

Investment Council

- a result - oriented platform for sustainable dialogue

"The Investment Council is the right initiative of the Government of Albania and EBRD, to institutionalise the communication and collaboration with investors within a concrete platform. After 3 years, we may conclude that the Council has functioned as a supporting instrument not only for the investors but also for the government."

Minister Arben Ahmetaj, Chair of Investment Council, 6 December 2017

Investment Council (IC), a structure established to facilitate the publik - private dialogue, has now entered its third year of activity. For 2017, the main tackled issues are related to matching the quality of working force with the market needs, the challenges of customs procedures as well as informality, tax inspection and VAT refund.

During 2017, the Secretariat has consulted directly around 68 businesses & associations, 31 public institutions and surveyed 196 businesses. The work of the Secretariat has been expanded with a new network of stakeholders such as collaboration with academic and local institutions, etc.

The IC held during 2017, 3 plenary meetings and 3 focus group meetings as per following agenda:

- 1) **Qualified Labour Force, Opportunities for new investments – Sector of Business Process Outsourcing (BPO), 13 February 2017**
- 2) **On the Facilitation of Customs Procedures, 9 May 2017**
- 3) **Survey on Tax Administration and Informality, 6 December 2017**

In March 2017, the Secretariat of the Investment Council attended the Conference of EBRD-supported Investment Councils: Key Achievements for 2016 and Challenges for 2017. In her speech, the IC Chair, Minister Milva Ekonomi said that *"The Investment Council assists the government in the dialogue with the business, listens, analyses and recommends solutions to their problems. But on the other side also the government supports the work of the Investment Council by considering and addressing business concerns."*

In addition, the Secretariat has held a technical group meeting in October 2017 "On the Functioning of the e-Permits Platform and Its Impact in the Improvement of the Investment Climate" in the framework of the Deregulation Reform, and initiated a preliminary work in regards to the new Draft Unified Law on Investments and Business Concerns on Inspections.

The IC paid a particular attention to the monitoring and implementation status of the IC recommendations approved during 2015 on tax inspection and informality. Out of 37 facilitating measures undertaken in the framework of the tax procedures, 12 of them reflect IC recommendations.

During 2017, the IC approved in total 30 recommendations, which address the need for legal amendments to customs procedures, raising of transparency and in particular the continuous consultation between the public administration and the business for legal acts.



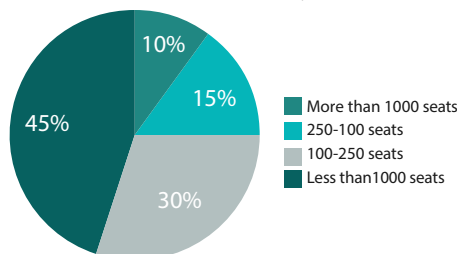
Picture: IC Chair (2016-2017), Ms Milva Ekonomi, in the Conference of EBRD-supported Investment Councils "Sharing Lessons Learned and Disseminating Best Practice," London, 2 March 2017.

Is there a potential for new investments? What should be the approach as relates to the market needs for “Quality Labour Force”

To understand the skills concerns in this sector, the Secretariat collaborated with the Project RISI Albania (supported by the Swiss Government), which was conducting a study (‘value proposition’ and ‘business case’) on the potentials and the attraction of new investors in the BPO sector for Albanian economy. From the analysis, it came out that the sector carries investment potentials which could turn into success stories therefore it should be invested in the QUALITY which creates “added value” in certain segments or professionals such as IT DVP. The low labour cost should not be the decision-making factor.

“Albania can be a partner nearshoring destination for more matured locations. It can focus on exporting BPO voice and non-voice services to other countries such as Germany, France and UK,”
AVASANT-RISI ALBANIA.

Albania: Profile of BPO Industry



Albanian BPO firms by employee strength

17 CEOs of various BPO companies, with around 10,000 staff members, were interviewed by the Secretariat during the preparation phase for the IC Meeting. From the sector analysis, it came out that the market lacks quality skills. Therefore to be considered ASAP the integration of new know-how in certain levels of education, with **focus on: analytic skills (problem-solving), foreign languages, skills in Microsoft, Communication Skills**. The Labour Force of the sector is young, educated with good knowledge of foreign languages such as Italian and English. We may say that presently there is a good “pool” of specialists trained by current BPO companies which might take more profiled trainings, such as trainers for the creation of “talent groups” in the sector. But the market does not resolve the “quality” issue, it only highlights it and “suffers” from it. The education and training systems lack elements of “serious” engagement of the business not only in curricula but also on the monitoring of students’ internships, career offices or even in the early engagement of students in “project-based learning”.

Continues on page 3



Picture: Investment Council Meeting IX, 13 February 2017.

12 Facilitating Measures in Tax Procedures Recommended by IC

1. IC Recommendation

Increase transparency for the main indicators of risk used by the electronic system to identify business of risk which are subject of inspection.

Undertaken measure:

Main risk indicators are included in the Annual Administrative Report for Compliance Risk Management 2016- pg. 12-14, published by GTD.

2. IC Recommendation

Prior notification of taxpayers for the execution of tax inspection. The legislation should provide a minimum of 10 calendar days to notify in advance the taxpayer for thorough tax inspections (except for cases of inspections onsite, which may be carried out without prior notification or notice).

Undertaken measure:

The recommendation has been addressed entirely with a higher standard from 10 days as previously recommended to 30 days of notice of prior notification. The recommendation has been reflected in Article 81 of Law No. 9920 dated 19.05.2008 and Instruction No. 24 of MF.

3. IC Recommendation

The tax inspection notice sent to taxpayers should be more detailed.

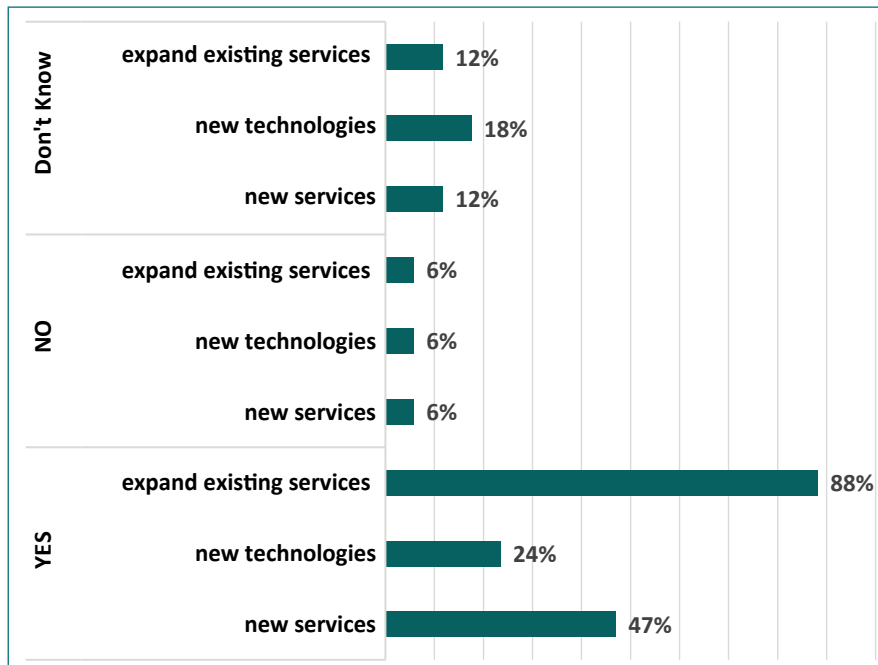
Undertaken measure:

Partially addressed by the Law – in the notice about the inspection it will be foreseen also the completion date and time of the inspection. Law No. 9920 dated 19.05.2008 and Instruction No. 24 of MF.

Continues on page 3

Informality is a challenge which hinders the image and competitiveness of the sector. There is no systematic analysis of the current and future needs of the business in the sector regarding "skills" while there is a need for a vision and a platform for sustainable collaboration amongst the business, government and academic institutions.

GRAPH 1: "DO YOU PLAN TO INTRODUCE IN THE NEXT 12 MONTHS ANY OF THE FOLLOWINGS?"

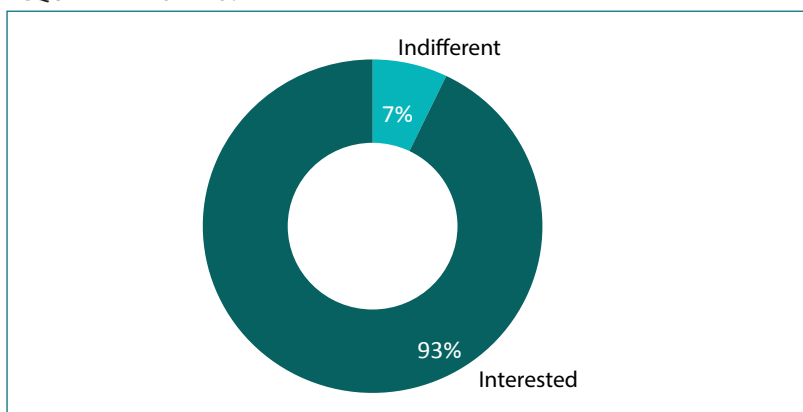


Source: Secretariat of Investment Council, Survey "Readiness of the Labour Market vis-à-vis the Potential for Investments in the BPO Sector, January 2017"

Some of the main IC recommendations:

- Strengthening of the BPO association and increasing its role in the fight against informality;
- Increase the partnership among universities, private sector and Labour Offices through the strengthening of the Career Offices with internships, practices and students engagement; early career counselling at schools;
- Support to the business initiatives for the creation of continuous training centres in technology and innovation (Digital Academy);
- Incentives for trainings and certain professions, etc.

GRAPH 2: "HOW DO YOU ASSESS THE READINESS OF YOUR EMPLOYEES TO ACQUIRE NEW SKILLS?"



Source: Secretariat of Investment Council, Survey "Readiness of the Labour Market vis-à-vis the Potential for Investments in the BPO Sector, January 2017"

Continues from page 2

4. IC Recommendation

The right of taxpayers to appeal effectively – guarantee the independence of Tax Appeal Directorate (TAD) – structural changes in the tax appealing

Undertaken measure:

Previously part of the GTD, Tax Appeal Directorate was restructured as an institution with independent decision-making authority, part of MF - amendments to Law No.9920 dated 19.05.2008; DCM No. 11 dated 11.01.2017 and Instruction No. 24 of MF.

5. IC Recommendation

Establishment of a collegial body instead of TAD via a special law, in the form of a "quasi court," also in the framework of the plans for the unification of the tax administration with customs administration to review administrative appeals (starting with a certain amount).

Undertaken measure:

Recommendation addressed with amendments to the structure of TAD as a body for administrative reviewing of appeals in 2 levels. Amendments to Law No.9920 dated 19.05.2008; DCM No. 11.dated 11.01.2017 and Instruction No. 24 of MF.

"The activity of call centres offers big employment opportunities not only for those who know a foreign language but also for those with technical skills in finance, marketing and IT. There is a high potential in the BPO sector, however, there are problems regarding legal vacuums in the Labour Code, and high training costs considering the low-profit margin in the sector."

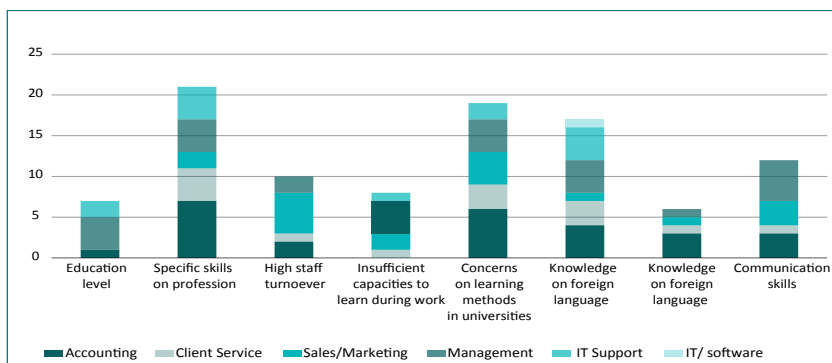
Mr. Gentian Drenova, Albania Outsourcing Association (AOA)

"It is not necessary for the state to convince investors to come, but rather to focus on maintaining the status of the cost-effective destination by being tax efficient, continue to streamline the regulations and more specifically to protect consumers from fraud."

Mr. Mark Crawford, AMCHAM



GRAPH 3. "WHAT ARE THE MAIN PROBLEMS ENCOUNTERED IN REGARDS TO LABOUR SKILLS IN THE FOLLOWING POSITIONS?"



Source: Secretariat of Investment Council, Survey "Readiness of the Labour Market vis-à-vis the Potential for Investments in the BPO Sector, January 2017"

Regarding a strategy for the sector, it is recommended focusing on a small number of services such as digitalisation, translation and transactional services in the short and medium term with a perspective in the future to focus on knowledge-intensive services which offer high value proposition.

"The market of call centres is increasing. The school has some impact, but it currently does not provide elements of practical communication, therefore some difficulties are encountered in the outsourcing services because, during the training, businesses have to include these missing elements."

Ms. Ines Muçostepa, Union of Chambers of Commerce and Industry



Continues from page 3

6. IC Recommendation

Repeal of point 3, Article 109, of Law No.9920. Decisions of the Tax Appeal Directorate (TAD), in the quality of higher administrative unit to take decisions about cases of appeal, should be automatic binding to the Regional Tax Directorates (RTDs).

Undertaken measure:

Recommendation completed with the amendments to Law No.9920 dated 19.05.2008, Instruction No. 24 of MF and DCM No. 11 dated 11.01.2017.

7. IC Recommendation

Tax Appeal Decisions should not be subject of further appeal to the Administrative Court by the RTDs.

Undertaken measure:

TAD decisions are decisive for RTDs and cannot be further appealed. Amendments to Law No.9920 dated 19.05.2008, Instruction No. 24 of MF and DCM No. 11 dated 11.01.2017.

8. IC Recommendation

Strengthening of the role of Taxpayers' Advocate

Undertaken measure:

Changes to the positioning of TA in relation to Tax Administration - DCM, No.10, dated 11.01.2017.

9. IC Recommendation

GTD and TAD should consider to increase the capacities for legal analyses and unification of their practices and to reflect final decisions of the courts and the unification of their practices, as well as reflect final decisions of the courts for similar cases.

Undertaken measure:

GTD technical decisions will serve as a precedent for similar cases, meanwhile the GTD to publish information newsletter with courts changes. Amendments to Law No. 9920 dated 19.05.2008 - Article 10 and Article 28 point 3.

Continues on page 5

On the Facilitation of Customs Procedures

On 9 May 2017, the IC discussed the facilitation of customs procedures, with a focus on increasing the competitiveness and promotion of Albanian exports. The findings and recommendations, consulted in advance with groups of businesses and experts, were focused on:



Picture: Focus Group Meeting, 20 April 2017

- **Preparation on time of secondary legislation** on customs (referring to the entry into force of the New Customs Code on 1 June 2017) and consultation with business as a good practice for fostering partnership;
- **Reference prices, justification,** clear recording and traceability in the internal system of the General Directorate of Customs on how the customs value is being calculated (reviewing of acts/internal instructions), updating of the reference price list;
- **Compulsory Tariff Information,** need for raising the awareness of the business to request from the customs administration information on the Compulsory Tariff Information and inform them on the conclusions of the Customs Lab on tariff classification;
- **Institutionalise the collaboration and consultation** with the business - online updated information and the business to obtain online various authorisations at customs offices and institutions etc.



Picture: Investment Council Meeting X, 9 May 2017

Continues from page 4

10. IC Recommendation

GTD should prepare and publish the Annual Commentary of treated cases in its official website.

Undertaken measure:

The above recommendation is foreseen as a proper functional duty for GTD. Amendments to Law No. 9920 dated 19.05.2008 Article 10 point 3 and Article 28 point 1.

11. IC Recommendation

Amendment to the legal provisions related to the time deadlines for tax on profit and simplified tax on profit.

Undertaken measure:

The deadlines for paying simplified income tax were corrected in accordance with the provisions of Law No. 9632 dated 30.10.2006. Amendments to Law No.9920 dated 19.05.2008 - Article 114/1.

12. IC Recommendation

Approval of the draft law on Insolvency – Initiate the process of insolvency at court by the tax administration only in compliance with the law for insolvency and not by Law No.9920.

Undertaken measure:

Respective amendments were made to Law No.9920 dated 19.05.2008 Article 104.

"On the official website of customs, the business shall find information related to tariff, evaluations, classifications - project expected to become functional around second half of 2017." Ms. Belinda Ikonimi, General Customs Directorate

"The recent initiative to establish a common transit system with Kosovo and locate an office of the Kosovo customs agency in Durres port are important steps forward. EBRD is supporting in establishing a helpdesk for taxpayers to provide information to MSMEs, and this project could be replicated with a similar structure to provide advice and information related to custom procedures for companies involved in foreign trade." Mr. Matteo Colangeli, EBRD

CONSULTATION WITH THE BUSINESS, what are the novelties and advantages provided by the new Customs Code?

The Secretariat of Investment Council in collaboration with the General Customs Directorate, Chamber of Commerce and Industry of Tirana and the Association of Producers organised on 31 May 2018 a consultative meeting with the business on the novelties and advantages of the New Customs Code.

Representatives of GCD in this consultation meeting with the business delivered some of the most important aspects of the New Code which affect the relations between the business and the customs administration, **such as goods declarations at the customs, possibilities for the application of simple procedures, customs regimes, obligatory tariff information, the provisions of measures for the violations of the code, etc.**

The business community raised some concerns on customs procedures, discussed also by the IC, related mainly to the application of available data for establishing the customs value, transparency on the results of scanning, the high number of inspections, submission in paper of a range of documents at the customs, changes in the tariff classification of goods, addressing the administrative complaints at GCD, etc.

It is to be noted that the Implementing Instructions of the New Customs Code were approved with DCM No.651 dated 10.11.2017 "Implementing Instructions of Law No.102/2014 - Customs Code of the Republic of Albania" - Official Journal No.199.

"In Albania, as in some European Union countries, should be applied the 12-digit code of the nomenclature instead of the current 10-digit code. Furthermore, it is necessary a further simplification of the customs procedures with Kosovo. Before being sent to the Ministry of Finance for approval, the instructions of the new Customs Code should have been consulted in advance with the business."

Mr. Arben Shkodra, Producers' Association

Which are the main concerns of the e-Permits portal?

The Secretariat of Investment Council held a consultation meeting on a technical level about "Construction e-permits portal - Its impact in raising the transparency and the improvement of investment climate in the country."



Picture: Focus Group Meeting, 25 October 2017

Purpose of the meeting was to discuss the preliminary findings and recommendations drafted by the Secretariat of Investment Council on the performance and impact of the e-permits portal for the relevant stakeholders as well as facilitation of investments promotion. The Secretariat analysis was carried out during June - September 2017 based on an all-inclusive consultation process with over 30 actors from the private and public institutions at central and local administration.

Discussions were focused mainly on the practical issues related to the well - functioning of the portal as a one-stop service for businesses and precisely on: a) the deadlines for the approval of the construction permits and their implementation in practice; b) required documentation; c) institutional coordination, d) technical aspects for the well-functioning of the portal and other issues in the construction sector.

Main issues faced by the business related to Customs

Reference Prices

Business Competitiveness / Customs Revenues
Fiscal compliance (VAT refund)
Various application standards in practice/ Unclearly for businesses/Supreme Audit Institution

Change of Tariff Classification

Change of tariff classification may lead to reference prices or customs tariffs
Functioning/results of customs laboratory
Administrative measures for correcting declarations with no financial effect

Physical Inspections

High number and repetitive inspections / Anti-smuggling
High cost of businesses/lack of inspections premises in customs

Communication with businesses

Online procedures for authorisations/certifications / Exchange of information among public institutions / Information and transparency/counterfeit goods
Non efficient administrative appeal system

According to the Business, Informality, VAT and Tax Inspection during 2015-2017

Since April 2015, the Secretariat has reviewed particular concerns related to Tax Inspection, Informality, Administrative Appeal, VAT Refund, Customs Procedures, etc., which have been addressed also in dedicated Investment Council Meetings. During 2015-2016, for analysis purposes, besides direct consultations with the business and business associations, the Secretariat, among others, conducted online surveys, on: i) Tax Inspection, ii) Informality, and iii) VAT Refund.

This process has fulfilled a recommendation by IC Members to periodically monitor and assess the business concerns on various issues tackled by this platform. During July – September 2017, it was conducted an online survey on tax administration and informality. Findings of the Survey were the focus of discussions in the IC Meeting XI, held on 6 December 2017.

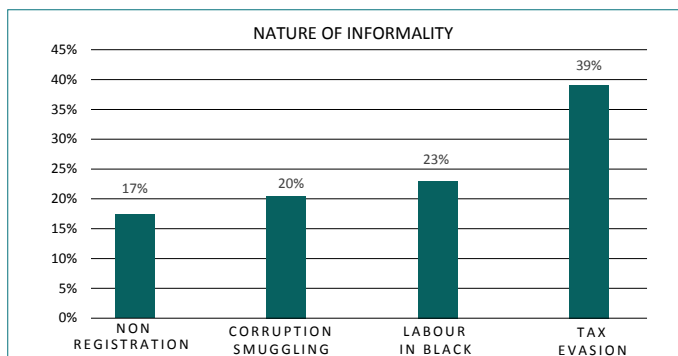
Factors which create room for informality and are assessed as the most important ones by the business in this survey, are:

- a) implementation of tax procedures,
- b) capacities of tax administration,
- c) threshold of VAT and threshold of income tax

How is informality displayed in each sector?

Survey findings show an improvement in the business perception in some of the assessed indicators, such as professionalism of tax inspector and quality of Tax Inspection Report, while there is a need for investing in the capacity building of the tax administration to better respond to the business needs.

GRAPH 4. "HOW IS INFORMALITY DISPLAYED IN YOUR SECTOR?"

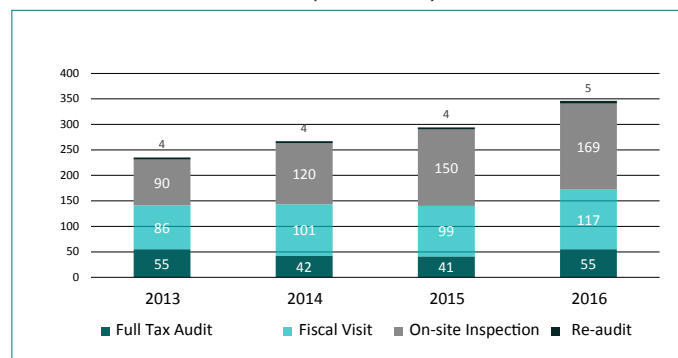


Source: Secretariat of Investment Council, Survey "On Some Aspects of Investment Climate," October 2017

There is good performance in the VAT refund, however for the companies exporting over 70% of sales, it still remains a challenge the respecting of the refund deadlines and the implementation of refund procedures as per legal provisions.

There is a perception in the declining of the informality compared to 2015, meanwhile the threshold for income tax/VAT, relationship with the administration and application of law remain key factors influencing informality.

GRAPH 5. BUSINESSES WITH A TURNOVER OF 8 MILLION ALL – NATURE OF TAX INSPECTION (2013-2016)



Source: Secretariat of Investment Council, Survey "On Some Aspects of Investment Climate," October 2017

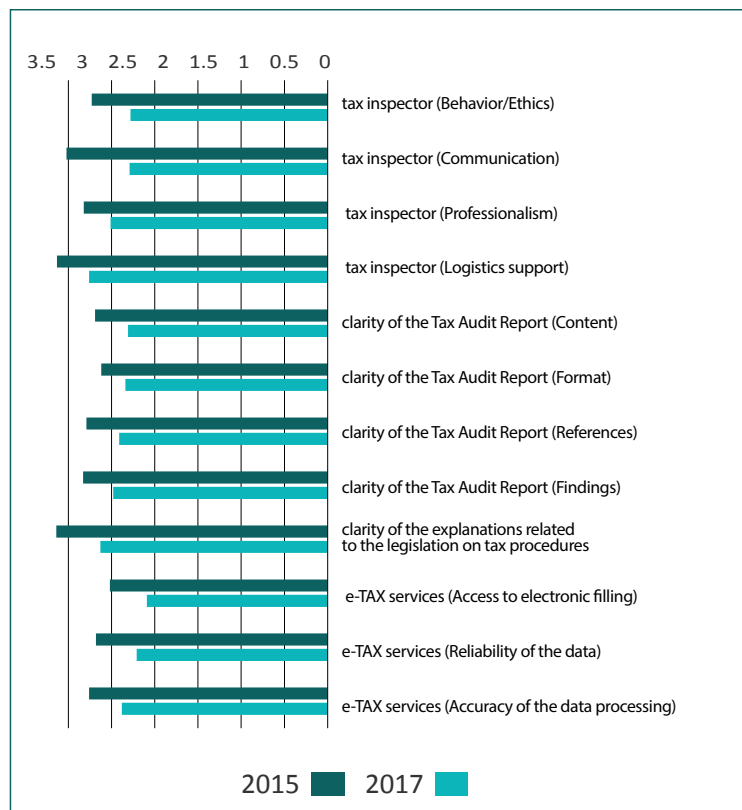
"If tax coupons would be issued in all the trade sectors, in these sectors the informality would be reduced to zero. Anti-informality is a main request from the business itself, asking in many cases the support of the state to work in a formal economy, with regular receipts, without having to keep double books, and thus grow. The action against informality should be carried out continuously, while it is necessary to harmonise the right means of communication for raising the awareness of the society with the punishing force of the state against informal companies."

Mr. Luan Leka, EHW

"The fight against informality should be continuous and it should not be considered as a temporary action. It is necessary to develop a national strategy against informality, which would give a clear message to the business community that the fight against informality will be permanent."

Mr. Matteo Colangeli, EBRD

GRAPH 6. MEAN OF THE EVALUATION OF THE BUSINESS PERCEPTION 2015 – 2017 IN REGARDS TO TAX ADMINISTRATION



Source: Secretariat of Investment Council, Survey "On Some Aspects of Investment Climate," October 2017

Regarding the issues covered in the survey, the Investment Council has given in total 38 recommendations. In the last two years, there has been a proactive approach by the Ministry of Finance to transpose in concrete measures some of the IC recommendations with the objective to facilitate tax procedures. However, the business emphasises the need to reduce corruption, increase the professionalism of the administration but also incentives for the business that comply with the law and invest in the promotion of fast formalisation of the economy and private investments.

A direct output of the meeting was engagement of the Ministry of Finance and Economy to develop in partnership with other stakeholders an all-inclusive strategy against informality – a previous IC recommendation.

"Today there is a higher awareness that informality is more harmful than beneficial. The Tax Administration cannot raise the awareness of the citizens all by itself, but instead other stakeholders including the education system and also the role of Bank of Albania are to be involved. The tax administration should identify the closing of the circle, while all the stakeholders should play their own role to make informality stop breathing and minimise it as a phenomenon."

Ms. Natasha Ahmetaj, Bank of Albania

"It is true that the General Customs Directorate has a different procedure for administrative appeal from that of the tax procedures. It has been also an IC recommendation to apply a different approach in the customs appeal. We are open to collaborate with the Council and the business to make the right legal amendments in this direction, although it is more difficult in this case as we are dealing with an amendment to the Customs Code."

Ms. Belinda Ikonimi, General Customs Directorate

Methodology: The Survey was completed online by 146 companies, a considerable growth compared to previous surveys. Businesses with Albanian ownership have given 74% of responses while 32% of the respondents declare of being exporting companies, whereas 54% of them exporting over 70% of sales. It should be emphasised that the business with an annual turnover of over 8 million ALL is in majority (78% of responses) and mainly from the sector of services and trade. Survey methodology and findings were monitored in collaboration with Epoka University.



Picture: Investment Council Meeting XI, 6 December 2017

Investment Council, 2015-2017

The Secretariat has conducted meetings with over 400 stakeholders from public institutions, business associations, businesses, donors, experts, etc.

In 3 years

11

IC Meetings

9

Focus Group Meetings

7

Business Surveys

- Tax Inspection
- Informality
- VAT Refund
- Customs Procedures
- Labour Skills (BPO)
- On e-Permits
- Tax Inspection, Informality & VAT Refund

483

Surveys' Respondents

9

Technical Notes

Consulted:

53 Laws & Codes
8 National Strategies
78 By-laws

IC Recommendations, address:

11 Laws
13 By-laws

Proposed recommendations

93

25

Completed recommendations

15

Recommendations in evaluation process

Visibility & Communication

54,748 Website views
17,454 Website visits
10,000 Companies reached by e-mail
430 Website subscribers

Collaboration and inclusion

118 Participants in Focus Group Meetings
188 Consulted companies & associations
93 Consulted public institutions
2 Platforms of collaboration

Investment Council–new collaboration platforms

Academia In the framework of IC recommendations in 2016, and the signing of memorandums of understandings with universities, it was undertaken the establishment of collaboration platforms between IC and other stakeholders. A concrete step was also the organisation of the survey on some issues of investment climate with 146 companies and certification of the methodology and survey results in collaboration with the Epoka University during July – September 2017.

Innovation Hub In April 2017, the Secretariat in collaboration with the Innovation Hub, organised the first consultation in regards to the legal foundation options for a sustainable model of collaboration among youth, business and universities with a focus on start-ups. In the framework of the quality of labour skills, it was identified that startups face problems in approaching the market. Just like any other new business model, startups deal as well with the administrative burden. Targeted and tailored policies would help to support them, especially in the access to finance and introducing them into the markets, taking into consideration as well the regional competition.

Chambers of Commerce and Industry The Secretariat has collaborated also with the Chambers of Commerce and Industry in the country, as in the case of the workshop “Business concerns in regards to the VAT refund and Tax Inspection,” organised in May 2017 by Chamber of Durrës.

Information Platforms On 11 October 2017, The General Customs Directorate (GCD), Agency for the Delivery of Integrated Services (ADISA) and European Bank for Reconstruction and Development (EBRD), signed a Memorandum of Understanding for the establishment of ‘Helpdesks for taxpayers,’ under the support of EBRD. Establishment of information helpdesks is a recommendation of Albania Investment Council, as a pilot project to address one of the key concerns of local businesses, lack of adequate information to the taxpayers of the legislation and tax compliance.

In addition, the Secretariat has contributed in some sessions (as relates to business climate and role of the labour skills quality) at the Forum of Civil Society in the framework of the Berlin Process (April & November 2017)



Picture: The Secretariat contributes in the workshop “Business concerns in regards to VAT refund,” CCI Durrës, May 2017

IC Business Members during 2015-2017

Companies:

1. Mr. Luan Muça - Executive Director, Delta Group
2. Ms. Lindita Legisi - CEO, Omega Sh.P.K
3. Mr. Adamantios Frantzis - CEO, Antea Cement Sh.A
4. Mr. Shkëlqim Bozgo – Former Country Manager, TAP
5. Mr. Luan Leka - CEO, EHW GmbH
6. Ms. Edlira Muka - CEO, Balfin Group

Business Associations:

1. Mr. Nikolin Jaka - Chair, Chamber of Commerce and Industry of Tirana
2. Mr. Christian Canacaris - President, Albanian Association of Banks
3. Mr. Silvio Pedrazzi - President, FIAA
4. Mr. Arben Shkodra - Producers’ Association
5. Mr. Luan Bregasi - President, BiznesAlbania
6. Mr. Mark Crawford - President, AmCham

IC Meetings for 2018:

February 2018 On the Functioning of the e-Permits Platform in the Framework of the Deregulation Reform
May 2018 Consultation of the draft Unified Law on Investments



Investment Council is supported by the Ministry of Finance and Economy, the EBRD and the Central European Initiative.

Address: Blv. Dëshmorët e Kombit, Nr. 2, Tiranë
E-mail: info@investment.com.al Web: www.investment.com.al

Albania Investment Council
 ALInvestCouncil