

REPUBLIC OF ALBANIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: ALBANIAN LEK (ALL)

POPULATION AND GEOGRAPHY

Area: 28 750 km²
Population: 2.87 million inhabitants (2017), a decrease of 0.12% per year (2010-2015)
Density: 100 inhabitants / km²
Urban population: 59.4% of national population (2017)
Urban population growth: 1.5% (2017)
Capital city: Tirana (16.6% of national population)

ECONOMIC DATA

GDP: 37.2 billion (current PPP international dollars), i.e. 12 943 dollars per inhabitant (2017)
Real GDP growth: 3.8% (2017 vs 2016)
Unemployment rate: 13.8% (2017)
Foreign direct investment, net inflows (FDI): 1 022 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 25.22% of GDP (2017)
HDI: 0.785 (high), rank 68 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

The 1998 constitution, amended on 13 January 2007, established the Republic of Albania as a unitary parliamentary republic. The unicameral Parliament, "The National Assembly", consists of 140 deputies and is responsible for the election of the President and the Prime Minister.

According to article 13 of the Constitution, the local government of Albania is "founded upon the basis of the principle of decentralization of power and is exercised according to the principle of local autonomy". In its Part Six on local government, (articles 108 to 115), the Constitution states that communes or municipalities and regions are the units of local government.

The deliberative body of the municipality is the municipal council while the executive power is represented by the mayor. Councillors and mayor are both elected by direct universal suffrage for a four-year term.

Regions are not full self-governing entities as they are not directly elected by universal suffrage but emanate from their constituent municipalities. However, they have their own budget and administration, although with limited responsibilities. Municipalities delegate members to the regional council in proportion to their population. Mayors are always members of the regional council. Other members are elected among the municipal councillors and the president of the regional council is elected by regional councillors.

Policy decision-making in the Republic of Albania remained highly centralised until the early 1990s. In 1992, a first phase of decentralisation was launched with the creation of "local government units" (LGUs), which were recognised in the 1998 constitution (see above). The second phase, from 1999 to 2003, went a step further, notably with the presentation of the National Strategy for Decentralisation and Local Autonomy in 1999, the ratification of the European Charter of Local Self-Government in 2000 and the adoption of a legislative package in 2000 that included the New Organic Law on Local Government no. 8652/2000, law no. 8654/2000 on the "Organisation and Functioning of the Municipality of Tirana" and law no. 8653/2000 on Administrative-Territorial Division.

Following its application for EU membership in 2011, the Republic of Albania launched new initiatives to further the decentralisation process, including the territorial reform and administrative reform in 2014 (law no. 115/2014 "On Administrative-Territorial Division of the Local Government Units in the Republic of Albania"), the National Crosscutting Strategy for Decentralisation and Local Governance (NCSDLG) 2015-2020 and the new law on Local Self-Governance no. 139/2015 which further details the duties and power of SNGs, granting them a more prominent role in the provision of public goods and services.

Finally, another step towards decentralisation was made in 2017 on the fiscal side. Until the adoption of the new law on local government finance no. 68/2017, the financial autonomy of SNGs remained limited and the historical underfunding of SNGs persisted, despite several laws adopted in 2001, 2002 and 2008, which increase SNG fiscal autonomy. This new law is the first-ever comprehensive Law on Local Government Finances bringing together all principles and procedures with regard to local government sources of revenues, expenditure management and related intergovernmental dialogue and consultation.

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	61 municipalities (<i>bashkite</i>)		12 regions (<i>qarks</i>)	
	Average municipal size: 4 064 inhabitants			
	61		12	73

OVERALL DESCRIPTION. Albania has a two-tier subnational government structure, made up of 12 regions (*qarks*) and 61 municipalities (*bashkite*).

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. The 2014 territorial reform reduced the number of LGUs from 373 (308 communes and 65 municipalities) to 61 new municipalities. Communes do not exist anymore as subnational government. Average LGU size increased from 8 700 inhabitants to 47 150 today, with a median size of around 26 100 inhabitants. There are still large discrepancies among the new municipalities, from 3 290 inhabitants for the smallest to Tirana, which had 557 500 inhabitants in 2016. Municipalities can be divided into several administrative units (*administrative njësia*) that have traditional, historical, economic and social links, most of them being former communes. They comprise towns/cities (*qytete*) and villages (*fshatra*). Cities can be further

subdivided into neighbourhoods (*lagje*). The 61 municipalities so far encompass 72 cities and 280 villages. Each administrative unit is part of the municipal administration and is directed by an *administrator*, appointed by the mayor. The capital city of Tirana has a special status defined by law no. 8654. While the city is subdivided into 24 administrative units with extended competences like other municipalities in the country, the administrative units are structured as large boroughs with access to municipal services. Despite the constitution, which grants LGUs the right to form unions and joint institutions with one another, “cross-local cooperation” is not widespread. There are only few examples in sectors such as solid waste management and economic development.

REGIONS. The 12 regions were created in 2000 while the previous districts were abolished. The average size of regions is 240 000 inhabitants but there are great variations among regions, the least populated amounting to 66 000 inhabitants (Gjirokastrë) to Tirana region, which counts more than 860 000 inhabitants (i.e., 30% of the national population). Tirana region is followed by the three regions that each accounted for around 10% of the Albanian population in 2017. Despite this large difference between Tirana and the other regions, regional disparities are considered moderate. GDP per capita varies by a factor of 1 to 2 between Kukës and Tirana.

STATE TERRITORIAL ADMINISTRATION. Albania is administratively divided into 36 districts (*rrethe*) and 12 prefectures (*qark*). The prefectures are headed by the prefects who are appointed by the Council of Ministers. These structures are deconcentrated levels of the state with no real competences, except ensuring supervision of the local government activities’ legitimacy on behalf of central government. In addition, there are regional/local directorates/offices of sector ministries.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

SNGs are attributed exclusive, shared and delegated competencies, which are carried out in coherence with the prevailing subsidiarity principle.

Regions have few competences compared to municipalities. Their main function is to coordinate and harmonise national policies with local governments, although they do not have hierarchical power over municipalities. The regions’ exclusive functions consist of developing and implementing regional strategies and policies. Regions can also be called upon to provide services delegated by the central government as well as by municipalities according to an agreement between the parties.

Municipalities have exclusive and shared competencies mainly with the central government. Shared responsibilities are mostly in social services, healthcare and education. The 2015 TAR is expected to enhance SNG administrative and technical efficiency to deliver public services to their respective constituencies.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONS	MUNICIPALITIES
1. General public services	Regional administration	Municipal administration
2. Public order and safety		Public order and civil security (shared)
3. Economic affairs/transport	Regional development strategies and plans; Urban development of the region; Regional urban cadastre; Maintenance of the rural roads	Local economic development programs; Public markets; Tourism; Local roads; Urban public transport
4. Environmental protection		Public parks and green areas; Drainage system; Protection of environment (shared)
5. Housing and community amenities		Waste collection and treatment; Drinking water supply and sewerage; Public lighting; Urban heating; Street cleaning; Cemeteries; Social housing (shared); Urban planning
6. Health	Management of health central government funds	Primary healthcare and public health (shared); Oversight of healthcare centres
7. Recreation, culture & religion		Sports; Local museums; Preservation and development of cultural and historical sites
8. Education	Management of central government funds for the maintenance of higher education facilities	Pre-university education including pre-schools and nursing homes (shared) and primary education (teachers’ salaries, construction and maintenance of schools)
9. Social protection	Management of the regional unit for protection of children’s rights	Oversight of shelters and orphanages (shared); Family support social services centres (shared); Social assistance and poverty mitigation (shared)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: since the 2015 reform, 61 municipalities and 12 councils of regions.	SNA 2008	Availability of fiscal data: High	Quality/reliability of fiscal data : High
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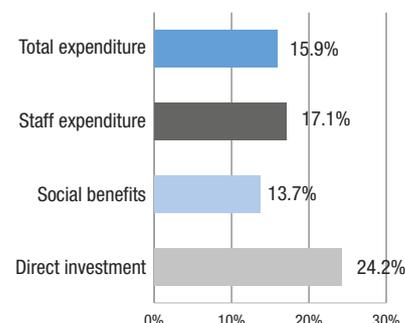
GENERAL INTRODUCTION. SNGs in Albania are guaranteed financial autonomy through the constitution and other legal provisions, including law no. 9632/2006 on Local Taxes, law no. 9896/2008 on local governments’ borrowing and the new law 68/2017 on local self-governance finance. This new law, adopted in April 2017, indicates that fiscal decentralisation remains an essential part of the reform agenda. It aims at giving SNGs more financial autonomy to cope with their tasks as public goods providers.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	530	4.6%	100%	
Incl. current expenditure	387	3.4%	73.1%	
Staff expenditure	132	1.1%	24.9%	
Intermediate consumption	79	0.7%	14.9%	
Social expenditure	160	1.4%	30.3%	
Subsidies and current transfers	15	0.1%	2.9%	
Financial charges	0	0.0%	0.1%	
Others	0	0.0%	0.1%	
Incl. capital expenditure	143	1.2%	26.9%	
Capital transfers	0	0.0%	0.0%	
Direct investment (or GFCF)	143	1.2%	26.9%	

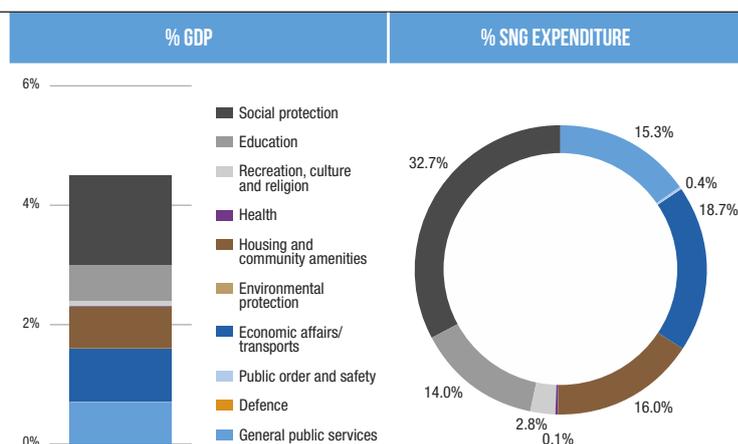


EXPENDITURE. In 2016, SNG expenditure ratios are slightly higher than in 2013 (15.9% of public expenditure and 4.6% of GDP in 2016 compared to respectively 14.6% and 4.1% of GDP in 2013), reflecting the ongoing decentralisation reform. They, however, remain significantly below the averages of EU countries (15.5% of GDP and 33.5% of public expenditure in 2017). Between 2013 and 2016, the composition of SNG total expenditure has also slightly changed, with a reduction in current expenditure and an increase in direct investment as a share of SNG expenditure. Staff expenditure has however increased significantly (+4.2 percentage points) resulting from the transfer of central government employees to local governments, as part of decentralisation reform. In 2016, SNG public employees accounted for around 9% of all employment in public administration.

DIRECT INVESTMENT. Investment is a key function of SNGs, representing close to 27% of their expenditure in 2016 – a ratio that has increased from 24.3% in 2013 and much higher than the EU average (8.7% in 2016). The increase in investment appears to be driven by a more pronounced involvement of SNGs in carrying out infrastructure-related projects, notably related to construction and rehabilitation of local roads and public spaces, as well as the reform of the water and sewage sector. Although investing is a key function of SNGs compared to management responsibilities, the weight of SNG investment in public investment remains low, particularly compared to the EU average (52% in 2016). The decentralisation strategy promotes the use of PPPs in the provision of social housing, with municipal governments as key actors in reaching these agreements.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

In 2016, social protection was the most significant expenditure item of SNGs in Albania, followed by “economic affairs”, “housing and community amenities”, “general public services” and “education”. The remaining budget items each account for less than 3% of total SNG expenditure. The structure of SNG spending can be regarded as a reflection of the ongoing reform. The SNG education budget has doubled within three years, from 7% in 2013 to 14% in 2016. It must be noted that SNG spending on “housing and community amenities” represents 43% of total public spending in that category, indicating a substantial involvement of SNG in that area. With the decentralisation process, the role of SNGs in that category (reform in the water supply and sewerage sector) and transport, as well, (i.e. local roads) should increase. It is also expected that the local social service will gradually be further decentralised, and related competences transferred to the municipalities. Today, social services are a shared responsibility and municipal involvement in social protection is essentially that of an agent of the central government. The decentralisation strategy states that local governance shall have full administrative, service, investment and regulatory competences in this area.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	540	4.7%	17.7%	
Tax revenue	86	0.7%	4.1%	15.9%
Grants and subsidies	409	3.5%		75.8%
Tariffs and fees	43	0.4%		8.0%
Property income	2	0.0%		0.4%
Other revenues	0	0.0%		0.0%

OVERALL DESCRIPTION. Despite progress made in the last decade with regard to fiscal reform package, which increased the autonomy of municipalities to generate revenues from local taxes and fees, fiscal decentralisation did not improve during 2009-2013. SNGs remain heavily dependent upon top-down fiscal grants, which represented 76% of their total revenues in 2016 while tax revenues – including shared and own-source taxes – only stood for approximately 16%. These ratios contrast with the EU averages (44% for grants and subsidies, and 41% for tax revenues) and is an indication of strong fiscal vertical imbalances. Regions are not allowed to raise tax revenue and are almost exclusively financed through grants. The impact of the new 2017 law on local public finance is yet to be felt. However, it is expected that SNG discretion in setting the tax rate and base (depending on the type of tax) will be increased.

TAX REVENUE. While regions do not have access to an autonomous tax authority and do not, by law, benefit directly from a share of nationally-collected taxes, municipalities receive both shared and own-source taxes. However, municipal tax revenue accounted for only 4.1% of public tax revenue and 0.7% of GDP, to be compared to respectively 24% and 6.4% in the EU in 2017. Shared taxes include 18% of the motor vehicle tax, 97% of revenues from the property transaction tax, 25% of revenues from the used vehicle circulation tax, 5% of revenues from the mineral rent tax and 2% of the yield of the Personal Income Tax (PIT). Own-tax revenues include the tax on immovable property, the small business tax (SBT) and other minor local taxes. Property tax is the most important tax representing 43.4% of municipal tax revenue in 2016 (but only 6.9% of total SNG revenue). The level of property tax in GDP is particularly low: 0.3% vs 1.1% in the OECD on average. Municipalities have the possibility to increase or decrease by 30% the indicative level of the property tax for every applicable category of taxpayers. The small business tax accounted for a mere 6% of municipal tax revenue, and has been in sharp decline (it was the biggest tax revenue for municipalities several years ago). Other local taxes are a local infrastructure impact tax due to new building, a tax on billboards, a tax on donations, inheritances and testaments, and revenues from local lotteries. The different taxes on goods and services accounted for 51% of municipal taxes in 2016.

GRANTS AND SUBSIDIES. Central government transfers include unconditional and conditional grants. The concept of unconditional transfer was adopted in the State Budget Law of 2001 and developed further with the 2002 fiscal reform package. SNG grants consist mainly of current grants, which represent 81% of total SNG grants and 61.3% of SNG revenue. Unconditional grants are the largest share of SNG revenue. Municipal unconditional transfers are allocated through a formula published in the annual budget law and which include several variables (population size and density, the number of pupils in the pre-university education system, municipal fiscal capacity) as well as an equalisation threshold (horizontal equalisation). Regional unconditional transfers include quotas from the budgets of constituent municipalities (0-3% of annual budget) for the performance of shared and own functions. Conditional transfers are given for projects that are considered of local, regional or national interest. Regions receive conditional transfers for the performance of the functions and powers delegated by municipalities. A competitive grant scheme was introduced in 2006 as a mechanism to increase performance and objectivity in funding SNG investments. In 2010, this scheme was substituted by the Regional Development Fund (Fondi I Rajoneve) which operates as a vertical equalising instrument to manage conditional grants.

OTHER REVENUES. Municipalities and regions can collect fees and user charges for public services. The fees compensate for the cost of the service provided, and municipalities can only charge fees for services whose consumption is measurable and attributable to users or beneficiaries. The amount is determined by the SNG council unless stated otherwise by specific laws. The main fees and charges are related to the occupation of public space, waste collection and disposal, water supply and sewerage, irrigation and drainage, licenses and permissions and authorisations defined by laws. Overall, the weight of tariffs and fees in SNG revenues in Albania (8.0%) remain low by international standards (14.9% in the OECD and 11.6% in the EU28 in 2016). SNGs may raise revenues from the rental or lease of locally-owned assets. In addition, revenues from economic activity such as dividends to the SNG from publicly-owned but commercially-operated enterprises are also classified as property income.

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	353	3.1%	3.7%	100%
Financial debt*	212	1.8%	2.7%	60.0%

* Currency and deposits, loans and bonds

FISCAL RULES. National and subnational budgetary systems are governed by the same legal and regulatory framework. Municipalities and regional councils approve their own budgets, which are subject to a conformity/legality check by the Prefect. The annual budgets of SNGs have to be balanced, except where a loan has been approved for financing an investment project. The new 2017 law on local finances reinforces reporting requirements, tightens monitoring, and provides mechanisms for dealing with local governments that face financial difficulties.

DEBT. Law 9936/2008 on local government borrowing was adopted to remove the prohibition on local short-term and long-term borrowing with the objective of increasing SNG fiscal autonomy. However, borrowing remains strictly controlled by the central government. All borrowing has to be approved by the Minister of Finance. Short-term debt is authorised to finance cash flow budget deficits and limitations are defined in the law. Long-term debt is authorised to either finance capital investment serving an essential local government function (“Golden Rule”) or to refinance outstanding long-term indebtedness previously issued to finance capital expenditure. Limits are the following: (i) the ratio of operational surplus of the previous fiscal year to the amount of debt should be at least 1.4:1; (ii) the ratio of debt stock to total operational revenues shall not be higher than 1.3:1; The maximum annual limit of debt service to the local government’s average fiscal revenues of the last three years shall not exceed 20%. Besides these limitations, the total of short-term and long-term debt is subject to the national annual debt law, which implies that additional requirements and limitations can be imposed on SNGs in order to shore up the sustainability of public finances.

Total subnational financial outstanding debt remains low, and well below the EU average (1.8% of GDP vs 11.9% of GDP in the EU and 2.7% of public debt vs 14.6% in the EU in 2017). However, the share of SNG debt in GDP and public debt has increased in recent years, which could be explained by the needs of local governments to finance public investments and their new responsibilities. 60% of the total local outstanding debt is composed of loans while the remaining 40% are made up of “other accounts payable” (debt with suppliers and arrears, including VAT refund arrears).



Lead responsible: OECD
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Socio-economic indicators: World Bank // UNDP Human Development report // UN Desa // ILO // Instat Albania (2017) Regional Statistical Yearbook, 2012-2016.
Fiscal data: IMF Government Finance statistics // OECD (2018) Subnational governments in OECD countries (brochure and database).
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