

SUMMARY OF MINUTES OF MEETING
INVESTMENT COUNCIL (IC)
MEETING XVIII
“On Investment Potentials and Priority Sectors”
Tirana, 4 October 2019, 12:30 – 14:00

The meeting was held at the Ministry of Finance and Economy (MFE) and it was chaired by Minister of Finance and Economy, Ms Anila Denaj, with the special participation of the Minister of Infrastructure and Energy, Ms Belinda Balluku, Deputy Minister of Agriculture and Rural Development, Mr Roland Kristo and the Secretary General of the Ministry of Tourism and Environment, Mr Adrian Kamenica. The meeting was attended by 13 IC members and around 20 observers - representatives of local and foreign business associations and state institutions.

I. Opening of the meeting and welcome speech of Minister Anila Denaj, IC Chair

At the beginning of her speech, Minister Denaj said that this meeting was a good opportunity for dialogue among stakeholders to promote vital sectors of the economy in sustainable medium-term structural development models.

Minister Denaj summarized the reforms undertaken by the government in the framework of the policies for sustainable and long-term economic development. Minister Denaj also emphasized the ongoing reforms, such as the fiscalisation one, which aims at modernizing the tax reporting and tax collection system in Albania. According to Minister Denaj, fiscal consolidation, sectoral economic policies, optimization of natural resources, competitive advantages and the potential of human resources will enable a structured medium-term economic growth.

II. *Presentation by the Secretariat of Investment Council on Findings and Recommendations*

Ms Diana Leka, IC Secretariat, delivered a brief presentation on the main findings and recommendations of the analysis prepared by the IC Secretariat. Priority sectors identified during direct consultation with the business are agri-processing, tourism, natural resources, TEDA, and digitalization. The proposed recommendations have been grouped at the strategic level and sectoral level. Some of the main issues raised for discussion:

- Is it the right moment to discuss whether the Albanian economy needs a new model of development? Some of the most important strategies for economic development are coming to an end, what should we do next?
- Do we need a strategy for attracting foreign capital into the country in the priority sectors?
- Is there a need for re-prioritization considering country's position in the regional, European and wider markets?

III. Summary of the main comments of the meeting

Ms Albana Lakenori (on behalf of Mr Nikolin Jaka), CCI Tirana, commended the paper prepared by the Secretariat and, among others, said that:

1. The debate should focus on “*How Albania will be in the next 10 years*”. Proper implementation of existing strategies remains crucial;
2. Secretariat’s paper *should have included a Strategy for Investment Promotion. Albanian institutions should unify their information* pertaining the policies and incentives provided to foreign investors in the strategic sectors;
3. *Businesses should better promote their profile* – prepare “passports” of their exporting products to make it more distinguishable their certification as per international standards;
4. In the context of economic diplomacy, CCI TR proposes three concrete actions: i) *creation of a new dynamic communication model* with measurable indicators (e.g. there is no study on the number of foreign investors in Albania); ii) *opening of exhibition halls for the promotion of Albania products*, e.g. an info date dedicated to Albania—to include here identification and promotion of diaspora potentials for investing; iii) *integration of the Albanian market into the regional market*—despite positive trend in investment absorption, this is concentrated in a few sectors and companies, such as TAP and DEVOLL – completion of which activity will have a negative effect if there are no other sustainable investments.
5. Foreign direct investments are concentrated in the banking and telecommunication sectors, but they *have not generated jobs*. According to INSTAT, in the Register of Active Companies, only 3.8% are companies with mutual capital. Despite the government’s efforts for the improvement of the climate for doing business, international reports show that Albania is not a top performer in the region. It is very important *to increase the competitiveness of the Albanian economy*, where free trade agreements such as CEFTA or MAP REA Strategy play an important role.
6. *Establishing a development bank for the business*, to increase the access to finance, while a major concern remains *legal insecurity on property*.

Minister Anila Denaj, MFE, said that i) *the preparation of a medium-term strategy* is not only a will of the business but also of the government, but this requires time and the engagement of all the stakeholders—chambers of commerce are welcome to come up with a strategy proposal; ii) *competitiveness should to be viewed with caution* with a proper identification of problems and challenges; iii) access to finance—the demand and supply are to be analyzed, however there has never been a lack of supply.

Minister Belinda Balluku, MIE, said that the focus of the Albanian government toward foreign investors is greater than ever. To date, no chamber of commerce has made any concrete proposal.

- Secretariat’s paper talks about *the completion of the legal framework in the sector of renewable energy*, we are aware of it and the work has already begun. In the meantime, we must meet all the requirements of the Technical Secretariat of Energy, putting us into an important transitional phase, as regulating requirements are ever-increasing.
- *Implementing concrete incentives to promote energy investment is very important* for the state budget. Since 2009, the Albanian Government has decided to incentivize the energy sector (hydro, solar and eolic) with a regulated price – which impact was felt also by the MFE. If a government decides to incentivize a sector to strengthen it, this must happen until it reaches the break-even point. *Why the regulated price has been applied for 15 years?* By general calculations, to date, all small HPPs or even the 3 MW solar, reach break-even point in their 6th or 7th year of activity. Is it fair for the Albanian government to pay for another 8 or 9-year period from its budget? MIE and MFE are open to discuss with key stakeholders to find a fair profit balance between the business and the state.

- The *allocation of natural resources (hydrocarbons) cannot be any longer fragmented* as it has been until to date. Albania has become attractive to large companies (such as SHELL) that introduce Albania not only to the regional market but also to the global one. We are about to undertake a profound change in the law of hydrocarbons which in the current format is not in favour of the Albanian state, like many laws or concessionary contracts. We require the support of international financial partners and strong business voices.
- Although large investments are coming to an end, the country is about to start *major infrastructure investments*, such as Vlora airport, Saranda airport, etc. Within the next 3 years, there will be big infrastructure investments.

Mr Matteo Colangeli, EBRD, highlighted the importance of stimulating the discussion on a model of sustainable economic development for the country. He noted that natural resources and energy are important assets and will continue to play a major role in the country's GDP. However, their development should take into consideration environmental sustainability, as well as the impact on the potential of other sectors of the economy, such as tourism. To generate sustainable growth, Albania should make efforts to climb the value chain in sectors in which it is already invested and for which it has competitive advantages, such as tourism, agribusiness, light manufacturing and business services outsourcing. This could mean for example moving tourism towards a year around and more formalised industry, investing in agro-processing, incentivizing some of the fason entrepreneurs to start manufacturing on their own account, or turning call centres into providers of higher value-added business outsourcing services.

Obviously, there are a number of cross-cutting factors that are key enablers for this to happen – such as investing in infrastructure and education, fighting informality and corruption, as well as improving the efficiency of the public administration and justice system. A specific point to focus on is enabling the growth of medium-sized companies in a business environment which is characterized by a handful of large groups and a large pool of micro-enterprises. Supporting the growth of some of those small businesses, their formalization and competitiveness will be key to achieving sustainable economic growth. The medium-sized segment should also be targeted in terms of FDI attraction and retention, ensuring that smaller sized foreign investors that come to Albania do not become the first victims of inefficiencies in the public administration, corruption, or unfair competition.

Mr Roland Kristo, Ministry of Agriculture, said that the agriculture is one of the sectors where formalization remains low. The incentives to be given to agriculture should be toward its formalization. The government's convincing policies must be in the form of awareness-raising, for farmers to understand the great benefits that would come if they joined forces through formalization. Fiscalisation increases competition and formalization. Also, the agro-processing industry finds it easier to buy raw material from abroad, rather than obtain it from Albanian farmers who find it difficult to declare costs and VAT.

For the past 2 years, the government has attempted to incentivize farmers through ARDA schemes — based on a list of priority products. Concerning the agro-processing part, this can be addressed more specifically in cooperation with interested businesses.

Mr Arben Babameto, Teuta shpk, agreed on the development of a strategy to set priorities. Teuta shpk operates in the food industry, more specifically in the packaging of all food products in the Albanian markets. The company is supplied with raw materials mainly from abroad because Albanian agriculture is not yet prepared to meet the immediate demands of the market for goods. Albanian companies find it difficult to be supplied with the same product by the Albanian farmers. The controlled selection of seeds for planting should be one of the priorities. The Ministry of Agriculture should work with the Albanian farmers to recommend them on the market needs.

There is also an interest in the agro-tourism sector – using the country’s raw materials. This is possible if the state creates incentives to promote this.

Mr Enio Jao, AmCham, expressed approval on the analysis prepared by the Secretariat. The decline of large infrastructure investments could put into risk the country’s economic growth in the coming years. Of course, new infrastructure projects would balance the exit of existing projects. AmCham does not think there has been an effective strategy in the past to make Albania competitive in the region, with clear incentives either at the sectoral level or at the level of free economic zones. Thus, time is critical for the creation of such a strategy.

The best way to create sustainable investment or sustainable development is by creating a regulated investment framework based on market rules. This strategy should be coupled with pertinent solutions for both investment and priority sectors. Apart from some exceptions, priority sectors lack incentives. AmCham is ready to be part of a working group through the IC or MFE and contribute to the materialization of relevant ideas in this strategy.

Minister Anila Denaj, MFE, informed that the draft unified investment law is still in its final stages and re-invited businesses for addressing any additional comments before finalizing the draft. Incentives may not be the right umbrella to attract investments, but they have produced tangible and immediate results. Additional (perhaps strategic) elements can come from the business.

Mr Agim Rrapaj, KASH, said that the paper prepared by the Secretariat already provides some useful recommendations, as relates for example to the forms of organization in the agricultural sector. The promotion of medium-sized enterprises can come through the amendment of current legislation such as the Law on Agricultural Cooperatives (2012), the Law on Land, etc. Land transactions cannot take place because of the current state of registration—but merging may create medium-sized enterprises. The creation of the regional market (recently announced by the Prime Minister) is a very good idea but also a risky initiative for the agriculture sector because if Albania opens the market, the sector should be prepared first. Compared to the region, the price of electricity and fuel in Albania is very high - two basic elements which affect the cost.

The Ministry of Agriculture is currently working on a project to supply farmers with electronic cards—KASH has already made some concrete proposals since 3 years ago, which implementation would bring very positive results, formalizing also the process.

On the lack of products in the supermarkets, it is true that no inter-mediation exists in Albania, but this relates to the issue of costs, not only of seeds, etc. Another problem is food safety. Unless invested in laboratories, we will again be in a difficult position in facing competition.

Mr Filip Gjoka, Filipi Co, said that i) the development of the agricultural sector may come through *interventions in the infrastructure*; ii) the development of a *Law on Renewable Energy* would encourage the use of electricity and wind panels in unutilized territories; iii) initiatives to represent *Albania at major international fairs* are very good for promoting the country.

Mr Tom Kristian Larsen, FLAA, commended the reforms undertaken by the government, such as the reform of justice, the establishment of the SPAK and legal interventions in the energy sector, considering them as very important for boosting investment, while there is still much to be done. He emphasized that the focus should be on establishing and maintaining a good reputation of the country to attract foreign investors, as there are many challenges in terms of the sustainability and interpretation of the legal framework, bureaucracy of public administration and implementation of legal changes.

Ms Ines Muçostepa, UCCIAL, emphasized the need for all stakeholders (state, business, academia, etc.) to come together and discuss the development of the economic model, the impact and

economic development at the national level in those 4 priority sectors already identified. Services, which account for about 50% of the GDP, have begun to go in a declining curve - what can be further improved in this sector? With regard to the country's competitiveness, the Chambers of Commerce and Industry are working on a regional framework for investment absorption. Albania is a small market that needs to get prepared before it enters the regional market, to protect its own products. We need a nationwide Economic Strategy with a long-term vision, let us say for 10 years, where all the stakeholders understand which are the priority sectors for investment. The analysis can go deeper even in those few areas where there has been some improvement, to encourage young people to stay in the country.

Minister Anila Denaj, MFE, invited the chambers of commerce and industry to bring concrete things and expressed the willingness to cooperate with the chambers in addressing some elements within a three-month period. For example:

- a. To increase the effectiveness of the e-Albania platform, by encouraging the use of e-signature - the business can make use of 90%-93% of available services without any contact with administration and at reduced costs.
- b. Vocational schools (54% covered by MFE) to focus on what business needs. Some sectors need to improve standards or take part in vocational training. What Swisscontact has done with the curricula can be further multiplied. If we have accurate information on the business demand for capacity building, MFE can address this within a 3-month period.

Thus, the network of business chambers needs to be effective as soon as possible for close collaboration with the government.

Ms Stephanie Sieg-Farka, DIHA, emphasized the importance of the tourism sector in improving the country's image. DIHA is open to assist with the organization of tourism promotion activities as well as collaborate with other associations to organize a large business forum (to create a positive noise about Albania). The country has a lot of potentials, but we need to understand why they are not exploited. DIHA is trying to understand why German companies do not invest in the country, despite their great interest. Besides the government, business associations and chambers should also play a role in attracting foreign investors. Foreign companies, despite their primary goal for earning profits, must at the same help the country grow.

Young people in Albania should change their mentality about vocational education. DIHA maintains ongoing contact with GIZ - one of the key contributors in the area - to understand what can be done further.

Minister Eduard Shalsi, MSHMS, invited business associations to bring not only concerns but also solutions, bringing as an example the avant-garde industry of renewable energy which pushed the government toward the solution of their impediments – leashing great investment potentials. Both parties (government-business) can learn a lot from each other. *The network of dedicated business coordinators in each of the key ministries and institutions* has managed to resolve in some cases the prolonged bureaucracy of state institutions. Like never before, this network of coordinators aims to build a high-quality bridge of communication.

IV. Approval of the draft IC Decision No.2 dated 04.10.2019 “On Some Additions and Amendments to IC Internal Regulation”

Members unanimously approved the proposed draft decision of the Investment Council.

V. Other issues

Minister Anila Denaj, MFE, proposed the establishing of three technical level working groups for three priority sectors with representatives of each relevant ministry (including MFE), where the discussion of this meeting is translated into something more concrete. The relevant coordination will be carried out through the Technical Secretariat of the Investment Council. The discussion now should follow at the ministerial level.

VI. Closing of the meeting

At the end of all the comments, Minister Denaj thanked the participants and the special guests for participating and contributing to the discussions.

List of participants

Government representatives

1. Ms Anila Denaj, IC Chair/Minister of Finance and Economy
2. Mr Eduard Shalsi, Minister of State for Protection of Entrepreneurship
3. Ms Natasha Ahmetaj, Deputy Governor, Bank of Albania
4. Mr Sokol Nano, CEO, AIDA

Business Representatives

1. Ms Albana Laknori, Secretary General, delegated by the Chair of the Chamber of Commerce and Industry of Tirana, Mr Nikolin Jaka
2. Mr Tom Kristian Larsen, President, FIAA
3. Ms Ines Muçostepa, Chair, Union of Chambers of Commerce and Industry (UCCIAL)
4. Mr Artan Xhiani, Founding Partner-Confindustria Albania, delegated by President of Confindustria Albania, Mr Sergio Fontana
5. Mr Enio Jaço, President, AmCham
6. Ms Stephanie Sieg-Farka, President, German Chamber of Commerce (DIHA)
7. Mr Arben Babameto, Administrator, Teuta sh.p.k. (*ad-hoc*)
8. Mr Agim Rrapaj, Chair of Albanian Agribusiness Council (KASH) (*ad-hoc*)

International development partners

1. Mr Matteo Colangeli, Head of EBRD RO in Albania

Special guests:

1. Ms Belinda Balluku, Minister of Infrastructure and Energy
2. Mr Roland Kristo, Deputy Minister of Agriculture and Rural Development
3. Mr Adrian Kamenica, Secretary General, Ministry of Tourism and Environment
4. Mr Filip Gjoka, Administrator, Filipi Co Herbs & Spices shpk

Absentees:

1. Mr Mario Mariani, Head of Coordination, EU Delegation in Albania
2. Ms Laura Qorlaze, Country Representative, IFC Office in Albania
3. Office of World Bank in Albania