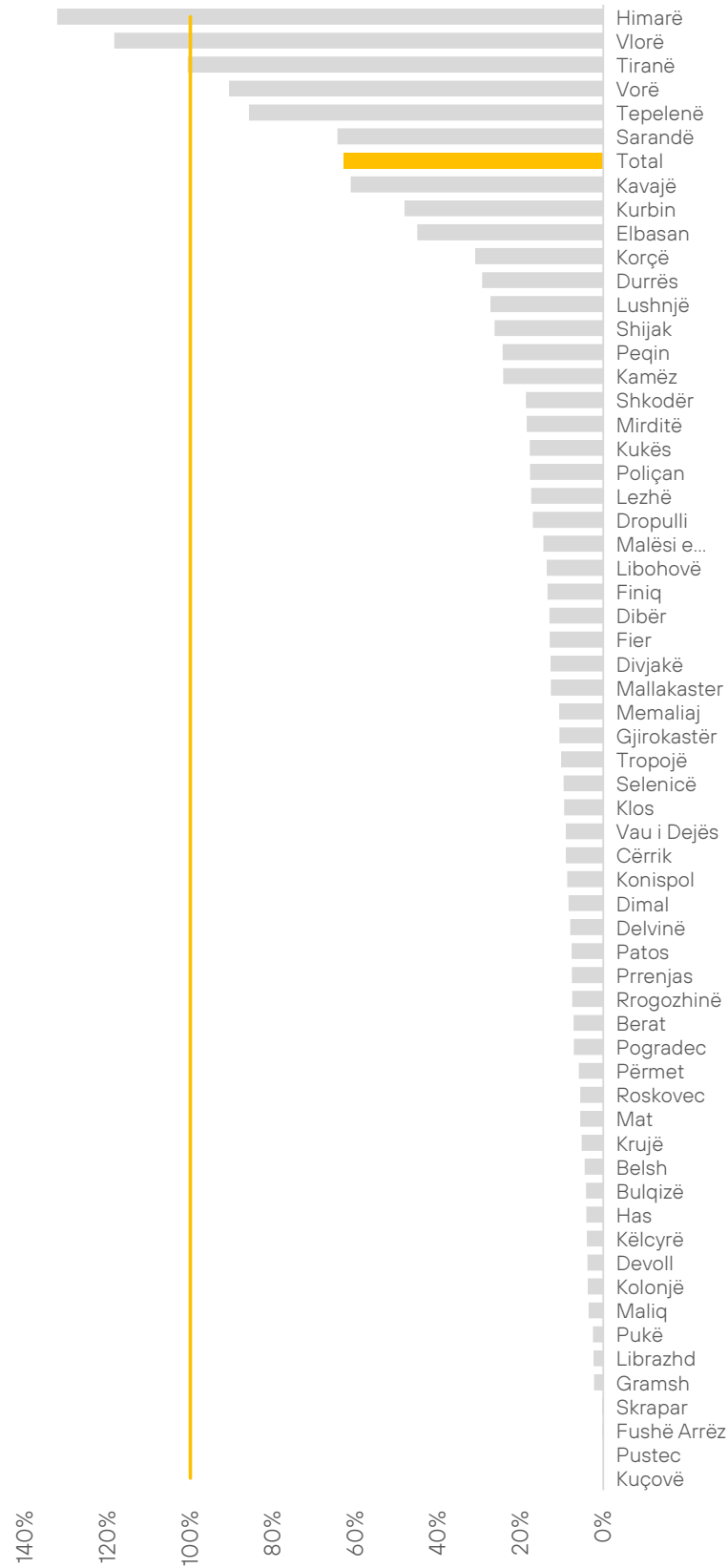


Source of data: Local Finances Portal www.financatvendore.al

The data at the municipal level presented in Chart 61 more clearly reflect the situation and the difference between them for the possibility of financing capital expenditures. Out of 61 municipalities, during 2020, the IIT revenues fully cover own source capital expenditures: in the municipality of Tirana (100%), in the municipality of Vlora (118.4%) and the municipality of Himara (132.3%). In the municipality of

Vlora, revenues from IIT covered about 90.7% of capital expenditures with own funds, and in the municipality of Tepelena, about 85.8% of them. In contrast, in 30/61 municipalities, revenues from TNI cover less than 10% of its own investment expenditures, and in 46/61 municipalities, revenues from TNI cover less than 20% of investment expenditures.

Chart 61. Investment financing by IIT, by municipality

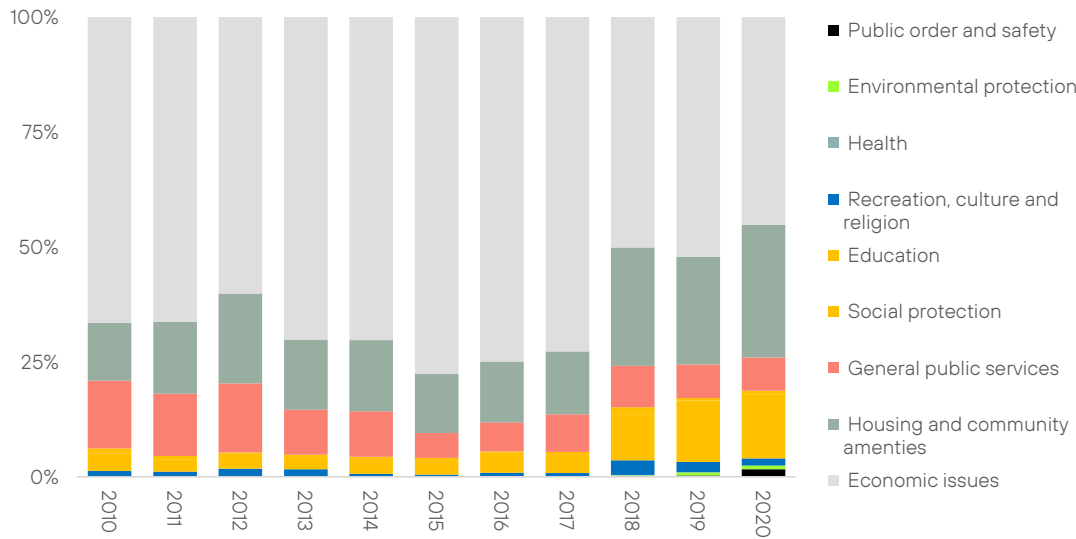


Source of data: Local Finances Portal www.financatvendore.al

Based on the functional classification, investments made by municipalities have fluctuated over time from one function to the other. However, over the years, the “economic issues” function has absorbed most of the investment (including transport infrastructure). In the last three years, the share of investments in this function has shrunk from 77.6% in 2015 to 45.2% in 2020. Municipalities invested approximately ALL 5.7 billion in the economic issues

function in 2020, down by 37.7% compared to the previous year. In 2020, investment expenditures in the “housing and community amenities” function (including expenditures on housing and urban planning, local water supply and sewerage, public lighting) represented about 28.8% of capital expenditures incurred with own funds. Approximately ALL 3.6 billion were spent for this function in 2020, down by 12% in annual terms.

Chart 62. Investments by functions



Source of data: Local Finances Portal www.financatvendore.al

Following the devolution of new functions related to pre-school and pre-university education in 2016, municipalities have increased investments in education infrastructure. Respectively, investments in education in 2020 recorded a level of about ALL

1.8 billion, decreasing by about 25.7% in annual terms. In contrast, investment expenditures in the “public order and safety” function recorded a level of about ALL 205 million, a sharp increase from the level of ALL 51.4 million recorded in 2019.

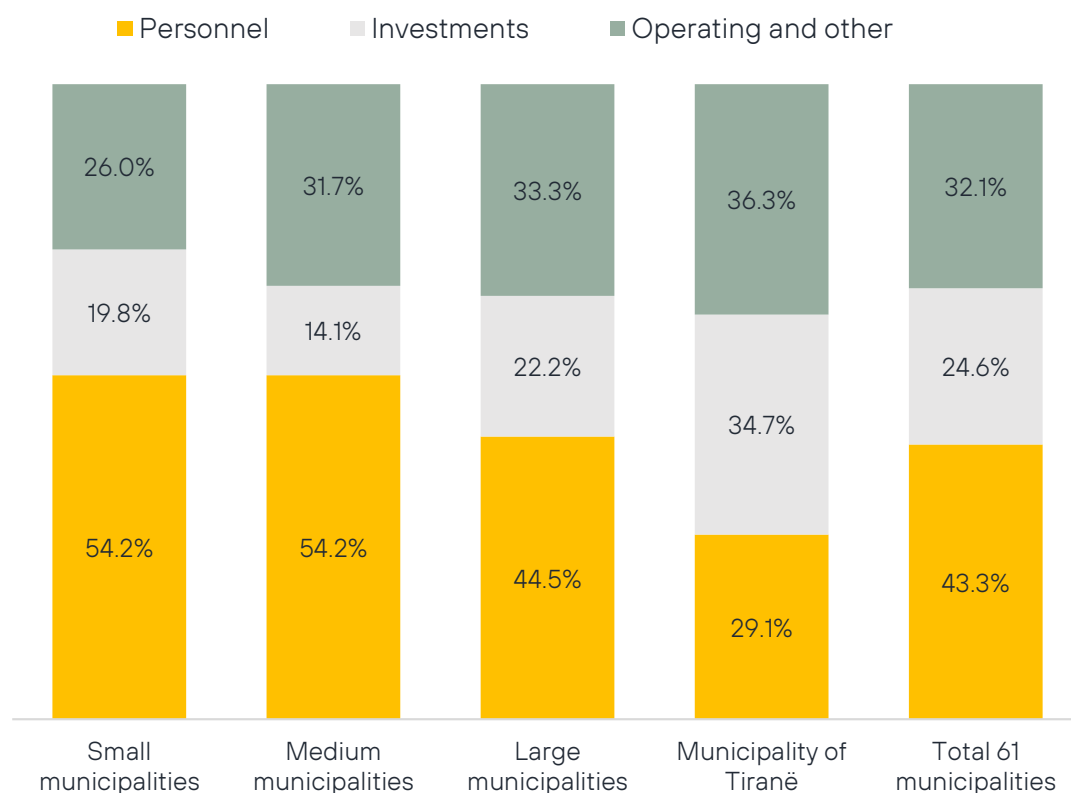
Box 3

How did the 61 municipalities spend in 2020?

Municipalities' structure of expenditures from own funds, coupled with the differences among them, is dominated by current expenditures. In average terms for 2020, in the structure of expenditures with own funds, personnel expenditures burdened local budgets by about 43.3% of the total, operational and other expenditures by nearly 32.1%.

Together, personnel and operating and other expenditures, or current expenditures, represent about 75.4% of own sourced expenditures. In 2020, the category of capital expenditures (or investment) represented about 24.6% of expenditures from municipalities' own funds.

Chart 63. Own source funded expenditures by categories and size of municipalities



Source of data: Local Finances Portal www.financatvendore.al

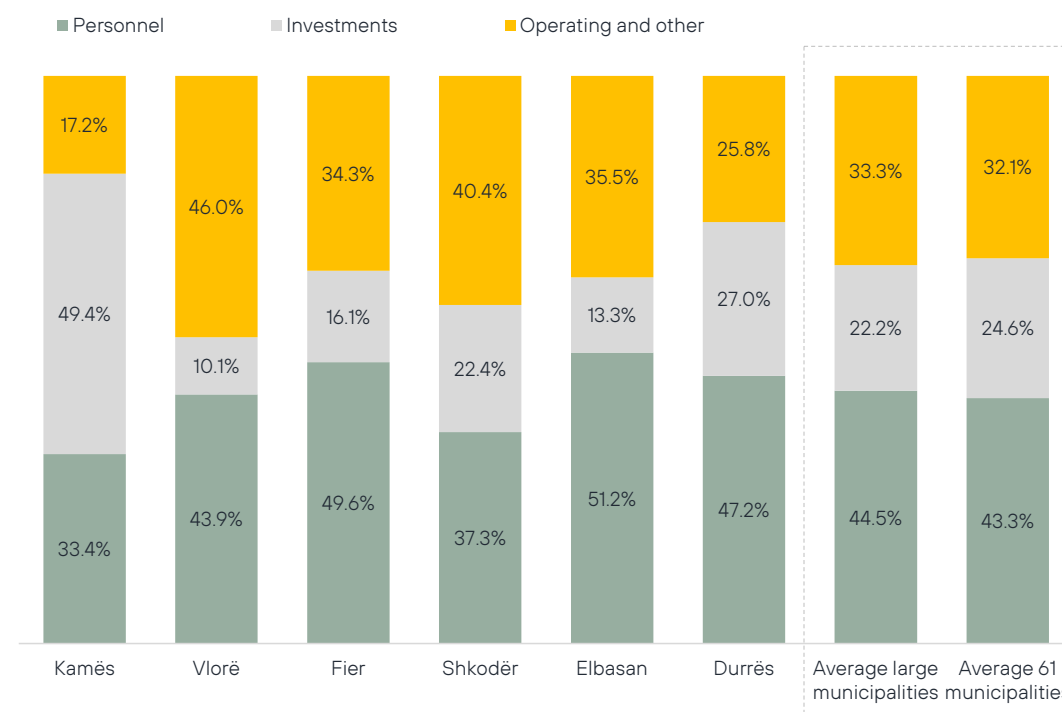
The structure of own source funded expenditures presents differences between the categories of municipalities grouped by size (see annex 4). The municipality of Tiranë presents a structure of expenditures with own funds that differs from the national average and from all other municipality categories: personnel expenditures represent about 29.1% of own funds, about 36.3% of own funds cover operating and other

expenditures and 34.7 % cover capital expenditures (about 10 percentage points higher than the national average).

In large municipalities, the structure of expenditures with own funds is similar to the national average: 44.5% for personnel expenditures, 22.2% for investments, and about 33.3% for operative and other expenditures. The category of medium and small-sized municipalities spent approximately 54.2% of their budget on personnel expenditures, which is significantly higher than the national average, large municipalities, and Tirana municipality. In contrast, investment expenditures seemingly represent about 14.1% in medium-sized municipalities and about 19.8% in small-sized municipalities of the total expenditures from municipalities' own funds.

In addition to the differences noted between the categories of municipalities, at the municipal level, these differences in own source funded expenditures are even more pronounced. Personnel expenditures account for about 51.2% of own funded expenditures in the municipality of Elbasan, the highest level among municipalities. The lowest share of personnel expenditures to own source expenditures is registered in the municipality of Kamëz, with about 33.4% of own-source funded expenditures in 2020. Investment expenditures vary from a minimum level of about 10.1% of own-source funded expenditures in the municipality of Vlorë municipality to nearly 49.4% in the municipality of Kamëz in 2020.

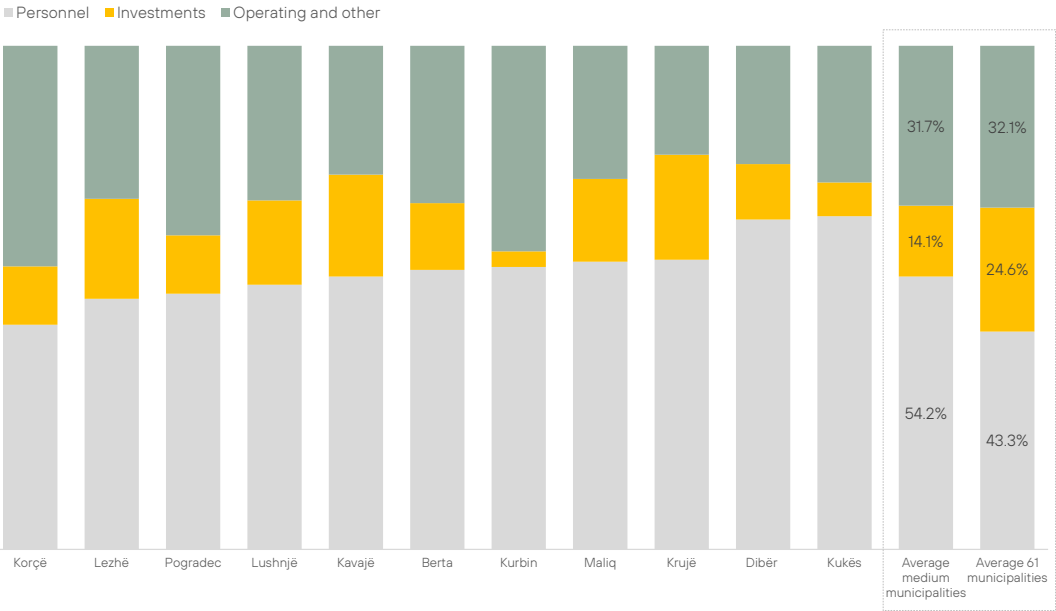
Chart 64. Expenditures based on economic classification, categories and size of municipalities



Source of data: Local Finances Portal www.financatvendore.al

Among medium-sized municipalities, personnel expenditures as a ratio to own source funded expenditures range from 44.6% in the municipality of Korçë to about 66.2% in the municipality Kukës. The second large-share category is represented by operating and other expenditures. Expenditures in this category range from a minimum level of 21.6% in the municipality Kruja to a maximum level of 43.8% in the municipality of Korça. Capital expenditures occupy the lowest share among the categories of expenditures made with own funds for medium-sized municipalities. The minimum level of expenditures for the category of medium-sized municipalities was recorded in the municipality of Kurbin with about 3.1% of expenditures incurred with its own funds and the maximum level in the municipality of Kruja with about 20.9% of expenditures incurred with its own funds.

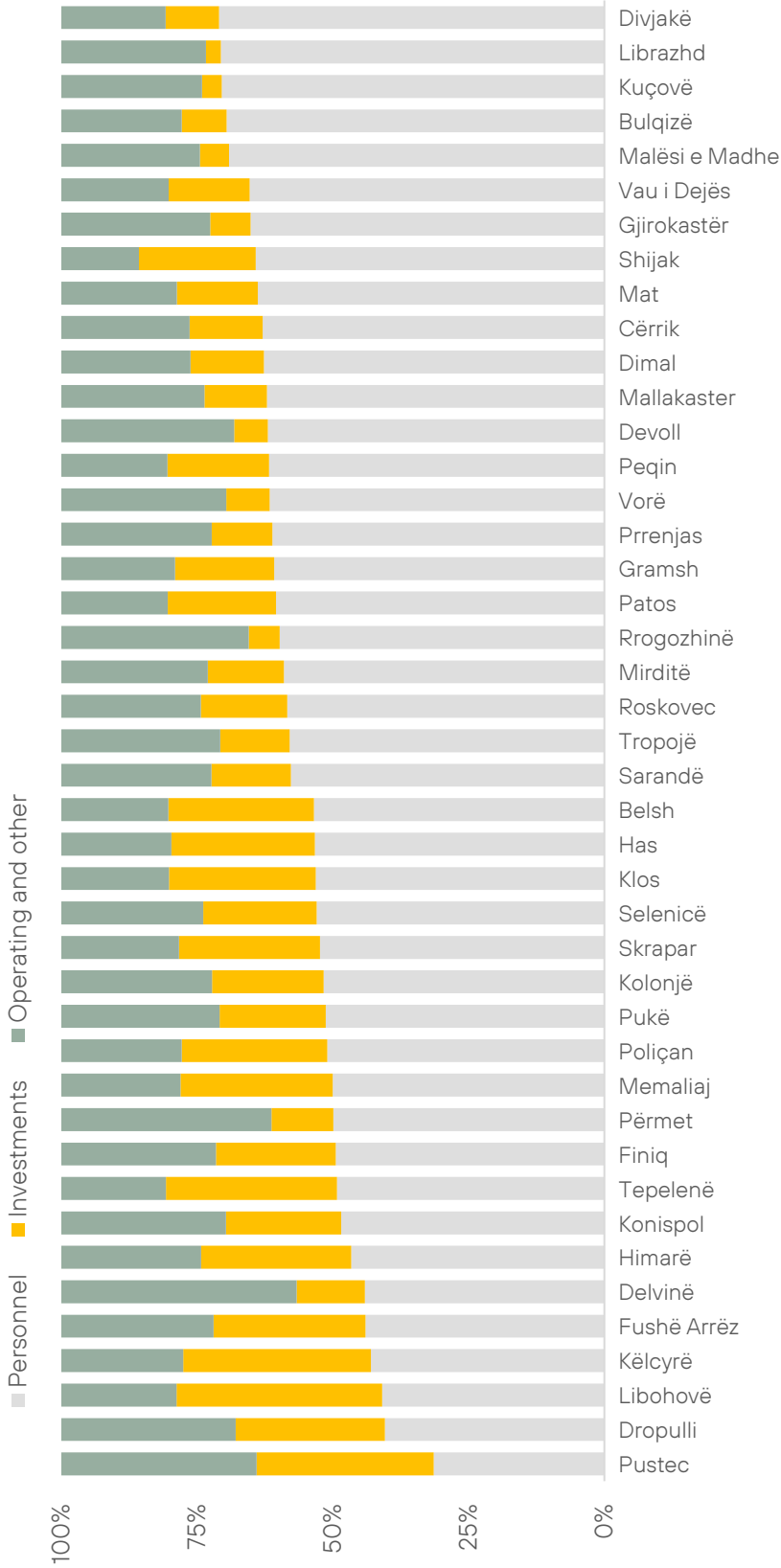
Chart 65. Expenditures based on economic classification, medium sized municipalities



Source of data: Local Finances Portal www.financatvendore.al

Among small-sized municipalities, the structure of expenditures is dominated by personnel expenditures: the municipality of Pustec recorded the lowest share of personnel expenditures to own source funded expenditures by about 31.4%, and the highest share was recorded in the municipality of Divjaka with about 71%. In terms of investment expenditures, the highest level is recorded in the municipality of Libohova with about 37.9% and the lowest in the municipality of Librazhd with about 2.7% of expenditures made with own funds in 2020.

Chart 66. Expenditures based on economic classification, in small sized municipalities



Source of data: Local Finances Portal www.financatvendore.al

Analyzing the structure of expenditures by economic nature at the municipal level allows for a better understanding of their capacities in long-term development orientations in terms of long-term development orientation within their territories.

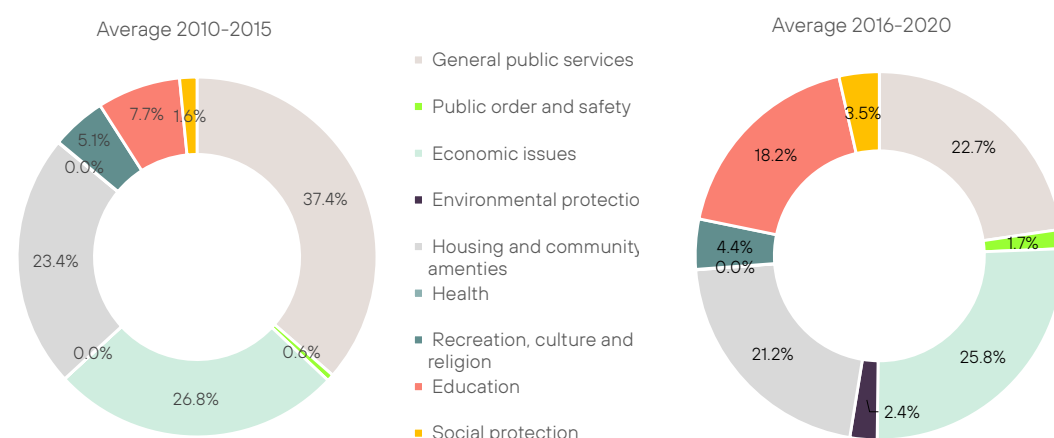
About 60% of municipalities in the country spend less than 20% of their budget on investments, and only 10% of municipalities spend more than 30% of their available financial resources on investments. The capital investment effort of municipalities is assessed as insufficient to enable their long-term development while undertaking large investment projects, which may have a broad impact on the territory.

2.2.2 Own source funded expenditures by functional classification

The data for own source funded expenditures were broken down by functions exercised by municipalities (COFOG classification). Such a breakdown allows for a detailed analysis of the choices made by municipalities with regards to the territory under administration (and

long-term development orientation). If we were to divide the available data into two periods, before and after 2015 as the year with significant changes in terms of local government, we would notice a reorientation and redistribution of expenditures among the functions exercised by municipalities.

Chart 67. Own source expenditures based on COFOG classification



Source of data: Local Finances Portal www.financatvendore.al

On average, municipalities have significantly reduced (by about 14.7 percentage points) expenditures on the general public services function from 37.4% before 2015 to 22.7% after 2015. Following the devolution of competencies in education function in 2016 and the establishment of the sectoral transfer for this function, education expenditures increased by about 10.4 percentage points, from an average of 7.7% before 2015 to 18.1% after 2015 (of the total expenditures with own funds).

Expenditures on *economic issues* and *housing and community amenities* functions together account for more than 45% of expenditures with own funds over the entire period under review. For both these functions, in the period after 2015, there is a slight decrease in their share of total expenditures with own funds (by about 1 and 2.2 percentage points, respectively). After 2015, on average, municipalities seem to have increased expenditure on the social protection function from 1.6% before 2015 to 3.8% of the total expenditures after 2015. Similarly to the education function, the increase in expenditure on this function to some extent is deemed to be related to the transfer of new functions to social service centers in 2016. The increase in the share of expenditures in the environmental protection function is regarded to be more related to methodological issues of re-classification of budget programs in the COFOG structure.

The year 2019 was an election year and coincided with the change

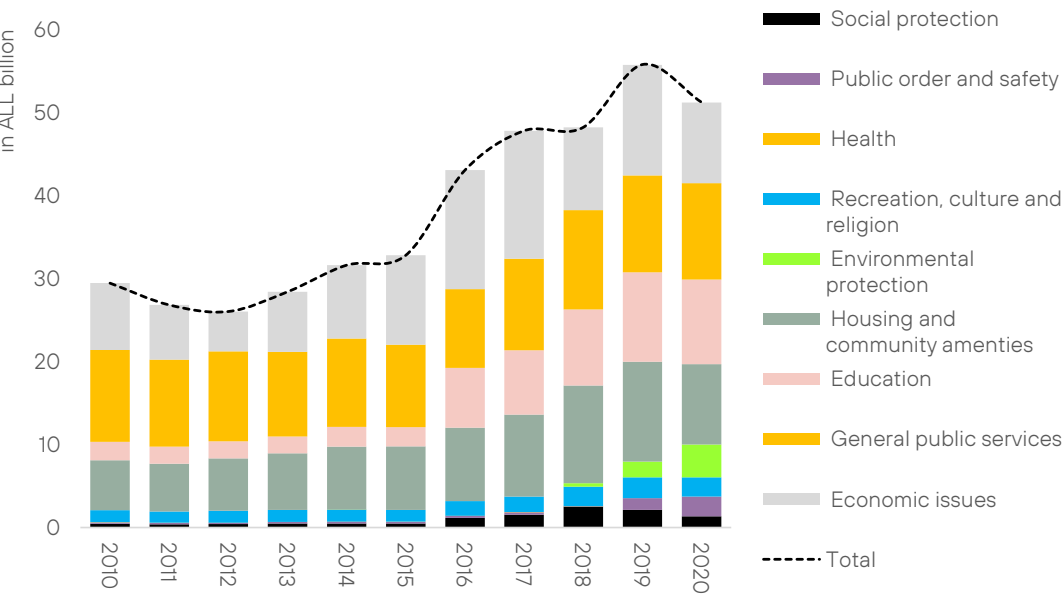
of mayors and municipal council members (except for those cases where they remained the same). Analysis in terms of expenditure structure by governance functions can be used to identify whether there have been developments in expenditure orientation depending on the vision of the new leaders in the municipality. In this context, it should be considered that in addition to the first effect, 2020 was a year characterized by a series of unusual events (earthquakes, COVID-19, floods), which affected governance and expenditure policy.

At first glance, the structure of expenditures shows fluctuations between 2019 and 2020. Expenditures appear to have shrunk in the functions of economic issues, housing and community amenities, social protection, recreation culture and religion, education, and general public services. In contrast, spending on public order and safety functions, environmental protection, and health has increased.

Expenditures for the economic issues function, which includes among others, expenditures for transport, agriculture, forestry, fisheries, and hunting, have considerably decreased, reaching an amount of ALL 9.7 billion in the period under review, compared to approximately ALL 13.4 billion in 2019 (a decline of approximately 27.2% in annual terms or about ALL 3.6 billion). Within this function, approximately ALL 7.6 billion (-33.1%) were spent on the transport sub-function, including expenditures in road construction, rehabilitation, maintenance (including road signs), and public transport.

The reduction in expenditure on this sub-function is regarded as a result of limited public transport due to the COVID-19 pandemic. The share of expenditures in this function is about 5 percentage points, from about 23.9% in 2019 to about 18.9% in 2020 of total expenditures made with own funds.

Grafik 68. Owns source expenditures by COFOG classification



Source of data: Local Finances Portal www.financatvendore.al

In 2020, approximately 18.9% of the own sourced expenditures or approximately ALL 9.7 billion, were spent on the *housing and community amenities* function (-19.6% in annual terms). Over the years, there is a concentration of municipal expenditures in this function and a progressive increase of its share to own total source funded expenditures. It is closely related to local infrastructure directly affecting community life. In the framework of this function, approximately ALL 8.2 billion were spent on the community development sub-function (-21% compared to the previous year), which includes activities aimed at improving living conditions, such as

recreational activities, improvement of common and recreational spaces for the community, improvement of green areas, maintenance of sidewalks, parks, public gardens, etc. The difference of approximately ALL 1.5 billion was spent for the sub-functions of local urban development, water supply, and street lighting.

Expenditures for the *education function* recorded about ALL 10.2 billion, down by approximately 5.3%, and represented about 19.9% of own-source funded expenditures in 2020. It can be noted that expenditures have increased progressively, following transferring of new competencies

from central government to the local government (sectoral transfers that cover teaching and support staff salaries in kindergartens and nurseries, and support staff salaries in elementary and high school education; and maintenance staff for pre-university education infrastructure). Since 2016, this marked the first decline in expenditures with own funds for the education function. In 2020, approximately ALL 7.8 billion or 75.8% of the expenditures in the education function were spent to cover pre-school and elementary education. Approximately ALL 2.5 billion were spent for the high school education sub-function, increasing by about 7.5% in annual terms.

Expenditures with own funds in the general *public services* function absorbed about 22.6% of own total source funded expenditures, marking a level of about ALL 11.6 billion in 2020 (slightly decreasing by 0.5% in annual terms).

In 2020, about ALL 2.4 billion were spent on the public order and safety function, a sharp increase of about 65.4% compared to the previous year (expenditures on this function represent about 4.6% of expenditures provided for with own funds). This function includes expenditures related to police services necessary for maintaining order and peace, ensuring the progress of public works, uncovering and preventing informality in the municipality territory, providing fire protection and civil protection services, and community relations fostering services.

The *social protection* function absorbed approximately 2.7% of own funded expenditures, amounting to approximately ALL 1.4 billion in 2020 (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 35.5%.

Box 4

Own source funded expenditures: how are municipalities presented?

The municipalities established following the implementation of TAR vary greatly among each in terms of expenditures incurred with own funds due to (i) the number of the population residing in the territory and (ii) their fiscal capacity. To clean the data from the "size" effect, we will analyze the expenditures incurred by the municipalities with their own funds per capita (see annex 7).⁴⁶ Transformation into 100-based indices allows for a quick, direct interpretation and highlights differences between municipalities regarding capacity to spend independently.

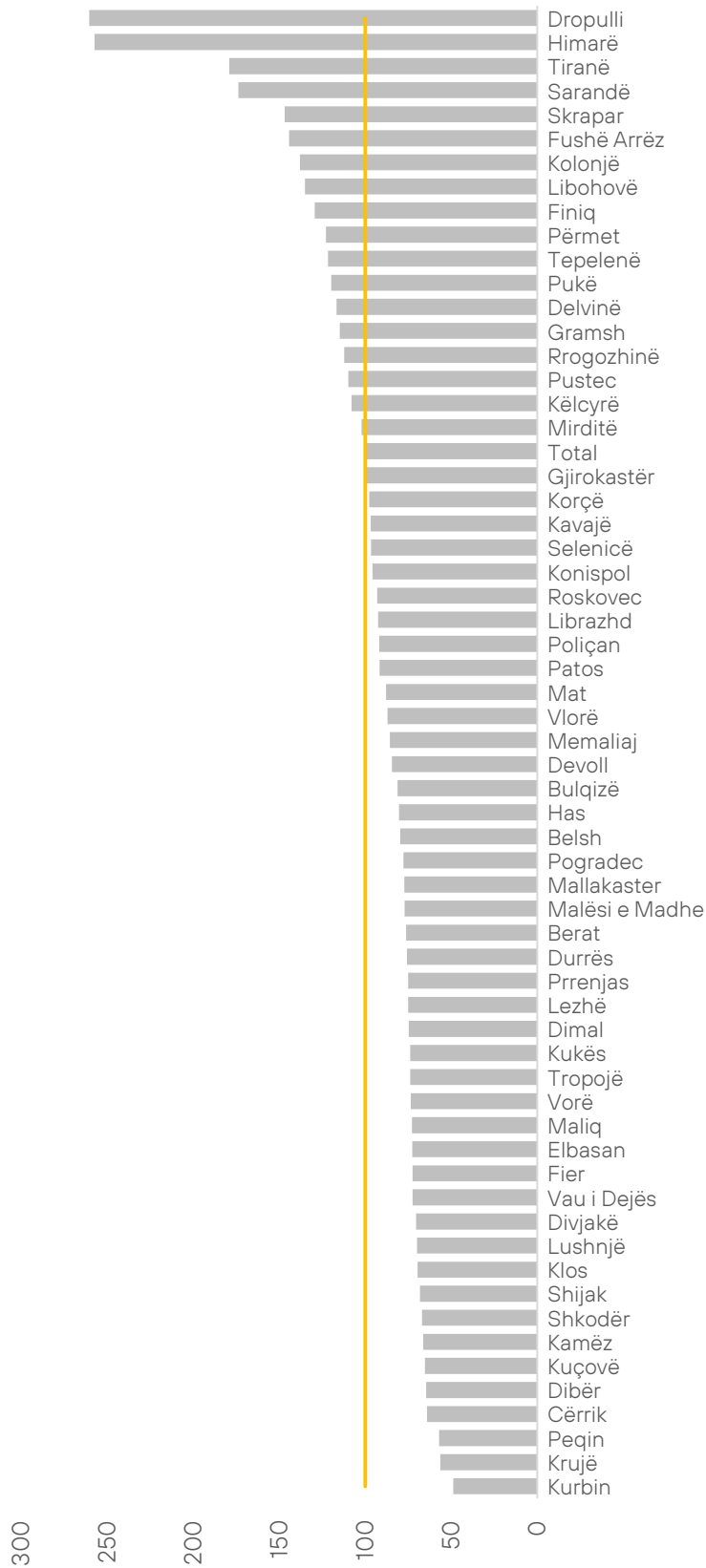
Own source funded expenditures per capita vary greatly among municipalities (data for 2020). On average, a municipality spent about ALL 18,323 per capita in 2020 (index = 100), down by about 8.1% compared

to this indicator level in 2019. The highest index level was recorded in the municipality of Dropull (index = 261 or a value of ALL 47,738 per capita), followed by the municipality of Himara (index = 257 or a value of ALL 47,164 per capita).

The municipality of Kurbin recorded the lowest level of per capita expenditures with own funds (index = 49 or a value of ALL 8,968 per capita), followed by the municipalities of Kruja (index = 57 or a value of ALL 10,358 per capita), Peqin (index = 57 or a value of ALL 10,458 per capita), Cërrik (index = 64 or a value of ALL 11,755 per capita) and Dibra (index = 65 or a value of ALL 11,865 per capita). Compared to the national average, approximately 30% of the municipalities (or 18/61 municipalities) provide expenditures with their own funds per capita above the national average. The other municipalities (43/ 61 municipalities) stand below the national average regarding the under analysis (see chart 69).

The significant difference between the minimum and maximum per capita expenditures with own funds (approximately 2.1 times higher than the national average or approximately ALL 38,770) indicates a wide gap in fiscal capacities among municipalities. Closing this gap is essential to enable municipalities for local public services provision. First, an evaluation of municipalities' potential fiscal capacity should be carried out, and then assess their performance against potential. Furthermore, the performance indicator related to the revenue collection rate may be factored into the unconditional transfer allocation formula as a stimulus element to encourage full use of mandated fiscal space.

Chart 69. Own source funded expenditures index (municipalities versus average)



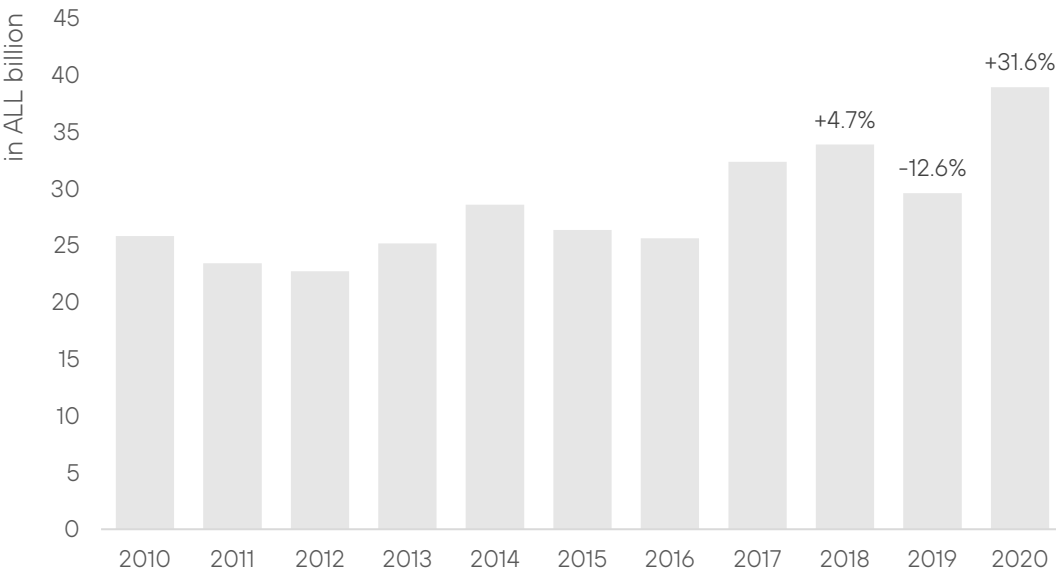
Source of data: Local Finances Portal www.financatvendore.al & INSTAT

2.3 Expenditures with conditional funds

In addition to expenditures with their own funds, municipalities also provide for expenditures with conditional funds (funds transferred by central government institutions, such as line ministries, which can only be used in line with the defined purpose). About these financial inflows in the local budget, municipalities have no discretion over the amount and uses, i.e., they are spent according to the instruction of the line ministries (in other words, they have a predetermined destination). These funds are transferred from line ministry budgets in conditional transfers to fund delegated functions and/or specific projects considered

of local, regional or national interest, which require the cooperation of 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 annexe 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. Although projected and transferred from the budgets of central government units (such as line ministries), they are reflected in the total expenditures incurred by municipalities.

Chart 70. Expenditures with conditional funds



Source of data: Local Finances Portal www.financatvendore.al

Expenditures incurred with conditional funds have been volatile over time and present an upward trend. This trend is particularly evident following the increase of social transfers during

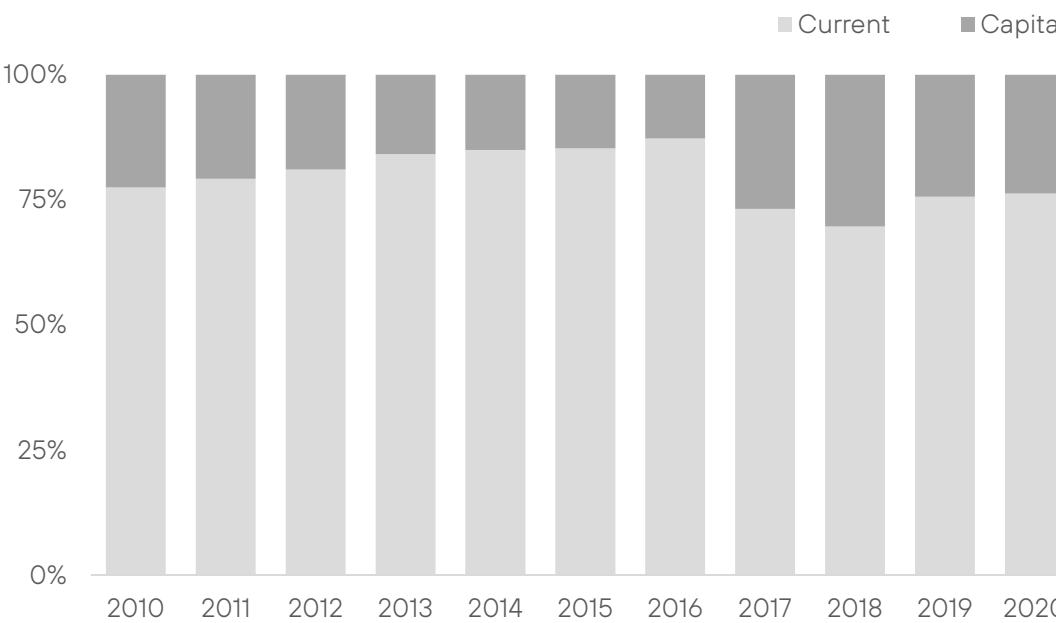
2020. After a decrease of about 12.6% in 2019, conditional expenditures in 2020 marked the highest historical level of about ALL 38.9 billion, increasing by about 31.6% in annual terms.

2.3.1 Expenditures with conditional funds by economic classification

Based on the economic classification, approximately 76.3% of expenditures with conditional funds were concentrated in covering current expenditures (mainly related to transfers

to household budgets - economic assistance and disability payments) and approximately 23.7% covered capital expenditures (investments including funds awarded by the RDF).

Chart 71. Expenditures with conditional funds by economic classification

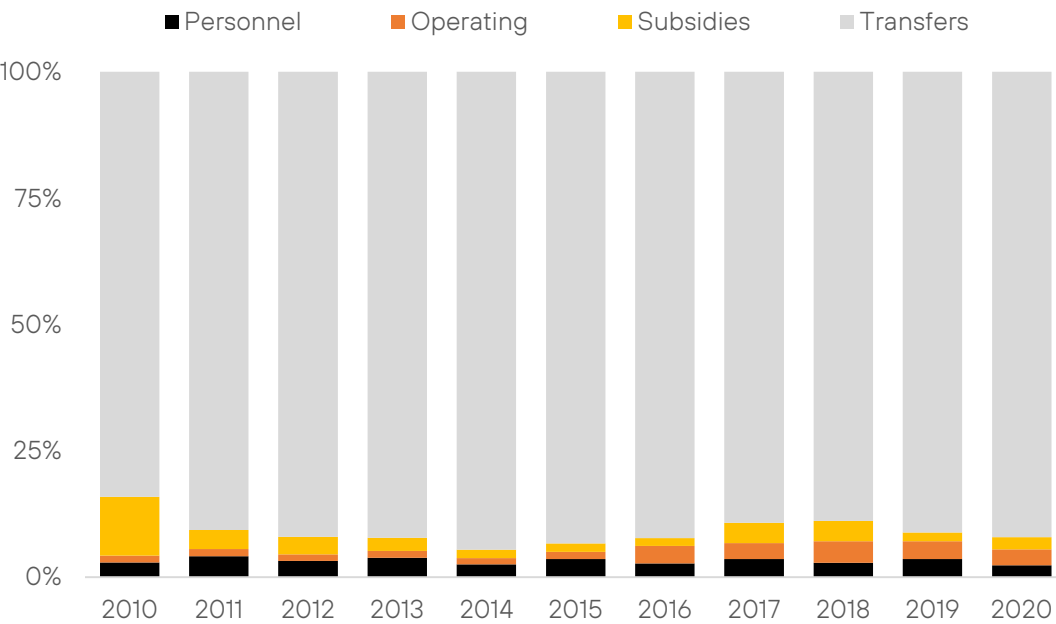


Source of data: Local Finances Portal www.financatvendore.al

Current expenditures with conditional funds marked a level of about ALL 29.7 billion, increasing by about 32.7% in annual terms. In this category, expenditures for transfers to household budgets accounted for about 70.2% of current expenditures and marked a level of about ALL 27.3 billion in 2020. Compared to the previous year,

expenditures for transfers to household budgets increased by about 34.1% in annual terms or about ALL 7 billion. The increase in expenditures in this category is due to the increase in economic assistance and disability payments during the COVID-19 period (a measure expected to persist over the first half of 2021).

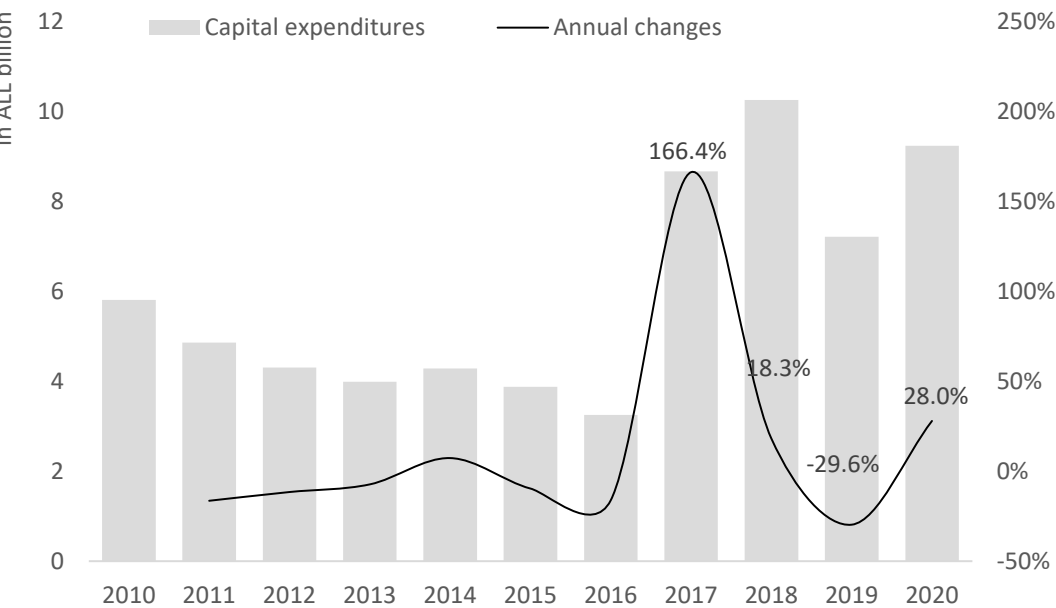
Chart 72. Current expenditures with conditional funds



Source of data: Local Finances Portal www.financatvendore.al

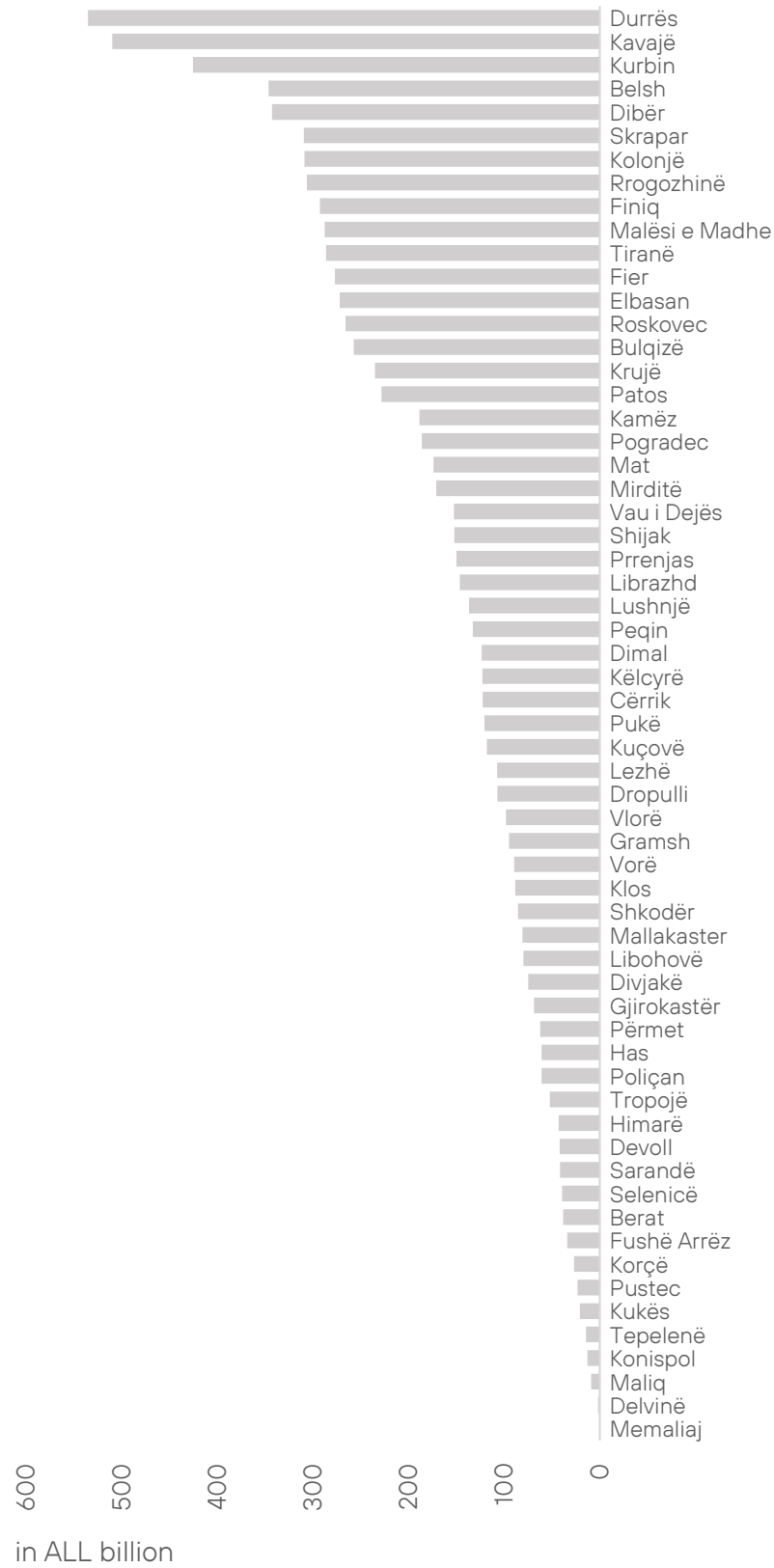
Capital expenditures with conditional funds are earmarked for the *housing and community amenities* function (a sharp increase of about 85.5% in annual terms) and about 13.3% for the education function (a decrease of nearly 50% compared to the previous year). Over 75% of conditional investment

Chart 73. Capital expenditures with conditional funds



Source of data: Local Finances Portal www.financatvendore.al

Grafik 74. Capital expenditures with conditional funds by municipalities (year 2020)

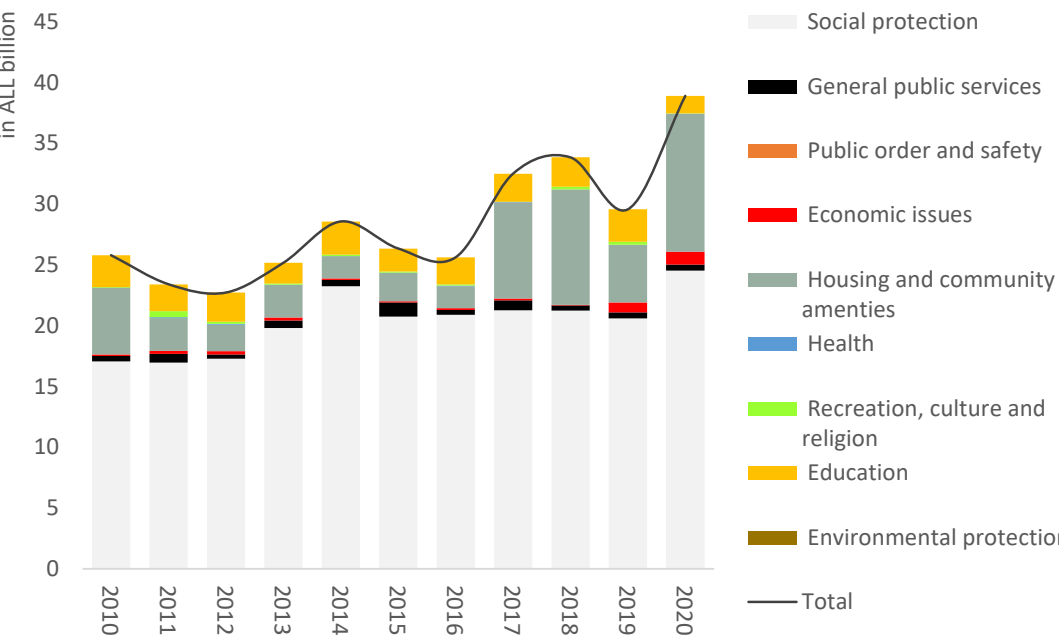


Source of data: Local Finances Portal www.financatvendore.al & INSTAT

2.3.2 Expenditures with conditional funds by functional

Municipal expenditures with conditional funds by function show that approximately 63% of them is spent in the social protection function, registering an increase of 16.1% in annual terms. About 29.2% of conditional expenditures were allocated in the housing and community amenities function. Expenditures in this function marked a sharp increase from ALL 4.7 billion in 2019 to about ALL 11.4 billion in 2020, up by about 59.1% of, channelled into the water supply service. Approximately 3.7% of conditional funds, down by 45% in annual terms, were spent on the education function (the most significant portion of which was spent to cover pre-school and elementary education services).

Chart 75. Expenditures with conditional funds by functions



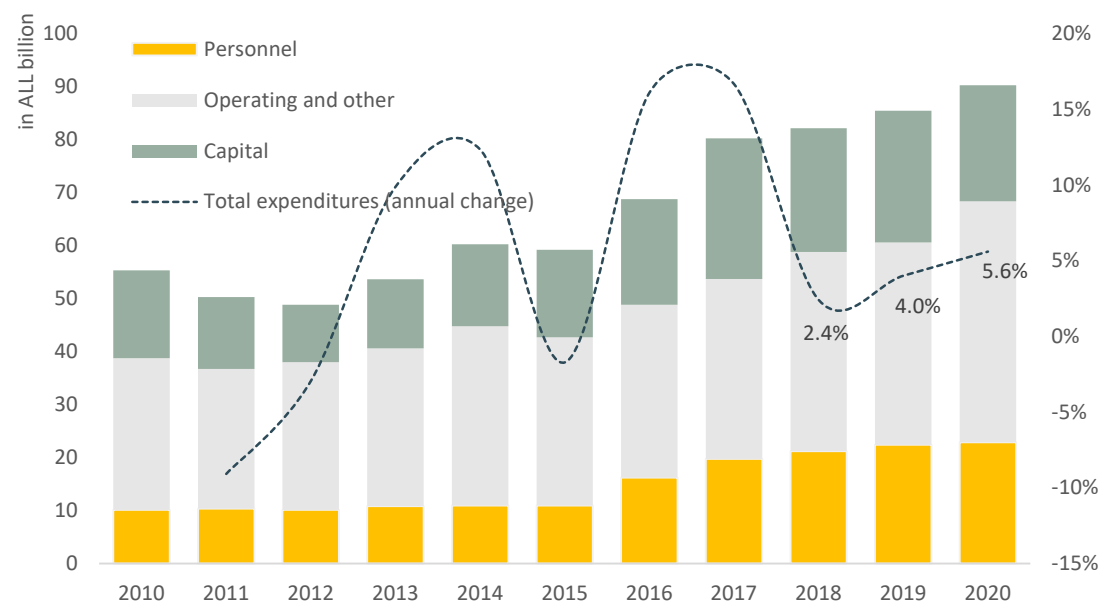
Source of data: Local Finances Portal www.financatvendore.al

2.4 How much did local governance cost in 2020?

In total, the 61 municipalities of the country spent on average ALL 32,224 per capita in 2020 to fulfil the functions and competencies provided by law. Based on funding sources, expenditures with own funds amounted to approximately ALL 18,323 per capita (a drop of about 8.1% in annual terms), and conditional expenditures amounted to approximately 13,900 per capita (+31.6% in annual terms).

Regardless of the funding source, approximately ALL 90.2 billion were spent at the local level during 2020⁴⁷, registering an increase of 5.6% in annual terms. The higher level of expenditures in annual terms was determined mainly by increased expenditures with conditional funds (under the effect of increased transfers to household budgets during the COVID-19 period). Nominally, approximately ALL 51.3 billion were expenditures with their own funds (down by -8.1%) and, approximately ALL 38.9 billion were expenditures with conditional funds (up by +31.6%).

Chart 76. Use of financial resources



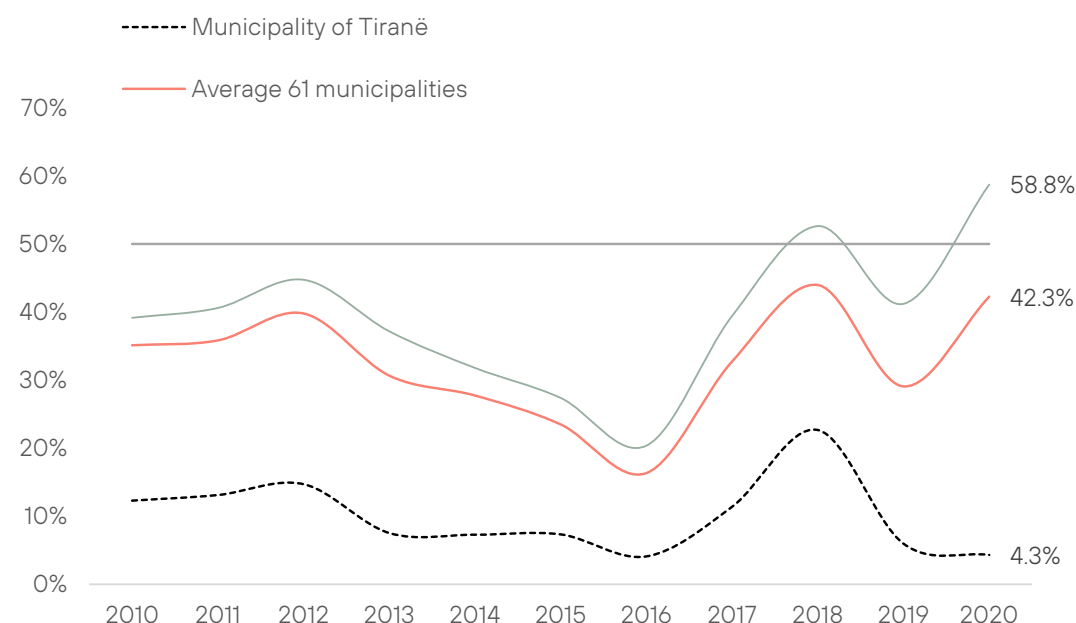
Source of data: Local Finances Portal www.financatvendore.al

In the category of own funds expenditures, the direction of developments was determined by the contraction of investments by about 28.3% compared to the previous year. In contrast, in conditionally funded

expenditures, developments were determined by expanding operating and other expenditures (increased transfers to household budgets). Throughout the period under review, current expenditures have maintained

a dominating and upward trend throughout 2015-2020. In 2020, current expenditures represented approximately 75.8% and capital expenditures approximately 24.2% of the total.

Chart 77. Conditionally funded capital expenditures to total capital expenditures



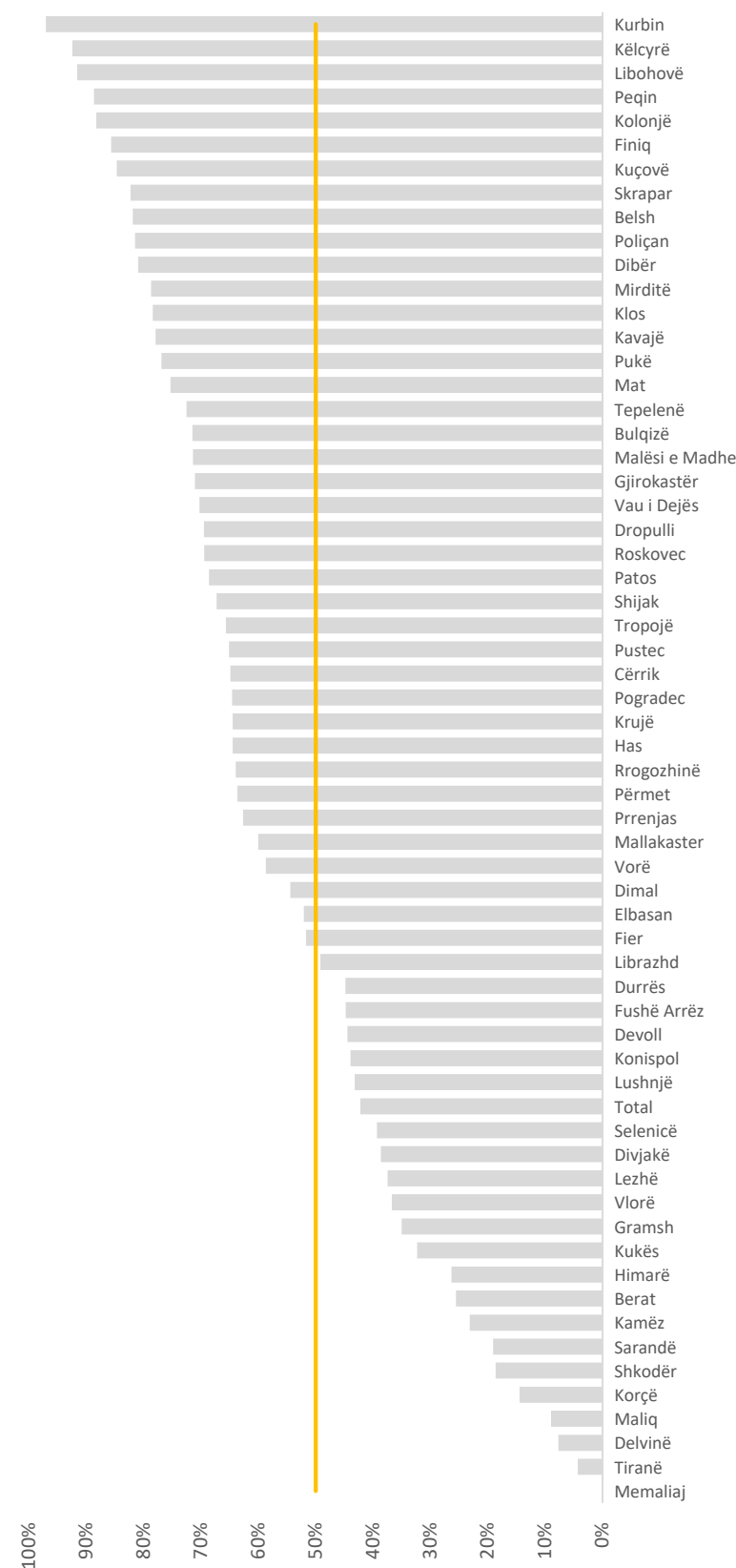
Source of data: Local Finances Portal www.financatvendore.al

In 2020, total current expenditures amounted to approximately ALL 68.4 billion, registering an annual increase of about 12.8%. The expansion of current expenditures was dictated mainly by the increase in operating and other expenditures. In 2020, municipalities spent about ALL 45.5 billion on operating and other expenditures (a large share represented by transfers), increasing by about 8.5% in annual terms. Similarly, but to a lesser extent, personnel expenditures contributed to the increase of total expenditures by about 2%. Investment expenditures marked a level of about ALL 21.9 billion

and recorded an annual decline of about 11.9% in annual terms. The increase in capital expenditures with conditional funds failed to counterbalance the shrink of capital expenditures with the own funds of municipalities during 2020.

This ratio is about 13.2 percentage points higher than the one registered in 2019 and about 18.8 percentage points higher than the 2015 level. For the municipality of Tirana, this ratio marks a minimum value in 2020 of about 4.3%, while the average of the other 60 municipalities is about 58.8%.

Chart 78. Conditionally funded capital expenditures to total capital expenditures, by municipalities

Source of data: Local Finances Portal www.financatvendore.al

At the municipal level, conditional capital expenditures represent over 50% of the total capital expenditures incurred in 2020 in about 39/61 municipalities. The highest level of the indicator was recorded in the municipality of Kurbin (about 97.2%), followed by the municipalities of Këlcyra (92.5%) and Libohova (91.7%). In the municipalities of Dibra, Polican, Belsh, Skrapar, Kuçova, Peqin, Finiq, and Kolonja, the conditional capital expenditures represent more than 80% of the capital expenditures; in the

municipalities of Gjirokastra, Malësi e Madhe, Bulqiza, Tepelena, Mat, Puka, Kavaja, Klos, and Mirdita, the share of capital expenditures with conditional funds to total capital expenditures range from 70% - 80%, etc. In contrast, in the municipalities of Tirana, Delvina, Maliq, Memaliaj, the ratio of expenditures with conditional funds to the total is below 10% for 2020; whereas in Korça, Shkodra, Saranda, Kamza, Berat and Himara municipalities, it fluctuates in the 10% - 20% range, etc. (see chart 78).

Box 5.

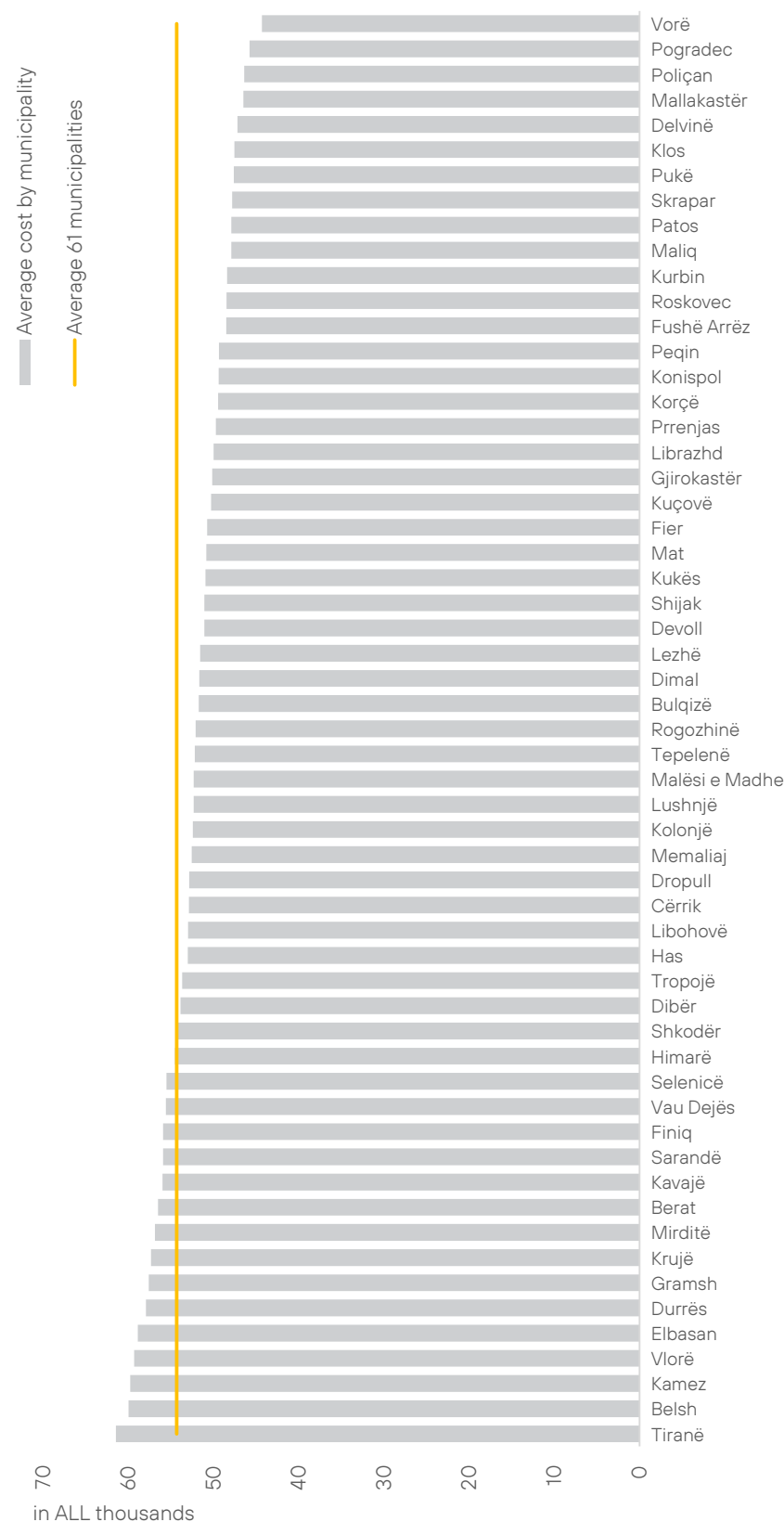
Personnel expenditures and the number of employees in 61 municipalities⁴⁸

Efficiency and effectiveness in using available financial resources remain a challenge to be addressed by all contexts. This challenge becomes even more important in developing countries with limited financial resources, which do not meet all needs for public services, whether at the central or local level. It has already been 5 years since the implementation of TAR. Alongside territorial re-configuration, municipalities restructured their human resources and organizational structures to better supply public services to communities they represent. An analysis of personnel costs and the number of employees at the municipal level is directly related to one of the goals of the TAR and other decentralization reforms, that of increasing efficiency in the management of available resources.⁴⁹

Historical data show that the component of personnel expenditures has advanced its share in local budgets, from an average of about 19.1% in the 2010-2015 period to an average of about 25.1% in the 2016-2020 period.⁵⁰ In 2020, total personnel expenditures (with own and conditional funds) represented about 25.4% of total expenditures incurred by 61 municipalities, out of which municipalities' own funds cover about 97%. On average, in 2020, the cost per employee in the municipality was about ALL 54,324 per month. The

average cost per employee registers the highest level in the municipality of Tirana, followed by Belsh, Kamza, Vlorë, Elbasan, Durrës, Gramsh, Kruja municipalities etc. On the contrary, the average cost per employee marks the lowest level in the municipality of Këlcyra, followed by Përmet, Divjaka, Pustec, Vora, Pogradec municipalities, etc. In 17/61 municipalities, the average cost per employee is above the average of 61 municipalities, in 4/61 municipalities close to the average level, and 40/61 municipalities below the average level.⁵¹

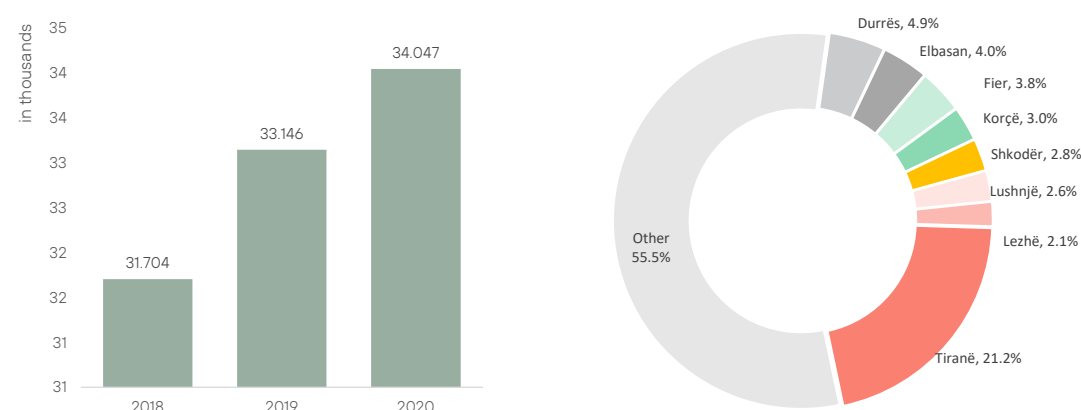
Chart 79. Average monthly cost per employee in the municipality

Source of data: Local Finances Portal www.financatvendore.al

For 2020, the total number of employees in 61 municipalities in the country was approximately 34,047 employees, up by about 2.7% compared to a year ago (or 901 additional employees). About 50% of the additional employees in 2020 were employed by Tirana municipality, followed by municipalities of Pogradec (+130 employees), Durrës (+ 81 employees), Mat (+ 46 employees), Vau Deja (+38 employees), etc. On the contrary, the number of

employees has significantly decreased in the municipalities of Dibra (-63 employees), Kamza (-53 employees), Lezha (-52 employees), etc. About the average annual number of employees in the public sector⁵², employees in 61 municipalities represented about 19.4% of the total. However, compared to the total number of employees in the central government in 2019⁵³, local level employees (61 municipalities) made up approximately 41.4%.

Chart 80. Municipal employees (total and by municipalities)

Source of data: Local Finances Portal www.financatvendore.al & Municipalities Official Websites

The number of employees in the municipalities is closely related to the size of the municipality in terms of population.⁵⁴ Tirana municipality has the highest number of employees, with about 21.2% of the total employees, followed by Durrës municipality with about 4.9%. In the municipalities of Elbasan and Fier are employed respectively 4% and 3.8% of total employees at the municipal level followed by the municipalities of Vlorë (3%), Korça (3%), Shkodra (2.8%), Lushnja (2.6%), etc.

The nominal analysis of the number of employees and average staff costs

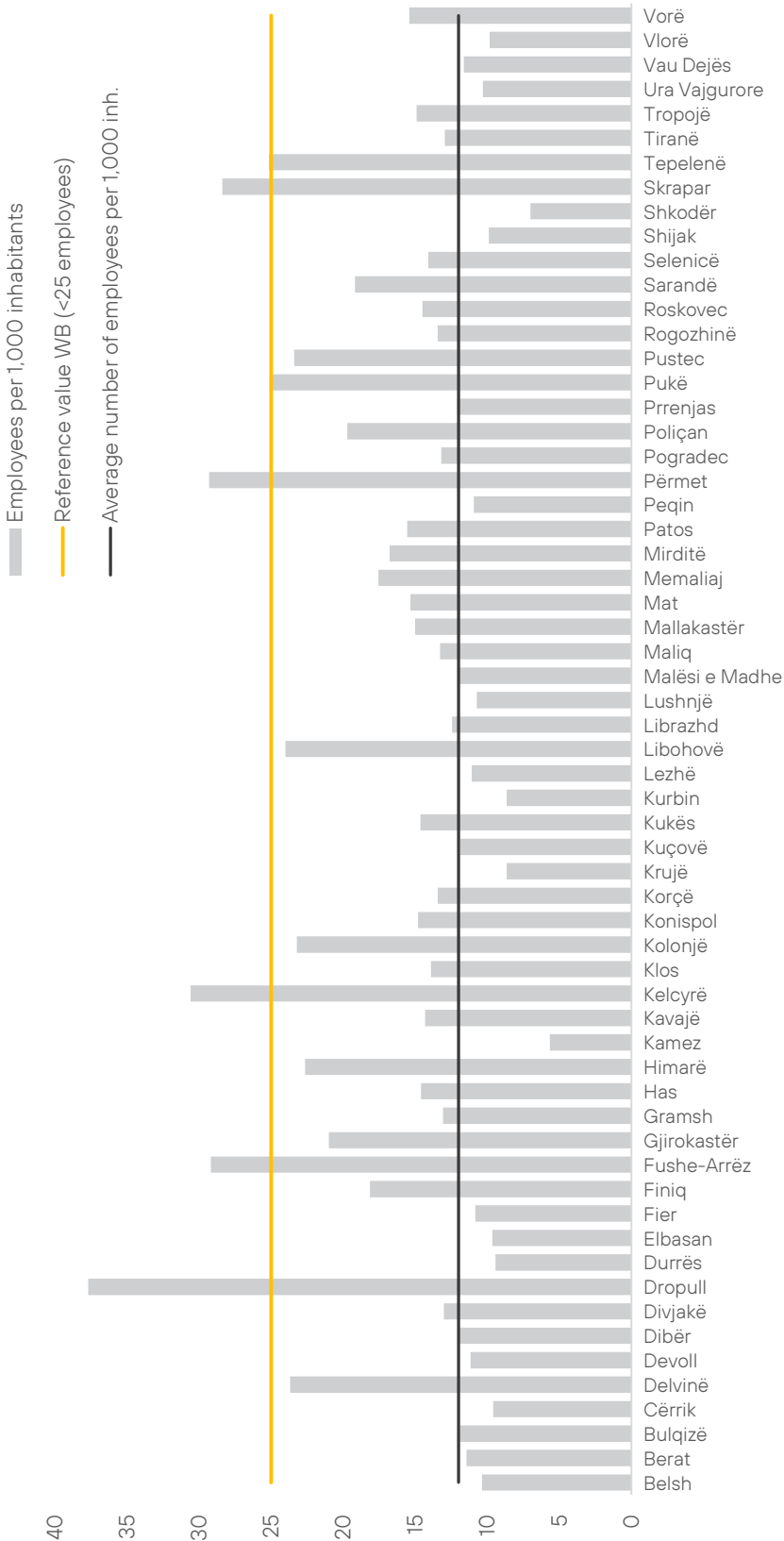
would be a first step in assessing local public service provision and the use of available financial resources. A widely used field indicator to assess the local public service provision level is the number of employees per 1,000 inhabitants. The average indicator level for the 61 municipalities of the country is about 12 employees per 1,000 inhabitants, with Kamza municipality having the lowest number of employees per 1,000 inhabitants at 6. In contrast, Dropull municipality having the highest number of employees per 1,000 inhabitants⁵⁵ at 38. The average number of employees per 1,000 inhabitants is estimated to be

below the reference level used by the World Bank of less than 25 employees per 1,000 inhabitants. Compared to the benchmark level of fewer than 25 employees per 1,000 inhabitants used by the World Bank, 54 municipalities have a lower level than the benchmark, whereas 2 municipalities have a close-to-benchmark level. On the other hand, 5/61 municipalities stand above this reference level, suggesting an excessive number of municipality staff concerning the municipality inhabitants.⁵⁶

This indicator is above the national average in approximately 37/61 municipalities, including the municipalities of Dropull (38 employees per 1,000 inhabitants), Këlcyra (31 employees per 1,000 inhabitants), Përmet (29 employees per 1,000 inhabitants), Fushë Arrëz (29 employees per 1,000 inhabitants), Skrapar (22 employees per 1,000 inhabitants), Tepelena (25 employees per 1,000 inhabitants), Puka (25 employees per 1,000 inhabitants), etc. On the contrary, in Kamza, Shkodra, Kruja, Kurbin, Durrës, Cërrik, etc., the number of employees per 1,000 inhabitants is significantly below the national average.

The number of employees in 61 municipalities in the country increased for the second year, exacerbating costs in local budgets. The 61 municipalities of the country employ approximately 34,047 employees or 12 employees per 1,000 inhabitants. Differences among municipalities are wide regarding the average cost per employee and the service provision level, evaluated by the indicator of employees per 1,000 inhabitants. These indicators raise questions about the level and quality of service delivery by local government (municipalities in the country). The latter, combined 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 optimal solutions regarding the number of employees in the municipality.

Chart 81. Employed in municipalities per 1,000 inhabitants



Source of data: INSTAT, Ministry of Finance and Economy & Local Finances Portal www.financatvendore.al

3 CONCLUSIONS

The year 2020 was intensive, whereby the significant damages caused by the earthquakes that hit the country by the end of 2019 (September 2019 and 26 November 2019) were exacerbated by the immediate adverse effects of the COVID-19-induced health crisis. Coping with these difficulties once again emphasized the importance of municipalities in the communities they represent and their weak role in crisis management. Based on the data analysis on revenue resources and how the 61 municipalities in the country used them, we can draw the following conclusions.

Total financial resources available for the 61 municipalities in the country have increased, even though this increase is not proportional to all municipalities.

The revenue structure is dominated by intergovernmental transfers, while local revenue sources have a low share. A major role is played by revenues from IIT and property tax (collected mainly in Tirana municipality) in their own source revenues.

The 61 municipalities in the country present sharp differences among them in terms of available financial resources. Therefore, several municipality groups have been identified: (i) the municipality of Tirana, which operates and presents great differences with the other 60 municipalities; (ii) large-sized municipalities that are similar to each other but very different from the municipality of Tirana; (iii) medium-sized municipalities which are similar to each other but have significant differences with Tirana municipality and large-sized municipalities; (iv) small-sized municipalities that are similar to each other and significantly different from all other municipalities. Being equally responsible for the same functions and competencies and a negative gap in administrative and financial capacities makes it impossible to fulfil them.

The mandated [available] fiscal space is not fully utilized, especially concerning household taxpayers. The tightening fiscal policy (higher local taxes and fees)

4 ANNEXES

Annex 1. Methodology Note

The source of data for the local self-government units (LGUs) of the first level (municipalities) used in the Local Public Finance Report - Status Report 2020 is the Government Financial Information System (Treasury System, SIFQ) at the Ministry of Finance and Economy, published on the official website of MoFE, which were processed and then published on the platform www.financatvendore.al. The data are cumulative (or stock at the end of the period), expressed in local currency (ALL) and refer to only 61 municipalities (12 counties are not included in the analysis). To enable historical comparisons with the period before implementing the administrative and territorial reform (RAT), the data for the period 2010-2015 for 373 local self-government units were reclassified at the level of 61 new municipalities created following the period TAR.

For 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 Annual Guidelines issued by the MoFE for the preparation of the Annual Budget and

Medium-Term Budget Program and relevant international practice. 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 according to the provisions of Law No. 68/2017 "On local self-government finances";
- unconditional and sectoral transfers; and
- conditional transfers from line ministries for delegated functions and investments.

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 the amount or way of using funds from the conditional transfers category; these funds are spent according to the provisions of the line ministries (in other words, the destination of these funds is predetermined).

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

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 the amount or way of using funds from the conditional transfers category; these funds are spent according to the provisions of the line ministries (in other words, the destination of these funds is predetermined).

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), including 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 a 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:

<http://www.financatvendore.al/analiza/profilet>.

Annex 2.

Functions of municipalities according to the legislation in force

* Based on law no. 139/2015 "On local self-government."

Field	Functions
Infrastructure and public services	<ul style="list-style-type: none"> • Production, treatment, transmission and supply of potable water. • Collection, disposal and treatment of wastewater. • Collection and disposal of rainwater and protection from floods in the residential areas. • Construction, rehabilitation and maintenance of local roads, road signage, sidewalks and public squares • Lighting of public areas. • Local public transport. • Construction, rehabilitation and maintenance of public cemeteries, as well as provision of public funeral service. • Service of public decoration. • Parks, gardens and public areas of grass. • Collection, disposal and treatment of solid and domestic waste. • Construction, rehabilitation and maintenance of buildings of pre-university educational institutions, except for vocational schools • Management and arrangement of preschool education system in kindergartens and nurseries. • Construction, rehabilitation, and maintenance of buildings of primary health service, the organization of local-level education and promotional activities related to health protection, and the management of centers and other services in the field of public health. • Planning, management, development and control of the territory.
Social services	<ul style="list-style-type: none"> • Initiation and management of social services at the local level, for the poor, persons with disabilities, children, women, women as heads of households, battered women, victims of trafficking, mothers, parents with many children, the elderly, etc. • Construction and management of dwellings for social housing. • Construction and management of centers for the provision of local social services. • Creation, in cooperation with the Ministry responsible for the social welfare, of a social fund for the financing of services.

Field	Functions
Culture, sport, recreational services	<ul style="list-style-type: none"> • Development, protection, and promotion of the cultural heritage of local interest, and management of the facilities for exercising such functions. • Organization of cultural activities, promotion of national and local identity, and management of the facilities for exercising such functions. • Development, protection, and promotion of libraries and reading halls for the purpose of civic education. • Organization of sporting, recreational, and entertaining activities, and development and management of the institutions and the facilities for exercising such functions.
Environmental protection	<ul style="list-style-type: none"> • Implementation of local-level measures to protect the quality of air, soil, and water from pollution. • Implementation of local-level measures for the protection from acoustic pollution. • Organization of local-level education and promotional activities related to environment protection.
Agriculture, rural development, public forests and pastures, nature, and biodiversity	<ul style="list-style-type: none"> • Management, operation and maintenance of irrigation and drainage infrastructure, transferred to their ownership. • Management and protection of agricultural land and other types of resources, such as the unproductive land, etc. • Creation and management of a local system of agricultural and rural information and consultation.. • Creation and management of grant schemes for local agriculture and rural development financed from the local budget and/or co-financed by third parties, guaranteeing genderbalanced access. • Management of public forest and pasture resources. • Protection of nature and biodiversity.
Local economic development	<ul style="list-style-type: none"> • Preparation of strategic developmental plans and programs for local economic development. • Establishment and operation of public markets and trade networks. • Support for the development of small business through promotional activities, such as fairs and advertisements in public areas.

Field	Functions
Local economic development	<ul style="list-style-type: none"> • Organization of services in support of local economic development, such as business information, promotional activities, availability of public assets, etc. • Organization of services in support of local economic development, such as business information, promotional activities, availability of public assets, etc. • Provision of financial grants to support small and medium business activities, as specified in the legislation in force, guaranteeing gender-balanced access
Public safety	<ul style="list-style-type: none"> • Civil Protection at the local level and management of the relevant structures in the manner prescribed by law. • Provision of the firefighting service at the local level and management of the relevant structures. • Guaranteeing good relations across the community, prevention of, and mediation for resolving, conflicts within the community. • Prevention of administrative offences and the strengthening, inspection and monitoring of the implementation of the statutes and regulations of local government units within their • local jurisdictions in accordance with the applicable legal provisions.

Annex 3.

List of main indicators used in the analysis

Indicator	Description	Value			
		2015	2018	2019	2020
1. Own source revenues to nominal GDP (%)	Sum of revenues from local taxes, fees and other items to nominal GDP in ALL	0.9%	1.5%	1.5%	1.5%
2. Disposable financial resources to nominal GDP (%)	Sum of revenues from own sources, unconditional transfers (general and sectoral) and shared taxes to nominal GDP in ALL.	1.8%	3.0%	3.1%	3.3%
3. Total financial resources to nominal GDP (%)	Sum of revenues from own sources, unconditional transfers (general and sectoral), shared taxes and conditional transfers to nominal GDP in ALL.	3.6%	5.0%	4.8%	5.8%
4. Own source revenues to general government revenues (%)	Sum of revenues from local taxes, fees and other items to general government revenues in ALL	3.4%	5.4%	5.6%	5.7%
5. Disposable financial resources to general government revenues (%)	Sum of revenues from own sources, unconditional transfers (general and sectoral) and shared taxes to general government revenues in ALL.	6.7%	10.9%	11.3%	12.2%
6. Indicator of financial autonomy (A)	The ratio of own-source revenues to total financial resources in ALL.	25.20%	29.10%	31.40%	26.60%
7. Indicator of financial autonomy (B)	The ratio of the sum of own-source revenues and shared taxes to total financial resources in ALL	30.90%	30.90%	33.40%	29.10%
8. Indicator of financial autonomy (C)	The sum of own-source revenues, shared taxes and unconditional transfers (general and sectoral) to total financial resources in ALL.	59.30%	59.30%	63.70%	57.20%
9. Own source funded expenditures to nominal GDP (%)	Sum of expenditures with own sources, unconditional transfers (general and sectoral) and shared taxes to nominal GDP in ALL.	2.3%	2.9%	3.3%	3.2%

Indicator	Description	Value			
10. Expenditures with conditional funds to nominal GDP (%)	Expenditures with conditional funds to nominal GDP in ALL.	1.8%	2.1%	1.8%	2.5%
11. Total expenditures to nominal GDP (%)	Total expenditures (with own and conditional funds) in ALL to nominal GDP in ALL.	4.1%	5.0%	5.1%	5.7%
12. Own source funded expenditures to general government expenditures (%)	Sum of expenditures with own sources, unconditional transfers (general and sectoral) and shared taxes general government expenditures (in ALL)	7.5%	10.1%	11.4%	9.6%
13. Total expenditures to general government expenditures (%)	Total expenditures (with own and conditional funds) in ALL to general government expenditures (%)	13.5%	17.3%	17.4%	16.8%
14. Public investments to nominal GDP (%)	Total public investments in ALL to nominal GDP in ALL.	4.4%	4.8%	4.4%	5.4%
15. Investments of municipalities to nominal GDP (%)	Total investments carried out by municipalities to nominal GDP in ALL.	1.2%	1.4%	1.5%	1.4%
16. Own source funded investments to nominal GDP (%)	Own source investments of municipalities (using own sources, unconditional transfers and shared taxes) in ALL to nominal GDP in ALL.	0.9%	0.8%	1.0%	0.8%
17. Own source funded investments to public investments (%)	Own source investments of municipalities (using own sources, unconditional transfers and shared taxes) in ALL to public investments in ALL.	20.1%	16.7%	23.5%	14.8%
18. Total investments of municipalities to public investments (%)	Total investments carried out by municipalities with own and conditional funds in ALL to public investments in ALL.	26.2%	29.8%	33.1%	25.7%

Indicator	Description	Value			
19. Outstanding local debt to nominal GDP (%)	Ratio of outstanding local debt in ALL to nominal GDP in ALL.	0.049%	0.043%	0.035%	0.026%
20. Arrears to nominal GDP (%)	Ratio of arrears stock in ALL at the end of the year to nominal GDP in ALL.		0.41%	0.50%	0.42%
21. Arrear's stock per capita (in ALL)	The ratio of arrears stock at the end of the year to population based on CENSUS 2011.			2,918 ALL	2,475 ALL
22. Insolvency indicator	The ratio of long-term debts and arrears in ALL to approved annual expenditures in ALL for 61 municipalities for 2020				
23. Average cost per employee (in ALL per month)	The ratio of personnel expenditures to the total number of employees in municipalities (by municipality and total) was divided for 12 months.			54,395 ALL	54,324 ALL
24. Number of employees per 1,000 inhabitants	The ratio of the total number of employees in municipalities to the total population (expressed in 1,000 inhabitants)		11.0	11.5	12
25. Capital expenditures with conditional funds to total capital expenditures	The ratio of capital expenditures with conditional funds to total capital expenditures of municipalities in ALL.				
	Average 61 municipalities	23.5%	44.0%	29.1%	42.3%
	Municipality of Tiranë	7.3%	22.7%	6.0%	4.3%
	Average 60 municipalities (excluding municipality of Tiranë)	27.4%	52.6%	41.2%	58.8%
26. Coverage of own source capital expenditures from IIT revenues	The ratio of revenues from IIT to own source funded capital expenditures in ALL				
	Average 61 municipalities	11.2%	55.3%	47.9%	62.8%
	Municipality of Tiranë	20.2%	104.6%	77.4%	100.6%
	Average 60 municipalities (excluding municipality of Tiranë)	8.5%	22.4%	23.2%	24.7%

Annex 4.

Classification of municipalities by size (number of population)

Criteria	Group	Municipalities
Up to 40,000 inhabitants	Small municipalities (43/61)	Pustec, Dropull, Libohovë Këlcyrë, Fushë Arrëz, Delvinë, Himarë, Konispol, Tepelenë, Finiq, Përmet, Memaliaj, Poliçan, Pukë, Kolonjë, Skrapar, Selenicë, Klos, Has, Belsh, Sarandë, Tropojë, Roskovec, Mirditë, Rrogozhinë, Patos, Gramsh, Përrenjas, Vorë, Peqin, Devoll, Mallakastër, Ura Vajguore, Cërrik, Mat, Shijak, Gjirokastër, Vau i Dejës, Malësi e Madhe, Bulqizë, Kuçovë, Librazhd, Divjakë
40,001 - 100,000 inhabitants	Medium-sized municipalities (11/61)	Kavajë, Maliq, Kurbin, Kukës, Krujë, Berat, Pogradec, Dibër, Lezhë, Korçë, Lushnjë
> 100,000 inhabitants	Large sized municipalities (6/61)	Kamëz, Vlorë, Fier, Shkodër Elbasan, Durrës
557,422 inhabitants	Municipality of Tiranë (1/61)	Tiranë

Annex 5.
Own source revenues per capita (in ALL)

	2015	2016	2017	2018	2019	2020	Average 2018- 2020	Index average = 100
Belsh	969	4,012	2,158	1,880	2,367	2,986	2,411	27.4
Berat	4,449	4,296	5,742	5,128	4,868	5,228	5,075	57.6
Bulqizë	1,192	1,382	1,765	1,371	1,626	1,373	1,457	16.5
Cërrik	2,055	3,611	2,699	2,687	3,137	3,319	3,048	34.6
Delvinë	2,738	6,103	5,808	3,363	3,808	4,724	3,965	45.0
Devoll	1,771	2,406	2,298	2,749	3,978	3,673	3,467	39.4
Dibër	993	1,065	1,103	1,034	1,605	1,316	1,318	15.0
Divjakë	2,105	2,712	2,261	2,847	2,871	2,586	2,768	31.4
Dropulli	10,739	13,810	13,897	12,487	13,742	19,164	15,131	171.8
Durrës	6,712	6,739	7,451	6,948	7,032	5,278	6,419	72.9
Elbasan	3,579	3,849	4,449	4,556	5,270	5,081	4,969	56.4
Fier	3,983	3,638	4,340	5,116	5,556	5,049	5,241	59.5
Finiq	3,107	4,879	5,574	5,782	5,465	6,349	5,865	66.6
FushëArrëz	1,727	2,631	2,627	2,625	2,696	1,704	2,342	26.6
Gjirokastër	4,769	4,854	4,707	5,244	5,696	5,430	5,457	62.0
Gramsh	2,502	1,709	2,239	2,540	2,162	2,259	2,320	26.3
Has	718	716	841	774	757	997	843	9.6
Himarë	14,007	20,763	19,770	23,204	31,497	40,388	31,696	359.9
Kamëz	3,921	4,794	5,529	7,509	7,612	4,710	6,610	75.1
Kavajë	5,830	6,926	8,256	9,357	9,633	7,576	8,855	100.6
Këlcyrë	1,803	1,553	1,734	1,903	1,405	1,509	1,605	18.2
Klos	1,038	1,712	1,426	1,672	2,346	1,706	1,908	21.7
Kolonjë	3,363	3,190	3,883	4,417	3,704	4,867	4,329	49.2
Konispol	3,359	5,216	5,142	3,917	3,536	4,667	4,040	45.9
Korçë	5,556	7,221	7,166	7,951	8,512	6,976	7,813	88.7
Krujë	3,118	4,493	3,687	5,353	5,095	4,410	4,953	56.2
Kuçovë	3,210	3,052	4,074	3,776	3,956	3,040	3,590	40.8
Kukës	1,613	1,918	1,695	1,561	2,587	3,348	2,499	28.4
Kurbin	1,232	1,306	1,543	1,337	1,332	848	1,172	13.3
Lezhë	4,375	4,281	5,012	6,098	10,204	4,361	6,888	78.2
Libohovë	2,096	3,087	3,210	2,966	2,488	2,150	2,535	28.8
Librazhd	1,896	2,418	2,917	3,345	3,442	3,371	3,386	38.4
Lushnjë	3,372	4,026	3,863	4,020	4,245	4,252	4,172	47.4
MalësieMadhe	1,324	4,180	1,177	1,973	1,847	1,710	1,844	20.9

	2015	2016	2016	2016	2016	2016	Average 2018- 2020	Index average = 100
Maliq	1,323	1,967	2,138	2,922	2,124	2,130	2,392	27.2
Mallakastër	3,915	7,245	7,902	11,564	5,101	3,655	6,773	76.9
Mat	1,803	1,800	2,381	1,924	2,447	2,926	2,432	27.6
Memaliaj	1,292	1,590	1,335	1,020	995	1,212	1,075	12.2
Mirditë	1,222	2,178	1,594	2,424	2,567	1,985	2,325	26.4
Patos	4,454	4,791	4,277	9,257	5,685	7,571	7,504	85.2
Peqin	1,547	1,845	1,482	1,742	2,398	1,871	2,004	22.8
Përmet	3,242	3,841	2,883	3,699	3,623	3,959	3,760	42.7
Pogradec	2,431	3,086	3,677	3,908	4,464	4,471	4,281	48.6
Poličan	3,287	3,844	3,858	2,916	2,451	2,772	2,713	30.8
Prrenjas	1,566	1,934	1,921	1,975	1,945	2,252	2,057	23.4
Pukë	1,920	2,361	1,670	2,020	1,431	3,106	2,186	24.8
Pustec	975	1,174	1,101	350	1,123	3,988	1,821	20.7
Roskovec	7,056	8,245	9,265	6,875	9,298	7,859	8,010	91.0
Rrogozhinë	2,996	3,164	3,510	3,906	4,165	4,595	4,222	47.9
Sarandë	11,331	13,223	14,754	15,690	18,882	19,895	18,156	206.2
Selenicë	2,359	3,072	4,072	3,391	4,356	3,828	3,859	43.8
Shijak	5,193	6,111	5,335	4,824	5,518	4,954	5,099	57.9
Shkodër	3,280	3,421	4,156	4,703	4,489	4,030	4,407	50.0
Skrapar	5,421	7,209	6,200	5,320	5,631	4,269	5,074	57.6
Tepelenë	1,997	2,353	4,056	4,091	3,458	3,478	3,676	41.7
Tiranë	8,786	13,023	18,307	23,487	24,915	25,026	24,476	277.9
Tropojë	1,734	4,196	2,055	2,381	2,040	1,619	2,013	22.9
Ura Vajgurore	2,991	2,794	3,414	4,257	4,361	4,615	4,411	50.1
Vau Dejës	3,130	3,220	2,426	3,734	3,383	2,140	3,086	35.0
Vlorë	4,128	4,942	5,498	6,359	6,020	6,299	6,226	70.7
Vorë	10,580	13,727	14,766	15,932	15,236	10,864	14,011	159.1
Total	4,663	5,993	7,263	8,652	9,128	8,640	8,807	100.0

Annex 6.
Available financial resources per capita (in ALL)

	2015	2016	2017	2018	2019	2020	Average 2018- 2020	Index average = 100
Belsh	5,290	10,525	10,124	10,997	11,603	12,661	11,754	64
Berat	9,411	11,895	14,357	14,386	14,426	15,059	14,624	80
Bulqizë	7,721	12,437	13,899	14,797	14,592	14,750	14,713	81
Cërrik	5,836	9,686	10,707	11,014	11,764	12,153	11,644	64
Delvinë	9,548	18,319	21,799	19,101	20,607	23,286	20,998	115
Devoll	6,195	10,446	12,453	13,318	14,773	14,931	14,341	79
Dibër	5,668	9,412	10,693	11,207	12,103	12,263	11,858	65
Divjakë	6,684	9,396	10,792	12,150	12,955	12,518	12,541	69
Dropulli	25,049	34,556	37,981	44,281	46,379	52,914	47,858	262
Durrës	10,747	12,084	13,994	14,108	14,677	13,314	14,033	77
Elbasan	7,872	10,018	11,486	12,230	13,421	13,598	13,083	72
Fier	8,040	9,830	11,979	13,287	13,854	13,851	13,664	75
Finiq	11,291	17,022	20,529	21,284	20,765	23,678	21,909	120
Fushë Arrëz	10,543	17,973	22,469	25,522	23,367	23,117	24,002	132
Gjirokaštër	11,513	15,631	16,911	18,731	19,613	19,737	19,360	106
Gramsh	8,298	12,867	16,701	17,485	17,458	21,900	18,948	104
Has	7,739	12,256	12,959	13,203	13,865	14,894	13,988	77
Himarë	23,992	34,955	37,933	43,935	52,852	62,355	53,047	291
Kamëz	6,979	9,440	11,187	13,639	14,344	11,743	13,242	73
Kavajë	10,022	13,861	17,349	18,409	18,842	17,885	18,378	101
Këlcyrë	8,852	14,571	16,941	18,853	18,707	19,261	18,940	104
Klos	6,195	10,558	11,859	13,673	14,462	14,360	14,165	78
Kolonjë	12,664	17,819	20,787	22,996	23,667	25,216	23,959	131
Konispol	8,134	12,380	14,409	15,628	15,312	17,314	16,084	88
Korçë	10,569	15,222	16,584	17,974	18,884	17,668	18,175	100
Krujë	6,605	9,805	10,247	12,198	12,576	12,164	12,313	68
Kuçovë	7,501	9,911	12,475	12,557	12,993	12,464	12,671	69
Kukës	7,257	11,102	12,123	12,412	14,118	15,405	13,978	77
Kurbın	5,526	7,916	9,059	9,451	10,004	9,882	9,779	54
Lezhë	8,902	10,732	12,399	14,045	18,641	13,422	15,369	84
Libohovë	12,179	16,810	18,224	23,479	22,613	23,113	23,068	127
Librazhd	5,845	11,463	14,451	16,094	16,763	17,471	16,776	92
Lushnjë	6,828	10,088	11,136	12,117	12,637	12,952	12,568	69
Malësi e Madhe	6,113	13,180	12,958	14,565	14,918	15,791	15,091	83
Maliq	4,934	9,000	12,049	13,387	12,857	13,366	13,204	72

	2015	2016	2017	2018	2019	2020	Average 2018- 2020	Index average = 100
Mallakastër	8,476	15,206	17,574	21,941	15,665	14,403	17,336	95
Mat	8,216	11,402	13,548	13,688	14,621	15,742	14,684	81
Memaliaj	8,257	13,571	14,975	16,846	16,817	17,435	17,033	93
Mirditë	10,129	14,471	16,192	17,975	18,804	18,783	18,521	102
Patos	12,607	13,695	15,559	21,087	19,046	19,484	19,873	109
Peqin	5,063	8,570	10,152	9,314	10,191	10,424	9,976	55
Përmet	11,867	16,887	18,473	21,801	22,045	23,051	22,299	122
Pogradec	6,481	9,979	11,741	12,493	13,385	14,266	13,381	73
Poličan	9,982	15,126	17,929	19,607	16,917	17,625	18,050	99
Prrenjas	5,064	8,977	11,693	11,943	12,541	13,836	12,773	70
Pukë	10,128	16,619	19,161	20,345	20,174	23,275	21,265	117
Pustec	8,796	11,488	12,865	15,821	17,028	23,166	18,672	102
Roskovec	12,563	15,299	17,585	15,627	19,537	18,226	17,796	98
Rrogozhinë	6,672	9,210	13,209	12,821	14,043	20,444	15,769	86
Sarandë	18,386	22,813	25,206	27,819	31,248	32,783	30,617	168
Selenicë	8,487	13,077	16,670	17,587	18,777	18,915	18,426	101
Shijak	8,729	11,579	11,799	12,006	12,864	12,848	12,573	69
Shkodër	8,052	9,640	11,087	12,280	12,349	12,404	12,344	68
Skrapar	15,262	22,901	27,603	24,182	24,193	24,578	24,318	133
Tepelenë	9,947	16,315	20,196	21,453	21,858	22,460	21,924	120
Tiranë	11,935	17,853	23,976	29,834	32,011	32,489	31,445	172
Tropojë	8,838	15,055	14,875	16,463	16,690	17,288	16,814	92
Ura Vajgurore	6,149	7,807	10,249	11,821	12,792	13,640	12,751	70
Vau Dejës	7,654	10,257	11,833	14,240	14,249	13,477	13,989	77
Vlorë	8,844	11,527	13,834	15,375	15,517	16,067	15,653	86
Vorë	13,517	18,639	21,598	22,835	22,620	18,680	21,378	117
Total	9,086	12,848	15,528	17,588	18,535	18,576	18,233	100

Annex 7.
Total financial resources per capita (in ALL)

	2015	2016	2017	2018	2019	2020	Average 2018- 2020	Index average = 100
Belsh	15,549	24,521	26,581	25,933	30,348	43,810	33,364	110
Berat	18,716	19,812	25,012	23,657	21,555	24,015	23,076	76
Bulqizë	21,218	25,812	25,060	28,098	29,940	35,121	31,053	102
Cërrik	20,931	21,780	25,043	22,169	23,947	28,982	25,033	82
Delvinë	19,535	29,668	39,122	32,777	31,031	35,591	33,133	109
Devoll	12,261	16,116	20,501	21,614	25,713	25,452	24,260	80
Dibër	19,637	23,593	26,461	26,077	26,258	33,924	28,753	95
Divjakë	17,544	19,813	25,545	22,210	22,022	21,577	21,936	72
Dropulli	40,169	52,452	76,564	93,749	63,483	95,459	84,230	277
Durrës	17,341	18,423	21,274	22,659	23,477	29,800	25,312	83
Elbasan	19,808	21,508	26,373	26,598	26,680	29,884	27,720	91
Fier	15,983	17,425	25,166	23,774	20,896	24,178	22,950	75
Finiq	22,066	26,836	38,556	42,751	30,150	61,724	44,875	148
Fushë Arrëz	31,941	34,806	40,798	54,816	53,810	42,403	50,343	165
Gjirokaštër	19,588	22,705	27,862	32,272	27,404	30,287	29,988	99
Gramsh	25,034	29,667	36,750	38,322	37,473	45,722	40,506	133
Has	24,699	31,015	33,640	38,356	33,042	38,313	36,570	120
Himarë	38,066	44,407	64,638	68,800	61,474	77,180	69,151	227
Kamëz	12,921	15,290	17,030	19,275	21,057	19,684	20,005	66
Kavajë	19,751	23,488	35,727	31,216	30,409	40,064	33,896	111
Këlcyrë	21,206	27,631	46,328	55,083	54,085	54,917	54,695	180
Klos	21,068	26,325	30,745	30,889	31,519	36,014	32,807	108
Kolonjë	23,323	31,970	35,952	44,269	39,987	64,479	49,579	163
Konispol	18,151	33,766	35,759	49,189	36,003	26,142	37,111	122
Korçë	21,183	24,770	33,388	32,398	28,678	26,967	29,348	96
Krujë	15,359	17,862	20,890	21,865	24,669	29,099	25,211	83
Kuçovë	15,616	17,206	21,341	24,517	21,422	23,604	23,181	76
Kukës	25,049	24,322	25,922	27,333	28,537	34,542	30,137	99
Kurbın	17,769	20,174	23,443	21,611	21,812	34,745	26,056	86
Lezhë	17,766	19,456	22,541	24,353	29,515	25,631	26,499	87
Libohovë	20,368	24,504	45,311	78,215	44,591	54,503	59,103	194
Librazhd	22,959	27,903	33,992	43,279	36,391	40,709	40,127	132
Lushnjë	14,583	17,509	20,493	22,278	20,875	22,326	21,827	72
Malësi e Madhe	17,476	24,260	25,163	27,132	30,117	34,348	30,532	100
Maliq	13,206	17,380	22,468	25,729	22,351	24,441	24,174	79

	2015	2016	2017	2018	2019	2020	Average 2018- 2020	Index average = 100
Mallakastër	26,552	34,125	30,461	37,363	31,002	26,571	31,645	104
Mat	20,133	23,496	26,929	28,438	25,189	35,114	29,580	97
Memaliaj	21,763	28,120	27,392	30,712	28,146	31,080	29,979	99
Mirditë	29,244	31,970	41,897	39,714	41,105	41,110	40,643	134
Patos	24,718	24,434	37,420	33,622	32,175	42,319	36,038	118
Peqin	14,360	19,879	26,900	24,682	25,726	30,186	26,864	88
Përmet	22,252	27,604	28,448	39,557	37,101	38,361	38,340	126
Pogradec	18,644	22,572	24,939	27,202	27,786	32,852	29,280	96
Poličan	20,643	25,348	37,179	44,242	35,621	37,948	39,270	129
Prrenjas	19,527	24,344	31,233	33,683	33,358	38,956	35,332	116
Pukë	25,154	30,490	42,211	32,817	31,304	45,295	36,472	120
Pustec	12,288	14,668	16,556	19,829	25,236	35,850	26,972	89
Roskovec	20,538	23,557	32,455	32,810	36,358	39,777	36,315	119
Rrogozhinë	13,466	17,089	28,730	26,383	29,705	41,721	32,603	107
Sarandë	40,443	50,123	40,324	55,003	48,759	48,657	50,807	167
Selenicë	22,835	26,876	30,947	33,198	35,750	31,920	33,623	111
Shijak	15,735	19,904	20,198	21,521	22,860	31,240	25,207	83
Shkodër	18,779	18,202	19,273	20,606	20,021	21,931	20,852	69
Skrapar	29,164	34,530	56,318	36,526	39,755	62,216	46,166	152
Tepelenë	32,565	40,154	44,720	40,110	55,329	39,829	45,089	148
Tiranë	16,882	22,790	29,972	38,736	38,321	40,193	39,083	128
Tropojë	25,053	31,866	34,078	37,160	35,087	38,942	37,063	122
Ura Vajgurore	13,438	14,872	20,443	21,708	24,217	24,720	23,548	77
Vau Dejës	18,962	24,722	32,022	32,828	26,254	28,686	29,256	96
Vlorë	16,602	18,716	24,273	25,522	23,529	24,868	24,640	81

Annex 8.
Own source expenditures per capita (in ALL)

	2015	2016	2017	2018	2019	2020	Average 2018- 2020	Index average = 100
Belsh	5,287	13,329	14,945	9,894	11,835	14,613	12,114	65
Berat	12,836	18,645	14,448	14,550	15,067	13,981	14,533	79
Bulqizë	11,644	12,906	12,455	13,648	18,454	14,909	15,670	85
Cërrik	6,404	11,846	11,689	10,334	12,786	11,755	11,625	63
Delvinë	10,207	25,512	22,789	23,690	21,526	21,387	22,201	120
Devoll	5,821	10,856	12,410	12,657	16,677	15,504	14,946	81
Dibër	6,358	11,112	14,275	11,150	11,682	11,865	11,565	62
Divjakë	10,962	20,791	12,848	11,850	12,879	12,910	12,546	68
Dropulli	24,077	40,249	38,513	48,928	45,128	47,738	47,265	255
Durrës	13,998	13,816	14,950	12,982	16,520	13,903	14,468	78
Elbasan	10,470	13,738	11,832	12,257	13,703	13,321	13,093	71
Fier	11,174	16,089	15,157	13,271	14,404	13,307	13,661	74
Finiq	12,362	13,555	26,428	31,901	28,847	23,728	28,159	152
Fushë Arrëz	11,839	17,424	22,335	33,404	22,950	26,433	27,596	149
Gjirokaštër	18,138	22,939	21,297	18,689	20,644	18,280	19,204	104
Gramsh	9,327	13,378	20,562	17,107	19,329	21,034	19,157	104
Has	11,725	15,598	15,105	14,782	15,681	14,754	15,072	81
Himarë	39,886	66,237	36,899	45,256	43,874	47,164	45,431	245
Kamëz	6,905	8,003	10,797	13,924	15,723	12,171	13,939	75
Kavajë	21,925	23,714	16,837	18,235	20,015	17,753	18,668	101
Këlcyrë	10,319	25,989	34,787	23,871	23,007	19,783	22,220	120
Klos	6,971	9,670	11,845	13,623	15,897	12,762	14,094	76
Kolonjë	14,993	24,455	33,893	30,056	22,818	25,286	26,053	141
Konispol	8,054	18,013	29,406	16,612	16,818	17,567	16,999	92
Korçë	19,344	21,890	25,916	18,812	20,665	17,894	19,123	103
Krujë	8,776	10,905	11,615	11,053	12,608	10,358	11,340	61
Kuçovë	14,254	10,803	11,786	13,072	13,612	11,973	12,886	70
Kukës	7,731	10,313	14,142	12,338	12,753	13,538	12,876	70
Kurbin	6,078	7,743	13,839	9,701	9,631	8,968	9,433	51
Lezhë	14,897	11,058	13,411	13,326	18,798	13,767	15,297	83
Libohovë	13,391	23,981	38,108	34,579	23,614	24,751	27,648	149
Librazhd	10,193	15,491	19,251	19,257	18,264	16,961	18,161	98
Lushnjë	11,482	12,674	12,372	12,016	13,116	12,814	12,649	68
Malësi e Madhe	5,216	12,993	16,725	14,903	17,506	14,133	15,514	84
Maliq	5,282	11,252	16,788	14,163	14,173	13,350	13,895	75

	2015	2016	2017	2018	2019	2020	Average 2018- 2020	Index average = 100
Mallakastër	9,205	12,821	15,585	16,620	25,662	14,185	18,822	102
Mat	12,080	13,665	15,318	13,122	16,343	16,119	15,195	82
Memaliaj	13,497	12,014	17,506	17,801	19,341	15,701	17,615	95
Mirditë	14,218	18,348	30,729	19,363	18,396	18,731	18,830	102
Patos	10,711	14,058	19,826	22,109	20,744	16,812	19,888	107
Peqin	5,316	8,515	12,604	9,814	10,650	10,458	10,307	56
Përmet	12,971	26,240	28,717	22,132	22,039	22,526	22,233	120
Pogradec	7,452	9,050	10,787	12,591	13,475	14,274	13,447	73
Poličan	10,095	19,283	22,352	20,898	16,599	16,844	18,114	98
Prrenjas	5,265	7,494	12,894	12,720	10,775	13,767	12,421	67
Pukë	17,493	21,698	22,126	21,425	19,878	21,948	21,084	114
Pustec	11,180	11,954	17,585	13,749	18,671	20,147	17,522	95
Roskovec	8,746	21,442	17,467	22,441	19,137	17,053	19,544	106
Rrogozhinë	7,794	15,126	14,383	13,635	13,950	20,589	16,058	87
Sarandë	31,087	24,088	25,463	27,915	33,808	31,844	31,189	169
Selenicë	11,227	12,929	19,402	23,058	19,520	17,713	20,097	109
Shijak	11,990	11,670	13,048	16,046	12,472	12,519	13,679	74
Shkodër	7,474	8,309	10,315	11,790	14,590	12,278	12,886	70
Skrapar	24,228	36,164	30,662	26,454	21,617	26,912	24,994	135
Tepelenë	23,427	26,440	35,912	28,913	22,233	22,292	24,479	132
Tiranë	14,820	20,853	23,728	26,987	34,995	32,819	31,600	171
Tropojë	11,355	19,122	17,034	17,883	16,253	13,536	15,891	86
Ura Vajgurore	6,761	12,133	11,430	15,006	12,572	13,691	13,756	74
Vau i Dejës	7,864	10,510	11,432	10,302	21,254	13,285	14,947	81
Vlorë	9,258	11,077	16,617	14,683	16,242	15,957	15,627	84
Vorë	15,563	23,617	17,937	26,559	24,220	13,473	21,417	116
Total	11,736	15,400	17,097	17,245	19,949	18,323	18,506	100

Annex 9.
Total expenditures per capita

	2015	2016	2017	2018	2019	2020	Average 2018- 2020	Index average = 100
Belsh	15,545	27,326	31,403	24,829	30,580	45,761	33,724	110
Berat	22,141	26,562	25,104	23,821	22,197	22,937	22,985	75
Bulqizë	25,141	26,280	23,616	26,949	33,802	35,280	32,010	104
Cërrik	21,500	23,940	26,049	21,489	24,968	28,583	25,013	81
Delvinë	20,194	36,861	40,112	37,366	31,950	33,692	34,336	112
Devoll	11,887	16,525	20,458	20,953	27,616	26,026	24,865	81
Dibër	20,327	25,294	30,044	26,020	25,836	33,526	28,460	93
Divjakë	21,822	31,208	27,601	21,909	21,946	21,969	21,941	71
Dropulli	39,198	58,145	77,096	98,397	62,232	90,284	83,637	273
Durrës	20,591	20,155	22,241	21,533	25,320	30,389	25,747	84
Elbasan	22,405	25,228	26,739	26,624	26,962	29,606	27,731	90
Fier	19,117	23,684	28,415	23,759	21,446	23,634	22,946	75
Finiq	23,138	23,369	44,455	53,368	38,232	61,775	51,125	167
Fushë Arrëz	33,236	34,256	40,664	62,698	53,393	45,719	53,937	176
Gjirokastër	26,213	30,013	32,281	32,229	28,435	28,830	29,832	97
Gramsh	26,064	30,178	40,611	37,944	39,344	44,856	40,715	133
Has	28,684	34,357	35,789	39,934	34,857	38,172	37,655	123
Himarë	53,960	75,689	63,603	70,120	52,496	61,990	61,535	200
Kamëz	12,846	13,853	16,640	19,560	22,436	20,111	20,702	67
Kavajë	31,654	33,341	35,220	31,041	31,583	39,932	34,186	111
Këlcyrë	22,672	39,049	64,174	60,102	58,385	55,440	57,975	189
Klos	21,845	25,436	30,730	30,839	32,954	34,416	32,736	107
Kolonjë	25,652	38,606	49,058	51,329	39,139	64,550	51,673	168
Konispol	18,072	39,400	50,756	50,173	37,509	26,395	38,026	124
Korçë	29,958	31,438	42,771	33,236	30,459	27,192	30,296	99
Krujë	17,530	18,961	22,258	20,719	24,701	27,293	24,238	79
Kuçovë	22,369	18,099	20,651	25,033	22,042	23,113	23,396	76
Kukës	25,522	23,532	27,940	27,259	27,172	32,675	29,036	95
Kurbin	18,321	20,001	28,224	21,861	21,439	33,831	25,710	84
Lezhë	23,761	19,783	23,555	23,633	29,672	25,976	26,427	86
Libohovë	21,580	31,675	65,195	89,316	45,591	56,141	63,683	207
Librazhd	27,307	31,931	38,796	46,442	37,893	40,200	41,511	135
Lushnjë	19,237	20,094	21,741	22,178	21,355	22,188	21,907	71
Malësi e Madhe	16,579	24,073	28,930	27,470	32,705	32,689	30,955	101
Maliq	13,554	19,632	27,207	26,505	23,666	24,424	24,865	81
Mallakastër	27,280	31,740	28,472	32,042	40,999	26,353	33,131	108

	2015	2016	2017	2018	2019	2020	Average 2018- 2020	Index average = 100
Mat	23,997	25,760	28,699	27,872	26,911	35,492	30,092	98
Memaliaj	27,003	26,563	29,923	31,667	30,671	29,347	30,561	100
Mirditë	33,333	35,847	56,448	41,101	40,698	41,058	40,952	133
Patos	22,822	24,798	41,687	34,643	33,872	39,646	36,054	117
Peqin	14,613	19,824	29,352	25,182	26,185	30,220	27,196	89
Përmet	23,356	36,958	38,694	39,888	37,095	37,837	38,273	125
Pogradec	19,615	21,643	23,985	27,299	27,876	32,861	29,345	96
Poličan	20,756	29,505	41,601	45,534	35,303	37,167	39,335	128
Prrenjas	19,728	22,860	32,433	34,460	31,591	38,887	34,980	114
Pukë	32,519	35,569	45,178	33,897	31,007	43,968	36,291	118
Pustec	14,672	15,135	21,276	17,758	26,879	32,830	25,822	84
Roskovec	16,721	29,700	32,337	39,624	35,959	38,604	38,062	124
Rrogozhinë	14,588	23,006	29,904	27,197	29,613	41,866	32,892	107
Sarandë	53,144	51,398	40,580	55,100	51,319	47,719	51,379	167
Selenicë	25,575	26,729	33,679	38,669	36,493	30,718	35,293	115
Shijak	18,996	19,995	21,448	25,561	22,468	30,911	26,313	86
Shkodër	18,201	16,870	18,545	20,116	22,262	21,805	21,394	70
Skrapar	38,131	47,794	59,379	38,797	37,179	64,550	46,842	153
Tepelenë	46,045	50,278	60,437	47,570	55,704	39,661	47,645	155
Tiranë	19,766	25,789	29,726	35,888	41,305	40,523	39,239	128
Tropojë	27,570	35,934	36,277	38,580	34,650	35,190	36,140	118
Dimal	14,051	19,198	21,623	24,892	23,997	24,772	24,554	80
Vau i Dejës	19,173	24,975	31,634	28,889	33,258	28,494	30,214	98
Vlorë	17,016	18,266	27,070	24,831	24,254	24,758	24,614	80
Vorë	23,252	28,706	26,367	32,725	31,902	29,633	31,420	102
Total	21,148	24,553	28,646	29,337	30,514	32,224	30,691	100

Annex 10.
Own source funded investments per capita (in ALL)

	2015	2016	2017	2018	2019	2020	Average 2018- 2020	Index average = 100
Belsh	1,462	7,262	6,721	1,253	3,400	3,921	2,858	55
Berat	5,315	8,801	3,363	2,729	4,087	1,854	2,890	56
Bulqizë	6,071	4,625	3,242	3,059	7,100	3,283	4,481	87
Cërrik	1,187	4,447	3,374	1,692	3,237	2,415	2,448	47
Delvinë	1,167	10,742	6,336	5,766	4,329	2,891	4,329	84
Devoll	1,248	3,300	2,848	1,813	4,041	1,954	2,603	50
Dibër	1,437	3,863	4,411	2,192	998	1,304	1,498	29
Divjakë	6,231	14,256	4,692	2,246	2,707	3,457	2,803	54
Dropulli	4,807	14,255	9,318	12,191	11,569	13,366	12,375	240
Durrës	7,333	5,757	6,616	3,693	6,102	3,760	4,518	88
Elbasan	3,935	5,473	2,273	1,425	2,424	1,765	1,872	36
Fier	4,703	7,078	5,216	2,603	3,369	2,143	2,705	52
Finiq	1,960	2,087	9,428	10,690	8,313	4,639	7,881	153
Fushë Arrëz	2,820	3,300	7,022	11,587	3,153	5,676	6,806	132
Gjirokastër	8,688	9,142	6,597	2,145	2,159	976	1,760	34
Gramsh	1,680	3,198	8,008	4,315	5,976	7,274	5,855	114
Has	6,124	6,735	5,018	2,890	3,214	1,992	2,699	52
Himarë	20,305	44,825	13,948	14,089	10,683	15,383	13,385	260
Kamëz	3,317	3,355	5,741	8,054	9,555	6,012	7,874	153
Kavajë	14,030	12,854	3,610	2,807	4,121	3,595	3,508	68
Këlcyrë	1,170	16,704	21,431	7,705	3,639	1,636	4,326	84
Klos	1,796	2,318	3,111	2,986	3,875	1,466	2,776	54
Kolonjë	3,750	9,047	14,785	8,855	1,935	3,692	4,827	94
Konispol	448	8,670	17,000	3,495	2,330	2,000	2,608	51
Korçë	10,053	9,323	12,236	3,685	4,574	2,076	3,445	67
Krujë	3,381	4,343	4,137	2,550	3,916	2,160	2,875	56
Kuçovë	7,121	2,524	1,271	1,347	1,936	681	1,322	26
Kukës	578	1,115	2,705	572	43	907	507	10
Kurbin	1,265	652	5,377	1,266	1,303	276	948	18
Lezhë	7,065	1,756	2,513	451	4,972	2,731	2,718	53
Libohovë	2,062	11,614	24,592	18,088	3,330	1,976	7,798	151
Librazhd	4,817	7,970	9,853	7,779	5,909	4,744	6,144	119
Lushnjë	5,226	4,373	3,061	2,230	2,671	2,148	2,350	46
Malësi e Madhe	485	6,720	9,438	6,146	7,375	3,735	5,752	112
Maliq	1,218	4,797	8,181	4,771	3,302	2,197	3,423	66

	2015	2016	2017	2018	2019	2020	Average 2018- 2020	Index average = 100
Mallakastër	2,545	2,867	6,171	5,437	11,889	1,988	6,438	125
Mat	5,592	4,290	3,543	999	2,596	2,061	1,886	37
Memaliaj	5,965	2,587	6,784	4,402	4,133	570	3,035	59
Mirditë	5,516	6,751	17,298	5,337	3,166	2,088	3,531	68
Patos	3,326	4,668	8,802	6,117	8,354	4,545	6,339	123
Peqin	648	3,012	5,087	1,403	1,477	648	1,176	23
Përmet	1,987	12,465	13,091	3,436	3,099	3,355	3,296	64
Pogradec	1,476	1,254	2,331	3,060	4,292	1,658	3,003	58
Poličan	1,576	7,524	6,829	3,019	967	1,256	1,747	34
Prrenjas	484	886	5,018	3,127	1,916	3,578	2,874	56
Pukë	7,643	8,404	5,377	4,634	727	3,267	2,876	56
Pustec	4,185	2,260	6,425	1,446	2,396	3,762	2,535	49
Roskovec	2,591	13,432	8,370	11,190	7,334	5,376	7,967	154
Rrogozhinë	947	6,452	3,814	1,827	2,016	7,794	3,879	75
Sarandë	14,334	3,652	5,533	6,560	8,710	8,744	8,004	155
Selenicë	4,790	4,347	9,732	10,310	6,515	3,701	6,842	133
Shijak	7,398	3,481	3,832	5,678	1,809	2,654	3,380	66
Shkodër	1,588	696	2,184	2,045	4,373	2,748	3,055	59
Skrapar	10,904	18,044	9,294	4,997	725	5,358	3,694	72
Tepelenë	13,453	11,887	17,343	9,543	979	606	3,709	72
Tiranë	5,348	8,499	10,065	9,372	14,437	11,373	11,727	227
Tropojë	4,684	9,100	6,085	5,177	2,710	1,328	3,072	60
Dimal	799	6,441	5,033	7,042	3,987	3,785	4,938	96
Vau i Dejës	2,860	5,330	4,969	2,639	11,378	2,115	5,377	104

Annex 11.
Total investments per capita (in ALL)

	2015	2016	2017	2018	2019	2020	Average 2018- 2020	Index average = 100
Belsh	2,688	7,655	11,662	5,015	11,180	21,684	12,626	151
Berat	7,077	9,708	6,510	4,486	4,418	2,490	3,798	46
Bulqizë	9,136	8,505	4,235	6,744	13,228	11,531	10,501	126
Cërrik	7,066	6,462	7,435	2,317	5,596	6,882	4,932	59
Delvinë	1,167	10,742	11,818	8,619	4,967	3,132	5,573	67
Devoll	1,522	3,300	4,531	3,401	7,916	3,522	4,947	59
Dibër	1,765	4,636	5,696	4,227	2,267	6,866	4,454	53
Divjakë	11,274	18,820	13,249	6,336	6,173	5,638	6,049	73
Dropulli	7,911	21,043	36,026	49,725	17,774	43,877	37,125	445
Durrës	7,711	6,381	7,494	5,601	8,449	6,817	6,955	83
Elbasan	5,254	6,105	5,349	3,999	4,629	3,684	4,104	49
Fier	5,854	7,581	11,493	6,042	3,899	4,438	4,793	57
Finiq	2,415	2,087	17,065	21,988	8,313	32,452	20,918	251
Fushë Arrëz	5,951	4,038	9,723	27,142	21,062	10,285	19,496	234
Gjirokastër	9,888	9,643	10,519	8,900	3,551	3,374	5,275	63
Gramsh	2,996	3,498	10,345	8,311	9,637	11,196	9,715	117
Has	8,514	12,208	11,990	15,288	8,231	5,613	9,711	116
Himarë	26,723	46,348	32,488	30,707	11,757	20,886	21,117	253
Kamëz	3,755	3,606	6,098	8,633	11,473	7,824	9,310	112
Kavajë	15,311	13,986	12,465	6,751	7,298	16,310	10,120	121
Këlcyrë	1,170	17,988	38,783	31,740	27,744	21,722	27,069	325
Klos	3,836	3,528	7,919	6,774	7,096	6,797	6,889	83
Kolonjë	3,750	12,722	19,308	19,889	8,486	31,589	19,988	240
Konispol	3,011	24,125	28,108	30,100	16,535	3,570	16,735	201
Korçë	12,203	10,676	20,662	9,645	6,506	2,428	6,193	74
Krujë	6,038	5,186	8,028	5,689	9,750	6,090	7,177	86
Kuçovë	8,202	2,877	3,298	6,104	3,921	4,454	4,826	58
Kukës	3,369	1,115	2,705	2,831	1,205	1,341	1,792	21
Kurbin	2,716	2,350	8,768	3,879	3,069	9,466	5,471	66
Lezhë	8,014	2,406	3,484	2,169	7,191	4,367	4,576	55
Libohovë	2,900	11,787	42,824	64,714	17,698	23,699	35,370	424
Librazhd	8,207	10,247	13,173	19,504	10,344	9,339	13,062	157
Lushnjë	6,434	5,002	5,399	5,645	4,505	3,783	4,644	56
Malësi e Madhe	861	7,354	11,007	10,548	15,090	13,076	12,905	155

	2015	2016	2017	2018	2019	2020	Average 2018- 2020	Index average = 100
Maliq	2,033	5,789	10,688	8,242	3,890	2,414	4,849	58
Mallakastër	11,575	14,116	10,224	12,359	19,346	4,975	12,227	147
Mat	6,000	5,826	5,148	3,035	2,698	8,362	4,699	56
Memaliaj	6,448	4,863	6,963	6,758	4,166	570	3,831	46
Mirditë	9,678	9,441	27,710	14,806	13,551	9,825	12,727	153
Patos	5,334	5,923	15,604	8,526	11,683	14,494	11,567	139
Peqin	1,225	3,012	8,795	4,017	4,929	5,725	4,891	59
Përmet	2,829	13,392	13,091	11,998	9,690	9,231	10,306	124
Pogradec	1,636	1,945	3,139	4,910	6,095	4,686	5,230	63
Poliçan	1,576	7,524	13,216	15,586	8,875	6,797	10,420	125
Prrenjas	1,175	1,281	8,345	9,589	7,620	9,597	8,935	107
Pukë	8,976	9,552	16,312	6,772	2,498	14,171	7,814	94
Pustec	4,185	2,260	6,425	1,446	7,240	10,788	6,491	78
Roskovec	4,032	15,032	16,132	21,192	17,575	17,600	18,789	225
Rrogozhinë	1,032	7,772	12,313	8,796	11,736	21,632	14,055	169
Sarandë	25,177	19,650	7,619	20,226	14,390	10,804	15,140	182
Selenicë	10,563	9,684	14,768	17,609	14,626	6,101	12,779	153
Shijak	7,851	5,137	5,650	8,963	5,448	8,117	7,509	90
Shkodër	3,240	1,167	2,264	2,520	4,726	3,377	3,541	42
Skrapar	12,238	18,999	26,262	6,405	6,529	30,312	14,415	173
Tepelenë	22,678	22,602	28,608	16,038	22,340	2,206	13,528	162
Tiranë	5,772	8,864	11,360	12,121	15,355	11,887	13,121	157
Tropojë	4,757	10,692	9,467	10,728	5,770	3,873	6,791	81
Dimal	2,577	7,828	9,158	10,789	9,770	8,313	9,624	115
Vau i Dejës	3,580	8,546	14,466	11,394	14,862	7,128	11,128	133
Vlorë	2,357	1,940	8,361	4,016	2,801	2,547	3,121	37
Vorë	9,692	13,408	10,675	12,294	13,201	5,963	10,486	126
Total	5,904	7,121	9,466	8,334	8,868	7,811	8,338	100

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Endnotes

¹ Data from Consolidated Budget, Ministry of Finance and Economy.

² For more information see: Toska, Nikolov, Andonova, & Trajkov (2020).

³ 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 preparation 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.

⁴ For more information see: Toto, Toska, Shutina, Farrici, & Limaj (2020).

⁵ The adoption of Law No. 139/2015 "On local self-government" and the devolution of new functions in 2016, municipalities perceived financial resources for their financing (latter called sectoral transfer). In 2017, GoA approved Law No. 68/2017 "On local self-government finances", which among other things defined and stabilized the size of unconditional transfers to local government.

⁶ For more information see Law No. 9632/2006 "On local tax system" amended and DCM no. 135/2018 "On the methodology for determining the taxable value of real estate "buildings", of the base of the tax for specific categories, the nature

and priority of the information and data for determining the tax base, as well as the criteria and rules for the alternative assessment of the tax liability".

⁷ The increase of economic assistance and disabilities payment will continue to be in force during the period January - June 2021, based on decision no. 85/2021 "For an addition to the decision no. 597, dated 04/09/2019 of the Council of Ministers, "On determining the procedures, documentation and monthly amount of economic assistance and the use of additional funds over the conditional fund for economic assistance."

⁸ Data concerning year 2019 and can be found in Nalas Statistical Brief: Local Government Finance Indicators in South East Europe, Second Edition, 2020 at http://www.nalas.eu/Publications/Books/Brief_2nd

⁹ In the case of Albania, real GDP is expected to contract by about 4.5% annually, based in MoFE forecasts (included in the Macroeconomic and Fiscal Framework for 2021-2023).

¹⁰ Source: www.instat.gov.al

¹¹ The program of reconstruction - repair - restoration of structures intended for residential purposes following damage as a result of natural disasters (earthquakes), will be exempt from paying the impact tax on infrastructure.

¹² For more information see Construction Confidence indicator prepared and published by the

Bank of Albania at https://www.bankofalbania.org/Politika_Monetare/Vrojtimet/Vrojtimi_i_bizneseve_dhe_i_konsumatoreve/

CCI has a quarterly frequency and annual value is taken as the average of values for 4 quarters. The same results are obtained even if we consider as a reference value for the year that of the fourth quarter of each year.

¹³ The progressive decrease of revenues from this tax follows the changes in Law no. 9632/2006 "On the local tax system" amended according to which starting from 2016 all small businesses with annual turnover under 5 million ALL are exempt from tax liability, while for small businesses with annual turnover from 5- ALL 8 million tax rate was halved

¹⁴ Changed and effective from 1st of January 2020 with Law No 122/2020 published in Official Gazette No. 197, date 12.11.2020.

¹⁵ Available at: : <https://www.financa.gov.al/wp-content/uploads/2020/11/Detyrimet-e-Prapambetura-Shtator-2020-sipas-institucioneve.pdf>

¹⁶ Source: <https://www.financa.gov.al/regjistri-i-borxhit/>

¹⁷ Nominal GDP according MoFE (Fiscal Indicators).

¹⁸ Data of CENSUS 2011.

¹⁹ In this analysis, this item was included in revenues from immovable properties and will not be treated as a shared tax.

²⁰ Changed with law no 151 / 2020 date 17.12.2020 published in Official Gazette No. 27, date 19.02.2021.

²¹ Based on the consolidated budget data for the years 2017, 2018, 2019, 2020. For 2020, PIT revenues were 33.7 billion ALL and 2% of them is estimated at about 673.2 million ALL, a value that should be the shared with the municipalities. The same assessment was performed for all previous years.

²² Following the symmetrical transfer to the exclusive title of a series of functions in 2016, their exercise was carried out through financial means transferred from the central government to the local government, through the specific transfer. At the end of the transitional phase of the transfer of these functions or starting from the beginning of 2019, they will be financed through unconditional sectoral transfer which will be used in autonomy. Law no. 68/2017 "On local self-government finances" sanctioned the size and manner of distribution of unconditional transfer: for each budget year, it is not less than 1% of GDP according to macroeconomic forecasts and estimates approved by the Council of Ministers and, in any case, may not be less than the total amount allocated in the previous year; its division is done through the formula approved by the Ministry of Finance and Economy.

²³ Normative Act No. 6, dated 21/03/2020 "On some changes in law no. 88/2019" On the budget of 2020 "; Normative Act No. 15, dated 15/04/2020 "On some changes in law no. 88/2019" On the budget of

2020 "; Normative Act No. 28, dated 02/07/2020 "On some changes in the law no. 88/2019" On the budget of 2020 ".

²⁴ Based on MFE Instruction no. 7/2021 "On the preparation of the local medium-term budget program 2022-2024", the criteria and coefficients of the formula for the distribution of the unconditional transfer for the years 2022 - 2024 will be as provided in law no. 68/2017 "On local self-government finances" and include: population number (harmonizing between data according to the civil status register and the 2011 census), population density per km², actual number of students in 9-year and secondary schools in each municipality.

²⁵ Locally transferred functions include: education (preschool and pre-university), irrigation and drainage, fire protection and rescue service, forest management, rural road maintenance, pre-university education dormitories, social service centers.

²⁶ For more information consult Annex 4 "Functions transferred at local level" available at <https://www.financa.gov.al/buxheti-2021/>

²⁷ Added value from the Parliament.

²⁸ "Lira", Berat, "Balash", Elbasan, "Shpresa" Shkodër, "Opera Della Madonnina Della Grappa", Shkodër, "Besa" Vau i Dejës, "Horizont", Fier and day care centers for children with disabilities in municipalities Kuçovë dhe Kukës.

²⁹ According to Corine 2018, the forest

area in Albania is 1.9 million hectares or about 1,952 km².

³⁰ According to NTPA 2007, the length of the rural road network is 11,590 km linear..

³¹ Data on the length of the irrigation and drainage network according to the Irrigation and Drainage Strategy 2019 -2031 available at <https://bujqesia.gov.al/wp-content/uploads/2019/10/FZ-2019-77.pdf>.

³² The manner and criteria for using the specific transfer are proposed by the Ministry of Defense in cooperation with the Ministry of Finance and Economy and approved by a decision of the Council of Ministers within the first quarter of 2021.

³³ In September 2017, the Ministry of Social Welfare and Youth was dissolved and social protection programs were transferred to the portfolio of the Ministry of Health and Social Protection.

³⁴ The increase of economic assistance will continue to be during the period January - June 2021, based on decision no. 85/2021 "For an addition to the decision no. 597, dated 04/09/2019 of the Council of Ministers, "On determining the procedures, documentation and monthly amount of economic assistance and the use of additional funds over the conditional fund for economic assistance."

³⁵ Total financial resources of local self-government units include: (i) revenues from own sources (taxes, fees, other and borrowing), (ii) revenues from intergovernmental

transfers including unconditional and specific transfers, (iii) shared taxes, and (iv) conditional transfers. Aiming at highlighting financial developments in the current year, funds carried from the previous year are not included in the total total resources.

³⁶ This figure includes financial means from conditional transfers, based on the provisions of Law no. 68/2017 "On local self-government finances", where among the sources of financing of municipalities is included this category and does not include carryover funds.

³⁷ The specific transfer so far has been treated as a conditional transfer, but in the 2019 budget it is foreseen to be part of the unconditional transfer, but dedicated to the sectors it intends to finance.

³⁸ Functions transferred in 2016 include: pre-university education dormitories, social service centers, fire protection and rescue, rural road infrastructure, forest management, irrigation and drainage. For more see <https://www.financa.gov.al/viti-2016-3/>

³⁹ Data refer to 2019 and can be found at: Nalas Statistical Brief: Local Government Finance Indicators in South East Europe, Second Edition, 2020; http://www.nalas.eu/Publications/Books/Brief_2nd

⁴⁰ Data refer to 2019 and can be found at: Nalas Statistical Brief: Local Government Finance Indicators in South East Europe, Second Edition, 2020; http://www.nalas.eu/Publications/Books/Brief_2nd

⁴¹ Të dhënat i referohen vitit 2019 dhe mund të gjenden në: Nalas Statistical Brief: Local Government Finance Indicators in South East Europe, Second Edition, 2020; http://www.nalas.eu/Publications/Books/Brief_2nd

⁴² This category of expenditures includes expenditures made with funds from revenues from local sources, unconditional general and sectoral transfers, shared taxes.

⁴³ Includes expenditures with carryovers. Based on the regulatory framework in force, "savings" in expenditures in the current year are reflected in the budget of the following year in the form of carryover funds.

⁴⁴ Personnel expenditures for the new functions are covered by sectoral transfer funds. If municipalities want to perform better or increase the quality of these services, costs will have to be covered by other financial sources (such as municipalities' own revenues)..

⁴⁵ Includes operating expenses, subsidies, transfers and interest.

⁴⁶ Based on population data according to the 2011 Census.

⁴⁷ This figure includes all expenditures incurred by municipalities, with own and conditional funds (including expenditures with carryovers).

⁴⁸ The box presents an update with data for 2019, of the analysis in quantitative terms of employees and staff costs published on www.financatvendore.al.

⁴⁹ For conducting this analysis, information on the number of employees in the municipality from the MTBP documents 2019-2021 was used; organizational structures published on the official websites of the municipalities, financial data from www.financatvendore.al and data from the Ministry of Finance and Economy (MoFE).

⁵⁰ In 2016 the municipalities faced the transfer of a number of new functions such as: pre-university education dormitories; social service centers; fire protection and rescue service; teaching and non-teaching staff in pre-school education and non-teaching staff in pre-university education; rural roads; forest management; irrigation and drainage. For more see appendix no. 4 of law no. 130/2016 "On the 2017 budget" on functions transferred at the local level and financed by specific (sectoral) transfers.

⁵¹ Calculated as a ratio of personnel expenditures and number of employees in the municipality, for all municipalities. 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"

⁵² According to INSTAT, the number of employees in the public sector is about 17,745 people in 2019. For 2020 the data source is <https://i2.wp.com/.monitor.al/images/2021/03/R2.jpg?ssl=1>

⁵³ Source: Ministry of Finance and Economy at [https://www.financa.gov.al/buxheti-2020/\(aksesi19/03/2020\)](https://www.financa.gov.al/buxheti-2020/(aksesi19/03/2020)). (accessed 19/03/2020).

⁵⁴ Population according to CENSUS 2011.

⁵⁵ 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

⁵⁶ Population according to CENSUS 2011.



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