2022

ANNUAL PROGRESS REPORT

ALBEITI NATIONAL SECRETARIAT

AUGUST 2023
We are pleased to present the Annual Progress Report of the EITI for the year 2022 from the Extractive Industries Transparency Initiative (EITI) Albania, which provides a summary of the activities of the Multi-Stakeholder Group (MSG) and the EITI National Secretariat.

We aim to be transparent and open about how we collaborate with local and central stakeholders, based on our experience and understanding we recognize the importance of regular disclosure of payments made by extractive industries to the state, as well as the publication of all revenues the government receives from these companies.

The main project of the Multi-Stakeholder Group (MSG) and the EITI National Secretariat was to prepare the EITI Reports for the years 2019, 2020, and 2021 within 2022, which was not possible due to lack of funds. However, in collaboration with the EITI International Secretariat in Oslo and representatives from the World Bank, work has been underway to review the Terms of Reference (ToRs) for this activity, finalizing them according to the model for flexible reporting.
PERFORMANCE EVALUATION AGAINST THE OBJECTIVES AND ACTIVITIES OUTLINED IN THE WORK PLAN OF THE EITI ALBANIA NATIONAL SECRETARIAT

The Multi-Stakeholder Group (MSG) reviewed and approved its work plan for the years 2022 - 2023 on May 6, 2022. This work plan formed the basis for the activities that were planned for the year 2022.

OBJECTIVE EITI REPORTS 2019, 2020 AND 2021

As part of the activities approved in the 2022 - 2023 Work Plan by the MSG, the EITI National Secretariat has worked closely with the World Bank and the EITI International Secretariat in Oslo to review and adapt the ToRs of the EITI Reports for 2019, 2020, and 2021 according to the flexible reporting model. Additionally, company lists for which information will be requested have been reviewed and updated. However, the preparation and publication of the Reports were not possible due to lack of funds and objective delays in receiving the Grant principally approved by the World Bank.

OBJECTIVE VALIDATION
As mentioned above, due to the lack of funds to finance the EITI Reports, little progress has been made in this direction, considering that the majority of Corrective Actions left from the previous Validation are closely linked to the EITI Report.

OBJECTIVE CAPACITY BUILDING

OBJECTIVE COMMUNICATION AND OUTREACH

**July 2022** - MINEX EUROPE MINING International Conference for a New Perspective on Minerals and Investments in the Western Balkans, held in Tirana on July 5-6, 2021.

This Conference has brought together numerous companies and organizations from 26 countries across Europe and North America with a focus on the theme 'Sustainable Mining Development in the Western Balkans and Beyond in Europe.' The Forum aims to integrate the Western Balkans into a broader European supply chain, which is becoming increasingly urgent to ensure diverse sources of critical raw materials. Significant attention at this Conference has been given to the International EITI Initiative, as well as the activities and work carried out by EITI - Albania on how this initiative can be utilized.

The Secretariat of the Extractive Industries Transparency Initiative (EITI - Albania) was represented at this conference by the Director of the institution, Mr. Genci Tërpo.

**October 2022** - The Director of the National Secretariat of the Extractive Industries Transparency Initiative (EITI-Albania), Mr. Genci Tërpo, participates in the National
Coordinators Meeting being held in Oslo, Norway, from October 10th to 14th, 2022. This meeting discusses the strategic priorities of the EITI, proposals being considered by the EITI Board, issues related to the Validation process, the effectiveness of communication through EITI in member countries, World Bank support in implementing the EITI standard, as well as other issues affecting the EITI reporting process and the publication of data aimed at transparency within this framework.

PERFORMANCE EVALUATION AGAINST EITI REQUIREMENTS

As continuously mentioned above, due to the lack of funds, the preparation and publication of the EITI Reports for 2019, 2020, and 2021 have not been possible. For this reason, in the following table, the data related to the EITI Report continues to be those of the 2018 - 2019 Reports.

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<th>REQUIREMENTS</th>
<th>PROGRESS</th>
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<tr>
<td>EITI REQUIREMENT 1</td>
<td>The MSG in Albania is actively involved in the implementation of EITI. MSG</td>
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<tr>
<td>Oversight by the Multi-Stakeholder</td>
<td>members are engaged in EITI implementation according to the sectors they</td>
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<td>Group</td>
<td>cover. State institutions, part of the MSG, have shown high commitment by</td>
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<td>making their structures and human resources available to the EITI</td>
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<td>1.1 Government Engagement</td>
<td>Initiative for all issues, including other information requested by</td>
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1.4 Multi-Stakeholder Group

1.5 Work Plan

the Secretariat that serves the process. The government has continued to finance administrative costs for EITI implementation in 2022 from the national budget. Finding a comprehensive language and building constructive cooperation make the work of MSG Albania productive. Civil Society Organization (CSO) members of MSG have shown dedication to the EITI Initiative by actively participating in online meetings on various issues. The representation of CSOs in MSG has a positive and sustainable spirit. CSO members during 2022 have not only been active in the issues raised for discussion but have also continued their work to disseminate information about the EITI process in Albania through articles in newspapers or social media posts and sharing EITI activities across social networks. EITI Albania MSG during 2022 has held two online meetings where various issues related to EITI implementation in Albania were discussed. Also, during 2022, MSG has not only participated but has also been highly engaged with comments and discussions on the issues under consideration.

### EITI REQUIREMENT 2

#### Legal and institutional framework, including the allocation of contracts and licenses.

#### 2.1 Legal framework and fiscal regime

1 Legal framework and fiscal regime

**Allocation of licenses.** Albania has publicly announced the oil blocks, and interested companies enter into negotiations with the Albanian government.

**Mining licenses** are offered by the Ministry of Infrastructure and Energy based on Law No. 10 304, dated 15.07.2010, "On the mining sector in the
2.2 Allocation of licenses
2.3 License registry.
2.4 Contracts
2.5 Beneficial Owners
2.6 State Participation

Republic of Albania, as amended." The annual mining program, approved by the Council of Ministers, determines competitive mining areas and open areas. For competitive mining areas, interested parties are subject to a public tender, where the evaluation of the winner is based on criteria set by law. For open areas, the license is granted to the interested party who meets the licensing conditions according to the principle of "first come, first served." The publication of the annual mining plan and all competitive procedures is done at the Public Procurement Agency and on the official website of the Ministry of Infrastructure and Energy. According to the EITI report 2017 - 2018 and in accordance with requirement 2.4.b, Albania has made progress in publishing new oil contracts and all terms of hydroenergy concession contracts.

**Oil and gas agreements** were allocated through ad hoc negotiation procedures until August 2013. Information about license holders and joint operations is published on the website of the Ministry of Infrastructure and Energy.

**The construction of new hydroelectric power plants** is carried out through Build-Operate-Transfer (BOT) type concessions. The winner declared after an open competitive procedure conducted by the Ministry of Infrastructure and Energy (MIE) following publication by the Public Procurement Agency (APP), must fulfill the necessary documentation as specified by law.

**The license registry** is publicly available on the ALBEITI website: [www.albeiti.org](http://www.albeiti.org).
This registry is refreshed every 6 months. Additionally, the Ministry of Infrastructure and Energy has published a registry of mining licenses at the following link: http://www.infrastruktura.gov.al/lejet-minerare-ekzistuese.

The new Law 112/2020 "ON THE REGISTER OF BENEFICIAL OWNERS" was approved on July 29, 2020, and the declaration of beneficial owners started in January 2021. As required by the new law, company participation in the publication of beneficial owners is mandated for all registered companies in the country. This information will be available in a registry administered by the Albanian Financial Supervisory Authority (AFSA). Until July 2020, the legal framework provided for the publication of direct owners but not the beneficial ownership as required by the EITI standard. Selected companies as reporting entities were requested to provide information on beneficial owners.

State Ownership a) State-owned entities in Albania are defined by Article 213 of Law No. 9901, dated April 14, 2008, "On entrepreneurs and commercial entities," as commercial entities owned and directly or indirectly controlled by the central government or local government, while control is the power to govern the activities of commercial entities. This law suggests that in cases requiring a qualified majority, Shareholders are identified. The definition of SOEs is explained in the EITI Report 2017 - 2018, and the MSG has agreed with this definition during the EITI
reporting process.

b) The level of ownership of SOEs is explained in the EITI Report 2017 - 2018.

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All data on exploration and discovery, production, and exports are documented in the EITI Albania Report and are published on the website www.albeiti.org.

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Detailed Publication of Taxes and Revenues

The tax system applied in Albania for the extractive industries sector is the same as that applied to the entire economy of the country, including VAT, profit tax, dividends + royalties, bonuses, and other significant payments and material benefits to the government. Mineral rent by the government is seen as a tax for the development of this sector. To provide an impetus or development in the processing industry in the country, the government reduced the royalty for processed chrome (ferrochrome) from 6 to 3 percent. The EITI report provides a comprehensive summary of tax revenues collected by the government for the years 2017-2018.

**Sale of the State's Share of Production or Other Revenues Collected in Kind**

In the EITI Report 2017-2018, the revenues collected in kind from Albpetrol are
Infrastructure Arrangements and Exchange Agreements

The EITI Report 2017-2018 includes an assessment of the applicability of infrastructure provisions and exchange arrangements in the oil and mining sectors, respectively described in Chapters 3 and 4.

Revenues from Transportation

The Albanian state does not levy transit tax. Albpetrol's pipelines are not functional. Two pipelines for the transportation of crude oil connect the ARMOs oil terminal in Vlora with the refineries in Fier and Ballsh, as well as between the two refineries. Both pipelines are out of function due to complete amortization. In total, the oil pipeline network has a length of 188 km and a capacity of 2.5 million tons per year.

The Trans Adriatic Pipeline (TAP) AG is a consortium of several international companies established for the purpose of planning, developing, and constructing the gas pipeline. Currently, the construction of the pipelines has been completed, and the construction of pumping and distribution stations continues. According to the agreement between TAP and the Albanian Government, TAP invested around 14 million euros in infrastructure and other investments for the benefit of civil society and communities.
Jonian Adriatic Pipeline (IAP Project)

The Albanian Government has promoted the possibility of implementing the Adriatic Pipeline (IAP) project with the aim of creating a Regional Common Infrastructure to exploit Caspian gas in markets of countries such as Albania, Montenegro, and Croatia.

Natural Gas Infrastructure in Albania

The Albanian Government approved the law on the natural gas sector No. 102/2015 "On the gas sector" in March 2015. This law will govern the development of infrastructure for the transmission and distribution of gas in Albania.

In 2016, the Government established the Albanian Gas Transmission Operator (Albgaz Sh.a.) and presented the draft master plan for the gas distribution network. This study cost about 1.1 million euros and was financed by the EU.

The draft master plan analyzes the use of gas in industry, transportation, household consumers, etc. TAP will be the main source of gas supply, followed by the Ionian-Adriatic Pipeline (IAP) and other potential reserves of the country. The draft considers the possibility of connecting Kosovo and Macedonia to the Albanian gas distribution network. Additionally, the plan considers the possibility of gas storage in the underground of Divjaka, in Dumre.

According to the study, domestic gas
consumption is estimated to be around 2.167 million m3 by the year 2040 (including agriculture and transportation). In the same year, the potential use of gas for electricity generation is estimated to be around 770 million m3, while the potential use of gas in oil refining processes is estimated to be 89 million m3.

Transactions Involving State-Owned Enterprises

Albpetrol pays taxes to the government, as applied to all commercial oil companies and dividends as the sole shareholder of the company. Both Albpetrol and the Ministry of Infrastructure and Energy (MIE) have announced that there are no specific agreements regulating transfers from Albpetrol to the Government and vice versa. Albpetrol has been profitable so far, despite the large employee cost base. Albpetrol's finances show fluctuating profit results. Revenue primarily comes from the sale of available oil. Albpetrol has neither received nor provided loans to the Government so far.

Local Revenues

Royalties are collected from taxable sales of oil, gas, and minerals and recorded in the State Budget. According to the Law on National Taxes No. 9975, dated July 28, 2008, as amended, a portion of the royalty tax will be allocated to each local government unit ("LGU") in proportion to their contribution
to domestic production of oil, gas, and minerals.

**Quality and Data Security, Applied Accounting Standards**

Current regulatory provisions in Albania require the involved entities to apply the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) or the National Accounting Standards (IAS) published by the National Accounting Council for accounting expenses and legal reporting purposes.

**Applied Audit Standards**

All entities, including joint-stock companies (SHAs) and limited liability companies (SHPKs), are subject to mandatory audit, excluding those SHPKs classified as smaller entities.

Law No. 10 091, dated 5.3.2009 "ON MANDATORY AUDIT, ORGANIZATION OF THE PROFESSION OF THE MANDATORY AUDITOR AND CERTIFIED ACCOUNTANT" (amended by Law No. 10 297, dated 8.7.2010, No. 47/2016, dated 28.4.2016, specifically Article 41, Legal entities required for the statutory audit of financial statements (amended by letter "c", Law No. 47/2016, dated 28.4.2016) are required to carry out the statutory audit of annual financial statements before their publication, by statutory auditors or audit firms:

a) all commercial companies, regardless of their form, applying international
financial reporting standards;

b) all joint-stock companies, applying national accounting standards for financial reporting;

c) limited liability companies, applying national accounting standards for financial reporting, when, at the end of the accounting period, for two consecutive years, exceed two of the following indicators: i - the total assets of the balance sheet, at the end of the respective accounting period, reach or exceed the amount of 50 million lekë; ii - the amount of revenue from economic activities (turnover) in that accounting period reaches or exceeds the amount of 100 million lekë; iii - have, on average, 30 employees during the accounting period.

Let us clarify that the mining entities reporting in the EITI Report are generally limited liability companies, and a considerable portion of them do not meet the condition requiring them to have their balance sheets audited by independent experts.

The data level distribution is presented in Annexes 1, 2, 3 of the EITI Report 2017-2018.

The temporal deadline of the data is in accordance with the Contract (21.12.2020) and was published in January 2021. Despite the difficulties caused by the pandemic, the long-term closure of the entire economy, and social life (long quarantine), the EITI Report 2017-2018 was successfully completed.
The coherence of the data in the EITI Report 2017-2018 provides an assessment of the security procedures performed on the reported figures by government entities and licensees in this report. Chapter 10 provides details of the harmonization of flows for 2017-2018 and lists all entities that did not report in 2017-2018, including the publication of the impact based on one-sided reporting by government units. Recommendations for improvements are also listed in the EITI Report 2017-2018. The EITI Secretariat in Albania is preparing an action plan to follow up on the Recommendations of the EITI Report 2017-2018, and with the approval of the MSG, all requirements will be covered to improve EITI reporting in Albania.

EITI REQUIREMENT 5

Distribution of Revenues from the Extractive Industry

In the extractive industry, as in all sectors of the economy, the Law on National Taxes No. 9975, dated July 28, 2008, as amended, is applied, whereby revenues are collected by the state and distributed according to the law. Particularly for the extractive industry, the mineral rent tax is notable, where a portion of it is allocated to the Local Government Units (LGUs) in which this activity takes place. Over the years, the legal framework for local transfers of mineral rent has undergone changes.

On November 27, 2014, the Albanian Government made several improvements to the Law on National Taxes, whereby LGUs benefit from 5% of
the rent generated from the sales of oil and extracted minerals in LGUs without any conditions. Regional tax and customs directorates are required to submit an analytical list of LGUs collected and benefited from the reduction of revenues to the Budget Directorate at the Ministry of Finance (MoF). Upon reconciliation, the MoF initiates monthly authorized rent transfers to LGUs. (This law is still in effect today).

During the period 2019-2020, Alb-EITI, in cooperation with the OSCE, organized a series of meetings in Local Government Units where the extractive industry operates, addressing the benefits that these communities derive from this industry and the issues related to their activities.

This activity culminated in a national meeting where a document with concrete proposals was produced.

The Albanian government is reviewing the requests of local units with activity in the extractive industry, where the main issue is the increase in the percentage of rent to be transferred to LGUs.

**National Level Transfers**

The Ministry of Finance and Economy is in the process of improving procedures to ensure the accuracy and completeness of revenue distribution in accordance with new legal requirements.
The revenues collected from the State Budget from the extractive industry are consolidated with other revenues in the budget and are allocated naturally across budget categories. There is no specific allocation of these revenues to budget programs except for the Mineral Rent, where 5% is allocated to local government authorities based on the areas where extractive industry activities are conducted.

The Albanian National Agency for Natural Resources (AKBN) manages a portion of the revenues from Hydrocarbon Agreements. So far, AKBN has not provided information on how these revenues are allocated in its budget.

The Albanian government collects revenues from the oil and gas sector through the production sharing agreements, bonuses, mineral rent, profit tax, dividends, and employment revenues.

The report shows the distribution of total revenues generated from oil operations among the Albanian government, Albpetrol, AKBN, and private oil companies. The State's interest in PSAs is administered by Albpetrol and AKBN, which receive from the PSAs: bonuses, shares of oil production, and other revenues resulting from non-compliance with contract terms such as fines and
executed guarantees.

The Ministry of Infrastructure and Energy (MIE) publishes financial information related to expenditures by nature and program on its website http://infrastruktura.gov.al/.

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<th>EITI REQUIREMENT 6</th>
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<td><strong>Social and Economic Expenditures</strong></td>
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<td>6.1 Social Expenditures by Extractive Companies</td>
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<td>6.2 Fiscal Expenditures</td>
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<tr>
<td>6.3 Contribution of the Extractive Sector to the Economy</td>
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**Social expenditures** are material expenses made by companies in the Extractive Industries sector for the benefit of the public and civil society, as mandated by law or contract with the government. The Government and the oil companies involved in the oil sector informed that the current oil agreements do not include mandatory social payments to be made by oil companies for the benefit of communities. The timing and amount of social payments are determined by the oil companies at their discretion. Companies must submit these expenditures to AKBN/Albpetrol for approval as part of the annual budget approval process.

**Fiscal Expenditures** MSG Albania discussed the existence of "quasi-fiscal expenditures" in Albania at the meeting on February 12, 2019, and their materiality. MSG’s statement on this issue in accordance with Standard EITI Requirement 6.2, MSG-EITI Albania expressed its agreement with the definition provided by the Independent Administrator in the EITI Report regarding Quasi-Fiscal Expenditures and stated that the laws and regulations governing the operations of Albpetrol SH.A. do not include these types of expenditures. MSG-EITI Albania also stated that the Albanian legal framework does not
provide for any obligation for "quasi-fiscal expenditures" for licensed companies conducting activities in the extractive industry in Albania.

**Contribution of the Extractive Sector to the Economy**

Based on the data reported by government agencies presented in the EITI Report 2017 – 2018, the extractive sector and hydroenergy together accounted for 5.1% of the gross domestic product (GDP) in 78,504 million lek for the year 2017 and 6.1% of the gross domestic product in the amount of 100,534 million lek for the year 2018. Exports from the extractive sector accounted for 15% of total exports in the amount of 44 billion lek for the year 2017 and 18% of total exports in the amount of 51 billion lek for the year 2018, respectively.

Based on data reported by the DPT, companies operating in the extractive and energy industries had over 40,000 employees each for the years 2017 and 2018.

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<th>EITI REQUIREMENT 7</th>
<th>Public Debate</th>
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<tr>
<td><strong>Results and Impact</strong></td>
<td>The EITI Report in Albania is understandable and publicly accessible. Both EITI Reports and the Data Summary Sheet are available in open data formats. Additionally, copies of EITI reports are continuously produced and distributed to interested parties. The reports are published on the website <a href="http://www.albeiti.org">www.albeiti.org</a> in Albanian and English. The EITI Albania Report has been widely</td>
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<tr>
<td>7.1 Public Debate</td>
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<td>7.3 Discrepancies and Recommendations from EITI Reports</td>
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7.4 Review of Results and Impact of EITI Implementation

used by stakeholders in public debates. Organizing meetings with journalists from local and national media, editions, chronicle articles, and organizing meetings with local and foreign interest groups clearly demonstrate the commitment of the MSG and the EITI National Secretariat to promote a nationwide public debate and to influence the economic and social development of communities.

**Data Accessibility** The EITI National Secretariat publishes EITI reports on its website, and all interested parties have full access to the requested data. Physical copies of EITI Reports and Summary Reports are widely distributed to relevant stakeholders. In December 2020, AlbEITI established an Open Data Portal containing data from the extractive industry, which is accessible to all.

**Inconsistencies and recommendations from EITI Reports** Inconsistencies and recommendations in EITI Reports are discussed in MSG meetings. The National Secretariat proposed the establishment of a permanent subgroup within the MSG. This group will monitor the implementation of EITI Report recommendations and corrective actions raised by Validation until their full completion.

**Review of Results and Implementation Impact**

The year 2020 was a challenging one, conditioned by the pandemic, which
dictated the closure of many activities due to quarantine. To overcome the obstacles in this direction, the EITI National Secretariat and MSG worked closely with the parties involved in the process. Many communication and promotion activities with all actors were carried out by the EITI National Secretariat and MSG.

The approval of the Transparency Law is promising, but at the same time, it requires coordinated efforts from the involved parties.

In 2020, the publication of the Beneficial Owners Register took place, where, as a member of the EITI, Albania adopted a special law to fulfill this global obligation. A Beneficial Owners Guide outlining all the steps to be followed was published in January 2017. The EITI National Secretariat has carried out and is carrying out all activities outlined in this guide.

Many meetings have been held by the EITI National Secretariat and recently by CSOs, MSG members, with Local Government Units in areas where extractive industries operate, companies, and civil society representatives to promote EITI and EITI Reporting.

On the other hand, meetings have been organized with journalists from national and local media. Media coverage of EITI initiatives' work and mission is a way that reflects a serious commitment to transparency in the extractive sector.

The innovation brought by the EITI Survey
was, for the EITI National Secretariat, the best way to analyze the public perception of the impact and implementation of EITI in Albania.

The survey results showed that local and central administration (affected by EITI reporting) did not have information about EITI requirements.

As a result, the EITI National Secretariat decided that the activities outlined in the Work Plan would play a key role in organizing informative activities mainly by focusing on this group.

We can express that the local government (when operating in the extractive industry) and the central administration, by timely and qualitatively responding to the requirements and obligations of the EITI Initiative, demonstrate that the EITI Work Plan has achieved the objective in this direction.

**Progressive Increase of Reporting Companies in EITI** Over the years, the percentage of reporting by extractive companies has progressively increased, aiming for greater inclusion of all three sectors.
STRENGTHS AND WEAKNESSES IDENTIFIED IN THE EITI PROCESS

STRENGTH

The strong cooperation and excellent predisposition of MSG members regarding EITI implementation issues has been a notable asset.

WEAKNESSES

Weakness identified during 2022 was the lack of funding for carrying out the activities outlined in the Work Plan.

IMPLEMENTATION OF PLANS FOR PUBLISHING BENEFICIAL OWNERS

With the approval of Law No. 112/2020, On the Beneficial Ownership Register, by the Parliament of the Republic of Albania, the legal vacuum regarding the Transparency of Beneficial Owners comes to an end. This law applies to reporting entities, legal entities registered in the Republic of Albania.

The "Beneficial Ownership Register" is a state electronic database in which the data of beneficial owners of reporting entities are registered, collecting in real-time the data
recorded in the respective state registers administered by the relevant state institutions. It serves as an official electronic archive and ensures transparency in the field of beneficial owners.

The Beneficial Ownership Register is managed by the National Business Center, which is responsible for: a) registering, managing, processing, and storing in the register the data declared by reporting entities; b) ensuring the availability of Register data, in accordance with Article 7 of this law; c) issuing extracts for the data registered in the register; d) undertaking other actions in accordance with this law.

This law is published on the official website of the EITI National Secretariat.

**TOTAL IMPLEMENTATION COSTS**

The EITI National Secretariat for the year 2022 was funded by the State Budget funds. Financing from the State Budget amounted to 15,000,000 Lekë, out of which 610,700 Lekë were reallocated to the Budget of the Ministry of Infrastructure and Energy, and the amount of 14,389,300 Lekë covered personnel salaries and insurance expenses, as well as operational expenses.

The actual staff of the Albanian EITI Secretariat for the year 2022 consisted of 8 employees, of which 6 were full-time employees and 2 were temporary contract employees, compared to the 9 employees indicated in the Organizational Chart.
THE ACTIVITY OF THE REPORT HAS BEEN DISCUSSED BEYOND THE MSG

In the activities carried out during 2022, the implementation of the EITI initiative in Albania has been discussed beyond the MSG.

MEMBERSHIP DETAILS OF MSG

During 2022, the organizational structure of the Multi-Stakeholder Group (MSG) remained unchanged, adhering to the format of 5 government representatives, plus one, the Chairperson of this group, 5 business representatives, and 5 civil society representatives. The organizational structure of the Multi-Stakeholder Group (MSG), along with its respective members, is published on the official website of the Secretariat.

Approved by MSG August 2023