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Methodological Remarks

Data for first level local government units (municipalities) were sourced from the Government Financial Management Information System (Online Treasury System, OTS), at the Ministry of Finance and Economy, which have been processed and subsequently published on the www.financatvendore.al¹ platform. Consolidated data are cumulative (or end-of-period stock), denominated in local currency (ALL) and refer just to 61 municipalities (12 districts are not included in the analysis). In order to enable historical comparisons with the period before the implementation of the territorial and administrative reform (TAR), data from 373 local self-government units, collected during the for the period 2010-2015, were re-classified at the level of the present 61 municipalities.

For the purpose of analysis, raw data obtained from the OTS have been classified by the authors, in compliance with provisions deriving from Law no. 68/2017 "On the finances of local self-government", Law no. 9632/2006 "On the local tax system" as amended, Law no. 139/2015 "On local self-government" and respective international practices². Revenue data are categorized in accordance with the aforementioned, in the following categories:

- own-source revenues, which include local tax revenues, fees, local loans and others;
- taxes broken down according to provisions deriving from Law no. 68/2017 "On the finances of local self-government";
- unconditional and specific transfers; and
- conditional transfers from line ministries for delegated functions.

The first three categories are classified under the common denominator of *available financial resources*, on which municipalities are entitled to relative decision-making rights as regards their use. Whereas, as regards the conditional transfers category, the municipalities have no decision-making powers regarding the amount or use of such funds; therefore, such expenditures are executed according to line ministry definitions (otherwise, via designated destination).

For better organisation of revenue data by source, the expenditure analysis will be organized into two main categories:

¹This platform will show you how to build your own report to monitor the revenue generated and how they are spent by your municipality.

²See:

http://www.seecities.eu/seecities.eu/Portals/0/Images/Stories/Publications/MFSA%20Brochure_Final_Web_PA.pdf?ver=2018-09-10-071023-543U

<https://www.oecd.org/regional/regional-policy/Subnational-Governments-Around-the-World-%20Part-I.pdf>

- expenditures with own funds (including revenues from own resources, shared taxes, unconditional and specific transfers) and,
- expenditures with conditional funds (including those expenditure categories covered by conditional transfers from line ministries, including investment funds from the Regional Development Fund (RDF)).

For both categories, own and conditional funds, expenditures will be listed by their economic nature and by local government functions (COFOG).

This report is part of a series of quarterly and annual reports on local finances drafted by Co-PLAN, Institute for Habitat Development. Previous reports are available at: <http://www.financatvendore.al/pub/raporte>.

For a general overview on the activity of each of the 61 municipalities, you can refer to the Municipal Profiles available at: <http://www.financatvendore.al/analiza/profilet>.

1.

INTRODUCTION

Continuous monitoring of developments in local public finances constitutes an important step in assessing their financial capacity in terms of exercising the functions and powers set out in Law no. 139/2015 "On local self-government". Moreover, a better understanding of the balance between competences and financial resources provides further information aiming to develop more effective and efficient policies in local government, facilitates the dialogue between government levels, provides information on loan capacities, enhances accountability, transparency and community confidence in local representatives.

The status report on local finances aims to outline a general overview of local public finances for the 61 municipalities at the end of 2018. The financial performance of municipalities as regards revenues and their distribution in view of the provision of public services represents a crucial milestone for the finalisation of decentralization reforms undertaken over the last four years (TAR³, NCSDLG 2015-2020, etc.) and on the eve of the local elections in June 2019.

Generally, the total of financial resources for municipalities appears to have marked an upward trend, largely affected by the marked increase in own-source local revenues and unconditional and specific transfers. The own-source local revenues structure is composed of two main contributors, i.e. revenues from the infrastructure impact tax and property tax. In the light of such increased financial resources, the municipalities increased their expenditures under the effect of expanding their current expenditures (personnel and operating costs). On the other hand, there was a decrease on investment expenditures (with own funds and conditional funds) over the period under review.

The second chapter of the 2018 Status Report on Local Public Finance provides a detailed analysis of the local financial resources' performance as divided into categories; the second chapter addresses the expenditures incurred by local government with own funds and conditional funds, combined with the economic and functional nature of such expenditures. The results and future recommendations are outlined below.

³Law no. 115/2014 "On administrative and territorial division of the local government units in the Republic of Albania".

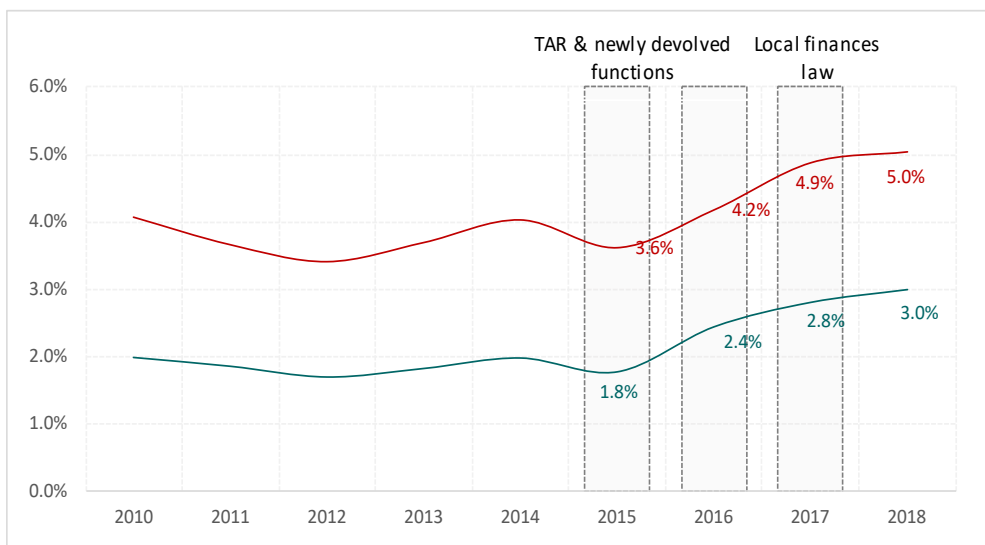
2.

TOTAL FINANCIAL RESOURCES FOR THE EXERCISE OF FUNCTIONS AND POWERS

The last four years were characterized by a strong wave of reforms in the framework of the governance decentralization from central to local level. Under this common denominator further important steps were undertaken, which were materialized in: the administrative and territorial reorganization into 61 municipalities (and 12 districts); the adoption of the Cross-sectoral Strategy for Decentralization and Local Governance 2015-2020 (SNDQV 2015-2020); the draft and adoption of the Law on the Organization and Functioning of Local Government, which *inter alia* transferred a series of new functions to an exclusive level; adoption of the first law regulating local finances; as well as a number of other sub-legal acts. The common goal of all the above-mentioned interventions was the *strengthening of local government to establish the conditions for increasing local capacities in providing quality services and increasing efficiency in the management of available resources*. The expansion of the territories under administration, the increase of the number of population and the larger number of symmetrical functions among the 61 municipalities, found these municipalities facing significant challenges in the terms of provision of local public services under specific budget limitations.

The ratio of financial resources to nominal GDP is listed among other indicators used to assess the importance of local government in overall governance. The data show that indicators for local government revenues (total and excluding conditional transfers) in relation to GDP, following some minimal fluctuations during 2010-2015, the following three years marked an upward trend indicated by a series of factors, such as the increase of the number of new functions and responsibilities as regards expenditures, the use of Water Utilities as tax agents and changes of the fiscal policy applied by municipalities (increase of local taxes and fees).

Chart 1. Indicators of GDP Revenues



Source: Local Finances Portal www.financatvendre.al

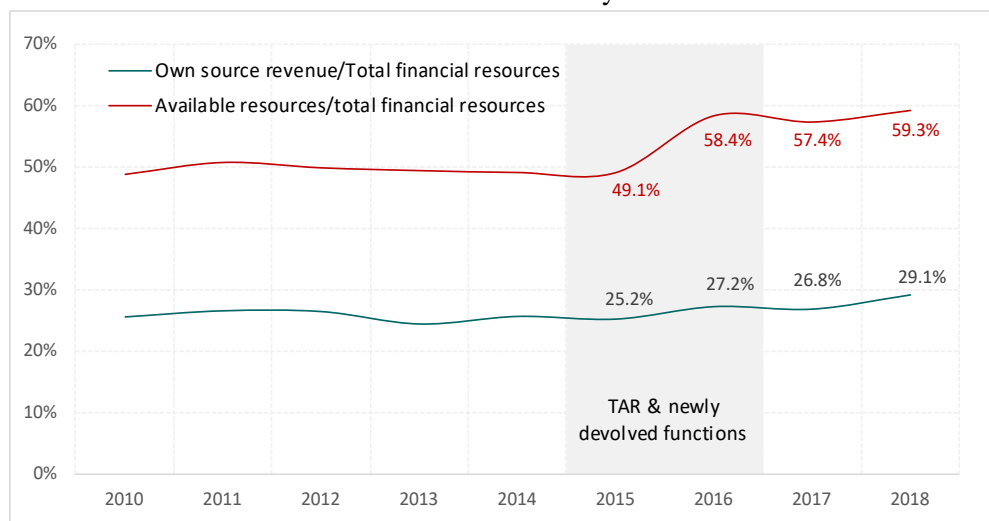
Upon adoption of Law no. 139/2015 "On local self-government" and the transfer of new functions in 2016 were accompanied by the relevant financial invoice, or otherwise with the specific transfer of their financing. In the following year, Law no. 68/2017 "On the finances of local self-government" was adopted, which *inter alia* determined and stabilized the local government's unconditional transfer size. Both of these interventions generated additional monetary resources, which contributed to the improvement of GDP indicators. Consequently, in 2018, the total available financial resources of local government represented about 5% of GDP. Excluding revenues from conditional transfers, the available financial resources marked about **3% of the nominal GDP**. Although on the improvement side, both ratios are significantly below the average ratio of South-East European (SEE) countries by about 5.9% and the EU countries by about 10.7%, as according to respective GDPs.⁴

In line with the aforementioned indicators, local fiscal autonomy indicators appear to have improved at the end of 2018, in annual terms and compared to the long-term average. The improvement of local autonomy indicators is deemed to have been highly influenced by the increase of own-source local revenues and unconditional and specific transfers. However, both indicators are below the SEE average: the ratio of own-source local revenues/total revenue resources was 34.4% and the ratio of

⁴Data for SEE and EU refer to 2017. For more information on their calculation, please see: Fiscal Decentralization Indicators for South-East Europe, December 2018 (NALAS).

available resources/total resources was about 72.9% for SEE⁵ versus 29.1% and 59.3 % in the case of Albania.

Chart 2. Indirect indicators of local fiscal autonomy



Source: Local Finances Portal www.financatvendore.al

2.1 Performance of own-source local revenues

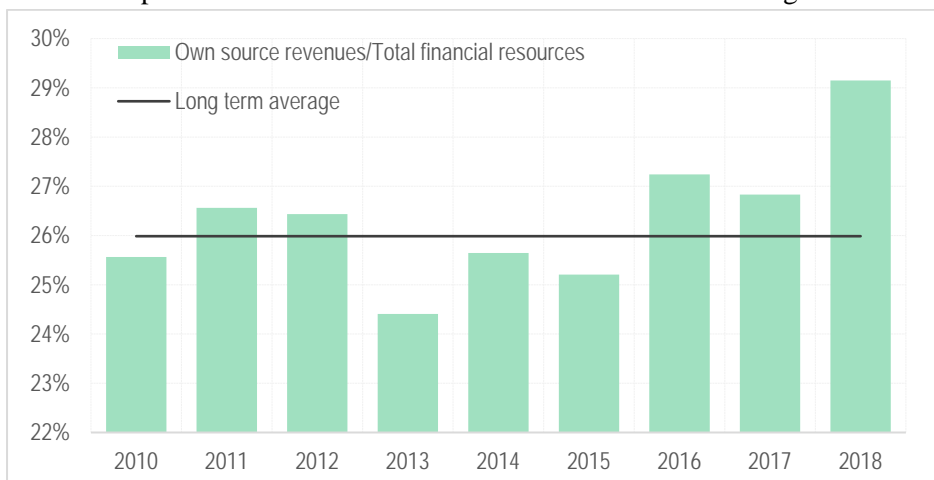
Own-source local revenues are essential for a good and independent local government. This revenues' category represented about 29.1% of the total financial resources of the local budget in 2018. Compared to the previous year, this ratio marked a slight improvement of about 2.3 percentage points and stands at about 3.1 percentage points above the long-term average.⁶ This improvement is estimated to have been influenced by a number of factors, such as increase of the level of local taxes and fees in some municipalities and possible improvement of the revenue collection rate (using UK enterprises as tax agents). Currently, this ratio stands below the average of SEE countries (about 34.4% in 2017).⁷

⁵ Idem Note 4.

⁶ Calculated as a simple average of own-source local revenues amounts ratio *versus* total financial resources for the period 2010-2017.

⁷ Source: Fiscal Decentralization Indicators for South-East Europe, December 2018, NALAS

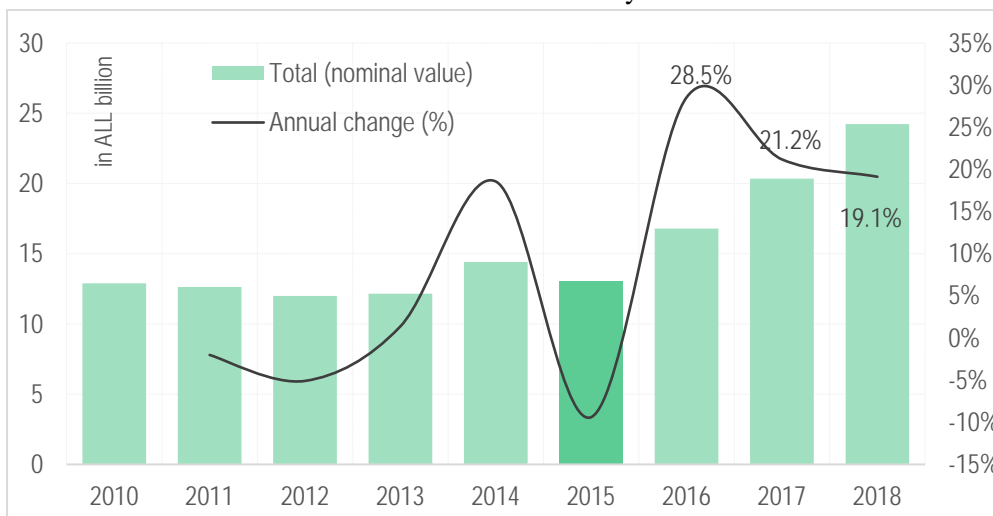
Chart 3. Importance of own-source local revenues in the local budget



Source: Local Finance Portal www.financatvendore.al

In nominal terms, by the end of 2018, own-source local revenues (local taxes and fees, actions carried out with assets and others) amounted to about **24.2 billion ALL**, which is about a 19.1% increase in annual terms, about **3.9 billion ALL** more than the amount recorded the previous year.

Chart 4. The share of local source revenues over the years



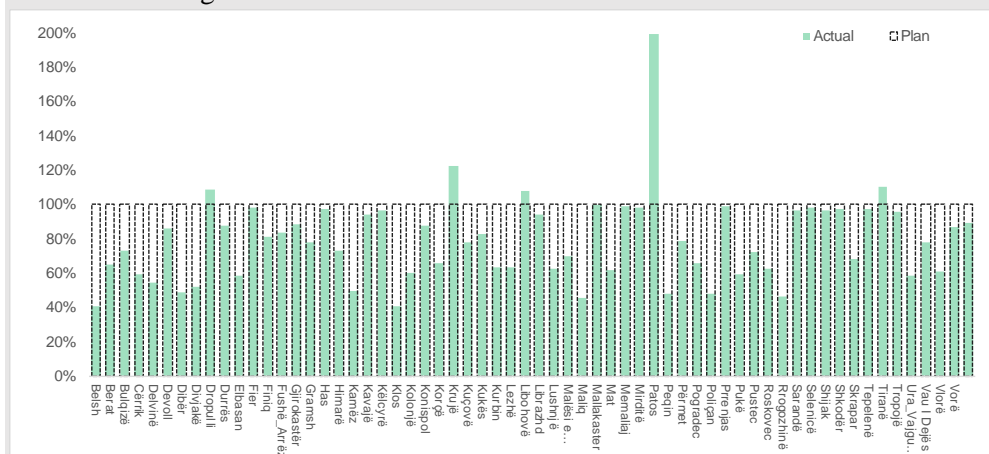
Source: Local Finances Portal www.financatvendore.al

Municipal budget planning for 2018. ⁸

The budgeting process is an important step for municipalities in the country. Based on data processing shown in Medium-Term Budget Plans (MBPs) and annual budgets documents, it is estimated that the municipalities planned to realize about 27.2 billion ALL revenues from own resources. Compared to budget estimation, such data indicate approximately 24.2 billion ALL revenues for 2018, about 2.9 billion ALL less than the budget estimation, or 10.9% less than the planned revenues. At the municipal level, the gap between planned and realized revenues is substantial and, in general, municipalities overestimate forecasts on the revenue level for the budget year. At the municipal level:

- about 13.1% of municipalities (or 8 out of 61 municipalities) realize less than 50% of planned revenues;
- 29.5% of municipalities (or 18 out of 61 municipalities) realize 50%-70% of planned revenues;
- 49.2% of municipalities (or 18 out of 61 municipalities) realize about 71-100% of planned revenues; and
- 8.2% of municipalities (or 15 out of 61 municipalities) realize over 100% of planned revenues.

Chart 5. Planning of local revenues *versus* realization



Source: Local Finances Portal www.financatvendore.al

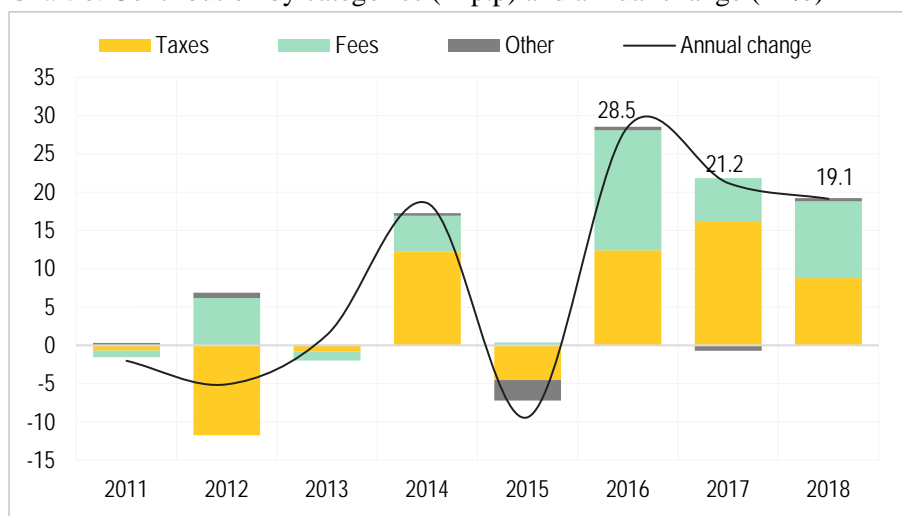
Deviations marked between realised revenues and estimated ones, both negative and positive, are considered as significantly concerning in terms of the sustainability of

⁸ The data used in this analysis refer to those contained in the Medium Term Budget Document 2018-2020, which are published on the www.financatvendore.al platform and Municipalities' websites. No budget amendments approved by the Municipal Councils are included.

public finances at the local level. Non-realization and over-realisation of own revenues are not healthy, as: (a) under-realization of revenues may have a significant impact, which may be translated into a lower level of allocated services and investments and less engagement with communities during the preparation phase of the local budget document (annual budget and MBPs); municipalities may be in a situation of lack of liquidity to execute scheduled payments and, consequently, may accumulate outstanding liabilities (or arrears); and (b) over-realisation or excesses of initial projections of the own-source revenue estimation also indicates for weak forecasts, thus, causing budget reviews or unplanned expenditures.

According to component categories, the positive performance of revenues from its own resources is largely determined by the contribution of revenues from local tariffs by about 10.0 percentage points at the end of 2018. Tax revenues continue to contribute positively to the overall performance of local revenues, although their contribution shrank by about 16.2 percentage points in 2017, and by about 8.8 percentage points in 2018 compared to the previous year. Changes in the contribution of local tax revenues and fees to the total of own resources somewhat reflect changes applied to the fiscal policy of the municipalities.

Chart 6. Contribution by categories (in p.p) and annual change (in %)



Source: Local Finances Portal www.financatvendore.al

At the aggregate level, the role of local tax revenues has diminished from year to year: in 2010 the share of tax revenues to total revenues from its domestic sources was approximately 71.1%, in 2015 it was approximately 63.9% and in 2018 it shrank to about 59.7% of the total. Frequent interventions in the legislative framework on changes of the taxable level and basis, or exemptions for certain categories (e.g. in

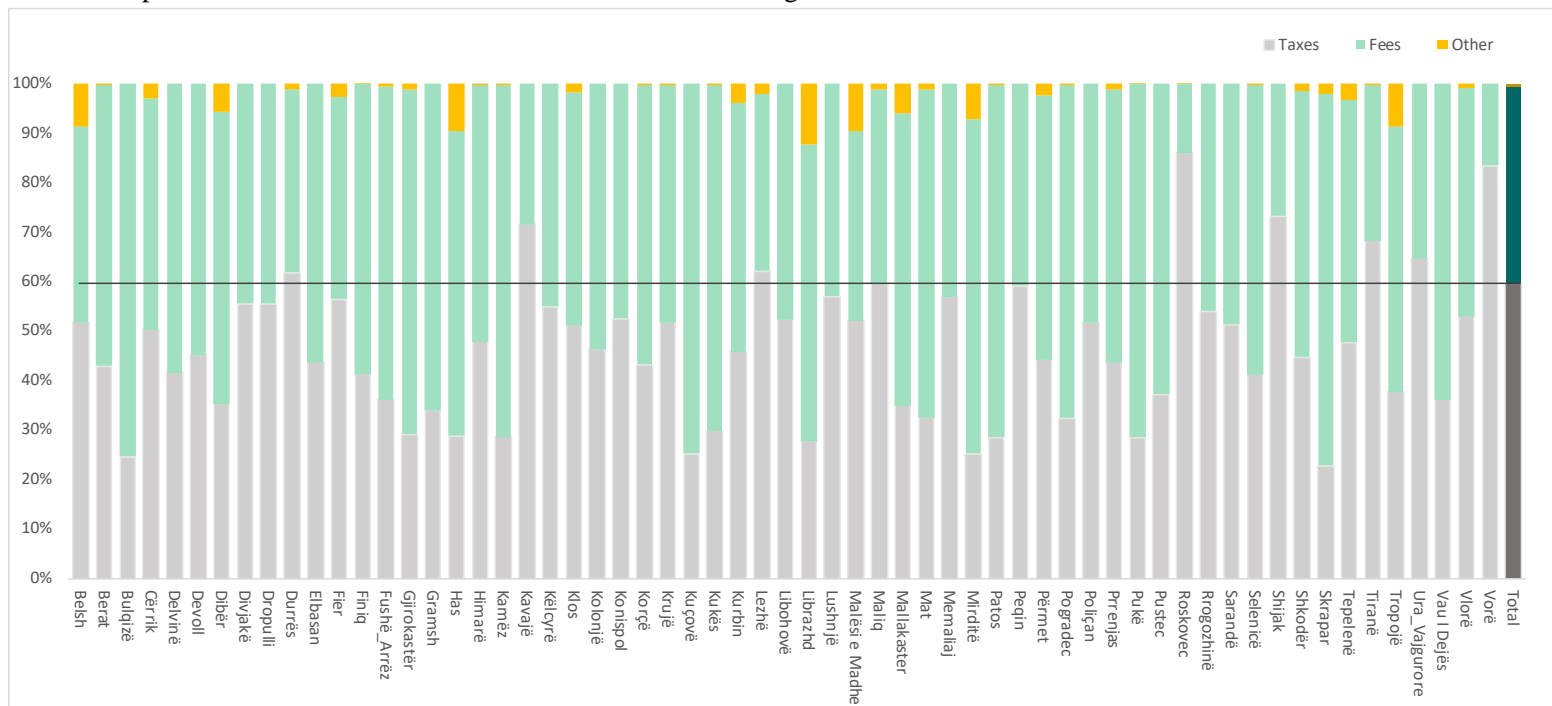
the case of small business tax/simplified profit tax or property tax, the absence of a fiscal cadastre or relatively low collection rate) is estimated to have weakened the role of such revenue resources in the local budget.

The role of tax revenues, tariffs and other local resources in the local budget varies considerably between the 61 municipalities in the country. For about 45.9% of municipalities (28 out of 61 municipalities) tax revenues represent over 50% of their own source revenues. The municipalities of Vlorë, Ura Vajgurore, Tiranë, Shijak, Roskovec, Lezhë, Kavajë and Durrës collect local tax revenues above the national average of about 59.7%. Whereas, for about 50.8% of the municipalities (31 out of 61 municipalities) tariff revenues account for over 50% of these from local municipalities' own resources. In the municipalities of Bulqizë, Kamëz, Kukës, Kuçovë, Patos, Pukë and Skrapar, local tariffs contribute more than 70% to revenues from local municipal resources.

Municipalities' capacity to generate local tax revenue and fees also presents significant differentiations between municipalities (in line with the resident population and localized business characteristics within the territory): about 61.8% of total local tax revenue is collected in the Municipality of Tiranë, followed by Durrës with about 5.2%, under the effect of revenues from the tax on infrastructure impact on new buildings. A similar situation also presents in the case of local tariff revenues: the Municipality of Tiranë collects about 43.0% of the total, followed by the municipalities of Kamëz and Durrës by 5.8% and 4.7%, respectively.

The input of municipalities toward total revenues, both from taxes and local tariffs, suggests a huge gap in terms of fiscal capacity between the Tiranë municipality and the other 60 municipalities. Except for the Municipality of Tiranë, differences among municipalities continue to be distinguishable between municipalities (large municipalities) and other 49 municipalities. Distinctive differences between municipalities in terms of fiscal capacities pose the need for compensatory or mitigating instruments to allow the completion of functions or the provision of public services attending to both quantity and quality.

Chart 7. Importance of own-source local revenues in the local budget

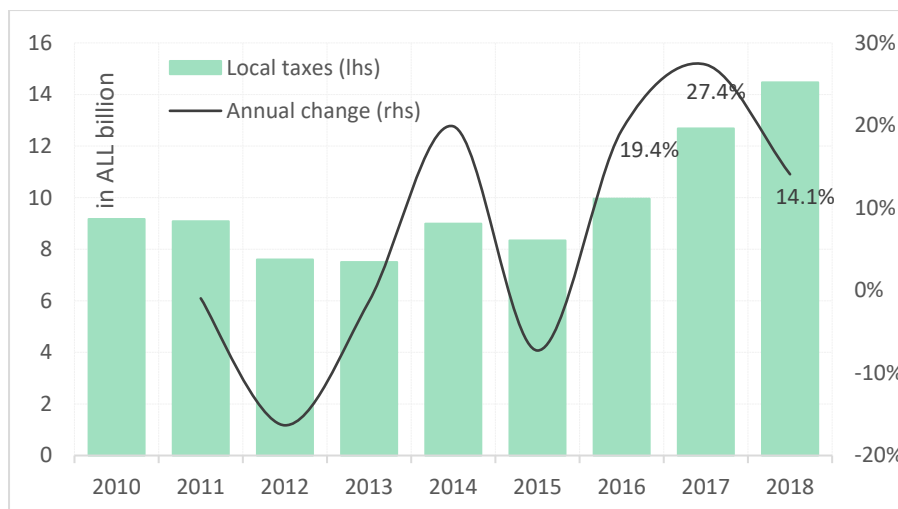


Source: Local Finances Portal www.financatvendore.al

2.1.1 Local tax revenues

Tax revenues represent an important financial source in the structure of revenues from own local resources. In 2018, local taxes contributed approximately 59.7% to local source revenues, a ratio of about 4.8 percentage points below the long-term average (about 64.5%). In nominal terms, local tax revenues recorded a level of about ALL 14.5 billion, up by about 14.1% in annual terms.

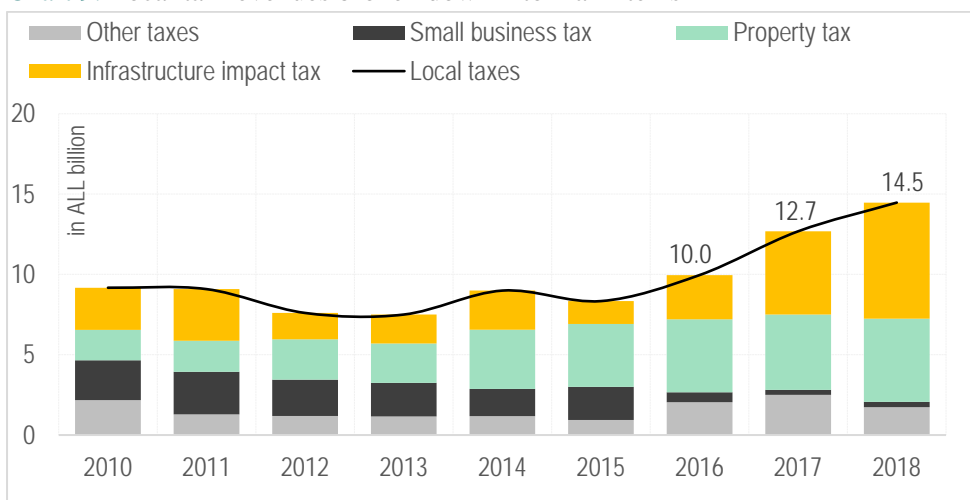
Chart 8. Performance of local tax revenues



Source: Local Finances Portal www.financatvendore.al

Although in general terms local tax revenues result in positive developments, a detailed perspective on the constituent elements indicates long-term weaknesses or dependency on a limited number of taxes. In the last three years, the performance of local tax revenues has been determined by two elements: the infrastructure impact tax from new construction and real estate taxes (buildings, agricultural land, land). While the latter's influence has shrunk, the share of the infrastructure tax impact on new constructions has increased at an accelerated pace. In 2018, these two types of taxes represented 81.6% of total local tax revenues. Otherwise, the amount and contribution of the simplified tax on small business' profits and other taxes shrank in 2018.

Chart 9. Local tax revenues broken down into main items



Source: Local Finances Portal www.financatvendore.al

Tax immovable property and the transactions carried out with them constitute an inherent and sustainable source of income for the local budget. In the last three years, revenues from this tax are estimated at about 0.3% of nominal GDP, which is considerably lower when compared to the EU average of about 1.6% of GDP in 2017 (NALAS 2019). Although over the years the revenues collected from the immovable property tax have generally followed an upward trend, the issues associated with property rights and lack of cadastral records, among other things, hinder full utilization of this tax's potential. Following the radical reform of this tax by Law no. 106/2017 "On some amendments and additions to Law no. 9632, dated 30.10.2006, 'On the local tax system', as amended", the beginning of 2019 was expected to be the moment when all municipalities in the country will apply the property tax according to the new methodology, according to press releases of the Ministry of Finance and Economy.⁹ Based on this methodology, the taxable base will consist of the market value of the building, as determined according to the rules established by the central government. The tax rate will be 0.05% of the value of the residential buildings for family members, and 0.2% of the value of the building for businesses.

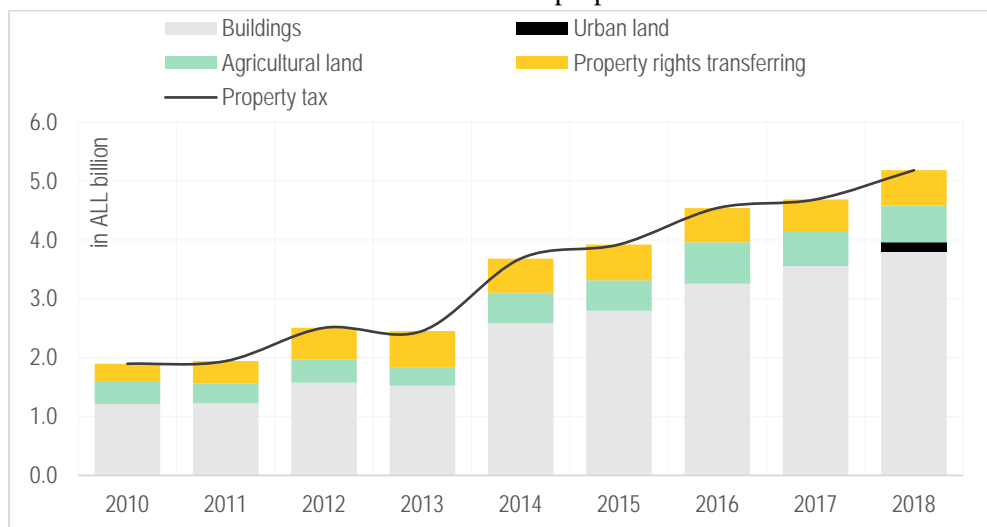
By the end of 2018, revenue from tax on immovable property recorded a level of approximately **5.2 billion ALL**¹⁰, marking an increase of up to 10.6% compared to

⁹<http://www.financa.gov.al/nuk-ka-shtyrje-te-aplikimit-te-taksese-prones-procesi-ka-filluar-dhe-po-vazhdon/>

¹⁰ Pursuant to Law No. 68/2018 "On the finances of local self-government", article 11(2), states that the immovable property tax includes "tax on buildings, tax on agriculture land and tax on territory, as well as transactions carried out with them". In accordance with the legal definitions, tax revenue on the transfer of immovable property rights to individuals, natural and legal persons.

the previous year. All constituent categories contributed positively to the performance of the revenue from the tax on immovable property over the period under review. From the available information, it is difficult to assess whether the performance improvement is due to improvement of collection rate, or base expansion, or how far are the municipalities from the tax potential revenues.

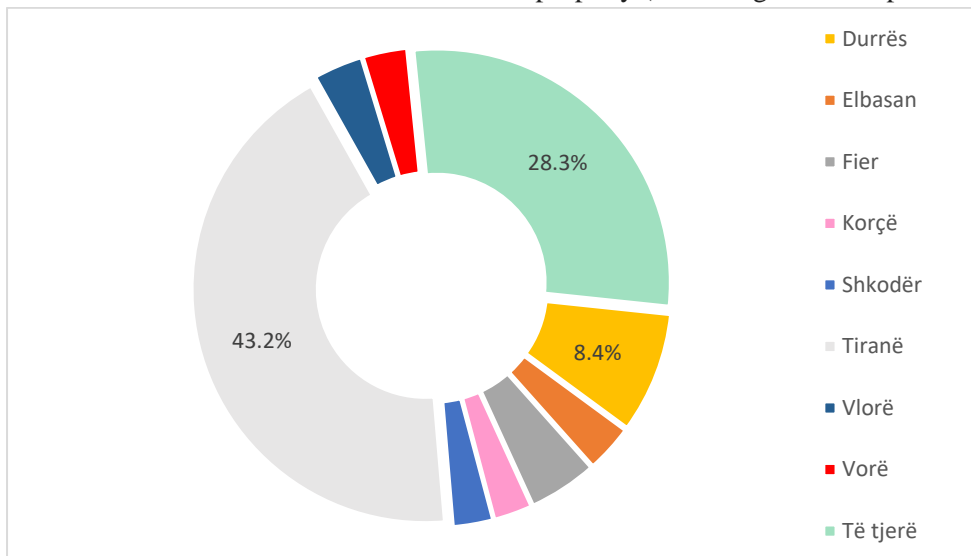
Chart 10. Revenues from taxes on immovable properties



Source: Local Finances Portal www.financatvendore.al

At the municipal level, about 43.2% of the revenues from the tax on immovable property are collected in the municipality of Tiranë, due to the high concentration of residential buildings and other buildings in this territory. The Municipality of Durrës ranks second in the list of revenues from tax on immovable property with about 8.4% total, for the period under consideration. In cumulative terms, the Municipalities of Durrës and Tiranë generated over 50% of total revenues from tax on immovable property in 2018.

Chart 11. Revenues from tax on immovable property (according to municipalities)

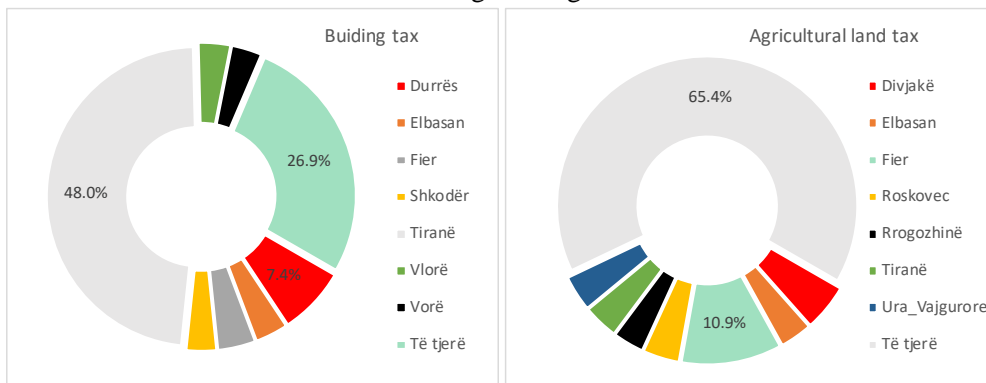


Source: Local Finances Portal www.financatvendore.al

In structural terms, revenues from *tax on buildings* account for the largest share in revenues from tax on immovable property (on average 73.6% in the last three years). For 2018, revenues deriving from this tax have been estimated to 3.8 billion ALL, marking an increase of 6.9% in annual terms. About 48.0% of the total revenue from tax on buildings was collected in the Municipality of Tiranë followed by the Municipality of Durrës (7.4% of the total) and Fier (4.1% of the total). Using UK companies as a tax agent seems to have yielded positive results over the period under consideration. Revenue from agricultural land tax, although of a moderate weight, contributed with about ALL 628.9 million (marking an increase up to 8% in annual terms) to the category of revenues from property tax.

In contrast to the element of concentration of revenues from the tax on buildings in a limited number of municipalities, revenues from the tax on agricultural land result to be evenly distributed among municipalities. The highest level of this tax was collected in the Municipality of Fier (about 10.9% of the total), followed by those of Divjakë (5.1% of the total), Roskovec (4.0%) and Ura Vajgurore (3.9%), this due to the agricultural character of these municipalities' economy.

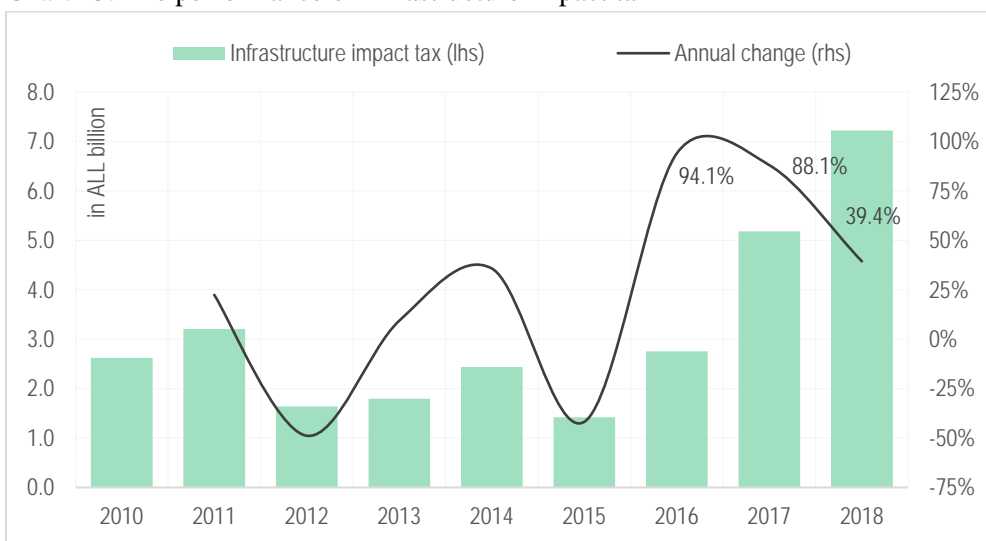
Chart 12. Revenues from tax on buildings and agriculture land



Source: Local Finances Portal www.financatvendore.al

Revenues from the tax on infrastructure impact from new constructions continues to represent an important and substantial source in the local budget: in 2018 revenues from this tax represented 49.9% of total local tax revenues and about 29.8% of total revenues from its own resources. These two indicators signal the high dependence of the local budget on this tax, as well as added risks depending on its cyclical nature. In addition, municipalities might shift their liquidity preferences in the short term, at the expense of sustainable long-term development.

Chart 13. The performance of infrastructure impact tax



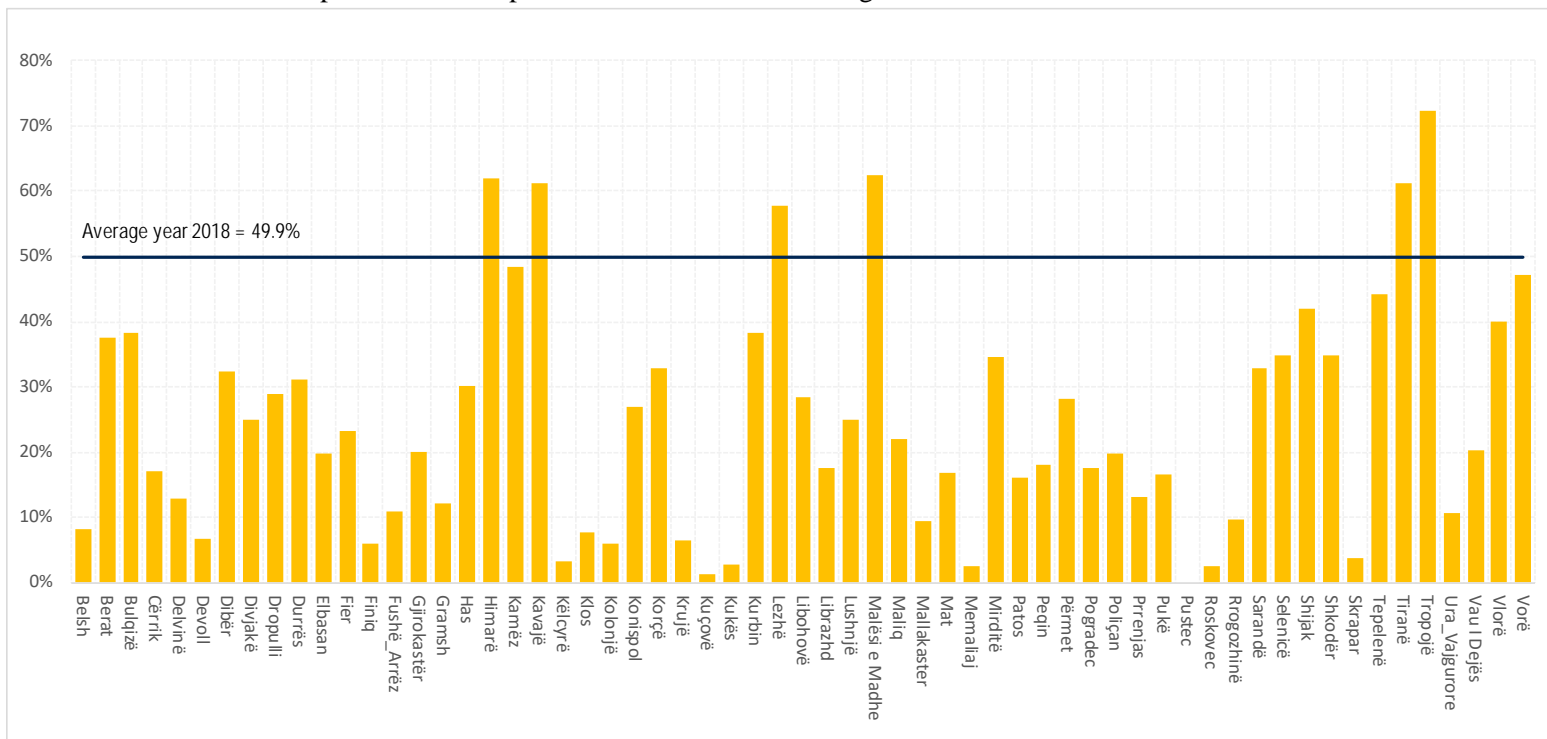
Source: Local Finances Portal www.financatvendore.al

Revenues from tax on infrastructure impact from new constructions continued to increase at a double-digit rate for the third consecutive year. In 2018, revenues deriving from this tax have marked a level of about 7.2 billion ALL, showing an

increase to 39.4% in annual terms, or about 2.1 billion ALL more than the previous year. The performance of revenues due to this tax suggests the continuity of development pressures (increase in the number of construction permits by municipalities following the adoption of the general local plans with the issuance of about 819 new permits in 2016 up to 1,194 new permits in 2017), although this pressure is mainly concentrated in the municipality of Tiranë. The implementation of the General Local Plans (PPV) on new construction permits, on the one hand, positively influences the increase of *infrastructure impact tax (IMT)* revenues for municipalities, while on the other, challenges the latter's capacities to provide necessary public infrastructure, which require financing both at their initial development and in ongoing maintenance as well.

At the average level, IFT revenues (from new construction and revenues from legalization) represented around 49.9% of local tax revenues in 2018, marking an increase up to 9 percentage points compared to the value reported in the same report last year. In about 9.8% of municipalities, revenues from this tax register higher than the national average. Meanwhile, in about 24.6% of the municipalities, revenues from this tax represent less than 10% of revenues from local taxes, reflecting to some extent even lower development pressures.

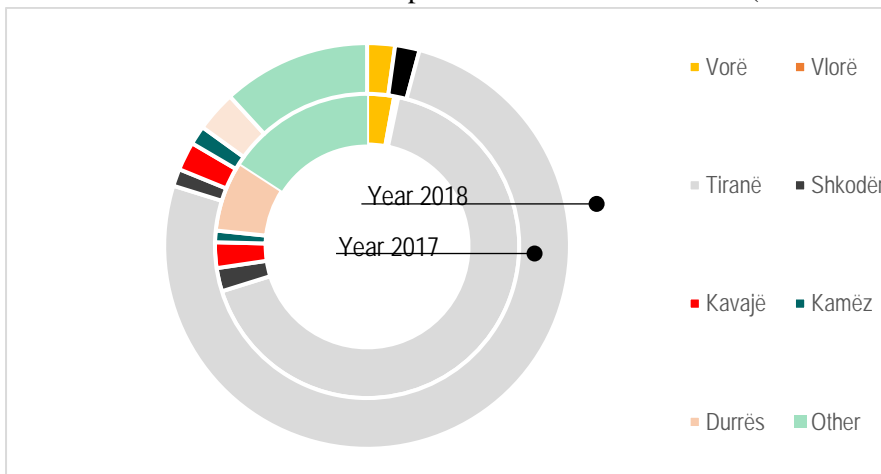
Chart 14. Infrastructure impact tax: municipalities and the national average



Source: Local Finances Portal www.financatvendore.al

In 2018, Municipality of Tiranë collected about 5.5 billion ALL (marking an increase of up to 57.6% in annual terms) or about 75.6% of total revenues from this tax. The level of revenues from this tax corresponds to data on the number of construction permits (in 2018, it results that the municipality of Tiranë has granted about 79 more permits compared to 2017)¹¹. Conversely, the Municipality of Pustec appears not to have generated revenues from the tax on infrastructure impact for 2018. In the Municipality of Durrës, revenues from the tax on infrastructure impact from new constructions appear to have decreased to about 40.1% in annual terms (although the number of construction permits has increased). The same trend is observed in the Municipality of Shkodra, where compared to about 128.6 million ALL collected in 2017, in 2018 were collected about 99.4 million ALL. In the Municipality of Vlorë, revenues from this tax result to be almost five-fold over the period under consideration.

Chart 15. Tax on infrastructure impact from new constructions (total = 100%)



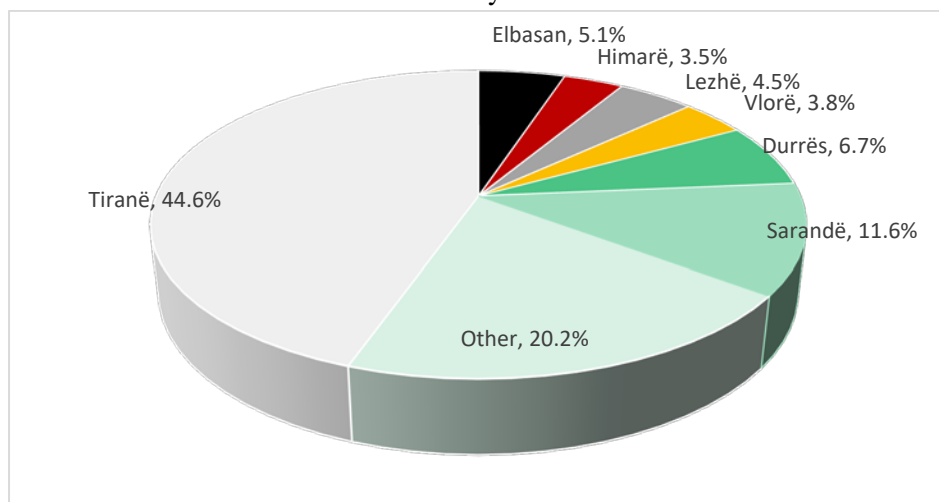
Source: Local Finance Portal www.financatvendore.al

In view of a higher contribution of this tax to local budgets, would require medium-up to/and long-term estimations and commitments regarding the provision of local public services for new developments. In addition, being a finite and discontinuous source of revenue, municipalities need to find solutions and develop skills to face current and future financial obligations when confronted with a limited budget - this would create favourable conditions and would be consistent with the concept of intergenerational equity. In practice, the revenues currently generated from this tax would have to be invested to provide the necessary public infrastructure, as well as on their future operation, without burdening future generations' budgets.

¹¹ Source: <http://www.instat.gov.al/al/temat/statistikat-e-p%C3%ABrgjithshme-dhe-rajonale/tregues-sipas-bashkive/#tab2>

Revenues from *simplified tax on small business profit* have been accounted to 329.5 million ALL in 2018, with a slight increase of 5.9% compared to 2017. In the long-term and following changes undertaken¹², revenues from this tax continue to progressively decrease their contribution to total own-source local revenues. Due to legislative changes undertaken in 2016, local government lost an instrument to attract and encourage the establishment of new enterprises in the territories under administration.

Chart 16. Tax on the hotel service activity



Source: Local Finance Portal www.financatvendore.al

Although to a lower extent, revenues from the *local tax on hotel accommodation services* have contributed positively to the overall increase of local tax revenues. In 2018, revenues generated from this tax have been estimated at 214.1 million ALL, marking an increase of 17% in annual terms.

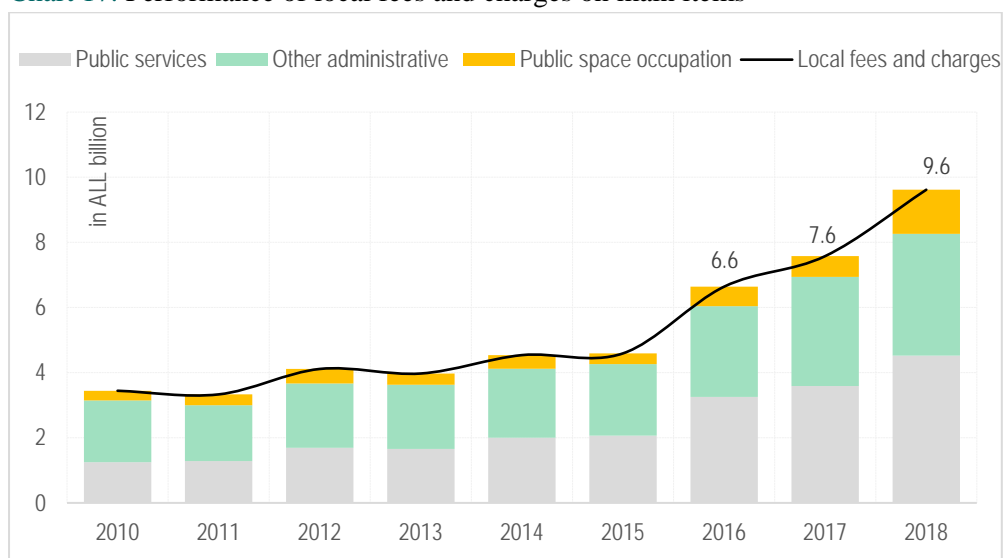
By 2018, about 44.6% of revenues from the tax on hotel services were collected in the Municipality of Tiranë, followed by the Municipality of Sarandë with about 11.6% of total revenues. Meanwhile, revenues collected from other municipalities with tourism potential were relatively low. This may signal structural problems regarding the registration of accommodation structures and declaration of the number of tourists.

¹² The progressive decline of revenues from this tax comes as a result of amendments in Law no. 9632/2006 "On the local tax system" as amended, according to which from 2016 all small businesses with annual turnover under 5 million ALL are excluded from the tax liability, while tax rates were halved for small businesses with annual turnover of 5-8 million ALL.

2.1.2 Revenues from local fees

Local tax revenues represent an important source of revenue to the local budget. As for total local revenues, revenues from fees comprise a share of 39.7% and represent a category of revenues over which municipalities have full rights. In general, revenues from local fees represent an upward trend from year to year, dictated by the performance of a group of municipalities that have applied increases in the level of local fees as well as the use of Water Utilities as tax agents. During 2018, the performance of revenues from local fees contributed positively to the total own-source revenue performance of the municipalities, marked a level of about 9.6 billion ALL, showing an increase to 26.9% in annual terms.

Chart 17. Performance of local fees and charges on main items



Source: Local Finance Portal www.financatvendore.al

Revenues from fees of public services (waste management, lighting and greenery, water supply and sewage, irrigation and drainage) were estimated to 4.5 billion ALL, with an increase of 26.1% in annual terms. Approximately 88.2% of revenues from fees of public services were collected from the cleaning fee (and about 50% in the Municipality of Tiranë). Revenues from public lighting fees have been estimated at 283.9 million ALL, representing about 6.3% of total public service fees.

Table 1. Revenues from local fees according to categories (in ALL)

	Value	Share to total
Cleaning fee	3,989,297,718	88.2%
Public lighting fee	283,882,567	6.3%
Greenery fee	244,937,700	5.4%

Water supply and sewage fee	183.808	0.004%
Irrigation and drainage fee	3,360,123	0.1%
Revenues from service fees	4,521,661,916	100.0%

Source: Local Finance Portal www.financatvendore.al

Revenues from irrigation and drainage fees recorded relatively modest figures and were collected by the municipalities of Elbasan, Lezhë, Roskovec, Divjaka and Lushnjë. Preliminarily, it can be stated that there is a marginal improvement on collecting this fee, especially in those municipalities where agricultural land under their jurisdiction makes use of irrigation and drainage services.

The fee for occupying and using public space and façades has also increased considerably over the analysed period, marking a value of 1.3 billion ALL in 2018, increasing from the 640 million ALL collected in 2017. If we were to look at the performance of specific items, it results that the revenue from occupying public spaces for business purposes (bars and restaurants) covers the highest share of about 52.0% of the total, followed by the revenues from parking fees with about 40.2% of the total. As far as revenues from parking fees are concerned, it is worth mentioning that the Municipality of Tiranë collects about 83.6% of total revenues from this fee. Within the same frame of reference, other major municipalities, which are district centres, have not performed similarly, although they do not lack the potential (with respect to population and number of vehicles).

2.1.3 Local government borrowing and overdue liabilities

In the absence or presence of insufficient financial resources, municipalities in the country can legally borrow short-term loans to cover short-term or long-term liquidity needs, in order to finance capital expenditures or refinancing an existing loan. The terms and conditions for accessing loans from local government in Albania are specifically regulated by Law no. 9869/2008 "On local government borrowing". Data published in the loan register at the end of 2018 show that the Municipalities of Korçë, Pogradec, Vlorë, Elbasan, Lezhë and the former Petrela commune have borrowed loans. All aforementioned loans were contracted between 2010 and 2014, in order to finance infrastructure projects. The same data show that after 2014 no municipality has borrowed loans.

Table 2. Local governance debt stock

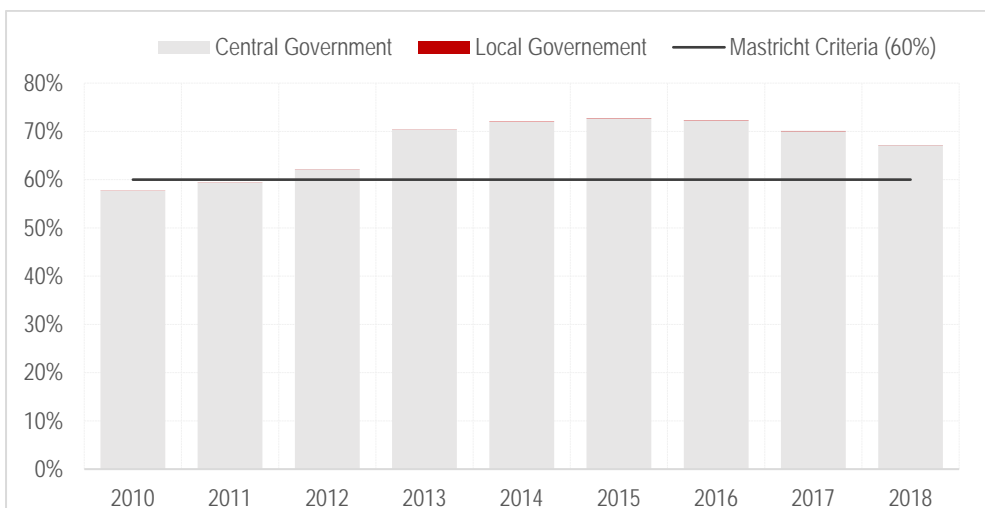
Borrower	Lender	Loan size (in ALL million)	Signed on:	Maturity:	Stock at the end of 2018:
Municipality of Korçë	Pro Credit	100	2010	2020	27.58
Municipality of Korçë	ISBA	200	2014	2024	143.26

Municipality of Pogradec	Pro Credit	113	2010	2020	9.83
Municipality of Vlorë	BKT	420	2010	2020	50.21
Commune of Petrelë	BKT	15	2010	2019	0.28
Municipality of Elbasan	BKT	800	2010	2020	436.32
Municipality of Lezhë	ISBA	107	2014	2023	48.19

Source: Ministry of Finance and Economy (Loan Register 2018Q4)¹³

In total, local government debt stock at the end of 2018 was estimated at 715.7 million ALL, or about 0.043% of GDP,¹⁴ and presents a marginal contribution to the total public loan figure. After 2014, new municipalities have not received new loans, despite significant investment needs, which large municipalities seem to be address via the use of PPPs. The fiscal consolidation trajectory driven by MoFE seems to have limited municipalities' room for new borrowing as long as domestic debt increases the overall level of public debt.

Chart 18. Public debt and Maastricht criteria



Source: INSTAT (Institute of Statistics of Albania), the Ministry of Finance and Economy and author's processing

Meanwhile, in addition to loan indicators, municipalities in the country carry overdue liabilities stock, which at the end of 2018 were estimated at 6.8 billion ALL, 9.5 times higher than the local government debt stock. As far as GDP is concerned, overdue liabilities represented about 0.41%. On average, overdue obligations of the municipalities burden the citizens with about 2,418 ALL per capita.¹⁵ At municipal level, overdue obligations per capita mark a maximum value in the Municipality of

¹³ Source: Loan Register 2018Q4 <https://financa.gov.al/regjistri-i-borxhit/>

¹⁴ Nominal GDP according to the Ministry of Finance and Economy (Fiscal Indicators).

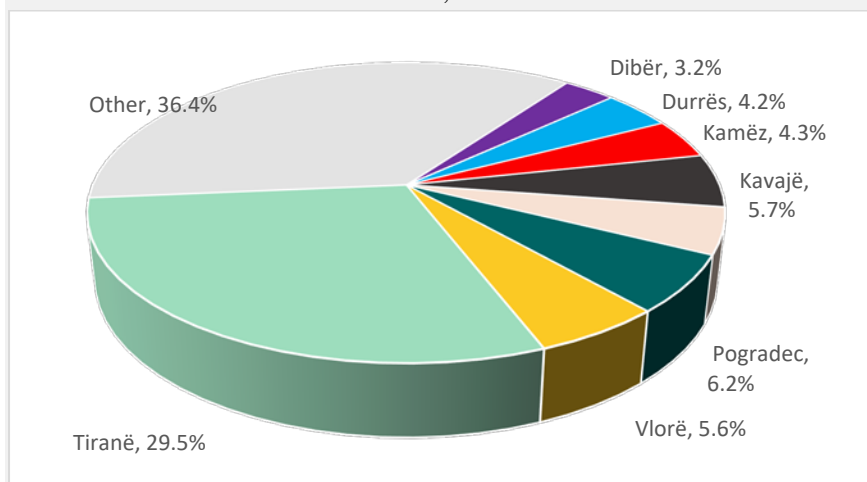
¹⁵ Data from the 2011 Census.

Konispol with about 13,755 ALL per capita and a minimal value in the Municipality of Maliq with about 57 ALL per capita.

Overdue liabilities: what is their share in the municipal budgets?

Municipal overdue liabilities were systematically identified from 2015, following the approval of DCM no. 50/2014 "On the adoption of the strategy for the prevention and settlement of overdue liabilities of the action plan" and Instruction of the Ministry of Finance no. 5/2014 "On the settlement of overdue liabilities". Based on data of the Ministry of Finance and Economy, at the end of 2015, the stock of overdue liabilities was about 11.8 billion ALL, which is of concern both at the local and central levels. The settlement of these liabilities, partly incurred by the former communes that joined in the new municipalities following the administrative and territorial reform, constitutes a burden inherent to local budgets. In this framework, the central government takes over only the "settlement of the obligations for works carried out but not yet settled, in the framework of funding received from the Regional Development Fund, as well as disability benefits transfers. *All other financial liabilities of local government units that are not included above should be provided for in the budgets of local government units.*"

Chart 19. Stock of overdue liabilities, December 2018



Source: Local Finance Portal www.financatvendore.al

In total, the stock of overdue liabilities marked about 6.8 billion ALL by the end of 2018. Compared to the stock of overdue liabilities by the end of 2017, the current stock appears to have narrowed down by approximately 2.4 billion ALL, or by about 26.9%. The Municipalities of Tiranë, Selenica, Korçë and Prrenjas provided the main contribution to the decrease of overdue liabilities. By contrast, about 54.1% of

municipalities (or about 34 municipalities) appear to have increased the stock of overdue liabilities at the end of 2018, compared to their level at the end of 2017. A substantial growth can be noticed in the Municipalities of Kamëz, Dibër, Bulqizë, Mat, Mirditë, and Urë Vajgurore.

At municipal level, about 68.3% of the stock of overdue liabilities is carried by 10 municipalities. The maximum level of overdue liabilities remains in the Municipality of Tiranë, with about 2.0 billion ALL or 29.5% of the total stock at the end of 2018. The Municipality of Pogradec ranks second as per the level of overdue liabilities, by about 417.4 million ALL, or about 6.2% to the total. By contrast, the Municipalities of Këlcyrë and Shijak have the lowest stock of overdue liabilities for the period under consideration.

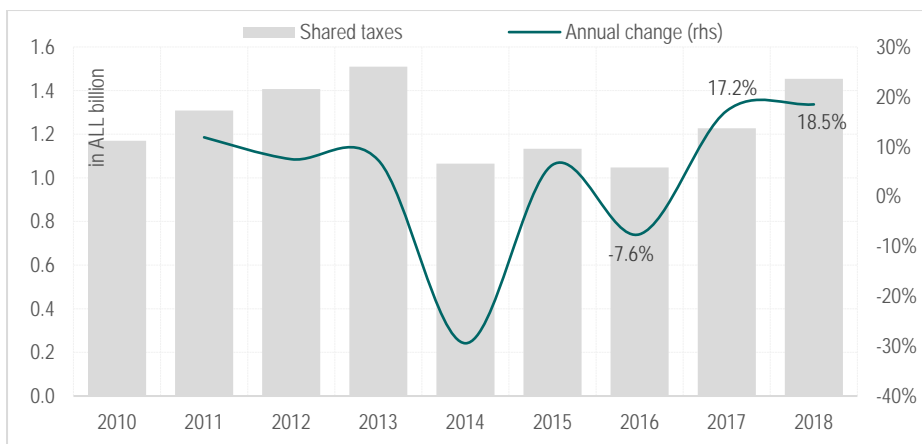
2.2 Revenues from shared taxes

Upon adoption of Law no. 68/2017 "On the finances of local self-government", the categories of shared taxes between local and central government were revised and added. Therefore, municipalities receive: (i) 97% of revenues from the tax on the transfer of immovable property rights to individuals, natural and legal persons¹⁶; (ii) 25% of revenues from the annual tax on the circulation of used vehicles; (iii) 5% of revenues from mineral rent; and (iv) 2% of revenues from the tax on personal income. Revenues from this tax do not appear to have been allocated to municipalities during 2018. A simple calculation shows that this results in a revenue deficit for local budgets of around 642.1 million ALL¹⁷, which should have been divided among municipalities according to their origin based on the provisions of Law no. 68/2017 "On the finances of local self-government".

Chart 20. Revenues from shared taxes

¹⁶ In this analysis, this item was included in the revenues from the immovable property tax and should not be treated as a shared tax.

¹⁷ Based on the government's fiscal data for 2017, the revenues collected from the tax on personal income were approximately 32.1 billion ALL, and 2% of them, or 642.1 million ALL, should have been divided among municipalities.



Source: Local Finance Portal www.financatvendore.al

The timely progress of revenues from shared taxes has been fluctuating and the share of this item to the revenues from its own sources marked a level of about 6.0% in 2018. Overall, revenues from shared taxes contributed to the local budget with around 1.5 billion ALL at the end of 2018, marking an increase of up to 18.5% in annual terms.

2.3 Revenues from unconditional and specific transfer

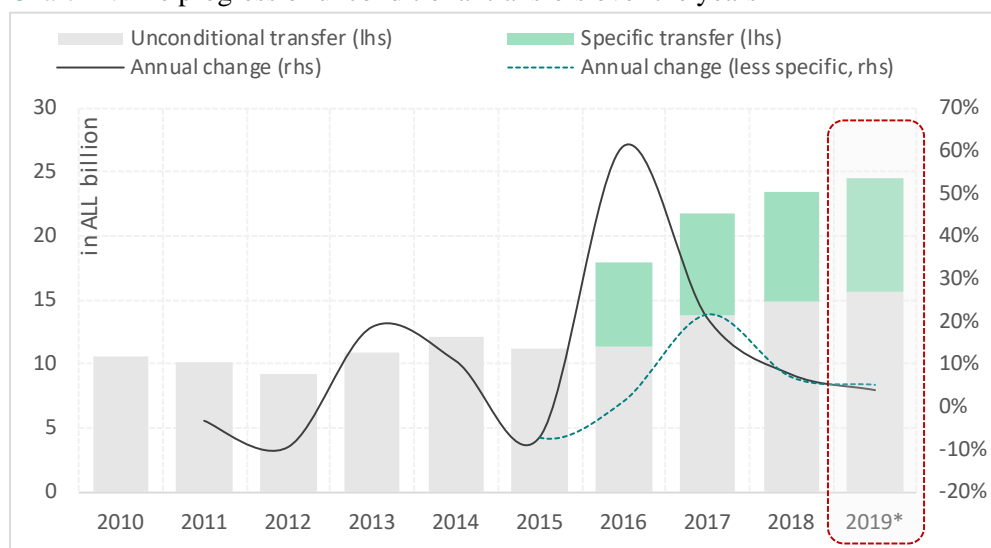
The continuous improvement of local governance and the provision of more efficient and effective public services are essential elements contributing and promoting economic development in the territory under administration. The exercise of functions and powers as set out in Law no. 139/2015 "On local self-government" requires new financial resources in the face of growing demands of the represented communities. The unconditional transfer represents an essential financial resource in fulfilling municipal functions, aiming to close the negative gap between the need for expenditures and fiscal capacity. Following the symmetric transfer to the exclusive title of a number of functions in 2016, their exercise was carried out through cash flows transferred from the central government to the local government through the specific transfer. Upon completion of the transitional phase concerning the transfer of these functions, or starting from the beginning of 2019, the latter will be funded via the unconditional sectoral transfer which will be used autonomously.¹⁸ Law no. 68/2017 "On the finances of local self-government" sanctioned the ratio and the method of allocation of the unconditional transfer: for each budget year, it is not less than 1% of GDP, according to forecasts and macroeconomic assessments approved

¹⁸ Law no. 68/2017 "On the finances of local self-government", Article 23, "The total amount of unconditional transfer, upon completion of the transitional period of transferring new functions at the local level, increases with the ratio of the specific transfers which are to be included within the unconditional transfer" and Annex 1, The Unconditional Transfer Formula (MoFE).

by the Council of Ministers and, in any case, cannot be less than the total amount allocated in the previous year; its allocation is made by using the formula approved by the Ministry of Finance and Economy.

In 2018, municipalities received around 23.6 billion ALL in the form of unconditional transfer (together with the specific transfer), marking an increase of up to 7.5% when compared to the previous year. The growth rate of unconditional and specific transfer seems to be progressively moderated from 2016 to 2018, as a result of the lapse of the base effect of growth from specific transfers. Meanwhile, for 2019, revenues from unconditional and sectoral transfers are expected to be around 24.5 billion ALL, about 3.8% higher when compared to 2018. In local budgets, about 15.5 billion ALL will be allocated in the form of unconditional general transfers and about 8.8 billion ALL in the form of unconditional sectoral transfers (for the new functions transferred in 2016).

Chart 21. The progress of unconditional transfers over the years

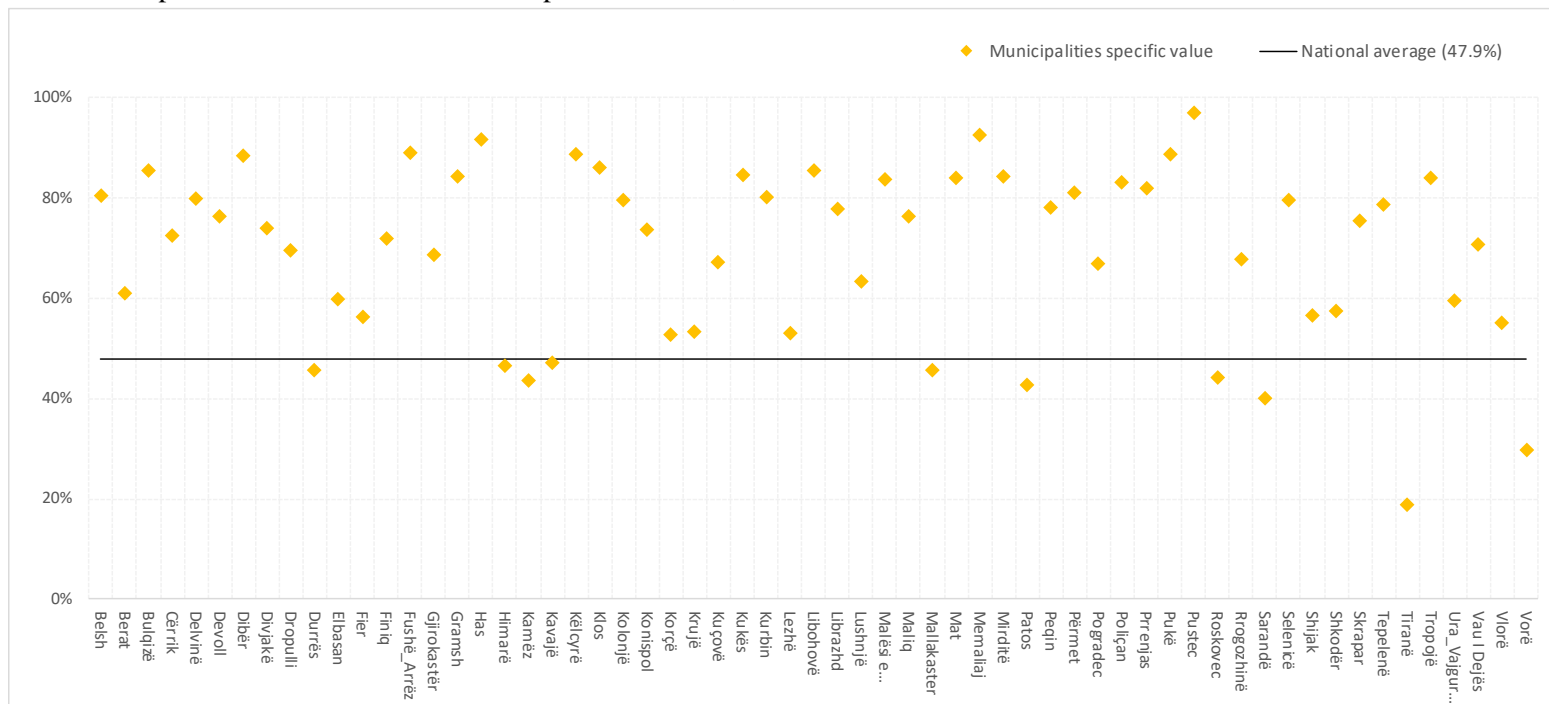


Source: Local Finance Portal www.financatvendore.al

*Source: Ministry of Finances and Economy

Unconditional and specific transfers constitute the main financial resource for municipalities, representing an average of 47.9% of the available financial resources. The importance of this resource becomes more apparent at the municipal level, where in 83.6% of the municipalities (or 51 of them) the share of revenues from unconditional and specific transfers appears above the national average for 2018. In the Municipality of Pustec 97% of local revenues are represented by unconditional and specific transfers. By contrast, the minimum share of the available financial resources was recorded in the Municipality of Tiranë, at about 18.8%.

Chart 22. Dependence on unconditional and specific transfers, 2018

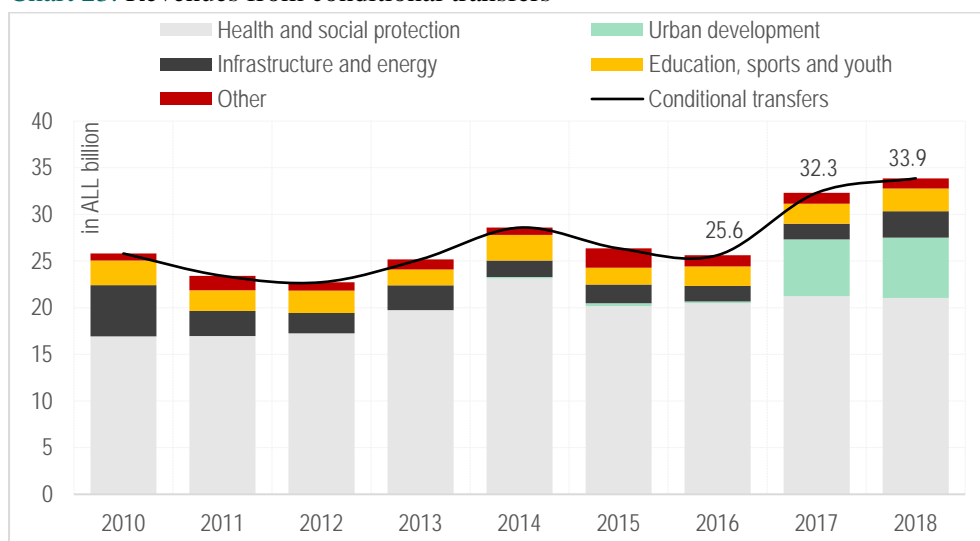


Source: Local Finances Portal www.financatvendore.al

2.4 Revenues from conditional transfers

Pursuant to Article 27 of Law no. 68/2017 “On local self-government finances”, conditional transfers are provided for the exercise of delegated functions and for specific projects (considered of local, regional or national interest) where local units are required to cooperate. Regarding specific requirements of the law, conditional funds transferred to the municipality shall include not only funds for the exercise of delegated functions, but also investment funds (including the RDF). Although they do not exercise control over their destination, the proceeds from conditional transfers represent *about 40.7% of the total financial resources of the municipalities* in 2018. The weight of these transfers to the total of financial resources shrank over the considered period, from an average of about 50% during the 2010-2014 period to an average of 41.7% in the last three years. During 2018, central government transferred 33.9 billion ALL to municipalities in the form of conditional transfers, which marks an increase of about 4.8% in annual terms.

Chart 23. Revenues from conditional transfers



Source: Local Finances Portal www.financatvendore.al

During 2018, funds transferred from the ministry responsible for social welfare¹⁹ marked a level of about 21.1 billion ALL, a slight decline of about 0.9% when compared to the previous year. These funds were transferred to the municipalities in the form of a conditional transfers for economic aid and disability payments, and after that, the municipalities are in charge for their distribution to the final beneficiaries.

¹⁹ In September 2017, the former Ministry of Social Welfare and Youth was merged and the social protection programs portfolio passed over to the Ministry of Health and Social Protection.

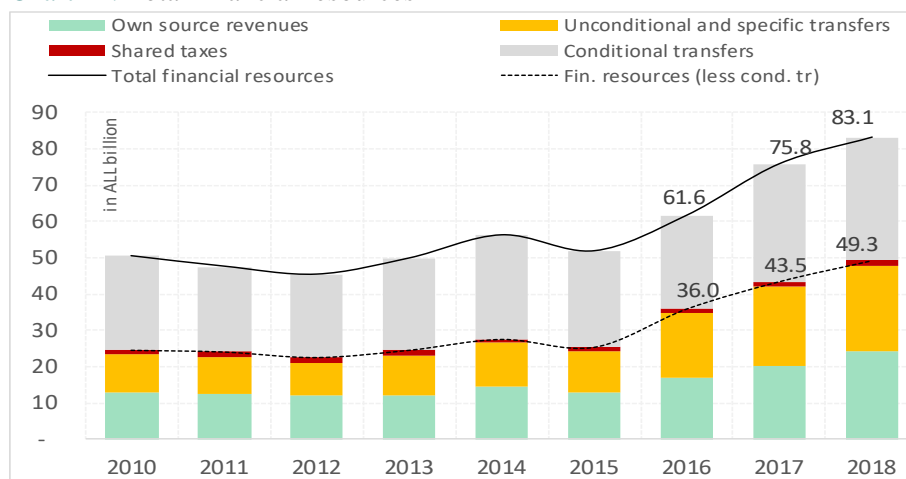
During this year, a substantial increase of funds channelled to the local level is evidenced through the ministry responsible for transport and infrastructure, which transferred about 2.8 billion ALL, marking an increase of about 67.9% in annual terms.

The Ministry responsible for urban development transferred about 6.5 billion ALL at the municipal level (+6.4% when compared to the previous year), which were mostly allocated for the improvement of Water Supply and Development Infrastructure (WSDI). The ministry responsible for education, sports and youth allocated around 2.4 billion ALL in 2018, of which about 2.2 billion ALL are estimated as allocations to investments for the improvement of the educational infrastructure.

2.5 Total financial resources

This section aims to reflect the resources of the funds used by municipalities to exercise their functions, the responsibilities and their performance by the end of 2018 (cumulative data), as well as to provide services to respective communities.²⁰ Total financial resources of local government recorded a value of 83.1 billion ALL²¹ by the end of 2018, marking an increase of up to 9.7% when compared to the previous year. When those categories of revenues deemed to be the destination (conditional transfers) are excluded from the total of financial resources, the revenues over which municipalities exercise authority and have decision-making rights, marked a value of about **49.3 billion ALL**, marking an increase of up to 13.3% in annual terms.

Chart 24. Total financial resources



Source: Local Finances Portal www.financatvendore.al

The financial resources over which municipalities have relative freedom of use, at the end of 2018, accounted for about 59.3% of the total financial resources and include: revenues from their own resources, revenues from unconditional and specific transfers²² and revenues from shared taxes. By contrast, conditional financial resources accounted for about 40.7% of the total, about 7.6 percentage points below

²⁰ Total financial resources of local self-government units include: (i) revenues from its own resources (taxes, fees, others and borrowing), (ii) revenues from intergovernmental transfers including revenues from unconditional and specific transfer, (iii) revenues form shared taxes and (iv) revenues from conditional transfers.

²¹ This figure does not include revenues from funds inherited from the previous year (conditional or not). Meanwhile, revenues from conditional transfers are included, in accordance with the provisions of Law no. 68/2017 "On local self-government finances", where this category is included among the municipal funding resources.

²² So far, specific transfers were treated as destination transfers, but in the 2019 budget they are expected to be part of the unconditional transfer, dedicated to the sectors it intends to fund.

the long-term average (calculated as the average of this category's share to total for the reference periods).

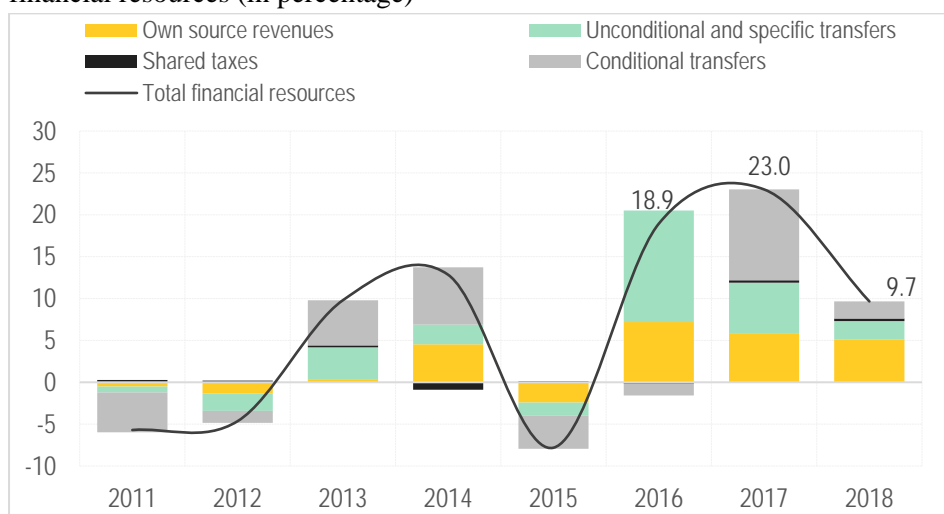
Table 3. Financial resources by categories (in ALL)

	Revenues from own sources	Unconditional and specific transfers	Shared taxes	Conditional transfers	Total financial resources
2010	12,891,663,200	10,561,625,060	1,170,003,470	25,806,764,310	50,430,056,040
2011	12,631,701,000	10,204,712,000	1,308,927,130	23,412,459,060	47,557,799,190
2012	11,988,290,560	9,229,560,860	1,406,942,040	22,726,329,460	45,351,122,920
2013	12,153,488,880	10,955,191,220	1,509,291,620	25,177,716,670	49,795,688,390
2014	14,409,383,700	12,128,442,390	1,065,198,190	28,582,275,720	56,185,300,000
2015	13,056,130,410	11,251,989,590	1,132,951,570	26,356,041,130	51,797,112,700
2016	16,782,224,630	18,146,533,940	1,047,236,690	25,628,574,190	61,604,569,450
2017	20,336,808,369	21,917,678,257	1,227,289,116	32,308,267,287	75,790,043,029
2018	24,226,073,264	23,569,999,546	1,454,075,925	33,860,310,617	83,110,459,352

Source: Local Finances Portal www.financatvendore.al

The performance of total financial resources at the end of 2018 was determined by the performance of own-source local revenues, which contributed with around 5.1 percentage points to the annual growth of financial resources. Revenues from unconditional and specific transfers also contributed in this regard, although to a lesser extent (with 2.2 percentage points).

Chart 25. Contribution of categories (in percentage points) to annual change in financial resources (in percentage)

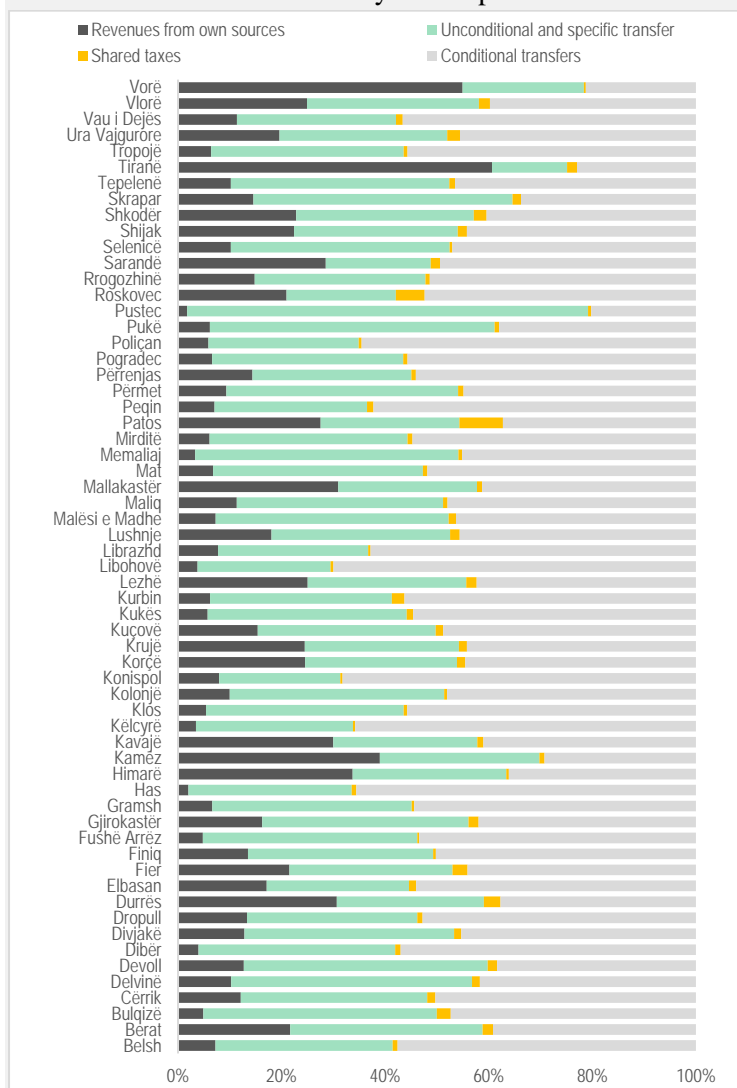


Source: Local Finances Portal www.financatvendore.al

Indicators of local financial autonomy.

The structure of financial resources for municipalities can be used as an indirect indicator to assess their financial capacity, the ability to undertake investments independently and meet community requirements for public services. On average, for the 61 municipalities in the country, revenues from their own resources accounted for about 29.1% of total resources, revenues from unconditional and specific transfers for about 28.4% and revenues from shared taxes divided for about 1.7%, to the total financial resources at the end of 2018.

Chart 26. Financial resources by municipalities



Source: Local Finances Portal www.financatvendore.al

At municipal level, the share of their own revenues (taxes, fees and others) in the total of financial resources fluctuates within a wide range of values: the minimal value was recorded in the Municipality of Pustec with 1.8% and the maximal value in the Municipality of Tiranë with about 60.6%. Disproportionately, where revenues from local sources are low, revenues from unconditional and specific transfer widely fund the municipal budget. Historically, conditional transfers have represented the highest level of revenues in local budgets; in 2018, they were estimated at about 40.7% to total financial resources. A general overview of municipal funding resources continues to highlight significant differences between them based on annual data in 2018.

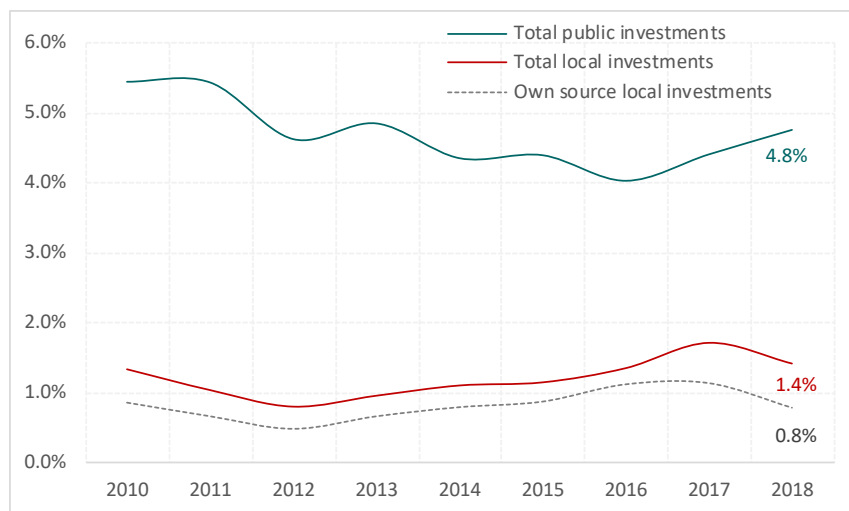
3.

LOCAL PUBLIC EXPENDITURES

The use of available financial resources is another important aspect of local public financial management. Local government expenditures accounted for about 17.3% of central government total expenditures in 2018. By 2015 this ratio did not show any significant change, at an average level of about 13.7%. In the last three years, this ratio improved from 15.9% in 2016 to about 17.3% in 2018, due to the increase of total financial resources for municipalities.

On average, in Albania, local government channels over 70% of total financial resources to cover current expenditures and about 30% for capital expenditures. Capital expenditures incurred by local government accounted for about 1.4% of nominal GDP in 2018, marking a decrease of about 0.3 percentage points compared to its level in the previous year.

Chart 27. Investments to GDP

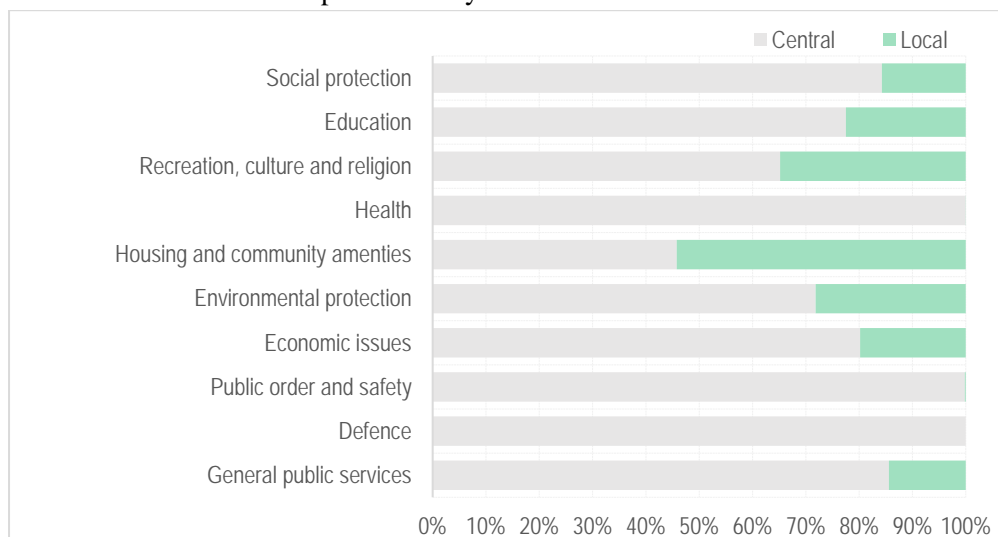


Source: Local Finances Portal www.financatvendore.al

The allocation of expenditures demonstrates how local and central governments share functions and powers (measured by the percentage of expenditures incurred by each level of government by function, according to the COFOG classification). Excluding protection as a function exercised exclusively at the central level, in other functions the share of local government appears considerably lower than that of central government. Municipalities exercise broader competencies in the function of housing and community commodities (about 54.2% of expenditures are incurred by local

government) and in the framework of recreation, culture and religious affairs (about 34.8% of expenditures are incurred by local government).

Chart 28. Allocation of Expenditures by Functions



Source: Local Finances Portal www.financatvendore.al

3.1 Expenditures by source of funding

The expenditure analysis tends to provide a general overview of how the money available to municipalities was spent at the end of 2018: by source of funding intertwined with the categorization by economic structure (salaries and social insurance, operating expenses and investments) and according to government functions (education, economic issues, environmental protection etc.).

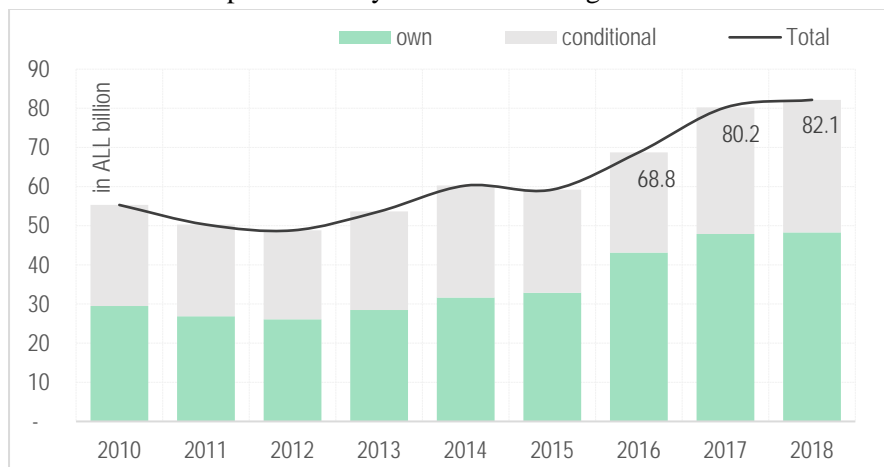
By the end of 2018, financial assets channelled by 61 municipalities in the country recorded a value of about 82.1 billion ALL, about 2.4% higher than the one recorded the previous year.²³ Excluding expenditures incurred with funds inherited from the previous year, municipalities allocated around 80.6 billion ALL in 2018, which is about 7.3% more than the previous year.

Expenditures with municipalities' own funds marked a level of approximately **48.3 billion ALL** at the end of 2018, marking a slight increase when compared to the previous year. Expenditures incurred with conditional funds marked a value of 33.9

²³ This figure includes all expenditures incurred by the municipalities, with their own funds and with conditional funds.

billion ALL, marking an increase up to 4.7 billion ALL in annual terms. In structural terms, about 58.8% of expenditures were incurred with their own funds, and 41.2% of them with conditional funds.

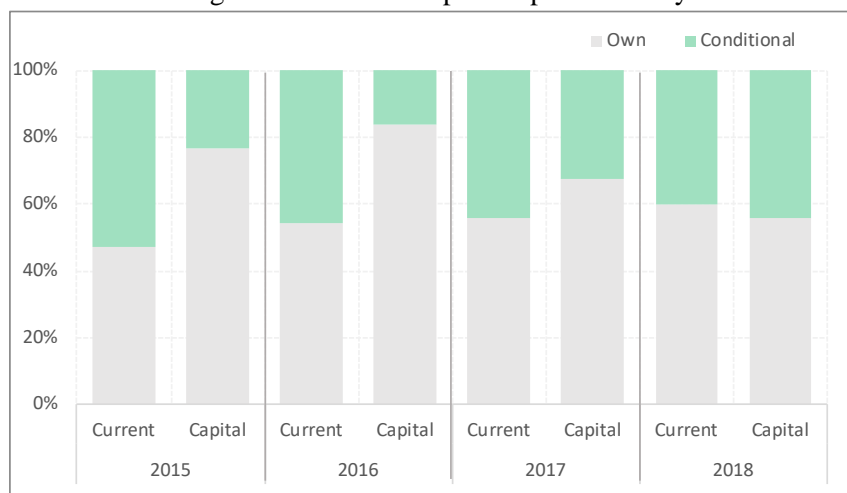
Chart 29. Local expenditures by source of funding



Source: Local Finances Portal www.financatvendore.al

On average, over the last three years, current expenditures were covered up to 57% by funds from their own local resources, and up to 43% from conditional financial resources. Likewise, capital expenditures were covered on average up to 69% by their own local resources, and up to 31% by conditional resources. By the end of 2018, capital expenditures were covered up to 56% by local financial resources and up to 43% by conditional resources (including funds from the RDF).

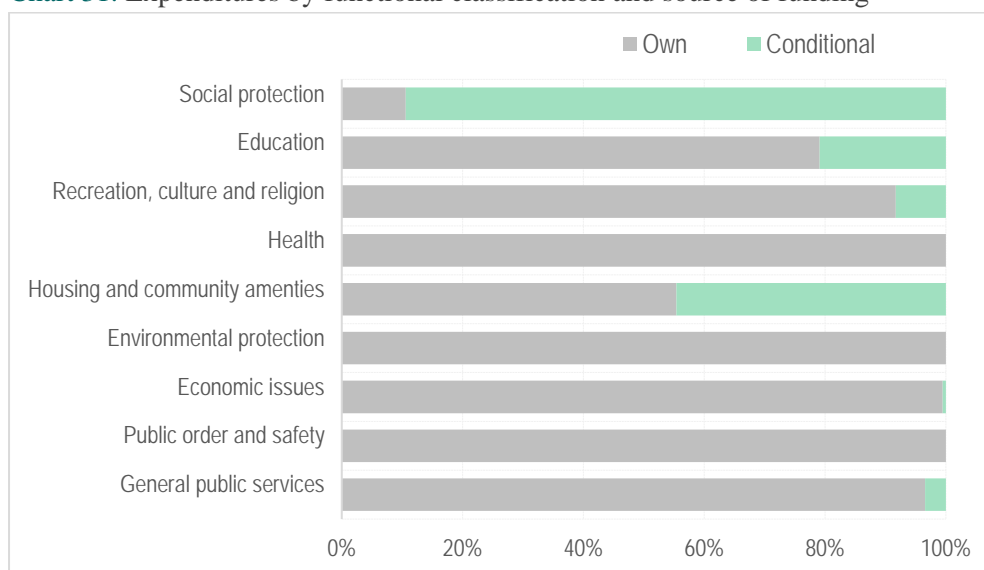
Chart 30. Coverage of current and capital expenditures by resource



Source: Local Finances Portal www.financatvendore.al

Cross-referencing data by source of funding and functional classification indicates that the social protection function is widely covered by conditional funds (conditional transfer from the ministry responsible for social protection). In the period under consideration, about 89.4% of social protection was funded by conditional transfers. By contrast, municipalities cover with their funds about 99.5% of expenditures framed as "economic issues". In the area of housing and community amenities, about 44.6% of expenditures were covered by conditional funds. "Public order and security", "Environmental protection" and "Recreation, culture and religious affairs" are functions whose costs are covered by municipalities' own funds (albeit at low nominal values).

Chart 31. Expenditures by functional classification and source of funding

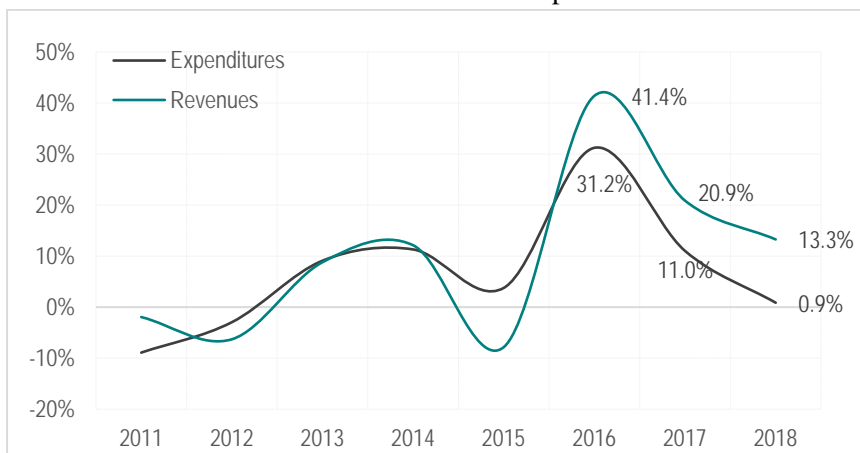


Source: Local Finances Portal www.financatvendore.al

3.2 Expenditures covered with funds from local resources

By the end of 2018, expenditures incurred by municipalities' own funds recorded a level of approximately 48.3 billion ALL, marking a slightly increase up to 0.9% compared to the previous year. The increase rate of expenditure, which is similar to that of the own-source local revenues, turns out to be significantly moderate after the acceleration marked in 2016 (due to some extent to the base effect from the previous year). Based on the operative regulatory framework, "savings" in the expenditures of municipalities are reflected to the budget of the following year in the form of inherited funds.

Chart 32. The increase rate of revenues and expenditures with own funds

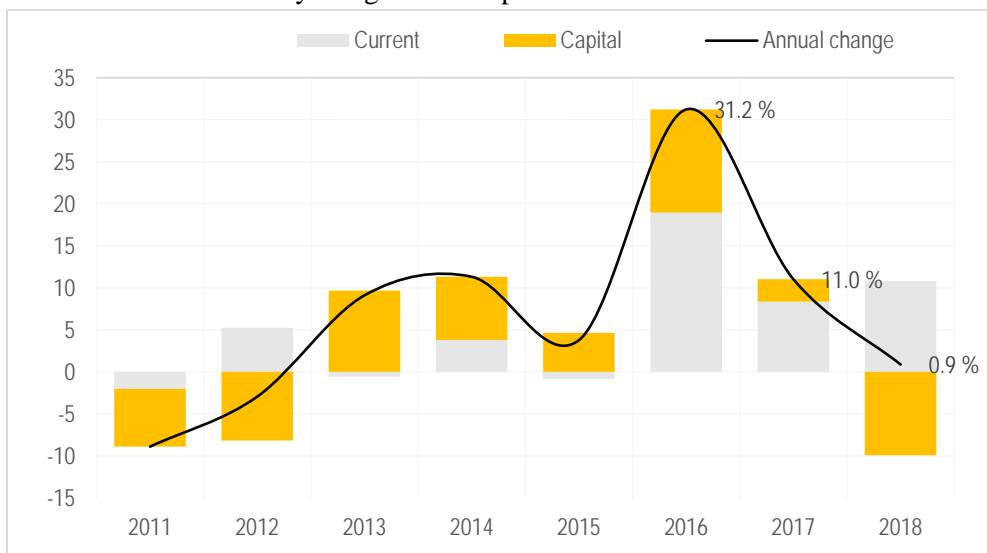


Source: Local Finances Portal www.financatvendore.al

3.2.1 Expenditures with own funds according to the economic classification

Current expenditures have been estimated at 35.2 billion ALL by the end of 2018, with an increase up to 17.2% in annual terms. The trend of development in own funds expenditure during the last three years is mostly determined by the performance of the current expenditure. In 2018, the expansion of current expenditures constituted the principal determinant in the growth rate by 0.9% of expenditures with own funds. On the other hand, the performance of capital expenditures with own funds negatively contributed to the performance of total expenditures.

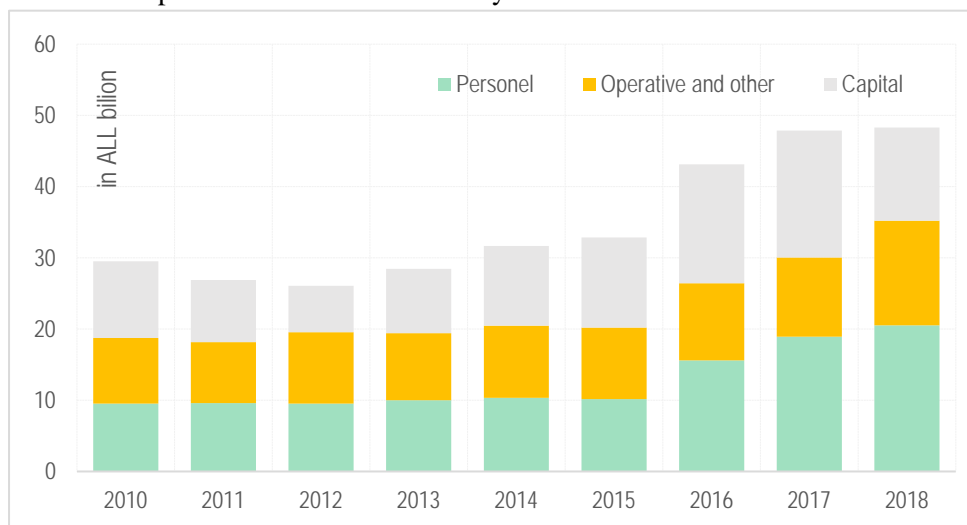
Chart 33. Contribution by categories to expenditures with own funds



Source: Local Finances Portal www.financatvendore.al

Among the components of current expenditures, personnel expenses (wages and salaries) accounted for about 20.5 billion ALL during the reporting period, increasing with about 8.5% when compared to 2017. Personnel expenses continue to follow an upward annual trend, although at moderated rates influenced also by the lapse of the increase in the number of employees, as the result of newly transferred functions²⁴. Therefore, following an increase of approximately 53.4% in 2016 (following the transfer of new functions), the growth rate was progressively moderated to 21.2% in 2017 and to approximately 8.5% during the year under review.

Chart 34. Expenditures with own funds by economic classification



Source: Local Finances Portal www.financatvendore.al

*Operational expenditures and other expenditures*²⁵ recorded a level of approximately 14.7 billion ALL by the end of 2018, marking an increase up to 32.0 % when compared to the previous year. At a detailed level, operational expenditures incurred with own funds for this period have marked a value of about 13.4 billion ALL, which is approximately a 32.9 % increase in annual terms. All categories of operational expenditures appear to have expanded during 2018: office supply expenses (+ 31.3%); third-party services (+ 24.5%); transportation expenses (+ 24.8%); travel expenses (12.1%); other operational expenses (+ 46.2%); and maintenance (+ 49.3%). Starting from 2015, the performance of operational expenditures is clearly following an upward trajectory, whose maximum level was registered at the end of

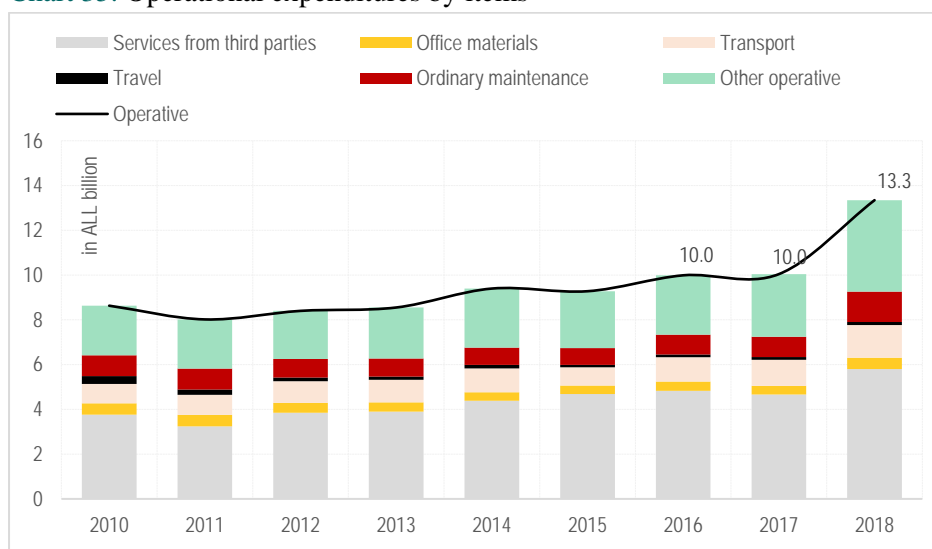
²⁴ Personnel expenses for new functions are covered by specific transfer funds. If municipalities would like to perform better or increase the quality of these services, costs will have to be covered by other unconditional sources.

²⁵ Includes operational expenditures, subsidies, transfers and interests.

2018. Even though the expenditure increases in this category results as distributed among all component sub-items, their progress in the medium- to long-term needs to be carefully monitored as it could generate financial sustainability issues for the municipalities.

Expenditures for transfers to family budgets and individuals are also an important item in the total of expenditures by municipalities' own funds. In 2018, these expenditure categories have marked a value of about 1 billion ALL, marking an increase up to 33.1% in annual terms.

Chart 35. Operational expenditures by items



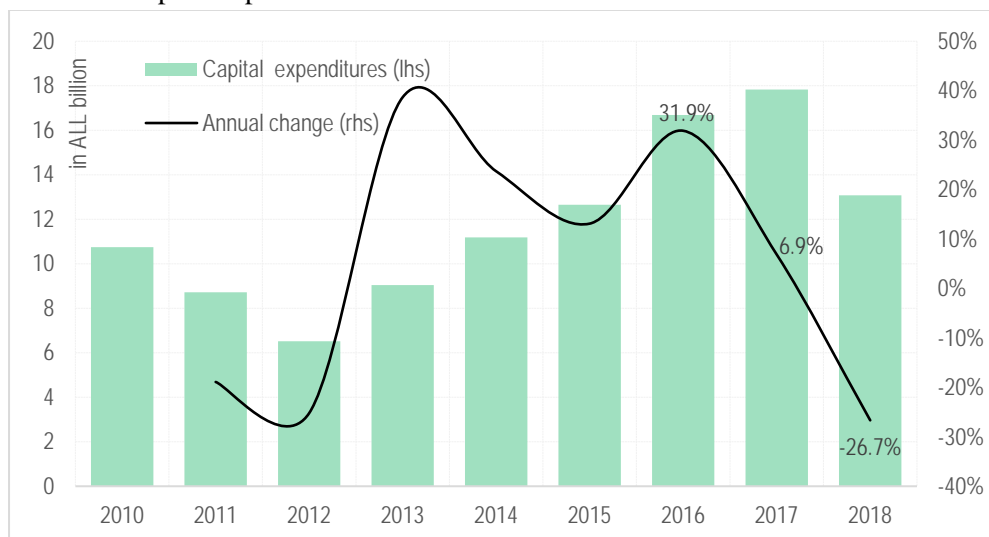
Source: Local Finances Portal www.financatvendore.al

Capital expenditures or investments constitute an important item for local budgets and a prerequisite for long-term economic development. Over the years, the level of capital expenditures has fluctuated, even though it shows a good correlation with the performance of the municipality's own financial resources, in particular with the revenues from the tax on infrastructure impact from new constructions. After the accelerated growth, investment expenditures amounted to about 13.1 billion ALL by the end of 2018, decreasing with about 26.7% in annual terms.

According to government functions, capital expenditures for the functions of "economic issues" (including transport infrastructure), and "housing and community amenities" (including housing and urban planning, water supply and sewerage, public lighting) represent a major share of capital expenditures throughout the period under review (respectively 50.1% and 25.7%). However, in 2018 investment expenditures

within the framework of "economic issues" were halved, marking a decrease from about 6.6 billion ALL to about 13.0 billion ALL in 2017 (with an annual decrease up to 49.4%).

Chart 36. Capital expenditures trends with own funds

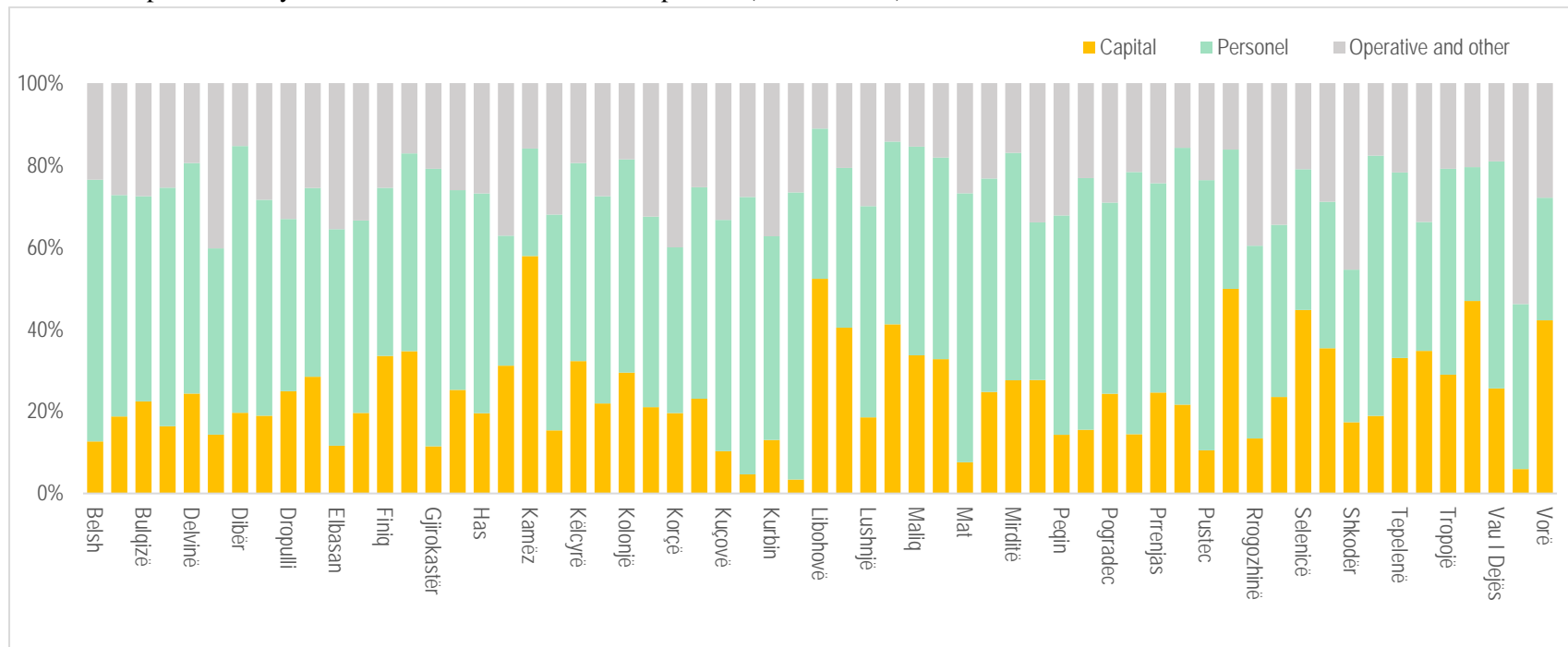


Source: Local Finances Portal www.financatvendore.al

Meanwhile, investments within the framework of "housing and community amenities" have undergone a significant increase of about 37.7% in annual terms. By transferring new competencies related to preschool and pre-university education, municipalities have increased the level of investment in educational infrastructure. Respectively, investments in education in 2018 were estimated at 1.3 billion ALL, showing an increase of up to 75.2 % in annual terms.

At municipal level, on average personnel expenditures are approximately 42.5% of the total of local budget, followed by operational expenditures at around 30.4% and capital expenditures at approximately 27.1% (based on data of 2018). The overview on average terms indicates a coordination of municipalities in covering personnel and operational expenditures and significant differences between them. Thus, only about 36% of municipalities (22 municipalities) allocate more than the average level of about 27.1% of their budget into investments. Meanwhile, the municipalities of Kukës, Lezhë, Mat and Vlorë recorded the lowest levels of investment incurred with their own funds in 2018.

Chart 37. Expenditures by economic structure for 61 municipalities (total = 100%)

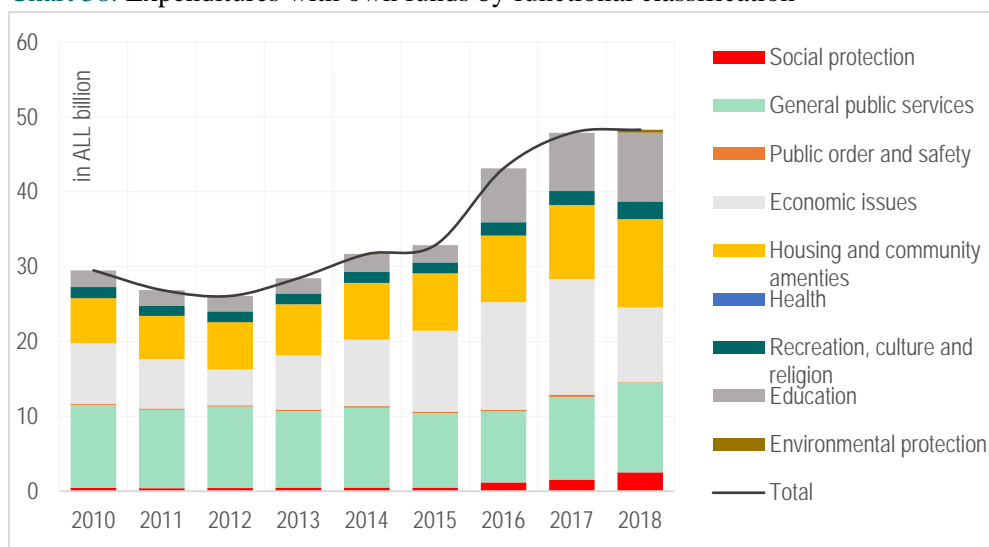


Source: Local Finance Portal www.financatvendore.al

3.2.2 Expenditures with own funds by functional classification

In the classification of expenditures with own funds based on government functions (COFOG classification), turns out that in 2018, approximately 24.4% of total financial resources, or approximately 11.8 billion ALL, were spent on the “housing and community amenities” function (+19.2% in annual terms). Within this function, about 10.2 billion ALL were allocated to the sub-function of community development (+16.3% compared to the previous year), which includes activities aiming at improving the quality of life, such as improving common and relaxing spaces for the community, improving green spaces, maintaining sidewalks, parks, gardens, etc. The difference of approximately 1.7 billion ALL was spent on the sub-functions of housing, local urban planning and water supply.

Chart 38. Expenditures with own funds by functional classification



Source: Local Finances Portal www.financatvendore.al

Expenditures in the function "economic issues", including, inter alia, expenditures for the road system construction and maintenance appear to have decreased significantly to approximately 10 billion ALL during the reporting period from about 15.4 billion ALL in 2017 (a decrease of about 35.8 % in annual terms)

Expenditures dedicated to the framework of "education" marked an increase up to 18.2 % in annual terms, which is estimated to come as a result of the new functions transferred from central to local government (for teachers and support personnel salaries in kindergartens and nurseries, and support staff in primary and secondary education). Starting from 2016, expenditures allocated to this function have increased significantly and progressively from year to year, mainly covered through the specific

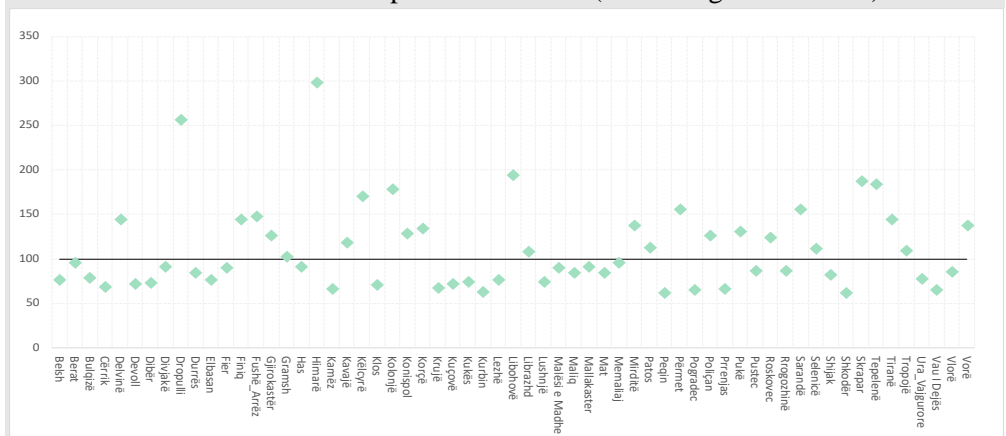
transfer. In 2018, approximately 9.2 billion ALL were spent in the framework of education (the highest level since 2010), where about 82.1% of them were used to cover pre-school and primary education costs. In the framework of secondary education (for the part of the functions covered by the municipalities) was spent about 1.7 billion ALL, with an increase of 3.4 % in annual terms.

The function of "social protection" absorbed about 5.2% of total expenditures, around 2.5 billion ALL (a function which includes the expenditures on social housing, unemployment, family and children, the elderly, diseases and disability). In annual terms, social protection expenditures have marked an increase of about 61.6%.

Expenditures financed through own sources: how do municipalities perform?

Municipalities established following the administrative and territorial reform present significant differences in terms of expenditure incurred with their own funds, conditioned by: (i) size of resident population, and (ii) their fiscal capacity. To clear the data from the effect "size" we shall consider the expenditures incurred by municipalities with their own funds per capita (see Annex 1).²⁶ The transformation into an index number of 100 allows for a quick interpretation and identifies differences among municipalities regarding their capacities to successfully perform autonomous expenditures.

Chart 39. Own source funded expenditures index (the average 2016-2018)



Source: Local Finance Portal www.financatvendore.al & INSTAT

Per capita data on expenditures incurred with own funds indicate significant differences between municipalities concerning the ability to perform expenditures with their own funds during the reporting period. Based on the average index for the

²⁶ Based on population data according to the 2011 Census.

last three years, the Municipality of Himara represents the highest per capita expenditure (with about 49,463 ALL) followed by the Municipality of Dropull (with about 42,563 ALL per capita). On the other hand, the Municipality of Shkodër appears to have recorded the lowest level of expenditures with its own funds per capita, averaging approximately 10,137 ALL in the last three years, followed by the Municipalities of Kamëz, Kurbin, Peqin and Vau i Dejës. The significant difference between the minimal and maximal levels of expenditures with own funds per capita, signals the existence of significant differences in the fiscal capacities of municipalities and their mitigation in view of the provision of local public services. The first step to be taken in this regard, should assess the estimation of potential fiscal capacities of municipalities, and then assess their performance compared to their potential. Furthermore, the performance indicator related to the revenue collection rate can be factorized into the unconditional transfer allocation formula as a neutralizing element of the differences between municipalities which find themselves in an unfavourable fiscal position.

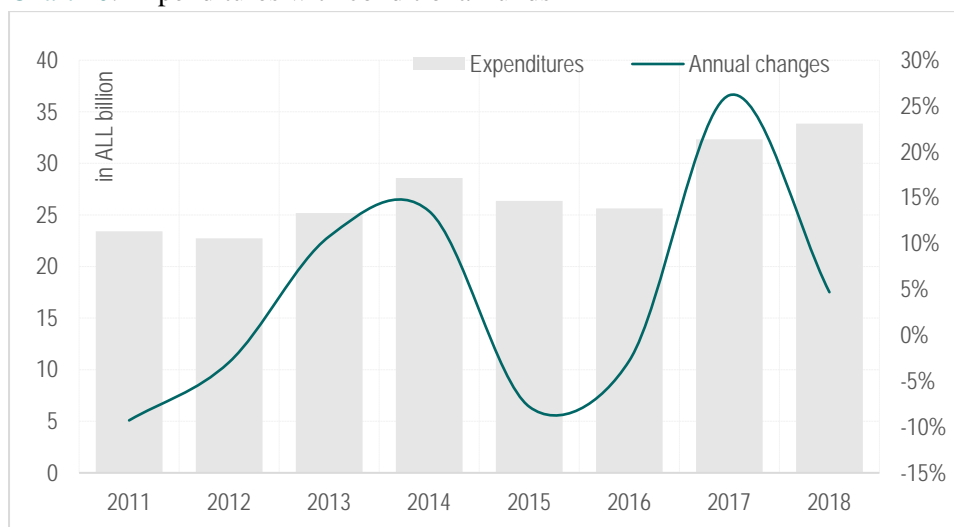
3.3 Expenditures with conditional funds

In addition to expenditures with funds from own resources, municipalities also incur expenditures with conditional funds (funds that are transferred from central institutions, such as line ministries, which should be used according to their intended purpose). For this category of revenues to the local budget, municipalities have no decision-making powers regarding the amount or use of such funds; therefore, such expenditures are executed according to line ministry definitions (otherwise, with designated destination). These funds are transferred from line ministry budgets, in the form of conditional transfers for the financing of delegated functions and/or specific projects considered in local, regional or national interest, within whose framework's municipalities are required to cooperate. They are planned in the annual budgets and in the medium-term budget plans of the pertaining ministries. Reports on the annual budget implementation of the line ministries contain a designated annex presenting conditional transfers, the purpose of their use, their recipient, total value, delivered amounts and other details. Although provided by and transferred from budgets of central government units (such as line ministries), they are reflected in total expenditures incurred by the municipalities.

In the years under review, expenditures incurred with conditional funds have followed an upward trend, mainly following the changes applied to the financial assistance scheme for families in need. Overall, in 2018, expenditures with conditional funds have marked a level of about 33.7 billion ALL, indicating an

increase of up to 4.7% in annual terms. This growth rate appears to be moderate compared to the two-digit growth recorded in 2017 (+ 26.2% in annual terms).

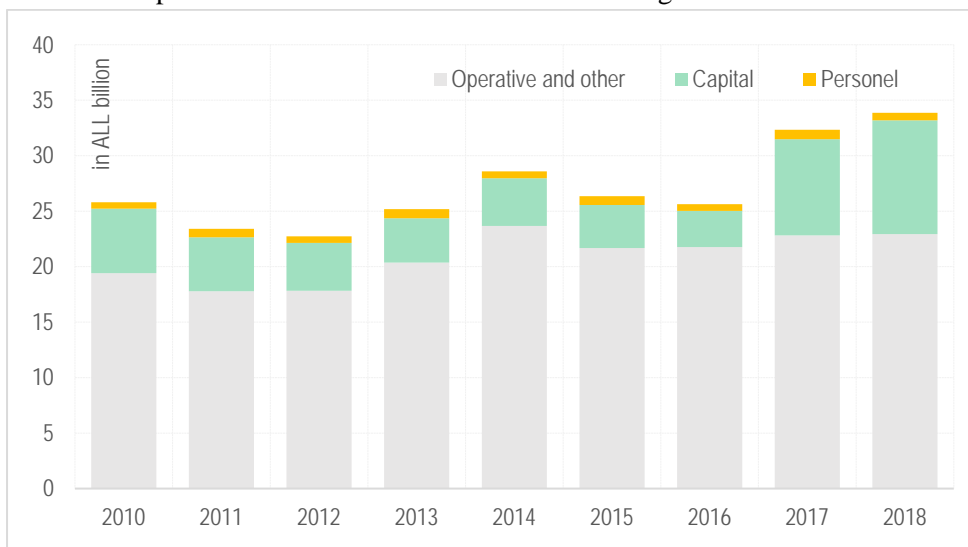
Chart 40. Expenditures with conditional funds



Source: Local Finances Portal www.financatvendore.al

Based on the economic classification, expenditures incurred with conditional funds can be divided into two main items: transfers to family budgets (economic aid, disability payments, etc.) and capital expenditures or investments (including the RDF). Out of total conditional transfers, funds allocated by the ministry responsible for social protection represent about 62%, or about 21 billion ALL at the end of 2018 (marking a slight decline in annual terms of about 0.7%). Conversely, funds allocated to capital expenditures have marked a significant increase for the second consecutive year. Thus, in 2017, capital expenditures from conditional funds marked a level of around 8.7 billion ALL, while they marked about 3.3 billion ALL in 2016. Although at moderate rates, investments by funds from central government institutions continued to increase in 2018, marking a level of around 10.3 billion ALL, with an increase of about 18.3% in annual terms. In 2018, investments made with conditional funds focused mainly on the "housing and community commodities" (about 7.8 billion ALL) and "education" (about 2.2 billion ALL).

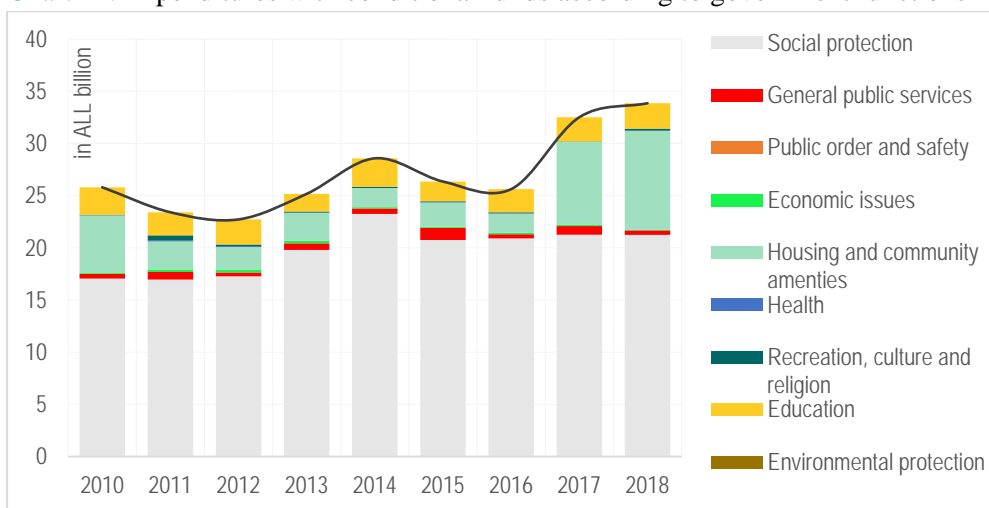
Chart 41. Expenditures with conditional funds according to economic classification



Source: Local Finances Portal www.financatvendore.al

At municipal level, 14.9% of the conditional funds for investments were absorbed by the Municipality of Tiranë, followed by the Municipalities of Korçë (4.4%), Fier (4.0%), and the Municipalities of Librazhd and Elbasan with about 3.6% each. On the contrary, there are no records of the Municipality of Pustec having undertaken investments with conditional funds. In fact, 23% of municipalities received over 2% of conditional investment funds, while 32.8% of them received less than 1% of funds for this purpose.

Chart 42. Expenditures with conditional funds according to government functions



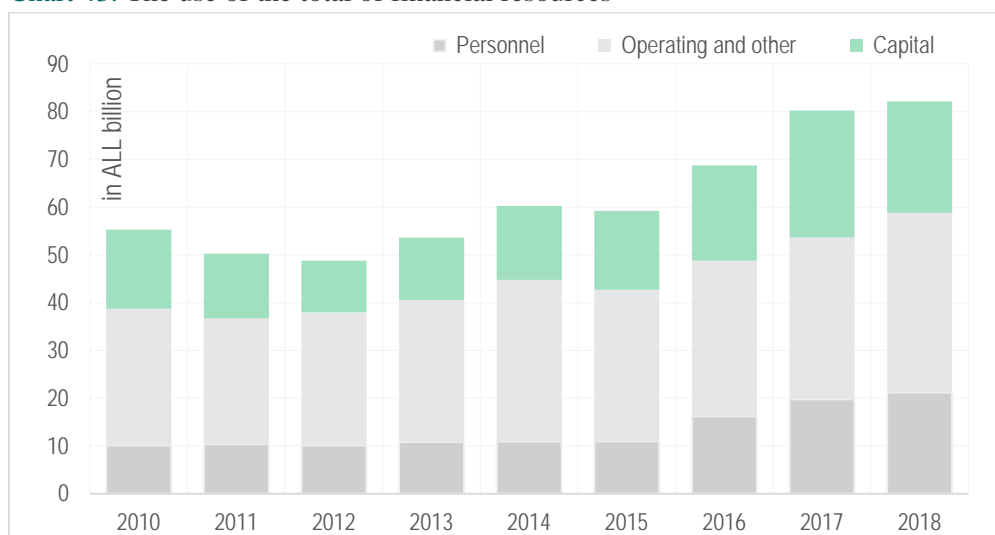
Source: Local Finances Portal www.financatvendore.al

In the classification according to government functions, about 62.3% of the expenditures with conditional funds were spent in the framework of "social protection" and about 28.2% in the framework of "housing and community amenities". In the framework of "education", about 7.2% of the conditional funds were spent (the majority covering the cost of providing pre-school and primary education services).

3.4 Local government cost at the end of 2018

Regardless of funding source, by the end of 2018, approximately 82.1 billion ALL were spent for local governments' operations.²⁷ This value increased by about 2.4% in annual terms, driven by the expansion of current expenditures. When categorized by their economic structure, current expenditures represented about 72.6% and capital expenditures represented about 27.4% of total expenditures incurred in 2018.

Chart 43. The use of the total of financial resources



Source: Local Finances Portal www.financatvendore.al

Conventionally, current expenditures constitute an inherent burden on local budgets. During the period under review, current expenditures were estimated at 58.8 billion ALL, with an increase of up to 9.5% in annual terms. Expansion of current expenditures was largely driven by increased operational expenditures and other by about 10.8% in annual terms. Along the same lines, but to a lesser extent, the increase

²⁷ This figure includes all expenditures incurred by the municipalities, with their own funds and with conditional funds.

in staff expenditure also contributed: more precisely, in 2018 municipalities spent about 21.2 billion ALL on staff, thus, marking an increase of up to 7.2% in annual terms. Conversely, investment expenditures amounted to about 23.4 billion ALL, marking a significant decrease of up to 12.0% in annual terms.

4. CONCLUSIONS

The performance of municipalities in terms of total financial resources is assessed to have been moderated but positive at the end of 2018. The aggregate improvement of financial resources available to municipalities was positively affected by the increase of own-source local revenues and the contribution of unconditional and specific transfers.

Despite the size of the "pie of financial resources", the structure of own-source local revenues remains an important indicator of local fiscal autonomy. Over the last year, the ratio of own-source local revenues to total financial resources was 29.1%, the highest recorded value since 2010. Although it has been summarised for all 61 municipalities, this indicator marked improvement, according to the detailed analysis at the municipal level and specific items, which signal a fragile situation regarding local autonomy. Therefore, the improvement of the indicator is determined by the increase of revenues in a limited number of municipalities and in their budgets; this improvement is dictated by the increase of revenues from the tax on infrastructure impact from new constructions. The unstable nature of the revenues from this tax (seasonality and concentration of developmental pressure on a limited number of municipalities, or being the subject of development policies) and the collection of over 75% of revenues generating from three municipalities signals structural weaknesses in local fiscal autonomy. By contrast, revenues from tax on immovable property signalled a positive performance in the last year and an expectation of increasing its share in local own resources (following the application of a new methodology based on the value of the property). In this context, it would be worth determining the theoretical potential of revenues that can be collected from this tax, to facilitate and further monitor its administration from the municipalities in the country (the tax collection rate to the potential). The expansion of local public expenditures continues to be widely determined by current expenditures (personnel and operational expenditures). The lapse of the effect of transferring new functions in 2016 and the presence of an upward trend in this category of expenditures does not support one of the main basic arguments of the administrative and territorial reform: increasing efficiency in the provision of public services. At the same time, it appears to be difficult to assess whether the increase of the current expenditures has been translated into better services for citizens. By contrast, capital expenditures appear to have decreased in 2018, when compared with own funds and conditional funds.

Annex 1. Expenditures with own funds per capita

	2015	2016	2017	2018	Average 2016-2018	Index
Belsh	5.287	13.329	14.945	9.894	12.723	77
Berat	12.836	18.645	14.448	14.550	15.881	96
Bulqizë	11.644	12.906	12.455	13.648	13.003	78
Cërrik	6.404	11.846	11.689	10.334	11.290	68
Delvinë	10.207	25.512	22.789	23.690	23.997	145
Devoll	5.821	10.856	12.410	12.657	11.974	72
Dibër	6.358	11.112	14.275	11.150	12.179	73
Divjakë	10.962	20.791	12.848	11.850	15.163	91
Dropull	24.077	40.249	38.513	48.928	42.563	257
Durrës	13.998	13.816	14.950	12.982	13.916	84
Elbasan	10.470	13.738	11.832	12.257	12.609	76
Fier	11.174	16.089	15.157	13.271	14.839	89
Finiq	12.362	13.555	26.428	31.901	23.961	145
Fushë Arrëz	11.839	17.424	22.335	33.404	24.388	147
Gjirokastër	18.138	22.939	21.297	18.689	20.975	127
Gramsh	9.327	13.378	20.562	17.107	17.016	103
Has	11.725	15.598	15.105	14.782	15.161	91
Himarë	39.886	66.237	36.899	45.256	49.464	298
Kamëz	6.905	8.003	10.797	13.924	10.908	66
Kavajë	21.925	23.714	16.837	18.235	19.595	118
Këlcyrë	10.319	25.989	34.787	23.871	28.216	170
Klos	6.971	9.670	11.845	13.623	11.713	71
Kolonjë	14.993	24.455	33.893	30.056	29.468	178
Konispol	8.054	18.013	29.406	16.612	21.344	129
Korçë	19.344	21.890	25.916	18.812	22.206	134
Krujë	8.776	10.905	11.615	11.053	11.191	67
Kuçovë	14.254	10.803	11.786	13.072	11.887	72
Kukës	7.731	10.313	14.142	12.338	12.264	74
Kurbini	6.078	7.743	13.839	9.701	10.428	63
Lezhë	14.897	11.058	13.411	13.326	12.598	76
Libohovë	13.391	23.981	38.108	34.579	32.223	194
Librazhd	10.193	15.491	19.251	19.257	18.000	109
Lushnjë	11.482	12.674	12.372	12.016	12.354	75
Malësi e Madhe	5.216	12.993	16.725	14.903	14.873	90
Maliq	5.282	11.252	16.788	14.163	14.068	85
Mallakastër	9.205	12.821	15.585	16.620	15.009	91

Mat	12.080	13.665	15.318	13.122	14.035	85
Memaliaj	13.497	12.014	17.506	17.801	15.774	95
Mirditë	14.218	18.348	30.729	19.363	22.813	138
Patos	10.711	14.058	19.826	22.109	18.664	113
Peqin	5.316	8.515	12.604	9.814	10.311	62
Përmet	12.971	26.240	28.717	22.132	25.697	155
Pogradec	7.452	9.050	10.787	12.591	10.809	65
Poličan	10.095	19.283	22.352	20.898	20.845	126
Prenjas	5.265	7.494	12.894	12.720	11.036	67
Pukë	17.493	21.698	22.126	21.425	21.750	131
Pustec	11.180	11.954	17.585	13.749	14.429	87
Roskovec	8.746	21.442	17.467	22.441	20.450	123
Rrogozhinë	7.794	15.126	14.383	13.635	14.381	87
Sarandë	31.087	24.088	25.463	27.915	25.822	156
Selenicë	11.227	12.929	19.402	23.058	18.463	111
Shijak	11.990	11.670	13.048	16.046	13.588	82
Shkodër	7.474	8.309	10.315	11.790	10.138	61
Skrapar	24.228	36.164	30.662	26.454	31.093	188
Tepelenë	23.427	26.440	35.912	28.913	30.421	183
Tiranë	14.820	20.853	23.728	26.987	23.856	144
Tropojë	11.355	19.122	17.034	17.883	18.013	109
Ura Vajgurore	6.761	12.133	11.430	15.006	12.856	78
Vau i Dejës	7.864	10.510	11.432	10.302	10.748	65
Vlorë	9.258	11.077	16.617	14.683	14.126	85
Vorë	15.563	23.617	17.937	26.559	22.704	137
Total	11.736	15.400	17.097	17.245	16.581	100

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

Annex 2. Capital expenditures with own funds per capita

	2015	2016	2017	2018	Average 2016-2018	Index	Ratio of total capital expenditures/total expenditures with own funds per capita
Belsh	1.462	7.262	6.721	1.253	5.078	90	39.9%
Berat	5.315	8.801	3.363	2.729	4.965	88	31.3%
Bulqizë	6.071	4.625	3.242	3.059	3.642	64	28.0%
Cërrik	1.187	4.447	3.374	1.692	3.171	56	28.1%
Delvinë	1.167	10.742	6.336	5.766	7.615	134	31.7%
Devoll	1.248	3.300	2.848	1.813	2.654	47	22.2%
Dibër	1.437	3.863	4.411	2.192	3.489	62	28.6%
Divjakë	6.231	14.256	4.692	2.246	7.065	125	46.6%
Dropull	4.807	14.255	9.318	12.191	11.921	210	28.0%
Durrës	7.333	5.757	6.616	3.693	5.355	95	38.5%
Elbasan	3.935	5.473	2.273	1.425	3.057	54	24.2%
Fier	4.703	7.078	5.216	2.603	4.966	88	33.5%
Finiq	1.960	2.087	9.428	10.690	7.402	131	30.9%
Fushë Arrëz	2.820	3.300	7.022	11.587	7.303	129	29.9%
Gjirokastrë	8.688	9.142	6.597	2.145	5.961	105	28.4%
Gramsh	1.680	3.198	8.008	4.315	5.174	91	30.4%
Has	6.124	6.735	5.018	2.890	4.881	86	32.2%
Himarë	20.305	44.825	13.948	14.089	24.287	429	49.1%
Kamëz	3.317	3.355	5.741	8.054	5.717	101	52.4%
Kavajë	14.030	12.854	3.610	2.807	6.424	113	32.8%
Këlcyrë	1.170	16.704	21.431	7.705	15.280	270	54.2%
Klos	1.796	2.318	3.111	2.986	2.805	50	23.9%
Kolonjë	3.750	9.047	14.785	8.855	10.896	192	37.0%
Konispol	448	8.670	17.000	3.495	9.722	172	45.5%
Korçë	10.053	9.323	12.236	3.685	8.415	149	37.9%
Krujë	3.381	4.343	4.137	2.550	3.677	65	32.9%
Kuçovë	7.121	2.524	1.271	1.347	1.714	30	14.4%
Kukës	578	1.115	2.705	572	1.464	26	11.9%
Kurbin	1.265	652	5.377	1.266	2.432	43	23.3%
Lezhë	7.065	1.756	2.513	451	1.573	28	12.5%
Libohovë	2.062	11.614	24.592	18.088	18.098	319	56.2%
Librazhd	4.817	7.970	9.853	7.779	8.534	151	47.4%
Lushnjë	5.226	4.373	3.061	2.230	3.221	57	26.1%
Malësi e Madhe	485	6.720	9.438	6.146	7.435	131	50.0%
Maliq	1.218	4.797	8.181	4.771	5.916	104	42.1%

Mallakastër	2.545	2.867	6.171	5.437	4.825	85	32.1%
Mat	5.592	4.290	3.543	999	2.944	52	21.0%
Memaliaj	5.965	2.587	6.784	4.402	4.591	81	29.1%
Mirditë	5.516	6.751	17.298	5.337	9.795	173	42.9%
Patos	3.326	4.668	8.802	6.117	6.529	115	35.0%
Peqin	648	3.012	5.087	1.403	3.167	56	30.7%
Përmet	1.987	12.465	13.091	3.436	9.664	171	37.6%
Pogradec	1.476	1.254	2.331	3.060	2.215	39	20.5%
Poličan	1.576	7.524	6.829	3.019	5.791	102	27.8%
Prrrenjas	484	886	5.018	3.127	3.010	53	27.3%
Pukë	7.643	8.404	5.377	4.634	6.138	108	28.2%
Pustec	4.185	2.260	6.425	1.446	3.377	60	23.4%
Roskovec	2.591	13.432	8.370	11.190	10.997	194	53.8%
Rrogozhinë	947	6.452	3.814	1.827	4.031	71	28.0%
Sarandë	14.334	3.652	5.533	6.560	5.249	93	20.3%
Selenicë	4.790	4.347	9.732	10.310	8.130	144	44.0%
Shijak	7.398	3.481	3.832	5.678	4.331	76	31.9%
Shkodër	1.588	696	2.184	2.045	1.642	29	16.2%
Skrapar	10.904	18.044	9.294	4.997	10.779	190	34.7%
Tepelenë	13.453	11.887	17.343	9.543	12.924	228	42.5%
Tiranë	5.348	8.499	10.065	9.372	9.312	164	39.0%
Tropojë	4.684	9.100	6.085	5.177	6.787	120	37.7%
Ura Vajgurore	799	6.441	5.033	7.042	6.172	109	48.0%
Vau i Dejës	2.860	5.330	4.969	2.639	4.313	76	40.1%
Vlorë	744	1.350	5.176	875	2.467	44	17.5%
Vorë	7.598	13.408	7.762	11.207	10.792	191	47.5%
Total	4.517	5.958	6.368	4.670	5.665	100	34.2%

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

Annex 3. Own source revenues per capita

	2015	2016	2017	2018	Average 2016-2018	Index
Belsh	969	4,012	2,158	1,880	2,683	37
Berat	4,449	4,296	5,742	5,128	5,055	69
Bulqizë	1,192	1,382	1,765	1,371	1,506	21
Cërrik	2,055	3,611	2,699	2,687	2,999	41
Delvinë	2,738	6,103	5,808	3,363	5,091	70
Devoll	1,771	2,406	2,298	2,749	2,484	34
Dibër	993	1,065	1,103	1,034	1,067	15
Divjakë	2,105	2,712	2,261	2,847	2,606	36
Dropull	10,739	13,810	13,897	12,487	13,398	183
Durrës	6,712	6,739	7,451	6,948	7,046	96
Elbasan	3,579	3,849	4,449	4,556	4,285	59
Fier	3,983	3,638	4,340	5,116	4,365	60
Finiq	3,107	4,879	5,574	5,782	5,412	74
Fushë Arrëz	1,727	2,631	2,627	2,625	2,628	36
Gjirokastër	4,769	4,854	4,707	5,244	4,935	68
Gramsh	2,502	1,709	2,239	2,540	2,163	30
Has	718	716	841	774	777	11
Himarë	14,007	20,763	19,770	23,204	21,246	291
Kamëz	3,921	4,794	5,529	7,509	5,944	81
Kavajë	5,830	6,926	8,256	9,357	8,180	112
Këlcyrë	1,803	1,553	1,734	1,903	1,730	24
Klos	1,038	1,712	1,426	1,672	1,603	22
Kolonjë	3,363	3,190	3,883	4,417	3,830	52
Konispol	3,359	5,216	5,142	3,917	4,758	65
Korçë	5,556	7,221	7,166	7,951	7,446	102
Krujë	3,118	4,493	3,687	5,353	4,511	62
Kuçovë	3,210	3,052	4,074	3,776	3,634	50
Kukës	1,613	1,918	1,695	1,561	1,725	24
Kurbin	1,232	1,306	1,543	1,337	1,395	19
Lezhë	4,375	4,281	5,012	6,098	5,130	70
Libohovë	2,096	3,087	3,210	2,966	3,088	42
Librazhd	1,896	2,418	2,917	3,345	2,893	40
Lushnjë	3,372	4,026	3,863	4,020	3,970	54
Malësi Madhe	1,324	4,180	1,177	1,973	2,444	33
Maliq	1,323	1,967	2,138	2,922	2,342	32
Mallakastër	3,915	7,245	7,902	11,564	8,904	122

Mat	1,803	1,800	2,381	1,924	2,035	28
Memaliaj	1,292	1,590	1,335	1,020	1,315	18
Mirditë	1,222	2,178	1,594	2,424	2,065	28
Patos	4,454	4,791	4,277	9,257	6,108	84
Peqin	1,547	1,845	1,482	1,742	1,690	23
Përmet	3,242	3,841	2,883	3,699	3,474	48
Pogradec	2,431	3,086	3,677	3,908	3,557	49
Poliçan	3,287	3,844	3,858	2,916	3,539	48
Prrenjas	1,566	1,934	1,921	1,975	1,944	27
Pukë	1,920	2,361	1,670	2,020	2,017	28
Pustec	975	1,174	1,101	350	875	12
Roskovec	7,056	8,245	9,265	6,875	8,128	111
Rrogozhinë	2,996	3,164	3,510	3,906	3,527	48
Sarandë	11,331	13,223	14,754	15,690	14,555	199
Selenicë	2,359	3,072	4,072	3,391	3,512	48
Shijak	5,193	6,111	5,335	4,824	5,424	74
Shkodër	3,280	3,421	4,156	4,703	4,093	56
Skrapar	5,421	7,209	6,200	5,320	6,243	85
Tepelenë	1,997	2,353	4,056	4,091	3,500	48
Tiranë	8,786	13,023	18,307	23,487	18,272	250
Tropojë	1,734	4,196	2,055	2,381	2,877	39
Ura Vajgurore	2,991	2,794	3,414	4,257	3,488	48
Vau i Dejës	3,130	3,220	2,426	3,734	3,126	43
Vlorë	4,128	4,942	5,498	6,359	5,600	77
Vorë	10,580	13,727	14,766	15,932	14,808	203
Total	4,663	5,993	7,263	8,652	7,303	100