Reconciliation of revenues received by the Municipality of Patos from royalty payments and the administration of funds for the benefits of the community in 2012

Municipality of Patos

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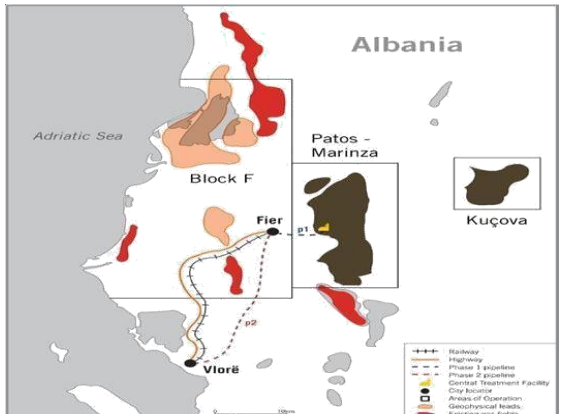


Pursuant to tasks arising from the MSG meeting and also to the Instruction of Albanian EITI Secretariat, no. 63 dated 23.03.2015 on the "Establishment of a working group for the: Reconciliation of the revenue received by the Municipality of Patos from the royalty payments and the administration of funds for the benefit of the community in 2012", the necessary economic and financial information has been collected and processed and also the required legal support has been ensured from the relevant government structures responsible for the delivery and use of Royalty revenues from local government, which in our case is the Municipality of Patos.

Methodology and preparatory work

The accomplishment of this task is carried out in accordance with the competences given to EITI Albania on the collection and processing of data and official information for reconciliation of the income received from royalty fund and the administration of these funds delivered to Patos Municipality in 2012

The main objective is the verification of the delivery process of the Royalty funds and the administration of these funds to the benefit of the community. This is done for the purpose of including in future EITI reports data not only on the collection but also on the delivery and use of these funds to the interest of the community living in the extractive industries areas.

The objective of this task was to prepare a report that would provide information to the MSG and others interesting groups of interest on economic indicator of Patos areas, regarding the identification of Royalty fund distribution and usage in certain area. Under the circumstances, the following steps were taken:

- Various and relevant information related to the oil & gas area of the Patos Municipality has been collected.
- The Royalty funds collected and delivered by the Ministry of Finance have been identified for the whole country and in particular for Patos Municipality.
- On-site verification on the administration of royalty funds given to Patos Municipality based on law procedures, rules and the relevant projects approved to the benefit of the community in the extractive industry areas.
- Specialists and heads of Local Government Units as well as representatives of the beneficiary community have been contacted.
- The main requests associated with the EITI process have been identified in terms of possible improvements in legislation, royalty fund distribution procedures and cooperation between local governments and state agencies.

The Mayer of Patos, Mrs. Raimonda Balilaj, the chief of Finance Sector, Mimoza Shtembari, and the specialist of the Project and Urban Planning Mr. Andon Kristo have been contacted, etc. During these meetings, we clarified the purpose of our visit and requested information on royalty funds received in 2012 and 2013, respectively, their destination and also the procedures followed for their use.

From the discussions emerged that these funds were mainly used used for the improvement and rehabilitation of the infrastructure of the area, such as roads and nurseries, etc. Open meetings and discussion were also organized with local residents to share their opinions on the new roads reconstructed with these funds.

Executive Summary

Patos Municipality

The New Municipality of Patos borders with the Municipality of Fier to the north and west, with Municipality of Mallakastra to the south and theMunicipality of Roskovec to the east. The center of the Municipality is Patos City. The city of Patos is part of Fier district. It is the second largest city after Fier for the number of residents. Patosi City is situated to the southeast of the Fieri, on the National Road Fier-Tepelene. It has been an industrial town created around 1949 to house workers and engineers employed in the so-called “Patos marinez area” (one of the richest oilfields in Albania). Patosi City is the center of the oil extractive industry in Albania.

The municipality consists of three administrative units which are: Patos, Zharrez dhe Ruzhdie. All administrative units are currently part of the Fier district. The New Municipality comprises under its administration one city and 18 villages.

The city of Patos villages: Rërez – Dukas – Kuqar – Rusinje – Margëlliç – Griz – Banaj

Administrative units:

Zharrëz, villages**:** Zharrëz, Fshat i Ri, Frashër, Verbas,Sheqishtë,BelinëRuzhdie,Fshatrat:Ruzhdie,Siqecë, Gjynahqarë, Drenie, Kasnicë Cakran - Dërmenas - Frakull - Kuman - Kurjan - Levan - Libofshë - Mbrostar - Portëz - Qendër - Ruzhdije - Strum - Topojë - Zharrëz

Geography

Patos is located 7 km to the southwest of Fier, lying along the hilly chain that divides the field of Myzeqe from Gjanica river Valley. This hilly range continues in the form of circular across the roas Patos-Fier and lools like a natural amphitheater. It is part of the lower hills of Mallakastra which continue southward up to Vjosa River. Their average height is about 200-300 m declining towards Patos while diving in the field of Myzeqeja.

The highest measured point of the region is the hill of Margellicit 320m above the sea level. The Myzeqe is located to the North and North-West part, in front of the city, whilst Roskoveci field is found to the North-East of the area.

Layout surface is divided into: Fields 718 ha and hills 1488 ha. The city is crossed by the roads Fier-Gjirokaster and Fier-Berat, which have had their impact to the development of the area. The climate of the are is a typical Mediterraneanclimate affected by marine air masses because of the short distance from Adriatic Sea (almost 25 km).

The mountainous relief to the east and south prevents the penetration of cold continental climate. The average annual temperature varies 14-15 degree Celsius, while January temperatures reach 5 degree Celsius. Precipitation is mainly in form of rainfall while the snowfall is a rare occurrence. The amount of summer precipitation constitutes only 1/10 of the whole precipitation. This leads to irrigation needs. For this reason several artificial lakes in Zherrez, Lalar, Ruzhdie etc.,have been build.

Surface:82.55km2

Demography

Population Area: 42.738 Habitants

Population Municipality: 22.959 Habitants

Patosi City has a population of 22.959 Habitants (source: Institute of Statistics)

Based on the 2011 Census, the new Municipality of Patos has a population of 22.959 habitants, while according to the civil register the population is 42.738 habitants. The new Municipality consists of 82.5 km2 surface area. According to Civil Register data the population density is 518 habitants/km2 while according to the Census the density is 278.3 habitants/km2. Patos is characterized by a heterogeneous population which means that people come from different Albanian cities such as:, Skrapar, Laberi, Cameri etc

Culture and Sport

The city's football team is called Albpetrol. It achieved its best result on the Albanian Cup Final agains Partizani team on the year 93-94, and also the participation on the Europe cups during the year 93-94.

Economy

The Patos town started to be built in 1949 to accommodate oil workers and engineers. The basin oilfield known as "Patos-Marinza" is the richest oilfields in Albania. But despite this, the number of people employed in oil industry in this area is many times lower than it has been in previous years. For many years, the oil sector has been the main economic source, but after foreign companies started to take over oil operations, the level of employment in this sector changed. This led to a concentration of labor force in the agriculture sector.

The private service sector provides income for the urban area and recently the garment industry has also started its activity in this area. The number of population has decreased significantly due to the mountainous landscape causing the relocation to urban centers or neighbored countries. The infrastructure of the urban area and surrounding villages has improved in the last years but there is still much work to be done in order to provide transportation from the distant areas to the center of Municipality.

The geographical extension of Patos as well as the expansion of this local unit sets major challenges for the Municipality, combined with the need of problem-solving for of Ballsh city and the areas surrounding it.

One of the main problems identified by the habitants of the area is the lack of support by the Municipality to create good conditions to trade their goods, mainly olives and olives oil. Promotion of these products, which are characteristic for the area, will lead to increased planted surfaces and economic growth.

One of the most important challenges that faces local government is the clean-up and rehabilitation of many abandoned and existing oilfields and also taking measures to prevent pollution from existing oil wells. In this regard, one of challenges identified by the habitants of the Municipality is the relationships between the local units and the concession company which operates the oilfield.

Also, another challenge for the municipality is the state's elaboration and administration of the Royalty from oil extraction in the area, As e result of this, the Municipality can provide millions of euros income. Transparency and good administration of this income can help improve the life of the communities in the extractive industries area.

Another main issues identified by the local community concerns the building of new or the rehabilitation of existing schools, nurseries and kindergartens.

Another aspect that seeks the attention of local government is the increase of homeless families during last years. They need to be supported through planning and building social apartments.

The budget

In the year 2012 was 80,312 ALL

In the year 2013 was 71,477 ALL

In the year 2014 was 84,876 ALL

In the year 2015 is 89,119 ALL

Source: The Low for the state budget according to years, 2012, 2013, 2014 and 2015.

Measures taken to reduce

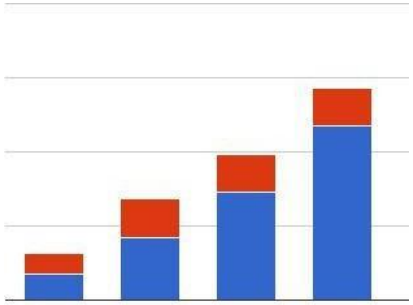
administrative costs:

- Reduction of administrative costs (salaries and other operational costs) with about 58 million All equivalent of 13% of the total expenses made by the all units.

- Reduction to the new unit's payroll expenses from 4460 to 3094 All\habitant (from 179 million to 122 million per year)

Increase of investment budget from 160 million All per year to 221 million All per year or 36% increase of the annual budget on investment. Increase of investments per habitant from 4130 to 5608 All to the new local unit.

Source: http://gis.ceshtjetvendore.gov.al



Royalty

Royalty is calculated as the monthly payment made by the taxpayer entity, in the case when mineral products are traded into the market. In the case of mineral products Royalty is paid at the moment of the export declaration. 25% of income from royalty payments is forwarded to the local government where the activity takes place. Royalty is defined by multiplying the total value of the wholesale product with the percentage of the Royalty, according to the definition of the article attached to the Law Nr. 10280, date 20.05.2010. When sales are realized, the payment of Royalty is made by the 15th of next month. In the case of the export of mineral products, Customs Branches in the districts are responsible for the collection of Royalty, while in the case of mineral products trated within the country, tax branches are responsible for the collection of Royalty.

Legislation

a. Legislation about Royalty

Law no. 10487, dated 5.12.2011 "On the 2012 budget" (Annex 1, Royalty), states that Royalty is calculated according to the level defined in the Law "On National Taxes" (article 4, point 4), it is defined that 25% of the income from Royalty are forwarded to local government unit where the activity takes place and it will be delivered on their request, taking into consideration the provisions relating to the unconditional budget implementation. Meanwhile, according to the article 15, of the law 10487, dated 05.12.2011, "On the budget of 2012", part of the income from the royalty payments that belongs to local government units, according to their request, legal procedures and the formula define by Law, is delivered by the Ministry of Finance. These two clauses have existed even on the relevant laws of successive years. In the Law no. 119/2012, dated 17.12.2012 "On the 2013 budget" (Annex 1, Royalty), the Royalty is calculated according to the levels defined in the Law "On the National Taxes", it is defined that the royalty for the local units (the maximum evaluated legal level is 25% of the royalty collected) will be delivered according to their request, taking into consideration the clauses related to the unconditional budget realization.

This year's budget law defined that the local government units will profit +50% royalty, over the unconditional transfer (budget) provided that the transfer (budget) and royalty are reconciled. The Law no. 185/2013, date 02.12.2013 "On the 2014 budget" (Annex 1, royalty), the royalty that is calculated according to the levels defined in the Law "On the National Taxes", it is defined that the royalty for the local units (the maximum evaluated legal level is 25% of the royalty collected) will be delivered according to their request, taking into consideration the clauses related to the unconditional budget realization. This year's budget law defined that the local government units will profit +50% royalty, for oil and gas and +80% for the minerals as royalty over the unconditional transfer (budget) provided that the transfer (budget) and royalty are reconciled. The Law no.106/2014 "On the 2015 budget" dated 27.11.2014 and the Law no. 157/2014, dated 27.11.2014 "On some amendments to the Law no.9975, dated 28.07.2008, (On National Taxes), certain improvements and changes as below.

Coverage of relevant changes related to Royalty, in the above mentioned Law:

In the point no. 4 of Article no. 2 of the Law, the percentage of the Royalty, for the content of chrome it is decided to be placed in the mass, equal to 2/3 of the Royalty defined in the annex no.2 of the Law.

The proposal, which came by groups of interest, aims to stimulate direct local and foreign investment by increasing the level of chrome processing in the country. In addressing the request of the Albanian Minerals Association for the reduction of mining Royalties for domestically processed chrome, aiming to the promotion of direct domestic and foreign investment through the increase of mineral processing levels, it is estimated that the percentage of the Royalty for chrome and its by-product is equal to 2/3 of mineral royalty rate. Actually, the exported structure of chromium dominates the raw mineral, where the specific weight of raw chrome occupies about 91%. Increasing the level of domestically processed minerals are expected to bring a change in royalty revenue. Despite the negative effects that this would bring to the income by the Royalty in the amount of 45.3 million All, the expected positive effects from the reduction of Royalty on chrome and its by-products, specifically relate to the promotion of investments in the processing industry; the increase in the supply of raw materials in the country, the icrease of capital investment and also creation of new jobs. Referring to data from 2013, when Royalty collection for chrome and ferrochrome concentrate were about 136 million All, the effect on income for the 2015 state budget is estimated to be approximately -45.3 million All.

Article no.2 of the Law states that the percentage of the Royalty for the local government should change from 25% to 5%. This legal change is in compliance with the approved 2015 state budget Law. According to this Law, the transfer of Royalty to local government should not be related to the amount of unconditional transfer.

As a result of these changes in these two Laws, based on the income of Royalty for 2013, which is estimated about 7.8 milliard All for 2015, local government will receive about 400 million All, compared to 100 million All that Municipalities and Communes received in 2013. Allocation of of royalty payments between local and central government it constitutes a normal fiscal policy of fiscal decentralization. But, the transfer of income between central and local governments is defined by two specific laws that provide the procedure of Royalty delivery. This resulted in low Royalty low levels received by local government/

According to the national tax law, the Municipalities and Communes receive 25% of Royalty income. But they are not receiving 25% of the Royalty income, as specified by the law, because the state budget Law, limits the distribution of Royalty to the Municipalities and Communes due to the unconditional transfer. The amended points and paragraphs of the Law no 157/2014 are given below:

First paragraph of Point 4 is changed as follows:

a). After the first sentence another sentence si added :

"The percentage of Royalty for the content of metallic mineral to the mineral by-product is 2/3 of the rent defined in article 2, "First group (I) metallic mineral" which is attached to this Law.

b).The last sentence is changed as below: "5% of the revenues from Royalty belong to local government in which the activity is carried out. Local government units shall use revenue from Royalty for investments."

b.) Guidelines of the Ministry of Finance:

Guideline of the Ministry of Finance No. 2, dated 17.01.2014 "On some changes to the Guideline No.26, dates 4.9.2008 "On national taxes" changed to the Guideline No. 26, dated 04.09.2008 "On National Taxes" changed, the following changes were made: 3. The points below are changed as follows:

"2.4.2. When the holder of an exploitation permit, sells the mineral or its by-products, for final consumption within the country, he pays the Royalty tax in a second level bank, on behalf of the regional directorate where it is registered and for the whole quantity sold"

"2.4.6. Part of Royalty revenues which belong to local government units (including oil revenue according to point 2.4.5), is delivered by the respective budget structures in the Ministry of Finance, according to the criteria defined in annex no. 1 of the Law no. 185/2013, dated 28.12.2013 "On the 2014 budget". According to this annex the units of local government units shall receive +50% for oil and gas and +80% for minerals, as the unconditional transfer is equaled to the Royalty collected" Guideline of Finance Ministry No.21, dated 4.9.2008 "On national taxes" is changed. Changes were made to third and fourth paragraph of Points 2 of the point 2.4.1, such as follows: "When the exporting entity exports the mineral or its by-products, bought from the owner of an exploitation permit, he pays the Royalty only for the difference between the value of the Royalty calculated

Contribution of Royalty from the extractive industries area

	Year 2012 (ALL)	Year 2013 (ALL)
Royalty collected from budget	7.150.000	7.770.000
Royalty delivered	41.790,11	100.659,2
Benefit of Local Government Unit (%)	0.58	1.29

Contribution of the extractive industry in the Albanian economy

	Year 2011 (Milliard ALL)	Year 2012 (Milliard ALL)
Total production	70.7	65.8
Production of oil and gas	47.9	50.3
Mining production	22.8	15.5
Contribution to gross domestic product	4.3%	5.6%
Contribution of royalty from the extractive industries area	1.8%	2.5%

according to the export prices, that is FOB price in Albania, and the value of the royalty paid by the owner of the exploitation permit, according to the point no.3 of the decision no. 7 date 4.1.2012 "On required procedures and the necessary documentation in relation to the collection of royalty tax."

In case of export, the full value of the Royalty is calculated by the amounts of mineral or its by-products, in accordance with the export declaration and associated documentation.

In the case of export, the declaring entity is obliged to declare to the customs, by its own, the total sum of the Royalty paid for the quantity of the product or its by-product that is going to be exported and also to fill relevant documents.

The sum that should be paid at the custom is the difference between the calculated sum for the whole Royalty value and the sum of the self- declared Royalty as paid to the tax authorities. The tax authorities, based on data received from customs authorities, verify accuracy of self-declaration done by exporting entities an also notify customs authorities about it.

Transfers of Royalty in 2012 amounted to 41.790 All, comprising 0.58% of total collected Royalty, or 2.3 % of the total transferable Royalty, according to the Law on National Taxes. This level is expected to be increased in the coming years.

According to the Ministry of Finance, revenues from royalty payments were recorded as aggregated payments in the 2001 and 2012 State Budget and no disaggregated data on royalty generated by each LGU were availbale, but from 2013 the recording process has improved.
The annual budget law determines the key criteria for royalty allocation, such as:

- Mining Royalty is allocated to local government units upon their request.

- The portion of royalty received by local government units is + 50% of the unconditional transfer provided that the transfer and royalty are equal.

This encourages local government units to track, collect and reconcile data on expected and generated levels of royalty fund on a 4-month and annual basis as required by the unconditional budget and at the same time request it whenever the fund is realized or exceeded.

Table 1

Comparison between local government budget fund and royalty fund

Name	Year 2012	Year 2013	Year 2014 (ALL)	Year 2015 (ALL)
Additional budget funds from allocation of royalties				
Total royalty fund collected by the state budget	7.150.000	7.770.000	7.300.000	
Oil and gas areas	6.420.000	6.950.000	5.500.000	
Mining areas	730.000	820.000	1.800.000	
Total royalty fund allocated from the state budget to LGU-s	41.790,1	100.659,2		
Oil and gas area	41.790,1	100.659,2		
Mining areas	0	0		
Ratio of the allocated royalty to lo lieved royalty, as % (law provisions determine the max ratio of 25%)	0.58	1.30		
Municipality of Patos				
State budget allocations in years	80.312	71.477	84.876	89.119
Additional budget funds from allocation of royalties	16.062	35.738	42.438	
Ratio of the royalty fund to state budget fund (%)	20	50	50	
Commune of Mbrostar				
State budget allocations in years	21.238	21.805	25.023	13.385
Additional buget funds from allocation of royalties	3.814	10.902	0	
Ratio of the royalty fund to state budget fund (%)	18	50	0	

Law No. 10487, dated 05.12.2011 "2012 State budget"

- Law No. 119/2012, dated 17.12.2012 "2013 State budget"
- Law No. 204/2013 dated 30.12.2013 "2014 State budget"
- Law No. 160/2014, dated 27.11.2014 "2015 State budget"

Some data for the years 2013-2014 were not provided 2015 until 23.6.

Note: Ministry of Finance, revenues from royalty payments were recorded as aggregated payments in the 2012 State Budget and no disaggregated data on royalty generated by each LGU were available.

No sub-national transfers were made to LGUs in 2011

Table 2

Local Units Beneficiary of Royalties in 2012-2013

Beneficiary LGUs	Mining royalty received in 2012 In ALL
Fier	37,843,100
Municipality of Patos	16,062,400
Municipality of Roskovec	4,247,600
Commune of Mbrostar	3,814,000
Commune of Portez	4,179,000
Commune of Ruzhdie	448,500
Commune of Zharez	3,024,600
Commune of Kuman	3,456,800
Commune of Bubullime	2,610,200
Vlorë	3,947,000
Commune of Vllahinë	3,947,000
Total	41,790,100
Oil and gas areas	41,790,100
Mining areas	0

Beneficiary LGUs	Mining royalty received in 2012 In ALL
Fier	91,772,146
Municipality of Patos	35,738,000
Municipality of Roskovec	9,450,806
Commune of Mbrostar	10,902,000
Commune of Portez	11,687,500
Commune of Zharez	7,606,958
Commune of Kuman	8,229,882
Commune of Bubullime	8,157,000
Vlorë	8,887,096
Commune of Vllahinë	8,887,096
Total	100,659,242
Oil and gas areas	100,659,242
Mining areas	0

Name			Amount	Spent	Beneficiary community
State budget funding from from royalty revenue			***94,238***	***94,238***	
2012			***16,062***	***16,062***	
2013			***35,738***	***35,738***	
2014			***42,438***	***42,438***	
Funding from extractive industry donors funds				*12,900*	
state budget funds					
Extractive industry donor funds				*12,900*	
Funds used for detailed projects and activities (projects financed through royalty funds).				***94,238***	
Reconstruction of	*Sotir Xoxe road*			***42,163***	
Reconstruction of	*Dhori Tanaka road*			***35,537***	
Reconstruction of	*Franc Nopca road*			***16,341***	
Hidro-insulation		*Kindergartens*		***197***	
Royalty funds used for projects approved by			***107,138***	***107,138***	
The municipal council			***107,138***	***94,238***	
The municipality				***12,900***	
Collaboration with other detailed projects and fundings				-	
Project monitoring is carried out					
By individual experts					
By expert staff					
In collaboration with community representatives					
Final report					
Achieved benefit					
Beneficiary community					*Over10,000 inhabitants*
Publication of results and achieved benefit					
Project progress (current status)				*Completed*	
Available photos					
Future project	**and proposals**			*4,200*	
Construction of Meleq Gostinishti park				*4,200*	
Recommendations and suggestions for the improvement of					
the legislation in force				*Tëpërmirësohet legjislacioni në fuqi by prompting Central government to allocate more funds to local government since mineral resources naturally occur in these areas*	
financing and reporting procedures					
collaboration with					
- central and local state institutions					
- civil society					
- stakeholders					
- other					

Table 3 Data reported by the Municipality of Patos on the use of royalty revenues in years

Table 4

Data reported by the Commune of Mbrostar, Fier on the use of royalty revenue in years

Name	Amount	spent	Beneficiary community
State Budget funding from royalty revenue	*14,716,000*	*14,716,000*	
2012	*3,814,000*	*3,814,000*	*Electricity payment, Drinking water pumps*
2013	*10,902,000*	*10,902,000*	*Investments in various projects*
2014	*s'ka*		
Funding from extractive industry donors			
Bankers Petroleum company	*16,000,000.00*	*16,000,000.00*	
Healthcare center in Kallm i Madh	*4,000,000*	*4,000,000*	*Community of Kallm i Madh village*
Drinking water well in Vajkan	*4,000,000*	*4,000,000*	*Villages of Vajkan, Verri and Kallm*
Sports field, 9-year school of Kallm i Vogël	*4,000,000*	*4,000,000*	*Students of Kallm i Vogël school*
Rehabilitation of irrigation systems, Kallm i Madh dhe Kallmi Vogël	*4,000,000*	*4,000,000*	*Farmers of these villages*
Funds used for detailed projects and activities (Projects financed through royalty funds)			
2013 royalty allocated as follows	*10,902,000*	*10,902,000*	
Drilling of drinking water wells		*2,501,000*	*Mbrostar-Ura village*
Deployment of waste containers		*440,000*	*In all the villages*
Hydro-insulation of Vajkan school		*574,162*	*Vajkan community*
Fencing and rehabilitation of village cemeteries		*3,600,000*	*community*
Purchase of equioment for schools		*285,000*	*students*
Reconstruction if internal roads of the villages		*3,501,838*	*Community life improvement*
Royalty funds used for projects approved by			
The Municipal Council			
The Municipality			
Collaboration with other detailed projects and fundings			
Project monitoring is carried out			
By individual experts			
By expert staff			
In collaboration with community representatives			
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Achieved benefit			
Beneficiary community			
Publication of results and achieved benefit			
Project progress (current status)			
Available photos			
Future projects and proposals			
Rural road, Mbrostar-Kallm Madh-Kallm i Vogël	*260,000,000*		
Reconstruction of regional water supply system Verri-Kallm	*27,000,000*		
Secondary roads to agricultural plots	*75,000,000*		
Recommendations and suggestions for the improvement of			
Legislation in force			
Financing and reporting procedures			
Collaboration with			
- central and local state institutions			
- civil society			
-stakeholdert			
– other			

Financial Control

Financial control of royalty funds allocated to the Municipality of Patos for the completion of community projects.

1.Based on reporting and relevant documentation available in Patos Municipality, the use of royalty funds allocated by central government has been in compliance with the designated purpose and relevant decisions of the local governing bodies:

- Decision of Regional Council No. 6, dated 01.02.2012(Table No.5-Capital Investments for 2012 by programs and funding sources),approved by Prefecture by letër No. 76/1, dated 15.02.2012

-Decision of Regional Council No. 7, dated 22.01.2013(Table No.4-Capital Investments for 2013 by programs and funding sources), approved by Prefecture by letër No.84/1,dated 31.03.2013

-Decision of Regional Council No.8, dated 25.02.2014(Table No.4-Capital Investments for 2012 by programs and funging sources), approved by Prefecture by letër No. 293/1, dated 03.03.2014

Tables 3 and 4 indicate the destination of funds used by the Municipality of Patos and Commune of Mbrostar.

2. Auditing was conducted in this regard by the State Supreme Audit, which describes in its report the projects financed through additional budget funds from mining royalties.

SSA

On the Financial Auditing Conducted in the Municipality of Patos, Fier Region. Final Report on Financial Auditing conducted in the Municipality of Patos, Fier Region, with the theme: “Auditing of annual accounts of the institution's administration, audit of account areas, revenue generation and spending, financial management and internal control, etc. ", type of audit: “Audit on financial legitimacy and conformity”, for the period of activity from 01.01.2011 to 31.12.2012 and measures for the improvement of the situation have been approved by decision of SAI chairman, no. 117, dated 06.09.2013. Based on Articles 9 and 16 of Law no. 8270, dated 23.12.1997 "On the Supreme State Audit", as amended by Law no. 8599, dated 01.6.2000, the SAI **has recommended,** by letter no. 559/8 dated 06.09.2013, to Ms. Rajmonda Balilaj, Mayor of Patos, Fier Region, the implementation of the following measures: The Contracting Authority shall monitor the implementation of the contract or disbursements, to ensure that the goods are delivered with the promised quality and also check that the invoice for all entries made is associated with the relevant supporting documentation as required

by DCM no. 1, dated 10.01.2007 “On public procurement procedures” chapter VIII, paragraph 2/b, MoF Order no. 54, dated 15.07.2010 "Manual on Financial Management and Control” and MoF Instruction no. 30, dated 27.12.2011 "On management of assets in public sector entities”.

Compensation measures

Based on law no. 8652, dated 31.7.2000 "On the organization and functioning of Local Government" as amended, Chapter IV, Articles 9-14 and Law no. 8485, dated 12.5.1999 “The Code of Administrative Procedures”, Part VI, Chapter I, Sections 105-109, the Municipality of Patos is required to issue administrative acts, carry out subsequent accounting and impose fines at the amount of 26,756,922 ALL to the following operators:

-“X” sh.pk (Ltd) at the amount of 3,128,107 ALL, for exceeding the terms set for completion of the project **“Reconstruction of Dhori Tanaka road”**, because there is no contract addendum for deadline extension for the period from 18 October 2012 to 11 January 2013 (85 days).

-“X” sh.p.k. & “Y” sh.p.k” Tiranë represented in this contract by “X” sh.p.k. Tiranë, at the amount of 640,548 ALL, because the audit carried out on technical documentation for the execution, supervision and commissioning of construction works for “**Reconstruction of Sotir Xoxe road**” revealed outstanding works and unfair appropriation of funds. H.A, construction supervisor.

-Upon the request of construction supervisor, A. D, a contract amendment no. 1136/5 dated 26.10.2012 was prepared for the project “Reconstruction of the road “Franc Nopça Patos”, which extended the deadline for the

completion of extra works by 30 calendar days, due to the emergence of unforeseen works in the **"Reconstruction of Franc Nopça road"**. Based on the initial contract no. 606/10 dated 06.08.2012 with a duration of 45 days, the works were expected to be completed on September 19, 2012 but according to this amendment, the completion of works is extended to October 18. 2012. However, from the audit of project files it was revealed that:

The date for the commencement of works, according to supervisor records, is 13 August, 2012 while the record for completion of works, held by works supervisor, AB and entrepreneur SP, is dated 11.01.2013, whereas project handover was finalized in 4.02.2013.

There is no contract amendment for the extension of construction works from October 18, 2012 to January 11, 2013, the date when works were completed according to the notice and minute held by the supervisor of works, AB, on 11.01.2013.

3. The Municipality of Patos has taken into consideration SAI reccomandations.

Conclusions

1. The distribution of royalty for the period 2012-2013 was made in accordance with the budget and national tax law but results that only LGUs in oil and gas bearing areas have benefited.

2. Both Municipality of Patos and Commune of Mbrostar have requested the respective funds from the Ministry of Finance for projects aiming at the improvement of community life but MoF failed to analyze and accurately allocate funds collected by royalty payments which were distributed to beneficiary LGUs in mining and oil-bearing areas based on the realization of unconditional transfer.

3. Project financing in Municipality of Patos and Commune of Mbrostar was made with the approval of local governing bodies.

4. Legal audit and control on the use of funds from mining royalties in the Municipality of Patos for 2012 was performed by SAI structures, which assigned tasks and recommended relevant compensation measures for responsible entities.

5. The needs and demands of Patos Municipality for funds generated from royalty payments were higher than the actual amount allocated to it in 2012 and 2013.

6. Financial support for community projects came also from licensed entities operating in the area but the level of detail in their identification, control, reporting and technical-economic reconciliation needs to be further increased (allocated funds, supporting companies, NANR approvals of funds provided by oil and gas companies for LGU projects, financing period, project implementation, prices for used materials or prices per unit area, etc.).

7. Regarding construction or reconstruction projects in the Municipality of Patos and nearby LGUs, financed through mining royalty, seems that there has been very little publicity and insufficient announcement that the funds were actually allocated by the Ministry of Finance. The same thing can be said for projects endorsed by licensed entities operating in the area (such as BankersPetroleum).

8. The Municipality of Patos has discussed and requested (from 2012 to 2014) that mining royalty should be made directly transferrable to local government units and should not be based on artificial limitations imposed in the state budget law. In fact the results show that LGUs have received less funding compared to the level of funds generated from royalty.

9. The Municipality of Patos has discussed and requested (for 2015) that mining royalty should be made directly transferable to local government units at a level higher than 5% as stipulated by law no. 157/2014 "On some changes and additions to Law no. 9975, dated 28.07.2008 "On National Taxes" as amended".

Recommendations

1. Ministry of Finance and Local Authorities should establish a royalty fund database organized according to the new administrative division and for each LGU by reconciling data with NANR - National Agency of Natural Resources (Ministry of Energy and Industry) over used surface areas and extractive industry licenses.
2. LGUs should identify support projects and financial requirements of their communities and defend them before the governing structures and the Ministry of Finance, including the presentation of technical-economic-social aspects of relevant projects.
3. LGUs should identify the funds generated from mining royalty and reconcile their distribution with the Ministry of Finance in order to enhance community benefit from proposed projects and requests.
4. LGUs should seek enhanced cooperation, reconciliation and assistance in the joint preparation of priority projects with specialists from central government, local civil society, companies and stakeholders in order to achieve the objectives regarding the continuous improvement of the living standards of community as well as other indicators in in extractive industry areas. Projects and funding should be in complete synergy between central and local agencies and institutions, companies, civil society and EITI stakeholders in order to achieve the desired results and consistent improvement of indicators in the extractive industry areas.
5. Future EITI reports should also include a section representing royalty fund allocation to LGUs, designated purpose, community benefits as well as other issues related to the use of such funds and its effect in the relevant community etc.

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WORKING GROUP

This report has been compiled and edited by Albania EITI Secretariat. Agim Shehu, Coordinator and Lluka Gjergo, Coordinaror in the Albania EITI Secretariat have conducted research, interviews and consultations throughout the report. We owe thanks to the institutions that helped us in the preparations of this report such as Ministry of Finance, Budget Department, Municipality of Patos and Commune of Mbrostar.

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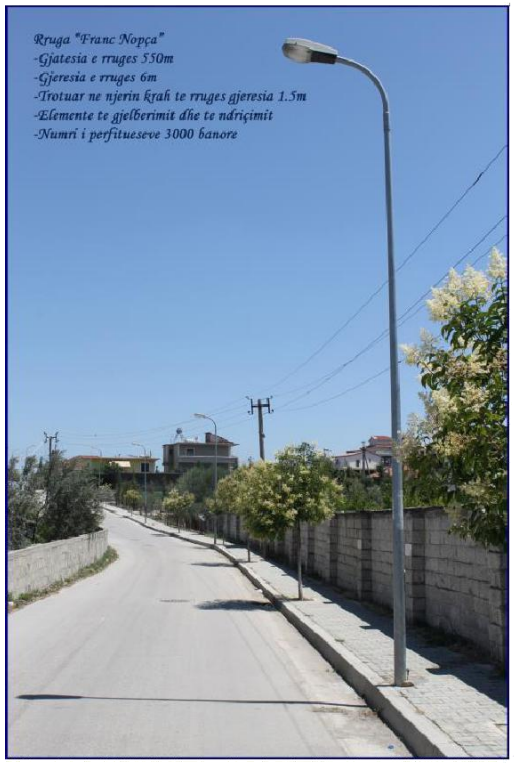
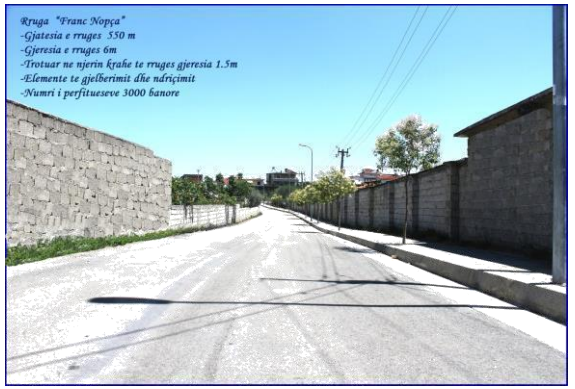
PHOTO

The final phase on funded facilities by Mucipality of Patos royalty funds

PHOTO

The final phase on funded facilities by Mucipality of Patos royalty funds





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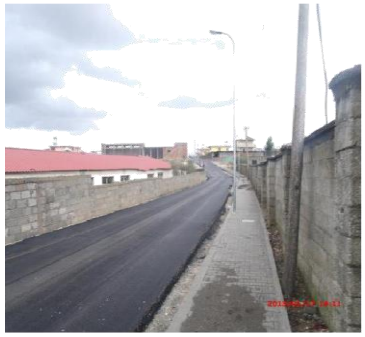
The construction phase on funded facilities by Mucipality of Patos royalty funds



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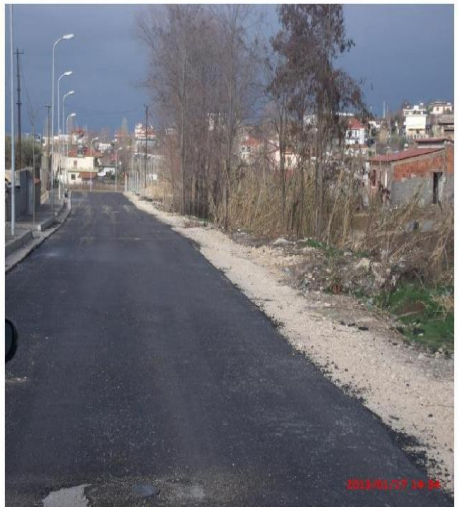

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