

22.04.2016

## TECHNICAL NOTE

### INCENTIVE POLICIES FOR INVESTMENT PROMOTION: ALBANIA VS WESTERN BALKANS COUNTRIES

#### I. INTRODUCTION

The consequences of the global crisis were reflected in the Western Balkans after 2008 with considerable decline of economic growth, the recovery of which, according to studies is not yet being recovered to the rates before the crisis (currently estimated at only 2.1<sup>10</sup>% as a region mean for 2015). Meanwhile, weak economic growth has made convergence of living standards of the region with the EU more difficult. The income per capita in the Western Balkans, according to purchasing power parity is less than half of those of the EU countries, and a third of the south EU countries and almost a quarter of the EU richest countries (Sanfey, Milatovic, Kresic, 2016).

Western Balkan economies are still considered economies in transition<sup>2</sup> that have experienced a growing influx of foreign direct investment (FDI) for 2006 - 2014. The average rate of FDI influx to GDP was mainly significant for Montenegro with 14%, for Albania with 8.2% and for Serbia with 7.7%. Meanwhile, the region is viewed with much interest by foreign investors for the advantages it offers, such as: 1) EU membership perspective; 2) macroeconomic stability; 3) strategic location; 4) favorable taxes; 5) diverse economies; 6) cheaper labor costs, combined with 7) a relatively well-educated population<sup>3</sup>.

The issue that arises from policymakers and experts for a solution is what will be the sources of growth in the region? One of the alternatives remains attracting sustainable foreign investments in the region in response to comparative advantages of each country. Therefore, countries in the region, including Albania, have taken somewhat aggressive incentive policies to be as competitive as possible in attracting foreign investments. But are these incentives on themselves sufficient to attract productive investments in the economy?

The subject of analysis in this Paper is to identify incentive investment policies for Albania compared with the other countries in the region, to bring the investors' perspective on these policies, as well as their specific concerns on the to-do-business climate in the country. The analysis was developed in collaboration and with the contribution of the Albanian Investment Development Agency (AIDA).

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<sup>1</sup> World Bank Group, *South East Europe, Regular Economic Report*, No.9 Spring 2016

<sup>2</sup> Referred to World Bank data they vary in the value of income per capita, assessed for 2015, from 4029 USD for Bosnia and Herzegovina, to 4200 USD for Albania, 4900 USD for Macedonia, 5100 USD for Serbia, to 6400 USD for Montenegro.

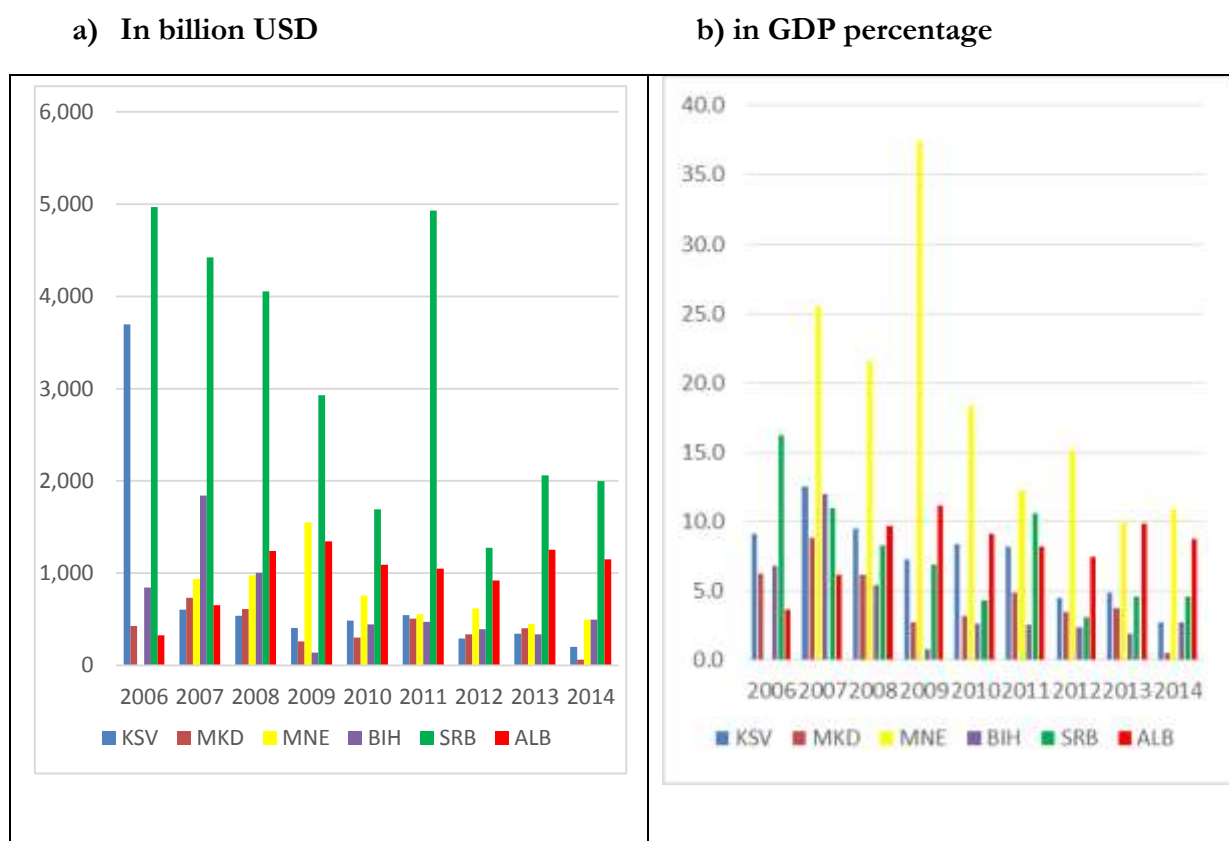
<sup>3</sup> Peter Sanfey, Jakov Milatović and Ana Kresić, January 2016, "How the Western Balkans can catch up" EBRD, *Working Paper* 186

Moreover, reports and the most recent studies by EBRD, OECD, GIZ, DIHA on the investment climate and competitiveness of the Western Balkans and Albania in particular have been considered. The statistics used for this analysis were consulted with the Bank of Albania, INSTAT, NBC<sup>4</sup>. Around 20 meetings were held with representatives of business associations and major companies that invest in Albania, as well as in the region.

## II. CONTEXT

Albania in the region appears among the countries with the highest inflow of foreign investment in the past five years, listed behind Serbia, while in terms of GDP listed behind Montenegro (8.7% of GDP for 2014), as shown in Figure 1.

**Figure 1: Foreign Investment Inflow in the Western Balkan Countries**



Source: World Bank Data

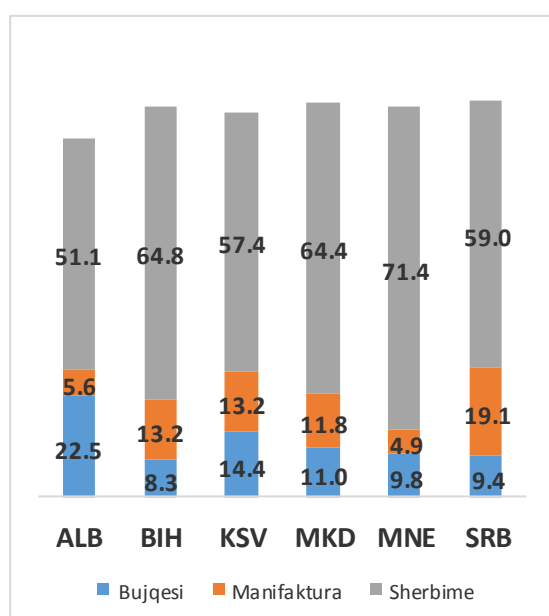
Based on data from the Bank of Albania (BoA), the FDI **stock** in Albania is concentrated in: transportation and communication at about 27% of the total, financial services at around 17%, and the extractive industry for about 15%. According to BoA, the FDI inflow for 2015 is calculated at EUR 881 mln, compared to EUR 869 mln EUR in 2014. This inflow during 2015 was concentrated in extractive industry 39%, energy 35% and financial intermediaries 10%. While for 2014, the inflow of FDI was concentrated in the extractive industry for about 58% of

<sup>4</sup> Matrix of Incentives in Annex 2 has been confirmed also with Deloitte Albania

the value, transport and telecommunications for about 13% and energy for about 9%. Meanwhile, in the region, the picture of sectorial distribution of FDIs appears different. Thus, the main FDI sectors in Serbia are the financial sector and the manufacturing industry, such as automotive, electric, food and textile industries; FDIs in recent years in Macedonia have been focused on the automotive industry; the industry, banks and telecommunications are the sectors with the highest inflow in Bosnia and Herzegovina; tourism is the dominant sector in Montenegro. A good part of the **FDI inflow** in the region is dedicated to the privatization of state assets, which are now seen as depleted in terms of attracting foreign investment.

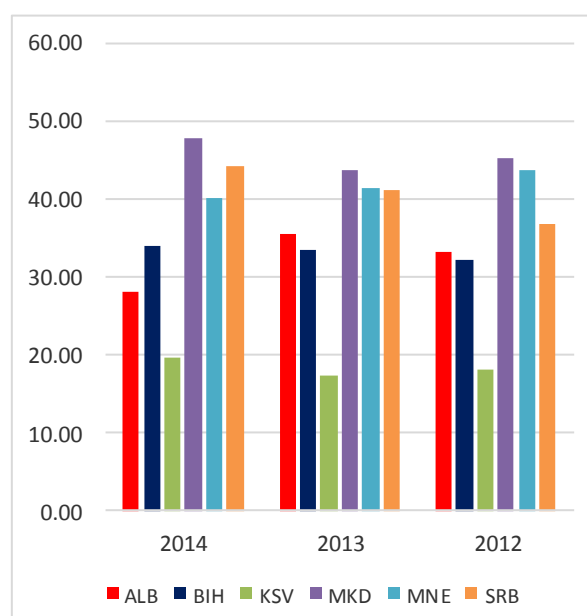
The economies of the region present different structures, with agriculture making a significant contribution in Albania in contrast to other countries (Figure 2). Regarding the performance of goods and services export in terms of GDP (Figure 3), the country lags again behind Serbia, Macedonia and Montenegro and is comparable with Bosnia and Herzegovina.

**Figure 2. Sector contribution in terms of GDP %, 2014**



Source: World Bank Data

**Figure 3. Goods and services export (GDP %)**



Source: World Bank Data

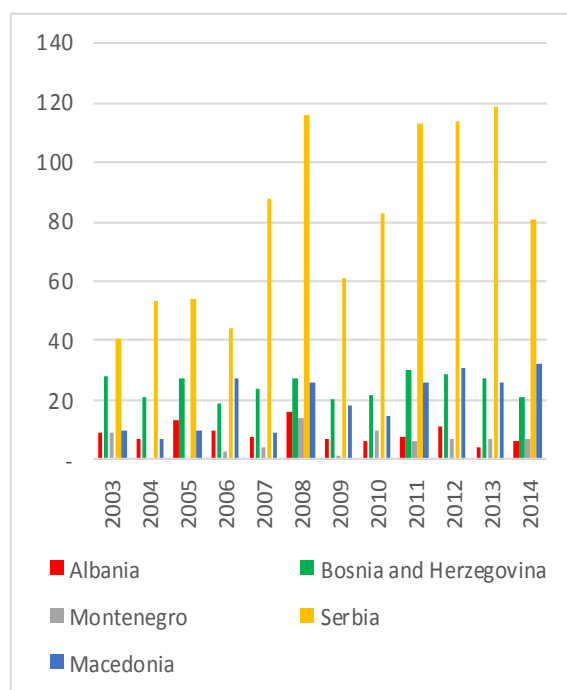
Regarding the structure of goods exported by level of technology (Sanfey, Milatovic, Kresic, 2016), Albania shows a remarkable difference with the other countries, *where 90% of the exported goods are mainly labour intensive and natural resources*. The Balkan average for this category of products is 50% of the exported goods. This poses *a challenge to the country's competitiveness* against the region in attracting industries with high technological level and increase the value of products for both, domestic and export market. Meanwhile, UNCTAD<sup>5</sup> data show a very low number of *Greenfield* projects in the country compared to the region, being *at the very end in the focus of projects of foreign investors in 2013 and 2014* (Figure 4).

The data from fDiMarkets until August 2015 shows that the number of projects announced for Albania for 2015 is 3 with an investment value worth USD 118 million and 100 jobs created.

<sup>5</sup> UNCTAD which refers to information from the Financial Times Ltd, fDi Markets ([www.fDimarkets.com](http://www.fDimarkets.com))

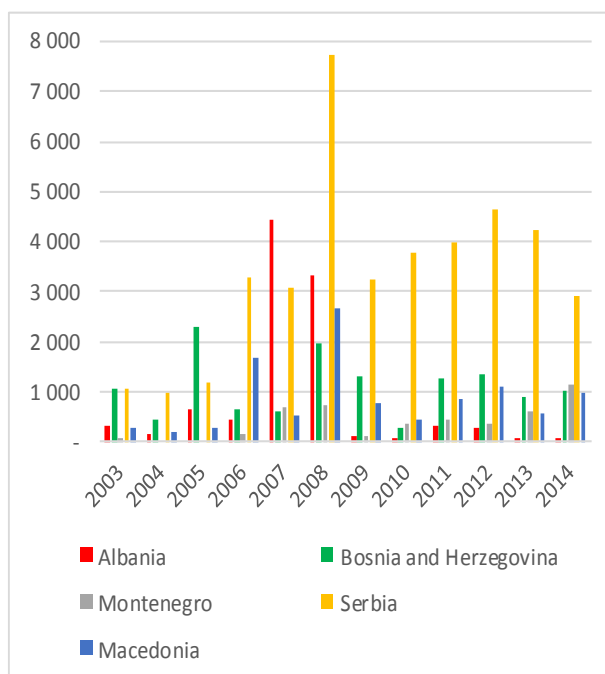
**Figure 4: Data on Greenfield:**

**a) Number of announced Greenfield projects**



Source: UNCTAD

**b) Value of announced greengfield projects (mln USD)**



Source: UNCTAD

Regional countries, including Albania, have a supportive legal framework for the treatment of foreign investments and investors. In the meantime, a number of incentivating policies have been undertaken to attract investors in specific sectors and areas. But how important was this legal framework and these measures to have an impact on investments in the country?

*Investment incentives are defined<sup>6</sup> 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. These benefits may be fiscal (like tax relief) or non-fiscal (such as grants, loans or regulatory incentives to support business development or to increase competitiveness).*

### III. COMPARATIVE ANALYSIS

The Albanian Government is continuously promoting priority sectors where it aims to encourage foreign investment, such as: agribusiness, energy, tourism, ICT, clothing and footwear

<sup>6</sup> Sebastian James, September 2013, "Tax and Non-Tax Incentives and Investments: Evidence and Policy Implications", Investment Climate Advisory Service of the World Bank

industry, etc. Investments in these sectors are also targeted by other countries in the region, considering that they are viewed as sectors of continued growth potential and as real opportunities for the opening of new jobs. In the meantime countries such as Serbia and Macedonia have managed to attract significant investments in the automotive industry. Moreover, through AIDA Albania is promoting investment opportunities in the transport sector (logistics) and Renewable Energy, as well, compared to Macedonia and Serbia (Annex 1). In order to evaluate advantages in terms of concrete incentives offered by the Western Balkan countries, a matrix of incentives was prepared for each country, as referred to in the official websites of their government agencies for the promotion of investments, as shown in Annex 2. Concretely, some aspects such as fiscal burden, fiscal relief, economic zones, other non-fiscal incentives, or incentives provided to certain sectors are taken into account and are summarized below.

### 3.1 Fiscal burden and labour cost

In terms of the total tax burden for businesses, Albania seems less attractive in comparison with the other countries of the region, given that it ranks only after Serbia for the highest rate of tax on profit, tax on the source and social contribution of employers. The data are also confirmed by the World Bank through the indicators of the total tax rate (% of commercial profits) as in the following table:

**Table 1. Total tax rate (% of commercial profits)**

Countries/Year	2009	2010	2011	2012	2013	2014	2015
ALB	43.6	40.3	38.3	38.5	31.5	31.4	36.5 <sup>7</sup>
BIH	25.9	22.2	23.6	23.6	22.2	23.3	23.3
KSV	28.3	16.5	15.8	15.6	15.4	15.4	15.2
MKD	13	8.1	7.5	7.4	7.4	8.3	12.9
MNE	29.9	29	24.4	21.6	21.6	21.6	21.6
SRB	31.2	33.3	33.3	33.3	33.2	38.6	39.7

Source: World Bank Data

On the other hand, Albania is comparable to Kosovo and B&H for minimum salary, but presents significant difference in average wages making the country attractive because of the low cost of relatively skilled workers. Based on meetings with businesses and on some surveys, there is a lack of skilled labour force and lack of qualified and certified workers on specific technological processes necessary for example in projects in the area of industry (oil, gas, TAP etc.), projects which have not been preceded with investments by the State in terms of education and professional training of specialists.

<sup>7</sup> Tax burden of 36,5 % is composed of 14,1% tax on profit, 18.8% income tax and 3,8% other taxes.

**Table 2: Monthly labour cost for the Employer in EUR**

	ALB <sup>8</sup>	MKD	SRB	MNE	KSV	BIH
Gross minimum salary	157	200	226	288	170	164
Gross average salary	357	530	500	739	360	424
Employer's social contribution	16.7%	0.0%	19.9%	10.0%	5.0%	10.5%
<b>Labour cost for minimum salary</b>	<b>183</b>	<b>200</b>	<b>271</b>	<b>317</b>	<b>179</b>	<b>181</b>
<b>Labour cost for average salary</b>	<b>417</b>	<b>530</b>	<b>600</b>	<b>813</b>	<b>378</b>	<b>469</b>

Source: Respective statistical offices. The table was processed by the Secretariat

### 3.2 Incentive comparison

- **Fiscal incentives**

Countries are comparable in the fiscal relief that they provide for the import of machinery and raw materials. Serbia and Bosnia also provide tax on profit relief associated with specific indicators of the amount of investment and number of employees. In relation to the *tax loss carryforward as part of fiscal incentives*, Albania offers the possibility of carrying losses forward for 3 years, although there are different patterns in the region. There are countries that do not offer loss carryforward, but there are also countries that offer from 5 to 7 years, such as Serbia and Kosovo. Loss carryforward becomes especially important for Greenfield investments, which present investment projects spread out in time and which need several years to generate profits. We can also say that Albania has disadvantages as compared to the countries of the region in terms of *profit reinvestment*, by taxing it at a rate of 15%. Whereas some other countries apply a lower rate or do not apply at all to the part of profit to be re-invested, like Macedonia or Serbia versus some criteria for capital investments and new jobs creation. This tax has been considered also by the businesses as an element which combined with the business climate restraints investment of profits in the country and encourages foreign investors to transfer them outside the country.

- **Economic Zones**

Economic zones in Albania, Macedonia and Serbia are organized at the national level. Kosovo and Bosnia enable the establishment and development of economic zones by local government bodies, as well. Currently Albania has no active zone, an aspect in which it differs from Serbia, with 12 operational zones and Macedonia with 6 of such zones. Fiscal incentives are competitive in all three countries. In accordance with the TEDA law, Albania provides non-fiscal incentives to promote employment by increasing expenses that are recognised as deductible for the training of staff and for R&D.

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<sup>8</sup> For Albania, average monthly salary is referred to public sector for 2014

- **Non-fiscal incentives**

Through the implementation of the law on strategic investments and through AIDA, Albania provides expedited assistance and procedure to strategic investors, in accordance with legal specifications. Serbia, differs from other countries because it provides a more complex grant scheme ranging from EUR 150,000 – 600,000 and a decrease of social contributions depending on the nature of investment, number of employees and zones where investment will be made. This scheme is applicable to both, domestic and foreign investors.

- **Sectoral incentives**

Although it is difficult to have a complete list of all the incentives in the sectoral laws, several forms of sectoral incentives, such as the *façon* package, funds to support SMEs, programs for start-up businesses, employment fund or farming subsidies were recognized during discussions with AIDA and other stakeholders. Information from meetings with businesses shows that very few of them have applied for any specific incentives and they think that funds are very limited or that there is a lack of confidence in the fair distribution of these benefits, such as the employment fund for *labour intensive* industries for example. In the meantime Macedonia and Montenegro offer fiscal incentives and subsidies intended for the tourism sector and this creates advantages in respect to investor attraction, considering that the tourist infrastructure of these countries is more intact.

## IV. FINDINGS

Among the strongest elements Albania has today in attracting foreign investments is, undisputably, the favourable geographical position, which presents a high potential for the development of investments in the country, particularly those with regional character. Ports are considered a significant advantage in relation to other countries in the region, as regards the possibility of connection to international markets.

Albania turns out to be one of the countries with the lowest social cost in the region. Albania is an economy with the lowest minimum salary in comparison with other countries of South-Eastern Europe. This somehow reflects the relatively low levels of labor productivity that still characterize the country, but on the other hand it is a driving factor for attracting foreign investment.

In the meantime, the trend of qualified labor force (compared to the working age population) is growing and represents an important source of economic development. Another indicator of the labor market progress in Albania is the improvement of the performance in new job openings.

A healthy economic growth resulting from a number of new reforms guided by the new macroeconomic model, is seen over the last year. Thanks to the implementation of macroeconomic reform and fiscal stability, Albania is no longer part of the map of macroeconomic risk. The data refer to an FDI progressive increase. The FDI inflow has experienced an increase of 15.7%, or a value of Euro 100 Million during January - September 2015, as compared with the same period of the previous year.



#### 4.1 Legislation with ambitious objectives for the attraction of foreign investments

Albania has adopted a liberal legislation in the field of investments to enable growth of foreign direct investment. The applicable legislation does not discriminate against foreign investors, while taxation policies do not distinguish between domestic and foreign investment by putting investors in equal terms. The Law on Strategic Investment, that enables foreign investments in the most important sectors to legally move more quickly and avoid the numerous unproductive and administrative obstacles arising before investors, was also adopted last year. It is therefore foreseen that AIDA play a more active role by serving as an agent of the strategic investor before all other public administration institutions.

The purpose of adopting the law is to encourage the inflow of important investments in the economy until December 31, 2018, while the law was completed with the respective bylaws at the end of 2015, which were approved<sup>9</sup>. The new Law on Economic Zones (TEDA) listed a number of fiscal administrative and legal incentives<sup>10</sup>. Moreover, the Government has incorporated the sectoral laws, such as Law 93/2015 “On Tourism”<sup>11</sup>, Law 125/2013 “On Concessions and Public Private Partnerships”, which aim at encouraging investment in these sectors. Taking into consideration the above, the specific legal framework for foreign investments can be regarded as stabilised. Annex 3 provides a detailed overview of key legislation on investments in the country.

It is concluded that the package of laws and bylaws is ambitious, with serious and strategic objectives,<sup>12</sup> in comparison also to countries in the region. However there is still no concrete case of a strategic investor declared as such or as a developer of the TEDA. There are currently two strategic investment projects that have applied to AIDA for the status of the strategic investor. Incentives provided for in the legislation have not currently resulted in an enormous and important boost of foreign investment. The Secretariat held meetings with investors operating in various fields of economy in Albania and the region who positively assessed the drafting of the legal framework, but who underlined their scepticism about the efficiency of this legal framework (minimum monetary threshold of proposed investments to consider the latter as strategic are ambitious, but difficult to meet). Therefore it will not be easy to attract strategic investments in the country. However, it is estimated that it is still early to determine the effectiveness of these legal initiatives.

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<sup>9</sup> 9 DCMs issued based on and for purposes of implementing Law No. 55/2015

<sup>10</sup> Incentives in Law No. 9789 dated 19.07.2007 (as amended) are mainly set forth in its Article 13. Some remarks may be done here on the not-so-simple way of determining these incentives, which cause difficulties with regards to their promotion in practice to foreign investors. Regardless of this, this is the only law which concretely provides a number of incentives that are unified with regards to a certain aspect.

<sup>11</sup> The DCM for purposes of implementing the law is expected to be issued.

<sup>12</sup> Law on Strategic Investments aims at categories of potential investors in high values, pursuant to sectors declared as strategic. The minimum monetary threshold of proposed investments aim at an immediate increase of the inflow of foreign investments in the country. For more details refer to Annex 3.



## 4.2 Incentives and unstable fiscal legislation.

Specifically, businesses raise issues and concerns related to the overall business climate with a focus on elements of corruption, lack of administrative capacity and doubt about frequent changes in the fiscal package. Findings from interviews conducted with some businesses, point at the lack of fiscal predictability as a disadvantage against countries in the region for investment in the country. It is generally accepted that the TEDA law has listed a number of significant fiscal facilities<sup>13</sup> for developers and users in TEDA. However, fiscal instability in the country and especially skepticism about how the administration in general and tax administration in particular implement legislation<sup>14</sup>, can hinder their application in practice<sup>15</sup> and undermine the positive purpose of the law. The recent public engagement of the Government pro legislative changes aimed at simplifying procedures for businesses and not changes in the fiscal package, are considered very encouraging.

### 4.2.1 **The operational period for carrying forward tax losses is short**

Referring to the Matrix on the Comparative Incentives (Appendix 2), it is evidenced a difference between Albania and other countries in the region<sup>16</sup> about the time-term at disposal to the businesses for carrying forward the fiscal losses. Albanian tax legislation provides that businesses can carry forward their fiscal losses for a time-term of 3 consecutive years. While in other countries (with the exception of Macedonia), businesses can carryforward tax losses for a period of 5 to 7 years. Businesses contacted by the Secretariat stressed that short period of 3 years for carrying forward fiscal losses in Albania, penalizes new investments such as "Greenfield Investments" or similar investments which need an initial term for investing of more than 3 years. The period needed for Greenfield investments to start generating profits is from 3-5 years or even more, depending on the type of the activity. In these cases the opportunity to benefit from the use of fiscal losses of previous years is essential for these businesses, so that the losses carried to be compensated with forecasted profits expected from these types of businesses.

## 4.3 There is lack of final products to be promoted for investment in strategic and competitive sectors

### 4.3.1 **There is no available systematic inventory of all sectorial incentives**

The Secretariat failed to identify an exhaustive list of all the incentives, specified according to sectors, published or made available to investors according to their specific interests. AIDA has

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<sup>13</sup> Article 13 of Law No. 9789 dated 19.07.2007 sets forth 10 incentives/fiscal relief.

<sup>14</sup> Regarding problems in the taxation area, including the legal and administration framework, the Secretariat has focused earlier in details in the Working Papers: "Proposal for the Improvement of the Tax Inspection Process in Albania"- September 2015, "Informality: A Common Government-Business Challenge"-December 2015 and "On the improvement of Dispute Resolution Mechanisms between the Business and Public Administration"- February 2016. <https://www.investment.com.al/sq/kalendari-i-mbledhjeve-2015>

<sup>15</sup> Paragraph 1 point b) of Article 13 "Fiscal Facilities" of Law No.9789, sets forth as fiscal facilities: "developers and users are exempted from the payment of the 50 percent tax on-profit rate for the first 5 years from the commencement of their activity in the area". Investors do not consider this a full guarantee in the conditions of the potential change (increase) of the corporate tax on-profit rate, as a result of changes in the fiscal package.

<sup>16</sup> The same time-term for carry on of tax losses is provisioned also in Macedonia. Meanwhile all the other countries foresees a longer time-term for carry on of fiscal losses.

not yet finalized the full list despite its ongoing efforts to get this information by the line Ministries.

#### **4.3.2 No feasibility studies at sectorial levels to be offered in advance to the foreign investors**

Investors that do not enter the country with concrete investment plans, should be provided with feasibility studies and concrete projects on sectors. Referring to the meetings of the Secretariat with the chambers of commerce, was highlighted the interest in investing in tourism, but it is required that government to provide a study, a promotional package at least in a pilot area to be addressed to investors, or a register of possible areas for development in tourism (in implementation of the new law on tourism). AIDA should have a comprehensive list of state assets free from the property problems to be provided to the investors, as well as list of concrete state projects to be funded by investors. This information will help AIDA to promote at its best the investment opportunities offered in the country.

#### **4.3.3 Advantage that brings the country's geographical position in relation to other countries in the region it is not used properly**

Albania's geographical position is considered as a significant advantage in relation to other countries in the region, regarding the possibility of connection to international markets. Despite lower costs of service processing capabilities of port infrastructure in the country still remain limited due to the low depth and thus the inability to provide processing for high-tonnage ships. On the other hand, businesses operating in the field of transport underline the need for sustained investment in port infrastructure and full compliance with concessionary contracts. Also there are identified issues regarding the processing time and the bureaucratic procedural aspects which hinder the free movement of goods. Intelligence systems for risk control to operate the customs authorities should not create unreasonable obstacles and delays in the transport of goods. As noted earlier by the Secretariat, goods scanning commissions of 22 Eur/ customs declaration, brought an increase of the costs for businesses, which have considered other transportation routes, especially for region businesses which imports their goods transiting through Albania.

#### **4.4 Institutions and professional administration as a precondition for designing and implementation in practice of the incentives**

In the meetings of the Secretariat with singular businesses and business associations it was underlined that *"incentives are important indicators for attracting foreign investment, but are not the determining factor on the basis of which investors decide to invest in the country"*. Businesses expresses concerns related to the following issues:

##### **4.4.1 Institutions and administration do not always demonstrate positive approach to business**

Despite the improvements made, businesses express continuous complaints about excessive administrative bureaucracy and slow performance and far to the rhythm business need. There are many cases of delays in responses to business, or business questions which remain with no

answer at all by the administration. Lack of transparency and discussable discretionary interpretations of laws and regulations by the competent authorities is perceived by businesses as a strong indication of corruption. One of the main issues raised by businesses interviewed by the Secretariat, are the relations with the administration, which should be more sensitive to the business needs, more accountable and ready for cooperation.

#### 4.4.2 Lack of coordination between institutions, administrative burden for businesses

Repeatedly, the private sector stresses the lack of exchange of information between tax and customs administration which is translated to cost for businesses. Businesses estimate that the administrative burden should be reduced by reducing the number of statements, confirmations requested to the businesses. The information exchanged between the tax and customs administration should be done electronically and should not be left to business the burden to prove the administration acts. VAT Instruction<sup>17</sup> foresees some extensive bureaucracies with regard to international transport which is fiscally treated as service with 0 VAT. More specifically, the operators in the area of international transport services, in order to prove the transport services with 0 VAT, have to possess a large number of attestations, authorisations and registrations, as justifying documents for tax purposes, as a prerequisite of the Instruction. Meanwhile, the lack of even one of these documents, issuance of which does not depend from the transport operator, but also from the foreign taxpayer (e.g. some of the abovementioned documents might not be issued at all as requested by domestic Instruction) determines the acknowledgment of the service as subject to 20% VAT. This creates administrative burden to the business considering the large volume of the operations.

#### 4.4.3 The mutual lack of transparency and cooperation administration – business

In numerous meetings of Secretariat with the private sector it is perceived a continued a climate of distrust towards public administration and unwillingness to consultation and cooperation. Businesses require more flexibility and good-will by the administration, transparency in its actions and preferably prior consultation in drafting bylaws that directly impact them.

## V. RECOMMENDATIONS

### Recommendations – On the Incentives

1. AIDA with the support of the Ministry of Economic Development, Trade, Tourism and Entrepreneurship (MEDTTE) and in coordination with the line ministries **to prepare an inventory of all the incentives** provided by the Albanian legislation on investments and sectors to be published on AIDA's website.
2. To be considered by the Ministry of Finance in discussion with groups of interest the option to not apply tax on the part of profits to be re-invested, as a measure requested by businesses to incentivise domestic and foreign investors. Provision of fiscal incentives for

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<sup>17</sup> VAT Instruction No. 6 dated 20.01.2015

re-investments is a well-known international practice. If a business or investor, which results in profits for the fiscal year and the profit is immediately taxed to 15% rate, would be more interested to re-invest and expand the activity and operations if the re-invested profit would not be subject of taxation. In this context, it is suggested a deep discussion among public administration and business on the impacts, application and capacities of both parties to monitor the accurate destination of re-investments. To be considered by the Ministry of Finance in discussion with focus groups ***the extension of the period for tax loss carryforward beyond 3 (three) years***. This would be beneficial not only to the initial investments with a high capital cost, but it would contribute as well to enhance Albania's competition in attracting FDIs, considering that the neighbouring countries have already put available to the companies for this purpose a minimal period of 5 years.

3. For *labour-intensive* sector such as BOP<sup>18</sup> there is a high employee turnover as well as high costs for their initial training, to be considered by the Ministry of Social Welfare and Youth, legal interventions to enable entrepreneurs in this sector, ***not to pay contributions for social and health insurance for the first month (training period)*** for the returned employees. This cost to be covered by the State as a direct incentive for this sector which is estimated to create a turnover of around 500 Million Euro<sup>19</sup> (about 5% of GDP) and about 40,000 job positions, mainly for newly graduate and at the same time a perspective for further growth. Support to be provided by AIDA for the promotion of BOP sector in international markets. On the other side, the State can put at disposal to these companies, locations and training of the staff.
4. Ministry of Social Welfare and Youth along with the National Employment Service to make available to AIDA ***clear supporting schemes*** which the state provides to the investors (according to the investment sectors). Current schemes function on application basis. AIDA should be well-informed on the procedures.
5. ***Preparation of promotional products and feasibility studies*** from AIDA with the support of MEDTTE starting initially with the pilot areas or pilot sectors. A sector of particular interest which demands a lot of engagement from many institutions for the preparation of a comprehensive promotional product is automotive industry. The interest of this industry is linked with many reasons such as: the recent trend of investment projects in the region, advantages offered by Albania in low labour cost, closeness to European markets, exemption from export duties, etc. For this reason it is being requested also finalisation as soon as possible of the full database and files of the state properties, as well as of the feasibility studies to be made available to AIDA.
6. ***Improvement of the information provided by AIDA*** through its website to the investors. Preferably, provision of sectorial data and a *database* with the list of

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<sup>18</sup> Business Outsourcing Process

<sup>19</sup> Based on Albania Outsourcing Association (AOA)

places/premises for concrete investments. Increase the sources made available to AIDA in function also to the fulfilment of obligations deriving from the Law “On Strategic Investments”.

7. To make concrete the ***contribution of Ministries to periodically make available to AIDA the sources***. Specifically:
  - In the preparation of the inventory for all the incentives provisioned by the Albanian legislation on investment and sectors to be made public on its website.
  - MEDTTE should make available the integrated database of public assets under its administration, for AIDA to promote the investment opportunities.
  - Line ministries should make available sectorial data, for AIDA to develop informative and promotional sectorial leaflets.
  - Line ministries should make available information on concrete investment projects specifying which ministry is the initiator or in charge, to promote these projects to investors which come without concrete investment plans.
  - Each ministry (or competent subordinate institution) should make available to AIDA detailed information on all the administrative steps and procedures (permissions/licences/authorisations) which are necessary to implement an investment on the sector under competence. This information is necessary to create a clear flowchart for every sector (deadlines, procedures, permissions). This “*flow chart*” assists not in the implementation of Law on Strategic Investments but it makes AIDA a “unique window” also for non-strategic investments because having a clear map of procedures and documentation for each sector is of help to every investment. Furthermore, the analysis of this flowchart in a second moment, enables AIDA along with other competent institutions to identify problems and suggest recommendations.
8. ***Legal provisions to enable effective opportunities to new Municipalities*** also in the framework of the Administrative – Territorial Reform, to design and develop their own economic zones based on the assets and sources they own. It is recommended that the local authorities should abide to the obligation for periodic reporting (once in 6 months) on the list of assets/zones under their administration to MEDTTE. This process helps in the update of the register in national level.

### **Recommendations – On the Investment Climate**

9. ***A fundamental review of the tax legislation*** for the purpose of reducing red tape and upholding it is a continuous demand by the business, but also an endeavour which requires a political compromise. Consultation and inclusion of business thoughts since the first drafting stages of the fiscal package is a necessity. As previously mentioned by the Secretariat, Law No. 146/2014 “On Public Notification and Consultation”, should be strictly applied by the administration. Changing the administration spirit especially of

the customs and tax one in the relationship with the business will enhance the trust to the institutions.

10. **Ownership** remains a problem for those who want to invest and require big spacious areas, especially in agriculture and tourism. It is recommended by the business that due to the high interest shown by powerful foreign investors, the establishment of pilot zones for investment in tourism with economic and urbanistic development plans.
11. The **labour force** although it is of low cost, the productivity is very low compared to the region countries. It should be given priority to the workforce development especially in sectors with a potential such as tourism, hydrocarbon and natural resources. Creating a skilled and qualified workforce for specific technological processes required from the State education and professional preparation of proper specialists. This is a necessary step to anticipate possible strategic projects.

# ANNEX 1

## Priority sectors in Investment Promotion Agencies

State	Bosni a	Bulgari a	Croati a	Albani a	Kosov o	FYRO M	Montenegr o	Serbia
Agriculture / Food	Y	Y	Y	Y	Y	Y	Y	Y
Automotive	Y		Y		Y	Y		Y
Business services		Y			Y			Y
Chemicals		Y						
Construction	Y				Y			
Electronics		Y				Y		Y
Energy	Y			Y	Y		Y	
Financial services	Y						Y	
Healthcare		Y						
ICT	Y	Y	Y	Y	Y	Y		Y
Logistics		Y	Y	Y				
Machine building		Y						Y
Metal- processing	Y		Y					Y
Mining	Y			Y	Y			
Pharmaceuti			Y			Y		
Processing of decorative					Y			
Textiles	Y		Y		Y			Y
Tourism	Y	Y	Y	Y	Y		Y	
Food- processing					Y			Y