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OVERVIEW OF ALBANIAN LOCAL GOVERNMENT FOR BORROWING PURPOSES

FINANCIAL DATA ON USAID LOCAL GOVERNANCE
PROGRAM IN ALBANIA'S (LGPA) TEN TARGET
MUNICIPALITIES

MAY 2008

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ACRONYMS

CG	Central Government
ECLSG	European Charter of Local Self-Government
GDP	Gross Domestic Product
LG	Local Government
LGPA	Local Governance Program in Albania
MoF	Ministry of Finance
NSLDA	National Strategy for Decentralization and Local Autonomy
OSR	Own Source Revenue
USAID	United States Agency for International Development
VAT	Value-Added Tax

1.0 LOCAL GOVERNMENT OVERVIEW

The beginning of the transition period in Albania, 1991-1992, started with political decentralization as the main focus in setting up local government (LG) as directly elected government. After these initial decentralization initiatives, however, the central government (CG) turned its focus exclusively on national reforms, such as macroeconomic stability, market economy, privatization, restructuring of the banking system, etc. rather than the devolution of powers from the central government to local governments. As a result, although local governance in Albania was exercised within the political decentralization framework, LGs did not have any real authority or responsibility in exercising their functions or fiscal authority to generate locally derived revenues. The system did not create incentive for LGs to act on behalf of its citizens; instead, local governments often acted as an extension or an agency of the central government.

The LGs' status began to change in 1998 with the signing of the European Charter of Local Self-Government (ECLSG) in May, and the drafting and passage of a new Constitution. According to the Constitution, Albania is a unitary state with two levels of local government: municipality/commune at the first level, and the region (*Qark* in Albanian) at the upper level. Local government in Albania is based on the principle of decentralization of power and exercised according to the principle of local autonomy.

Since 1998, several important stages were launched to create autonomous LGs with full authority for managing an important share of the public sector. The Albanian model of decentralization was further shaped in the National Strategy for Decentralization and Local Autonomy (NSDLA), which was adopted by the CG in 2000.

Implementation of the NSDLA, and decentralization reform in general, has had a comprehensive and broad consensus to date. The decentralization reform, to a certain extent, has never been contested or denied by any of the political forces in the country. This suggests that there is a serious and solid political will to proceed with implementing the strategy.

1.1 ADMINISTRATIVE BOUNDARIES AND ORGANIZATION OF LOCAL GOVERNMENT UNITS

Communes and **municipalities** comprise the basic level of local government in Albania and regions comprise the second level.

The representative body of communes is the Commune Council, led by the Chairman of the Commune. Municipalities are represented by the Municipal Council, which is led by the Mayor. Chairmen and mayors are elected through direct elections in the manner set forth in the Election Code of the Republic of Albania for four-year terms. The last election was February 2007. Commune/municipal council members are elected through party lists in the same election for four-year terms.

A region is an administrative-territorial entity that is comprised of several communes and municipalities that have geographical, traditional, economic and social ties and joint interests. The boundaries of each region should comply with the boundaries of communes and municipalities under its jurisdiction. The

center of the region is located in one of the municipalities under its jurisdiction. The territory, name and center of each region are set forth in Law No. 8652, dated 31 July 2000, “On Organization and Functioning of Local Governments.”¹

The representative body of the region is the Regional Council; and the executive authority is vested in the Chairman and Board of the Regional Council. Members of Regional Councils are selected from the councils of the municipalities and communes that comprise the region. The number of representatives from each municipality/commune depends on the population of the territorial division. The Chairman and the Board of the Regional Council are elected by the members of its Regional Council.

The second tier of local government—regional councils—is currently under review and may be modified. Discussions are focused around two potential models: i) maintaining the current model as defined by the Constitution, or ii) changing to directly elected councils. There is not yet a final decision.

Albania has **65 municipalities** and **308 communes**, comprising **12 regions**.

The USAID Local Governance Program in Albania (LGPA), works with 10 municipalities throughout the country, their administrative composition is shown in Table 1.

TABLE 1. ADMINISTRATIVE DIVISION OF LGPA 10 TARGET MUNICIPALITIES

No.	Region	District	Municipality	Cities & Villages Included
1	Durrës	Krujë	Fushë-Krujë	1 city: • Fushë-Krujë 6 villages: • Fushë-Krujë Arrameras • Luz • Hasan • Larushk • Halil
2	Elbasan	Gramsh	Gramsh	1 city: • Gramsh 9 villages: • Pishaj • Trashovicë • Shëmrizë • Ostrenth • Gurrëz • Cerunjë • Çekin • Qerret • Koçaj
3	Lezhë	Lezhë	Lezhë	1 city • Lezhë
4	Korçë	Korçë	Korçë	1 city: • Korçë
5	Korçë	Pogradec	Pogradec	1 city: • Pogradec
6	Elbasan	Librazhd	Librazhd	1 city:

¹ Frequently the term 'district' is also used when referring to sub-national; but the term district is out of date (no longer part of the specific law that classifies the local government structures and organization). Previously, the country consisted of 36 districts. However, many central government regional offices, e.g., courts, treasury offices of the Ministry of Finance, and General Tax Directorate branches, are still located in terms of district; hence, the term continues to be used.

No.	Region	District	Municipality	Cities & Villages Included
				<ul style="list-style-type: none"> • Librazhd
7	Shkodër	Shkodër	Shkoder	1 city: <ul style="list-style-type: none"> • Shkoder 2 villages: <ul style="list-style-type: none"> • Shiroke • Zogaj
8	Fier	Fier	Fier	1 city: <ul style="list-style-type: none"> • Fier
9	Vlorë	Vlorë	Himarë	1 city: <ul style="list-style-type: none"> • Himarë 9 villages: <ul style="list-style-type: none"> • Pilur • Kudhës • Qeparo Fshat • Qeparo Fushë • Vuno • Iliaz • Dhërmi • Gjilekë • Palasë
10	Kukës	Kukës	Kukës	1 city: <ul style="list-style-type: none"> • Kukës 3 villages: <ul style="list-style-type: none"> • Gostil • Koder Lume • Drinas

1.2 FUNCTIONS AND RIGHTS OF LOCAL GOVERNMENT UNITS

The Law on Organization and Functions of Local Government defines *three types of functions for local government units (LGUs): i) exclusive/own, ii) shared/joint, and iii) delegated* (both mandatory and non-mandatory). It also defines several types of authorities, such as: regulatory, administrative, investment and service.

- **Exclusive/Own functions** are given by law to the LGU, for the realization of which it is responsible and has the authority to make decisions and use means for their realization, within the norms, criteria and standards generally accepted by law. Local governments shall exercise full administrative, service, investment and regulatory authority over these functions.

The main own functions currently executed by LGs include basic public services (street lighting, greening, street cleaning, etc.), road maintenance, maintenance of school buildings and primary health facilities and kindergarten. Among the exclusive/own functions defined by the organic law, water supply, sewerage and urban planning are not yet fully decentralized. According to the policy agenda of the government the decentralization of these sectors is expected to be completed by the end of 2008. Some state-owned water supply companies have already been transferred to the respective LGs.

- **Shared/Joint functions** are those which the LGU has its share of responsibility, distinguished from the share of responsibility granted to the CG, and the functions are accompanied proportionally with competencies, which are exercised autonomously.

Regarding the shared functions defined by law (primary and secondary education, primary healthcare and social care) the decentralization reform is either at a starting point or is still not clear.

- **Delegated functions**, are those delegated by law or by a contractual agreement from the CG or other CG institutions to the LGU for performance in a manner and to a degree which is determined by the CG or other CG institutions.

The communes and municipalities exercise their functions in compliance with the regional and national policies. The central government may issue national standards in relation to exclusive functions for the sole purpose of achieving a clear and specific national interest, provided that the national standard does not limit local governments' discretion in areas of clear local interest. In those cases where a local government does not have adequate resources to meet a national standard, the central government shall provide the necessary support to enable the local government to achieve the national standard.

According to the Law on Local Government Organization and Functions, LGUs have the right of:

- Governance,
- Property rights,
- Fiscal autonomy,
- Economic development,
- Rights as a juridical person, and
- Other rights.

1.3 LOCAL GOVERNMENT FINANCIAL FUNDS

LGUs are financed with revenues from:

- Locally derived taxes and fees,
- Funds transferred from the central government (unconditional and conditional), and
- Funds derived from shared national taxes.

Through law, communes and municipalities are empowered with the authority to independently obtain revenue to finance the exclusive functions under their jurisdiction.

The central government provides funds to local governments to meet the requirements for the provision of shared and delegated functions.

Each local government adopts, implements and administers an annual budget that **cannot include a deficit**.

The existing structure of local government budgets includes all funding sources and expenditures. The revenue structure is discussed below.

1.3.1 Local Budget Structure

1. **Revenues** (Local financing):
 - 1.1 **Own Local Government Revenues** (for covering operational and capital expenditures)
 - 1.1.1 Local taxes & fees²
 - 1.1.1.1 Local taxes
 - 1.1.1.2 Local fees
 - 1.1.2 Non-tax revenues

² Two of the local taxes, the tax on registration of vehicles and the tax on immovable property transfer, are legally defined as local taxes in the Law on Local Government Tax System. However, LGs have no discretion over the tax rate, the decision to levy the tax or not, and they do not collect it. Instead, the rate is set by the national Parliament and the tax is collected by the national government and thereafter transferred to the local government (less a fee for collection).

- 1.1.2.1 Rent
- 1.1.2.2 Privatization of LGU assets
- 1.1.3 Shared taxes
- 1.2 **Grant/Unconditional Transfer** (transfer from the central government to local governments);
 - 1.2.1 Unconditional transfer for covering operational expenditures
 - 1.2.2 Unconditional transfers for investments
 - 1.2.3 Competitive grant³ - unconditional transfers for competitive investments
- 1.3 **Conditional transfers** (from central government to local government thru the line ministries)
 - 1.3.1 Operational expenditures for wages and social & health insurance in education, health
 - 1.3.2 Other operational expenditures for maintenance and restructuring in education, health, infrastructure, tourism, etc.;
 - 1.3.3 Capital expenditures on education, health, infrastructure, water supply, etc.
 - 1.3.4 Expenditures on social assistance

Communes and municipalities have the right to derive revenues from:

- Local taxes and levies on movable and immovable property, as well as on the transactions conducted on them;
- Local taxes and levies on the economic activity of small businesses and on hotel residency, restaurants, bars and other services;
- Local taxes and levies on the personal income derived from donations, inheritances, testaments, and from local lotteries; and
- Other taxes and levies provided by law.

The law on the Local Government Tax System defines the tax base as well as the minimum and/or maximum rates. For local taxes, LGUs can modify the tax base by +/- 30% of the tax rate by a decision of the LG council. Communes and municipalities have the right to decide whether or not to apply a local tax. In case they decide to apply the tax, they choose the tax rate, as well as the manner for collection and administration within the limits and criteria set forth in the respective law.

LGs also derive revenues from local fees for:

- Public services provided by the LGU;
- The right to use municipal public property; and
- The issuance of licenses, permits, authorizations and issuance of other documentation, at the discretion of local government.

LGs set the level of local fees, and determine the manner of collection of local fees and their administration. LGUs can borrow funds for public purposes within the limit of the Local Borrowing Law.

³ Competitive grants are awarded annually. There is an evaluation board in place including representatives from the Ministry of Interior, Ministry of Finance, line ministries (Education, Transport, Health, etc.) and from the Association of Municipalities and the Association of Communes.

In addition to revenues with a fiscal nature, LGUs can generate revenues from their economic activities, rents, and sale of property and from donations, interest income and penalties.

1.3.2 Primary Local Taxes

- Tax on property;
- Tax on small business;
- Tax of impact on infrastructure;
- The hotel tax;
- Tax on the turnover of restaurant, hotels, etc.;
- Tax on agriculture land;
- Temporary taxes; and
- Other.

1.3.3 Primary Local Fees

- Cleaning fee,
- Fee on the use of public space/area,
- Billboard fee,
- Street lighting fee,
- Greening fee,
- Business registration fee,
- Fee on business activity advertising,
- Parking fee,
- Fee on other local government services, and
- Fee on social/education services (preschool education, student's dormitory, etc.).

TABLE 2. TAX AND FEES BASE AND RATES

No	Description of Tax/Fees	Tax Base	Tax Rate
I	Local Taxes		
1	Property tax		
1.1	Residential buildings		
1.1.1	Built before 1993	Square meter (m ²)	10 Lek
1.1.2	Built after 1993	Square meter (m ²)	12 Lek
1.2	Non-residential buildings		
1.2.1	Commercial / services	Square meter (m ²)	150 Lek
1.2.2	Other	Square meter (m ²)	30 Lek
2	Agriculture land tax	See table 4 and 5	
3	Hotel tax	Prince of the room	Up to 5% of the room price
4	Tax on impact on infrastructure ⁴	Value of new investment	1-3 %
5	Tax on occupying public spaces		
6	Advertising tax		
7	Small business tax	See table 3	
8	Temporary taxes		
II	Fiscal revenues from CG (administrated by CG and transferred to LGUs)		
1 ⁵	Tax on vehicle registration		
1.1	Motor cycles	Number of motor	600 Lek
1.2	Car with less or equal to 4+1 seats	Number of seats	2400 Lek
1.3	Car or mini-bus with more than 4+1 and less than 8+1 seats	Number of seats	4800 Lek
1.4	Bus with less or equal to 32+1 seats	Number of seats	6000 Lek
1.5	Bus with less or equal to 42+1 seats	Number of seats	7200 Lek
1.6	Bus with more than 42 +1 seats	Number of seats	8400 Lek
1.8	Lorry and van with authorized maximal weight of 3.5 tons	Weight of van	3600 Lek
1.9	Van with maximal authorized weight of 3.5 tons to 7.5 tons	Weight of van	4800 Lek
1.10	Van with maximal authorized weight of 7.5 tons up to 18 tons	Weight of van	6000 Lek
1.11	Van with maximal authorized weight over 18 tons	Weight of van	8000 Lek
1.12	Construction and agriculture machinery (road tractor, shovel) with authorized weight maximum up to 7.5 tons	Weight of Machinery	3000 Lek
1.13	Construction and agriculture machinery with maximal authorized weight of more than 7.5 tons	Weight of Machinery	3600 Lek
1.14	Trailer with maximal authorized weight of 7 tons	Weight of Trailer	3000 Lek
1.15	Trailer with authorized maximal weight of more than 7 tons	Weight of Trailer	4000 Lek
2	Tax on transactions of immovable properties (transfer tax)		
2.1	Residential buildings	Value of sale	2%
2.2	Buildings for trade and businesses	Value of sale	2%
2.3	Other buildings	Value of sale	2%

⁴ For Tirana this tax rate is 2-4%

⁵ For all this category the tax rate is presented in Lek

III	Local Fees		
1	Cleaning fee		
2	Fee on the use of public space / area		
3	Billboard fee		
4	Road lighting fee		
5	Greening fee		
6	Business registration fee		
7	Marketing fee		
8	Parking fee		
9	Fee on other administrative services		
10	Fee on social services (like education; student dormitories etc.)		
11	Sport and culture		
12	Other fees		

The commune/municipal council decides the tax rate and tax base of:

- a. All local fees
- b. Tax for occupying local spaces
- c. Local temporary taxes

For other taxes the commune/municipal council decides only the tax rate they will apply for every minimal category of the tax base envisaged.

TABLE 3. CALCULATIONS FOR SMALL BUSINESS TAX OBLIGATION

No	Description of Tax/Fees	Tax Base	Tax Rate ⁶	Tax Rate	Tax Rate
			Category I ⁷	Category II	Category III
1	Retail trade	Turnover up to 2 million Lek	45,000 Lek	25,000 Lek	23,000 Lek
2	Wholesale trade	Turnover up to 2 million Lek	45,000 Lek	25,000 Lek	23,000 Lek
3	Production	Turnover up to 2 million Lek	33,000 Lek	23,000 Lek	20,000 Lek
4	Services	Turnover up to 2 million Lek	25,000 Lek	20,000 Lek	20,000 Lek
5	Independent professions	Turnover up to 2 million Lek	38,000 Lek	30,000 Lek	22,000 Lek
6	Ambulatory traders	Turnover up to 2 million Lek	8,000 Lek	5,000 Lek	5,000 Lek
7	Retail trade	Turnover between 2-3 million Lek	68,000 Lek	48,000 Lek	45,000 Lek
8	Wholesale trade	Turnover between 2-3 million Lek	68,000 Lek	48,000 Lek	45,000 Lek
9	Production	Turnover between 2-3 million Lek	55,000 Lek	45,000 Lek	43,000 Lek
10	Services	Turnover between 2-3 million Lek	48,000 Lek	43,000 Lek	43,000 Lek
11	Independent professions	Turnover between 2-3 million Lek	60,000 Lek	53,000 Lek	45,000 Lek
12	Retail trade	Turnover between 3-4 million Lek	83,000 Lek	63,000 Lek	60,000 Lek

⁶ The indicative tax rate for communes is 50% of the indicative rate for Category III. The municipal council decides the tax rate within + / - 30% of the indicative rate for each category.

⁷ Category classification of Municipalities are: (i) First Category: Tirana; Durrës; (ii) Second Category: Shkodra, Korça, Vlora, Saranda, Gjirokastra, Elbasani, Fieri, Lushnja, Pogradeci, Berati and Kavaja and (iii) Third Category: all the others

13	Wholesale trade	Turnover between 3-4 million Lek	83,000 Lek	63,000 Lek	60,000 Lek
14	Production	Turnover between 3-4 million Lek	70,000 Lek	60,000 Lek	48,000 Lek
15	Services	Turnover between 3-4 million Lek	63,000 Lek	58,000 Lek	58,000 Lek
16	Independent professions	Turnover between 3-4 million Lek	75,000 Lek	68,000 Lek	60,000 Lek
17	Retail trade	Turnover between 4-5 million Lek	98,000 Lek	78,000 Lek	75,000 Lek
18	Wholesale trade	Turnover between 4-5 million Lek	98,000 Lek	78,000 Lek	75,000 Lek
19	Production	Turnover between 4-5 million Lek	85,000 Lek	75,000 Lek	73,000 Lek
20	Services	Turnover between 4-5 million Lek	78,000 Lek	73,000 Lek	73,000 Lek
21	Independent professions	Turnover between 4-5 million Lek	90,00 Lek	83,000 Lek	75,000 Lek
22	Retail trade	Turnover between 5-6 million Lek	113,000 Lek	93,000 Lek	90,000 Lek
23	Wholesale trade	Turnover between 5-6 million Lek	113,000 Lek	93,000 Lek	90,000 Lek
24	Production	Turnover between 5-6 million Lek	100,000 Lek	90,000 Lek	88,000 Lek
25	Services	Turnover between 5-6 million Lek	93,000 Lek	88,000 Lek	88,000 Lek
26	Independent professions	Turnover between 5-6 million Lek	105,000 Lek	98,000 Lek	90,000 Lek
27	Retail trade	Turnover between 6-7 million Lek	128,000 Lek	108,000 Lek	105,000 Lek
28	Wholesale trade	Turnover between 6-7 million Lek	128,000 Lek	108,000 Lek	105,000 Lek
29	Production	Turnover between 6-7 million Lek	115,000 Lek	105,000 Lek	103,000 Lek
30	Services	Turnover between 6-7 million Lek	108,000 Lek	103,000 Lek	103,000 Lek
31	Independent professions	Turnover between 6-7 million Lek	120,000 Lek	110,000 Lek	105,000 Lek
32	Retail trade	Turnover between 7-8 million Lek	143,000 Lek	123,000 Lek	120,000 Lek
33	Wholesale trade	Turnover between 7-8 million Lek	143,000 Lek	123,000 Lek	120,000 Lek
34	Production	Turnover between 7-8 million Lek	130,000 Lek	120,000 Lek	118,000 Lek
35	Services	Turnover between 7-8 million Lek	123,000 Lek	118,000 Lek	118,000 Lek
36	Independent professions	Turnover between 7-8 million Lek	135,000 Lek	128,000 Lek	120,000 Lek
	Transport of Passengers				
37	Vehicles up to 5 places	Number of places	17,500 Lek		
38	Vehicles with 6 - 9 places	Number of places	35,000 Lek		
39	Vehicles of 10 - 25 places	Number of places	40,000 Lek		
40	Vehicles of 26 - 42 places	Number of places	45,000 Lek		
41	Vehicles over 42 places	Number of places	48,000 Lek		
	Transport of goods				
42	Vehicles up to 2 tons	Weight of vehicle	28,000 Lek		
43	Vehicles from 2.1 to 5 tons	Weight of vehicle	40,000 Lek		
44	Vehicles from 5.1 to 10 tons	Weight of vehicle	48,000 Lek		
45	Vehicles from 10.1 to 16 tons	Weight of vehicle	50,000 Lek		

46	Vehicles over 16 tons	Weight of vehicle	75,000 Lek		
	Water transport				
47	Domestic maritime transport	Number of boats	55,000 Lek		
48	Domestic lake transport	Number of boats	48,000 Lek		
49	Recreation business boats	Number of boats	15,000 Lek		

TABLE 4. THE MINIMAL CATEGORIES AND THE INDICATIVE LEVELS OF THE TAX ON AGRICULTURE LAND

Classification according to the districts			
1	2	3	4
Tiranë	Shkodër	Gjirokastrë	Bulqizë
Durrës	Elbasan	Përmet	Has
Kavajë	Berat	Pogradec	Kukës
Krujë	Korçë	Librazhd	Tropojë
Lezhë	Delvinë	Dibër	Pukë
Lushnjë	Kurbin	Mat	Mirditë
Fier	Peqin	Skrapar	Malësi e Madhe
Vlorë	Kuçovë	Mallakastër	Gramsh
Sarandë		Devoll	Ersekë
		Tepelenë	

TABLE 5. VALUE OF THE TAX IN LEK/HA

Classification as per the land category	1	2	3	4
I	5 600	4 200	2 800	1 400
II	4 900	3 500	2 100	1 200
III	4 200	2 800	1 400	1 100
IV	3 600	2 300	1 350	1 000
V	3 000	1 900	1 250	900
VI	2 400	1 600	1 200	800
VII-X	1 800	1 400	1 100	700

Note: the classification by agriculture land categories shall be prepared by the structures of the Ministry of Agriculture and Food.

1.3.4 Shared Taxes

The practice of sharing tax receipts is not yet applied, but the Law on Organization and Functions of Local Government includes them as a financial resource. The CG is discussing with different actors what to include in shared taxes. Two possible good national taxes to be shared are the tax on corporate and personal income and VAT).

TABLE 4. STATE BUDGET AND LOCAL GOVERNMENT REVENUES (IN MILLION LEKS)

No.		2000	2001	2002	2003	2004	2005	2006	2007
	Total State Budget Revenues	130,642	145,639	154,595	167,224	184,355	204,163	226,283	253,455
II	Tax revenue	104,112	114,294	128,948	145,388	165,975	183,816	205,514	229,989
II1	From tax offices and customs	81,103	87,776	98,088	108,777	123,101	135,605	155,097	173,975
II2	Revenues from local government	2,957	4,012	5,224	7,923	9,613	12,019	11,112	13,214
1	Local taxes and fees	1,315	2,038	2,676	4,979	5,553	8,226	8,486	10,524
2	Small business tax	1,641	1,974	2,548	2,944	4,060	3,793	2,626	2,690
III	Non-tax revenue	16,524	21,190	21,528	19,219	15,989	14,178	15,978	17,080

In 2007, LG revenues represented only 5.2% of the total state budget revenues, where the tax on small businesses contributes 25.6% of this (the most important fiscal revenue for the LGUs). The average annual increase in LG revenues from 2000 to 2007 is 25%. This important increase is due to the improved tax administration at the LGU as well as the transfer of new taxes from the central to local level.

By the end of 2005, municipalities and communes in Albania exercised a large range of exclusive/own functions such as local public infrastructure, park recreation areas, local economic development, cultural and sport activities, etc. The functional decentralization was combined with a sound fiscal decentralization either through a rapid increase of the transfers from the central government, mostly through the increase of the unconditional transfer by using formula-based distribution, or through the introduction of a package of local taxes and granting full discretion in charging fees for the local services.

Transfer of immovable properties is ongoing. A proposal to give LGs the related maintenance funds of such properties through the mechanism of unconditional and/or conditional transfers is underway.

1.4 LOCAL GOVERNMENT EXPENDITURES

Overall LG expenditures represent 21% of the total state budget or only about 6% of GDP. Local expenditures as a percentage of total public expenditures continue to increase, while the rate to GDP is almost at the same level as it was at the beginning of the decade.

TABLE 3. STATE BUDGET AND LOCAL GOVERNMENT REVENUES (MACRO DATA—IN MILLION LEKS)

	2000	2001	2002	2003	2004	2005	2006	2007
State Budget Expenditures	170,621	186,049	192,517	201,152	222,439	232,339	255,228	300,304
State Budget as % of GDP	32.0	31.5	30.6	29.0	29.6	28.3	28.4	30.6
Local Government Expenditures	24,450	24,851	26,714	29,992	35,728	38,903	52,042	25,839
Conditional Transfer	18,437	17,465	14,426	15,748	19,824	18,904	22,994	NA
Unconditional Transfer	4,595	4,943	9,073	6,627	6,617	7,485	8,300	12,625
Own Local Revenues	1,418	2,443	3,216	7,617	9,287	12,514	20,748	13,214
Local Expenditures as % of State Budget	14.33	13.36	13.88	14.91	16.06	16.74	20.39	
Local Expenditure as % of GDP	4.6	4.2	4.3	4.3	4.7	4.7	5.8	

2.0 LOCAL GOVERNMENT BORROWING

2.1 LAW ON LOCAL GOVERNMENT BORROWING

The Law on Local Government Borrowing No. 9869, dated February 4, 2008, aims to expand LGU's financial autonomy. This law allows LGUs to borrow:

- For cash flow and investment purposes,
- From the capital market—financial institutions and banks, and
- On the domestic and international markets.

The loan maturity can be both short and long.

Short-term loans can be issued for:

- Maturity shorter than one budgetary year; and
- To finance temporary cash flow deficits, when operational expenditures are higher than revenues.

The request for a short-term loan should be first sent to the Ministry of Finance/Treasury (MoF). If the MoF declines the LGU request, the mayor may borrow directly from banks.

Short-term debt shall not at any one time exceed 10 percent (*10%*) of *total actual revenues of the local government from local taxes and fees and shared taxes of the previous fiscal year*.

Long-term loans can be issued for:

- Investment for public purposes; and
- Covering local functions—own, shared (and delegated if necessary).

The debt maturity must not be longer than the useful time of investment. The long-term debt is negotiated by the mayor (his staff) but the final decision is made by the local council.

The amount of debt service due in any year on all long-term debt shall not exceed **20 percent (20%)** of *the average total actual revenues of the local government from the unconditional transfers, shared taxes, and local taxes and fees of the previous three fiscal years*.

2.1.1 Local Government Securities

These may include:

- Pledged revenues;
- Physical property collateral including:
 - Physical property in private domain, according to the property transfer law; and
 - Vacant land, enterprises, etc., but cannot be schools, roads, etc.;
- General obligation debt:
 - General security, payable from each and every revenue source of LGUs;
- Debt with specific revenue pledge:

- Especially for specific projects (i.e., debt for investment in water supply assets may be secured through water fees);
- Security and account management:
 - General obligation,
 - Specific revenue pledge, or
 - Private domain physical property;
- Loan proceeds and revenue security may be held in separate treasury accounts:
 - For easier identification, or
 - Additional security for lender.

2.1.2 Debt Limitation

- Annual debt service must not exceed:
 - Twenty percent of unconditional revenues (including own source revenue, shared taxes, and unconditional grants) in previous three fiscal years; and
 - Seventy-one percent of operational surplus⁸ (surplus 1.4 times > debt service).
- Debt stock not higher than:
 - One hundred and thirty percent of unconditional revenues.

2.2 PRELIMINARY BORROWING LIMIT FOR TARGET MUNICIPALITIES

Based on the borrowing law, municipalities' debt service due in any year on all long-term debt shall not exceed 20% of the average total actual revenues of the local government from the unconditional transfer, shared taxes, and local taxes and fees of the previous three fiscal years.

TABLE 4. LGPA TARGET MUNICIPALITIES BORROWING LIMIT (IN MILLION OF LEKS)

Target Municipality	Borrowing Limit/Loan Maturity (Years)					
	5	10	15	20	25	30
Fushë Kruje	147,473	361,913	662,676	1,084,511	1,676,158	2,505,972
Gramsh	109,503	266,932	487,734	797,420	1,231,772	1,840,972
Lezhë	107,683	263,848	482,876	790,074	1,220,936	1,825,243
Fier	580,809	1,410,464	2,574,097	4,206,153	6,495,195	9,705,696
Himarë	75,452	186,075	341,230	558,844	864,057	1,292,135
Libranzh	72,628	176,990	323,364	528,660	816,598	1,220,447
Shkodër	621,958	1,511,015	2,757,965	4,506,877	6,959,815	10,400,189
Kukës	145,829	350,915	638,559	1,041,995	1,607,834	2,401,453
Pogradec	249,213	610,227	1,116,567	1,826,736	2,822,785	4,219,795
Korçë	517,866	1,264,451	2,311,575	3,780,220	5,840,071	8,729,118

This data represents the total debt service (principal + interest) and are calculated based on the average revenues of the municipalities (total revenues from own sources, shared taxes⁹ plus the unconditional transfer from central government) for the last three years (2005, 2006 and 2007) and assuming a 7% increase in LGU unconditional revenues for future years (through the year 2036). The same calculations in Euros are presented in Table 5.

⁸ The operational surplus is the difference between the LGUs' revenues from unconditional transfers and own revenues and the expenditures from these sources.

⁹ Such as those tax revenues collected from CG and transferred to LGUs: the (i) tax on registration of vehicles, and (ii) tax on immovable property transfer.

TABLE 5. LGPA TARGET MUNICIPALITIES BORROWING LIMIT (IN MILLIONS OF EUROS)

Target Municipality	Borrowing Limit/Loan Maturity (Years)					
	5	10	15	20	25	30
Fushë Kruje	1,180	2,895	5,301	8,676	13,409	20,048
Gramsh	876	2,135	3,902	6,379	9,854	14,728
Lezhë	861	2,111	3,863	6,321	9,767	14,602
Fier	4,646	11,284	20,593	33,649	51,962	77,646
Himarë	604	1,489	2,730	4,471	6,912	10,337
Libranzhd	581	1,416	2,587	4,229	6,533	9,764
Shkodër	4,976	12,088	22,064	36,055	55,679	83,202
Kukës	1,167	2,807	5,108	8,336	12,863	19,212
Pogradec	1,994	4,882	8,933	14,614	22,582	33,758
Korçë	4,143	10,116	18,493	30,242	46,721	69,833

APPENDIX A. ECONOMIC DATA FOR LGPA TARGET MUNICIPALITIES

LGPA works with 10 municipalities in Albania. Financial data for 2007 is shown below.

TABLE 6. LGPA TARGET MUNICIPALITIES' REVENUES (2007)

Leks (millions)	Total LGU Revenues	OSR & Unconditional	Population	Per Capita	Total LG Revenues	OSR & Unconditional
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 7. BUDGETARY DATA FOR LGPA'S TEN CITIES, 2003-2007 (ACTUAL) AND 2008 (PLANNED)

Municipality of Fushë Kruje Consolidated Financial Data						
Leks (millions)	2003	2004	2005	2006	2007	2008 (Plan)
Total Revenues	53,128	71,975	99,599	133,785	142,118	142,238
Unconditional Transfer from CG	31,150	39,151	53,985	53,985	63,686	70,082
Conditional Transfer from CG	4,572	12,970	18,000	22,000	18,000	
Own Source Revenue	17,406	19,854	27,614	57,800	60,432	72,156
From Tax and Tariffs	14,404	16,598	23,777	54,620	57,192	68,956
Non Tax Revenues	3,002	3,256	3,837	3,180	3,240	3,200
Total Expenditures	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
Wages + social and health contributions	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
Investment	21,251	28,790	39,840	53,514	56,847	56,895

Municipality of Gramsh Consolidated Financial Data

Leks (millions)	2003	2004	2005	2006	2007	2008 (Plan)
Total Revenues	55,584	57,593	82,434	95,079	89,134	104,423
Unconditional Transfer from CG	34,280	24,624	29,548	48,190	44,388	52,055
Conditional Transfer from CG		9,969	10,000		5,000	
Own Source Revenue	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 Tax Revenues	8,926	9,856	20,492	20,269	19,371	20,486
Total Expenditures	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
Wages + social and health contributions	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
Investment	16,119	16,702	23,906	27,573	25,849	30,283

Municipality of Lezhë Consolidated Financial Data

Leks (millions)	2003	2004	2005	2006	2007	2008 (Plan)
Total Revenues	87,225	58,673	78,355	84,359	82,815	103,584
Unconditional Transfer from CG	25,469	25,469	25,469	37,470	43,069	54,002
Conditional Transfer from CG	40,452	10,636	10,000	-		
Own Source Revenue	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 Tax Revenues	9,568	9,823	19,796	20,235	18,692	22,561
Total Expenditures	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
Wages + social and health contributions	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
Investment	40,500	15,842	21,156	22,777	22,360	27,968

Municipality of Fier Consolidated Financial Data

Leks (millions)	2003	2004	2005	2006	2007	2008 (Plan)
Total Revenues	254,607	306,545	511,103	480,989	457,067	550,311
Unconditional Transfer from CG	68,750	68,750	82,500	123,632	138,034	172,188
Conditional Transfer from CG	60,564	105,137	40,073	20,000	7,000	
Own Source Revenue	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 Tax Revenues	45,623	48,789	81,980	91,900	107,395	123,215
Total Expenditures	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
Wages + social and health contributions	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
Investment	76,382	160,236	153,331	144,297	137,120	165,093

Municipality of Himarë Consolidated Financial Data

Leks (millions)	2003	2004	2005	2006	2007	2008 (Plan)
Total Revenues	11,749	20,796	57,387	66,542	56,480	73,377
Unconditional Transfer from CG	7,046	7,906	7,906	19,895	25,523	35,143
Conditional Transfer from CG		7,000	17,000	9,000		
Own Source Revenue	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 Tax Revenues	2,368	3,100	15,268	16,238	17,823	18,000
Total Expenditures	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
Wages + social and health contributions	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
Investment	3,525	7,000	17,216	19,963	16,944	22,013

Municipality of Librazhd Consolidated Financial Data

Leks (millions)	2003	2004	2005	2006	2007	2008 (Plan)
Total Revenues	49,414	39,900	60,967	65,825	60,085	69,224
Unconditional Transfer from CG	8,770	13,004	15,605	16,234	20,874	23,332
Conditional Transfer from CG	15,202		7,000	12,500	-	
Own Source Revenue	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 Tax Revenues	8,754	9,526	11,600	10,300	12,200	13,256
Total Expenditures	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
Wages + social and health contributions	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
Investment	16,000	11,970	18,290	19,748	18,026	20,767

Municipality of Shkodër Consolidated Financial Data

Leks (millions)	2003	2004	2005	2006	2007	2008 (Plan)
Total Revenues	292,016	339,508	474,871	941,505	737,573	589,714
Unconditional Transfer from CG	127,769	127,769	168,213	229,125	268,078	309,954
Conditional Transfer from CG	22,644	52,503	41,473	425,000	213,000	
Own Source Revenue	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 Tax Revenues	38,569	48,963	61,447	54,940	64,755	72,270
Total Expenditures	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
Wages + social and health contributions	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
Investment	73,004	84,877	118,718	428,900	256,900	147,428

Municipality of Kukës Consolidated Financial Data

Leks (millions)	2003	2004	2005	2006	2007	2008 (Plan)
Total Revenues	68,674	93,140	95,936	143,781	165,763	136,034
Unconditional Transfer from CG	37,106	45,888	55,066	97,408	93,962	91,908
Conditional Transfer from CG	3,990	17,790			30,000	
Own Source Revenue	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 Tax Revenues	4,326	5,203	22,121	18,026	21,539	22,326
Total Expenditures	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
Wages + social and health contributions	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
Investment	18,542	25,148	25,903	38,821	44,756	36,729

Municipality of Pogradec Consolidated Financial Data

Leks (millions)	2003	2004	2005	2006	2007	2008 (Plan)
Total Revenues	94,702	126,652	178,618	208,143	212,034	428,025
Unconditional Transfer from CG	24,623	24,623	29,548	65,811	92,220	93,109
Conditional Transfer from CG	4,990	23,493	21,184	21,000	8,000	188,564
Own Source Revenue	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 Tax Revenues	46,126	57,280	95,657	69,920	69,252	104,140
Total Expenditures	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
Wages + social and health contributions	37,881	50,661	71,447	78,963	81,263	89,639
Maintenance	31,230	40,090	55,404	66,737	67,161	149,822
Investment	25,592	35,902	51,766	62,443	63,610	188,564

Municipality of Korçë Consolidated Financial Data

Leks (millions)	2003	2004	2005	2006	2007	2008 (Plan)
Total Revenues	251,561	291,454	440,740	446,511	425,544	495,211
Unconditional Transfer from CG	76,565	76,565	84,189	111,490	120,772	166,785
Conditional Transfer from CG	61,126	62,257	64,928	49,500	26,500	
Own Source Revenue	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 Tax Revenues	28,247	59,007	51,265	52,381	10,488	50,278
Total Expenditures	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
Wages + social and health contributions	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
Investment	67,921	78,693	119,000	120,558	114,897	133,707

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