

Minutes of Meeting

THIRD MEETING OF INVESTMENT COUNCIL

15 December 2015, 16:00 – 18:00

18 December 2015

The Meeting took place in the premises of the Ministry of Economic Development, Tourism, Trade and Entrepreneurship (MEDTTE), and chaired by Mr. Arben Ahmetaj, Minister of MEDTTE.

I. Opening of the meeting

Chair of the Investment Council, Mr. Arben Ahmetaj welcomed the participants, and taking into account the participation of more than 50% of the IC members, considered the meeting opened.

As per the agenda, the Chair opened the discussion on Informality which has been a direct request from the entrepreneurship but also in the attention of the Government as one of the main barriers which requires tough reforms, which bears also a cost to the political force in power. The fight against informality is a precondition for every country which aims to raise the efficiency and competitiveness of its economy, improve the business climate, ensure balanced tax policies, sustainable economic growth and fulfil the obligations in the framework of the agreement with the European Union. According to Minister Ahmetaj there are many challenges especially in the business climate and in the doing business indicator, therefore he encouraged again the businesses to send propositions to the Secretariat for a constructive dialogue government - business.

The chair expressed his appreciation to the Secretariat for keeping up with the professional and intensive work, as well for the support that it provides in facilitating the dialogue on behalf of all the stakeholders. The chair thanked EBRD for supporting this initiative, not only financially but also by providing ideas for the improvement of investment climate in the country.

II. Progress on the Recommendations from the Previous Meetings

The Chair gave an overview on the achievements made so far in relation to the previous IC recommendations.

- a) ***Deregulation Reform:*** Approved on 26 November 2015. Law No.131/2015 “For the National Business Centre,” which officially brought unification of the NRC with NLC, was approved on 4 December 2015. The bylaws are in the finalization process.

- b) **Tax Inspection.** In September 2015 started the implementation of the Risk Model. Another achievement was the initiation of the automatic notifications for payment deadlines. The General Tax Directorate (GTD) started Strategic Plan for 2014-2017. Recently published also the Strategic Plan for 2015-2019 “For the development of Tax Administration” and Fulfilment Strategy.
- c) **Draft law on Bankruptcy.** Expected finalization by January 2016.

III. Informality: Common Challenge Government – Entrepreneurship

Head of the Secretariat, Ms. Diana Leka presented the analysis carried out by the Secretariat regarding Informality and concrete recommendations for a sustainable formalization reform of the Albanian economy.

Comments on the findings and recommendations of the Secretariat:

- The Chair highlighted that the debate for Informality is one of the most heated debates and very healthy being in favour to the business and the population. According to the Chair it is true that a reform and long-term strategy is needed which will be continuous despite government rotations. Risk model is a revolution in the mentality of tax institution. It has been put to practice only two months ago and it is a true effort in the improvement of the business climate and not only to the budget bottom line. Considering the business climate of the past years, and the up-to-date achievements of the reform, the Government understands well the business situation and for this reason it provided two initiatives: a) zero tax for the small business, and b) the right for the enterprise to self-correct itself without penalties, for statements and inventories until end of 2015. There is certainly a need for a dialogue with the business, and the dialogue should not be only in meetings but executed also in the field.
- Mr. Peter Sanfey, Acting Director, Country and Sector Economics at EBRD highlighted that Informality is not an issue only in Albania but in all the market economies. He emphasised the need for a clear government reform with time lines and measurable objectives with the inclusiveness of all the stakeholders. He valued the analysis made by the Secretariat on the milk sector, and recommended similar studies in other sectors with tailored-made solutions. He also added that the analysis could be complemented with a study on the labour market and why people choose to the work in black. Mr. Sanfey recommended getting support from the World Bank with more detailed analysis such as labour force surveys, poverty surveys and living standards surveys which could complement the business surveys done by Secretariat. Benefits on taxation deriving from the Government’s action against informality, with a formulated action plan and with results being delivered, may be scoped for reducing the amount of profit taken from tax without affecting the revenue level of the budget.

- Mr. Dietlof Mare, FIAA's Vice President and Vodafone Albania CEO, valued Secretariat's analysis and emphasized the need for a simplification and unification of the laws and proceedings to ensure correct implementation. On the other side he highlighted as critical the role of training and education of both tax administration and business especially of small and medium-sized ones to change their mentality in this new formalization reality.
- Mr. Luan Muça, DELTA Group's CEO, expressed support to the Government's initiative adding that this reform should have been taken long time before. According to him, businesses should understand that this reform is for the benefit of the country. Perhaps the Government's action should have been focused in specific sectors rather than being so widely extended. There are some details which need improvement such as reference price. The big business is especially interested in the economy formalization.
- Ms. Linda Leqisi, OMEGA shpk CEO stated that now there is no question whether formalization should happen or not. It is a very positive initiative and no one is against it. She raised a concern in the facon sector which is VAT reimbursement of the subcontractors and the possibility for automatic immediate VAT reimbursement of the sector, considering the need for liquidity of the sector, which on the other hand has a VAT risk of almost zero.
- Ms. Brisida Shehaj, General Tax Director replied that the Directorate of VAT Risk Module is working on the improvement of the instruction and internal manual for the automatic VAT reimbursement which is thought to bring facilitating conditions for specific companies to receive VAT reimbursement on monthly basis for amounts up to 400,000 Lek. The administration does not lack liquidity for low risk facon businesses.
- Regarding the problematic scheme for the subcontractors, the IC Chair clarified that a week ago it had been decided in the Council of Ministers to start with the amendment of VAT law specifically for the textile and shoe sector, and the amendments addressing this issue will be passed to the parliament in its next session.
- Mr. Gazmend Kadriu, Vice Chair of Management Board of AAB and UNION Bank's CEO, valued the concrete measures addressed in the Secretariat's analysis. Banking sector is very formal and for its development it needs a formal economy, and therefore the sector took its own measures long time before the government started its action against informality. Regarding the survey's outcome about crediting difficulty level, there was no surprise, taking into account the high level of informality in the economy. Wherever there is informality there is a high insecurity on the financial conditions of the borrower and hence crediting risk. Considering the high level of NPLs of up to 20-25%, it is clear that the banking sector cannot lend money as it did in the past. He agreed that informality should be treated consistently and systematically, listening to the business concerns and by establishing a sustainable

formal system. The banking sector is more interested on the business climate rather than on the number of clients. This will be a long road full of challenges, but when there is a will there is a way, and by following the experiences of other countries, with education and trainings, the improvement of the investment climate in the country will be soon achieved.

- Ms. Brisida Shehaj, General Tax Director gave an overview of the work done so far by the tax administration in the framework of the fight against informality. Much progress has been made in the legislation aspect even for the farmers. To avoid abusing with the VAT reimbursement scheme from the collectors, it has been established that payments are to be done through bank transactions. Tax administration has started implementation of the new risk model and the system is being populated with data about risk estimation. A considerable number of trainings has been given to tax administration, despite difficulties as the fiscal Academy has limited capacities. Trainings have been made also with the small business, lately with the pharmacists association where 1,200 pharmacists have been trained throughout the country. The technological cards and the relevant institutions which certify the card have been defined. Electronic communication with the business is increasing even more. GTD is in process of full restructuring. The structure will be totally different and it will aim strengthening the service to taxpayers. The current structure for the on-sight inspections at the regional directorates will be removed due to its inefficiency. This “aggressive” structure will be substituted with inspectors which will be responsible for their specific areas and their daily work will consist in informing the business to be compliant with the law and the legislative amendments. To eliminate arbitrariness, tax institution will complete by the end of December M-TAX Project, which will enable that on-sight inspection is made through a tablet for the declaration of e.g. vouchers, turnover, employees’ registration etc. Businesses must respond to the Government’s call for formalization. Beginning from January 2016, the measures will be harsher against unconformities.
- Ms. Irena Begiraj, Deputy Minister of Finance stated that the Government is finalizing the two-year Strategy against Informality. It aims simplification of tax and customs procedures, with less interpretation discretion as possible. Tax and Customs administration will be the administration in service to the business leaving behind the old mentality of controlling the business. It aims professional capacity building of the administration, training and communication skills and ethics. The new IT system enables to implement a new tax inspection approach. No more tax inspectors checking a business for entire months. Fiscal legislation sustainability is very important to enable the business to make predictions. However, Albania is a developing country and amendments are often necessary to solve problems encountered during implementation. She also mentioned that MoF, has so far, try to consult most of the draft fiscal laws through the Fiscal Council.

- Ms. Diana Leka stressed the need for prior consultation and more specifically by applying correctly law 146/2014 “For Public Notification and Consultation,” as a continuous request from the business.
- Mr. Adamantios Frantzis, General Manager of TITAN ANTEA CEMENT SH.A valued the discussion and said that Albania has a good opportunity with this reform as the tax burden is not very high. However, it is important the way the reform is implemented and not to slow down its pace. The government should convince the whole society, not only the business on the usefulness of the reform for the population itself and for the tax administration. Sectoral analysis are very interesting and should be developed for other sectors as well because the value chain analysis gives the idea where the chain is broken and where informality occurs.

IV. Approval of the Recommendations

The IC Chair appreciated the discussions and with the agreement of the IC members on the findings and recommendations expressed during the meeting, he asked the Secretariat to submit the recommendations to the Prime Minister’s Office and to the Minister of Finance.

V. IC Working Plan for 2016

The Secretariat presented the six most voted subjects from the members for the IC Agenda 2016. Three of the most voted subjects, where the Secretariat might focus its work for the first six months, were:

- Dispute resolution between the Public Administration such as Tax or Customs and the business;
- Informality analysis in the agro-industry sector;
- Monitoring of risk model implementation in the tax inspection and VAT reimbursement.

It was agree that within a week, the voting should be completed by all the members in order to define clearly the main issues to be treated by the Investment Council during 2016 and the possible meeting dates.

VI. Closing of the Meeting

The Investment Council commended the Secretariat for the extensive and qualitative work done. The next meeting will be in March 2016.

The meeting was closed at 18:00.

List of Participants

Government Representatives

1. Mr. Arben Ahmetaj, Chair of the Investment Council/Minister of Economic Development, Tourism, Trade and Entrepreneurship
2. Ms. Irenal Beqira, Deputy Minister of Finance
3. Ms. Natasha Ahmetaj, Deputy Governor of Bank of Albania, in absence of Mr. Gent Sejko, Governor of Bank of Albania
4. Ms. Brisida Shehaj, General Tax Director
5. Mr. Genti Beqiri, Executive Director of AIDA

International Partners

1. Mr. Jan Rudolph, Head of Political, Economic and Information Section at EU Delegation in Albania
2. Mr. Christoph Denk, Head of EBRD RO

Business Community

1. Mr. Arben Shkodra, Deputy Chair of UCCIAL, in absence of Mr. Nikolin Jaka, Chairman of CCI Tirana
2. Mr. Dietlof Z Mare, Vice President of FIAA and CEO of Vodafone Albania, in absence of Mr. Silvio Pedrazzi, President of FIAA
3. Mr. Gazmend Kadriu, Deputy Chair of Management Board of AAB, in absence of Mr. Christian Canacaris, Chairman of Albanian Association of Banks
4. Mr. Luan Muça, President of Delta Group
5. Ms. Lindita Legisi, President of Omega shpk
6. Mr. Adamantios Frantzis, General Manager of TITAN ANTEA CEMENT

Absent:

1. Mr. Bledi Çuçi, Minister of State for Local Government/National Coordinator of the Anticorruption Strategy
2. Ms. Ermonela Felaj, Minister of State for Relations with the Parliament
3. Ms. Pranvera Fagu, Director of General Directorate of Customs
4. Ms. Tahseen Sayed, Managing Director of World Bank Office in Albania
5. Ms. Elira Sakiqi, Senior Country Officer at IFC

Special Guest: Mr. Peter Sanfey, Acting Director, Country and Sector Economics at EBRD