

SUPPORT PROGRAMME FOR ALBANIA IN THE SECTOR OF TAXATION 2001

1. IDENTIFICATION

Beneficiary state: Albania
Programme: Council Regulation (EC) No.2666/2000
Year: 2001
Cost: €2,0 million
Expiry date: 31.12.2002 contracting
31.12.2003 disbursement
Sector: Institutional capacity building
Budget line: B7-541
Implementing Body: European Commission (Headquarters) on behalf of the local authorities

2. SUMMARY

Council Regulation (EC) n° 2666/2000 of 5 December 2000 provides a legal basis for the use of funds from the budget heading B7-541 under the CARDS Programme. Art. 2 of the Regulation stipulates that the Community assistance shall, inter alia, be for reconstruction, aid for the return of refugees and displaced persons, facilitating economic and social development, and the creation of an institutional and legislative framework to underpin democracy and the rule of law.

This Financing Proposal consists of:

Institutional capacity building in the sector of Taxation - € 2,0 million: to assist the Albanian authorities to improve the effectiveness of tax collection and the fight against fiscal fraud in Albania.

Maximum available: €2,0 Million

3. BACKGROUND

The development of a modern market economy in Albania has inevitably required a parallel modernisation of government institutions. Membership of the World Trade Organisation has been achieved, which brings with it a requirement to reduce reliance, over time, on customs duties and thus a need to improve the effectiveness of other revenue collecting services - notably the taxation services.

Since the 1997 crisis, considerable efforts have been made by the Albanian authorities to strengthen the Albanian tax system. Albania has developed a relatively modern tax legislation and a relatively qualified staff of about 1200 employees that administers such a tax system in the General Directorate of Taxes (GDT) and in the 36 branch offices in districts. Some positive results are now visible, as tax collection has increased in Albania during the past years.

However, the computerisation level of tax administration is still relatively low. This limits efficiency as regards tax collection, tax audits and the fight against tax fraud and evasion. In this context, the progressive computerisation of administration of taxes remains a priority for the Albanian authorities. The GDT has actually computerised the eight largest branch offices in districts, but only for administration of value added tax (VAT). VAT computerisation of these offices has proven highly effective. It is now considered that both further computerisation as regards VAT and progressive

introduction of applications aiming at computerised management of direct taxation would be key elements to achieve the overall objective of improving tax collection and fighting fiscal fraud in Albania.

4. PROGRAMMING CONTEXT

4.1 Institutional Framework

Taxation is a relatively recent phenomenon in Albania and has not yet achieved general public acceptance. This reflects the public's lack of confidence in the state's ability to uphold the rule of law and provide decent public services. The fact that corruption in the public service is widespread also undermines public confidence.

In future years Government will become increasingly dependent on domestic taxation to finance public expenditure. Over 50% of tax revenue currently comes from customs duties, but these are expected to decline steadily as a result of WTO accession, the EU Stabilisation and Association process, and regional free trade initiatives in South Eastern Europe.

The Tax Department is responsible for collection of domestic taxes including personal income tax, corporation tax, excise duty and domestic VAT. The Customs Administration is responsible for collecting customs duties and VAT on imports.

4.2 Proposed Activities:

- Assist the Albanian authorities to develop a cohesive integrated IT strategy for the GDT, covering both direct and indirect taxation, which should take account of the overall objectives mentioned above (i.e. improve tax collection and the fight against fiscal fraud).
- Assist the Albanian General Department of Taxes, by the provision of technical assistance, to progressively implement appropriate software, applications, and equipment to ensure the most efficient and effective computerised management of both direct and indirect taxation, including, where necessary, assistance to modernise operational procedures to ensure maximum benefit from the computerisation.

4.3 Expected Results

- Comprehensive IT strategy for taxation
- Strategic development as regards fighting against fiscal fraud and evasion
- Software and specific applications for direct taxation management developed and installed
- Implementation of computerised management of direct taxation in the main tax branches, and in particular in the "Large Taxpayers Unit"
- Improvement in the area of VAT computerisation and extension of the system to all tax branches in Albania
- Improvement of service to taxpayers
- Increase of tax revenue through improvements in management of direct and indirect taxation and enhanced capacity in the fight against fraud
- Lower administration costs for the tax administration

5. OTHER DONOR FUNDING

This project will be fully co-ordinated with the significant bi-lateral project already agreed between the United Kingdom and Albania and being implemented by the United Kingdom's Department for International Development (DfID). Liaison has taken place between the Commission and the DfID contractors with a view to ensuring that this project will add value to their project, which is already partially implemented.

This project will also be co-ordinated with the activity of the European Commission funded Customs Assistance Mission to Albania which includes a computerisation element covering the Albanian Customs Service. The aim will be to provide assistance to both the customs and taxation services with a view to encouraging closer working between them. This is notably to ensure that all customs and tax issues are fully covered during the design and implementation of the computerisation projects to be

implemented by both services and to ensure a maximum opportunity for the two services to cooperate in the fight against revenue fraud.

6. PROGRAMME OBJECTIVES

The wider objective of the programme is to assist the Albanian authorities to improve the effectiveness of tax collection and the fight against fiscal fraud in Albania.

Immediate objectives of the programme are:

- Reduction of direct tax administration costs
- Reduction of VAT administration costs
- Improvement of service to taxpayer
- Better data analysis capability, contributing to improved and fairer distribution of the tax burden among taxpayers
- Facilitating exchange of information with tax authorities of other countries

7. BUDGET

Programme Component	Budget in M €
Taxation programme Albania	2,0

8. INDICATIVE DISBURSEMENT SCHEDULE (M € cumulated)

Sector	June 02	December 02	June 03	September 03
Taxation	0,6	1,2	1,8	2,0

9. IMPLEMENTATION

Due to its specialised technical nature, the Commission will implement the taxation programme. Contracts will be awarded for supplies and services. Participation in tenders and award of contract will be decided in accordance with the provisions of Regulation (EC) 2666/2000.

The actions under the taxation programme may be carried out through the deployment of international customs and tax officers in the territory of Albania, and its neighbouring countries.

10. MONITORING, EVALUATION AND AUDIT

This programme will be monitored and supervised by the EuropeAid Co-operation Office in Brussels, which shall:

- a) Monitor the implementation of the programme on the basis of regular reports;

- b) Carry out regular monitoring and evaluations to follow the progress of the programme and its components as well as ex-post evaluation after the completion of the programme.

The accounts and operations of the programme components will be checked at intervals by an outside auditor contracted by the Commission without prejudice to the responsibilities of the European Commission, including the European Antifraud Office (OLAF) and the European Union Court of Auditors.

11. RISKS AND ASSUMPTIONS

Implementation of the programme is conditional on an action plan being adopted by the Albanian authorities. This action plan will clearly describe on-going international assistance in the field of taxation, in particular as regards means and objectives. It will identify links and synergies between on-going actions and the present programme. The action plan will also clearly indicate the expected timing for the implementation of the operations under this programme.

The successful implementation of this programme is conditional on the co-operation of the local authorities. In the absence of such co-operation the Commission may suspend or cancel all or a part of the programme. The Commission may also decided to suspend, defer or cancel other programmes in other sectors in order to secure the co-operation of the authorities concerned. Support for the programme is also subject to the following conditions:

- No institution or enterprise with a director or manager having a criminal record or having been indicted for a felony will be selected to participate in or benefit from this programme.
- All participants in the programme will apply appropriate communication procedures and respect the principle of transparency.
- Coherent linkage with the projects of other donors will be continuously co-ordinated and monitored.
- All institutions involved will provide the required documentation and access to information necessary for the efficient implementation of the programme.

The following possible risk factors must also be taken into consideration.

- Lack of stability in the country
- Lack of commitment on the part of the Government of Albania, or the relevant Ministries concerned.
- Lack of suitably qualified officials in the relevant Ministries to carry out the projects
- Lack of appropriate financial and administrative support within Albania (necessary legal reforms, organisational measures, maintenance of the equipment and software supplied through the programme, appropriate operational budget, etc)
- Failure of the UK DfID contractor to deliver effectively the planned modernisation and development programme.

Annex: Logical framework matrix