

THE EFFICIENCY OF FISCAL MANAGEMENT AND THE IMPACT OF CONCESSIONS IN BUDGET REVENUES: THE ALBANIAN CASE STUDY

Shkëlqim Fortuzi 

Department of Accounting and Finance, Faculty of Business,
University 'Aleksandër Moisiu' of Durrës, Currila Street, Albania
shkelqimfortuzi@yahoo.com

Taulant Kullolli

Marketing Department, Faculty of Business,
University 'Aleksandër Moisiu' of Durrës, Currila Street, Albania
taulantkullolli@gmail.com

Abstract

This paper discusses the phenomenon of concessions in Albania, considering its efficiency in terms of fiscal management. A concession is the process by which a public service is given under writing agreement to be managed by a private company against compensation. In underdeveloped countries, crucial public services are the most important providers in terms of tax revenues and have a huge impact on the economy. Their poor management could bring serious microeconomic and social problems for the country. In this context, the article offer an overview related to the efficiency of concessions applied in the recent years (2012-2016) in Albania and give comparisons with other countries based on data offered by the OECD. The current situation is given by making comparisons with the most developed models of tax revenues in the world. In the article there have been treated the most important voices related to the collection of tax revenues in the country, which represent the most consistent part of revenues to the Albania's economy. Some of them are industrial concessions, the administration of VAT, the administration of the International Airport of Tirana and other less important concessions. By describing the evolution of the concession and taxation model

applied by the government in the last years, there are given some recommendation that, by our point of view, will improve in terms of efficiency the fiscal management of the country.

Keywords: Concession, Transaction, Tax Revenue, Customs, Fiscal Management

INTRODUCTION

Collections of tax revenues and customs in Albania, has become increasingly expensive in recent years. This is also, for the fact that revenues collected from taxes and customs, in many cases have been away expectations, putting often questioned efficiency of some investments and concessions that have been made over the years to improve tax and customs performances.

The Organization for Economic Cooperation and Development (OECD 2011), which performs occasionally tests for the effectiveness of tax administrations in the member countries due to see which of the states is able to collect tax revenue by spending less.

Based on the data of 2011, the OECD has compared Efficiency fiscal management in member countries of UE, and based on the analysis of factual data, it showed that the administration of tax collection in Albania cost an average of 0.99 percent of the total tax collected. In some countries such as Poland or Japan, revenue collection costs up to 1.72 percent of total revenue respectively, while in some countries such as Switzerland, Iceland, Sweden or Estonia, the administration of tax collection and tax costs only 0.3 to 0.5 cents for every tax dollar collected.

Financial institutions and the Ministry of Finance in Albania has made no similar analysis of the public, but a glance and evaluation tables of the state budget and compare them with incomes from taxes and customs for the period 2012 - 2016 shows that not only that tax collection in Albania is expensive, but the cost of revenue collection has increased considerably from year to year and especially in recent years. During 2013 these costs rose to 3.7 billion and in 5 billion in 2015, while in 2016 the anticipated costs of tax administration and the budget foreseen for this year will mark a historical record of 6 billion (approximately 43 million euro). Based on indicators of budgets in recent years, revenues from taxes and customs are gradually increased from 232 billion in 2012 to 259 billion in 2015. For 2016, the estimated revenue to be collected from taxes and customs, are 282 billion. As regards expenditure trend shows that the costs of tax and customs administration as a percentage of revenues, increased significantly from 1.5 percent that was in 2012, they have reached 2 percent in 2015. If the planned

revenues for 2016, realized 100% as planned, again the management costs of tax revenue and customs will be taken as 2.1 percent of total budget revenues.

The cost of tax administration, increase the cost of business and consumer *rumours* cost to revenue collection, represent only that part of the cost of the country's fiscal system that directly covered by the state budget.

Over recent years, governments have taken a number of initiatives that have increased the costs of the fiscal management of the country, charging these costs in most cases, directly on businesses and consumers. Specifically, we have analyzed the following steps and changes legal that have been taken for this purpose.

Passing Transactions worth over 150,000 Lek, through the Bank

Arguing that aimed at fighting tax evasion, in 2008, the Ministry of Finance ordered businesses to conduct the majority of their payments through the banking system.

It was claimed that the business will be formalized if forced to use banks as payment information will become easier. Indirect consequence of this measure, fees reportedly began to appear with force, increasing costs on taxpayers. Before this decision, the banks entered into negotiations with businesses to offer their services and after the decision, businesses that were forced by law, to use the services of banks because of the law and not simply in exchange for a service. Besides the usual commission payments, banks hold commissions for payments that do business on behalf of the tax administration, which has restricted competition in the market.

These additional costs, which businesses are required to pay as a result of the decision to use banks is unknown liability for tax purposes effect.

Installation of Cash Registers

During 2010, the Government launched legal steps for businesses, forcing them to install fiscal cases with price 300-500 Euro / piece, having purchased several companies licensed in advance. For stations, the cost of caste was even higher than that. While businesses complained about unexpected costs, the government argued that they acted in this manner as an effort to combat tax evasion after intimation businesses will not have the opportunity to perform undeclared sales. In reality the revenues from taxes, not increase significantly, while the process of installing cash registers was accompanied by accusations of conflicts of interest and corruption. The most controversial point came when one of the companies that the government had licensed, cars sold in the market as simple calculator fiscal cash register, while these devices do not have the functions of data transfer. The government ordered businesses to replace frames purchased at the expense of their mistake and promised that the cabinet would

cost to be deducted from tax payments to the following year which was made by the government. The total cost of caste that weighs on businesses and consequently, on consumers, estimated at tens euro. Meanwhile, the benefit in terms of increasing budget revenues remains slow.

Impacts of Concessions in the Albanian Economy

The trend of government concessions has been evident in the past 20 years, while returning to the nonsense lately. After using oil, chromium, copper, passports out of the airport or ferry terminal in Durres, fiscal stamps, to the scanning of goods at customs, is now given to public-private partnerships and services for which the state functions basically (which we pay taxes) as the administration of VAT, and other hospital services (lapsi. 2015). While it was inevitable that some parts of the economy given the concession, especially in the early years of transition, when domestic enterprises lacked capital, experience and knowledge, little has been said and analyzed the value-added to the economy this behavior to "sell" all these 25 years. Accelerating the pace of this mania makes it necessary to pause and look back to make a cost-benefit ratio of concessions granted so far.

Data from the balance sheets of 14 leading operators concessionaires in the country, some of whom have been active for years, show that while they realized a turnover of about 700 million euros in 2014 (about 6-7 % of what the economy produces in a year), they paid only 2.7 % of total income tax year in question, and have about 3,000 employees, only 1 % of total employment in the country. Royalties paid by companies exploiting oil and other natural resources has not exceeded 100 million euros, or about 3-4 % of total budget revenues, while exports of natural resources without adding value, of about a third of total sales abroad. The figures clearly show that it is self-contradictory how little weight translates occupying huge concessions in the economy that increase welfare for citizens.

The concessions of oil assessments will not bring profits, even the fact that Albania possesses relatively high reserves of oil, which reach approximately 400 million tons because the investment required too large to oil exploration. Referring to data from the National Agency of Natural Resources (RNAN) show that 40 million tons of oil have been utilized and 50 million tons of oil have already been used. The main area of production and oil extraction in Albania is Patos Marinza which is located in the district of Mallakaster, even this area is the largest in Europe, with an area of 17.8 thousand hectares and its reserves are calculated around 5.4 billion barrels of oil. During these years, many companies and foreign companies have shown keen interest to invest in the fields of oil exploration in Albania, through concession agreements

with the government and state company Albpetrol, engaged in the development, manufacture and marketing of crude oil and gas.

Since 2004 until today 5 companies operating in Albania in the field of oil drilling research (Bankers Petroleum Albania Ltd, Sherwood International Petroleum Ltd., Transoilgroup JSC; Transatlantic Oil Albania - ex Stream: Phoenix Petroleum JSC) which signed a 'Petroleum Agreement' with Albpetrol JSC. In addition to these one other foreign company "joint venture" created by Petromanas and Royal Dutch Shell operates Shpiragu area, in Berat. Bankers Petroleum Company produces diesel since 2014, while Transatlantic Albania has started production activity in recent years. Other companies are still in the stage of exploitation of new oil reserves on land and at sea.

From official sources are provided by DPT Tirana turns out that none of the above did not result in Albania still profitable, have not even achieved profits even in the "Golden Years 2011-2014 " when the price of oil in the international market was 120 dollars per barrel (about 30 dollars which is today). As regards the royalty tax paid by companies that use underground for oil and other assets has not passed 100 million euro amount.

The company "Bankers Petroleum", the main operator of oil extraction in the country, with over 90 % of the total, has long declared losses. According to data from the balance sheet, the annual turnover of the company was 67.3 billion in 2014, from 67.7 billion it was in 2013. The royalty fee paid in 2014 is 9 billion, from 9.8 billion paid in year 2013.

The tax result is reported fiscal losses of 12.5 billion in 2014 (about 100 million dollar), from 19.4 billion tax was a loss in 2013. Throughout the period of activity in Albania, the company does not resulted never profit by fiscal concept of commercial companies, according to the concession agreement will have to be taxed at 50 %. The result of the company tax is calculated not according to the law "On income tax" but, based on the Petroleum Agreement signed between the JSC and Bankers Albpetrol adopted in 2004, in which the result is calculated as income from all the deducting all operating and capital costs incurred by the subcontractor. Even other concession companies, operating in the field of research of oil drilling in Albania have resulted in losses during all this period.

The Number of Employees in the Extractive Industry is Decreasing

Regarding the number of employees in the extractive industries of oil, against employees total, at national level, it is almost negligible, according to data report of Transparency EITI 's (for the years 2013 and 2014) which contains an analysis of production and the contribution of the oil and gas sector, mining sector and hydropower sector, as the reconciliation of the main operators in these sectors have paid to the state.

Based on the official data of RNAN, licensed companies in the oil, gas and mining, are employed in total less than 1 % of the total workforce in the country registered for the years 2013 and 2014. During 80s and 70s when it was completely state sector, the number of employees was estimated at about 25,000 employees, while at the end of 2014, according to the EITI report (referred to statements Albpetrol and RNAN) in the oil sector the number of employed amounted to about 3.109 employees, approximately 66 % are employed on Albpetrol. By 2010 until 2014, the number of employees in the sector of oil and gas has been reduced by about 38 %. These changes came about because of the transfer of manufacturing operations from Albpetrol private oil companies. The private sector could not absorbing the force of the "excess" of such work that resulted in these transfers.

Rinas International Airport, Resulting most Expensive in the Region

Since April 2005, the Tirana International Airport "Mother Teresa" is managed and operated by KPS Tirana International Airport, a private operator. TIA took over the management and operation of the airport by the Albanian government, which has been the sole owner of the airport from the time of its construction. As a concession firm, TIA will direct all activities of the airport for the next 20 years.

This agreement, which at the time seemed like the best choice for airport modernization and improvement was necessary in order to cope with the large influx of passengers increased since 1990, today is resulting consequences for the Albanian economy. First, higher rates of airport make Albania have higher prices of tickets in the region, being the only country that is failing to attract companies low cost, such as EasyJet or Air Berlin or WizAir acting as Macedonia, Montenegro Black or Kosovo, when three neighbors have a lower passenger traffic that Tirana. Secondly, the exclusivity that TIA won the concession agreement is making it impossible operation of two airports others, the Kukes Airport, which is ready by many years and the construction of another in Saranda, which would be very important for attracting tourists in the south.

For the company, the agreement has proven to be very profitable, as it has been all these years enjoyed a rapid growth (exception only in 2012) and high rates of profit. According to its balance sheet, in 2013, resulted in the company with an annual turnover of 4.2 billion, down 8 % on an annual basis. TIA profit results among larger companies, with a 35 % profit margin in 2014 and, unlike the income that shrinking profits rose 9 % in the same period. The Ministry of Economy has repeatedly stated last year that it has reached agreement on the revision of the concession contract with the Tirana Airport, but there is nothing concrete yet.

That Concessions of Fiscal Stamps

By 2011, manufacturers and traders of goods excise tax stamps used in Albania produced by the Securities Printing House, a state-owned enterprise in the Bank of Albania. The cost of tax stamps for a pack of cigarettes was less than a penny on the price.

In 2011 the production and distribution of stamps given in concession to a private foreign company. That concessions, promising significant reduction in smuggling on the grounds that the new fiscal stamps will bear traceable information, distinguishing in the market through special equipment forged revenue stamps. As a result of the concession, the cost of new stamps, for packs of cigarettes amounted to 2 leks per package. Besides cigarettes, fiscal stamps and the beers they were placed where the cost per unit is the same.

In the early years, the number of cigarettes cleared and therefore the revenues from excise taxes increased significantly, while from 2013 until today, the legal import of cigarettes in Albania decreased significantly. The company SICPA issued by Albania 2.7 billion (20 million euros) between 2012 and 2014 and claims to draw more when its stamps be put on medical drugs, as provided in the contract.

Painting and marking of Hydrocarbons

The government has also given a concession for the coloring of oil another pigment, vowing to boost fiscal revenues of the government, increasing the cost of oil with 1 lek / liter. This concession by concession company realizes revenues of several million euros per year by throwing a pigment marker on fuels consumed in Albania, while the state budget revenues have increased at rates lower.

Scanning Vehicles at Border Points (PIR)

Another concession to concession contract is, scanning the vehicle at some point the Albanian border. From the private concession company will receive about 11 million euros per year by the Albanian taxpayers, under the promise that its systems will fight tax evasion, smuggling and terrorism. Since September last year, when the contract became effective, there is no indication whether any illegal garment is distinct from scanners

Scanning fee is 22 euros on all customs declarations under € 1,000, while customs declarations under 1000 euros will be taxed at 5 euro. In the basic starting point for the calculation is taken as the number of customs declarations worth over 1000 (one thousand) is approximately 400 thousand pieces. The number of customs declarations under the value of 1000 (one thousand) is about 35 thousand pieces. By a simple calculation, the amount that businesses will pay in 2016 is estimated by 7-9 million euro (some businesses were exempted

from paying this fee twice) and 2-4 million will be paid from the budget (indirect again our taxes), since the concessionaire under the agreement will receive 11.3 million euros in the first year. In the balance of 2014, the company has not declared income, but loss of 111 million. In conclusion, in addition to 43 million expected to be spent by the tax administration and customs this year, Albanians will also pay at least 20 million other fiscal stamps and markers of fuel, while the cost of banking services required or cash registers it is not possible to calculate.

Concession of Concessions

Although the experience so far shows just how technology projects costing millions pockets without benefit of Albanians, the Albanian government in the project, provide other tax concession, which may also be the most costly concessions so far. Terms of the contract bleached by the Ministry of Finance suggest that the concession, might provide about 180 million dollars of additional revenue from the tax on value added, income that will go to the vast majority of the concessionaire and in a small minority Ministry of Finance.

The concession, which the government prefers to refer to as "private-public partnership", promises that the income of the Directorate General of Taxation from domestic VAT, which during the past 17 years are grown without the aid of technology on 11 per cent a year, could grow more than that. In the event that revenue will grow by 12 to 15 percent of the extra income will be shared in the ratio of fabulous 90 per cent for the concessionaire and 10 percent for the state. If the income shall be increased by 16 to 19 percent per year, the concessionaire will receive 65 percent and the state 35 percent. At a cost of up to 90 percent of additional revenue generated at a time when tax collection should cost 1 or 2 per cent, this is a fabulous project to date.

CONCLUSIONS AND RECOMMENDATIONS

Data from the balance sheets of 14 leading operators concessionaires in the country, some of whom have been active for years, show that while they realized a turnover of about 700 million euros in 2014 (about 6-7% of what the economy produces in a year), they paid only 2.7% of total income tax year in question, and have about 3,000 employees, only 1% of total employment in the country, according to INSTAT. Royalties paid by companies exploiting oil and other natural resources has not exceeded 100 million euros, or about 3-4% of total budget revenues, while exports of natural resources without adding value, of about a third of total sales abroad. The figures clearly show that it is absurd how little weight translates occupying huge concessions in the economy, increase welfare for citizens. The country is a vivid example of the "curse of riches", a term known in the world that refers to the paradox that developing countries

with multiple sources of natural, especially non-renewable as minerals and fuels, tend to have less growth and more negative economic development in relation to countries that have fewer natural resources. Albania is in fact the richest state resources in the region, but ranks last in almost all indicators, per capita income, to make the business environment, competitiveness, innovation, sophistication etc.

Two extreme improbabilities were found: companies that use the country's natural wealth circulating large amounts but continue to result in higher losses; other Ventures, who enjoy the advantage of a monopoly or limited market, are growing rapidly in some cases unhindered by the crisis, resulting in higher profits. And these profits, in most of the country has not been reinvested, but transferred to the mammas.

Governments over the years have not been able to negotiate at the beginning and the concession companies have managed to get lucrative concessions and that in most cases, is reap the benefits of this situation. And the government found back, as many concessions are almost impossible to break, due to the high costs of resolving them in arbitration or international courts.

In most cases, concessions have not only added value, but have become a burden for consumers and businesses. We recall the absurd charge of scanning at customs, expensive tickets aircraft, other fees payable, which are not taken back services (marking of fuel). While the curse of natural resources follows after us, as resources are exhausted and the country is at the crossroads of the necessity of sustainable development.

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