

# Mineral Royalty Monitor Report

## General Conclusions

1. Due to the lack of full knowledge of the law, the municipalities do not perform full procedures for the reconciliation of royalty collected by all central or regional customs or tax institutions.
2. The respective tax or customs offices do not perform any action if the municipalities do not request information on the reconciliation of the royalty according to procedures for internal sales or exports.
3. The Ministry of Finance does not carry out any financial transaction to allocate the respective royalty to the municipality budgets according to the contribution, unless the information is confirmed by the form 8 of the municipalities and 9 by the tax or customs offices.
4. All institutions involved in the process have delays by neglecting the implementation of the terms of procedures.
5. There is an overloaded infrastructure, spread to many national and local institutions, which has made it difficult to calculate the royalty, collection and redistribution according to law.
6. The minimum length of all procedures is almost 4 months from the beginning of the reconciliation until the allocation of the rent to the municipal budget.
7. 5% of total rent at the national level has not been received by the municipalities in general because of the lack of reconciliation of information from all available sources.
8. Mineral royalty is allocated within municipal budgets as part of local taxes without being separated or conditioned, merged within which cannot be identified where it was invested.
9. Mineral Royalty 5%, is not enough in relation to the damage that the community has from extraction of natural resources.

## **As conclusion:**

It is noted that local government units have not maximally used the instruments provided by the law, which means that they have not been imposed or heard by the central government for their concerns regarding the difficulties and delays in calculating, collecting their part of the revenue and thus losing a lot of funds valuable for community investment.

During the process they faced major problems for some reasons, among which:

1. Frequent change of legislation, which weakens legal certainty in the extractive industry and creates difficulties both in the companies operating in the extractive industry and in local government units;
2. The large number of institutions involved in the process;
3. Lack of knowledge of the respective municipalities to adapt to the legal and realistic requirements of the reconciliations.
4. Inability of tax and customs administration to respond in time to the legal obligations and deadlines set by law.

## **Recommendations**

The local government units have not used the whole legal instruments, therefore could not have been imposed or heard by the central government regarding their concerns about the difficulties and delays in calculation, or collection of the 5% of royalty due to the frequent change of legislation, the large number of institutions involved in the process and other problems. Therefore, it is necessary:

### **With priority at the central level**

1. Review the legal framework to find effective instruments to facilitate the process to be released by the huge bureaucratic burden.
2. Review the rent increase from 5% to at least a minimum of 25%.
3. To find the possibility within the system at the initial moment when financial transactions of companies are made, the rent transfer to be allocated 95% to the state budget and 5% to the municipality account either for domestic sales to tax offices or exports to customs.

4. Review the 100% rent increase for municipalities that have a very small contribution, below 1% at the national level.

**With priority at the Local level**

5. As an interested party, municipalities, within deadlines, must initiate the reconciliation process at the same time with the central and regional directorates of taxes and customs.

6. Municipalities should be continuously informed about the procedures for completing and submitting form 9 within deadlines.

7. Municipalities should submit in time the form 8 to the Ministry of Finance and be interested in the ongoing procedures up to the transfer of the royalty in their budget.

8. To propose the change of instruction procedure from civil society to the EITI Board supported by municipalities in order to be made direct reconciliation with the Central Directories of Customs and Tax. They have all the relevant information online at any time, therefore, the extended procedures with regional branches can be reduced.

9. Municipalities should be interested and informed by using all the instruments provided by law, both directly with companies and through AKBN, on the figures about production by companies in order to compare with sales to determine the real value of the royalty.

**Transparency and public information**

10. In the EITI reports, companies should also report about the amount of production in order to compare with sales to determine the real value of the royalty.

11. All municipalities must publish the royalty allocated and inform their citizens about the projects invested with it.

12. All municipalities in public hearings should determine the priority projects to be invested with the royalty funds, in cooperation with the community and civil society.

13. All relevant institutions such as the Ministry of Finance and Economy, the Ministry of Energy and Transport, the National Agency of Natural Resources, etc. must publish detailed information about the mineral royalty, its purpose and its distribution on their online websites.