

ON INVESTMENT POTENTIALS AND PRIORITY SECTORS

SECRETARIAT OF INVESTMENT COUNCIL

Tirana, 4 October 2019

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- II. Context
- III. Findings & Suggestions

Objective

Stimulate the debate on sustainable growth options and potential resources based on:

- ☐ **Recent dynamics of economic growth in the country, opportunities and constraints, unutilized resources (UNCTAD Reports, OECD, WB, etc.)**
- ☐ **Private sector perceptions on the development of a market where sustainability principles must be ensured:**
 - **Economic growth**
 - **optimum in using natural resources, manpower, financial capital**

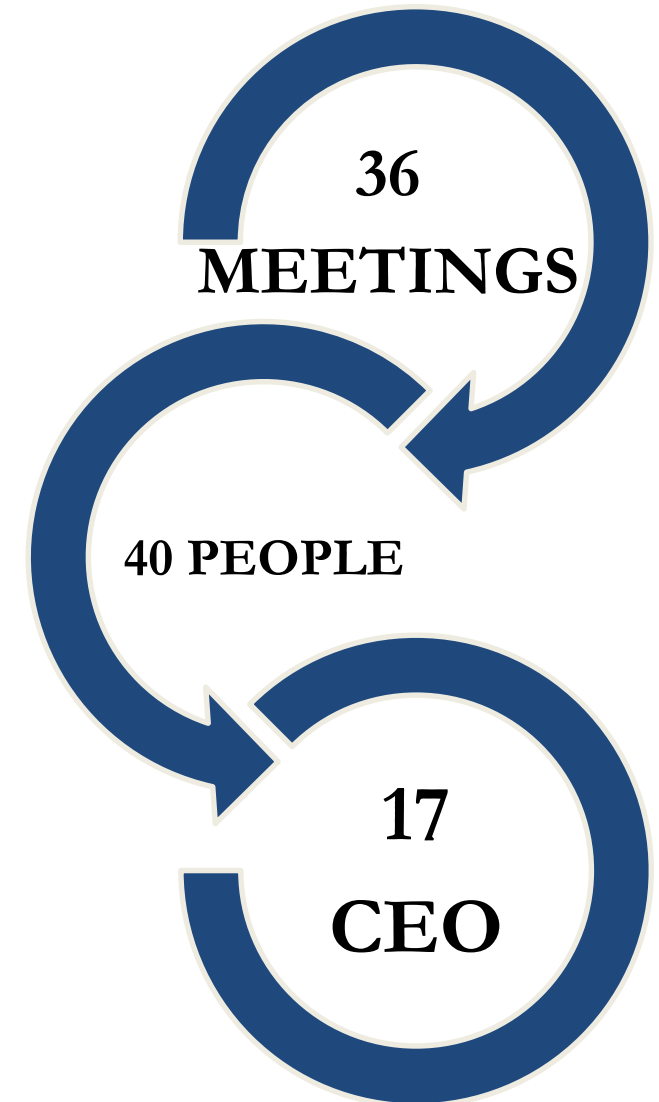
I. METHODOLOGY

Desk-research

- Strategies and approved documents from consecutive governments
- Consultation and analysis of laws and by-laws

Consultations & Focus Group Meeting

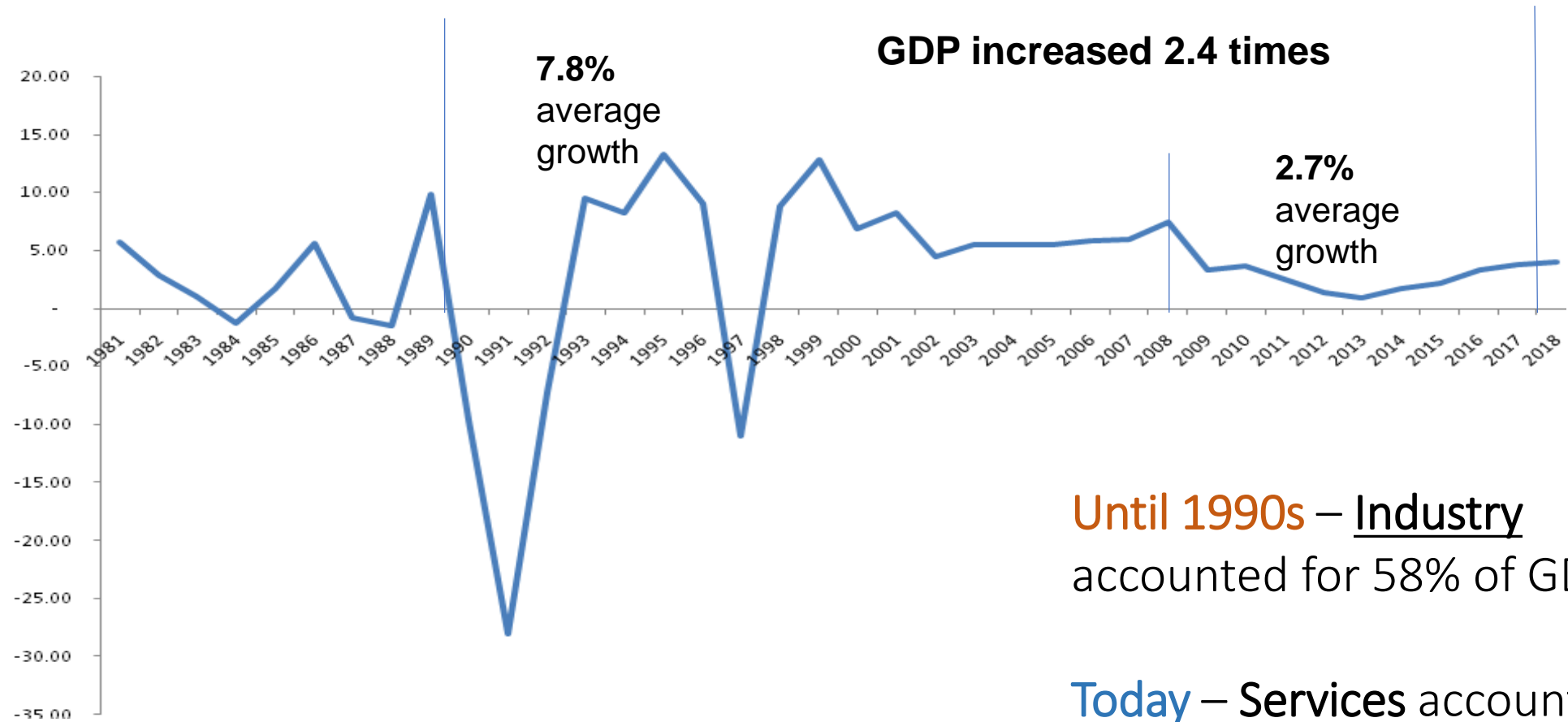
- Direct consultations (Tirana, Korça, Shkodër) of the Secretariat with representatives of business associations/chambers, public institutions, private companies and embassies
- Selected businesses– representatives from priority sectors contributing to the growth (trade, manufacture, energy, electronic communications, Fintech, agri-tourism, tourism, insurance, construction, facon, etc.);
- Pre-structured questionnaire;
- Investment Climate Surveys 2015-2018 (2019 under process);
- Focus Group in technical level (24 September 2019)



II. CONTEXT: COMMENTS FROM THE BUSINES

- *Business goes well, it could go better, but country lacks of infrastructure to enable more investment.*
- *The focus in the ICT - sector is a revolution. Innovation and entrepreneurship are the key words. Are we going to digitize the economy of just administration services? The context is how do you fit in with what the world has to offer.*
- *The government should have a clear vision for the next 10 years. Vision of the people - Albania, where we should go.*
- *Natural Resources - It is better to have large investors in this sector and not many small investors who are not able to invest in processing these resources.*
- *The image of the country - needs to be improved. Albania is a small market to be considered as a separate potential - it should be seen in the regional context.*
- *Tourism-potentials for development - we will definitely find manpower and invest.*

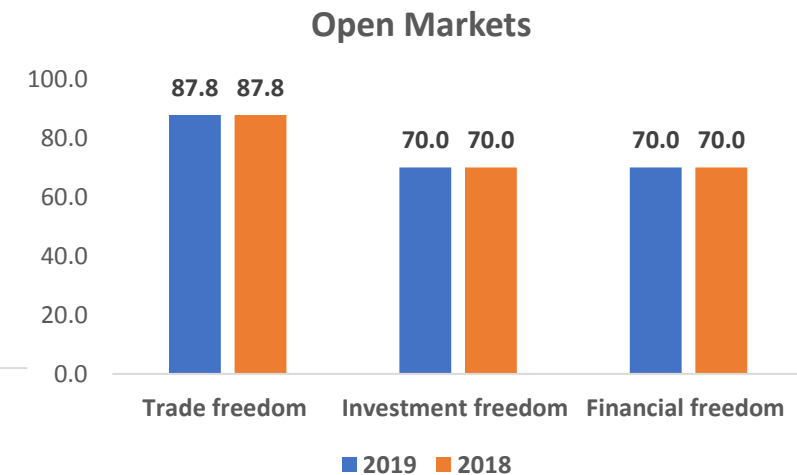
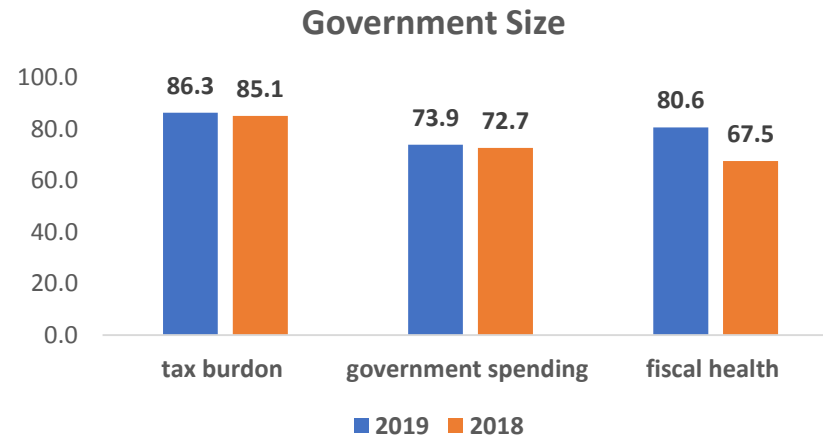
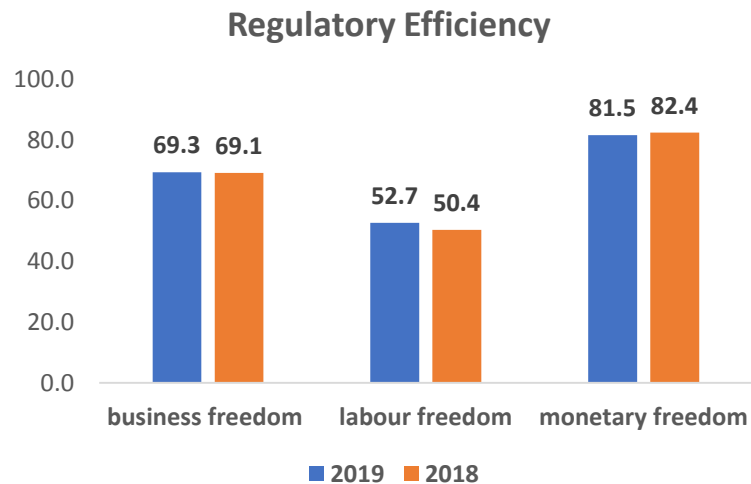
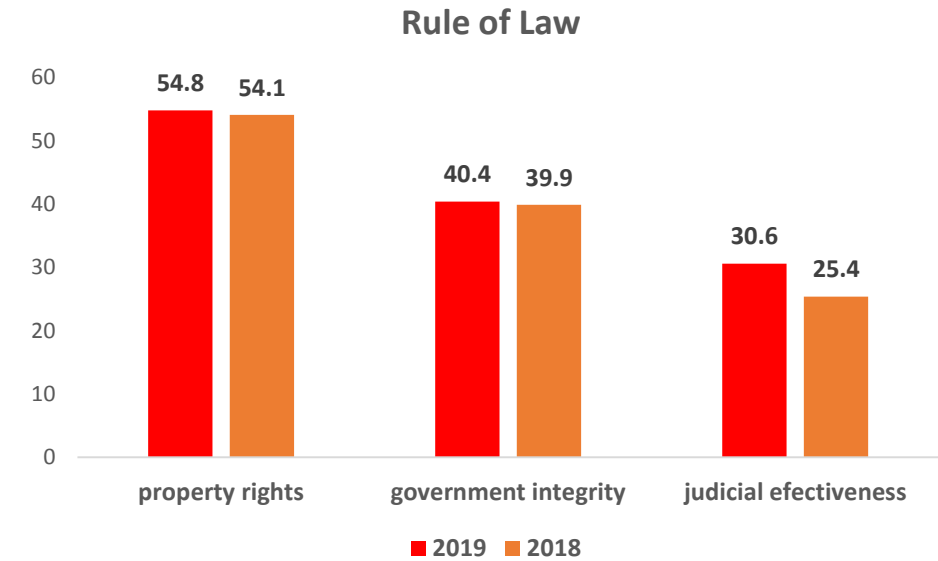
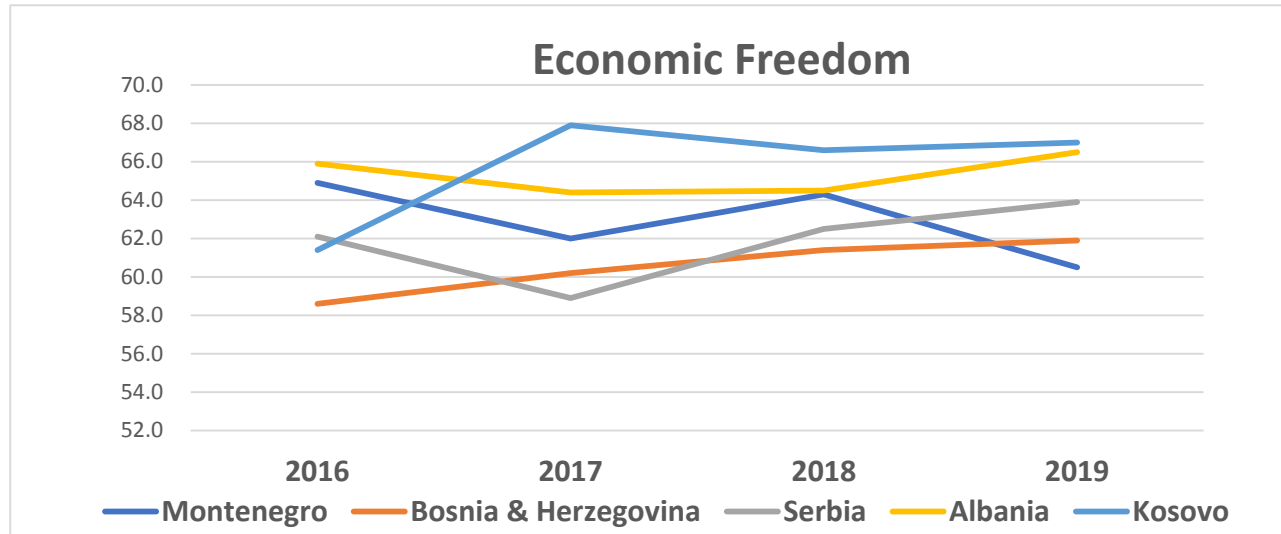
II. Context: Growth dynamics and economy profile – from Industry to Services



Until 1990s – Industry accounted for 58% of GDP

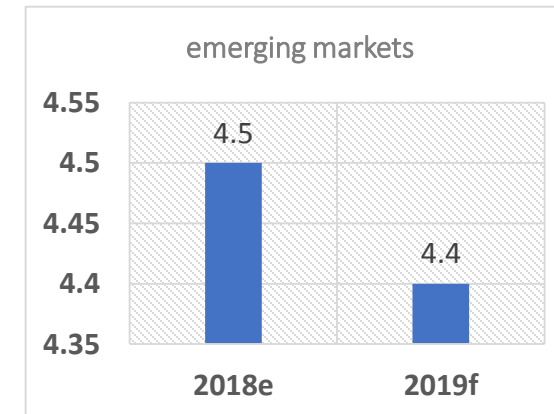
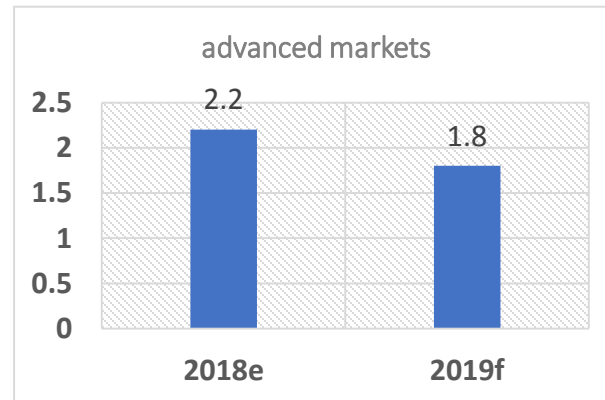
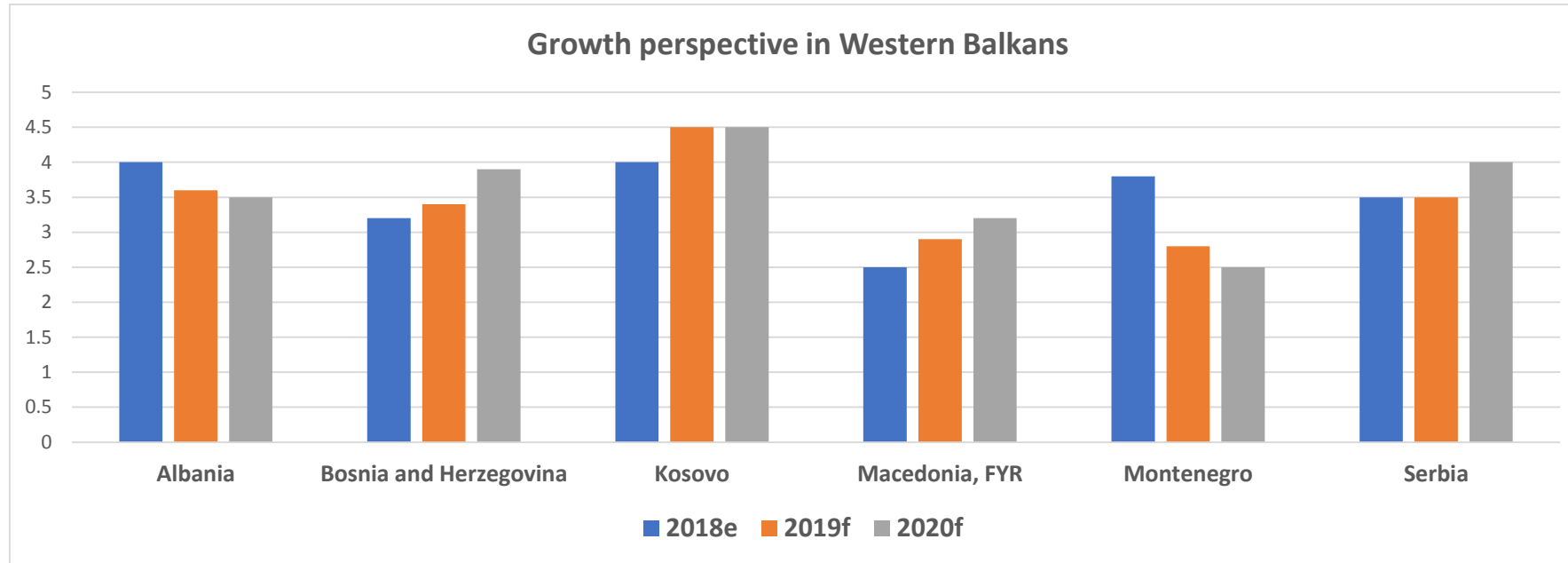
Today – Services account for 50% of GDP

Economic Freedom, Challenge: Rule of Law



The 2019 Index covers data until the second half of 2018

Western Balkans will be vulnerable to external risks such as low global economic growth

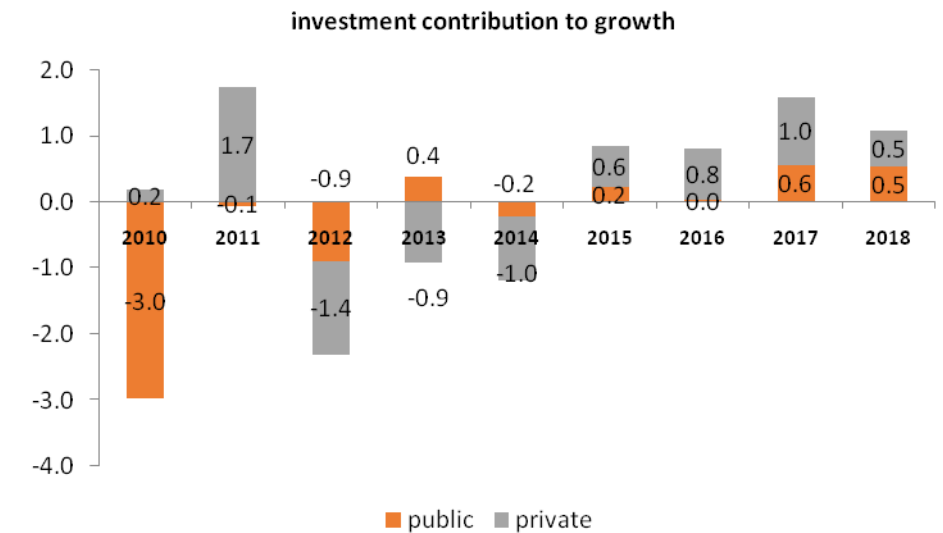
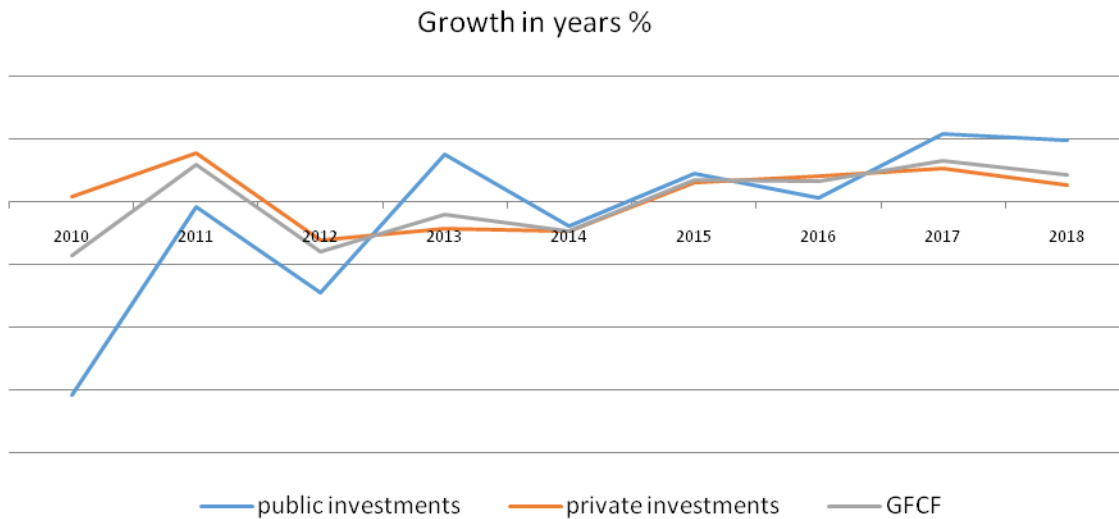


Source: WEO, April 2019

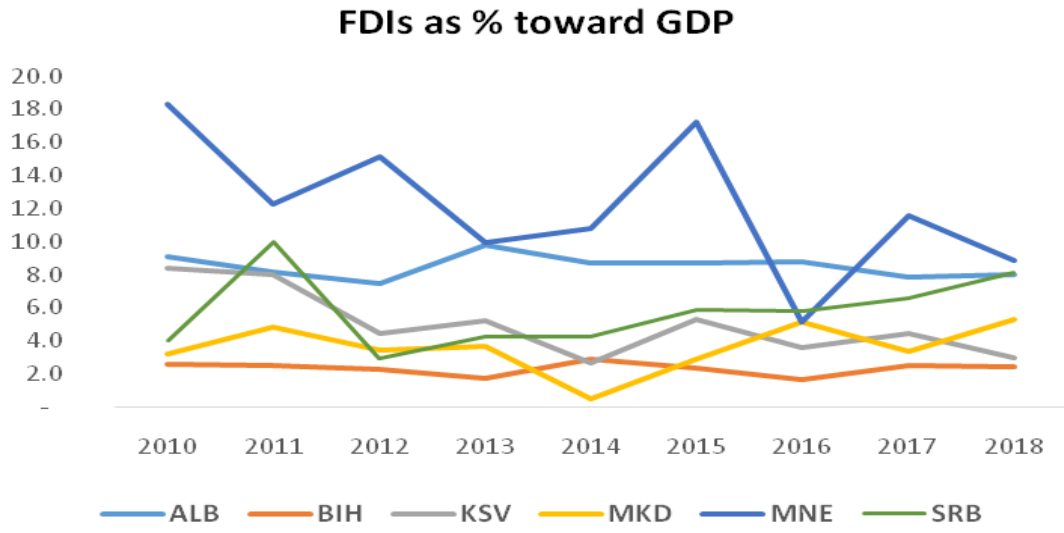
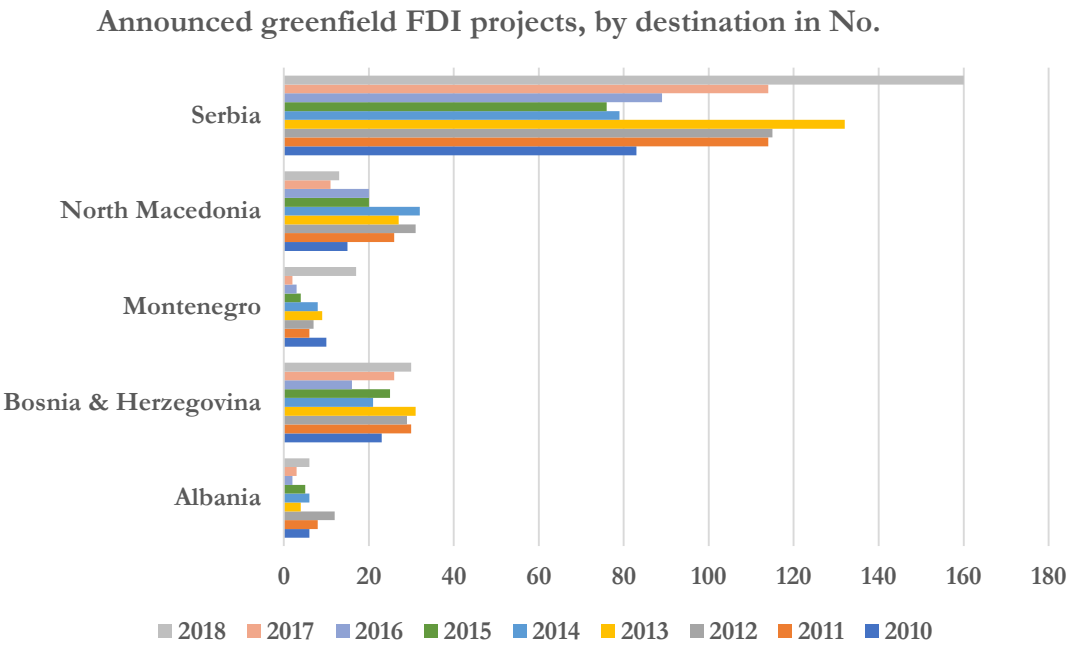
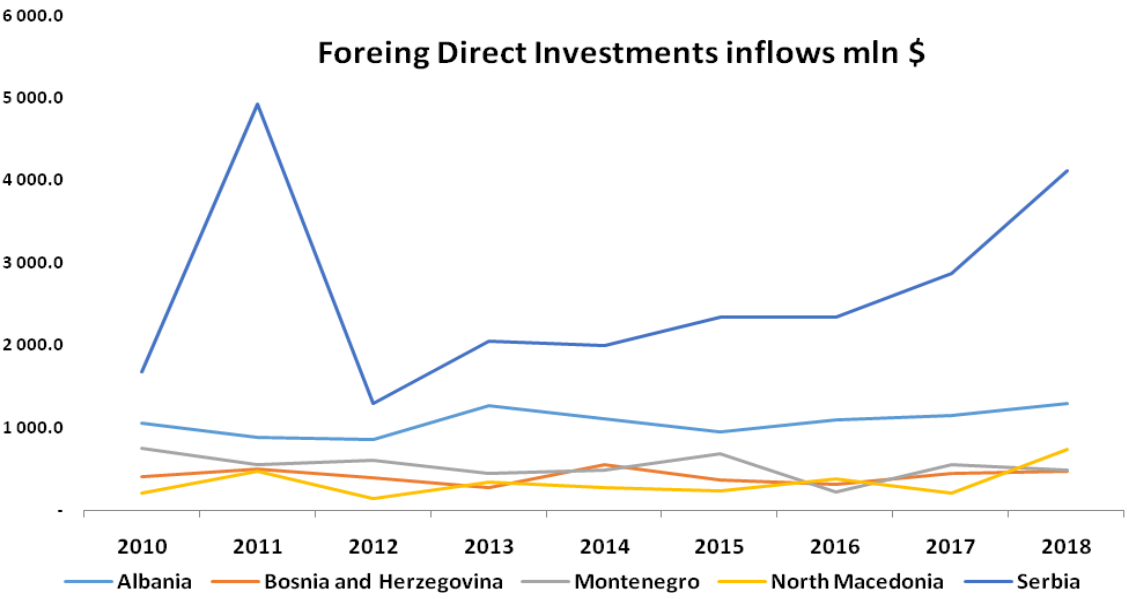
Investment contribution to growth

– Public vs. Private

Orientation, efficiency and well-management of public investment in function of country's competitiveness by improving infrastructure, institutions and services to business would strengthen the impact of legislative reforms on the investment climate.



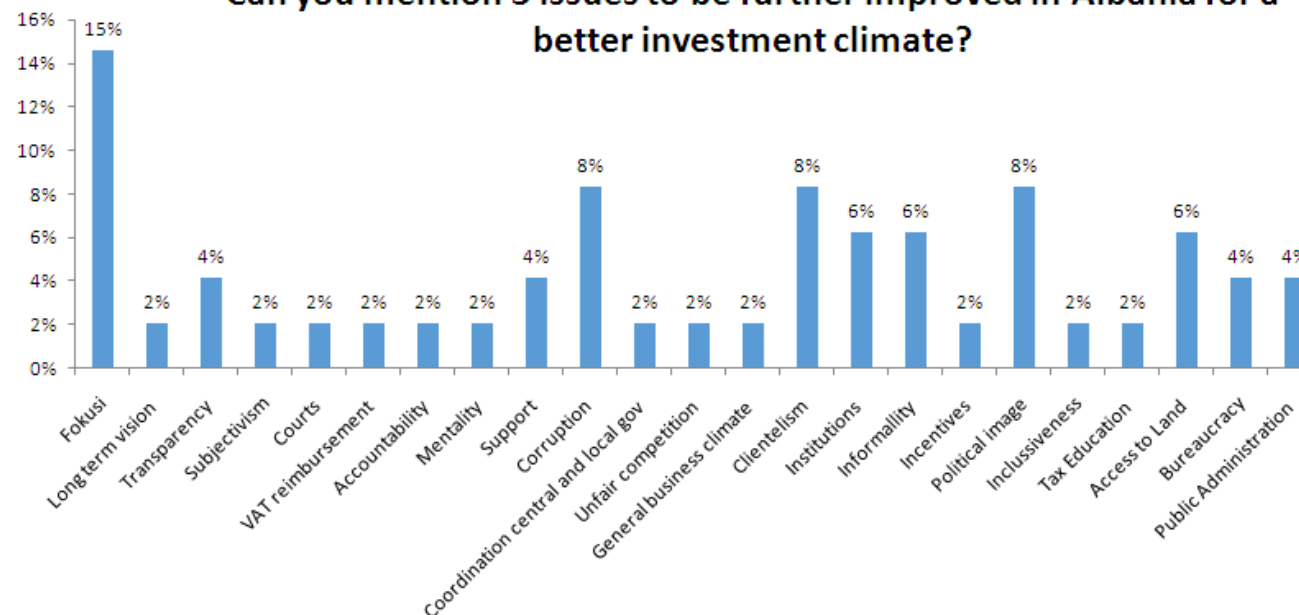
Foreign Direct Investment- TAP & Devoll toward completion



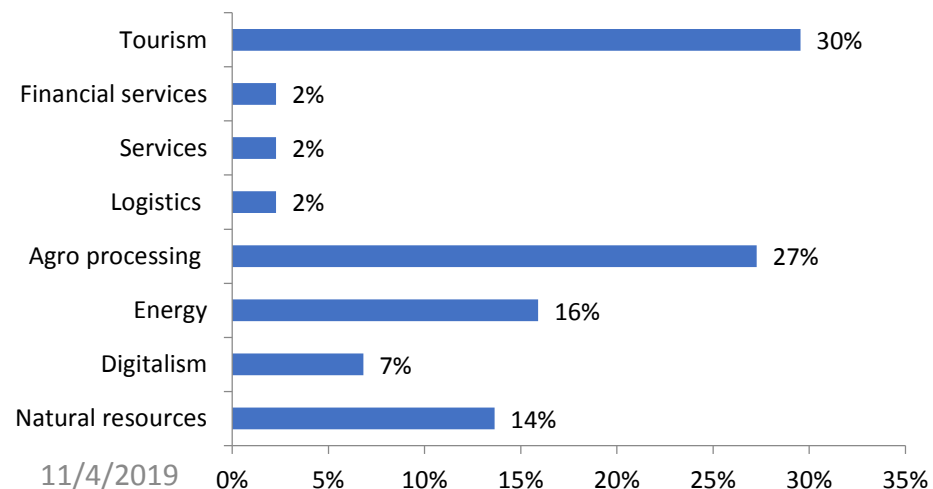
Years	2013	2014	2015	2016	2017	2018	T2-2019
Reinvestment of earnings (million Euro)	-62	38	59	42	137	224	183

II. Business Perceptions

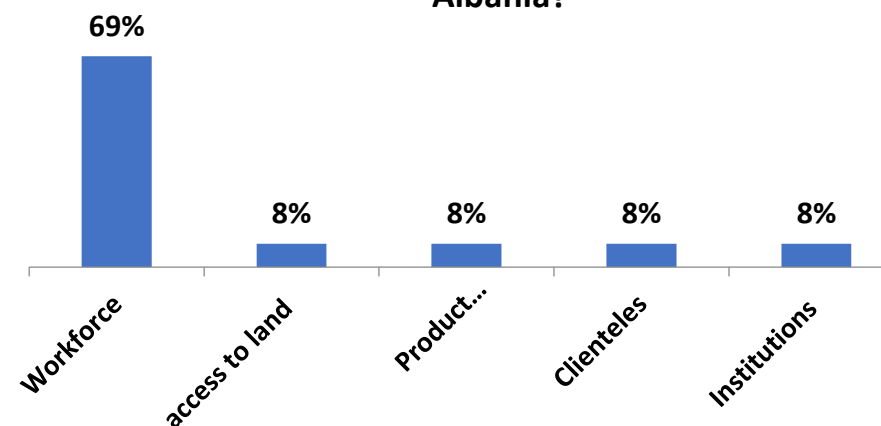
Can you mention 3 issues to be further improved in Albania for a better investment climate?



Can you mention 3 potential sectors for growth?



What is the future challenge of the business in Albania?



INCENTIVES & FISCAL POLICIES

MATRIX ALBANIA vs REGION

- Trend - **progressive tax on personal incomes**
- **Different VAT rates** depending on sectors (20%, 6%, 0%)
- Albania aggressive for fiscal incentives & measures that support tourism & agrotourism
- North Macedonia and Serbia more aggressive targeting investors through **national and regional economic free zones** and direct remuneration for any new jobs.

LATEST FISCAL INSTRUMENTS IN ALBANIA

- Apply a reduced **dividend tax rate from 15% to 8%**
- **Implements the lower minimum turnover limit** for VAT purposes of 2 Million ALL
- Different **VAT rates** (e.g: 6% for accommodation in tourism)
- **Different Tax Rate on Profits** (e.g: 5% for Software)

III. MOMENT FOR REFLECTION

- Contraction of the growth rate of investments in the economy– **what challenges to be expected?**
- Close to the finalization of 2 major projects (TAP+Devoll) with considerable impact in the economic growth–**need for diversification?**
- Some of the most important strategies for economic development under expiration - **what will be the next strategies...?**
- Regional strategies IRAP and REA Map-**regional context requires intensification of efforts.**

III. FINDINGS – INVESTMENT CLIMATE CHALLENGES

STRATEGIC

- **Difficulties in focusing policies in line with the declared vision**, lack of sustainability and supporting projects
- Lack of data and lack of strategies' impact evaluation

HUMAN RESOURCES

- Although the low cost, still a problem availability and scarce quality for labour market
- **Restructuring of skills** according to the labour market needs
- Emigration of professionals and employees

LAWS AND INSTITUTIONS

- Property – e.g: Investments Support Fund still non-established
- Non-functional judiciary system
- **Cases of legal uncertainty**
- High frequency changes of laws and administration causing lack of institutional memory

OTHERS

- **High competition** in the region
- Difficulties in materialization of legislation in concrete examples (TEDA, Strategic Investments)

III. POTENTIALS – PRIORITIES AND FOCUS

Agro-processing

- Fruits-vegetables
- Made in Albania
- Medicinal herbs
- Promotes the merger and creation of farms and value added in the country

Tourism

- Direct contribution 8,5% of GDP
- 7,7% of labour force in Albania,
- 7,5% of investments in the country, number of companies increased with 26%.
- 11% of all enterprises in Albania
- Sector with incentives and focus
- Still unused resources

Natural Resources

Renewable Energy Sources
(New regulatory framework
- opportunities for diversification of resources, market)

Hydrocarbons
(still unoptimized resources, new area development research, budget impact of “renta minerare”)

TEDA

Complete legal framework and incentives

Need to target investors and for investments in infrastructure by the State

DIGITALIZATION

Liberalized market, expanding use of internet, upgrading to electronic public services and MAP REA

Regulatory institutions

IV. SUGGESTIONS - STRATEGIC

ECONOMIC MODEL

- Initiating the **debate** on **Albania's economic model**
- **Priority sectors** for the coming 10-15 years
- Focuss on **SME support and fiscal administration**
- Monitoring, good administration and transparency of public investments coordination (central and legal)

VISION

- Strategic approach on FDI attraction
- Create an experts platform, with a concrete **plan of action to identify missing data, enable detailed analysis of Investment Impact**
- Identification of **concrete targeting opportunities**

REGULATOR/BUSINESS COMPONENT

- Institution consolidation
- Preparation and Publication of the **State Real Estate Fund**
- **Business cooperation** at the sectoral level to enable applications in innovation and information technology funds, research and development

IV. SUGGESTION- SECTORIAL



Completion of the legal framework on the renewable energy sector

Implementation of concrete incentives for BRE sector

Making effective the liberalization of the energy market and the Energy Stock Market/ joint MIE-MFE-Business Working Groups for the sector challenges (Energy Strategy 2018-2030)

TEDA

Incentive measures on the de-fragmentation of agricultural land and promoting the competitiveness of domestic production

Transparency on information and progress on donor support policies for the agro-processing sector and performance of investments under public-private contracts in the sector

Establishment of a central policy-making institution to enable cross-sectoral coordination and to push forward the digital agenda,

Creating regulatory conditions for quality services in the field of electronic communications (broadband/5G).

Completing the regulatory framework and promoting FINTECH

IV. SUGGESTION- SECTORIAL, Education & Employment



Sectoral approach to Adapt Employment Policies and Improving Workforce Skills in Priority Sectors.

Creating a systematic collaboration platform between schools and businesses.

Government to enable the leasing of state-owned buildings to support the creation of training centers to re-dimensionate the workforce skills as per market requirements.

DISCUSSIONS

- Is it a unique moment to discuss on the adaptation of a new development economic model for Albania?
- Is there a need for re-prioritization in the context of positioning in regional, European and wider markets?
- Where should policies and institutions focus on addressing key challenges (such as EU integration, regional competitiveness, or labor shortages) to reach the potential of the country's economy?
- Do we need a strategy for attracting foreign capital by priority sectors in the country?

THANK YOU!
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