

Summary of Minutes of Meeting

FIFTH MEETING OF INVESTMENT COUNCIL

27 April 2016, 17:00 – 19:00

Tirana, 27th April 2016

The Meeting took place at Tirana Business Park, and was chaired by Ms. Milva Ekonomi, Minister of Economic Development, Trade, Tourism and Enterprise (MEDTTE).

I. Opening of the meeting

The Chair of the Investment Council, Minister Milva Ekonomi welcomed the participants, and opened the meeting by pointing out that the new offices of Albanian Investment Development Agency (AIDA) are now located at Tirana Business Park. AIDA is presently conceived to become a single window for the investors, therefore the Chair asked the Members and the Business Associations to spread the information on the new institutionalized AIDA. Purpose of this meeting was not only to make a comparison of Albania investment data from year to year, but also to compare Albania's investment incentives versus the other countries in the Western Balkan region. The Chair expressed her appreciation for being part of the Investment Council and thanked the Investment Council for the work done so far.

II. Progress on the Recommendations from the Previous Meetings

Head of the Secretariat, Ms. Diana Leka briefed on the status and progress of the recommendations from previous IC meetings. In total there are 29 recommendations approved by the Investment Council, some of which dealing with the legal aspects of legislation, transparency and communication. Four recommendations have been accomplished and thirteen measures are under discussion and evaluation process. The Secretariat has received consolidated information from Ministry of Finance (MoF), Tax Administration, Customs Administration, etc. Some of the main ongoing actions by the Government are:

- *On Tax Inspection:* the review of manual on tax inspections, restructuring of the Tax Administration with focus on specialisation of tax inspectors, reductions of barriers for tax appeal, the role of Taxpayers Advocate and the role of Tax Appeal Directorate (TAD).
- *On Informality:* under preparation an internal plan with actions and milestones aiming simplification of procedures and launching by the Minister of Finance in the second phase of "action against informality".

III. Main Findings on Incentives for Investment promotion, Albania compared to Western Balkan Countries

Head of the Secretariat, Ms. Diana Leka delivered a presentation on the main pillars of the analysis conducted by the Secretariat, focusing on the context, methodology, and eventually on the main findings and recommendations deriving in close consultation with business community. In addition, Mr. Genti Beqiri, Head of AIDA, delivered a brief presentation on investment in Albania and the implementation of strategic investments law by presenting four concrete projects applying for special status as foreseen by the law.

Main comments delivered in the Meeting are summarized below:

- Ms. Ermonela Felaj, Minister of State for Relationship with the Parliament (MSRP), gave addition information regarding the implementation of the IC Recommendations, by sharing the actions of the MSRP and Government to adopt these recommendations. Specifically, Minister Felaj made reference to the amendment on the prepayment of the tax and customs liability as a prerequisite used for the companies to appeal, imposing the acceptance of DAT decisions, etc. The MSRP is collaborating with the Minister of Finance to include some of the recommendations of the Investment Council to the Law on Tax Procedures. But, the Law on Tax Procedures is still under review at the Constitutional Court, and the final Decision from this Court has not been issued yet; therefore, it currently cannot be proceeded with concrete amendments as per IC recommendations. Regarding the Law on Bankruptcy supported by IFC, the MSRP is following closely the progress for its approval, which has not been yet concluded only for technical reasons. At the same time, the Ministry of Justice requires amendment of the Civil Procedure Code, linked to Law on Bankruptcy, which requires a qualified majority from the Parliament. Consequently, first it is needed to approve the amendments to the Code, and afterwards will be considered the approval of the Law on Bankruptcy. Regarding the IC recommendation for proper implementation of public consultation law, the MSRP together with the Minister of Innovation will propose an internal regulation to the Government in order to impose the central institutions when drafting an act to actually consult the stakeholders not only in numbers but also in quality.
- Mr. Luan Muça, Delta Group, highlighted the importance of Trans Adriatic Pipeline (TAP) project expected to finish by 2020, and the potential benefits it will bring to the private sector in Albania. His main concern was whether the Government has already started to implement concrete projects for the distribution of gas by 2020, as one of the key elements for having a strong industry is access to cheap sources of energy such as gas. In relation to the Free Trade Area of Porto Romano in Durrës, quite helpful to the business, Mr. Muça thinks that there is a need to push the monitoring and conditions of the domestic businesses working in the area.
- Mr. Dritan Nako, Antea Cement, shared the concern on the lack of competitiveness of domestic products in the cement industry, mainly due to unjustified fiscal burden

resulting since 2012 from an additional charge to combustible materials used in the industrial process. For this specific case, the EU model has provided exemption from taxes. Instead, in Albania the present situation has increased the cost of the domestic products, which amount to an exporting value of 40-50 million EUR, while ensuring 1,000 job positions in the country, causing a lot of disadvantage in relation to imported products but also inability to export to foreign countries. Moreover, this situation is not facilitated due to the standstill of the Law on Waste Import as well as to the inadequate infrastructure conditions, such as the case of the port of Durrës which is not deep enough to bring ships of high tonnage to arrive to far destinations beyond the region. ANTEA Cement Company is ready to share some concrete proposals on these issues with the Investment Council and also Ministry of Economy, as already done with other public institutions.

- Mr. Silvio Pedrazzi, FIAA, expressed the appreciation for the analysis because now we can differentiate the fact from appearance, as pressed many times from the Prime Minister. Based on the data from the analysis, apparently the tax burden does not seem to be an issue for attracting foreign investments in the country. There is a need for consistency on the policy-making. Therefore, it is essential to empower AIDA with adequate resources, high quality people, as there is a real need to chase foreign companies that can take advantage of Albania's competitiveness.
- Mr. Yngve Engstroem, EU Delegation, stated that comparisons are useful to understand the business environments but on the other hand business representatives, especially the foreign ones, are not mainly interested on the incentives. It is true that Albania is seen as attractive, because it has potentials in agriculture and food industry, in energy, and many other natural advantages. However, Albania has to set some basic conditions. The justice reform needs to be decided in order for Albania to attract investments. Additionally, Mr. Engstroem highlighted the necessity to promote and make use of some support programme and financial products as incentives for private sectors developed by the EU in cooperation with other organizations such as EBRD, EIB, KfW. The Investment Council can be a good platform where to make known such programmes.
- Mr. Christoph Denk, EBRD RO, agreed with the comment made by Mr. Muça on the quick move to make ready the gas infrastructure in Albania, in the framework of TAP project, as an advantage for public and private sector in Albania. It depends on the Government how this can be brought forward by 2020, also with assistance from donors. Regarding FDI, it is important, particularly for Albania, to look beyond the statistics, and there are areas for work to be done, and particularly in the oil and gas sector where the FDI have been focused in the past. It is important to look beyond the sectors and to broaden the FDI industries, where there are also many other sectors with natural advantages. Albania can attract labour intensive industries such as automotive and take advantage of low labour cost, of the strategic location, etc. There are investors in the labour intensive part of automotive industry interested to

invest and the interest from the Government seems to be stronger than expected. For example, manufacturing is one of the sector that can qualify potentially under strategic investment for expedited procedure. Regarding the guarantee fund for the agriculture sector provided by EBRD, Mr. Denk clarified that there are still some internal procedures within EBRD and with contracted banks to be followed and hopefully it will be operational in the coming weeks.

- Nikolin Jaka, Chair of Tirana Chamber of Commerce and Industry, commended the work and the analysis of the Secretariat, with the support of EBRD. Mr. Jaka stated that Albania should have an attractive package for foreign and domestic investors, but also on the other hand there should be a territorial orientation to assist the investors clearly and convince that they will take back their invested money. It has become a necessity that the territorial management should go ahead with expedited steps, although the government is working on it, already developed and raised working groups to work fast. Mr. Jaka proposed that even Investment Council may intervene by setting up joint working groups or participate in inter-ministerial groups on territorial management and regional development. There are indeed many touristic projects, but we need to be careful and know the feedback of these projects either in employment or economy. There is a need to invest also in industry, agro-processing, farming and other agriculture sectors and agro-tourism. The Government should move faster, and endorse the recommendations of the Investment Council supporting the private entrepreneurship and ensuring the freedom in doing business. Mr. Jaka stated his concern on the capacities of AIDA to meet the new obligations and role defined by the strategic law. He stressed support to be provided to AIDA but there is a need to increase the funding and human capital of the institutions to become reliable to the business community.

The IC Chair, responded to the many issues raised by the participants. There are ongoing discussions with the Ministry of Environment as a continuous pressure coming from the waste recycling businesses to revise the Law on Waste Import.

Regarding the Justice Reform, this is a priority of the government but there is a need for a broader consensus among political actors. The Government is considering some alternative solutions. The Justice Reform is a major issue and it does not depend only from the good will of the Government, but also from the good will of the political forces in the country. Despite this, the Chair expressed her conviction that the business should be alleviated. For this reason, despite this Reform, there should be found some alternatives to alleviate the business climate when there are conflicts to be tackled.

There is a pressure on the Government to move faster and respond to the business needs, but the bureaucratic mechanism is more difficult to adapt to business challenges. However there is a common understanding by the government on the necessity to facilitate the procedures and red tape for the private sector. AIDA is undergoing a restructuring to fit to its new role as a unique window for investors, and

is supported through technical, legal and financial assistance to meet the extended competencies. Once AIDA has completed the tasks required, may be discussed amendments to its status. Also, as relates to the TAP benefits for the country, Minister mentioned the current efforts going on with the Ministry of Energy regarding preparation of Gas Master Plan for Albania. Additionally, she asked the Secretariat for support by organizing consultation tables focused on simplification of procedures.

- Ms. Lindita Legisi, OMEGA, congratulated the Secretariat on the comparative analysis for investment incentives. Textile (cut-and-trim) sector in particular has its own importance in the structure of exports. For the moment the situation is stable, but Albania apparently is not more attractive than the countries in the region. A lot of interest has been shown from many international brand companies to work in Albania, but apparently they have chosen to work in the region. The concerns of the sector have been presented to the Government during the drafting of the “*façon*” package and need to be reconsidered and implemented. Although the goal is to attract new investments, it is important to consider also the needs of the current investors that have been operating for years in the country.
- Ms. Elvis Sulko, World Bank, commended the Secretariat on the concrete recommendations provided through its one year of functioning. There is a need now for the Government to focus on their implementation. Ms. Sulko suggested that the analysis should not only be comparable with other countries but also forward-looking on the required level of FDI and exports to reach the economic potentials as well as a sustainable economic growth. The quality of public administration is a fact mentioned also in many international reports and this time it comes from business translated as bureaucracy. Public administration is operating understaff and should focus on attracting young and skilled people available in the market. One of the main concerns of the business is the working force skills and the high staff turnover in particular on labor intensive industries that need to be specifically addressed. Additionally, Ms. Sulko mentioned the WB’s interventions with public institutions related to improvements of business climate in the country.
- Ms. Laura Qorlaze, IFC, commended for the deep comparative analyses. She suggested to AIDA to have into focus also the domestic strategic investors who may have ideas, and help them in investment orientations. Albanian economy is suffering from the wrong investments in overinvested sectors. Ms. Qorlaze suggested to AIDA, in case they have not yet, to apply a business satisfaction index for further analyses. Another comment raised was on the necessity to change the mindset of the civil servants in the public administration to consider themselves on the service of the private sectors. It is essential to intervene in this direction as a healthy administration shall serve a healthy economy.

IV. Approval of the Recommendations

The IC Chair asked the members if they agree with the recommendations provided in order to endorse and include in the monitoring working plan of the Secretariat. The recommendations were all approved. The Secretariat will notify in the coming days the members on the topic of the next meeting, planned to be organized end of June

V. Closing of the Meeting

The meeting was closed at 19:00. The next meeting will be on 29 June 2016.

List of Participants

Government Representatives

1. Ms. Milva Ekonomi, Chair of the Investment Council/Minister of Economic Development, Tourism, Trade and Entrepreneurship
2. Ms. Natasha Ahmetaj, Deputy Governor of Bank of Albania, in absence of Mr. Gent Sejko, Governor of Bank of Albania
3. Ms. Ermonela Felaj, Minister of State for Relations with the Parliament
4. Mr. Genti Beqiri, Executive Director of AIDA
5. Mr. Xhavit Curri, Deputy General Tax Director, in absence of Ms. Brisida Shehaj, General Tax Director
6. Ms. Arjana Dyrmishi, Advisor to General Customs Director, in absence of Ms. Pranvera Behushi (Fagu), General Customs Director.

International Partners

1. Mr. Yngve Engstroem, Head of Cooperation at EU Delegation in Albania
2. Mr. Christoph Denk, Director, Head of EBRD RO in Albania
3. Ms. Evis Sulko, in absence of Ms. Tahseen Sayed, Managing Director of WB Office in Albania
4. Ms. Laura Qorlaze, Senior Country Officer at IFC

Business Community

1. Mr. Nikolin Jaka, Chairman of Chamber of Commerce and Industry of Tirana
2. 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. Dritan Nako, Administration and External Relations Manager, in absence of General Manager of TITAN ANTEA CEMENT

Absent:

1. Mr. Bledi Çuçi, Minister of State for Local Government/National Coordinator of the Anticorruption Strategy