

MUNICIPAL - BUSINESS INTERACTION

TRANSPARENCY, SERVICES AND LOCAL ECONOMIC DEVELOPMENT

**INVESTMENT COUNCIL SECRETARIAT
Tiranë, 27 JANUARY 2020**

CONTENT

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- II. Context
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Objective

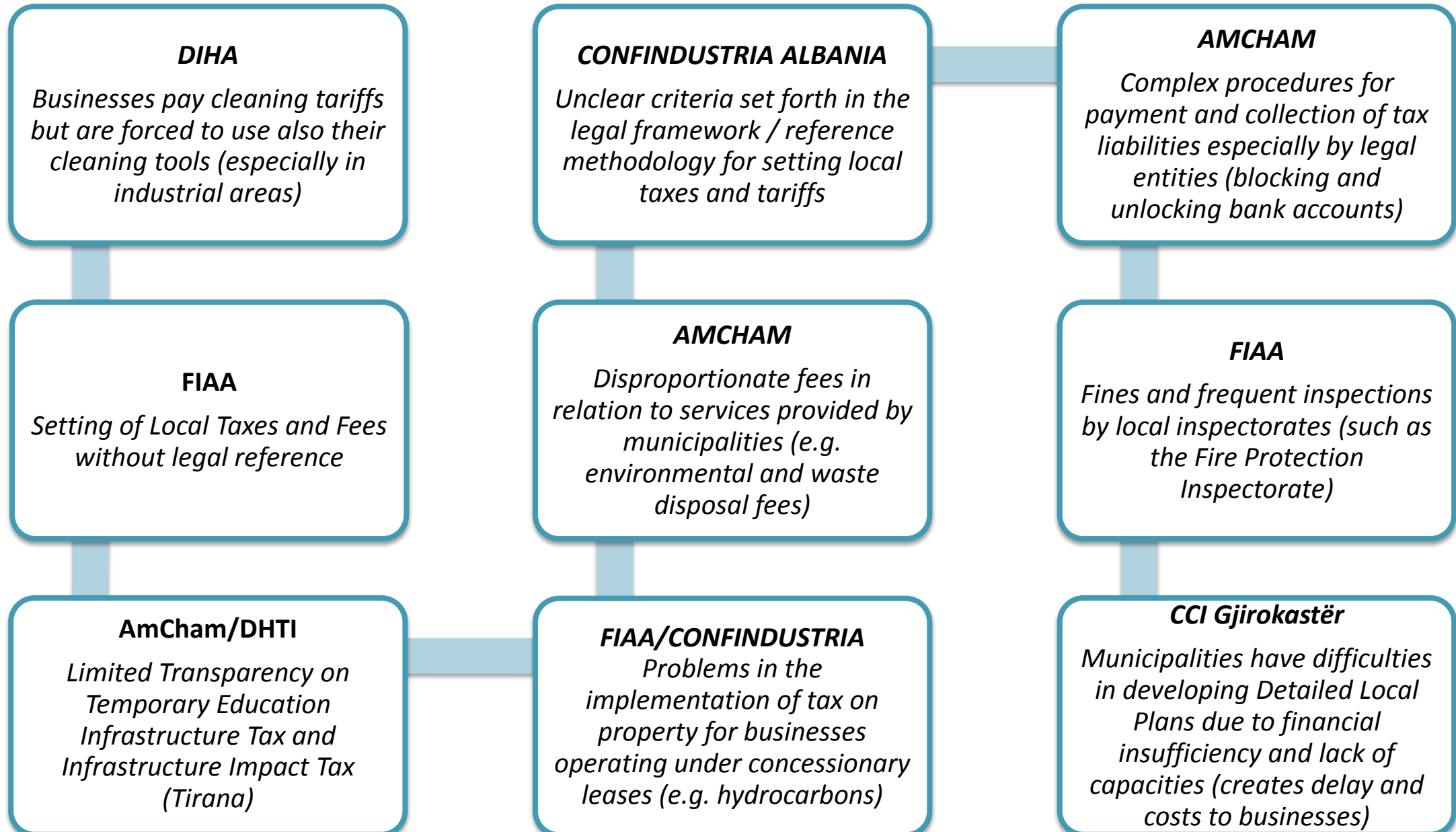
Stimulating the debate on Investment Climate improvement with special focus **municipal – business interactions**

The analysis attempts to bring into the attention:

- 1. Transparency on local taxes and fees and Decisions of Municipal Council*
- 2. Services provided to business (quality, proportionality, and standards)*
- 3. Role of municipalities in local economic development and investments*

The material prepared by the Secretariat does not analyse all municipalities issues faced in the context of decentralization and business interaction, nor provide exhaustive recommendations for their solution. The paper aims to prioritize some concrete actions which improve the co-business relationships and increase the required transparency.

Reported Issues by the Business



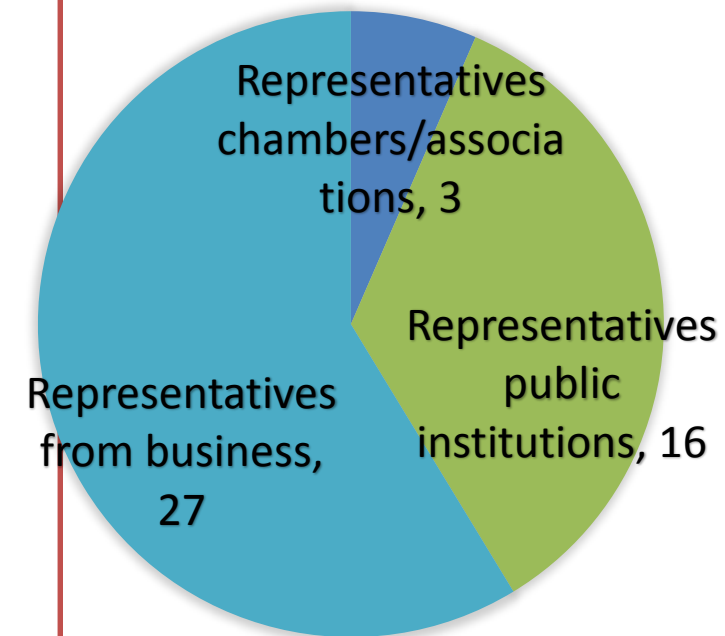
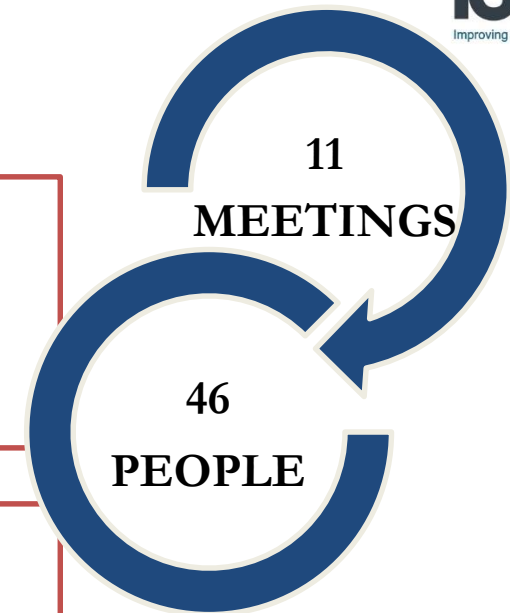
I. METHODOLOGY

Desk-research

- Strategies and approved documents from consecutive governments
- Consultation and analysis of laws and by-laws

Consultations & Focus Group Meeting

- Direct Consultations (Tiranë, Elbasan, Korçë, Shkodër) of the Secretariat with representatives of municipalities/municipal associations/business associations/chambers;
- Selected businesses – representatives of different sectors (processing industry, trade)
- Pre-structured questionnaire;
- Secretariat surveys on investment climate 2015-2019; 300 companies in 2019
- 3 consultative meetings: (1) Elbasan municipality, (2) Korçë municipality, (3) CCIT



I.Context:Municipalities & Fiscal Decentralisation

Municipalities have **direct decision making** on 55% of the available financial resources

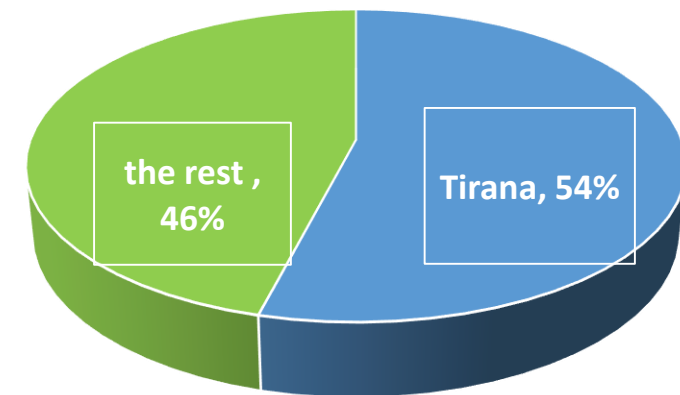
Municipalities have the discretion to use revenues from local tax national shared taxes and unconditional transfer

Financial sources of municipalities

- ✓ **Own Revenues:**
 - Tax and Fees (e.g. tax on property)*
 - Revenues from assets and economic activity*
 - Short/long term debt*
- ✓ **Transfers from Central Government**
 - Shared Taxes (e.g. rent/TAP)*
 - Unconditional transfer*
 - Conditional transfer*
 - Specific transfer*

Municipality of Tirana collects revenues as much as all the other municipalities together

Own revenues as % of total local revenues, 2018



I. Context: Interactions Municipal - Business

Interactions



- ☐ *Local Tax and Fees*
- ☐ *Construction permits (e-permits)*
- ☐ *Local Inspection*
- ☐ *Tourism (informality and waste collection)*
- ☐ *Property*
- ☐ *Local Development Plans*
- ☐ *Strategic Development Plans*
- ☐ *Other*

LSGUs tools in supporting/stimulate investments



- ☐ *Infrastructure*
- ☐ *Differentiation local tax/fee*
- ☐
- ☐ *Start up*
- ☐ *Priority areas of development*
- ☐ *TEDA*
- ☐ *Priorities in public investments*
- ☐ *Application or not of a local tax*

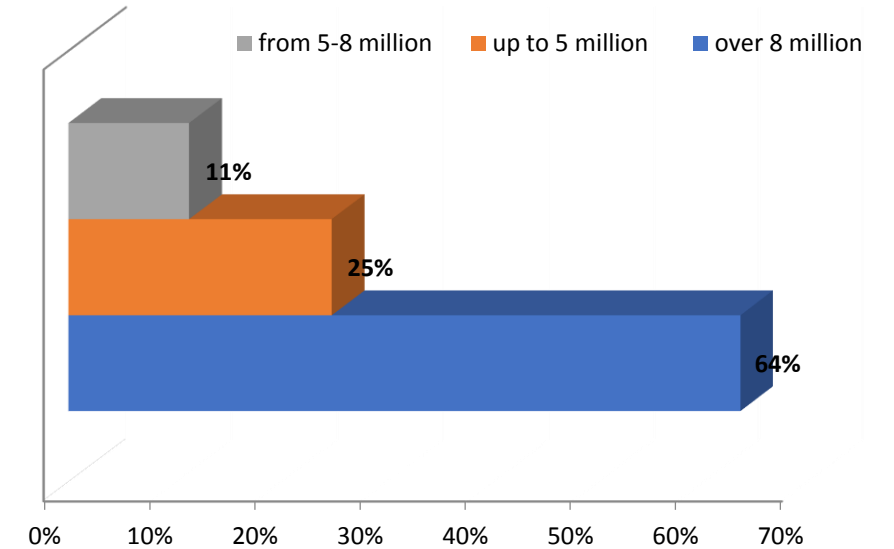
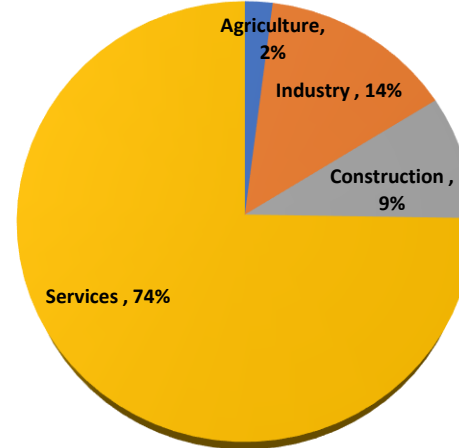
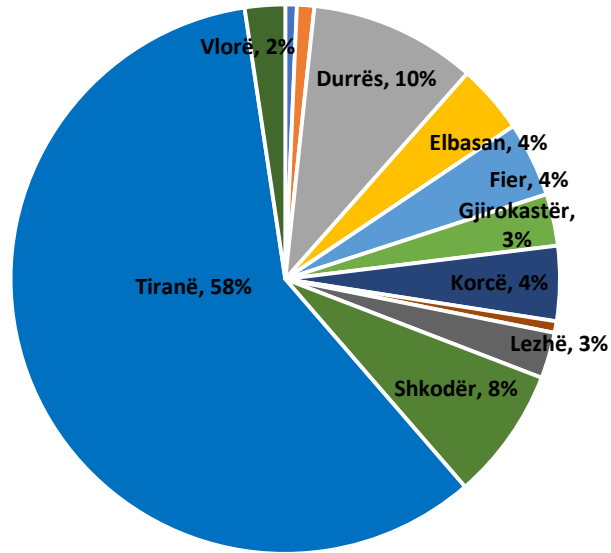
III. Main Issues from national/international reports

“Most of the municipalities, are not effective at collecting revenues. As a result, the overall ability of local institutions to deliver quality public services remains limited.”(PR2019)

Poor implementation of the budget causes municipalities to cut projected expenditures at the beginning of the year, consequently creating arrears (PEFA).

Problems in the legal and regulatory framework of local self-government seen in terms of territorial administrative reform and its progress (Performance report SAI, 2018).

II. Survey 2019



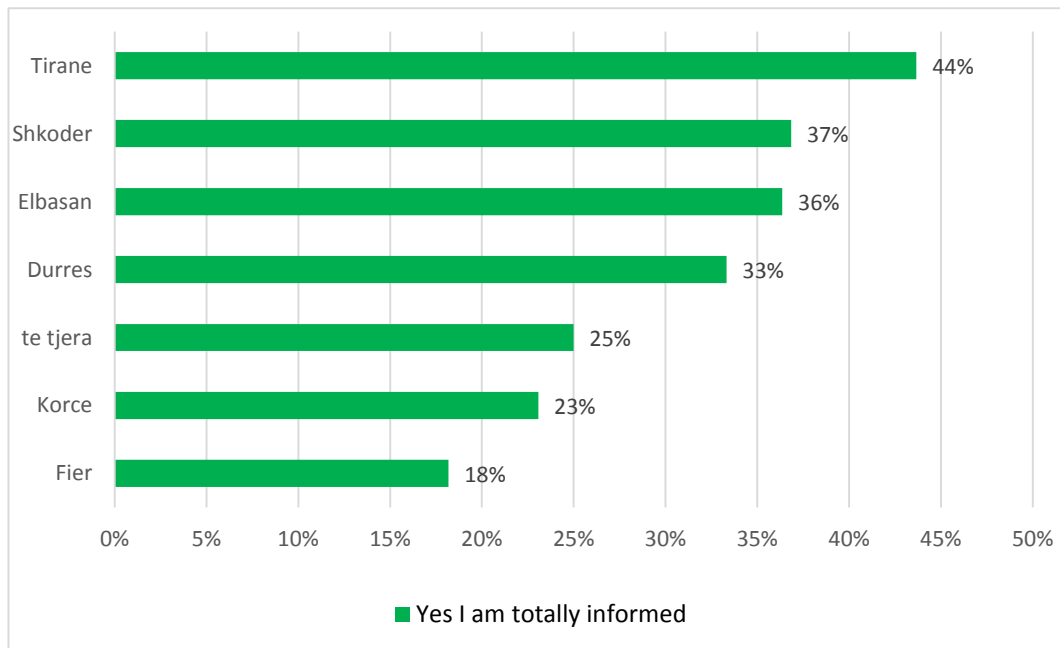
300 business responded

- ✓ *Results from 12 counties*
- ✓ *Results from main sectors of economy*
- ✓ *64% of survey responders are companies with a turnover of more than 8 million*

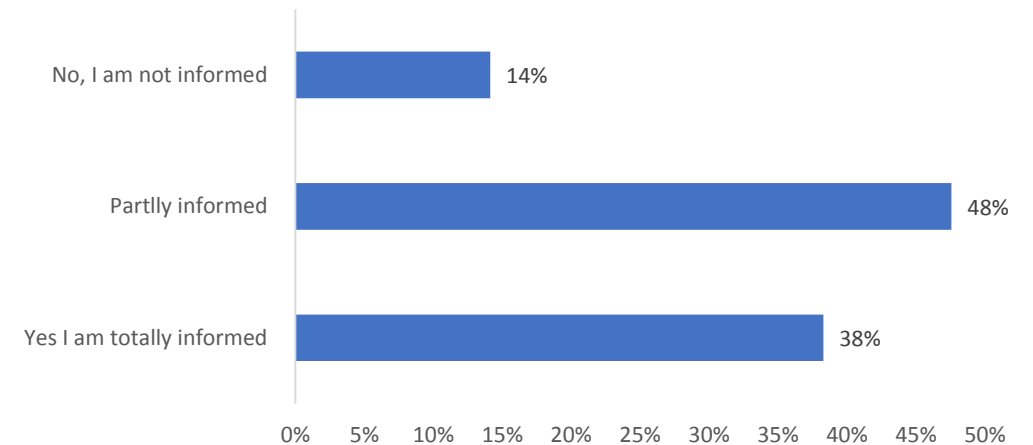
Survey, Local Taxes and Fees

Are you fully informed about the local taxes and fees you are being charged of and how they are calculated?

Tirana ranks better at the county level where 44% of businesses report that they are fully informed about the level of taxes and fees they pay, more than the national average of 38%



At national level

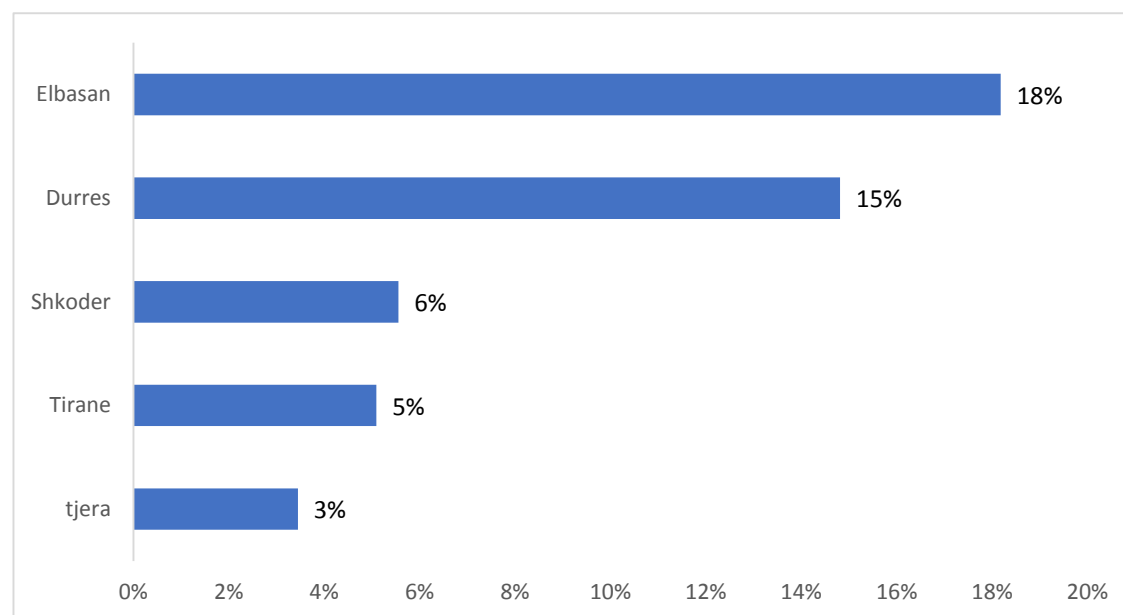


Businesses report that they are generally aware of taxes and fees but have less information on their calculation

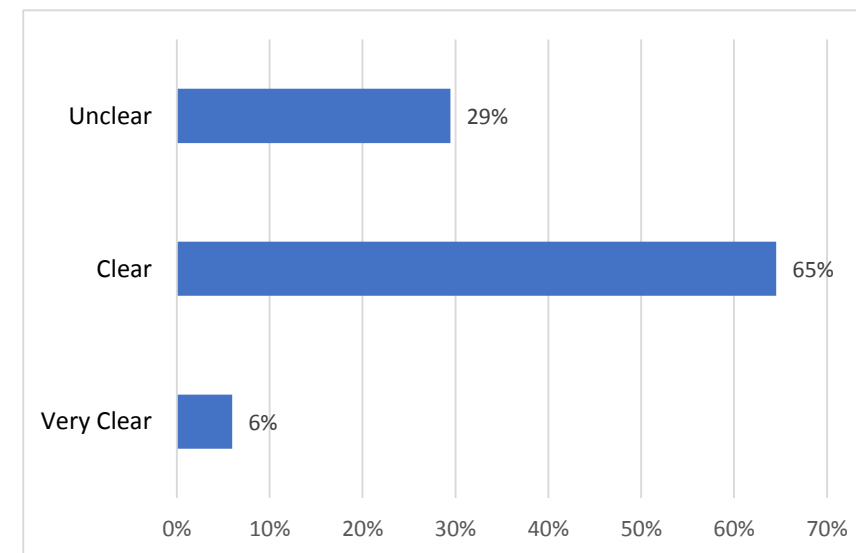
Survey, Clarity of Information

How do you assess the clarity of the information provided by the Local Tax Administration regarding local tax administrative procedures?

Elbasan has the best ranking at the district level, with 18% of businesses reporting that the information provided by the municipality is very clear, above the national average of 6%



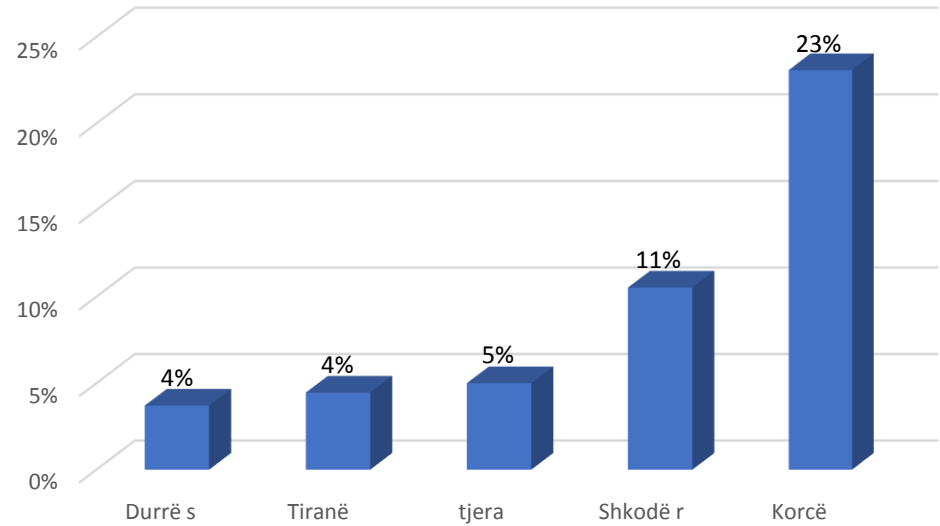
71% of businesses nationwide report that information provided by municipalities is clear or very clear



Survey, Services vs Fees

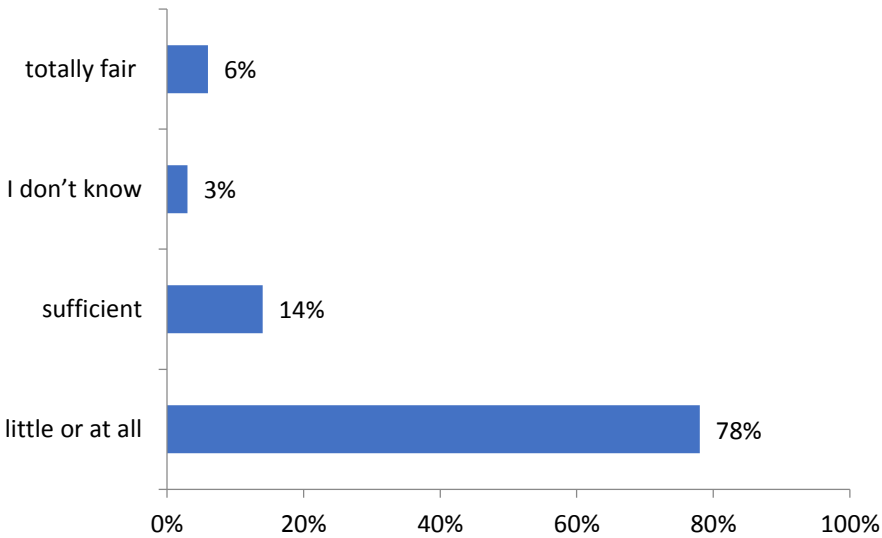
Would you consider fair the balance between services and the local fees you pay for these services?

In Korca district, 23% of businesses consider the balance of services and tariffs to be quite fair compared to the national average of 6%; in Tirana and Durres only 4% of businesses consider this balance to be completely fair



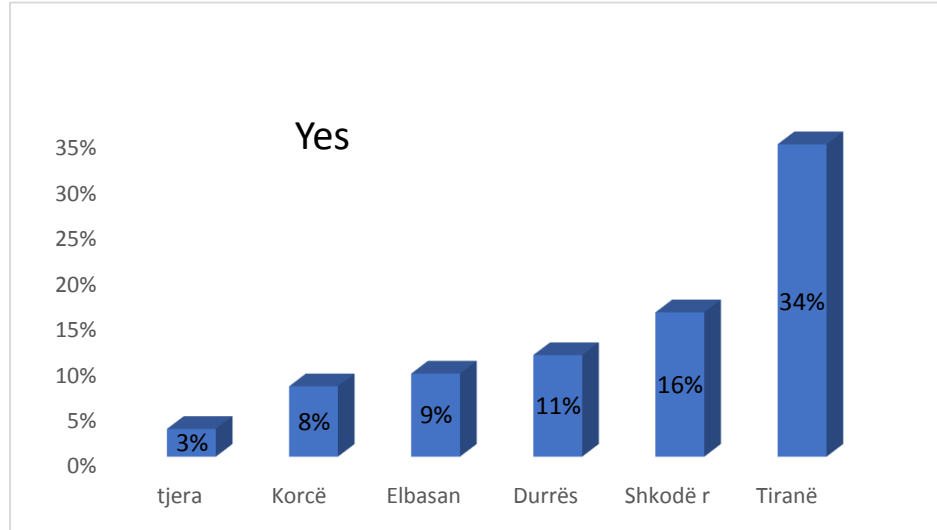
Significant imbalance between payment and service received

78% of businesses consider it little or no fair

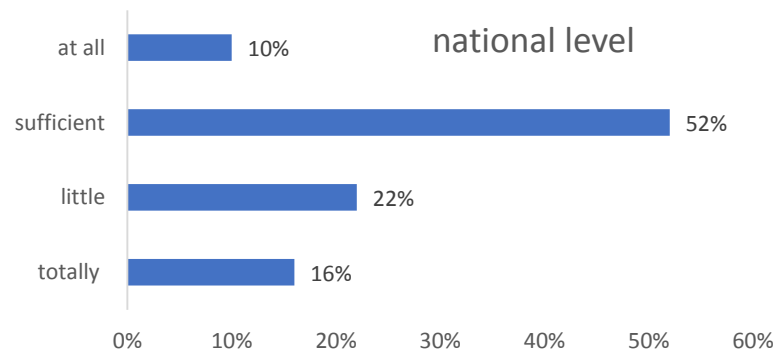


Survey, e-services

Does your municipality provide any e-services?

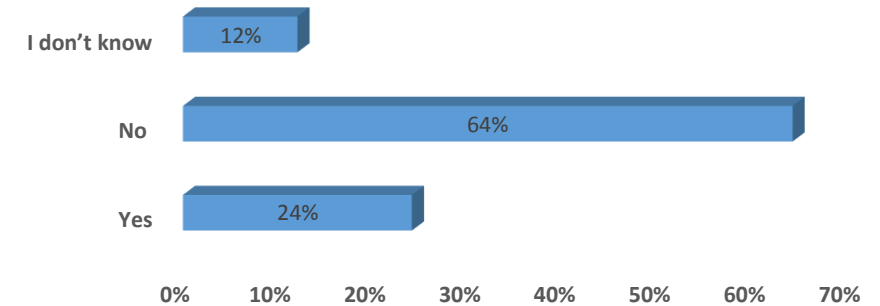


If Yes, please rate how satisfied are you with the local e-services?



Tirana has the best ranking regarding the electronic services offered

National level



76% of businesses report that the Municipality does not offer / do not know if electronic services

Results of the 2019 IC Surve

- Companies are generally informed about the local fiscal legislation applied in their municipality (86% of companies are partly or fully informed on local taxes and tariffs).
- Companies are informed on local tax administrative procedures as well (71% of survey respondents are clear or very clear about the administrative procedure).
- Companies are not informed about DMCs in general (88% of the companies say that they have no information regarding recent DMC), therefore having lack of trust for a decision-making process in compliance with legislation).

TRANSPARENCY



- Companies, in general, are not satisfied with the level of local services if compared to the fees paid (78% of companies consider the cost/benefit ratio as not reasonable)-example for further discussion, cleaning service;
- In general, Municipalities do not provide e-services to companies (76% of the companies say that they do not receive electronic services from their municipalities).

SERVICES



III. FINDINGS – Interaction Municipalities-Business

LEGAL AND REGULATORY

- **A dynamic and challenging legal and regulatory frame, to timely and qualitatively implement the reform**
- **Fiscal Cadastre** – challenges of municipalities in population of the system with data on property and new methodology application
- **Blocking/unblocking of business banking accounts** - Implementation of unclear procedures by municipalities e.g. non timely notifications/reconciliation of payments

TRANSPARENCY

- Non-consolidated and systemic publication of city council decisions
- Business not-clear enough on administrative appealing procedures
- Lack of a complete address book affects the inadequate notification of companies in regards to tax liability notices
- Business perceives that there is a disproportionate differentiation in setting local tariffs e.g. cleaning fee
- Registration papers at the Municipality of Tirana for the payment of local taxes is often considered bureaucratic and inefficient

ECONOMIC DEVELOPMENT

- *Role of municipalities in the economic development of territory is still perceived as modest since they do not possess many instruments to incentivize businesses*
- *Local assets* (immovable properties), source of incomes *but generally not under use by Municipalities*
- *TEDA* – Project of Municipality of Tirana as a realistic opportunity for sustainable economic development

IV. RECOMMENDATIONS - Interaction Municipalities-Business

SERVICES

Setting of standards on local services.

1. Minimum standards of service delivery at a national level;
2. A system for measuring performance at the municipal level in relation to the provision of services to citizens/businesses based on concrete indicators.

Digitization of administrative services at the local level in the context of deregulation reform.

- Online submission of notification on Local Tax Payment through electronic systems that should be made applicable in all municipalities in the country.
- Simplification of procedure and documentation required from businesses for registration in local tax office e.g. ease the businesses burden in obtaining documents that can be exchanged among state offices themselves.

ECONOMIC DEVELOPMENT

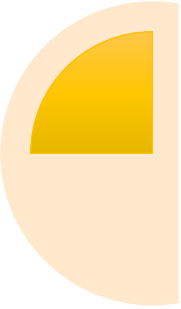
Creation of functional local and regional cooperation platforms for economic development at the local and regional level, with the participation of LGUs, businesses, community, financial institutions etc.

Increase of transparency on the decision-making process of municipalities in relation to local development projects and programmes, through their periodic and preliminary publication, so that businesses can prepare in time their business plans, collaboration with AIDA.

Registration in the National Agency of Cadastre of immovable properties under the administration of municipalities. Publication of municipal assets, transparency on the transferring and registration of these assets, as well as making them available for use in support of economic development and income generation.

Sustainable prioritizing, **Implementation of TEDA project in the Municipality of Tirana and replicating the model** in other regions/municipalities with concrete economic development plans.

IV. RECOMMENDATIONS



LEGAL

Harmonization of legislation in the area of local taxes and tariffs with the new legislation on local self-government. Law No.9632 dated 30.10.2006 “On the System of Local Taxes and Tariffs” has changed 17 times. It is recommended to draft a new and comprehensive law to guarantee the unity of legal norms and their coherence in the long-term.

Implementation of the legal obligation to allocate 2% of personal income tax revenues to local self-government units. MFE to specify Tax breakdown formula for each municipality.

Real-time reconciliation of liabilities paid and/or carried forward by businesses and timely update of business data (ID, father’s name, etc.).



TRANSPARENCY

Publication and increase of transparency on local taxes and fees for businesses, as well as procedures for payment - (1) notifications to the online local tax and tariff account, notices by e-mail, website.(2) Publication of annual DMCs on taxes and fees in an integrated and consolidated manner (3) real-time publication of DMCs on the existing online platform (vendime.al) and in pertinent sections on their own websites.

Prepare, make public and easily accessible a **special section on administrative grievance procedures in local government units.**

Municipalities should **make transparency on the methodology of setting and calculating fees on services** provided.

Level of transparency and quality of services at local level:

- *What are the main business challenges when interacting with municipalities?*
- *How fair is the ration cost/ quality in local services?*
- *Including business in municipal decision-making...*

Local economic development as a process of strategic partnership:

- *Municipality as a promoter of economic development ...*
- *Functional cooperation platforms as a tool for drafting local economic development plans...*