



**Extractive Industries  
Transparency Initiative in Albania**  
Subnational transfers of Royalty  
*Supplement to the Report for the  
year 2015*

December 2016

# Content

Content	2
Introduction	3
Subnational transfers of royalty	4
Contacts	9

# Introduction

## Promoting public awareness about how the country manages oil, gas and mineral resources

The Extractive Industries Transparency Initiative (“EITI”) is a voluntary international coalition of governments, extractive industry companies and civil society organizations engaged in management and use of natural resources, such as oil, gas and minerals (see also: [www.eiti.org](http://www.eiti.org)). EITI’s final aims, is to promote transparency in order to prevent corruption as well as provide citizens with a basis for demanding fair use of revenue.

The Extractive Industries Transparency Initiative in Albania (ALBEITI, [www.albeiti.org](http://www.albeiti.org)) was established in 2009 by the Government of Albania. Albania joined EITI as a candidate in May 2009 and obtained the EITI compliant status in May 2013. Since the initial candidature Albania has published annual reports summarizing the activities and cash flows year on year from 2009 to 2015.

This publication is a supplement to the EITI Report for the year 2015 published on the EITI Albania secretariat website: <http://www.albeiti.org/>. For more information about the legal framework, industry activity, the revenue collected by State and the process refer to the full report.

Aim of this publication is to disclose information as requested by the EITI Standard 5.2 “Subnational transfers”, which requires that:

- a) Where transfers between national and subnational government entities are related to revenues generated by the extractive industries and are mandated by a national constitution, statute or other revenue sharing mechanism, the multistakeholder group is required to ensure that material transfers are disclosed. Implementing countries should disclose the revenue sharing formula, if any, as well as any discrepancies between the transfer amount calculated in accordance with the relevant revenue sharing formula and the actual amount that was transferred between the central government and each relevant subnational entity. The multi-stakeholder group is encouraged to reconcile these transfers. Where there are constitutional or significant practical barriers to the participation of subnational government entities, the multi-stakeholder group may seek adapted implementation in accordance with Requirement 8.1.
- b) The multi-stakeholder group is encouraged to ensure that any material discretionary or ad hoc transfers are also disclosed and where possible reconciled.

Approach, methodology and work performed in relation to the information presented in this supplement are described in Chapter 9 of the EITI Report for the year 2015.



Oil deposits, Bankers Petroleum Patos

# Subnational transfers of royalty

Royalty levied from taxable sales of oil, gas, and minerals is recorded in the State Budget.

According to Law on National taxes no. 9975, dated 28 July 2008, as amended, a portion of royalty tax shall be allocated to each local government unit (“LGU”) in proportion with their contribution to the domestic output of oil, gas and mining.

## Regulatory framework on subnational transfers of royalty

Up to November 2014, the Law on National taxes requested 25% of royalty tax to be allocated to each local government unit (“LGU”) in proportion with their contribution, however within the terms of the annual budget law. The formula for allocating royalty to the beneficiary LGUs was not disclosed and the transfers made could not be linked to the LGUs contribution in royalty levied. Up to 2014, only oil producing countries could benefit from the subnational transfers of royalty (refer to Chart 1 below).

## Amendments to the Law on National taxes

On 27 November 2014, the Government of Albania introduced changes to the Law on National taxes, whereby the LGUs are entitled to receive 5% of the royalty generated from sales of oil and minerals extracted in their district. Under these new terms, royalty transfers are linked to the LGUs contribution and not affected by any other budgeted transfer in accordance with the annual budget law.

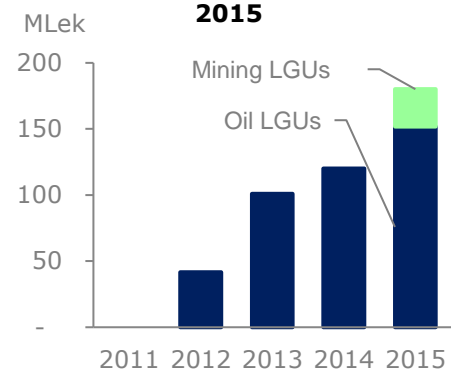
Instruction no. 26, dated 4.9.2008 “On national taxes”, amended (“the instruction”) lists the reconciliation procedures to be performed by the beneficiary LGUs to ensure fair allocation of royalty. Accordingly, each LGU shall agree at the end of the month royalty payments made by licensees operating in the LGU district, with the regional directorate of taxes and customs. The regional directorates of taxes and customs shall submit analytical list of royalty collected and benefiting LGUs to the Directorate of Budget at Ministry of Finance (“MF”). Upon receipt of the reconciliations, MF initiates monthly transfers of royalty to LGUs.

In case of oil companies, which operate simultaneously in several LGUs the instruction sets the share of royalty to be allocated to each LGU based on the output generated by each oil and gas field.

Royalty is the main tax levied by the State from the extractive sector in the country.

Starting from 2015, 5% of the royalty collected and recorded in the National Budget will be allocated to the producing LGUs.

**Chart 1 - Subnational transfers of royalty 2011-2015**



Source: EITI reports 2011-2015

### Royalty collected in 2015 and subsequently transferred

The following table presents the royalty transferred so far to the LGU's budget out of royalty collected in 2015. Amount of royalty transferred comprised about 3.5% of total royalty payments levied in 2015<sup>1</sup>, whereas 1.5% or Lek 77.4 million was not yet allocated to the extractive LGUs at the date of the 2015 EITI Report, December 28, 2016.

**Table 1 – Royalty collected in 2015 and subsequently transferred**

Amounts in million Lek

	Custom authorities	Tax authorities	Total royalty	Transferable royalty @ 5%	Royalty transferred (*)	Royalty transferred in %	Royalty not yet transferred
Mining sector	774.7	330.1	1,104.8	55.2	28.4	2.57%	26.8
Oil & gas sector	3,100.8	945.1	4,045.8	202.3	151.7	3.75%	50.6
<b>Total</b>	<b>3,875.5</b>	<b>1,275.1</b>	<b>5,150.6</b>	<b>257.5</b>	<b>180.1</b>	<b>3.50%</b>	<b>77.4</b>

(\*) Amounts of royalty transferred were reported by the Ministry of Finance for the purpose of the EITI report for 2015. These amounts include royalty transferred so far out of the collected royalty for the year 2015, including subnational transfers made in 2015 and 2016. A breakdown of the royalty transfers is presented in Table 2 below.

**Table 2 – Royalty collected in 2015 and subsequently transferred**

Amounts in Lek

No.	Local Government Units	Subnational transfers of royalty in 2015	Subnational transfers of royalty in 2016	Total subnational transfers of royalty made out of royalty collected in 2015	In % to total transfers out of 2015 royalty
1	Municipality of Patos	58,919,392	4,274	58,923,665	32.71%
2	Municipality of Roskovec	52,832,663	-	52,832,663	29.33%
3	Municipality of Fier	28,634,269	839,586	29,473,855	16.36%
4	Municipality of Bulqizë	9,202,554	1,509,265	10,711,819	5.95%
5	Municipality of Lushnje	7,634,655	-	7,634,655	4.24%
6	Municipality of Selenicë	5,453,251	7,233	5,460,484	3.03%
7	Commune of Ruzhdie	3,017,131	-	3,017,131	1.68%
8	Municipality of Mallakastër	2,517,335	131,971	2,649,306	1.47%
9	Municipality of Krujë	1,410,217	347,407	1,757,625	0.98%
10	Municipality of Pukë	1,700,376	-	1,700,376	0.94%
11	Commune of Portëz	1,000,000	-	1,000,000	0.56%
12	Commune of Mbrostar	1,000,000	-	1,000,000	0.56%
13	Municipality of Has	913,761	-	913,761	0.51%
14	Municipality of Prrenjas	867,076	-	867,076	0.48%

<sup>1</sup> Total royalty payments include royalty collected in 2015 and reported for the purpose of EITI report 2015 by the custom and tax authorities.

No.	Local Government Units	Subnational transfers of royalty in 2015	Subnational transfers of royalty in 2016	Total subnational transfers of royalty made out of royalty collected in 2015	In % to total transfers out of 2015 royalty
15	Municipality of Kuçovë	730,706	2,018	732,723	0.41%
16	Municipality of Skrapar	308,112	-	308,112	0.17%
17	Municipality of Lezhë	180,830	59,971	240,801	0.13%
18	Municipality of Elbasan	51,012	62,819	113,831	0.06%
19	Municipality of Klos	24,483	76,102	100,585	0.06%
20	Municipality of Vlorë	83,202	-	83,202	0.05%
21	Municipality of Ura Vajgurore	66,267	13,894	80,161	0.04%
22	Municipality of Tiranë	64,312	14,042	78,354	0.04%
23	Municipality of Mirditë	50,514	-	50,514	0.03%
24	Municipality of Vau i Dejës	656	44,761	45,417	0.03%
25	Municipality of Cërrik	28,475	12,923	41,398	0.02%
26	Municipality of Shkodër	28,649	10,275	38,924	0.02%
27	Municipality of Kukës	37,821	-	37,821	0.02%
28	Municipality of Korçë	15,519	16,475	31,993	0.02%
29	Municipality of Durrës	29,493	-	29,493	0.02%
30	Municipality of Kurbin	26,130	-	26,130	0.01%
31	Municipality of Shijak	26,016	-	26,016	0.01%
32	Municipality of Kavajë	20,141	5,271	25,412	0.01%
33	Municipality of Tepelenë	7,581	17,550	25,131	0.01%
34	Municipality of Gramsh	23,111	1,884	24,995	0.01%
35	Municipality of Himarë	13,553	7,163	20,717	0.01%
36	Municipality of Kolonjë	6,601	-	6,601	0.00%
37	Municipality of Mat	-	6,229	6,229	0.00%
38	Municipality of Dibër	-	4,976	4,976	0.00%
39	Municipality of Kamëz	2,625	-	2,625	0.00%
40	Municipality of Përmet	417	-	417	0.00%
<b>TOTAL</b>		<b>176,928,906</b>	<b>3,196,088</b>	<b>180,124,993</b>	<b>100.00%</b>

Subnational transfers of royalty made to the Municipality of Patos, Roskovec, Fier and Lushnje amounted to collectively amount to 82.65%. These LGUs are the largest oil producing districts. Based on the Ministry of Finance Instruction no. 26 date 4 September 2008, as amended up to April 2016, 5% of royalty generated by Bankers Petroleum Albania Ltd shall be allocated to these LGUs as showing in Table 3 in the following.

**Table 3 –Allocation of Royalty paid by Bankers Petroleum Albania Ltd based on Law on national taxes and its accompanying instruction no. 26**

Beneficiary LGUs as per instruction no. 26 date 4 September 2008, as amended up to April 2016	LGU's Share	Share of royalty to be allocated @ 5%	Beneficiary LGUs after the Territorial Reform (*)	Transferable royalty to beneficiary Municipalities	Royalty transferred to beneficiary Municipalities (Table 2)	Royalty transferred to Commune of Ruzhdie (*) (Table 2)	Royalty transferred to Commune of Portëz (*) (Table 2)	Royalty transferred to Commune of Mbrostar (*) (Table 2)	Total transferred to LGUs	Portion transferred to LGU's entitled transfer
Municipality of Patos	20%	37,179,603				-	-	-		
Commune Zharrëz (*)	20%	37,179,603	Municipality of Patos	76,218,185	58,923,665	-	-	-	61,940,796	81%
Commune Ruzhdie (*)	1%	1,858,980				3,017,131	-	-		
Commune Mbrostar (*)	13%	24,166,742	Municipality of Fier	37,179,603	29,473,855	-	-	1,000,000	31,473,855	85%
Commune Portëz (*)	7%	13,012,861				-	1,000,000	-		
Municipality of Roskovec	4%	7,435,921	Municipality of Roskovec	63,205,324	52,832,663	-	-	-	52,832,663	84%
Commune Kuman (*)	30%	55,769,404				-	-	-		
Commune Bubullime (*)	5%	9,294,901	Municipality of Lushnje	9,294,901	7,634,655	-	-	-	7,634,655	82%
	<b>100%</b>	<b>185,898,013</b>		<b>185,898,013</b>	<b>148,864,838</b>	<b>3,017,131</b>	<b>1,000,000</b>	<b>1,000,000</b>	<b>153,881,969</b>	<b>83%</b>

(\*) The above noted LGUs were reorganized as administrative units of the Municipalities of Patos, Roskovec, Fier and Lushnje, as a result of territorial reform commenced in 2014. Accordingly, royalty of transferred was compared the transferrable royalty on an aggregated Municipality level.

Share of royalty to be allocated to the beneficiary LGUs out of royalty levied from Bankers Petroleum Albania in 2015 amounted to Lek 185.6 million (Lek 3,717,960,250<sup>2</sup> x 5%). As summarized in Table 3 above, MF reported executing transfers up to 83% of the transferable royalty, whereas the remaining 17% is reported to be not yet claimed by the date of EITI report.

<sup>2</sup> Royalty collected by Bankers Petroleum Albania Ltd in 2015 amounted to Lek 3,717,960,250. This amount was reported by Bankers Petroleum Albania and reconciled with the recipient fiscal agents including the General Directorate of Taxes and General Directorate of Customs as part of EITI reconciliation for 2015. The detailed reconciliation is disclosed in the EITI report for 2015.

Subnational transfers of royalty made to the Municipalities of Bulqiza, where the largest share of chromium output is extracted (about 55%<sup>3</sup>), amounted to Lek 10,711,819 or 5.95% of total royalty transferred and reported in Table 2.

Total royalty levied upon the exports of chromium amounted to Lek 2,448 million, based on information disclosed by the Custom authority for the purpose of EITI report for 2015. Accordingly the transferable royalty to the chromium producing LGUs should be not lower than Lek 122.4 million. If assumed that 55% of these royalty came from Bulqiza production, the transferable portion of Royalty to this LGU should about Lek 67 million, which is six time larger than reported transfers to Bulqiza.

### **Factors leading to incomplete allocation of royalty**

MF informed that the Government's information systems could not produce accurate and reliable breakdown analysis of royalty arising from each producing LGU in 2015. In order to ensure accurate and reliable basis for allocating Royalty, the amended Law on National Taxes and accompanying instruction require the beneficiary LGUs to identify and claim royalty levied from output extracted in LGU district, and support these amounts through reconciliations with the extractive companies and regional directorates of taxes and customs.

MF confirms that royalty is allocated up to the level reconciled and claimed by the LGUs, and the remaining share of Lek 77.4 million has not been claimed by the LGUs in accordance with the procedures set in instruction No. 26 date 4 September 2008, as amended.

According to MF certain delays were expected to occur during the first year of implementation of the new law changes. However, these are exacerbated because of the territorial reform<sup>4</sup> implemented in 2015, where a large number of LGUs (above 300) were reorganized into administrative units of 62 Municipalities.

In response to this deficiency arising MF will introduce necessary amendments to the regulatory procedures in order to prevent cases of under-claims or over-claims in the future.

### **EITI's overview on transparency of royalty transfers**

An accurate comparison of royalty entitled to each LGU with the actual transfers of royalty reported by the MF, could not be performed, because the Tax and Custom authorities did not report the royalty collected disaggregated to each producing LGU. This reconciliation exercised shall be completed and disclosed by the Ministry of Finance in accordance with the procedures set in the instruction no. 26.

In order to enhance transparency the process for reconciling and allocating subnational transfers shall be addressed through specific procedures and disclosed in the EITI report for the forthcoming reports.

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<sup>3</sup> Based on the data reported by AKBN, 55% of total chromium output in 2015 was extracted from Bulqiza mines.

<sup>4</sup> Territorial Reform was approved by Law 115/2014 "On Administrative organisation of the Local Government Unit".



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