

INCENTIVES FOR PROMOTION OF INVESTMENTS: ALBANIA AND WESTERN BALKANS COUNTRIES

MEETING OF INVESTMENT COUNCIL

Tirana on 27 April, 2016

CONTENT

- I. Context, Objective, Methodology
- II. Comparative overview on incentives in the region
- III. Main Findings and Recommendations

Albania, Serbia, Montenegro, Macedonia, Bosnia and Hercegovina, Kosovo

PUBLIC RELEASES

- ❑ *Business climate conditioned by the reform in justice, public administration, fight against corruption and organized crime.*
- ❑ *Unpredictability of relations with public administration, especially tax administration.*
- ❑ *Legal uncertainty and unpredictability of economic policies.*
- ❑ *FDI in Albania are impeded by the lack of real feasibility projects.*
- ❑ *A notable revival of investment underpinned economic growth, particularly private investment - both foreign and domestic. Albania has a high potential for growth, taking into account the geographic location and its demography.*
- ❑ *Faster growth is expected in 2016 on the back of an improved external environment (especially in the Eurozone) and the start of major construction work on the Trans-Adriatic pipeline (TAP).*

It is necessary a strategic “whole-of-government” approach to policy making and prioritises the capacity building of civil servants, increased professionalism in public institutions, improved inter-ministerial co-ordination and reinforced stakeholder consultation mechanisms.

FIAA

AmCHAM

DIHA

ATTSO

BB

EBRD

OECD/EU

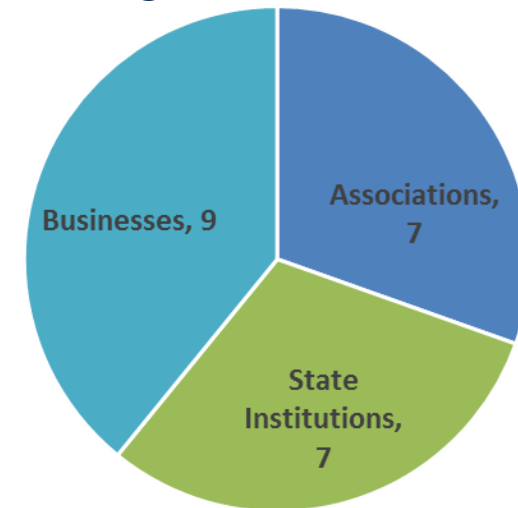
AIM OF ANALYSES

To identify investment incentives in Albania and other countries in the region, to bring the investors' perspective, their concerns and recommendations on business climate in the country

Methodology

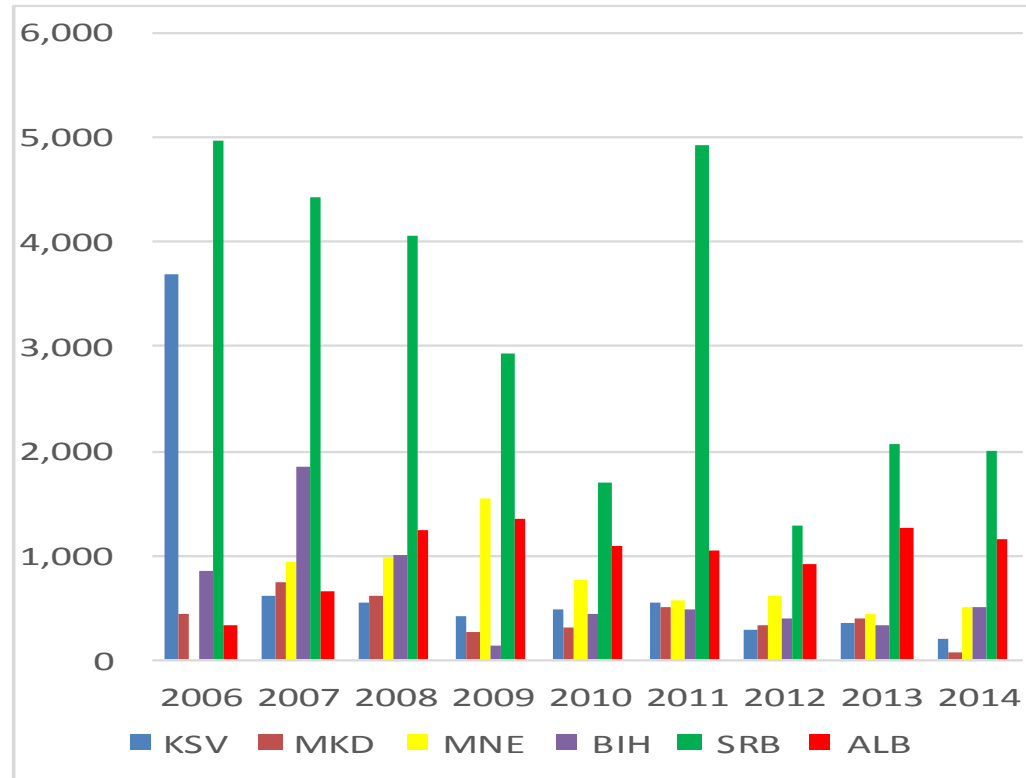
- Research of incentives in the Western Balkans Countries in collaboration with AIDA;
- Semi structured interviews with businesses and business associations;
- Preliminary meeting with public institutions (AIDA, MEDTTE, BoA, INSTAT, NBC)
- Consulting of data with BoA and INSTAT;
- References – policies, regulatory environment, market size, potentials (UNCTAD)

Meetings with stakeholders

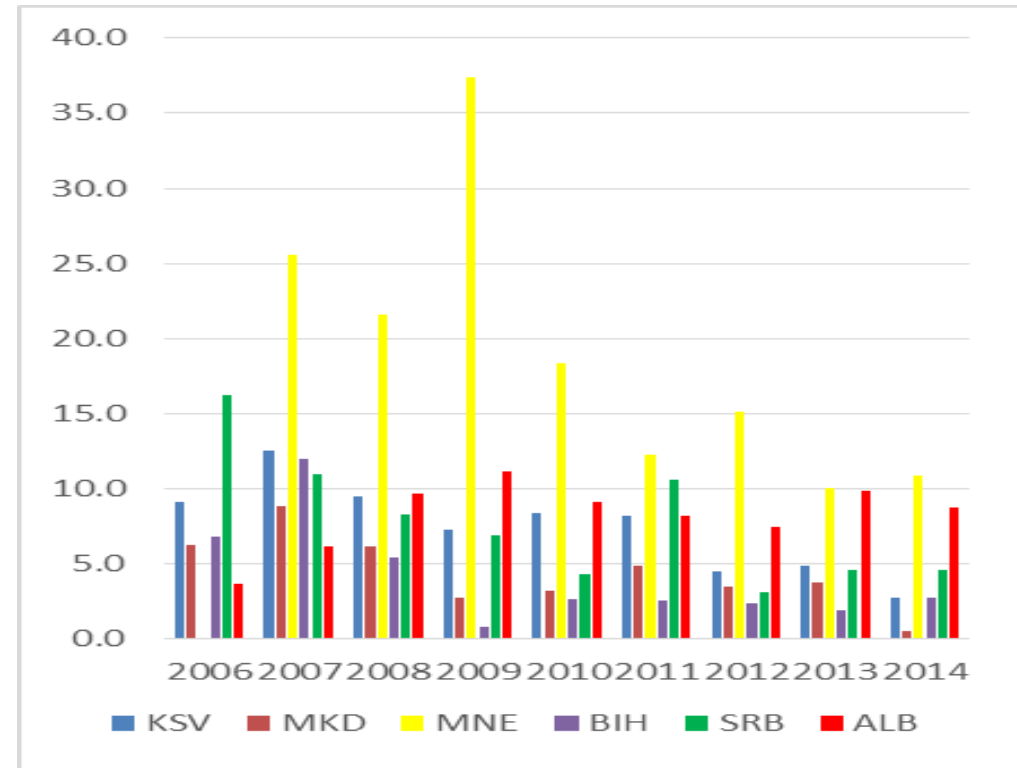


I. CONTEXT – FLOW OF FOREIGN DIRECT INVESTMENTS (FDI)

In million USD



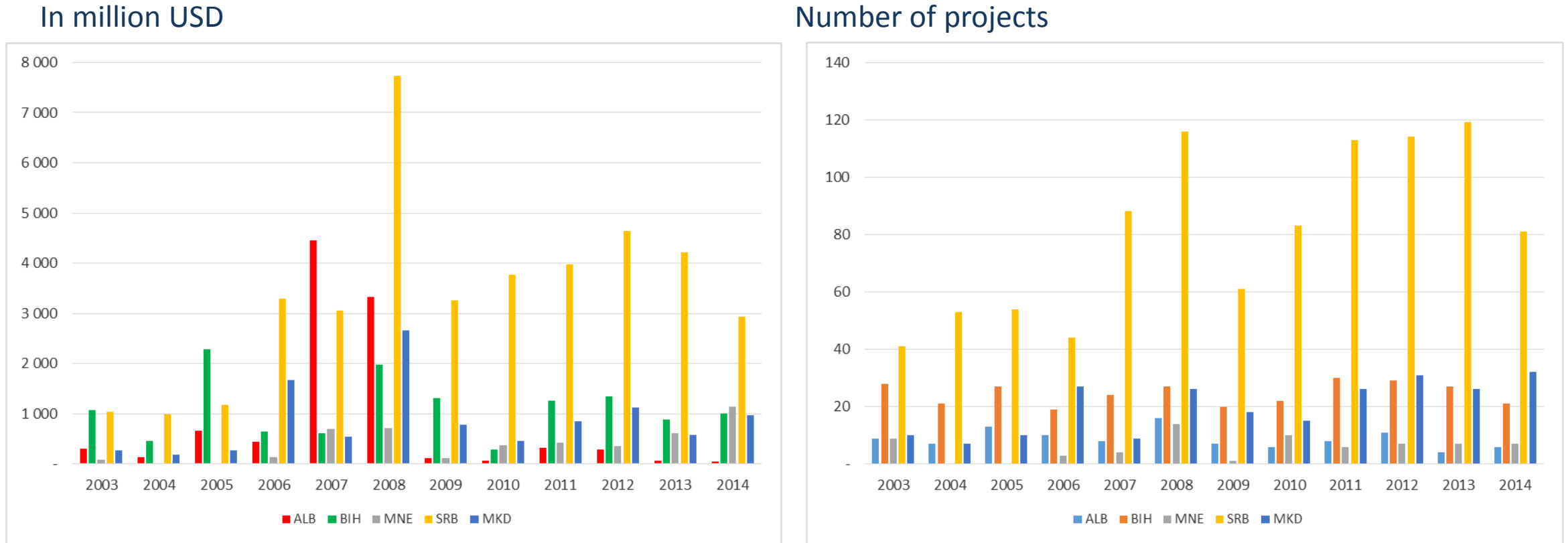
in ratio (%) to GDP



Source: World Bank Data

- Albania is ranked as second in the region on the amount of FDI flow (behind Serbia), and also on the rate of flow to GDP (behind Montenegro);
- FDI flow in Albania: 881 million EUR (2015) from 869 million EUR (2014).

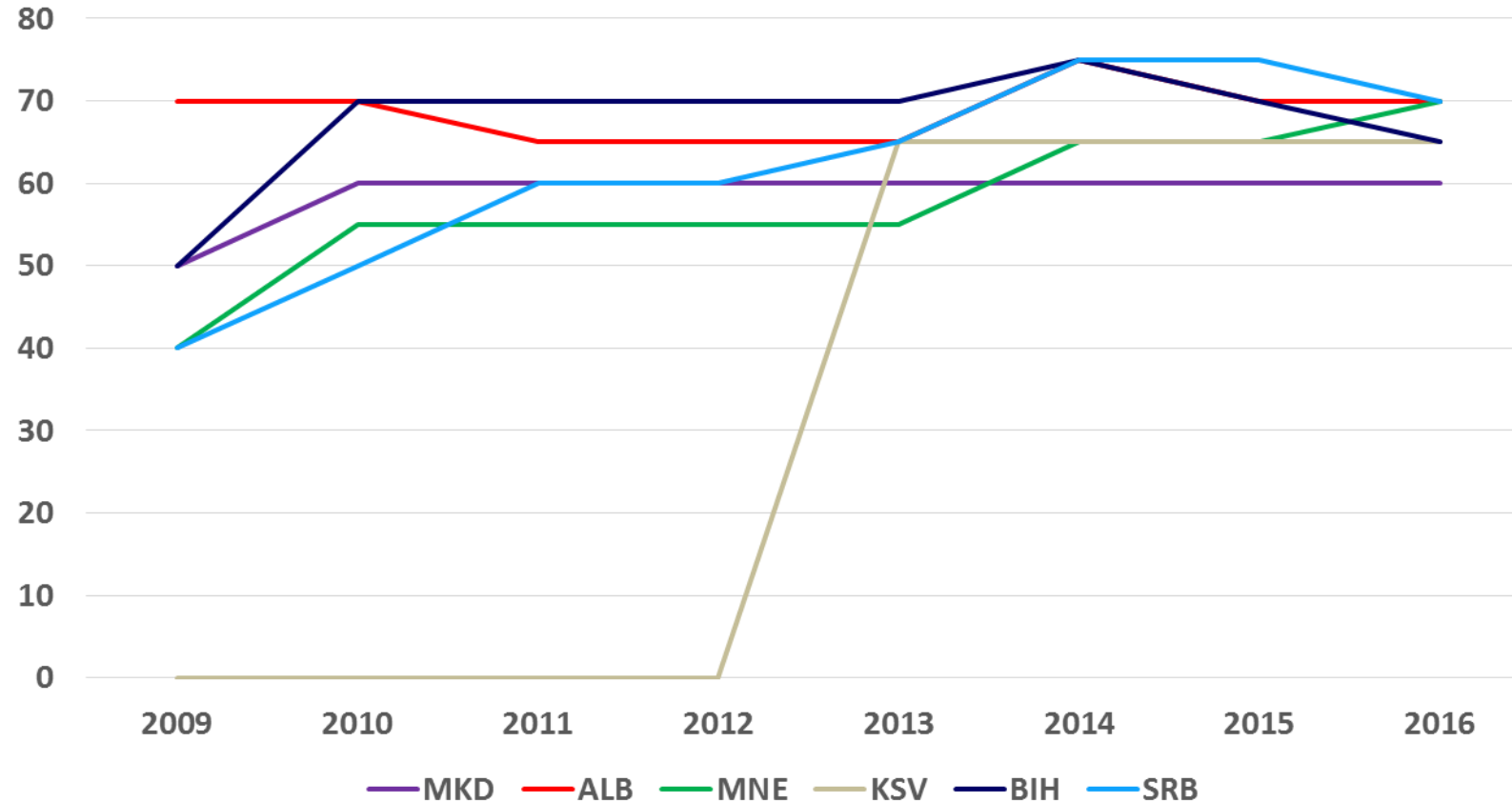
I. CONTEXT – ANNOUNCED GREENFIELD PROJECTS



Source: UNCTAD

Albania is the last in the region for 2011-2014 on the number and investment value of announced greenfield projects – for 2015 (until August) number of projects announced is 3, investment value of 118 million USD and 100 jobs created.

INVESTMENT FREEDOM



40 – 50% repressed,
50-60% mostly unfree,
60 – 70% moderately free,
70-80% mostly free,
80-100% free

Source: 2016 Index of Economic Freedom, Heritage Foundation

For 2016, Albania is estimated with a moderate freedom of investments index along to Serbia and Montenegro.

Data on FDI specifics in region:

Growing trend of sectors in region, according to the number of projects

- Projects on business services increased by 42%;
- Projects on production of electronics increased by 40%;
- Projects on production of machineries and equipment increased by 36%.

Sectors that create more jobs in the region:

- Automotive industry creates averagely 196.5 jobs per project.
- Plastics creates averagely 70.3 jobs per project.
- Electronics production creates averagely 58.7 jobs per project.

• *Source: Ernst & Young, European Investment Monitor*

In Albania

- Selection of priority sectors based not only on the dynamics of FDI demand but also on the creation of new jobs per project.
- Priority sectors are more incentivised.

I. CONTEXT: EXPORTS AND FDI PROFILE

- **Export structure** of Albanian manufactured goods per technology level for 2014 : **90%** of Albanian manufactured goods exported are classified as “labour and resource intensive” – Western Balkans average for this category of exports, known as *low – skills* is on 50%.
- **FDI flow in Albania** for 2014 dhe 2015 is focussed in Extractive Industries, Energy, Financial Intermediation, Transport, whereas in Serbia, Macedonia, Bosnia and Hercegovina- Automotive Industry and Montenegro- Tourism and Real Estate.


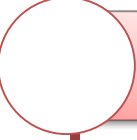


IT IS CONCLUDED:

- ❑ Albania is performing well on regional level relating to FDI value, but the **content, number of greenfield projects as well as the orientation to technology and innovation is low and subject of debate.**
- ❑ Albania's Economic Reform Programme 2016-2018 foresees the FDI flow at average level of **11.5% of GDP, during 2016-2018.**

INCENTIVES – The Concept

Investment incentives are defined as measurable economic advantages that governments provide for certain enterprises or groups of enterprises, to orient investments in certain sectors or regions, or to influence the nature of these investments.

According to WB, these benefits may be :

-  *Fiscal (tax relief)*
-  *Economic Zones*
-  *Non-fiscal incentive (grants, loans, regulatory incentives to increase competitiveness)*
-  *Sectorial (target)*

INCENTIVES – REGIONAL COMPARISON



Advantages

Albania, more competitive country for non-fiscal incentives– Law On Strategic Investments and labour costs

Almost all the countries offer incentives in the form of:

- Import of machineries, tax on profits or carry forward of losses for businesses
- Economic zones, national or local (*simpler application in Macedonia*)

As related to the sectors, all the countries focus on specific sectors (e.g Macedonia and Montenegro offers *incentives in Tourism sector*)

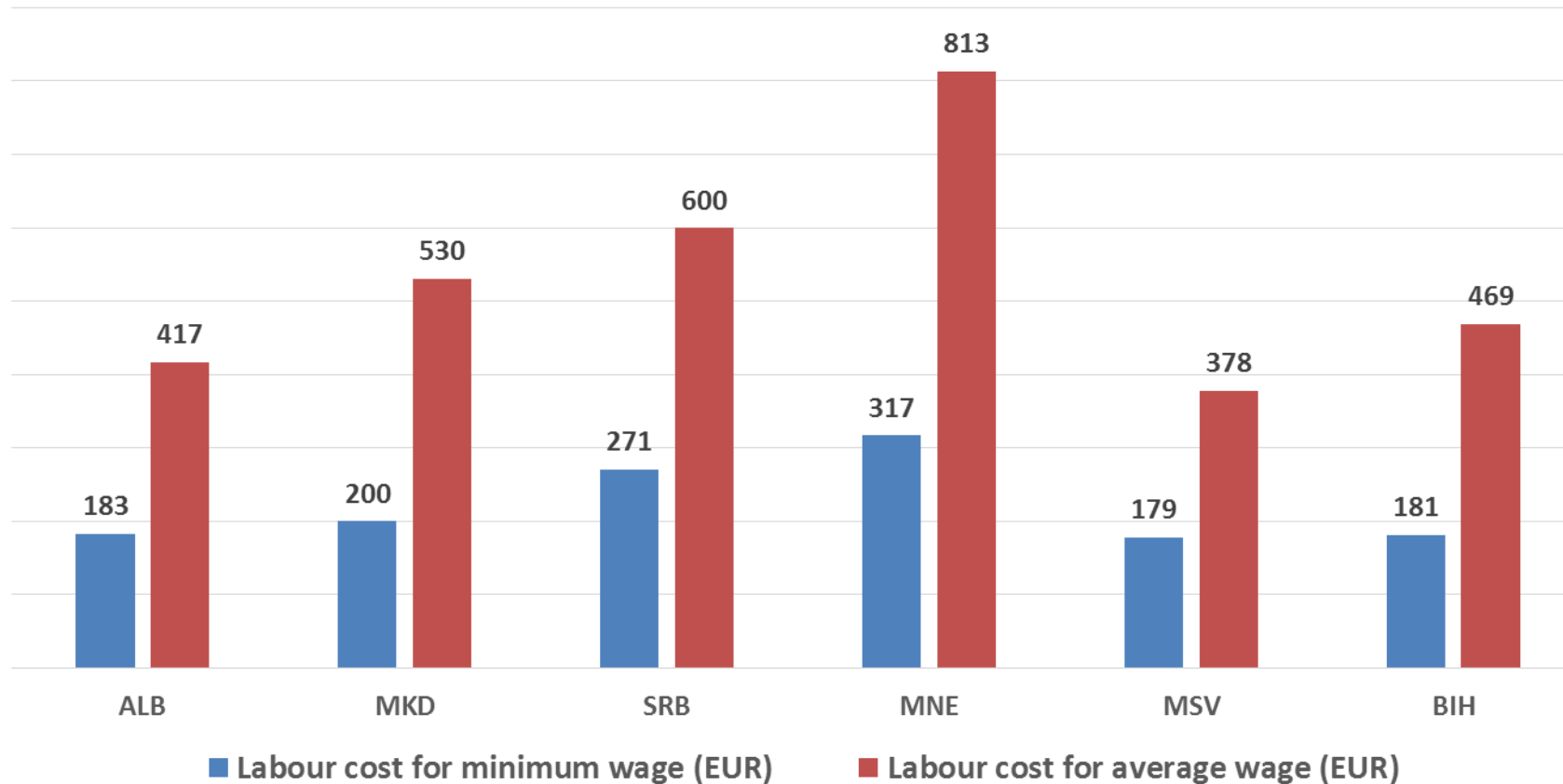
Albania has disadvantages related to:

- Fiscal burden (second behind Serbia)
- Property issues
- Institutional bureaucracy
- Law enforcement



Disadvantages

II. COMPARATIVE OVERVIEW ON LABOUR COST



Albania more advantageous related to the labour costs per average salary.

Source: Respective statistical offices. The Graphic is prepared by the Secretariat

Labour cost calculates the salary and employer social contribution.

III. BUSINESS KEY MESSAGES

- There is a political will, legislation with ambitious objectives for attracting the FDI's, *Law on Strategic Investments, TEDA, Tourism, Concessions & PPP, etj.*
- Fiscal legislation instability and institutional bureaucracy create uncertainty for incentives success and sustainable incentives, (e.g. changes to the tax on infrastructure – *construction sector*).
- Immediate need for preparation of products to be promoted for investments in priority and competitive sectors, as a real opportunity for application of incentives policies (*automotive industry, tourism, etc*).
- Political commitment for professional institutions and administration as main preconditions for incentives efficacy.

III. ON INCENTIVES

FINDING	RECOMMENDATIONS
<p>AIDA does not have an on-line inventory of incentives to be promoted to investors</p>	<ol style="list-style-type: none"> 1. AIDA (MEDTTE) in coordination with the line ministries to prepare an inventory of all the incentives provisioned by the Albanian legislation (agriculture, tourism, energy, manufacture, employment, etc). 2. Preparation of promotional products and feasibility studies starting initially with the pilot areas or pilot sectors (e.g automotive sector and tourism) 3. Increase the capacities under AIDA in order to accomplish the expectations deriving by the Law “On Strategic Investments” (Law into force until 31 December 2018)

III. ON INCENTIVES

FINDING	RECOMMENDATIONS
<p>AIDA to update the information on concrete promotional products for investments.</p>	<p>Ministries should periodically make available their resources and information as related to:</p> <ul style="list-style-type: none"> a) Access in the database of public assets (MEDTTE); b) Administrative steps (permits/licences/authorizations) required for investing in sectors; c) Sectorial data, in order to prepare informative papers for promoting sectors; d) Feasibility studies and projects on investments to be promoted to potential investors.

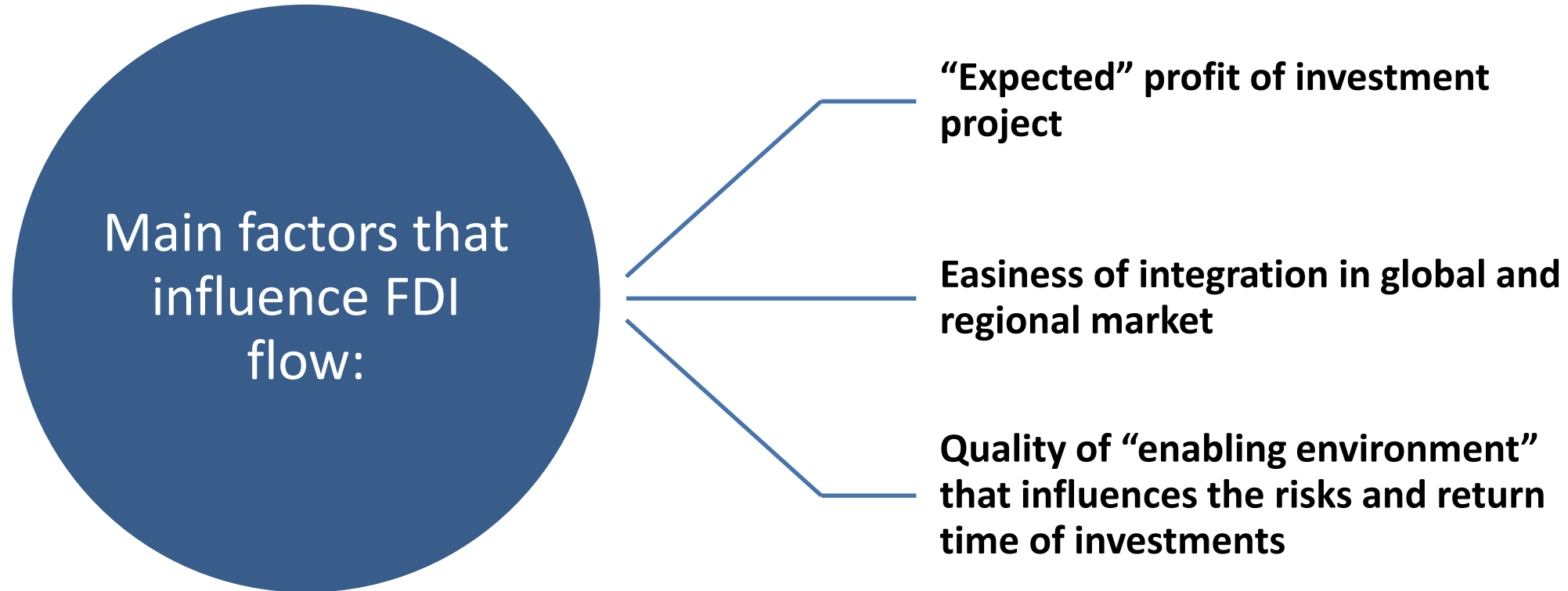
III. ON INCENTIVES

FINDING	RECOMMENDATIONS
<p>Real incentives for investors and businesses</p>	<ol style="list-style-type: none"> 1. To be extended the period for carry forward the tax loss beyond 3 (three) years. 2. To be considered by the Government, the coverage of costs of investors in <i>labour intensive</i> sectors (e.g. BPO sector) for health and social contributions paid in the first month (training period), for the new entry employees. 3. To be considered the removal of tax on reinvested part of profit, as an incentive for current domestic and foreign investors. 4. Municipalities to have the opportunity to prepare and develop their own economic zones based on the assets and sources they own.

III. ON INVESTMENT CLIMATE

FINDING	RECOMMENDATIONS
Incentives and unstable fiscal legislation	1. Stabilization of fiscal policy and procedures in close consultation with groups of interest, as a continuous requirement from the business.
Property issues as a problem in agriculture and tourism	2. Government support in identifying the pilot zones for investments in Agriculture and Tourism.
Low cost labour force, but low productivity	3. More focus on investments in vocational schools for potential sectors such as ICT, Tourism, 2020 TAP shall transport the gas, how and what Albania shall benefit?
Institutions to apply the law, not always cooperative and transparent	4. Institutional coordination in order to reduce the administrative burden, improve cooperation with business, transparency and prior consultation of laws impacting the business (e.g. coordination between tax and customs administration).

REGIONAL AND GLOBAL COMPETITION FOR FDI (OECD)



Considering that countries cannot influence on the size of markets and geography – **is essential to focus on improving the quality of “doing business” environment.**

THANK YOU!
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