



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

December 2016

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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). 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) 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, 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.

Amendments to the Law on National taxes

On 27 November 2014, the Albanian Parliament approved changes to the Law on National taxes. According to the proposed changes, the LGUs will be entitled to receive 5% of the royalty generated from companies operating in their area regardless any transfer foreseen in accordance with the annual budget law.

Instruction no. 26, dated 4.9.2008 “On national taxes”, amended sets the reconciliation procedures to be performed to ensure accurate 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, which initiates monthly transfers of royalty to LGUs.

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

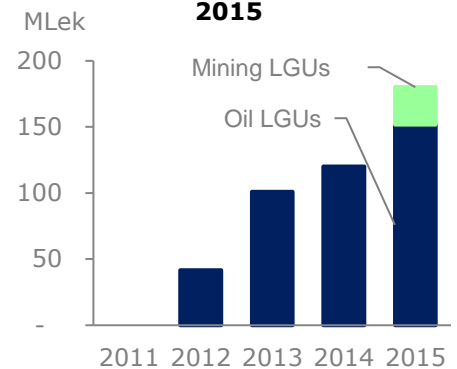
Chart 1 shows an increasing share of royalty allocated to the local government budgets in the last five years.

Up to 2014, only oil producing countries could benefit from the subnational transfers of royalty and no clear correlation could be made between royalty collected and subnational transfers. Since 2015, royalty transfers procedure provide clear references for allocation and led to increased level of subnational transfers of royalty. These transfers will be even higher when the royalty for 2015 is fully allocated to the producing LGUs.

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 for the year 2015 in accordance with Law on National taxes no. 9975, dated 28 July 2008, amended.

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
Total	3,875.5	1,275.1	5,150.6	257.5	180.1	3.50%	77.4

(*) Amounts of royalty transferred were reported by the Ministry of Finance for the purposes 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 in the following.

Amount of royalty transferred reported by the Ministry of Finance comprised about 3.5% of total royalty payments levied in 2015, as derived by amount of royalty collected and reported by both custom and tax authorities in 2015. The amount of Lek 77.4 million is not yet allocated to the extractive LGUs at the date of of EITI Report for 2015, December 28, 2016.

Based on the amended Law on National Taxes and accompanying instruction No. 26 date 4 September 2008, as amended, the LGUs are responsible to initiate the process through reconciliation procedures. The Ministry of Finance informed that the amount not yet allocated were not claimed by the LGUs and is investigating the unclaimed amounts in order to ensure complete allocation of the outstanding transferable royalty.

In response to this deficiency arising on the first implementation year of implementation of the law changes the Ministry of Finance will introduce necessary amendments to the regulatory procedures in order to prevent cases of under-claims or over-claims in the future.

Subnational transfers of royalty by LGU

The following table presents the subnational transfers made so far out of royalty collected for the year 2015 to each LGU.

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%
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 Vajguore	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%
TOTAL		176,928,906	3,196,088	180,124,993	100.00%

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 shown in Table 3 in the following.

Subnational transfers of royalty made to the Municipalities of Bulqiza, where the largest share of chromium (about 55%¹) is produced, amounted to Lek 10,711,819 or 5.95% of total royalty transferred and reported in Table 2.

Based on reported by the Custom authority, total royalty collected out chromium amounted to Lek 2,448 million, accordingly the transferable royalty to the chromium producing countries 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 times larger than reported transfers to Bulqiza.

An accurate comparison of royalty entitled to each LGU with the actual transfers of royalty reported by the Ministry of Finance cannot 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 as soon as possible and in order to enhance transparency in this process be included in the EITI reconciliation procedures in the forthcoming reports.

¹ Based on the data reported by AKBN, 55% of total chromium output in 2015 was extracted from Bulqiza mines.

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

Beneficiary LGUs as per no. 26 date 4 September 2008, as amended up to April 2016	LGU's Share	Recalculated Royalty to be allocated	Beneficiary LGUs after the Territorial Reform (*)	Transferable royalty	Municipalities listed (Table 2)	Commune of Ruzhdie (*) (Table 2)	Commune of Portëz (*) (Table 2)	Commune of Mbrostar (*) (Table 2)	Total transferred to LGUs	Portion transferred vs. transferable
Municipality of Patos	20%	37,179,603	Municipality of Patos	76,218,185	58,923,665	3,017,131			61,940,796	81%
Commune Zharrëz (*)	20%	37,179,603								
Commune Ruzhdie (*)	1%	1,858,980	Municipality of Fier	37,179,603	29,473,855		1,000,000	1,000,000	31,473,855	85%
Commune Mbrostar (*)	13%	24,166,742								
Commune Portëz (*)	7%	13,012,861								
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%
	100%	185,898,013		185,898,013	148,864,838				153,881,969	83%

(*) The Albanian local government units went through a territorial reform which led to a substantial decrease of the number of LGUs from above 300 to 62. As a result of the Territorial Reform codified by Law 115/2014 "On Administrative organisation of the Local Government Unit", a large number of Communes were reorganised as administrative units of 62 Municipalities during 2014 and 2015. Whereas the above noted LGUs were reorganised as administrative units of the Municipalities of Patos, Roskovec, Fier and Lushnje. Accordingly, royalty of transferred was compared the transferrable royalty on an aggregated Municipality level.

Based on the amounts reported by Bankers Petroleum Albania, General Directorate of Taxes, and General Directorate of Customs and reconciled in the EITI report for 2015, royalty collected by Bankers Petroleum Albania Ltd amounted to Lek 3,717,960,250. Based on the amended Law on National taxes, 5% out of the royalty collected from Bankers Petroleum or Lek 185,898,013, should have been allocated to the LGUs as shown above in Table 3.

The comparison of calculated transferable portion of royalty at 5% with the amounts reported as transferred by the Ministry of Finance (Table 2), shows that 83% of royalty collected from Bankers Petroleum is allocated to the LGUs, while 17% is still under reconciliation as reported by the Ministry of Finance till December 2016.

Contacts

ALBEITI (EITI Albania)

Extractive Industries Transparency Initiative

Tel: +355 422 64 645

Website: www.albeiti.org

E-mail: sekretariati@albeiti.gov.al

Blv. "Zhan Dark", Godina nr. 3 (ish
ME), kati 4,

Tirana, Albania

Dorina Çinari

Drejtor | EITI Shqipëri

Tel: + 355 422 64 645

Mobile: + 355 69 40 47 910

Email: Dorina.Cinari@albeiti.gov.al

Deloitte in Albania

Deloitte Albania sh.p.k. & Deloitte Audit Albania sh.p.k.

Tel: +355 (4) 451 7920

Website: www.deloitte.com/al

Rr. Elbasanit, Pallati poshte Fakultetit

Gjeologji - Miniera,

Tirana, Albania

Elvis Ziu

Partner

Tel: +355 (4) 451 7935

Mobile: +355 69 20 50 525

Email: eziu@deloitteCE.com

Jonida Vesiu

Manager | Consulting

Tel: +355 (4) 451 7966

Mobile: +355 69 60 85 310

Email: jvesiu@deloitteCE.com



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