

SUMMARY OF MINUTES OF MEETING
INVESTMENT COUNCIL (IC)
MEETING XIX

**“On the Interaction between the Municipalities and the Business: Transparency,
Services and Local Economic Development”**

Tirana, 27 January 2020, 15:30 – 17:30

The meeting was held at the premises of the Ministry of Finance and Economy (MFE) and it was chaired by the Minister of Finance and Economy, Ms Anila Denaj, with the special participation of the Deputy Mayor of Tirana, Mr Arbjan Mazniku. The meeting was attended by 15 IC members and around 20 observers - representatives of domestic and foreign business associations and state institutions, as well as representatives of the Agency for Local Self-Government and Support, Association for Local Autonomy, Albania Association of Municipalities and the Municipality of Korça.

I. Opening of the Meeting and Speech by Minister/IC Chair, Ms Anila Denaj

At the opening of the Investment Council Meeting, Minister Denaj said that the meeting is a very good opportunity to reflect on the current situation, look at opportunities for improving the business climate and propose necessary measures, in line with central and local mid-term policies. The Minister emphasized the need to increase communication and cooperation between the municipalities and the business, in view of increasing transparency and economic development of the country.

In addition, Minister Denaj noted the progress made since the implementation of the administrative-territorial reform launched in 2014, one of the objectives of which is to strengthen the finances of local self-government units and increase fiscal autonomy. As part of the fiscal decentralization reform, a number of measures have been taken, such as the adoption of a new law on local self-government finances, which strengthened the rules of budgeting and fiscal discipline at the local level.

Minister Denaj called for increased engagement of municipalities in the frame of the reform on the Fiscal Cadastre, to focus their human capacities in terms of asset verification and cooperation with the Fiscal Cadastre, on the basis of which a fair property tax system is implemented.

II. *Presentation by the Investment Council Secretariat of Findings and Recommendations*

Ms Diana Leka, IC Secretariat, delivered a brief presentation on the main findings and recommendations of the analysis prepared by the Secretariat.

III. Summary of Main Comments of the Meeting

Mr Ilir Trimi, AmCham, gave a brief summary of the issues related to this topic which have already been forwarded in writing to the Secretariat.

- Lack of transparency in the publication of DMCs makes it difficult to obtain information on the local taxes and tariffs.
- Regarding documentation for taxpayers' registration, businesses are required to submit documentation owned by the municipalities themselves (e.g. administrator's family certificate is unnecessary as tax collection is the responsibility of the individual).
- The tariff for cleaning or removing waste has increased significantly and needs to be well-defined which percentage goes to the business and which goes to households.
- Bank account freezing orders sent by municipalities for forcible collection of tax liabilities. Municipalities often issue orders for the administrator's personal accounts at the same time as the order is issued for the entity itself. These actions lead to illegal acts and put banks in a difficult position.
- Local taxes for entities during the insolvency process. Subjects that have been in passive status are switched to active status when the entity is not currently conducting economic activity. The tax should apply only when the entity is actually carrying out an economic activity.

Mr Nikolin Jaka, CCI Tirana, said that municipalities are one of the most important partners of the local business. However, the dynamics of the Municipality of Tirana show that the focus is on revenue collection, which also causes minor problems that are not coherent with the trend of sustainable economic growth and sustainable business. Mr Jaka suggested a consultation round table with the Municipality of Tirana to address and analyze the sustainable economic development of Tirana.

- Education tax, which is a 3-year provisional tax with the right of renewal for another 3 years, has a direct impact in the budget of the business in Tirana. In particular, it becomes a burden to the businesses that have several commercial units in Tirana, because they are not paid per company but for each selling unit, i.e. for each Unique Taxpayer Identification Number (NIPT).
- The 8% sales tax (up to EUR 170/m²) imposed by the Tirana Municipality is quite heavy, and it is being pursued by the Association of Builders with the Constitutional Court.
- The social housing tax should be a temporary tax because the Constitution requires the government to pay for housing. The Municipality of Tirana has issued a DMC which according to the Association of Builders and members of CCI Tirana is an illegal act. Moreover, the implementation of this tax remains inconsistent.
- The clearance tariff is an obligation that must be paid, while the municipality must proceed with the property tax as soon as possible, for avoiding fiscal inequality. There is a discrepancy between the 2006 Local Tax Law and the 2017 Local Tax Law, making room for interference.
- Special attention is needed in the territorial development and management by the Municipality of Tirana in terms of the economic development model.

Mr Arbjan Mazniku, Municipality of Tirana, said that the Municipality of Tirana has greatly improved its tax collection capacities coming as a necessity due to the increase in taxes and also in part due to the restructuring of the fiscal package of the Municipality of Tirana. In the meantime, it has systematically invested in the city—increasing 6 times the level of investments, some of which going back to business through maintenance and repair mechanisms (roads, lighting, etc.).

- The Municipality of Tirana has changed the fiscal package only once in 2015 (remaining unchanged for the whole first mandate). Lately, some improvements have been made to some transparency and information elements reported by the business. Still, more work needs to be done by playing a more pro-active role in informing the business about the mechanisms in place.

- The cleaning tariff in Tirana is legally and de facto subsidized, i.e. households and businesses pay less than the real cost of cleaning and waste removal. In the long run, the government support will be decreased, meaning that the tariff will be re-evaluated by the Municipality. Therefore, the business needs to be informed in advance about this.
- Infrastructure impact tax is perceived by the business in a narrow way. In fact, it should be seen as a proper investment to the property being developed by the business—lack of proper infrastructure would reduce the value of the constructed object or property. In many cases of new constructions, the municipality needs to replace the discharge pipes to cope with the increase in the number of residents. The underground infrastructure of the city which either does not exist or it is outdated, or even the secondary services deriving from the changed infrastructure need improvement.
- TEDA is an important strategic project that is being worked around the clock to realize it over the next 4 years.

In conclusion, Mr Mazniku said that those cases where the legal procedures have not been administered well, should not become precedents for amending the law or other legal acts, but rather to seek a settlement with the local structures since the law already provides clarity on how a tax or tariff is set.

Minister Anila Denaj, MFE, highlighted the need to create communication platforms prior to any decision-taking, and beyond. Permanent dialogue between municipalities and business should be increased. Minister Denaj suggested that the ministry responsible for local self-government should create the opportunity for public consultation for all municipalities and municipal councils, before and after a decision is taken.

Mr Agron Haxhimali, AAM, thanked for the invitation. His views on the interaction between municipalities and the business are of a technical nature, as follows:

- Municipalities and businesses interact mainly for permits and licenses. According to municipalities' specialists, but also according to the business, there is no clear dividing line between where the municipality's responsibility begins as regards to some permits and licenses and where the central government's responsibility begins, for example in relation to forestry use. Who gives the permission to use and who will be the inspector who will impose fines for violations or misdemeanours? *So it is time for a clear separation of powers between the local and the central government because overlapping of competences create problems.*
- The law allows for taxes and tariffs to be part of municipal policies. The fiscal package should not change too often because there are problems with the relevant communications to the business. Regarding the building tax, the situation of cadastre is a big issue. According to Mr Haxhimali, only 20-30% of property-related data constitute a "good population" in the system. Even municipalities have their own flaws, e.g. small municipalities have the opportunity to do on-the-spot verification as a task assigned to them by the law and as per respective methodology, or to raise awareness on property tax (as done by the Municipality of Tirana in the past 6 months).
- Another problem is the lack of incentives for the engagement of the businesses in various municipalities. In particular, to the use of local assets—a problem that is not finding a common agreement among the three parties: business, municipalities and central government. Forests and pastures are becoming inactive because of non-usage. Municipalities need to find mechanisms to use them as a source of income.
- Bureaucratic procedures, a problem that is generally faced by all Albanian institutions. Regardless of e-Albania platform or other one-stop-shops set up with assistance by donors, there are still many procedures and bureaucracies.

Challenges of municipalities:

- *Post-reform municipalities must set up their own institution and pay attention to inclusiveness* - without being influenced by political affiliations.
- *There is a need for methodologies on the interaction between municipalities and rural business and urban business.* Different mechanisms need to be found for different businesses (rural vs. urban).
- The issue of taxes and tariffs - In general, mayors consider tax revenues as money for expenditure, but they should be saved in part and returned to where they were paid.
- Public service standards at the local level. There is no information whether it is being worked on the *standardization of services*. The municipalities of Tirana, Korça, Shkodra were mentioned in this meeting. In fact, these are model municipalities, unlike the other municipalities which are at large rural municipalities and therefore work should be done to approximate their service delivery to some standards. The setting of national standards must be done by the government.

Minister Anila Denaj, MFE, said that in the public finance reform, the government worked hard to move from the historic budgeting toward output and higher productive budgeting, which, through transparency, becomes more citizen-centred in terms of the future expectations and accountability.

Mr Bardhyl Balltëza, Edipack sh.p.k., thanked for the invitation to participate in this meeting. From his long experience in the business, the municipality has never consulted with the business on how to resolve issues. Municipalities see taxes and investments from today's perspective, not from the future's perspective. It is paramount to work for the future perspective. *The focus should be on the huge pollution of the environment, which should serve as a reminder that the traffic in the city of Tirana needs to be regulated.*

As far as cleaning tariff is concerned, worldwide there are incentives for waste recycling companies, but not here. Mr Balltëza contradicted the claim that in Albania we pay less than in Italy. Italians produce 800-900 grams of waste per person, while we do not even produce 300 grams per day of waste. Unfortunately, very bad decisions have been made. If the incinerator is built after 4-5 years, even a ten-fold increase in the cleaning tariff will not be enough to afford it. Why municipalities do not see the possibilities of using waste, as everywhere in the world? We have tons of organic waste (including agricultural waste). *Can municipalities see the opportunity to use this waste (turn it into fertilizer for agriculture), so they can turn it into a source of income?* Today the business has to pay EUR 25 + the cleaning tariff to send a ton of waste to the Tirana landfill. The municipality should have consulted with the business on this decision. In Elbasan, the incinerator was built to burn 1200 grams of municipal waste per day/capita, i.e. 90 tons per day, when in fact it does not even burn 40 tons per day, while in the meantime the state/municipality keeps paying, and eventually, the taxpayers will pay more through tax increase. According to laws in place, urban waste should be segregated at source. No one does this and none of the mayors has ever been fined for this. If urban waste was collected in our agricultural areas, we would no longer need organic fertilizers. Businesses should feel part of this nation. Municipalities to consider getting loans to afford their investments.

Mr Altin Ibro, Confindustria Albania, brought some concrete problematic issues and cases caused by the lack of clarity on taxes and the non-uniform treatment of taxes and tariffs among municipalities based on the local autonomy provided by law. Mr Ibro emphasized the fact that due to unclear administrative acts issued to the business for the payment of liabilities, Confindustria's members are forced to spend a lot of time waiting for solutions by the municipalities themselves, and in

some cases to appeal to courts where the review time is lengthy. Meanwhile, by law, the business is obliged to pay in advance the pertinent liability and get penalized with the freezing of the bank accounts of both the company and the administrators. Confindustria's members are willing to cooperate with the central and local structures to find an optimal solution.

Minister Anila Denaj, MFE, asked the addressing of these issues by creating a technical group with members from MFE, Ministry of Interior, municipalities – followed by the IC Secretariat – and within 1-1.5 months to come up with potential solutions.

Ms Ines Muçostepe, UCCIAL, raised the concerns of its business members related to the service delivery vs. tax/tariff value, i.e. what the business receives back for what it pays. She also proposed the replication in other municipalities of structures such as Economic Council set up by Municipality of Tirana, despite playing little activity.

Ms Adelina Farrici, Association for Local Autonomy, emphasized the need to improve communication between municipalities and businesses by recommending the establishment of an online communication system on the transmission of information from local government to businesses and the establishment of a permanent communication table between municipalities and businesses. Referring to the discussion on the fiscal cadastre, there is a need for more intensive communication between central and local government. In the meantime, businesses should periodically visit the websites of municipalities for the publication of DCMs and the agenda of the Municipality's Council meetings.

Ms Ledia Muço, EU Delegation, said the EU provides significant support to the local government, which it plans to continue further in the future. Some specific issues which need careful addressing:

- Local plans and capacity of human resources. Resource management, public finance management, revenue collection, transparency in the budgeting process and budget implementation, the role of the private and public sector in general in preparing the local budget and municipal development plans.
- Local government capacity to attract investors to work on the implementation of the current development plans, provision of necessary local infrastructure, integration of local geographic features in line with the area and the region.

It is needed a good correlation between local government policies (pertinent to the resources allocated to local authorities, such as local government grants, resources for shared services) and the standard of delivery to citizens. Larger investments and economic development policies, including those targeting investors.

The EU Delegation has already allocated EUR 6 Million for capacity building assistance, etc. In the next phase, assistance will continue in terms of good governance at the local level including the rule of law, social inclusion and the circulating economy.

Mr Matteo Colangeli, EBRD, emphasized the importance of better and longer-term budgeting and planning at municipalities, which would support greater fiscal decentralization. In this context, adequate financial reporting is very important for potential investors, including international financial institutions such as EBRD, as a reliable basis upon which they can decide to lend directly to municipalities. On the other hand, proper reporting also provides the foundation for central government and civil society to evaluate the efficiency of municipalities. Mr Colangeli made reference to a USAID Programme (2017), which assisted municipalities in preparing IFRS financial statements, as an exercise that needs to be continued.

Minister Eduard Shalsi, MSPE, raised the following points:

- *The bureaucracy in the municipalities is very high*, bringing as an example the issuance of a certificate of freight for the account of a domestic business (15 documents to be filled in), with the exception of the Municipality of Tirana and the Municipality of Korça;
- *The importance of unifying services*. There is an initiative by the government that by the end of 2020 all applications to be made online.
- *The problematic issue of frequent changes to the fiscal packages*;
- The deregulation process still contains some completely redundant procedures when it comes to serving the business, both at central and local government. The deregulation process will further progress to cover not only the issuance of licenses and authorizations but also a range of documents required to the businesses in state offices. The minister called the business to report the obstacles and difficulties they encounter across institutions.
- *Transparency is needed on public or local assets*, which can be made available to the businesses to grow economically.
- *Many municipalities have problems with payment of arrears to the business*, creating problems for the businesses in calculating their credit lines. For example, businesses in the Municipality of Pogradec require a deadline for the payment of liabilities by the municipality.

IV. Approval of the draft IC Decision No.3 Dated 27.01.2020 “On Some Amendments to the Regulation on the Organization of IC”

Minister Anila Denaj, MFE, proposed postponing this agenda item to the next meeting because more time is needed to look at the regulation also in the view of the other changes.

V. Voting results of 2020 IC Agenda

Minister Denaj said that the 2020 IC Agenda is set by business and expressed openness to any suggestions from the business.

The Secretariat presented the voting results of the 12 IC members, with the most voted topics being:

- Albanian products/“Made in Albania” and their competitiveness in the region
- TEDA – Comparative overview Albania vs. North Macedonia vs. Serbia
- Business Innovation – a challenge for growth

The first two are also in line with the government’s agenda.

VI. Other issues

Minister Anila Denaj, MFE, proposed a follow up with an ‘action plan’ based on the discussions of this table. At previous IC meeting, it was agreed to set up some technical groups, but due to the busy personal agenda, it was impossible to pursue the matter personally, which the Secretariat may follow up after any debate at this level, more specifically to prepare a ‘to-do-list’, to communicate progress and follow up. This would be also the expectation of the business from this Council, that beyond the raised discussions and awareness, further steps are taken.

Ms Diana Leka, IC Secretariat, informed members that in April, the IC celebrates its 5th anniversary. In this context, the Secretary suggests some kind of event after the next IC meeting, to celebrate the cooperation within this platform.

VII. Closing of the meeting

At the end of all the comments, Minister Denaj thanked the participants and the guests for contributing to the discussions and proposed that the next meeting be organized at the beginning of May.

List of participants

Government representatives

1. Ms Anila Denaj, IC Chair/Minister of Finance and Economy
2. Mr Eduard Shalsi, Minister of State for Protection of Entrepreneurship
3. Ms Argita Frashëri, Head of Statistics, delegated by Deputy Governor, Bank of Albania, Ms Natasha Ahmetaj
4. Ms Blerina Turdiu, CEO, Albanian Fund for the Development of Diaspora

Business Representatives

1. Mr Nikolin Jaka, Chair of the Chamber of Commerce and Industry of Tirana
2. Mr Rohan D'Souza, Vice President, FIAA delegated by President of FIAA, Mr Tom Kristian Larsen
3. Ms Ines Muçostepa, Chair, Union of Chambers of Commerce and Industry (UCCIAL)
4. Mr Altin Ibro, Lawyer-Confindustria Albania, delegated by President of Confindustria Albania, Mr Sergio Fontana
5. Mr Ilir Trimi, CEO, AmCham, delegated by President of AmCham, Mr Enio Jaço
6. Ms Soana Jaupllari, CEO, Albanian Chamber of Diaspora Business
7. Mr Giordano Gorini, CEO, Essegei S.p.A. (*ad-hoc*)
8. Mr Bardhyl Balltëza, CEO, Edipack sh.p.k. (*ad-hoc*)

International development partners

1. Mr Matteo Colangeli, Head of EBRD RO in Albania
2. Ms Ledia Muço, Economic and Trade Advisor, EU Delegation to Albania, delegated by Head of Coordination, EU Delegation in Albania, Mr Mario Mariani
3. Mr Keler Gjika, Specialist of Financial Sector, Office of World Bank in Tirana

Special guests:

1. Mr Arbjan Mazniku, Deputy Mayor, Municipality of Tirana
2. Mr Bekim Murati, General Director, Agency for Local Self-Government and Support
3. Ms Adelina Farriçi, General Secretary, Association for Local Autonomy
4. Mr Agron Haxhimali, General Director, Albanian Association of Municipalities
5. Mr Kletjon Kita, Deputy Mayor, Municipality of Korça

Absentees:

1. Mr Sokol Nano, CEO, AIDA
2. Ms Laura Qorlaze, Country Representative, IFC Office in Albania
3. Ms Stephanie Sieg-Farka, President of German Chamber of Commerce and Industry (DIHA)