

## Albanian Local Authorities' Dynamics of Expenditures and the Structure of Financial Resources

NEVILA XHINDI & TEUTA XHINDI

**Abstract** Albania has undertaken two decentralization reforms in separate times in the post-communist period. The first was in the late 1990s and the second with the territorial reform of 2014. The main idea behind the territorial reform of 2014 was achieving a real decentralization after some previous not substantial efforts, to offer to the new 61 municipalities and 12 regional authorities (districts) more financial autonomy to carry out the functions devolved to them, based on the principle that national budgetary policies should ensure that local authorities are adequately funded and that they should have a wide range of income sources. The financial systems, on which resources available to local authorities are based, shall be of a sufficiently diversified and of a flexible nature, enabling them to manage the real evolution of the cost of carrying out their tasks. The purpose of this paper is to examine the dynamics and structure of financial resources as well as the expenses of the municipalities by comparing the two time periods of the implementation of the new administrative reform 2015-2018 and 2019-2021, using the Mann Whitney Wilcoxon test. It turns out that there are no statistically significant differences regarding the structure of financial resources and expenses of the municipalities in the two time periods. From the comparison of the two time periods, it is noted that capital expenditures have decreased while current expenditures have increased. This is also due to the reallocation of financial resources to facilitate the consequences of COVID 19 for Albanian taxpayers. The present paper has not only theoretical and empirical added value by focusing on the Albanian case-study seen through comparative lenses, but also policy-making relevance since it coincides with a new political and public debate on coming up with a new and consensual territorial map.

**Keywords:** • decentralization reform • financial resources • financial autonomy  
• Mann Whitney Wilcoxon test

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## 1 Introduction

In the post-communist era, Albania has implemented decentralization changes at least twice. The first occurred in the late 1990s, while the second occurred with the 2014 territorial reform. Although the objectives of the first were to bring Albania into compliance with the European Charter of Local Self-Government and the objectives of the second were to have a more effective administration of the area, the genuine decentralization of power has not occurred.

In accordance with Law 115/2015, the Albanian government consolidated 373 local authorities (municipalities and communes) into 61 municipalities in 2015. The local government system was changed as a result of the reform, with a number of constituent administrative entities (the former communes) being created as the functional component of the new local authorities (municipalities). The establishment of these considerable bodies, in the government's view, marked the beginning of a larger strategy to give democratically elected local authorities a more significant position in the nation's public administrative system.

Four goals underlie the reform of local governance and decentralization of 2014: (1) improving the effectiveness of local government structures; (2) strengthening local finances and boosting fiscal autonomy; (3) enhancing good governance; and (4) fostering sustainable local development. (Albania Council of Ministers, 2015)

The purpose of this paper is related to the second goal of the reform: "strengthening local finances and boosting fiscal autonomy".

Albanian local authorities' financial autonomy is guaranteed in the Constitution and the Law 68/2017 on the financing of local self-government. The Law states that fiscal decentralization is still a key component of the reform agenda and its goal is to give local and regional authorities more financial freedom to do the tasks assigned to them (Ministry of Finance and Economy). It is based on the idea that national budgetary strategies ought to guarantee that local governments receive appropriate funding and a variety of sources of revenue.

Stated in Law 139/2015 on local self-government, one of the fundamental principles of municipal funding is that the functions and powers granted to local self-governing authorities must always be accompanied by the financial resources required to carry them out (Instituti per Demokraci dhe Ndermjetesim).

The Ministry of Finance and the Economy in Albania has implemented reforms over the past few years that have strengthened and expanded the legal framework granting the allocation of funds to local self-government entities. This has been accompanied by a deepening of the decentralization process in terms of the usage of financial resources as

well as the skills and responsibilities that the local self-government entities undertake. As one of the primary and essential components for the strengthening of governance and local democracy, a significant emphasis has been made throughout this time on enhancing economic and financial autonomy local self-government. The improvement of local fiscal autonomy through local fiscal authority to generate revenue (service taxes and fees) and the predictability and stability of intergovernmental fiscal transfers, are key factors in enhancing local capacities for carrying out their duties and, in particular, for gathering the necessary financial resources.

This article compares the two implementation periods of the new administrative reform 2015–2018 and 2019–2021 using the Mann Whitney Wilcoxon test *in order to examine the dynamics and structure of financial resources as well as the expenses of the municipalities.*

We have compared data from two significant time periods. The following questions are posed in this paper: How did the indicators of municipalities' sources of funding performed? How did the indicators used to assess the decentralization process in terms of costs performed over the research periods of 2015–2018 and 2019–2021? Do the values of the indicators in the two time periods differ significantly?

Local authorities' own resources have essentially doubled since 2015, when the local self-government reforms began to take effect, while the funding of investments from the same source has increased fourfold, though still not to a satisfactory level.

It turns out that there are no statistically significant variations between the two time periods in the municipalities' financial resource and spending structures.

From the comparison of the two time periods, it is noted that capital expenditures have decreased while current expenditures have increased. This is also due to the reallocation of financial resources to facilitate the consequences of COVID 19 for Albanian taxpayers.

With a focus not only on the delivery of services with efficiency and effectiveness, but also its impact on the growth of the local economy, this paper will serve as an analysis regarding the financing of local units, granting the freedom of financial action to local units, or even increasing local finances. However, over this time, the organization of local finances has undergone significant qualitative changes. Despite the fact that a large share of local government units still rely heavily on national sources of funding, the amount of money they create on their own has grown, and they are using new sources as well.

## 2 Literature overview

Although there is a limited amount of literature on local finance and decentralization, political scientists, sociologists, and other researchers have been interested in these and related issues in many different countries. It is important to note that there are many opposing viewpoints in the literature about the necessity and extent of decentralization processes and the effect of fiscal decentralization on local economic development. The authors' opinions are based on their knowledge of the country's history, financial potential, fiscal capabilities, human resources, demographic trends, etc. With regard to fiscal decentralization and local economic development in particular, we have made an effort to include policy documents, research, and other publications that address these issues.

Decentralization is essentially a democratic reform that aims to give local governments more control over political, administrative, financial, and planning decisions. It aims to foster civic engagement, local people's empowerment in decision-making, and accountability and dependability: To improve resource management, resource collecting, and service delivery efficiency and effectiveness (Akai, Nobuo; Sakata. M, 2002).

Considerable effort is being made to portray municipal budget concerns as a favor or simple political will of the ruling majorities (Committee of the Regions, 2009). The economic justification for this financial mechanism has received very little consideration, particularly in light of the European Charter of Local Autonomy. Beyond the political aspects and perspectives or causes that have accompanied decentralization in former communist nations, the difficulties of local government financing are also issues of the economy and growth in general (Cini, 2007).

The decentralization of governance, particularly the fiscal one, is one of the tools that helps citizens' quality of life (Hussain, S; Moiz Hali, Sh; Ahmad, R; Iqbal, S; Iftikghar, H, 2021). The organization of monetary and financial institutions, the character of the legal system, the continuous process of economic and political reforms, and tensions resulting from ethnic, religious, or economic divisions are all part of the institutional background of fiscal decentralization (Bala, 2017).

In order to create opportunities for the financing of supported or so-called "subsidy" or subsidized functions, fiscal decentralization must first be implemented (Committee of the Regions, 2009). The foundation of any effort to reform the public sector is the establishment of an efficient and open financial management system. The key elements of financial management must also be democratic, in order to achieve true decentralization, including (a) transparent funding distribution, (b) predictable funding levels for local institutions, and (c) local decision-making autonomy in resource allocation (Toska, M; Bejko.A). The distribution of resources should be based on open formulas, as opposed to the common practice of "ad hoc" policy-driven grants.

Additionally, unlike the financial predictability common to most central mechanisms for local ones, which are the majority transfers in developing countries, the procedure should give local institutions a clear indication of how much money would be available in the cycle of multi-year planning. This enables local strategic planning, offers a budgetary ceiling that makes local planning a worthwhile activity, and gives local communities the chance to make independent judgments regarding the use of scarce resources. Thus, fiscal decentralization requires not only the transfer of financial resources and fiscal authority to local units, but they must be predictable in order to make it possible for planning to be sufficient to fulfill tasks, transparent and spending autonomously (Rodriguez-Pose, A.; A. Krojier, 2009).

One of the paradoxes that arises in the process of advancing decentralization reforms is that they are driven from above more than they should have been driven from below (Xhindi, *Regional Development: an opportunity or a challenge for the Albania joins EU*, 2010). Central governments have not been interested in giving up their functions and decentralizing them to give more competence and resources to local governments (PLGP, 2014). In actuality, this reflects policy orientation and administrative restrictions that are supported by the center the best. However, given the strong centrist heritage in post-communist nations, this is more than understandable. After the fall of communism, in many South East European countries the political reform programs were effective initiatives that were well-coordinated by international organizations and partners, and which focused political deliberation and decision-making on the development of institutions in line with European standards (Council of Europe, 12 October 2011). However, the changes in these nations overemphasized political decentralization while neglecting or even ignoring administrative and particularly fiscal decentralization (Soylu ÖB, Çakmak İ, Okur F, 2018). According to the research, this is more obvious in Albania, which we shall discuss in more detail below.

We may argue that since communism's collapse in Albania, the academic and political landscape has been actively discussing fiscal decentralization while examining and analyzing its prospects for success. In the decades that followed the collapse of the centralized, bureaucratic system, there has been an increased interest among researchers and development organizations in implementing fiscal decentralization as a key tool for fostering economic growth (Dragusha, B; Osmani, E, 2012).

### **3 Method**

To empirically compare the two periods 2015-2018 and 2019-2021 regarding the dynamics and structure of financial resources as well as the expenses of the municipalities, the Man Whitney Wilcoxon test is used. Because of the restricted number of observations, since the distribution of data is very difficult to determine, the application of nonparametric tests is the only suitable option. Advantages of this nonparametric

procedure is that it does not require the assumption that the populations have a normal distribution.

The indicators that are used to assess the performance of decentralization in terms of source of financing of the municipalities, in the periods 2015-2018 and 2019-2021, are:

- Indicator A: Local revenues/Total financial resources
- Indicator B: Local revenues and shared taxes/Total of financial resources
- Indicator C: Local revenues, shared taxes and unconditional transfers/Total of financial resources.

The indicators that are used to assess the performance of decentralization in terms of expenditures of the municipalities, in the periods 2015-2018 and 2019-2021, are:

- The ratio of expenditures (total, own source and conditional) to nominal GDP, and
- The ratio of expenditures (total and own source) to general government expenditures.

The question is: Are there statistically significant differences in the values of the indicators in the two time periods?

The data about indicators used, are taken from two sources:

Local Finances Report 2021 – English (<http://financatvendore.al/pub/raporte>);

Macroeconomic and fiscal framework for the period 2021-2023, (VKM Nr 53, date 29.01.2020), Ministry of Finance and Economy (<https://financa.gov.al/kuadri-makroekonomik%20dhe%20fiskal%202/>).

Limitation: The analysis is done considering the data of all municipalities together, not classifying them by size or economic performance.

#### **4 Analyses of local authorities' dynamics of expenditures and the structure of financial resources**

The Albanian Constitution and the new Law 68/2017 on the funding of local self-government in Albania both guarantee the financial independence of local authorities. The Act states that fiscal decentralization is still a key component of the reform agenda. The objective is to give local and regional administrations more financial freedom to do the tasks assigned to them. It is based on the idea that national budgetary strategies ought to guarantee that local governments receive appropriate funding and a variety of sources of revenue. According to Article 10, local governments may receive revenue from local taxes and fees, other local sources of income, state grants, proceeds from jointly levied federal taxes and fees, local borrowing, gifts and donations, and any other local sources authorized by local legislation.

Since 2000, Albania has strategically decentralized fiscal and administrative decisions at the local level, giving local units and municipalities more authority to produce revenue

and use it for citizen services and less authority to counties (qark) (Xhindi, 2012). The indicators used to assess fiscal decentralization in Albania, as well as in Eastern and South-Eastern Europe, have been under constant review by partners and international institutions (PLGP, 2014). Fiscal decentralization performance indicators, such as local expenditure and income as a percentage of national income and local income and expenditure as a percentage of GDP, have been tracked and reported by organizations and international partners like the World Bank, USAID, UNDP, and the European Commission, among others.

Table (1) presents the distribution of all municipalities by the number of inhabitants. Approximately 73% of municipalities, with the exception of the atypical Municipality of Tirana (with an exceptionally high population), have populations that are lower than the national average (Toska, M; Bejko, A, 2018). The relative size of local budgets and the level of own source revenues per capita signal the selective effectiveness of decentralization reforms.

**Table 1:** Classification of municipalities by size (number of population)

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

Source: [www.financatvendore.al](http://www.financatvendore.al) and authors.

The method of financing local government in Albania represents a structure of intergovernmental transfers. There are two types of intergovernmental transfers: Unconditional and conditional. While the first are divided by a formula which is modified almost every year and is included in the law on the state budget, the second is a transfer which mainly covers the investments of common functions and is given according to a set of criteria (HDPC: CO-Plan; IPC, 2021).

Although their circumstances vary greatly, generally speaking, the new reforms implemented have increased towns' fiscal and budgetary autonomy. Municipalities control 75% of the revenue sources, while the federal government, through conditional or designated contributions, controls 25% of all local spending. In addition to conditional payments, there are also unconditional transfers<sup>1</sup>, which make for a substantial portion of the state's financial transfers (Ministry of Finance and Economy, 2021).

Despite several municipalities significantly raising local taxes and fees over this time, the average financial autonomy ratio—municipalities' ownership as a percentage of total resources—has not changed significantly in recent years: 25.6% in 2010, 25.2% in 2015, and 27% in 2017. The financial autonomy ratio of the 61 municipalities, as shown by a more in-depth individual analysis, ranges from 3% to 68%, indicating major disparities in the extent of reliance on the state. (Ministry of Finance and Economy, 2021).

Together with the percentage of a municipalities' own income and the percentage of central government payments in the overall local budget, local taxes serve as the foundation for local revenues that finance local services, making it a key indicator for determining local autonomy. As a result, local authorities with a large portion of local revenues in their budget and the ability to fund their required obligations have more financial freedom. A tax can only be considered entirely local if the regulating body has the ability to determine the rate "within the bounds of the law." As a result, the applicable tax legislation may establish a "band" of tax rates, within which the local authority may choose the actual tax rate (Cadoret, X; Dejonghe. C, 22 Septemeber 2021).

The table below contains data for the indicators about the source of financing of municipalities:

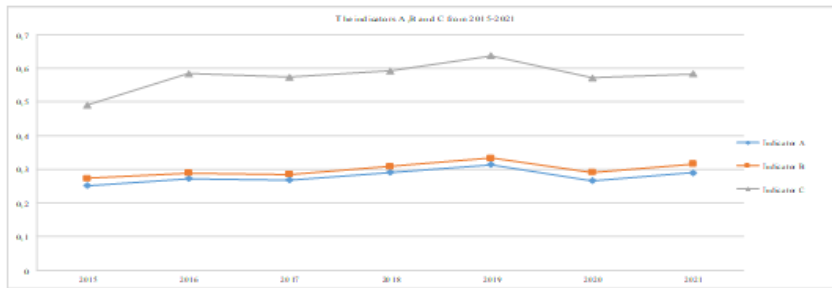


**Table 2:** The data about indicators A, B and C <sup>2</sup>

Year	Indicator A	Indicator B	Indicator C
2015	0.252	0.27	0.49
2016	0.272	0.29	0.58
2017	0.268	0.28	0.57
2018	0.291	0.31	0.59
2019	0.314	0.33	0.64
2020	0.266	0.29	0.57
2021	0.290	0.32	0.58
Average 2015-2018	0.271	0.29	0.56
Average 2019-2021	0.29	0.3136667	0.5973333
Standard deviation	0.02058179	0.0208334	0.0434741

Source: Calculation of the authors with the data taken from [www.financatvendore.al](http://www.financatvendore.al).

**Figure 1:** The presentation of indicators A, B and C, for 2015-2021 time periods



From Figure 1, we see that all three indicators have the same trend: are worsened in 2019-2020 period and are improved in 2020-2021 period.

While the vast majority of local government units rely on transfers from the central budget for larger investments, the budgets from unconditional transfers and own revenue are primarily used to finance relatively modest interventions in the local infrastructure (the vast majority being road interventions) (or other investment funds, such as the Albanian Development Fund).

But the question is: Is there a statistically significant difference in the mean values for every indicator for 2015-2018 and 2019-2021 time periods? Table 3 presents the result after performing the Man Whitney U test.

**Table 3:** The results from Man Whitney U test

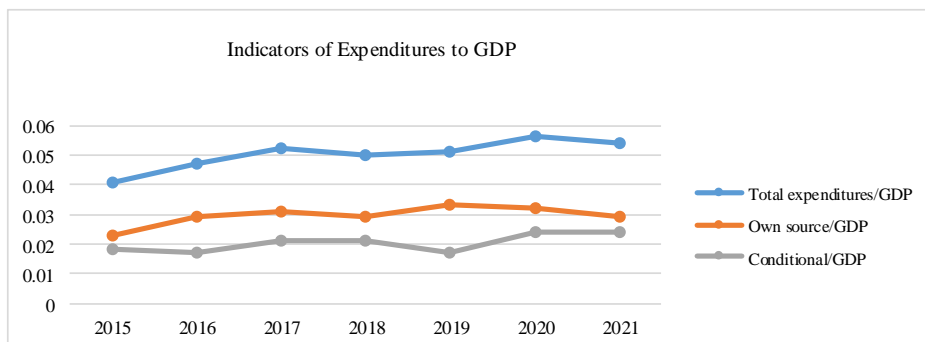
Indicator	Z value	Asymp.Sig.(2-tailed)	Result
A	-0.707	0.48	The two populations are identical
B	-1.605	0.108	The two populations are identical
C	-0.72	0.471	The two populations are identical

Based on Man Whitney U test, we conclude that: there are not statistically significant differences between mean values of each indicator in two time periods: 2015-2018 and 2019-2021.

Now, how the local government units have used the financial resources? According to the relevant literature, there are two categories of indicators that are used to assess the performance of decentralization in terms of expenditures: the ratio of expenditures (total, own source and conditional) to nominal GDP and the ratio of expenditures (total and own source) to general government expenditures.

From figure 2, we conclude that the performance of local governments increased from 2015-2017, as two indicators have increased in this period. Due to the COVID-19 pandemic, the indicator of expenditures from own funds to GDP has decreased to 3.2% in 2020 and 2.9% in 2021.

**Figure 2:** The presentation of indicators of expenditures to GDP



The average value of the indicator of expenditures with own source to GDP is 2.94% and this value is significantly below the average of the Western Balkan countries of 5.5%, South-East European countries of 6% and EU28 countries of 10.6%.

**Table 4:** The indicator used to assess the performance of LGU

	<b>Total expenditures/GDP</b>	<b>Own source/GDP</b>	<b>Conditional/GDP</b>
2015	4.1%	2.3%	1.8%
2016	4.7%	2.9%	1.7%
2017	5.2%	3.1%	2.1%
2018	5.0%	2.9%	2.1%
2019	5.1%	3.3%	1.7%
2020	5.6%	3.2%	2.4%
2021	5.4%	2.9%	2.4%

Source: Calculation of the authors with the data taken from [www.financatvendore.al](http://www.financatvendore.al).

As in the case of the indicators of the source of financing, the question is: is there a statistically significant difference in the mean values of the indicators of expenditures to GDP for 2015-2018 and 2019-2021 time periods?

The table below presents the result from the Man Whitney U test.

**Table 5:** The results from Man Whitney U test for the indicators of expenditures to GDP

<b>Indicator</b>	<b>Z value</b>	<b>Asymp.Sig.(2-tailed)</b>	<b>Result</b>
Total expenditures/GDP	-1.768	0.077	The two populations are identical
Own source/GDP	-1.468	0.142	The two populations are identical
Conditional/GDP	-0.909	0.364	The two populations are identical

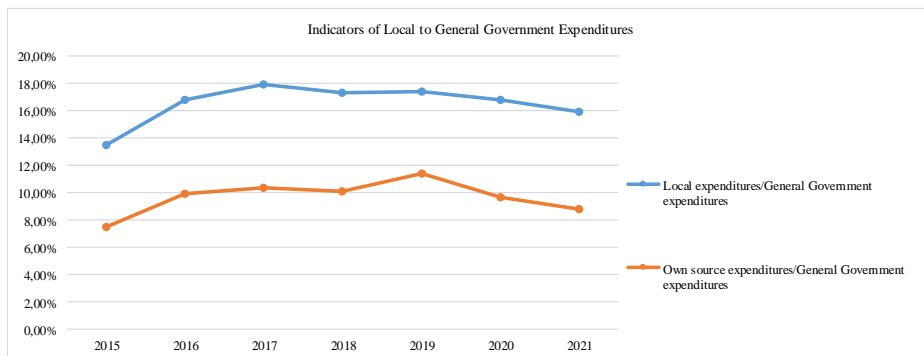
As the p values in the third column, are greater than significance level of  $\alpha=5\%$  we conclude that there aren't statistically significant differences between values of each indicator in two time periods: 2015-2018 and 2019-2021.

While, referring to the indicator of total expenditures incurred by local government, total expenditures to nominal GDP, the values have increased from 4.1% in 2015 to 5.6% in 2020. In 2021, the total expenditures of 61 municipalities amounted to 5.4% of nominal GDP, 0.2 percentage points lower than the previous year.

**Table 6:** The other indicator used to assess the performance of LGU

	Local expenditures/General Government expenditures	Own source expenditures/General Government expenditures
2015	13.5%	7.5%
2016	16.8%	9.9%
2017	17.9%	10.3%
2018	17.3%	10.1%
2019	17.4%	11.4%
2020	16.8%	9.6%
2021	15.9%	8.8%

Source: Calculation of the authors with the data taken from [www.financatvendore.al](http://www.financatvendore.al).

**Figure 3:** The presentation of indicators of local to General Government Expenditures

How did local government units use financial resources during the 2015-2021 time period?

Table 7 presents the data about three indicators: Public investments/GDP, Investments with own sources/GDP and Total investments/GDP.

**Table 7:** The use of financial resources, the expenditures of LGU

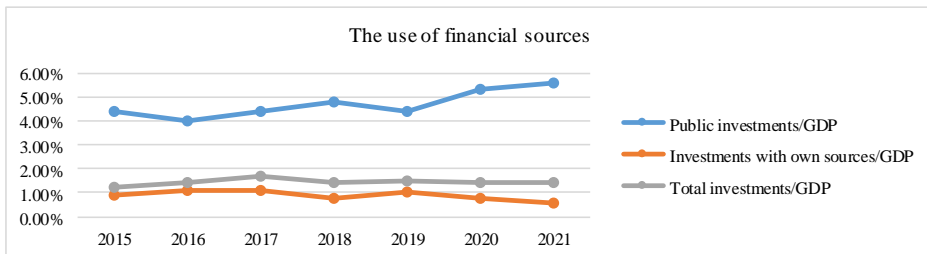
	Public investments/GDP	Investments with own sources/GDP	Total investments/GDP
2015	4.40%	0.90%	1.20%
2016	4.00%	1.10%	1.40%
2017	4.40%	1.10%	1.70%
2018	4.80%	0.80%	1.40%
2019	4.40%	1.00%	1.50%
2020	5.30%	0.80%	1.40%
2021	5.60%	0.60%	1.40%

Source: Calculation of the authors with the data taken from [www.financatvendore.al](http://www.financatvendore.al).

From Table 7, at the general government level, public investments represented 5.6% of GDP in 2021, about 0.3 percentage points more than the previous year as a result of added expenses for re-construction after the earthquake.

At the local level, investments with own sources in 2021 represented about 0.6% of the nominal GDP, decreasing with about 0.2 percentage points compared to the previous year. Total investments to GDP for the year 2021 were estimated 1.4%, the same as the year before.

**Figure 4:** The use of financial resources, the expenditures of LGU



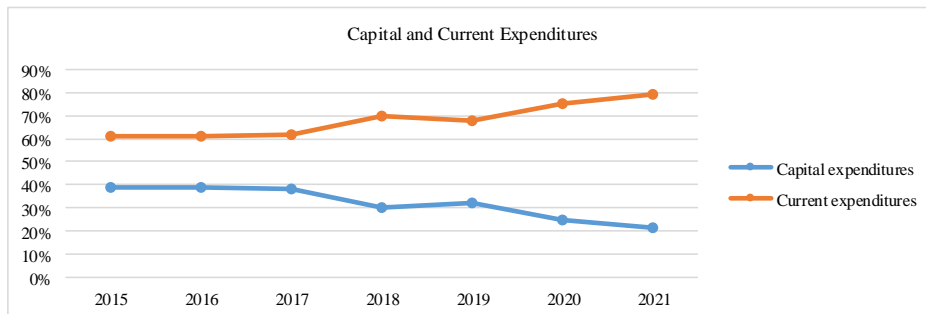
Below is the structure of expenditures for local government units and the weight of capital expenditures versus current expenditures for the period from 2015 till 2021.

**Table 8:** The structure of expenditures for LGU

	Capital expenditures	Current expenditures
2015	39%	61%
2016	39%	61%
2017	38%	62%
2018	30%	70%
2019	32%	68%
2020	25%	75%
2021	21%	79%

Source: Calculation of the authors with the data taken from Ministry of Finance and Economy.

For the period taken into consideration, the structure of expenditures is dominated by current expenditures. In 2021, the weight of capital expenditures is only 21% while the weight of current expenditures is 79%.

**Figure 5:** Capital expenditures versus current expenditures

From the figure above, we conclude that while capital expenditures have decreased from 39% to 21%, current expenditures have increased from 61% to 79%. This indicates that current expenditures (wages, social and health insurance, operating expenses, grants and interest payment) take the greater part of all expenditures.

## 5 Conclusions

The Albanian local authorities' financial autonomy is guaranteed in the Albanian Constitution and the new Law 68/2017 on the financing of local self-government, while the Law 139/2015 on local self-government sets out a number of basic principles of

municipal financing, in particular including one stating that the functions and powers delegated to local self-governing authorities shall be accompanied on each occasion by the financial resources necessary for their accomplishment. The reforms in question have also led to greater decentralization of tax-raising powers to municipalities, thus enabling them to draw up budgets where expenditure on local investments and public services is more closely tailored to meeting the needs of the local population.

In this paper, data from two important time periods were compared, 2015-2018 and 2019-2021. After performing Man Whitney U test, we conclude that there aren't statistically significant differences between values of each of the indicators that are used to assess the performance of decentralization in terms of source of financing of the municipalities as well as those of expenditures, in the periods 2015-2018 and 2019-2021.

The difficult first four years of the reform's implementation served as both a test for how well it would function and the subsequent four years, when the reform started to become more established.

In recent years there has not been any significant change in the average financial autonomy ratio (municipalities' own as a percentage of total resources). Generally speaking, the reforms carried out have served to increase municipalities' fiscal and financial autonomy, but their situation varies considerably.

Unconditional, or non-earmarked, transfers from the state budget, which municipalities are free to use as they chose, are still the main source of funding. Regardless, it appears that the financial resources available to local government, including those of the largest authorities, are still insufficient to meet all of their needs and enable them to carry out their devolved functions in a fully satisfactory manner given the significant number of powers and responsibilities transferred to municipalities in 2015 and the role they are expected to play in economic and social development.

From the two periods compared it turns out that there are no statistically significant differences in the financial resource and spending structures of the municipalities between the two time periods. It can be that current expenses have climbed while capital expenditures have dropped. This is also because financial resources were redistributed to help Albanian taxpayers deal with COVID 19's effects.

Based on the abovementioned, we draw the conclusion that Albania, despite recent improvements, appears to lack the financial resources necessary for the municipalities to effectively execute the mandated competences.

**Notes:**

<sup>1</sup> Analysis of the grant allocation formula (HDPC: CO-Plan; IPC, 2021).

The purpose of the unconditional transfer is to cover the difference between the cost of functions and the income they create during the period.

The unconditional transfer sharing formula is based on several components: The most important component which occupies 62.42% of the transfer amount is based on the number of the relative population, calculated by adding to the number of the population of Census 30% of the difference between the number of the population from civil status and that of Census. 11.7% of the transfer is allocated according to population density, including adjustment coefficients which increase the transfer amount for municipalities where population density is low as are those that include mostly rural areas. 23.46% is distributed according to the number of children in preschool education and teaching staff for them, students in public nine-year and secondary schools. 2.42% of the transfer is distributed using the weight of the budget of each municipality to the actual budget of all municipalities.

It is followed by the unconditional transfer equalization process, which takes into consideration the fiscal part, based on actual tax revenues that are shared between the government central and local related mainly to taxes such as small business tax, taxes annual used vehicle and real estate sales tax from legal persons. During this phase, local self-government units that have income per capita below 80% of the average national income per capita, are compensated with 100% of the difference. This redistribution process takes you to units that have per capita income above 120% of the national average, 50% of the difference.

<sup>2</sup> The data analysis is based on data obtained from [www.financatvendore.al](http://www.financatvendore.al) and Ministry of Finance and Economy.

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