



USAID
FROM THE AMERICAN PEOPLE

LOCAL GOVERNANCE
PROGRAM IN ALBANIA

LOCAL GOVERNMENT REVENUE TRENDS IN ALBANIA

AN ANALYSIS OF LOCAL REVENUES FOR THE
PERIOD 2000-2009

DISCUSSION PAPER

SEPTEMBER 2009

This publication was prepared for presentation and discussion at the LGPA “Best Practices” Conference. It was prepared by ARD, Inc.

Prepared for the United States Agency for International Development, USAID Contract Number DFD-I-00-05-00121-00, Task Order 05, Decentralization and Democratic Local Governance (DDLG) IQC (Decentralization II)

This document was prepared by:

Ornela Shapo (Këmbora), LGPA Expert
Silvana Meko, LGPA Expert
Fran Brahim, MoF Expert

ARD Principal Contact:

Ben Lawrence

ARD Home Office Address:

ARD, Inc.
159 Bank Street, Suite 300, Burlington, VT 05401
Tel: 802 658-3890, Fax 802 658-4247
www.ardinc.com

TRENDS IN REVENUES OF LOCAL GOVERNMENT UNITS IN ALBANIA

AN ANALYSIS OF THE REVENUES FOR THE
PERIOD 2000 - 2009

DISCUSSION PAPER

SEPTEMBER 2009

DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

TABLE OF CONTENTS

ACRONYMS..	III
1.0 LOCAL GOVERNMENT UNITS BUDGET COMPARED TO THE STATE CONSOLIDATED BUDGET	1
1.1 THE BUDGETS OF THE LOCAL UNITS COMPARED TO THE CONSOLIDATED CENTRAL GOVERNMENT BUDGET (2000-2009)	1
2.0 THE BUDGET STRUCTURE OF LOCAL GOVERNMENT UNITS	5
2.1 PERFORMANCE ANALYSIS OF THE LGU OWN SOURCE REVENUES AND UNCONDITIONAL AND CONDITIONAL TRANSFERS FROM THE CENTRAL GOVERNMENT	5
2.2 CONCLUSIONS	8
3.0 A DETAILED ANALYSIS OF 10 MUNICIPALITIES IN PARTNERSHIP WITH LGPA	9
3.1 THE STRUCTURE OF THE MUNICIPALITIES' BUDGETS	9
3.2 THE STRUCTURE OF LOCAL GOVERNMENT OWN SOURCE REVENUES	11
3.2.1 Findings	18
3.3 SMALL BUSINESS TAX ANALYSIS	21
3.4 AN ANALYSIS OF THE PROPERTY TAX	22
3.4.1 Findings	22
4.0 THE SYSTEM OF LOCAL TAXES AND THE STRENGTHENING OF THE FINANCIAL CAPACITIES OF THE LOCAL UNITS	23
4.1 THE LEGAL FRAMEWORK OF THE LOCAL TAX AND TARIFF SYSTEM AND THE DECENTRALIZATION REFORM	23
4.1.1 Findings	26
4.2 WHAT IS THE IMPACT OF THE APRIL 2009 AMMENDMENTS ON THE LOCAL TA SYSTEM FOR THE LOCAL GOVERNMENT UNITS	27
4.2.1 The small business tax burden	28
4.3 WAYS TO MANAGE RECENT LEGISLATION AMENDMENTS TO THE LOCAL TAX SYSTEM	31
5.0 OTHER SOURCES OF REVENUES	33
5.1 IMMOVABLE PROPERTIES	33
5.2 LOANS FROM THE FINANCIAL MARKET	34
APPENDIX A. ECONOMIC DATA FOR LGPA TARGET MUNICIPALITIES	37
APPENDIX B. THE PROJECT FOR THE FUNDING OF THE CONSTRUCTION OF THE FUSHE-KRUJA NORTH RING ROAD THROUGH COMMERCIAL BORROWING	41
APPENDIX C. MANAGEMENT OF THE LOCAL GOVERNMENT ASSETS AS A GOOD POTENTIAL FOR REVENUE GENERATION	45

ACRONYMS

OSR	Own Source Revenues
ECLG	European Charter of Local Government
LGPA	Local Governance Program in Albania
MoF	Ministry of Finance
GDP	Gross Domestic Product
LGU	Local Government Units
CG	Central Government
MoF	Ministry of Finance
NSDLA	National Strategy for the Decentralization and Local Autonomy
VAT	Value Added Tax
USAID	United States Agency for International Development

1.0 LOCAL GOVERNMENT UNITS BUDGET COMPARED TO THE STATE CONSOLIDATED BUDGET

In the framework of the transition to the market economy and the democratization of the socio-economic life, Albania underwent several institutional and economic reforms. The period of time since 1992 is characterized by a series of political reforms which were aimed at establishing the basic institutions for the well-functioning of the state, for the democratization of life in the country as well as for creating a two-level governance. Although the local government units were only established as such during the first years of the transition period, their proper authority came after the enactment of three basic instruments which shaped the local decentralization in Albania (i) the signing of the European Charter for Local Governments (1998) and approval of the National Strategy on Decentralization (1990 – 2000) and the Organic Law of Local Governments (the Law on the Organization and Functioning of Local Government 2000). Despite the fact that the implementation of the second document still constitutes a challenge for the Albanian government (a rather controversial topic with both progressive and set-backs), the overall trend is a positive one in that local government units are being strengthened.

Throughout the decentralization period the local government units (LGUs) have been going through the important process of restructuring and transformation in several important sectors. The target of this process is to provide the LGUs with sufficient resources and capacities to perform the functions they are responsible for. The three main pillars of decentralization are: institutional, fiscal, and administrative. These three pillars are equally important in this process but what shows the tangible strengthening of the LGUs is the full performance of the local competences (provided by law for local authorities) and the financial strengthening of these units.

Regarding the financial strengthening of the local units, the decentralization process has enabled the establishment and implementation, by means of a formula, of a generally consolidated distribution of unconditional transfers from the Central Government (CG) to the LGUs; the transfer of public assets to LGUs; unification of the budgeting process through the central institutions; the preparation of mid-term budgets (beginning in 2009); the establishment of new local finance instruments which enable LGUs to access the financial and banking markets, etc.

1.1 THE BUDGETS OF THE LOCAL UNITS COMPARED TO THE CONSOLIDATED CENTRAL GOVERNMENT BUDGET (2000-2009)

Due to financial decentralization, the budget revenues of local government units have considerably increased year by year. In 2000, the unconditioned revenues of the LGUs constituted less than 4% of the total revenues of the central government budget; a decade later (according to the 2009 plan), they have nearly tripled

(reaching 11% of the central government budget). Meanwhile, revenues from LG sources compared to the total central government budget have increased from 1% to 5.5% according to the plan for the year 2009.¹

Table 1. Total Local Government Unit's Budget and Central Government Budget

The LGU budget and the Consolidated State Budget										
in mln Lekë	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 (plan)
The revenue total of the State Budget	130,642	145,639	154,595	167,224	184,355	204,163	229,444	251,555	291,238	334,823
The revenue total of the Local Government	36,387	37,699	38,287	44,105	47,432	52,635	26,226	26,355	27,526	36,835
LGU own revenues	1,316	2,038	2,676	7,923	9,613	12,019	11,112	9,366	11,307	18,412
Revenues from the unconditioned transfer of the CG	3,643	4,870	9,500	6,300	6,277	7,300	15,114	16,988	16,219	18,423
Revenues from the conditioned transfer of the CG	31,428	30,791	26,111	29,882	31,542	33,317	-	-	-	-
Unconditioned revenue total of the LG	4,959	6,908	12,176	14,223	15,890	19,319	26,226	26,355	27,526	36,835
Gross Domestic Product	523,043	583,369	622,711	694,098	750,785	814,797	891,000	982,737	1,090,305	1,173,760
LG share in the total of State Budget										
Total of LG revenues in BA	28%	26%	25%	26%	26%	26%	11%	10%	9%	11%
Total of LG unconditioned revenues in BA	4%	5%	8%	9%	9%	9%	11%	10%	9%	11%
LG share in GDP										
Total of LG revenues in GDP	7%	6%	6%	6%	6%	6%	3%	3%	3%	3%
Total of LG unconditioned revenues in GDP	1%	1%	2%	2%	2%	2%	3%	3%	3%	3%

Source of Information: Ministry of Finance: Intergovernmental Relations Directorate

The increase in LGU budgets has most importantly resulted from local taxes and tariffs, which have risen from 1% in 2000 to 5.5% of the central government budget in the 2009 plan. Concurrently, the unconditional transfer from the CG has increased from 2.8% of the CG budget to 5.5%; this increase provides for the associated expenses with newly acquired local administration functions. Despite the striking progress achieved in increasing the Local Government revenues during this decade, the local finances are only a small part of total central government finances compared to GDP (in 2009 local government revenues are expected to account for only 3% of GDP). The own source revenues of LGUs have seen a bigger increase than the government grant due to the increasing number of fiscal instruments that year by year were transferred from the CG to the LGUs.

Until 2005, an important revenue component was the conditional transfer from CG to LGUs which accounted for 24% of the consolidated CG budget in 2000 (or over 85% of the total conditional and unconditional revenues of the local units). This transfer has decreased annually due to the gradual devolution of functions to LGUs (as a result, some of what were conditional transfers are now considered unconditional transfers/grants for the LG). At the same, the considerable decrease in unconditional transfers following 2005 is evidence of the fact that prior to 2005, 24% of these funds was used to pay people employed in the education system. After 2005 this was a function performed by central government agencies (specifically the District Education Directorate).

Table 2. Municipal Finances, 2000-2009

Local Finances in Albania										
in Mln Lekë	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 (Plan)
Local Revenues Total	36,387	37,699	38,287	44,105	47,432	52,635	26,226	26,355	27,526	36,835
Revenues from CG	35,071	35,661	35,611	36,182	37,819	40,617	15,114	16,988	16,219	18,423
From Unconditioned Transfer from CG	3,643	4,870	9,500	6,300	6,277	7,300	15,114	16,988	16,219	18,423
Conditioned Transfer from CG	31,428	30,791	26,111	29,882	31,542	33,317	-	-	-	-
LG own revenues	1,316	2,038	2,676	7,923	9,613	12,019	11,112	9,366	11,307	18,412
From local taxes and tariffs	1,316	2,038	2,676	7,923	9,613	12,019	11,112	9,366	11,307	18,412
From LG non-fiscal revenues	-	-	-	-	-	-	-	-	-	-
LG expense Total	-	-	-	-	9,707	14,451	26,226	26,355	27,526	36,835
Operational	-	-	-	-	9,707	14,451	18,087	19,035	17,819	23,000
Salaries and health and social insurance	-	-	-	-	4,707	5,099	5,487	6,235	8,920	9,000
Maintenance	-	-	-	-	5,000	9,352	12,600	12,800	8,899	14,000
Investments	-	-	-	-	-	-	8,139	7,320	9,707	13,835

¹ The 2009 plan does not take into account recent legal changes in the local tax system, approved in April 2009, which are expected to lower the level of LGU own source revenues in 2009. USAID/LGPA estimates that in those cities where it works, planned municipal revenues may decrease by 20-50% of the plan.

In this analysis, it is very important to point out that the amount of LG revenues deriving from own source revenues (taxes and tariffs) has reached 50% of their total budget (thus their own revenues are equally important to the central government grant). It is worth mentioning that this is a consolidated figure for all local units aggregating all LGU budgets, analyzing individual LGU budgets and comparing them against each other is quite different.

More than 60% of LGU budgets are used for operational expenses and less than 40% for investments (this is true for own source funds and from government transfers). As regards the operational expenses, maintenance costs account for over 60% of the operational expenses (about 40% of the total expenses). Another major component of operational expenses is salaries and health and social insurance for local employees.

Following this analysis of the local budgets as it relates to the state budget, it is logical to evaluate whether the LGUs have sufficient funds to afford the functions provided by law and whether these funds are efficiently used to carry out the services for the community. Actually it is very difficult to answer this question as the local units collect funds in various forms (taxes and tariffs; other revenues from the activities and services they provide); funds from the central government (conditional and unconditional) etc., as well as from managing institutions that differ by nature. LGUs would respond that they do not have adequate resources, whereas CG representatives believe there are adequate resources. This document attempts to answer this question based on financial statistics from the Ministry of Finance (MoF) Treasury on the annual LGU revenues and the functions delegated by law. Meanwhile, citizens increasingly demand better public services. If we consider the fact that intergovernmental relations that accompany the funds transfer from one level to the other result in political debates of this process, then it becomes more difficult to find an answer to the question.

2.0 THE BUDGET STRUCTURE OF LOCAL GOVERNMENT UNITS

2.1 PERFORMANCE ANALYSIS OF THE LGU OWN SOURCE REVENUES AND UNCONDITIONAL AND CONDITIONAL TRANSFERS FROM THE CENTRAL GOVERNMENT

Own source revenues of LGU's, despite being modest in the year 2000, amounting to 1.3 billion Lek (or 1% of the CG budget) are expected to reach by the end of this year a total amount of 18.4 billion Lek (5.5% of the CG budget). This demonstrates the prospering of the local tax and tariff system with new financial instruments as well as the increase in local capacities in local tax administration. As mentioned above, the LGUs' own source revenues cover 50% of its total budget, allowing for these units to operate based on sources that they can totally plan and manage on their own. Note national legislation determines the taxes and fees that can be assessed by LGUs although there is some room for local discretion. Generally speaking, the tax base and tax rate are defined by law, although LGUs can vary the tax rate within a defined limit according to the same laws.

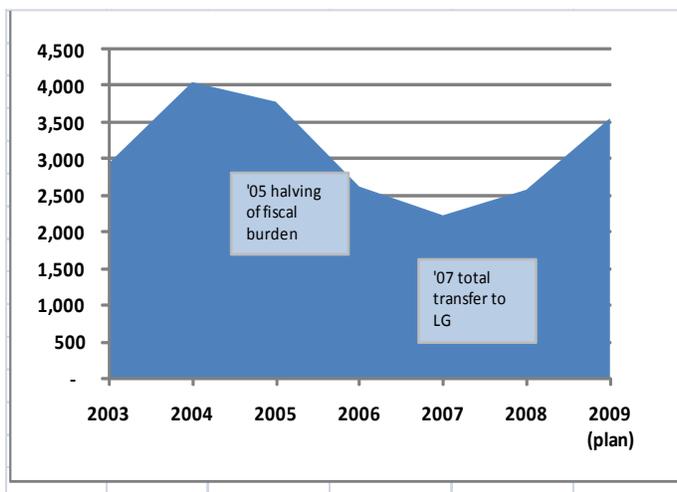
Most notable when reviewing the revenue trends for the period 2000-2009 is the poor performance of local taxes and tariffs. The local units, in compliance with the law on the local tax system, are entitled to apply different taxes defined by this law as well as impose through the local councils' tariffs on the public services they provide. According to the law, the local tax system consists of:

- Local taxes on the small business
- Property tax
- Hotel tax
- Tax on new buildings' impact on infrastructure
- Taxes on the ownership title transfer on real estate
- Tax on the annual vehicle registration
- Tax on the use of public spaces
- Tax on billboards
- Temporary taxes

Regarding all these taxes, the law on the local tax system provides their indicative level, while the local units are entitled to impose a tax under or above this level within a defined interval above the basic tax rate (in the case of the small business tax, property tax, etc.). For other temporary taxes, the local units are free to decide the type, tax base, and tax rate.

At the moment, the largest source of local tax revenue is the small business tax with revenue over 3 billion Lek for all small businesses throughout the country.

Figure 1. Small Business Tax Performance by Year (in mln Lek)



This tax was imposed for the first time in 2003² (in compliance with the law on local tax on small businesses) and provided for a fixed amount according to business category and administrative classification of the local units. Table 3 reflects the revenues from the small business tax (which actually composed of two parts: a small business tax based on turnover and a simplified profit tax) which is completely allocated to the appropriate local unit. In 2005 the small business tax rate was reduced by 50% and the same trend was noticed in the following years in the performance of the local unit in collecting this tax. Until the end of 2006, this tax was administered by the local units (regarding the small business tax component) and by the

central government (regarding the simplified profit tax component as a percentage on the small business turnover), whereas since 2007, this tax was transferred completely under the administration of LGUs. As it is clearly displayed in Figure 1, the performance of this after it was locally administered saw an unstable up-and-down trend which illustrates the ongoing process of building local administration capacities during the same period of time. The increasing trend in tax revenue of this tax has slowed down during in recent years resulting from the reduced tax rate at the end of 2005. The hoped for increased revenue has not resulted from a reduction in informality among businesses and the general economic situation does not give any clear sign of recovery as this would serve as important grounds to generate tax revenues. The transfer of full responsibility to collect this tax to the LGUs has had a negative impact on revenue in 2007.

The tax on real estate is also has two components: 1) on property (buildings) and 2) tax on agricultural land, both of which are of equal importance to the LGUs.

Table 3. LGU's Own Source Revenues, by Year

LGU Budget and Consolidated State Budget											
	in mln Lekë	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 (plan)
The revenue total of the State Budget		130,642	145,639	154,595	167,224	184,355	204,163	229,444	251,555	291,238	334,823
Total of Local Government own revenues		1,316	2,038	2,676	7,923	9,613	12,019	11,112	9,366	11,307	18,412
Tax on property and land		190	-	-	597	1,057	1,227	1,287	1,336	1,586	3,734
Tax on property (buildings)		190			597	760	897	920	942	1,112	3,734
Tax on agricultural land						298	330	367	394	474	
Tax on small business					2,944	4,060	3,793	2,626	2,232	2,584	3,564
Tax on annual vehicle registration					509	561	573	539	623	655	
Other local taxes		1,126	2,038	2,676	3,873	3,935	6,425	6,660	5,963	7,429	11,114

Source of Information: Ministry of Finance: Intergovernmental Relations Directorate

Assuming that actual collection of the taxes on property and land in 2009 meets the plan (which is double the 2008 revenue), this tax is ranked second amongst revenues derived from local taxes.³

The local tariffs are equally important with the small business tax and property tax. Generally speaking, the local units apply tariffs on services such as cleaning, landscaping, street lighting, potable water, parking, occupation of public spaces, for the provision of administrative and social services, etc. Attempts have been made to raise the tariff level mainly in the large LGUs in order to reduce the gap between public service

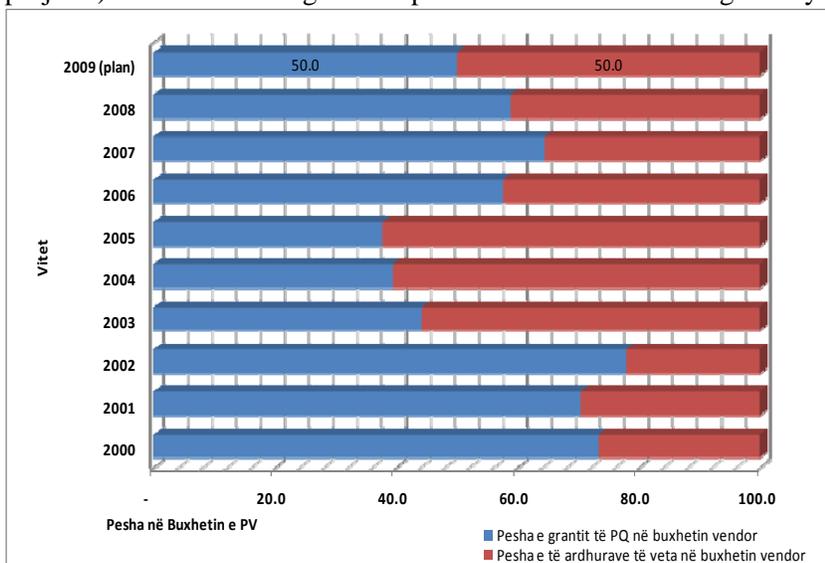
² Prior to implementation of the Law on Local Taxes, the law on the Tax System in the Republic of Albania, enacted in 1992, applied a turnover tax similar to today's small business tax.

³ Chapter 3 is dedicated more specifically to the problematic issues related to the local taxes.

costs and the associated revenue. Nevertheless, LGUs still unable fully cover their costs. The poor performance in collecting tariffs stems mainly among families as there are few enforcement measures. In general, the local units (as in the case of certain other local taxes – the property tax and vehicle registration tax) make use of other institutions to play the role of tax agents. As payment, these other institutions retain a percentage of the revenues collected. This explains the case of the building tax which started to be collected only granting the local units the right to collect the small business tax⁴ thus making it possible for the LGUs to make use of the tax audit for small businesses to collect that tax as well, whereas for families, this tax is enforcement by withholding administrative services that these units provide (primarily through refusal to provide certificates, but with the issuing of identity cards, this enforcement measure will be less effective).

Cleaning, landscaping, potable water, and street lighting constitute the largest source of these tariffs, whereas the type of other tariffs depends on the type of public service provided (e.g. administrative services, cultural activities, educational activities, etc.,) as well as on the type of tariffs the LGU applies. It is worth mentioning that by law, the LG has authority to determine the type and level of local tariffs.

Transfers from the Central Government on behalf of the local government units are in the form of unconditional grants (based on a distribution formula and possibly a competitive grant for investment projects) and conditional grants to perform the functions delegated by the CG.



The unconditional transfer in the form of a grant accounts for 50% of the local budgets allowing for the local budget structure to drastically change over the years in the years of local financial decentralization, into 75% in grant and 26% in own revenues with equal contribution for 2009 (50% each).

In order for the local units to execute larger investment projects than their capacities, out of the unconditional grants (composed of their own revenues from taxes and tariffs and other non-fiscal revenues as well as the unconditional central

government transfer) in 2006 there was applied for the first time the competing grant (as part of the unconditioned transfer). By means of this grant, the local units may apply for investment projects at a CG technical committee.

During 2006-2009 the total competitive grant for the LGUs is 13.9 billion Lek. The competitive grant allocated annually has increased significantly; in 2009 it is almost double the amount allocated in the first year (in 2006 it was 2.2 billion Lek and in 2009 it is 5.5 billion Lek).

Local government units applied for projects that consist of the construction and reconstruction and local government investment objects up to 970 buildings. Because of the competitive grants the majority of LGUs have implemented investment projects.

This scheme generally gives a positive impact to the finance possibilities of the LGUs but we have notice some problems related the implementation of the competitive grant scheme such as:

⁴ According to the table, during the time period 2001, 2002 when the property tax was transferred as a right for the LG to collect the revenues, the revenues were 0. In 2003, the LG was granted the right to collect the small business tax. Upon checking the small businesses, the LGUs were able to compel the payment of this tax together with other local taxes, and consequently the building tax.

- The competitive grant criteria for accessing funds are very general and create confusion for the evaluation committee members
- Equal criteria for all LGUs create limits for those poor and incapable ones to prepare qualified proposals
- Delay on the funds allocation from the CG during the fiscal year
- Very high political level representatives at the evaluation committee (deputy ministers from MoF; MoI and other line ministries).

Although it was initially applied at an amount of 3.4 billion lekë it was quite doubled in the second year of this formula. In the meantime, for the year 2009, the competing grant covers almost 30% of the unconditioned transfer or 15% of the local budgets.

Table 4. The LG own revenues and central government transfer

Local Government Revenues										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 (plan)
Own Source Revenues (tax and tariffs)	1,316	2,038	2,676	7,923	9,613	12,019	11,112	9,366	11,307	18,412
From the unconditional transfer										
Grant	3,643	4,870	9,500	6,300	6,277	7,300	11,700	10,725	12,331	12,923
Competitive grant							3,414	6,263	3,888	5,500
From the conditional transfer	31,428	30,791	26,111	29,882	31,542	33,317	-	-	-	-
Total Revenues to the LG	36,387	37,699	38,287	44,105	47,432	52,635	26,226	26,355	27,526	36,835
Unconditional revenues	4,959	6,908	12,176	14,223	15,890	19,319	26,226	26,355	27,526	36,835
Unconditional revenues as % of GDP	0.95	1.18	1.96	2.05	2.12	2.37	2.94	2.68	2.52	3.14
Unconditional revenues as % of state budget	3.80	4.74	7.88	8.51	8.62	9.46	11.43	10.48	9.45	11.00

The CG conditioned transfers for performing the delegated functions have remained in the same levels during the time period 2000-2005 approximately 30 billion lek per year, and are almost at zero in the last four years. This happened because 85% of this transfer was used for the payment of the educational system employees (a delegated function for the LGUs), which since 2006 has been performed through the central government agencies (the district educational directorate).

2.2 CONCLUSIONS

The local government, following the implementation of the decentralization reform, is financially strengthened in funds provided through the financial instruments in increasing numbers from year to year (new taxes, funds allocated by the CG, lending instruments etc.) as well as due to the increasing authorities and powers to manage its own revenues. Nevertheless the local finances are still moderate. In the total of the consolidated budget they make up for only 11% of it or 3.14% of the gross domestic product (compared to 28.5% of the GDP which is all the state budget).

The largest portion of the LGU's own revenues is allocated to the small business tax and property tax, which both have shown a non-satisfactory performance. The local tariffs are important in the local budgets and their performance has improved year by year, but the level of the revenues still doesn't cover the cost for the provision of the respective public services.

This low financial capacity of the LG is demonstrated at the structure for the expense budget. Generally speaking, the local budget has a structure where ...% is devoted to the operational costs and ...% to the investments. Regarding the operational costs, the largest part accounts for the salaries and social and health insurance, whereas the maintenance funds are still relatively small. In such conditions the new local lending financial instrument might allow for the funding of important investment projects. The CG has tried to solve such a problem since 2006 through the competing grants, but still it is not clear whether this new governmental transfer has proved to be effective in this aspect.

3.0 A DETAILED ANALYSIS OF 10 MUNICIPALITIES IN PARTNERSHIP WITH LGPA

The USAID Program for the Local Government in Albania (LGPA) assists 10 municipalities in the whole country. The selection of the municipalities has been as such as for them to be representative regarding to the size, financial capacities, geographical position and their political administration. The municipalities in partnership with this project are: Kukës, Shkodër, Lezhë, Fushë Krujë, Fier, Himarë, Gramsh, Librazhd, Pogradec and Korçë. The following analysis of these ten municipalities is based on financial data made available by the local units themselves and elaborated by the authors of this document. The focus is the structure of their budgets, a detailed analysis of main taxes and the related issues.

3.1 THE STRUCTURE OF THE MUNICIPALITIES' BUDGETS

According to the statistics of the ten municipalities, partners to LGPA, it is clearly observed that their budget (ten altogether) is made up of 42% in revenues from the unconditioned transfer of the central government and 58% in revenues from the municipalities' own sources (taxes; tariffs and non-fiscal revenues). These sources go for expenses whose structure is divided into 79% in operational expenses (covering salaries and insurances for 40% and maintenance 60%) and into 31% in investments.

Table 5. The budget structure of the ten municipalities in partnership with the LGPA (all taken together)

Budget Structure of 10 LGPA-partner municipalities	2003	2004	2005	2006	2007	2008	2009 (Plan)
LG Revenues							
Revenues from CG in % versus LGU total budget	53.8	53.7	37.6	51.1	50.1	65.7	72.0
From the unconditioned transfer from CG % in total LGU unconditioned budget	43.9	41.1	29.8	38.2	42.8	41.9	58.4
Conditioned transfer from CG in total LGU budget	17.5	21.5	11.1	21.0	12.8	51.1	38.5
LG own revenues in % versus the LGU budget	46.2	46.3	62.4	48.9	49.9	34.3	28.0
LG own revenues in % versus the LGU unconditioned budget	56.1	58.9	70.2	61.8	57.2	58.1	41.6
From local taxes and tariffs (in % versus own revenues)	65.3	60.8	70.5	72.5	71.7	62.4	71.3
From non-fiscal LG revenues (in % versus own revenues)	34.7	39.2	29.5	27.5	28.3	37.6	28.7
Unconditioned revenues in total budget	82.48	78.54	88.92	79.02	87.25	58.94	67.5
LG Expenses	100.0	100.0	100.0	100.0	100.0		
Operational in % versus total LGU expenses	70.6	66.9	71.7	64.8	68.8		
Salaries and health and social insurance	30.2	31.1	28.0	24.1	27.5		
Maintenance	40.4	35.8	43.7	40.7	41.3		
Investments in % versus the LGU total expenses	29.4	33.1	28.3	35.2	31.2		

In order to have a fairer analysis of the budget structure of these ten municipalities, we have divided them according to the number of population into: small, medium-sized and large municipalities, respectively:

Small municipalities (those with a population of 7,000 – 11,000)

- Gramsh

- Himarë
- Librazhd

Medium-sized municipalities (those with a population of 21,000 – 38,000)

- Pogradec
- Lezhë
- Fushe Krujë
- Kukës

Large municipalities (those with a population of 65,000 – 93,000)

- Shkodër
- Fier
- Korçë

According to this classification, the municipalities' structure is as follows:

Small municipalities

As expected **the small municipalities** greatly depend upon the funds allocated by the central government. For 2008 it is almost 87% of the budget total of these local units. As 2008 and 2009 are preparatory years for the electoral campaign where the government conditioned funds are high, the structure analysis will be carried out for the structure of the unconditioned budget of the local units (made up of the unconditioned government transfer and the of the local units own revenues).

Table 6. The budget structure of the small municipalities (of all three Gramsh; Himarë and Librazhd)

Budget Structure of LGPA municipalities							
Të konsideruara të vogla (sipas numrit të popullsisë së tyre)							
Gramsh; Himarë; Librazhd							
	2003	2004	2005	2006	2007	2008	2009 (Plan)
LG Revenues							
Revenues from CG in % versus LGU total budget	55.9	52.8	43.4	46.5	46.6	86.7	79.8
From the unconditioned transfer from CG	49.3	44.9	31.8	40.9	45.2	41.0	65.7
Conditioned transfer from CG	13.0	14.3	16.9	9.5	2.4	77.4	41.2
LG own revenues in % versus the LGU budget	44.1	55.1	68.2	59.1	54.8	59.0	34.3
LG own revenues in % versus the LGU unconditioned budget	50.7	55.1	68.2	59.1	54.8	59.0	34.3
From local taxes and tariffs	61.0	59.7	58.4	61.5	55.1	78.5	89.3
From non-fiscal LG revenues	39.0	40.3	41.6	38.5	44.9	21.5	10.7
Unconditioned revenues in total budget	87.0	85.7	83.1	90.5	97.6	22.6	58.8
LG Expenses	100.0	100.0	100.0	100.0	100.0		
Operational in % versus total LGU expenses	69.5	69.8	70.4	70.4	70.4		
Salaries and health and social insurance	32.3	35.0	27.9	26.2	30.0		
Maintenance	37.1	34.8	42.6	44.2	40.4		
Investments in % versus the LGU total expenses	30.5	30.2	29.6	29.6	29.6		

Based on the data collected for the drafting of this document, it is understood that for the small local units, the **CG funds** for the local units constitute *approximately 66% of their unconditioned budget* and *34% is complemented by its own sources* (through taxes; tariffs and non-fiscal revenues). Regarding its own revenues, taxes and tariffs account for about 80% of these revenues and the non-fiscal revenues for 20%. The latter due to the nature have a unstable performance and as a result the same argument runs for their weight in the local unit budget.

As regards the budget expenses, 70% go for operational expenses (of which 43% for salaries and social and health insurance and 57% for maintenance) and only 30% of their total for investments.

Medium-sized municipalities

Following the same analysis as in the case of small municipalities, the structure of larger municipalities shows that their budget depends less on the government unconditioned transfer allowing for their budget structure to be divided as in the table below where: *the government unconditioned transfer covers*

approximately 60% of their unconditioned budget and 40% of their revenues. As regards their own revenues, taxes and tariffs account for 90% and other non-fiscal revenues for 10%.

Table 7. The structure of medium-sized municipalities, in partnership with LGPA (of the four taken together)

Budget Structure of LGPA municipalities							
Të konsideruara të mesme (sipas numrit të popullsisë së tyre)							
Pogradec; Lezhë; Fushë Krujë; Kukës							
	2003	2004	2005	2006	2007	2008	2009 (Plan)
LG Revenues							
Revenues from CG in % versus LGU total budget	54.5	53.1	40.0	51.3	57.6	61.9	77.7
From the unconditioned transfer from CG	43.3	42.4	34.2	48.8	53.9	38.5	59.9
Conditioned transfer from CG	19.7	18.6	8.8	4.9	8.2	38.0	44.4
LG own revenues in % versus the LGU budget	45.5	46.9	60.0	48.7	42.4	38.1	22.3
LG own revenues in % versus the LGU unconditioned budget	56.7	57.6	65.8	51.2	46.1	61.5	40.1
From local taxes and tariffs	47.3	44.6	35.0	48.6	44.2	94.2	93.2
From non-fiscal LG revenues	52.7	55.4	65.0	51.4	55.8	5.8	6.8
Unconditioned revenues in total budget	80.3	81.4	91.2	95.1	91.8	62.0	55.6
LG Expenses	100.0	100.0	100.0	100.0	100.0		
Operational in % versus total LGU expenses	66.2	72.4	72.0	71.6	71.6		
Salaries and health and social insurance	35.1	39.3	37.7	33.4	33.0		
Maintenance	31.1	33.1	34.3	38.1	38.6		
Investments in % versus the LGU total expenses	33.8	27.6	28.0	28.4	28.4		

The expense structure is nearly the same with the small local units; where the operational ones are a little more than 70% and investments less than 30% (the authors of this document expected for these figures to have improved compared to the small municipalities and not to decline – nevertheless this requires a deeper insight and analysis that would consider only the expenses carried out with the unconditioned resources – this document lacks such information).

Large municipalities as expected depend less on the unconditioned government transfer, whose weight is 56% in their unconditioned budget and 44% of the revenues is covered by their own resources (in the structure of the latter, taxes and tariffs cover 80% and the non-fiscal revenues 20% of the municipality budget – this is surprisingly similar to the small units. The expense structure is similar to the small and medium-sized municipalities, only slightly improved. Therefore the operational expenses cover 69% of the total of expenses and investments 31%. Meanwhile the operational expenses structure is slightly improved where the salaries and insurance cover 38% of the budget and maintenance 62%.

Budget Structure of LGPA municipalities							
Të konsideruara të mëdha (sipas numrit të popullsisë së tyre)							
Shkodër; Fier; Korçë							
	2003	2004	2005	2006	2007	2008	2009 (Plan)
LG Revenues							
Revenues from CG in % versus LGU total budget	52.3	52.6	33.7	51.3	47.7	57.6	63.9
From the unconditioned transfer from CG	41.8	38.1	26.2	33.8	38.4	51.4	61.8
Conditioned transfer from CG	18.1	23.5	10.3	26.5	15.2	45.5	32.9
LG own revenues in % versus the LGU budget	47.7	47.4	66.3	48.7	52.3	29.6	25.3
LG own revenues in % versus the LGU unconditioned budget	58.2	61.9	73.8	66.2	61.6	48.6	38.2
From local taxes and tariffs	70.5	64.7	79.4	78.1	78.4	67.3	78.2
From non-fiscal LG revenues	29.5	35.3	20.6	21.9	21.6	32.7	21.8
Unconditioned revenues in total budget	81.9	76.5	89.7	73.5	84.8	61.0	66.3
LG Expenses	100.0	100.0	100.0	100.0	100.0		
Operational in % versus total LGU expenses	72.8	65.5	72.6	62.9	68.6		
Salaries and health and social insurance	28.4	28.3	25.5	21.8	26.2		
Maintenance	44.4	37.1	47.1	41.0	42.4		
Investments in % versus the LGU total expenses	27.2	34.5	27.4	37.1	31.4		

3.2 THE STRUCTURE OF LOCAL GOVERNMENT OWN SOURCE REVENUES

In order for this analysis to be more conclusive, we have selected among the municipalities in partnership with LGPA as classified above (i) small; (ii) medium sized; (iii) large, a representative for each group:

Gramsh, Lezhë dhe Fier. For more detailed information for all ten municipalities of LGPA, please refer to the Appendix A of this material.

Small Municipalities / Represented by the Municipality of Gramsh

In this local unit, the revenues using its own sources make up for about 34% of the total unconditioned revenues of the municipality (its own sources + the CG unconditioned transfer) or approximately 27% of its total budget (all types of revenues, including the CG conditioned transfer as well).

As far as its own revenues are concerned, the largest share goes to the local taxes with over 40%, then the tariffs with a contribution of over 20% and the revenues generated from property lending or selling and other revenues with almost 20% each.

The revenues from taxes have been diminishing their contribution in the budget of this municipality during these year or to be more accurate the share that taxes hold in the total of its own revenues has not been fixed along the years (41% in 2006, 44% in 2007, 47% in 2008 and 40% according to the 2009 plan / not calculating the impact of local taxes and tariffs which changed with the new amendments of april 2009 to the law on local tax system).

Regarding the taxes this municipality applies and collects, the most important one is the small business tax. This tax constitute almost 50% of the tax revenues or above 20% of the municipality's own total revenues. The performance of this tax has deteriorated year by year. The halving of this tax fiscal burden by the end of 2005 has been one of the reasons, but this doesn't justify the falling trend it is characterized of (therefore the deterioration in 2007 compared to 2006 and the situation persists when comparing 2008 to 2007). From the municipality data, it results that the number of small business subjects has increased by over 10% during this period of time due to the improvement of the tax authority work. These two contradictory results, the increase in numbers of the subjects registered in the tax offices and the decrease in tax revenues of the small business, may be justified by the deterioration of the economic conditions in this town. In order to prove this conclusion, we need statistics on employment issues, which are not considered in this document.

Table 8. The Municipality of Gramsh, Statistics on the revenues out of its own sources

Municipality of Gramsh					
Revenues from own resources		2006	2007	2008	Plani 2009
<i>in thousands Lekë</i>					
I.	Local Taxes	20,220	18,568	25,595	19,700
1	Local tax on small business	10,857	9,841	8,411	9,200
3	Tax on Buildings	2,344	2,629	2,593	2,800
4	Tax on agricultural land				
5	Tax on hotel accomodation	5	5	7	10
6	Tax of new buildings' impact on infrastructure	4,825	3,509	12,118	5,200
7	Tax on ownership title transfer on real estate	37	231	71	60
8	Tax on annual vehicle registration	1,068	1,150	1,226	1,200
9	Tax on use of public spaces	874	978	952	1,000
10	Tax on billboards	210	225	217	230
11	Temporary taxes				
II.	Tariffs	8,824	8,998	11,413	10,569
1	Tariff of cleaning	4,983	5,555	5,634	6,000
2	Public spaces tariff	313	633	898	700
3	Potable Water Tariff				
4	Street Lighting Tariff	676	707	724	900
5	Billboard tariff				
6	Landscaping Tariff	532	587	595	900
7	Advertising Tariff		14	12	25
8	Parking Tariff			602	550
9	Cattle slaughtering tariff	153	158	160	260
10	Other administrative services' tariffs	1,414	922	1,830	484
11	Social Service Tariffs (preschool education, dormitories)				
12	Sports and entertainment				
13	Other Tariffs	753	422	958	750
III.	Revenues form property sale and lease	10,100	9,160	12,240	10,020
1	building sale	3,807	4,070	8,108	6,000
2	land sale				
3	Sale of different properties				
4	Land Lease	1,829	1,228	1,269	1,200
5	Buildings' rent	4,464	3,862	2,863	2,820
IV.	Other revenues	9,790	5,709	5,584	9,110
Total of revenues from own resources		48,934	42,435	54,832	49,399

During these last 4 years, it appears that the second most important tax of this municipality is that of the new buildings' impact on the infrastructure (which due to its own nature / is collected as a percentage on the value that would be invested on the new building). Perhaps during this period there has been a considerable number of construction permits in this municipality.

The third most important tax is that on property (which is completely collected by the component on building taxes, as the agricultural land tax is 0 and because there are 7 villages under the jurisdiction of this unit).

The building tax has slightly improved its collection year by year. It tends to reach the amount of 2.8 million lek according to the 2009 plan. It is worth pointing out that this municipality has a effective database regarding the collection of this tax and that this tax is not collected from the businesses only, but from the families as well, at 80%.

The revenues from the tariffs account for 21% of the municipality's own revenues for 2009 (according to the plan, without estimating the impact of the recent legislative changes, they may amount to 10.6 million lek). The most important tariffs are those of cleaning with 60% of the revenues from tariffs, the street lighting with 9% and the landscaping with 9%.

It is striking the fact that the list of the fiscal package approved by the municipal council has a series of tariffs which result to have a 0 performance, meanwhile the last two years have seen a visible progress in terms of parking tariff collection (whore revenues for 2008 amounted to 600 thousand lek for the municipality). The revenues from the potable water tariff are collected and administered by the shareholder

company of water supply and sewage system (this is the reason behind the exclusion of this revenue from the below table).

Revenues from the assets are important for this municipality. They represent about 20% of its own revenues. This percentage of asset revenues should not be considered as representative, as the municipality of Gramsh has received in ownership from the CG and has further registered almost all these assets at the IPRO thus becoming registered owner of about 500 immovable assets, 60 of which are for economic development. Therefore the proceeds from either sale or lease are significant.

Table 9. The consolidated budget of the municipality of Gramsh along the years

Municipality of Gramsh									
Consolidated Budget of the Municipality	2001	2002	2003	2004	2005	2006	2007	2008	2009 (plan)
Total of the Municipality revenues	177,567	150,735	171,648	234,283	202,537	215,643	232,872	189,504	238,406
Total of own revenues	6,924	13,067	18,828	52,435	26,596	48,934	42,435	54,832	64,169
Tax revenues	2,349	4,292	6,447	38,673	7,393	20,220	18,568	25,595	19,700
Local tax on small business				6,847		10,857	9,841	8,411	9,200
Tax on buildings	995	2,071	3,371	2,668	2,406	2,344	2,629	2,593	2,800
Tax of new buildings' impact on infrastructure				14,249		4,825	3,509	12,118	5,200
Tax on annual vehicle registration	792	1,301	3,068	2,737	-	1,068	1,150	1,226	1,200
Other local taxes	562	920	8	12,172	4,987	1,126	1,439	1,247	1,300
Tariff revenues	4,001	8,314	9,203	11,896	14,342	8,824	8,998	11,413	10,569
Non-fiscal revenues	574	461	3,178	1,866	4,861	19,890	14,869	17,824	33,900
Revenues from the sale and lease of property						10,100	9,160	12,240	10,020
Revenues from various enterprises	483	461	-	1,866	4,861				
Other revenues + Inherited revenues	91	-	3,178	-	-	9,790	5,709	5,584	23,880
(conditioned and unconditioned) revenues from CG	170,643	137,668	152,820	181,848	175,941	166,709	190,437	134,672	174,237
CG unconditioned revenues (from the grant and competing grant)	23,621	37,689	44,826	62,202	48,261	50,400	48,969	71,882	124,647
The conditioned transfer from CG	147,022	99,979	107,994	119,646	127,680	116,309	141,468	62,790	49,590
LGU unconditioned revenues	30,545	50,756	63,654	114,637	74,857	99,334	91,404	126,714	188,816
Expenses	177,567	150,735	171,648	201,992	202,537	215,643	232,872	189,504	188,816
Operational expenses	146,408	134,102	148,938	171,055	180,271	191,380	214,021	151,007	104,461
Investments	31,159	16,633	22,710	30,937	22,266	24,263	18,851	38,497	84,355

Medium-sized municipalities/ represented by the Municipality of Lezhë

In this local unit, its own revenues cover 36% of the total revenues of the municipality or over 45% of its total unconditioned revenues. Proceeds from taxes account for 70% of its own revenues, while 15% is made up of proceeds from tariffs and 15% from non-fiscal revenues.

Revenues from taxes have increased in absolute terms in the past 5 years, but their trend is unstable. While in the period 2003-2006 the trend was positive, the period 2007-2009 has been unstable. (Even the plan for the year 2009 seems overestimated: in total, the increase of own revenues is over 50% compared to 2008; such a situation is evidenced in most LGPA partner municipalities). As observed in the following table, this local unit theoretically applies different types of taxes, but more than half of them do not yield any revenue to the municipality; however, they seem to be replicated as tariffs that this municipality does apply (for example: the temporary landscaping tax and the landscaping tariff; the billboard tax and tariff; the fishing tax and the fishing and amateur hunting tariff; parking tax and tariff, etc.)

It is worth mentioning that in this local unit the revenues from taxes are the main source of own revenues. In the period of time this analysis has taken into consideration, proceeds from taxes have generated about **70 – 75% of own revenues**; meanwhile tariffs and non-fiscal revenues cover only 25 – 30%. It is evident that this municipality has in its fiscal package taxes that are similar in type to the tariffs. One of the reasons for such a situation might be the authority of the fiscal administration to collect these revenues is stronger than the service enterprise that collect the respective tariffs.

Regarding the taxes this municipality applies and collects, the most important tax is the infrastructure impact tax levied on new buildings, which accounts for 51-53% of the tax revenues or about 27% of the total own revenues of the municipality. Such a big contribution of this tax to the budget of this local unit indicates the boom of new construction in this town. Due to the nature of this tax, its performance has been unstable.

Nevertheless the general trend is a dramatic increase of its contribution year by year. The new regulatory plan of the town may, for another short-term period, generate an increase in the municipal revenues from this tax.

Table 10. The municipality of Lezhë, A detailed list of the revenues from its own resources

Municipality of Lezhë								
	Revenues from own resources	2003	2004	2005	2006	2007	2008	Plani 2009
	<i>in thousands Lekë</i>							
I.	Local Taxes	50,390	82,213	83,587	111,915	62,927	87,951	133,130
1	Property tax (Tax on Buildings)	3,498	5,107	5,688	5,479	5,231	5,354	9,500
2	Tax on small business	25,859	35,276	36,242	26,930	19,725	23,832	36,730
3	Tax on ownership title transfer on real estate	25	1,448	2,747	4,406	7,471	6,299	9,000
4	Tax on annual vehicle registration	3,846	4,273	4,249	4,116	5,193	5,132	6,800
5	Tax of new buildings' impact on infrastructure	14,779	28,689	29,600	70,482	24,745	45,104	70,000
6	Tax on use of public spaces	2,098	7,113	4,742	11	-	46	300
7	Tax on billboards	285	305	315	489	513	426	600
8	Tax on hotel accomodation	-	2	4	2	49	-	200
9	Tax on tumover for restaurants, bars, coffee shops	-	-	-	-	-	-	-
10	Tax on cattle slaughtering	-	-	-	-	-	-	-
11	Tax on landscaping, Lighting (temporary taxes)	-	-	-	-	-	1,758	-
12	Tax on cleaning and dumping	-	-	-	-	-	-	-
13	Tax of registration for different activities	-	-	-	-	-	-	-
14	Tax on advertising	-	-	-	-	-	-	-
15	Tax on terraces	-	-	-	-	-	-	-
16	Tax on parking	-	-	-	-	-	-	-
17	Tax on Fishing and Hunting	-	-	-	-	-	-	-
18	Tax on building permits	-	-	-	-	-	-	-
19	Other	-	-	-	-	-	-	-
20	Tax on transportation permit	-	-	-	-	-	-	-
II.	Local Tariffs	10,948	12,873	15,965	57,815	15,266	16,621	29,800
1	Tariff of cleaning and dumping	8,120	9,695	13,080	39,933	13,153	13,690	23,800
2	Tariff on other services	-	-	-	-	-	-	-
3	Landscaping tariff	-	-	-	-	-	-	-
4	Transportation permit / License Tariff	2,581	2,705	2,610	1,920	1,586	1,369	2,000
5	Revenues from the use of public properties	247	473	275	4,618	527	1,562	4,000
6	Lighting Tariff	-	-	-	3,784	-	-	-
7	Cattle slaughtering tariff	-	-	-	1,133	-	-	-
8	Advertising tariff	-	-	-	3,656	-	-	-
9	Terrace tariff	-	-	-	411	-	-	-
10	Parking Tariff	-	-	-	2,360	-	-	-
11	Hunting and fishing tariff	-	-	-	-	-	-	-
III.	Non-fiscal revenues	3,432	4,799	5,022	23,809	12,178	15,862	23,356
1	from property sale	194	560	-	-	-	-	-
2	from property lease	43	-	287	8	-	403	1,000
3	object rent	-	-	-	-	-	-	-
4	Revenues from kindergardens	1,189	2,146	2,443	3,184	3,085	3,664	4,000
5	Revenues from creches	287	590	610	1,196	695	832	1,000
6	Revenues from dormitories	-	-	-	-	-	285	500
7	Revenues from sponsorships	-	-	-	7,947	-	-	200
8	From fines and interests	27	133	66	-	225	757	1,000
9	Other	1,692	1,370	1,616	11,474	8,173	9,921	15,656
	Total of revenues from own resources	64,770	99,885	104,574	193,539	90,731	120,434	186,286

The tax on small business ranks second in the budget of this municipality for its contribution to own revenues, constituting 27-28% of the tax proceeds or about 20% of this municipality own revenues total. The performance of this tax has dropped year by year. In the period 2003 – 2005 this tax contributed 45-52% of the tax revenues, the decreasing by half of the fiscal burden by the end of 2005 caused revenues from this tax to decrease substantially in 2006 (reaching only 24% of the tax revenues), and then in the years to come the trend would rise but only rather slightly. As in the municipality of Gramsh, the number of active businesses in this town has increased, which does not justify the decrease in revenues from this tax. The tax officers and the citizens' survey for this town indicate that the 2009 economy in this town has decline compared to 2008.

The “On Local Government” survey organized by IDRA with the assistance of LGPA/USAID in 2009⁵ indicates the unemployment issue as the main concern of the interviewees and compared to the same survey carried out in 2008 unemployment has gained ground in 29% of the interviewees who think the situation is getting worse. Meanwhile other issues identified for this town are the other economic problems, poverty, increasing social issues, compared to those issues that have improved such as infrastructure, environment, power and criminality. This clearly shows that the decrease of tax revenues in general hasn’t come as a result of the poor performance of the tax administration (as the number of the taxpayers has increased) but as a result of the deterioration of the economic situation.

The third position regarding the contribution in the budget of this municipality is held by the property tax and ownership title transfer tax (the latter is of considerable importance due to the fact that the tax on the impact of new construction is very high in this unit.) These two taxes apply to large buildings that are executed in this local unit. The property tax covers about 7% of the tax proceeds or 4.5-5% of the total of the municipality own revenues. What is most striking is the fact that the municipality collects nearly the same amount from this tax, despite the fact that properties (this tax is based on buildings) have increased in numbers year by year. Generally speaking the municipality manages to collect somewhat more than 5 million lek per year from this tax. The revenue program for the year 2009 seems optimistic as it attempts to double the proceeds from this tax. This plan is based on the program for implementation of the new system of addresses. As a result of the latter, the municipality intends to register and legalize many properties (buildings) of families (as the main contributors in this tax) but it seems that the address system has not helped as expected as it is estimated that proceeds from this tax even for this year will not achieve the level of past years. Another reason for the non-implementation is thought to be the non-registering at the registering offices of the new buildings (it is estimated that the new buildings are not being sold due to the decline of the market / buying demands).

Proceeds from tariffs constitute about **14-16 %** of the municipality own revenues. The most important tariffs are the landscaping and the cleaning and dumping tariffs, which account for approximately 80% of the revenues. It is important to point out that the municipality applies a bigger number of tariffs but actually it collects only three of them (cleaning/dumping tariff, transportation tariff, and public property utilization tariff. Even in this local unit, it is observed that the fiscal package list is too long. This has to do with the replication of these tariffs with the local taxes of the same nature.

Table 11. The consolidated budget of the municipality of Lezhë year by year

The revenues of the Municipality of Lezhë (in thousands Lekë)	2003	2004	2005	2006	2007	2008	2009 (plan)
Total of LGU revenues	296,552	470,070	426,623	630,454	538,219	545,804	523,558
A Total of LGU own revenues	78,153	121,759	128,413	263,909	113,895	146,341	227,386
I. Tax revenues	64,770	99,885	104,574	193,539	90,371	120,434	186,286
1 Local tax on small business	25,859	35,276	36,242	26,930	19,725	23,832	36,730
2 Tax on buildings	3,498	5,107	5,688	5,479	5,231	5,354	9,500
3 Tax of new buildings' impact on infrastructure	14,779	28,689	29,600	70,482	24,745	45,104	70,000
4 Tax on annual vehicle registration	3,846	4,273	4,249	4,116	5,193	5,132	6,800
5 Other local taxes	13,383	21,874	23,839	70,370	23,524	25,907	41,100
II. Tariff revenues	9,978	17,208	18,883	54,208	11,571	10,802	18,944
III. Non-fiscal revenues	3,405	4,666	4,956	16,162	11,953	15,105	22,156
B. (conditioned and unconditioned) revenues from CG	218,399	348,311	298,210	366,545	424,324	399,463	296,172
CGunconditioned revenues (from the grant and competing grant)	99,477	190,956	127,056	176,873	200,777	186,181	185,570
The conditioned transfer from CG	118,922	157,355	171,154	189,672	223,547	213,282	110,602
C. LGU unconditioned revenues	177,630	312,715	255,469	440,782	314,672	332,522	412,956
Expenses	296,552	470,070	426,623	630,454	538,219	545,804	523,558
I. Operational expenses	198,981	259,719	256,262	438,213	378,859	229,740	225,925
II. Investments	97,571	210,351	170,361	192,241	159,360	316,064	297,633

⁵ For further information please refer to “Survey on the Local Government 2009” prepared by IDRA on behalf of LGPA/USAID located on the official website www.lgpa.al

Revenues from assets (municipality property) have a modest contribution in the total of the municipality own revenues (only 0.3%) or 2-4% of its total non-fiscal revenues. The number of objects (assets) that this municipality owns and that might be used for business activities is very low (about 15 objects), but with the finalizing of the transfer process and the registration at the IPRO, there might be an increase in the revenues for the municipality budget.

Large municipalities / represented by the municipality of Fier

In this local unit, its own revenues cover about 40% of the total municipality revenues or over 57% of its total unconditioned revenues. The tax proceeds represent over 70% of its own revenues, 25% comes from tariff proceeds and only 5% from non-fiscal revenues.

Table 12. The consolidated budget of the municipality of Fier in years

Revenues of the Municipality of Fier (in thousand Lekë)	2003	2004	2005	2006	2007	2008	2009 (plan)
Total of the LGU revenues	515,069	670,902	701,682	796,270	838,755	872,743	986,474
Total of own revenues	258,950	290,539	371,132	359,083	338,596	344,853	510,000
Tax revenues	182,852	222,344	274,435	250,463	248,087	244,141	368,440
Local tax on small business	90,655	131,633	150,897	67,495	82,228	86,949	90,000
Tax on buildings	19,815	22,871	25,598	25,720	25,122	27,795	31,000
Tax of new buildings' impact on infrastructure	39,944	31,044	64,470	126,604	97,175	97,256	200,000
Tax on annual vehicle registration	18,460	19,193	19,665	19,984	24,524	23,803	25,000
Other local taxes	13,978	17,603	13,805	10,660	19,038	8,338	22,440
Tariff revenues	68,952	60,324	90,699	89,044	78,829	85,223	96,360
Non-fiscal revenues	7,146	7,871	5,998	19,576	11,680	15,489	45,200
Revenues from CG	257,332	382,328	330,550	437,187	500,159	527,890	476,474
(conditioned and unconditioned) revenues from CG	135,220	221,643	156,096	244,217	273,319	264,474	222,371
The conditioned transfer from CG	122,112	160,685	174,454	192,970	226,840	263,416	254,103
LGU unconditioned revenues	394,170	512,182	527,228	603,300	611,915	609,327	732,371
Expenses	239,891	353,279	343,790	381,963	354,501	342,860	490,991
Operational expenses	142,320	142,928	173,445	189,722	195,141	201,297	254,487
Investments	97,571	210,351	170,345	192,241	159,360	141,563	236,504

Tax proceeds have experienced a dramatic fall during the last three years (nevertheless, the 2009 plan provides for an increase of more than 60% compared to last year execution (2008)). Taxes constitute about 70% of the municipality's total own revenues, or 50% of the municipality's unconditioned budget. In the town of Fier, as elsewhere, the most important tax is on the impact of new construction, which in the last three years has contributed 50; 40; and in 2008, 30% to the total of tax proceeds. Meanwhile the forecast for 2009 is for it to contribute 55% of this total. As we have explained several times above, this tax due to its nature is unstable and totally dependent on the number of building permits issued. The most important tax regarding the contribution and stability is the small business tax. Its contribution in the past three years has increased from 27% of the tax total of 2007; to 33% for 2008 and over 38% for 2009.

Also in this municipality, the third tax regarding its contribution to the tax proceeds is the property tax (buildings). This tax contributes over 12% of the total of the municipality tax revenue. Despite the fact that in monetary terms, the trend of the property tax proceeds has increased during these last years, its share of the tax framework has been unstable. The new address system is expected to have a positive effect on the yield of this tax.

Tariff revenues cover 26 % of the municipality's own revenues. It is worth mentioning that the list of tariffs to be applied is made up of 13 tariffs and that the tax administration manages to collect revenues from each of them. Compared to the two units analyzed above, this municipality has a fiscal package that makes a clear division between the taxes and tariffs to be applied. There are no replications due to nature (their description, and application basis) and the general trend is positive (revenues increase year by year). Similar to the other local units, the most important tariff is for cleaning, which produces nearly 55% of the tariff revenues. The

second most important is the social service tariff (preschool education, dormitories, etc.) which contributes about 17% of the tariff total. Of equal importance are the administrative service tariff and the lighting tariff which cover respectively 8% and 7% of the total tariff revenue.

Municipality of Fier					
Revenues from its own resources		2006	2007	2008	Plani 2009
<i>in thousands Lekë</i>					61.97656782
I.	Local Taxes	250,463	248,087	227,465	368,440
1	Local tax on small business	67,495	82,228	86,949	90,000
3	Tax on Buildings	25,720	25,122	27,795	31,000
4	Tax on agricultural land	-	-	-	-
5	Tax on hotel accomodation	23	60	73	70
6	Tax of new buildings' impact on infrastructure	126,604	97,175	67,256	200,000
7	Tax on ownership title transfer on real estate	3,795	15,893	19,156	20,000
8	Tax on annual vehicle registration	19,984	24,524	23,803	25,000
9	Tax on use of public spaces	5,638	2,009	1,277	1,200
10	Tax on billboards	1,204	1,076	1,156	1,170
11	Temporary taxes	-	-	-	-
II.	Tariffs	89,044	78,829	85,223	96,360
1	Tariff of cleaning	39,933	42,229	46,483	49,000
2	Public spaces tariff	-	-	-	-
3	Potable Water Tariff	-	-	-	-
4	Street Lighting Tariff	3,784	3,780	5,944	6,900
5	Billboard tariff	1,920	1,482	-	1,200
6	Landscaping Tariff	3,989	3,922	4,137	4,300
7	Advertising Tariff	3,656	2,639	2,887	3,400
8	Parking Tariff	2,360	3,347	3,336	2,900
9	Cattle slaughtering tariff	1,133	1,419	1,351	1,600
10	Other administrative services' tariffs	6,187	5,590	6,711	7,060
11	Social Service Tariffs (preschool education, dormitories)	26,082	14,421	14,374	20,000
12	Sports and entertainment	-	-	-	-
13	Other Tariffs	-	-	-	-
III.	Revenues form property sale and lease	4,856	4,946	4,153	5,200
1	Building sale	-	-	-	-
2	land sale	-	-	-	-
3	Sale of different properties	-	-	-	-
4	Land Lease	8	31	-	-
5	Buildings' rent	4,848	4,915	4,153	5,200
IV.	Other revenues	14,720	6,734	11,336	40,000
Total of revenues from own resources		359,083	338,596	328,177	510,000

Revenues from assets (municipal properties) constitute less than 1.5% of the total municipal own revenues, or about 30% of the non-fiscal revenues of this unit. In this municipality, revenues from the management of assets comes from the leasing buildings that are municipality owned. The process of asset transfer from the central government to this municipality is very slow (it is actually under stage II of this process / registering). One of the reasons for the slowness of this process might be the lack of interest for assets which do not generate revenues for the municipality (the list of properties to be transferred does not include any object used for business activity).

3.2.1 Findings

From the detailed information on the revenues of the ten municipalities in partnership with LGPA, it is evident that:

The Structure of the analyzed local units (otherwise considered as small; medium-sized and large)			
2008 taken as reference			
Units	Vogël	Mesme	Madhe
REVENUES			
Total of LGU revenues	100.0%	100.0%	100.0%
its own revenues (as percentage versus the budget total)	28.9%	26.8%	39.5%
its own revenues (as percentage versus the total of LGUs unconditioned revenues)	43.3%	44.0%	56.6%
Tax revenues (as % versus the total own revenues)	46.7%	82.3%	70.8%
Tariff revenues	20.8%	7.4%	24.7%
non-fiscal revenues	32.5%	10.3%	4.5%
Revenues from CG (as % versus the unit total budget)	71.1%	73.2%	60.5%
unconditioned transfer	37.9%	34.1%	30.3%
conditioned transfer	33.1%	39.1%	30.2%
Total of LGU unconditioned revenues (as % versus the unit total budget)	66.9%	60.9%	69.8%
EXPENSES			
Total Expense	100.0%	100.0%	100.0%
Operational (as % versus the total expenses)	80%	42%	59%
Investments (as % versus unit total expenses)	20%	58%	41%

For the representative small, medium-sized, and large municipalities described above, as expected the small units have such a structure where own revenues cover 30% of their total budget; medium-sized municipalities approximately 35%, and large municipalities approximately 40%. The balance is made up of central government transfers in the form of conditioned and unconditioned funds. As the conditioned transfer do not provide any stability and are totally at the discretion of the central government, our analysis regarding the local units revenues is based on the unconditioned budget of these units. As a consequence the figures in this analysis demonstrate that the small units have such a structure for their revenues to be 45% of the budget; the medium-sized municipalities up to 50%, and the large municipalities more than the level of the latter (in our case about 57%). The balance is covered by unconditioned transfers from the government which is provided in the form of a grant (according to the budget formula that is based largely on population level) and from the competitive grants (only for those units that have successfully applied for specific projects).

Regarding expenses, the small municipalities allocate around 80% of their budget for operational expenses (maintenance and salaries for their staff) and only 20% for investments. However, this ratio considerably changes when referring to medium-sized and large municipalities. It is a very interesting finding that the so-called medium-sized municipalities (as defined for this study) spend for investments more than the large municipalities, but this information should be verified for all local units that are classified as such and not only for the partners of LGPA.

- **Regarding taxes**

Local taxes are an important source for the local units. The most important one is the tax on small business, whose performance has been rather fluctuating over the years. Among several possible reasons there might be: the new instruments to be handled by the local administrators; insufficient technical capacities, the legislation liable to changes for short periods of time; weak links of cooperation between local and central tax administrations (lack of initial information in the moment of transfer of this tax to the LG); the fall of economy during these last two years, etc.

The property tax is another important tax and with high potentials, but still poorly performing, collected mainly among businesses. While among families, there are few revenues as there are used restricting measures in the form of providing administrative services in exchange of the payment of this tax. An issue related to the poor performance is the lack in the registration of immovable property. The implementation process in certain towns, partners to LGPA, is very slow. Even in those towns where there has been established a database with productive information for the evaluation and collection of this tax, by making use of the information given by the Water Supply Company (Korçë and Gramsh) the

application of this tax is done through indirect methods (e.x a fixed value per family without taking into consideration the actual sizes) as the tax basis is fixed per square meter of the building.

The tax of the new building impact on the infrastructure is a very important one as well. It results to be a fluctuating one as far as it is collected out of the investment value of the new buildings as a percentage on the investment project. This tax depends on the construction permits that the local unit approves of in a year. The latter depend on the lack of the town regulatory plans. In Fushë Krujë, Kukës, the regulatory plans will be finalized with the assistance of the LGPA by the end of this year. Meanwhile Korça, Fieri, Shkodra and Pogradec are in the process of preparing the plans assisted by the government and other donors. Due to its type this tax is rather unstable, it is strongly recommended that it be cautiously planned (it is evidenced that 2009 plans for the majority of the analyzed municipalities are very high and the operational information from the partner municipalities of LGPA show a high level of lack of realization.)

There is to be inferred by this analysis that certain taxes are defined in a confusional way. For example, the tax transfer of immovable property which is considered as local, whose subjects are all businesses and is determined as a fixed amount of money per square meter and the national tax at 10% of the capital revenues (the difference between the selling and the buying value) whose subjects are all the individuals.

Another finding is that in some local units, the fiscal packages have replicated taxes and tariffs (please refer to the above-analyzed case of Lezhë). This requires a detailed technical manual related to the law on the local tax system.

- **Regarding the local tariffs**

The local tariffs are rated second after the taxes, as most important in the total of the LGUs own revenues. The most important tariff is the cleaning one, and then the street lighting and landscaping one. In the large local units the most important tariffs are the social service provision tax and the administrative service tax.

What is worth pointing out in this material is the presence of many types of local tariffs approved in the fiscal packages of the LGUs, but no revenue is collected from them. Meanwhile in the fiscal packages there are tariffs similar by nature to other local taxes (for example the tariff of the boundary wall of the yards / similar to the building tax in Korçë; or the tax on the use of the public spaces in Gramsh similar to the tariff on public spaces). This finding is more important if compared to those local units which have concise fiscal packages where tariffs are clearly defined from taxes and they are not replicated, whose budgets are consolidated and they manage to collect revenues from all other municipal tariffs and taxes (such as the case of Fier).

The recent legislation amendments to the local tax system will strikingly affect, according to the preliminary evaluations we have carried out, the revenues from the own sources by 20-55%. Therefore there are required urgent measures to cover these costs for the budget of these units. (their covering with unconditioned additional funds from the CG and the revision of the LGU fiscal packages while retaining the relevant taxpayers as creditors for the next fiscal year or as the last measure but not recommended the transfer of the tax burden from large subjects to the families).

- **Regarding the asset revenues and other revenues**

The assets are important revenue sources for the local units, but still insufficiently utilized as potentials by the local units. This type of revenue depends a lot on the finalization of the transfer process of the property from the CG to the local units. Even after the finalization of this process, the local units have to carry out a detailed evaluation of the situation and the related decisions that should be made (leasing, selling, restructuring, exchanging or establishing private-public partnership deals). The position that this kind of revenue has in the local unit budget varies from one unit to the other. Therefore if in Gramsh it renders over 20% of its own revenues; in Lezhë 12% while in Fier 1.5%. This kind of revenue is totally dependant on the inventory of local unit's assets and their possibility to be utilized for business activities.

3.3 SMALL BUSINESS TAX ANALYSIS

Small business tax as previously mentioned for the moment is the most important source for the local units. Being restructured year by year according to the tax legislation in Albania, this tax is paid for the self-declaration of the small business turnover in the respective local units.

The verification of the self-declaration of the local subjects is still difficult for the technical staff of the local units to be carried out. This is because most businesses do not use the cash registries the only piece of equipment able to give evidence of their actual turnover. Secondly, the local tax administration does not render a clear division of duties related to the verification of the small businesses with the central administration. Frequently the local tax administration is limited in inspections regarding the formalization of the businesses, the recording and issuing of the documentation, the duly payment of the taxes and duties.

The central tax administration, despite possessing the technical capacities to carry out legitimate tax inspections, is not frequently engaged in such an activity, as it is focused on the large businesses as they constitute bigger opportunities for the revenues in their fiscal plans. Even when such inspections have been carried out, there has been a complete lack of coordination with the local units.

A large amount of work in the tax offices from the working experience of the municipalities in partnership with LGPA is seen as being devoted to the manual recording of the tax documentation. This is the reason why LGPS firmly supports the automatization of these offices with a new IT system of the tax administering along with the respective equipment (server, inverter, computers, printers, UPS, etc.).

Generally speaking small businesses is classified as a type of business distinguished for their limited knowledge in terms of taxes. They are often uninformed about the legislation amendments and this comes as a disadvantage toward the local and central tax administration, thus resulting in tax evasion. Therefore, for example, most of the businesses were uninformed about the new tax at 10% on personal income. If we consider the fact that this tax is paid after the relevant adjustments to the local tax on small business, this has been an issue when having to deal with excessive payments (which is the institution in charge of handling the disbursement: another issue is the situation when there has been identified a larger turnover than the one the subject has initially declared at the local units, what would be the solution for the difference to be paid as local tax, who will coordinate the information and the respective documentation).

The NRC information shows a considerable increase in the number of small businesses (in certain towns there is identified an annual increase of 30%), whereas the revenues collected from the small business tax have not increased proportionally (on the contrary, in certain cases there is evidenced a fall in the revenues). This is the reason for the opening and closing of many business activities in order to avoid the payment of this tax. Another explanation might be the economic recession during this period. Nevertheless this information might be verified only by the statistics on the number of the employees. Such statistics are nonexistent, but the latest data from the “On the Local Government” 2009 survey shows economic recession in the surveyed local units.

Following this analysis, in order to improve the performance for this tax revenue collection, it is recommended that:

- Simplification of the legislation
- Transparency in the calculation of the taxes and tariffs by the local administration
- A better coordination and continual exchange of information with the central administration
- A better provision of information to businesses related to the respective taxes, the calculation method and payment terms
- Field inspections for the issuing of the detailed transaction documentation
- The use of cash registries (government project)

- Automatization of the registering system and of the administering of the tax information

3.4 AN ANALYSIS OF THE PROPERTY TAX

The tax on immovable property consists of two components, the building tax and the tax on agricultural land. The latter is not implemented in the municipalities, with the exception of Fushë Krujë and Gramsh under whose administration are certain villages as well. Nevertheless even in these municipalities the tax revenues (the tax on agricultural land) are almost zero.

The tax on buildings, which is the second most important tax in the total of the fiscal revenues of the local units, is calculated as a fixed amount on the buildings' size (per square meter). Among the difficulties, there should be mentioned the lack of information on the buildings' size. There is also a lack of communication among the local units and IPRO, even though the latter is required by law to do so. On the other side, the municipalities themselves seem rather reluctant in engaging in tangible actions for the registering of the informal buildings as a very good source to generate additional revenues from this tax.

The municipalities do not seem to apply restricting measures for the collection of this tax (especially regarding families). They make use of another method, that of using the provision of services by the civil registry offices as a condition to the payment of this tax. Such a method would be devalued as soon as the citizens are provided with ID cards.

The collection of this tax through an agent would be a better mechanism to be considered by the municipalities.

The project for the automatization of the IPRO would be highly valued by the local units for the collection of this tax. Nevertheless even in this case the municipalities should find restricting measures or the right mechanism for the collection of this tax.

3.4.1 Findings

The property tax does not provide for a tax on urban land. The determination of this component is one important potential for the local units, if becoming part of the local tax system.

Considering the potential that this tax shows for the local government units, the drafting of a specific law on the immovable property tax as a fiscal revenue for the LG would give greater institutional importance and would also provide for detailed/specific instruments for its collection, and more importance to this fiscal instrument.

In the framework of the legislation harmonization, the imposing of revenue tax on individuals as well would facilitate the administration and collection of the immovable property tax.

4.0 THE SYSTEM OF LOCAL TAXES AND THE STRENGTHENING OF THE FINANCIAL CAPACITIES OF THE LOCAL UNITS

4.1 THE LEGAL FRAMEWORK OF THE LOCAL TAX AND TARIFF SYSTEM AND THE DECENTRALIZATION REFORM

The Law on the Organization and Functioning of the local government enforced in 2000 sanctioned the local financial sources. Since that year, all central governments have reformed the financial and fiscal legislation in order to make way for the execution of all funds and financial sources in the organic law of the LG.

Initially, the local taxes were defined in the law of the tax system of the republic of Albania. In 1992 this law comprised a short list of 5 local taxes. Year by year, we would see that this basic tax and tariff law would include other items in the list, up to 1998 when there is the complete list we have today. In this year the tax system clearly provided for chapters on national taxes and local ones as well as increased the level of discretion for the local councils to determine whether to change the referential level of the local tax with +/- 20% of their legal level. This novelty would increase the level of independence of the LG to determine the local fiscal burden.

Regarding the implementation of the local decentralization, there were made concrete decisions to carry out this reform. The financial strengthening of the local units would come as a result of the formula of the distribution of the unconditioned transfer and more directly through the LGUs own revenues. Thus, in 2002, there was drafted a specific law on local taxes (Law no.8982, dated 2002 “On the System of Local Taxes”) which clearly divided the national taxes from the local taxes while serving as regulatory for the local taxes and tariffs and procedures; the fiscal agents and the respective exclusions for all local taxes and tariffs. This law marked a milestone in the strengthening of the financial competences and capacities of the local government. It also increased the level of discretion of the decision-making authorities (local councils) in determining the tax level (from +/-20% to +/-30% for the small business tax and the immovable property tax, while revoking the provision for the other local taxes). In the same year, there came another tax under the LG authority, the small business tax which was administered by the CG and was transferred through the MoF to the LG according to the situation of its collection.

In 2006 the law on the system of local taxes was revised one more time, and the LG gets the small business tax with its two components (the small business local tax and the simplified profit tax). The second component (the simplified profit tax) was an additional source of revenues for the local units because this component, which initially was integrated in the Law on the revenue tax, went totally in the central government budget.

It is worth pointing out that all these frequent amendments to the legal framework of the local taxes have resulted in granting more competences and financial sources to the local units in order to determine new taxes and their level as well in harmonizing the fiscal procedures for their collection and administering, except for the last amendment / Law no.10117, dated 24 of April 2009, which directly affects the reform in the decentralization of the public finances.

Table 13. Legal Framework on the Local Tax System

The legal framework on the Local Tax System during the financial decentralization reform of the LG		
1	Law, no. 7548, 8.01.1992 "On the tax system in the Republic of Albania	<p>It is the first law to define local taxes. It clearly defines a short list of local taxes and tariffs (tax on stamps and issuing of official documents, registration tax, cleaning tax, market tax on selling stand, hunting tax).</p> <p>The executive committee might determine the temporary taxes in the best interest of the inhabitants. The committee should be unanimous in doing so.</p>
2	Law no. 7680, dated 3.03.1993 "On the Tax System in the Republic of Albania"	<p>A small change to the list of taxes (intotal they are still 5)</p> <p>The local council might determine temporary taxes serving the inhabitants' interests while agreeing with them on this point.</p> <p>The local units have the right to appoint tax agents</p>
3	Law no. 7777, dated 1993 "On the tax system in the Republic of Albania"	The number of taxes in the list is highly increased, 12 taxes
4	Law no. 7805, dated 16.03.1994 "On the property tax"	It determines a new tax. The property tax is composed of the agricultural land tax and the building tax. This tax is collected by the local tax administration and is distributed 60% to the LG and 40% to the CG.
5	Law no. 8435, dated 1998 " On the Tax System in the Republic of Albania"	<p>The tax system classified in national and local taxes. It provides a detailed list of the local taxes; provides for the right the local councils possess in determining temporary taxes and tariffs; it defines the level of local service; the procedures for administering the local taxes as well appoints the fiscal agents to collect taxes; the exclusions, etc.</p> <p>The local councils are entitled to make changes within the amount determined for the local tax at the level of local taxes +/- 20%</p> <p>The district/commune council is entitled to determine temporary taxes (with the majority of members).</p>
6	Law no. 8344, dated 13.05.1998 "On the property tax" as amended	The revenues from the property tax are 100% transferred to the LG
7	Law no. 8652 dated 2000 "On the organization and operation of the local government"	<p>It provides for the local unit finances which are:</p> <ul style="list-style-type: none"> • Taxes; tariffs and other local revenues • Funds transferred form the CG • Funds from the direct sharing of separate taxes and tariffs • Loans from the banking and financial market • Revenues from the business activities, the selling and leasing of the properties, endowments, interests, fines, aids and donations. <p>By law, the LGU has the authority to independently create revenues.</p> <p>The LGUs decide on their own on the level, method of local tax collection and administering, in compliance with the national general policies and principles.</p>
8	Law no 8982, dated 2002 "On the local tax system"	It establishes the local tax system; defining in detail the tax application basis; the calculating method, the classification of the

		<p>local units according to the fiscal burden regarding different local taxes.</p> <p>It adds to the local tax list, the property tax (composed of the building tax and the agricultural land tax) integrating it to the law and making the law on property tax as a national tax to be transferred at 100% to the LG invalid.</p> <p>For the first time, the local taxes and their administration are classified on their own in compliance with the organic law on the organization and operation of the LG (8652, dated 2000)</p> <p>Small business local tax is regulated by a specific law; it is transferred to the LGU where it has been collected on behalf of the CG.</p> <p>The local councils have the right to determine the local tax level on immovable property +/- 30% above its floor level</p>
9	Law no. 8978, dated 2002 "On the small business local tax"	<p>It defines a new local tax which is applied on the small business</p> <p>This tax is a fixed for every location of small business subjects.</p> <p>It defines the indicative level of this tax and the local unit right to apply its level at +/- 30% of the legal indicative level.</p> <p>This tax is administered by the CG and is transferred to the LG through MoF.</p>
10	Law no. 8979, dated 2002 "On revenue tax"	It defines a simplified profit tax as a percentage on the small business turnover (4% over the turnover of all subjects that do not pay the VAT). This is a national tax, which was imposed on small business and went in the budget of the CG.
11	Instruction no. 4, dated 2003 "On small business local tax"	The small business tax is collected by the central tax administration and is transferred to the LGU
12	Instruction no. 5, dated 2003 "On the cooperation of tax authorities on the administration of small business tax"	It regulates the administering of tax on small business
13	Law no. 9431, dated 2005 "On revenue tax"	The level of simplified profit tax is reduced from 3% on the small business turnover to 1.5%
14	Law no. 9432, dated 13.10.2005 "On local tax on small business"	It alters the table of basic law of 2002 on local tax charged on small business by reducing the referential sum according to the table.
15	Law no. 9632, dated 30.10. 2006 "On the local tax system"	<p>The local tax system is complemented with the small business tax, which is not a two-component tax anymore (as small business tax and the simplified profit tax come as one under the name small business tax) and are defined as a single component in the local tax law.</p> <p>The local councils are entitled to determine the local tax level at +/- 30% for certain local taxes (small business; property tax)</p>
16	Law no. 9745, dated 2007 "On certain amendments to law no. 9632 On the Local Tax System"	The new procedures of the launching and registering of businesses at NRC are considered in the local tax system.
17	Law no. 9764, dated 2007 "On certain amendments to law no. 9632 On the Local Tax System"	There are made changes related to the exclusion from property tax of some tourist village
18	Law no. 8944, dated 2007 "On the revenue tax", amendments to the 1998 basic law	There is integrated a new element of personal income tax of 10% over the net profit for the subjects that pay the local

		tax..
19	Law no. 9931, dated 2008 "On certain amendments to law no. 9632 On the Local Tax System"	It considers the amendments made to the law on the tax procedures / administrative infringements and sanctions.
20	Law no. 10073, dated 2009 "On certain amendments to law no. 9632 On the Local Tax System"	There is reflected the tax of impact on the infrastructure for important investments that decreased from 1-3 or 2-4 of the investment value at 0.1% but not less than the rehabilitation cost of the damaged infrastructure
21	Law no. 10117, dated 24 of April 2009 "On certain amendments to law no. 9632 On the Local Tax System"	There is a change in the level of the fiscal burden for certain local taxes; temporary taxes and all other local taxes (their total being as much as 10% of the indicative level of the tax on small business) The lowering of the level of the small business tax and property tax from +/-30 % of the indicative level of the table to +10/-30% of the indicative level respectively of the small business tax and property tax

4.1.1 Findings

If we refer to the past legislative amendments to the local tax system (the above table) there is a nonsense in the application of the revenues tax. In 2002 there was imposed a simplified profit tax as part of the revenues tax at the level 2-4% of the small business turnover. This level was later, in 2006, reduced to 1.5%. In 2006 this revenue tax on small businesses as referred later on as a component of the small business tax (by being transferred from the revenue tax law to the local tax system law). In 2007, there was imposed one more time the revenue tax on small business at 10% of the net profit; without first changing the component of the simplified tax on profit within the small business tax.

The Law on the Organization and Functioning of the Local Government in Article 15, item 2, provides for the LGUs own revenues and the shared taxes and tariffs. Until today this revenue from divided taxes and tariffs (which provides for the transfer of a specified percentage from the revenue tax and/or the value added tax to the LGU) is not applied by the CG.

If the shared taxes and tariffs were to be applied, there would be eliminated the replication of two taxes (tariffs) on small business and there would be wasted less energy by both fiscal administration (the local and central ones) to check the same fiscal subject.

Since the last amendment to the local tax system brings about important changes for the local units, this will be analyzed on its own.

Based on the recent adjustments to the law on local tax system (April 2009), the total of the below taxes cannot be more than 110% of the indicative level of the small business tax: the small business tax, the tax on the occupation of public spaces, the tax on the advertisement, the hotel tax, the temporary tax and all tariffs (including the cleaning, landscaping, street lighting, and licensing tax).⁶ Apart from this, there are reduced the allowed intervals regarding the Immovable Property Tax and the Small Business Tax. The below table renders a summary of these amendments

Table 14. Summary of approved adjustments in the Local Tax System

Issue	Existing Law	Approved Amendment
-------	--------------	--------------------

⁶ The below local taxes **are not included** in the calculation of a maximum of 110% of the small business tax level; the tax on impact in the infrastructure, the tax on the ownership title transfer on real estate, the tax on annual vehicle registration, as well as property tax.

Small Business Tax (Article 11)	The LGUs may change the tax level by +/-30%	The LGUs may change the tax level by +10/-30%
Immovable property tax (Article 21)	The LGUs may change the tax level by +/-30%	The LGUs may change the tax level by +10/-30%
Other taxes (Article 32)	The LGUs may change the tax on the occupation of public spaces by +/-30%	The change must not exceed the level of +10% of the indicative level of the small business tax, calculated on the total amount of the tax on the occupation of public spaces and other applicable taxes and tariffs.
Temporary taxes (Article 33)	When necessary, the LGUs might approve temporary taxes	Shuma e taksave të përkohshme së bashku me taksat dhe tarifatat e aplikueshme ⁷ , nuk duhet të tejkalojnë nivelin prej +10% të nivelit tregues të taksës mbi biznesin e vogël. The sum of temporary taxes together with the applicable taxes and tariffs ⁸ , should not exceed the level of +10% of indicative level of small business tax.
The local tariffs and their administration (Article 35)		The sum of applicable tariffs should in no case exceed the level of 10% of the indicative level of small business tax.

As it appears from the table, all recent interventions in the law in question have brought about important adjustments in the level of taxes and tariffs and the like.

4.2 WHAT IS THE IMPACT OF THE APRIL 2009 AMMENDMENTS ON THE LOCAL TA SYSTEM FOR THE LOCAL GOVERNMENT UNITS

It is valued that the approved ammendments to the Law on the Local Tax System will have an important negative impact, including:

- Considerably reducing the LGU budget estimated to become 10-40% less
- Devaluing the successful decentralization reforms implemented in the recent years due to the elimination fiscal autonomy
- Considerably reducing the available funds for local investments
- Negatively affecting the captalinvestment plans and the LGUs' ability to implement strategic plans.
- Making it impossible for the covering of the costs through the service tariffs due to the elimination of the link between tariffs and service provision costs
- Reducing the borrowing capacity of the LGUs
- Hampering the precise determination of the individual local tax in the management process
- Reducing the revenues of the municipalities and communes would negatively affect the budget

⁷ Where the applicable taxes and tariffs are defined: small business tax, tax on the occupation of public spaces, tax on billboards, hotel tax as well as all tariffs (including the cleaning, landscaping, lighting and licensing tariff).

⁸ Where the applicable taxes and tariffs are defined: small business tax, tax on the occupation of public spaces, tax on billboards, hotel tax as well as all tariffs (including the cleaning, landscaping, lighting and licensing tariff).

- Devaluing a long program of assistance by donors on the decentralization and local government strengthening issues, including the USAID programs.

4.2.1 The small business tax burden

The amendments to the Local Tax and Tariff System limit the small business tax burden regarding the following taxes: small business tax, the tax on the occupation of public spaces, the tax on billboards, the hotel tax, the temporary taxes and all tariffs (including the cleaning, landscaping, lighting and licensing) at 110% of the indicative level of the small business tax. For this reason, in case a LGU decides to raise the small business tax by +10% of the indicative level of the tax, which is tolerated by the amendments made and approved, it cannot actually raise any of the above-listed taxes and tariffs on small business.

The reasoning behind the amendments to the local tax system is the one of protecting small businesses (the businesses with an annual turnover of less than 8 million lek) during the financial global crisis. Nevertheless there are two wrong evaluations in this reasoning.

Firstly, at the beginning of 2008 fiscal year, there was imposed an additional tax on small business. The revenues from such a tax went to the central government and not to the local government units. At the beginning of 2009, it was decided that small businesses with an annual turnover from 2 to 8 million lek are required to pay the Personal Income Tax of 10% of the profit made during the previous year (in this case during 2008) The general opinion was that this new tax was imposed upon admitting that the small business tax was a small one. *By applying the profit tax and afterwards limiting the authority of the local government units to collect taxes at local level, the central government is actually transferring the revenues from local to central level.*

Secondly, the small business tax burden compared to that of large businesses is relatively small. At present, a classical small business in Shkodra would have a tax burden according to the following table.

A **small business activity** in Shkodër is assumed to have these features:

- Type of business: Restaurant (retail)
- Business Location: Shkodër
- Turnover: 7 million lekë
- Profit: 1 million lekë
- Size of the building: 60 m²

Table 15. The tax burden for a small business activity in Shkodër

Tax	Tax level	Tax base	Annual tax burden (in lekë)
Small business tax	123,000/year	According to the turnover and location	123,000
Personal Income tax	10%	1,000,000	100,000
Property tax	150 lekë/m ² /year	60 m ²	9,000
Tax on the occupation of public spaces	90 lekë m ² /month	15 m ²	16,200
Tax on billboards	500 lekë/year	per billboards	500
Tariffs on landscaping, cleaning and lighting	22,400 lekë/year	per business	22,400
TOTAL OF ANNUAL BURDEN ON SMALL BUSINESS			271,100 Lek

Compared to the above-mentioned case, the tax burden for a similar business activity in Shkodër but with a turnover of 8.5 million lekë goes much higher as shown in the table no.15. **Medium-sized business** in Shkodër is assumed to bear the following characteristics:

- Type of business: Restaurant (retail)
- Business location: Shkodër
- Turnover: 8,5 million lek
- Profit: 1 million lek
- Size of the building: 60 m²

Table 16. Burden of tax on medium-sized business in Shkodër

Tax	Tax Level	Tax Base	Annual Tax Burden
VAT ⁹	For restaurants, up to 13% ¹⁰	Based on the turnover and type of business	1,100,000
Profit tax	10%	1,000,000	100,000
Property tax	150 lekë/m ² /year	60 m ²	9,000
Tax on the occupation of public spaces	90 lekë/m ² /month	15 m ²	16,200
Tax on billboards	500 lekë/year	per billboard	500
Tax on landscaping, cleaning and lighting	22,400 lekë/year	per business	22,400
TOTAL OF ANNUAL BURDEN ON MEDIUM-SIZED BUSINESS			1,248,100 Lek

By considering the municipalities assisted by LGPA program, there can be concluded that in the present legislation, municipalities do not apply maximal amounts of the small business tax.

Table 17. Tax level of small business in the municipalities in partnership with LGPA

Municipality	Tax level
Fushë-Krujë	-30%
Fier	The indicative tax level
Gramsh	The indicative tax level at -30% for the suburban businesses
Himarë	The indicative tax level
Korçë	According to the indicative tax level with a slight decrease for certain categories of businesses
Kukës	+20%
Lezhë	The indicative tax level
Librazhd	The indicative tax level at +30 % for the businesses pertaining to the category from 1-2 million lek
Pogradec	The indicative tax level
Shkodër	The indicative tax level

Financial impacts of the legislative amendments in the local tax system on the budget of local units, which are in partnership with LGPA

LGPA has carried out certain preliminary assessments of the effects that the amendments to the Local Tax System have in the budgets of our partners, that is municipalities. Table 5 demonstrates that the effects are considerable and vary from 10% to 40%.

⁹ Note: The VAT is not considered as a burden for businesses but as a burden to the consumers as it is a consumption tax. Nevertheless, for comparing reasons, LGPA has included the VAT in the tax burden for the medium-sized and large businesses in order to make a real comparison with the small business tax burden

¹⁰ The total of payable VAT depends on the type of business. According to the GTD, for restaurants, the payable VAT might be up to 13% of the turnover. (8,500,000 *13%).

Table 18. Effects of the approved amendments to the law on Local Tax System in the municipalities, partner to LGPA (in million lek)

	Fushë-Krujë (2009)	Fier (2008)	Gramsh (2008)	Korçë (2008)	Kukës (2008)	Lezhë (2009)	Librazhd (2008)	Pogradec (2008)	Shkodër (2008)
Actual legislation									
Small Business Tax	8,600	86,809	8,395	126,000	13,975	36,730	13,570	26,522	85,782
Property tax	20,000	27,796	2,604	41,000	2,667	9,500	2,715	10,132	25,526
Taxes and tariffs affected by this amended legislation	23,740	119,230	8,970	117,900	36,854	30,200	12,462	80,989	90,486
Taxes and local tariffs not affected by this amended legislation	19,450	87,869	1,304	31,000	56,217	83,446	9,372	1,228	195,282
The unconditioned grant	71,274	174,088	52,958	171,315	95,108	61,702	23,332	93,109	318,454
Total budget according to the actual legislation	143,274	495,792	74,231	487,215	204,821	221,578	61,451	211,980	715,530
According to the amended legislation									
Small Business Tax	8,600	86,809	8,395	126,000	11,180	36,730	13,570	26,522	85,782
Property tax	20,000	27,796	2,604	41,000	2,667	9,500	2,715	10,132	25,526
Taxes and other tariffs (within the limitation of 10% of the small business tax)	5,608	32,527	2,634	36,180	1,118	9,713	5,144	18,850	26,675
Taxes and local tariffs not affected by this amended legislation	19,450	87,869	1,304	31,000	56,217	83,446	9,372	1,228	195,282
The unconditioned grant	71,274	174,088	52,958	171,315	95,108	61,702	23,332	93,109	318,454
The total budget according to the amended legislation	125,142	409,089	67,895	405,495	187,208	201,091	54,133	149,932	651,719
Negative effects on the total budget	-18,132	-86,703	-6,336	-81,720	-17,614	-20,487	-7,318	-62,048	-63,811
Decrease as percentage of the LGU's own revenues	34%	37%	30%	26%	29%	13%	19%	52%	16%
Decrease as percentage of the total LGU's budget	15%	22%	9%	20%	19%	10%	13.5%	41%	10%

4.3 WAYS TO MANAGE RECENT LEGISLATION AMENDMENTS TO THE LOCAL TAX SYSTEM

Amendments to the law on Local Tax System and more specifically the limitations imposed on other taxes and temporary taxes as well, is a violation of the law on the Organization and Operation of the Local Government which explicitly grants the right to the LGUs to determine the tariffs depending on the service provision costs. This law plainly defines that:

Article 15.3 – By means of this law, the communes and municipalities are granted with sufficient authority to generate revenues on their own with the aim to fund exclusive functions in their jurisdiction.

Article 16.2 – The law determines the taxable basis as well as the minimal and/or maximal levels. The communes and municipalities have the right to implement or not a local tax. In case they implement such a tax, they determine the tax level and the method of collection and administration of this tax within the limits and criteria defined in the respective legislation.

Article 16.3(a) – The communes and municipalities generate revenues from local taxes for the public services they provide.

Article 16.4 – The communes and municipalities determine the local tax level, the method of collecting local taxes as well as their administration in compliance with the policies and general principles defined in the normative acts issued by the central government.

*The revision of these legislative amendments considering the above-mentioned quoted articles is **strongly recommended** and the central government should financially compensate the difference in the budget of the respective unit budget through an unconditioned grant.*

For the time being, in a situation when the local administration has to back these legislative amendments, it is recommended for the LGUs:

1. To summon local councils by reviewing the fiscal packages in compliance with these legislative amendments (2009) in order to cut proportionally the expense budget.
2. For the short time left for this financial year, the fiscal package should not be altered. The legislative amendments should be estimated one more time and should be taken into consideration in the fiscal package and budget of 2010. In the meantime the tax payers should be considered as creditors according to the estimations of the next fiscal year.

5.0 OTHER SOURCES OF REVENUES

5.1 IMMOVABLE PROPERTIES

The law on the organization and functioning of the local government provided the legal basis for the local units in order for them not to be considered anymore as insignificant users of the public properties but an owner with full rights on these immovable property. In the framework of the local decentralization reform, in 2001 there was passed the law “On transferring public immovable properties from central to local government” and the Government Decision of the same year on the registration of the central government immovable property and their transfer to the LGUs. This legislative framework would allow for the introduction of certain new mechanisms that would financially strengthen the local units. It is true that this process is progressing rather slowly since 2001, but in the last two years, progress is evidenced in the finalization of the transfer process of these properties to the local units. Regarding 10 municipalities, partners to LGPA, 5 out of 10 (50%) have finalized the process: Gramsh; Fushë Krujë; Lezhë; Korçë and Pogradec. It should be pointed out that the Municipality of Gramsh has finalized the process of file preparation and it has submitted at the District IPRO the application for the registration and issuance of the ownership certificate for about 500 properties. The same situation is evidenced in Lezhë and Korçë while Pogradec and Kruja will very soon be close to the finalization of this process.

The efficient utilization of the local unit property is important as through the property these units may (i) perform certain functions granted by law regarding the execution of administrative responsibilities; (ii) better manage the assets by better planning the administrative organization of the LGUs, supporting the business and (iii) generate revenues for the local budget.

The first step to enable the implementation of this new financial mechanism is the finalization of the process of transferring and registering of these public properties; and then their classification according to the needs of the LGU to carry out the public services it should provide by law. If the assets, being a considerable resource of revenues as well as an instrument for local economic development, are used effectively, they may contribute in decreasing budget expenses and increase the revenues while improving the quality and quantity of the services provided to the local community. After identifying the excessive assets, they are analyzed in order to the related decision of how to consider them in the future (e.g. improving their conditions, lending or selling them, implementing PPP / Concessionary etc.) These decisions are taken only after considering the needs for the service provision by the LGUs and the future needs; population trends and the financial needs for different projects.

The asset evaluation should take into consideration the evaluation of its physical status, the economic value (according to the market) and the operational needs for its maintaining¹¹.

In this moment, the local units passively make use of their properties (they lend public building spaces) and the revenues from this source are very small (as they do not fill any considerable share in their

¹¹ The efficient management of the local immovable properties is a novelty in the functions of the local government. LGPA has published a manual for the management of local assets. This publication will answer a lot of questions on issues regarding a better management of assets.

budget). Out of ten municipalities LGPA works with, the revenues from property selling or lending are cover different percentages ranging from 1.5% of its own revenues in the municipality of Fier; 3.5% in Lezhë and over 20% in Gramsh.

An innovation that is boldly being implemented in the decisions for a more efficient management of the local assets of the LGUs in Albania, despite the fact that there is no finalized example so far, is the forging of agreements of public private partnership or concessionaries. Therefore from the experience of our project so far we might point out Korça example for the implementation of a PPP in building social buildings in a public asset (area of land for construction of about 40ha). Other potential projects are the building of an industrial market in Kukës; of a new agricultural produce market in Fushë Krujë; of a bus station in Fier; of an industrial area in Lezhë etc.

It is important to point out that the evaluation and utilization of local public assets should be transparent and open to the community in order to maximize their efficiency while providing the fundamental services the LGU might offer and to increase their quality, in compliance with the market prices.

5.2 LOANS FROM THE FINANCIAL MARKET

Since February 2008, the local government units may make use of a new financial instrument, that of a loan from the financial market to be used for covering their financial needs for their exclusive or delegated functions. The law on “Local Government Borrowing” is another step in the financial decentralization process which dramatically increases the LGU financial capacities in order to implement investment projects, which cannot be executed through the annual budget of these units. Even though this is a new law, sometimes labeled as “enterprising” for the actual capacities of the LGU necessary for its implementation, the law is considered as rigid¹² and is considered as one that would not hamper the administration of local finances. Whereas due to the legal limits of the debt, the needs of the LGUs will not be satisfied for the implementation of larger investment projects.

Although it is considered to be conservative for the reasons listed above, this new financial instrument compared to the present structure of the local unit budget, transcribed in money terms, might be considered as an important financial instrument.

¹² The legal borrowing limits of the debt stock and debt annual service for an LGU are relatively low compared to other countries in the region; in addition there are few possibilities to provide very secure guarantees such as the financing interception.

Table 19. The loan amount that might be maximally issued to each of 10 municipalities of LGPA in 2009.

Kufijtë e Huamarrjes bazuar në Kriterin e Stokut	Viti Bazë 2008		
	në Mln. Lekë	në Mln. Euro	në Mln. USD
Himarë	73.42	0.56	0.82
Librazhd	78.11	0.60	0.87
Lezhë	107.66	0.82	1.20
Gramsh	109.37	0.83	1.22
Fushë Krujë	161.35	1.23	1.79
Kukës	176.49	1.35	1.96
Pogradec	265.24	2.02	2.95
Korçë	518.76	3.96	5.76
Fier	585.09	4.47	6.50
Shkodër	681.95	5.21	7.58

Considering the fact that the loan that a LGU might receive at a moment in time might be at maximum 1.3 times more than the revenues of this unit during the last fiscal year, this means that within a year this LGU, upon having a debt as much as its legal limit might allow, can implement investment projects that might increase its investment funds about 3.2 times compared to the normal funding provided in its annual budget. It is understandable that this amount is an average of the potential funding provided by this instrument for all the local government units of the country together while there are other units¹³ (those that have bigger and more flexible budgets) where the effect of this instrument is much higher (up to 5-6 times higher). For example, in Himara this loan may increase by 3.3 times the investments that this municipality could implement in 2008 while in Shkodra the loan can multiply 5 times the investments that could be completed in the same year by only relying in its own funds (revenues from taxes and fees, non-fiscal revenues and the unconditioned transfer from the CG).

Although this instrument is available to the local government units in Albania from one year and a half now, to date, only one municipality has taken the initiative to enter this market. The municipality of Fushe Kruja managed to sign on June 4 of this year, the agreement of the first commercial loan received by a local government unit. This delay/hesitation to access funds from the financial markets comes as a result of lack of information of the interested stakeholders on this new opportunity; lack of confidence by local government units in their financial capacity to repay the loan; and in addition lack of confidence by financial institutions and banks to enter this segment of the lending market (lending to local government units). However, Fushë Kruja case has indicated that all the arguments mentioned above are not to be considered since the Law on Local Government Borrowing defines clearly certain debt limits (the maximum debt stock and the maximal annual debt service), which in other words require the local government unit that decides to enter this market, to respect debt limits defined by the law which provide for the financial guarantee of this unit to the financial institution or bank. Second, following an awareness campaign by LGHPA and other interested stakeholders, the local government units and the banking sector are now informed on the legal framework, the opportunities it offers and the way it functions.

What still remains to improve is the capacity building of technical staff of LGUs to submit successful applications to financial institutions and banks, which from the only previous experience has resulted to

¹³ While for local government units with small and rigid budgets and where the investment weight does not exceed the 20% of the total annual expenditure, this number results to be 3 times smaller.

be a difficult challenge. This means inclusion by local government units of a wide group of specialists; application of participatory methods while making the decision to take a loan by involving the local community and other groups of interest; preselection of the investment project; taking of all the necessary approval by competent authorities; completion of an assessment of the financial capacities of the local government; negotiations with the banks etc.

APPENDIX A. ECONOMIC DATA FOR LGPA TARGET MUNICIPALITIES

The Local Governance Program in Albania works with 10 municipalities in all Albania. All financial data of these municipalities for 2008 are presented in the table below.

TABLE 1. Revenues of the LGPA target municipalities (2007)

Lek (million)	Overall LGU revenues	The LG unconditioned and own revenues	Population	Per capita	Overall LG revenues	LG unconditioned and own revenues
1 Shkodër	737,573	524,573	92,600	1 Librazhd	8.30	8.30
2 Fier	457,067	450,067	82,575	2 Gramsh	8.21	7.75
3 Korçë	425,544	399,044	64,388	3 Kukës	7.91	6.48
4 Pogradec	212,034	204,034	38,400	4 Himarë	6.26	6.26
5 Kukës	165,753	135,763	20,950	5 Korçë	6.61	6.20
6 Fushë Kruje	142,118	124,118	21,000	6 Fushë Kruje	6.77	5.91
7 Gramsh	89,134	84,134	10,862	7 Shkodër	7.97	5.66
8 Lezhë	82,815	82,815	23,150	8 Fier	5.54	5.45
9 Librazhd	60,085	60,085	7,238	9 Pogradec	5.53	5.31
10 Himarë	56,480	56,480	9,021	10 Lezhë	3.58	3.58

TABLE 2. Budget data for 10 LGPA municipalities, 2003-2008

Consolidated financial data for the municipality of Fushë Krujë						
Lekë (million)	2003	2004	2005	2006	2007	2008 (Plan)
Overall revenues	53,128	71,975	99,599	133,785	142,118	142,238
Unconditioned Transfer from CG	31,150	39,151	53,985	53,985	63,686	70,082
Conditioned Transfer from CG	4,572	12,970	18,000	22,000	18,000	
Revenues from own resources	17,406	19,854	27,614	57,800	60,432	72,156
From Taxes and Tariffs	14,404	16,598	23,777	54,620	57,192	68,956
Non-fiscal revenues	3,002	3,256	3,837	3,180	3,240	3,200
Overall expenses	53,128	71,975	99,599	133,785	142,118	142,238
Operational	31,877	43,185	59,759	80,271	85,271	85,343
Salaries +social and health	15,407	20,873	28,884	30,278	32,564	33,569
Maintenance	16,470	22,312	30,876	49,993	52,707	51,774
Investments	21,251	28,790	39,840	53,514	56,847	56,895

Consolidated financial data for the municipality of Gramsh

Lekë (million)	2003	2004	2005	2006	2007	2008 (Plan)
Overall revenues	55,584	57,593	82,434	95,079-	89,134	104,423
Unconditioned Transfer from CG	34,280	24,624	29,548	48,190	44,388	52,055
Conditioned Transfer from CG		9,969	10,000		5,000	
Revenues from own resources	21,304	23000	42,886	46,889	39,746	52,368
From Taxes and Tariffs	12,378	13,144	22,394	26,620	20,375	31,882
Non-fiscal revenues	8,926	9,856	20,492	20,269	19,371	20,486
Overall expenses	55,584	57,593	82,434	95,079	89,134	104,423
Operational	39,465	40,891	58,528	67,506	63,285	74,140
Salaries +social and health insurance	16,675	17,278	24,730	26,359	26,740	27,892
Maintenance	22,789	23,613	33,798	41,147	36,545	46,248
Investments	16,119	16,702	23,906	27,573	25,849	30,283

Consolidated financial data for the municipality of Lezhë

Lekë (million)	2003	2004	2005	2006	2007	2008 (Plan)
Overall revenues	87,225	58,673	78,355	84,359	82,815	103,584
Unconditioned Transfer from CG	25,469	25,469	25,469	37,470	43,069	54,002
Conditioned Transfer from CG	40,452	10,636	10,000	-		
Revenues from own resources	21,304	22568	42,886	46,889	39,746	49,582
From Taxes and Tariffs	11,736	12,745	23,090	26,654	21,054	27,021
Non-fiscal revenues	9,568	9,823	19,796	20,235	18,692	22,561
Overall expenses	87,225	58,673	78,355	84,359	82,815	103,584
Operational	46,725	42,831	57,199	61,582	60,455	75,616
Salaries +social and health insurance	26,168	26,259	27,893	28,000	29,367	31,075
Maintenance	20,558	16,572	29,306	33,582	31,088	44,541
Investments	40,500	15,842	21,156	22,777	22,360	27,968

Consolidated financial data for the municipality of Fier

Lekë (million)	2003	2004	2005	2006	2007	2008 (Plan)
Overall revenues	254,607	306,545	511,103	480,989	457,067	550,311
Unconditioned Transfer from CG	68,750	68,750	82,500	123,632	138,034	172,188
Conditioned Transfer from CG	60,564	105,137	40,073	20,000	7,000	
Revenues from own resources	125,293	132,658	388,530	337,357	312,033	378,123
From Taxes and Tariffs	79,670	83,869	306,550	245,457	204,638	254,908
Non-fiscal revenues	45,623	48,789	81,980	91,900	107,395	123,215
Overall expenses	254,607	306,545	511,103	480,989	457,067	550,311
Operational	178,225	146,309	357,772	336,692	319,947	385,218
Salaries +social and health insurance	66,198	79,702	112,639	125,057	126,932	135,896
Maintenance	112,027	66,607	245,133	211,635	193,015	249,322
Investments	76,382	160,236	153,331	144,297	137,120	165,093

Consolidated financial data for the municipality of Himarë

Lekë (million)	2003	2004	2005	2006	2007	2008 (Plan)
Overall revenues	11,749	20,796	57,387	66,542	56,480	73,377
Unconditioned Transfer from CG	7,046	7,906	7,906	19,895	25,523	35,143
Conditioned Transfer from CG		7,000	17,000	9,000		
Revenues from own resources	4,703	5890	32,481	37,647	30,957	38,234
From Taxes and Tariffs	2,335	2,790	17,213	21,409	13,134	20,234
Non-fiscal revenues	2,368	3,100	15,268	16,238	17,823	18,000
Overall expenses	11,749	20,796	57,387	66,542	56,480	73,377
Operational	8,224	13,796	40,171	46,579	39,536	51,364
Salaries +social and health insurance	6,235	8,953	14,392	15,639	16,944	17,000
Maintenance	1,989	4,843	25,779	30,940	22,592	34,364
Investments	3,525	7,000	17,216	19,963	16,944	22,013

Consolidated financial data for the municipality of Librazhd

Lekë (million)	2003	2004	2005	2006	2007	2008 (Plan)
Overall revenues	49,414	39,900	60,967	65,825	60,085	69,224
Unconditioned Transfer from CG	8,770	13,004	15,605	16,234	20,874	23,332
Conditioned Transfer from CG	15,202		7,000	12,500	-	
Revenues from own resources	25,442	26,896	38,362	37,091	39,211	45,892
From Taxes and Tariffs	16,688	17,370	26,762	26,791	27,011	32,636
Non-fiscal revenues	8,754	9,526	11,600	10,300	12,200	13,256
Overall expenses	49,414	39,900	60,967	65,825	60,085	69,224
Operational	33,414	27,930	42,677	46,078	42,060	48,457
Salaries +social and health insurance	14,824	15,200	16,800	17,589	18,026	19,263
Maintenance	18,590	12,730	25,877	28,489	24,034	29,194
Investments	16,000	11,970	18,290	19,748	18,026	20,767

Consolidated financial data for the municipality of Shkodër

Lekë (million)	2003	2004	2005	2006	2007	2008 (Plan)
Overall revenues	292,016	339,508	474,871	941,505	737,573	589,714
Unconditioned Transfer from CG	127,769	127,769	168,213	229,125	268,078	309,954
Conditioned Transfer from CG	22,644	52,503	41,473	425,000	213,000	
Revenues from own resources	141,603	159,236	265,185	287,380	256,495	279,760
From Taxes and Tariffs	103,034	110,273	203,738	232,440	191,740	207,490
Non-fiscal revenues	38,569	48,963	61,447	54,940	64,755	72,270
Overall expenses	292,016	339,508	474,871	941,505	737,573	589,714
Operational	219,012	254,631	356,153	512,605	480,673	442,285
Salaries +social and health insurance	84,685	98,457	137,712	159,236	169,236	171,017
Maintenance	134,327	156,174	218,441	353,369	311,437	271,268
Investments	73,004	84,877	118,718	428,900	256,900	147,428

Consolidated financial data for the municipality of Kukës

Lekë (million)	2003	2004	2005	2006	2007	2008 (Plan)
Overall revenues	68,674	93,140	95,936	143,781	165,763	136,034
Unconditioned Transfer from CG	37,106	45,888	55,066	97,408	93,962	91,908
Conditioned Transfer from CG	3,990	17,790			30,000	
Revenues from own resources	27,578	29,462	40,870	46,373	41,801	44,126
From Taxes and Tariffs	23,252	24,259	18,749	28,347	20,262	21,800
Non-fiscal revenues	4,326	5,203	22,121	18,026	21,539	22,326
Overall expenses	68,674	93,140	95,936	143,781	165,763	136,034
Operational	50,132	67,992	70,033	104,960	121,007	99,305
Salaries +social and health insurance	24,036	32,599	33,578	38,963	41,263	44,569
Maintenance	26,096	35,393	36,456	65,997	79,744	54,736
Investments	18,542	25,148	25,903	38,821	44,756	36,729

Consolidated financial data for the municipality of Pogradec

Lekë (million)	2003	2004	2005	2006	2007	2008 (Plan)
Overall revenues	94,702	126,652	178,618	208,143	212,034	428,025
Unconditioned Transfer from CG	24,623	24,623	29,548	65,811	92,220	93,109
Conditioned Transfer from CG	4,990	23,493	21,184	21,000	8,000	188,564
Revenues from own resources	65,089	78,536	127,886	121,332	111,814	146,352
From Taxes and Tariffs	18,963	21,256	32,229	51,412	42,562	42,212
Non-fiscal revenues	46,126	57,280	95,657	69,920	69,252	104,140
Overall expenses	94,702	126,652	178,618	208,143	212,034	428,025
Operational	66,291	88,656	125,033	145,700	148,424	239,461
Salaries +social and health insurance	37,881	50,661	71,447	78,963	81,263	89,639
Maintenance	31,230	40,090	55,766	66,737	67,161	149,822
Investments	25,592	35,902	51,766	62,443	63,610	188,564

Consolidated financial data for the municipality of Korçë

Lekë (million)	2003	2004	2005	2006	2007	2008 (Plan)
Overall revenues	251,561	291,454	440,740	446,511	425,544	495,211
Unconditioned Transfer from CG	76,565	76,565	84,189	111,490	120,772	166,785
Conditioned Transfer from CG	61,126	62,257	64,928	49,500	26,500	
Revenues from own resources	113,870	152,632	291,623	285,521	278,272	328,426
From Taxes and Tariffs	85,623	93,625	240,358	233,140	267,784	278,148
Non-fiscal revenues	28,247	59,007	51,265	52,381	10,488	50,278
Overall expenses	251,561	291,454	440,740	446,511	425,544	495,211
Operational	183,640	212,761	321,740	325,953	310,647	361,504
Salaries +social and health insurance	75,468	87,436	113,963	123,965	127,663	138,967
Maintenance	108,171	125,325	207,777	201,988	182,984	222,537
Investments	67,921	78,693	119,000	120,558	114,897	133,707

APPENDIX B. THE PROJECT FOR THE FUNDING OF THE CONSTRUCTION OF THE FUSHE-KRUJA NORTH RING ROAD THROUGH COMMERCIAL BORROWING

Project Summary

The Northern Ring of the city stretches for **2.8 km** and might be divided into two segments: (i) The actual national road stretches for **1.2 km** and (ii) the existing rural road stretches for **1.6 km** which links the internal roads of the city to the national road Fushë-Krujë – Milot. Figure 1 shows in colors the Northern City Ring.

The first road segment is under the responsibility of the Central Government, which has agreed to build it and is actually under the improvement process of this section.

The second road segment is actually unpaved and stretches for about 5 - 5.5 metres. This segment is under the responsibility of the Municipality of Fushë-Krujë. The improvement cost of this segment, including the paving, widening, building of sidewalks and lighting is estimated to be about 127 million Lekë (including VAT). In order to carry out this project, the Municipality will get a loan of 100 million Lekë from Banka Kombëtare Tregtare (BKT) at a variable rate calculated as the interest rate of the governmental 6-months treasury bonds plus 3.08 % for a maturity period of 8 years. The remaining part of 27 million Lekë will be funded by the budget of the municipality of Fushë-Krujë.

The second road segment and the national highway will be connected by means of an overpassing. The Ministry of Transport and Public Works has already approved of the building of this overpassing.

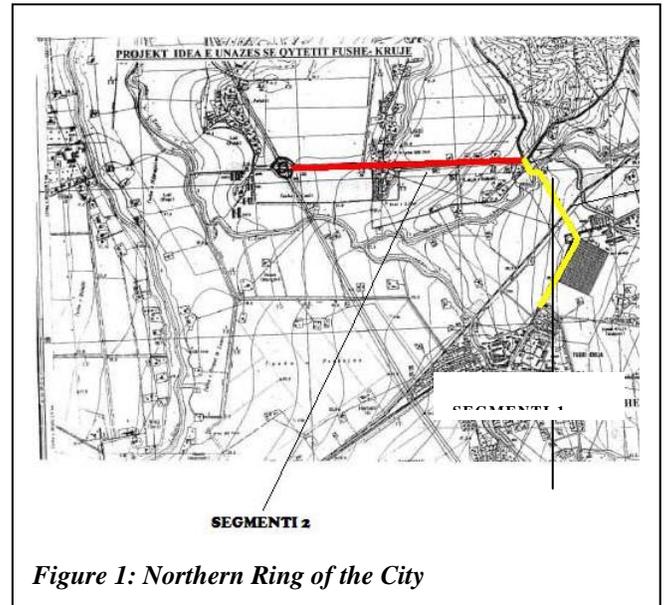


Figure 1: Northern Ring of the City

The building of the Northern Ring of Fushë-Krujë (specifically the second segment) is estimated to have over 10,375 vehicles circulating per day (430 vehicles per hour) including 5,775 heavy weight vehicles (of which 220 per day belong to the cement factory) and 4,600 personal cars.

The project promotes the economic growth in Fushë-Krujë

The building of the second road segment will enhance the development of an industrial area. The USAID Local Governance Program in Albania is actually assisting the Municipality of Fushë-Krujë in preparing the Regulatory Plan of the City and the surrounding Communes. This regulatory plan, which is being drafted through the involvement of all stakeholders, has concluded that a new industrial area will stretch along both sides of the second road segment of the Northern Ring of the City.

The new industrial area will cover an area of land of about 20-25 ha, which will be converted from agricultural land into land for economic/industrial purposes. The area is located in the northwestern part of the city and is confined by the national road (the highway) on one side and from the second road segment on the other side. The transformation of this part into an industrial area will allow for the municipality to offer better services to the businesses and to the demands for their expansion, while improving the services and enhancing the qualitative economic development in the city.

APPENDIX C. MANAGEMENT OF THE LOCAL GOVERNMENT ASSETS AS A GOOD POTENTIAL FOR REVENUE GENERATION

KORÇA MUNICIPALITY'S PRESENTATION, PREPARED WITH THE ASSISTANCE OF THE USAID/LGPA EXPERT ON ASSET MANAGEMENT GENTIAN SELMANI

This presentation provides an overall picture of efforts made by the Municipality of Korça in regard to transfer, registration, management and disposal of municipal assets.

Efficient use of municipal assets is of vital importance to LGUs for several reasons:¹⁴

- *First*, assets allow local governments to fulfill their civic functions through the implementation of administrative responsibilities, by means of investments and regulatory functions.
- *Second*, good management of assets constitutes a basic factor in the socio-economic development of the municipality by providing tools to facilitate a more organized, logical approach to decision-making. Asset management provides conditions for good planning, promotes local businesses' development, and can generate cash income for the community.
- *Third*, municipal assets can be a direct source of revenue. There are various methods to administer the assets in order to generate revenues including sale, lease, concessionary agreements, etc.

Transfer from Central Government

In consideration of the above, the Municipality of Korça paid special attention to the process of public assets transfer from the Central Government. As a result of these efforts, the municipality was able to finalize the assets inventory stages as required by the applicable legislation and the transfer of more than 1,000 public assets was then completed last year when the municipality received the final transfer Decision from the Council of Ministers. More than 95% of these assets were transferred under ownership of the municipality and only 5% were transferred in use.

¹⁴ Asset Management Toolkit developed by USAID/LGPA

Registration

Completion of the transfer process, although very important, was just the first step toward formalizing and further exercising of the ownership rights. The next challenge for the municipality of Korça was to ensure the necessary technical and financial support for the registration of the recently transferred public assets at the District Immovable Property Registration Office (IPRO) and further improve asset management capacities.

With the support of USAID Local Government Program in Albania, the municipality of Korça, assisted by Lorenzo & Co, initiated last February the process of preparing all the necessary cartographic materials required for the registration of the municipal assets. This work was completed by June 2009.

During the same period the municipality has also developed a Municipal Asset GIS and a Catalogue of Municipal Assets including those assets that have potential for economic development. These three products developed under the assistance of USAID/LGPA will enable the Municipality of Korça to exercise its ownership rights over the transferred public assets, improve its management capacities and promote municipal assets that could become an important revenue generation source.

In parallel to the preparation of registration materials, the municipality of Korça started the submission to IPRO of applications for registration of several municipal assets that were considered to be of high priority for the development of several projects, including a major PPP-based housing project.

In addition, the municipality had already allocated in the 2009 budget an amount of 3,000,000 ALL to the costs associated with the formal submission of the registration applications to the IPRO. The intention is to allocate in the 2010 budget the necessary amount for the completion of the registration process.

Asset Management/Disposal for Revenue Generation

As mentioned above, municipal assets can be a direct source of revenue through different disposal procedures including sale, lease, concessionary agreements and public-private partnerships.

With the support of USAID Local Government Program in Albania, the municipality of Korça, assisted by the Urban Research Institute has initiated the process of establishing a public-private partnership framework with the aim of using municipal assets, a land parcel of about 40,000 m², for purposes of land development and social housing.

The main objective of this project is to improve local asset management and attract private sector investment on a competitive and transparent basis to redevelop under-used urban lands to provide shelter and related services for the community. This objective is in line with those of Korca Municipality, and aims to develop city-owned land within a competitive but regulated urban market context.

Based on the engineering, financial and legal analysis, the municipality of Korça assisted by URI has prepared an implementation model of a PPP based municipal Social Housing Rental Program for the selected demonstration site. The model shows how the city can address 40% of the municipal housing needs. The project shall ensure construction of 715 apartment units for a total cost of around 15 million EURO. The city will benefit some 300 apartment units of different size, which constitute 40 % of housing needs as compared to a total of 738 families reregistered as homeless based on the some strict legal requirements.

The completed project will provide both market rate housing and social housing opportunities for some families that are not able to access market financial instruments. The project will also include leased retail/commercial space, open areas, parking, and other necessary public infrastructure improvements.

This project will help the Municipality of Korca to overcome problems in asset management, by identifying uses that maximize the proper and productive use of those assets, thereby generating resources

that can be employed to raise the quality of municipal public services. Additionally, this project enables the Municipality to increase the experience and capacity of municipal administration staff and elected officials in asset management based on internationally accepted approaches.

Another project that intends to make the best use of municipal assets and attract more investments in the city is related to the reactivation of the City's Sport Center. With the support of the USAID Local Government Program in Albania, the Municipality has developed a Feasibility Study and the related Urban Design Plan for this area and is currently seeking for interested parties to further develop the area. This project together with the Social Housing PPP will be presented again this year to the ExpoReal Fair in Germany.

Improved asset management will enable the Municipality to make more strategic use of their properties to generate needed revenue and underwrite the cost of providing better public services.¹⁵

Organizational Improvements

In addition to the efforts mentioned above, Korça municipality has also identified the need of some organizational improvements that will have an impact on the efficient management of municipal assets.

One of the steps that will be taken is the establishment of an Asset Management Department/Unit. The Municipality had already opened a position for an Asset Management Specialist and recently hired the Specialist. The Municipality will to gradually expand the unit with more personnel and further, through the assistance of donor funded projects, to provide more training and technical assistance for the staff. Establishment of this unit will take forward the work started with the transfer of public assets under ownership of the municipality and will include but will not be limited to:

- Completing an Asset Inventory using MS Access based program developed by the USAID Local Government Program in Albania, which allows the asset management specialists to track and recall data on municipal assets. The Asset Inventory allows the flexibility to easily sort the assets by various features and to enter data that automatically generates a set of standard or customized reports that can easily be updated and maintained, as well as printed and stored in the individual Asset Files.
- Completion of this Asset Inventory will give to the Municipality of Korça the opportunity to actively manage their assets including preparation by the Asset Management Specialist of an Asset Disposal Plan, which will recommend to the Municipal management disposal actions for different groups of properties, including sale, lease etc. If properly prepared and once approved by the Municipal Council this document will give to the Municipality the opportunity to have an estimation of revenues that can be generated every year by proper disposal of municipal assets and also to plan necessary and required procedures for different disposal scenarios proposed. In addition, proper planning of the revenues to be generated by asset disposal/management will also give to the Municipality the possibility to include these estimations when preparing annual and/or mid-term budgets.

Given the importance of the Municipal Assets as an important potential source of revenue generation the Municipality intends to make all the efforts toward completion of the abovementioned steps by working closely with USAID/LGPA and other donors programs that may offer technical assistance in this regard.

¹⁵ Korça Case Study on Land Development for Social Housing Purposes

United States Agency for International Development

Local Governance Program in Albania

Dervish Hima Street

3 Towers behind “Qemal Stafa” Stadium

No. 1 Tower, Apt. 91, 10 Floor

Tiranë, Shqipëri

Tel: 355-04-271-355

www.usaid.gov